

Report of the Independent Actuary

**Monument Life Insurance DAC and Inora
Life DAC**

11 August 2020

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1 Introduction

1.1 Purpose of the Report

Monument Re Limited (“Monument Re”), is a Bermuda based class E life reinsurer and designated insurer supervised by the Bermuda Monetary Authority (“BMA”). It was incorporated on 27 October 2016 to operate as a reinsurer and acquirer of asset intensive European life insurers. Monument Re is the ultimate holding entity within the regulated group. Monument Re is backed by high quality shareholders which include Hannover Re, the world’s third largest reinsurer; NYSE listed Enstar Group plc (“Enstar”), a leading Property and Casualty (“P&C”) run-off consolidator; and E-L Financial Corporation Ltd, the parent company of Canadian life insurer Empire Life along with two individual private investors.

Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset-based risks within its risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland, Benelux countries (i.e. Belgium, Netherlands and Luxembourg) and the Crown Dependencies; and
- Reinsurance of long-dated guaranteed life insurance liabilities.

Monument Life Insurance DAC (“MLIDAC”) is a designated activity company regulated in Ireland. MLIDAC is registered in Ireland under company number 325795, which was incorporated in Ireland on 31 July 2000. MLIDAC commenced writing business in September 2000 under the name of CitiLife Financial Limited, a subsidiary of Citigroup Insurance Holdings Corporation. In March 2011, MLIDAC was sold by Citigroup Insurance Holdings Corporation to Enstar. MLIDAC was then sold by Enstar to the Monument Re Group on 29 August 2017. Since its acquisition, MLIDAC has acted as the consolidation vehicle for the Monument Re group of companies for Irish transactions, involving the acquisition of portfolios of life insurance businesses in run-off. MLIDAC previously traded as “Laguna Life DAC” (“Laguna”), having been re-branded with effect from 2 April 2020, and is a subsidiary of another Monument Re Group entity in Ireland, Monument Assurance DAC (“MADAC”). MADAC is in the process of surrendering its licence to the CBI and following this it is intended that it will be wound up by way of member’s voluntary liquidation, a solvent winding up process. As part of this process, it is intended that the liquidator of MADAC will transfer its shareholding in MLIDAC to Monument Re so that MLIDAC will become a directly held subsidiary of Monument Re.

Inora Life DAC (“Inora”) is registered in Ireland under company number 329745 and is regulated by the CBI. Inora received regulatory approval in 2001 to operate as a life assurance head office undertaking in Ireland. Inora is authorised to conduct life insurance business in Class III and Class VI, both with associated Class I. Inora sold a range of unit-linked products, written on both single premium and regular premium bases in France, Belgium, Austria, Germany, Italy and Ireland. Resulting from a lack of new business, the decision by mutual agreement was taken at a Board meeting on 16 February 2012, to close Inora to new business and to place it into run-off. Société Générale initiated a process in 2019 with the intention of selling Inora to a third party. On 13 September 2019, Inora was acquired by Monument Re, through its European subsidiary MLIDAC, following receipt of regulatory approval from the CBI.

It is proposed to transition the portfolio of insurance business of Inora to MLIDAC via a portfolio transfer. Under the portfolio transfer, it is proposed that Inora will transfer all liabilities and supporting assets relating to its insurance business under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (“EU”) (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/2015). I refer to the proposed transfer as the “Scheme”. This Report is in respect of the proposed portfolio transfer. Inora and MLIDAC are collectively referred to as the “Scheme Companies” throughout this Report. The terms covering the proposed transfer are set out in the “Draft Scheme” that will be presented to the Irish High Court. It is anticipated that directions will be sought from the High Court in relation to the Scheme of Transfer on 8 September 2020. It is proposed that the Sanctions Hearing for the Scheme will take place on 8

December 2020, when final approval of the Scheme will be sought with a proposed effective date of 31 December 2020 (the “Effective Date”).

This Report (the “Report”) is a report prepared by the Independent Actuary in order to aid the High Court in its deliberations.

The Report describes the proposed transfer and discusses its potential impact on the relevant policyholder groups within both Inora and MLIDAC particularly in terms of security of benefits and levels of policyholder service. The Report is organised into nine sections as follows:

- Section 1: Describes the purpose of the Report and the role of the Independent Actuary;
- Section 2: Executive Summary and Conclusions;
- Section 3: Provides relevant background information on Monument Re;
- Section 4: Provides relevant background information on MLIDAC;
- Section 5: Provides relevant background information on Inora;
- Section 6: Commentary on the proposed Scheme;
- Section 7: Describes the general considerations when reviewing the proposed Scheme;
- Section 8: An assessment of the proposed Scheme on the security for policyholders of Inora and MLIDAC; and
- Section 9: An assessment of the proposed Scheme on the fair treatment of policyholders of Inora and MLIDAC.

1.2 Independent Actuary

I, Brian Morrissey, am a Partner in KPMG Ireland (“KPMG”) specialising in life insurance actuarial services. I am a Fellow of the Society of Actuaries in Ireland (“SAI”) having qualified as an actuary in 1999. My summary curriculum vitae is included in **Independent Actuary CV** Appendix 3.

I have been appointed by Inora and MLIDAC to act as the Independent Actuary in connection with the Scheme. The CBI has been informed of my appointment and I understand they have not raised any objections to my appointment. The terms on which I was formally appointed are set out in an engagement letter dated 9 July 2020 and an extract of my scope is included in Appendix 2.

For completeness, I note that I have been appointed by MLIDAC to act as the Independent Actuary in connection with the portfolio transfer of a portfolio of business from Zurich Life Assurance Plc business (“ZLAP”) into MLIDAC, which is targeted to get High Court approval with a proposed effective date of 30 November 2020. I have also need appointed by a sister company of MLIDAC, Monument Assurance Luxembourg, to act as the Independent Actuary in connection with the portfolio transfer of a portfolio of business from Omega Life DAC into MAL. I also previously acted as Independent Actuary for MLIDAC in a portfolio transfer of Monument Insurance DAC (“MIDAC”) and MADAC into MLIDAC which was effective as at 30 June 2020.

In terms of direct and indirect interests, I can confirm that I have no direct nor indirect interests with Inora or MLIDAC. I consider myself able to act as an Independent Actuary on this transaction.

I have also considered the position of KPMG. I can confirm that I have carried out appropriate internal checks in line with KPMG’s internal risk management procedures with no issues being raised.

Neither I, nor any member of my team, is a qualified lawyer or tax expert. I have not considered it necessary to seek my own specific legal or tax advice on any element of the Scheme. The costs and expenses associated with my appointment as Independent Actuary and the production of the Report will be met by the shareholders of Inora and the shareholders of MLIDAC.

This Report has been subject to internal KPMG risk management processes and peer review in line with those professional requirements. The peer review was performed by a senior actuary in KPMG’s actuarial practice.

1.3 Scope of Report

I owe an overriding duty to the Court and to give the Court an independent actuarial assessment of the proposed transfer.

This Report has been prepared in accordance with:

- S.I. No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015, which contains the applicable Irish provisions on transfers of portfolios. Regulation 41 of the 2015 Regulations makes express reference to Section 13 of the Assurance Companies Act 1909 and Section 36 of the Insurance Act 1989. Both sections concern the sanction of transfers by the Court.
- The Actuarial Standard of Practice (“ASP”) issued by the Society of Actuaries in Ireland, ASP LA-6, “Transfer of long-term business of an authorised insurance company – role of the Independent Actuary”.
- The ASP issued by the Society of Actuaries in Ireland, ASP PA-2, “General Actuarial Practice”.

This Report is prepared primarily to assess the likely impact that the Scheme will have on the transferring policyholders of Inora and the existing policyholders of MLIDAC if the Scheme proceeds. I note that there are no policyholders expected to remain in Inora post the transfer. The intention is that licence will be surrendered to the CBI and the Company liquidated. It is limited in its scope to the assessment of this Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

The term “Effective Date”, as used in this Report, refers to the date at which, if the Scheme proceeds, Inora’s policies will be transferred to MLIDAC. The proposed Effective Date is 31 December 2020.

1.4 Assurances

Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.

I believe that the content of this Report is accurate and complete. I have considered all matters that I regard as relevant to the opinions I have expressed, and I have considered all matters that I believe may be relevant to the policyholders of Inora and MLIDAC in their consideration of the Scheme. All the matters on which I have expressed an opinion lie within my field of experience.

I have received assurances as follows:

- I have circulated this Report to the management of Inora and MLIDAC respectively to ask for commentary on the detail within the Report including confirming all material information has been provided to me and how the Scheme of Transfer will be effected in practice. No issues were noted with the commentary and detail presented in the Report by either set of management. I have also been given full access to Inora and MLIDAC staff as necessary.
- I have provided the Head of Actuarial Function (“HoAF”) of Inora (Rosemary Commons) and the HoAF of MLIDAC (Gareth McQuillan) with my Report to ensure they are aware of comments I have attributed to them in this Report in relation to actuarial and risk information. No issues have been noted as a result of their review of my Report in relation to those aspects.

In the course of carrying out my work and preparing this Report I have considered various documents provided to me by MLIDAC, Monument Re, Inora and Matheson. A summary list of the main documents I have considered is set out in Appendix 1.

All of the data and information which I have requested has been provided to me by Inora, MLIDAC, Monument Re and their advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form by Inora, MLIDAC, Monument Re and their advisers. I have not sought independent verification of data and information provided to me by the Scheme Companies, nor does my work constitute an audit of the financial and other information provided to me. I have, where possible, reviewed the information

provided for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

I have met in person or conducted conference calls with representatives of the Scheme Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted.

I have been made aware of relevant discussions between Inora, MLIDAC, Monument Re and the CBI and specifically inquired of them whether there were specific issues I should be aware of.

1.5 Qualifications and Limitations

This Report must be read in its entirety. Reading individual sections in isolation may be misleading.

A copy of the Report and a summary version of the Report (the “Summary Report”) will be made available to the Court, the regulators and the Boards of Directors of Inora and MLIDAC. It will also be made available to policyholders free of charge from the following:

- The registered office of Inora - Two Park Place, Hatch Street Upper, Dublin 2, Ireland.
- The Inora website - <http://www.inoralife.com/ie.html>
- The registered office of MLIDAC - Two Park Place, Hatch Street Upper, Dublin 2, Ireland.
- The MLIDAC website - <https://www.monumentregroup.com/about-monument-re/about-ie/monument-life-insurance-dac/>
- The Dublin office of the appointed solicitor, Matheson, 70 Sir John Rogerson’s Quay, Dublin 2, Ireland.

The Summary Report covers all the material points and issues raised in this full Report and will be sent to each transferring policyholder.

This Report is prepared solely in connection with, and for the purposes of, informing the Court and relevant potentially affected policyholders of my findings in respect of the impact of the Scheme on the security and expectations of these policyholders and may only be relied on for this purpose.

This Report is subject to the terms and limitations, including limitation of liability, set out in my firm’s engagement letter dated 9 July 2020. An extract from this contract describing the scope of my work is contained in Appendix 2.

This Report should not be regarded as suitable to be used or relied upon by any party wishing to acquire any right to bring action against KPMG in connection with any other use or reliance. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of this Report to any other party.

In my role as Independent Actuary, I have in the normal course of conducting this role, been provided with a significant and appropriate amount of information and data about the Scheme Companies’ activities and performance. When forming my view as set out in this Report, these disclosures and information have formed a necessary and vital contribution.

This Report is based on information made available to me at or prior to 30 July 2020 and takes no account of developments after that date. However, my understanding is that Inora and MLIDAC intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the High Court will be asked to consider and sanction the proposed Scheme. This is discussed in further detail later in the document.

1.6 Limits of Liabilities and Legal Jurisdiction

This Report is subject to the terms and conditions, including limitation of liability and legal jurisdiction, set out in the Engagement Letter.

1.7 Terminology

In my discussion of the effects of the proposed Scheme on the policyholders concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix 67.

1.8 Currency

I have identified clearly the currency of figures presented throughout the Report. All figures are presented in Euro (€) unless otherwise stated.

2 Executive Summary and Conclusions

2.1 Executive Summary

2.1.1 Overview

An agreement has been reached between Inora and MLIDAC for the portfolio transfer of Inora's relevant policy assets and liabilities ("the Scheme") into MLIDAC. This Report considers the impact of the proposed transfer of the insurance business from Inora to MLIDAC.

2.1.2 Motivation for proposed Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

Inora is a wholly owned subsidiary of MLIDAC. MLIDAC agreed to purchase Inora from Société Générale SA in March 2019, received regulatory approval from the CBI for the transaction and the transaction was executed on 13 September 2019. It is MLIDAC's intention to transfer the liabilities of Inora to MLIDAC by 31 December 2020 and at some stage in 2021 for Inora to surrender its insurance licence to the CBI and to liquidate the Company.

MLIDAC is a closed-book consolidator and transferring the Inora portfolio into MLIDAC aligns with Monument's strategic plans to grow and develop its unit-linked offering and its capability for portfolios based mainly in Ireland, the Benelux region and the Crown Dependencies.

2.1.3 Approach

My approach to assessing the likely effects of the Scheme on policyholders was to:

- i. Understand the businesses of the entities affected by the Scheme; and
- ii. Understand the effect of the Scheme on the assets, liabilities and capital (on the regulatory basis) of the entities and businesses involved.

Having identified the effects of the Scheme on the various entities and businesses, I then:

- i. Identify the groups of policyholders directly affected;
- ii. Consider the impact of the Scheme on the security of each group of policyholders;
- iii. Consider the impact of the Scheme on the benefit expectations of each group of policyholders; and
- iv. Consider other aspects of the impact of the Scheme (for example, policyholder service and any changes in administration or other arrangements).

In order to consider the effect of the proposed Scheme on each of the companies and groups of policyholders concerned, I have been provided with financial information for each legal entity, including:

- Inora's historic financial information based on audited financial statements and regulatory submissions to the CBI, focusing in particular on the estimates of Solvency II regulatory capital.
- MLIDAC's historic financial information based on audited financial statements and regulatory submissions to the CBI, focusing in particular on the estimates of Solvency II regulatory capital.

- For both Inora and MLIDAC, the Actuarial Function Reports and Actuarial Reports on Technical Provisions in respect of historic regulatory balance sheets.
- For Inora, the Actuarial Function Report and Actuarial Report on Technical Provisions prepared in respect of the 31 December 2019 regulatory balance sheet.
- For MLIDAC, the Actuarial Function Report and Actuarial Report on Technical Provisions prepared in respect of the 31 December 2019 regulatory balance sheet.
- Updated regulatory information for both Inora and MLIDAC at 31 March 2020 including any initial impacts arising from the COVID-19 pandemic. 30 June 2020 financial information was not readily available at the date of my report.
- Pro-forma actuarial report prepared by MLIDAC, illustrating the impact of the transfer as if it had occurred as at 31 March 2020.
- The projections prepared by both MLIDAC and Inora as part of their respective own risk and solvency assessment processes (“ORSA”) processes. I note that the ORSA report produced following completion of this process is not a publicly available document, hence I have not re-produced the detail from the report for either entity within this Report.
- I note that MLIDAC management is preparing a new ORSA to reflect all the various portfolio transfers including the Inora portfolio transfer. The stress and scenario testing and solvency projections are not ready at this stage. However, this is a key assessment area and will be reviewed in the Supplementary Report.

In forming my opinion, I have raised queries with key personnel responsible for core functions in the Scheme Companies and have placed reliance upon, amongst other information, estimates of the MLIDAC capital position after allowing for the proposed Scheme.

In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:

- The appropriateness of the methods used by the Scheme Companies to calculate the estimate of regulatory capital required; and
- Stress and scenario testing currently performed by the Scheme Companies to understand their respective regulatory capital strength and whether further testing is required.
- I have considered the different capital support arrangements available that might be drawn upon to manage adverse events which may impact the financial position of the Scheme Companies.

The key information that was provided is set out in Appendix 1.

2.1.4 Key assumptions

With regard to the Scheme, I understand that:

- Portfolio transfers in respect of portfolios from Rothesay Life plc (“Rothesay”) (“Project Boris”) and ZLAP (“Project Puma”) are assumed to be approved by the UK High Court (in respect of Project Boris) and the Irish High Court (in respect of Project Puma) later in 2020 but prior to the Inora Scheme. All of the financial analysis has been based on this assumption and I have considered this Scheme assuming Project Boris and Project Puma policyholders are part of MLIDAC. I am acting as the Independent Actuary in respect of Project Puma, so I understand that Scheme. I have previously been provided with the financial projections (in respect of Project Boris) which illustrate the impact of that Scheme which does not appear to highlight any issues on financial strength and solvency. However, it is outside of the scope of my work to assess the Project Boris Scheme and its impact on MLIDAC policyholders has been assessed by another Independent Expert.
- Inora will have no policyholders left post the Scheme and the intention will be to surrender its insurance licence to the CBI and for Inora to be liquidated by way of a members’ voluntary liquidation (a solvent liquidation). As a result, there are no further considerations for me as Independent Actuary post the Scheme in respect of Inora.

- MLIDAC is, and remains, closed to new business prior to the Effective Date of the Scheme, noting that this may change depending on future acquisitions and transfers.
- Inora will pay a consideration to MLIDAC in respect of the best estimate liability and risk margin, as calculated by the Inora HoAF, at the Effective Date.
- It is intended that MLIDAC will continue to meet its internal capital management targets as a result of the portfolio transfer. In terms of the proforma information provided, it is assumed that a dividend of €5m will be paid from Inora to MLIDAC to achieve this. This is a key capital management action assumed to take place prior to the Scheme.
- The transferring Inora policies will be included in the intra-group reinsurance arrangement that MLIDAC has with Monument Re. This is expected to be executed on the Effective Date and I have considered this in my assessment. The intragroup reinsurance arrangement is expected to be similar to the arrangements that MLIDAC has with Monument Re in respect of the Project Freyr, and Project CARP portfolios. While, I have considered the proforma results with and without the intra-group reinsurance arrangement; my opinion at this stage assumes that the intra-group reinsurance cover is implemented.
- Inora's policy administration services which are currently provided by DST International Managed Services Limited ("DST") are in the process of being migrated to Equiniti Group plc ("Equiniti"). The DST contract notice period was meant to expire on 30 June 2020 but was then extended to 31 August 2020 in March 2020. Equiniti policy administration services will take effect from 10 August 2020. There will be no change to the scope of services provided and data will be held in the UK.

Similarly, Inora's fund administration and finance services (preparation of the management accounts and aspects of the statutory accounts) were provided by DST. These services will be migrated to Monument Insurance Ireland Limited ("MISL") prior to the Scheme and are planned to be effective from 31 August 2020.

As the migration of policy administration, fund administration and finance services from DST to other service providers (Equiniti and MISL) is expected to be completed prior to the Scheme, it has not been formally considered and has been assumed to be completed successfully.
- I have assumed that the relevant outsourced service providers have been advised of the Inora portfolio transfer and the timing thereof; and appropriate consent of transfer of service provision to MLIDAC will be received.
- I have assumed that there will be no consequences in relation to Brexit and the ability of MLIDAC to outsource activities to Equiniti post the portfolio transfer. Based on discussions with MLIDAC management, I understand that many of the processes proposed to be outsourced may (consistent with the position taken by the CBI and with industry practice) be carried out by an entity not regulated as an insurance intermediary in the EU. I have been provided with a preliminary legal view on this.
- MLIDAC management have confirmed that no formal tax analysis is required, and I have been provided with a summary note briefly setting out the tax impacts on the Scheme. I assume that there are no adverse tax consequences for policyholders arising from the Scheme. I have relied on the analysis performed by MLIDAC management.
- With regard to policyholder tax, a key area of focus for me as Independent Actuary is whether the Scheme would trigger a "chargeable event" for policyholders. MLIDAC has indicated that this is not an issue. It is expected that the transferring Inora policyholders will be unaffected by the Scheme in respect of taxation.
- I have not been informed of any alternative scheme or proposal and this has not been considered further in the Report.

The above assumptions underlie the analysis and conclusions in my Report. If any of these assumptions were to change, my opinion may also change. I have circulated this Report to the management of Inora, MLIDAC and Monument Re respectively to ask for commentary on the detail within the Report, including the underlying assumptions. No issues were noted with the commentary and detail presented in the Report by either set of management, reflecting the fact that the key assumptions listed above correctly

represent the current intentions and that the information I have been provided accurately reflects these businesses.

2.1.5 Findings

The findings of my Report are summarised below.

- Inora and MLIDAC are all ultimately 100% owned by Monument Re, a reinsurance group based in Bermuda. The capital support that was available to Inora and MLIDAC pre transfer continues to be available if required post transfer. There is no change in this overall capital security as a result of the Scheme.
- MLIDAC (and its policyholders) currently have exposure to the Inora business as Inora is a 100% subsidiary of MLIDAC.
- Both Inora and MLIDAC are subject to supervision by the CBI and are regulated under the Solvency II regime, hence neither the supervisory approach nor the regulatory capital regime supporting policyholders will be impacted by the Scheme.
- In line with regulatory requirements and good practice, both Inora and MLIDAC have comprehensive risk management and governance structures in place, with oversight from their respective Boards. There are no changes planned to the governance and risk management arrangements in place in MLIDAC as a result of the Scheme.

Financial Analysis

- I have considered the relative capital strength of Inora and MLIDAC both pre- and post- the transfer. I have based my financial analysis, for both entities, on the regulatory submissions to the CBI at 31 December 2019, the audited financial statements as at 31 December 2019, the ORSA reports (which project solvency coverage in a base case and a wide range of stressed scenarios) and additional supplementary analysis made available to me, notably MLIDAC's pro-forma results for 31 March 2020.
- I have used 31 March 2020 as the proforma date to reflect the impact of the portfolio transfer. This is reasonable position given the planned transfer by 31 December 2020 and it also reflects a low in the investment markets due to the impact of COVID-19.
- For Inora pre transfer, I have identified the assets and liabilities to be transferred as part of the proforma analysis. I have not included a post transfer position for Inora, as there are no policyholders remaining and Inora will ultimately be liquidated after surrendering its licence. Sufficient assets will remain to ensure it continues to meet its regulatory capital requirements post the Scheme and prior to surrendering its insurance licence.
- The MLIDAC proforma position is complicated by the various portfolio transfers which have been completed subsequent to 31 March 2020 and are planned to be completed over the rest of 2020 but prior to the Inora portfolio transfer. The proforma financial analysis adjusts for the following:
 - Project Trinity i.e. transfer of Monument Insurance Designated Activity Company ("MIDAC") and Monument Insurance Designated Activity Company ("MADAC") portfolios into MLIDAC. Final regulatory and Court approvals have been received with an effective date of 30 June 2020.
 - Project Boris i.e. transfer of Rothesay annuity portfolio into MLIDAC. Final regulatory and Court approvals from the UK are expected in August 2020, and the transfer has an expected effective date of 7 September 2020
 - Project Puma i.e. transfer of ZLAP International Portfolio Bond ("IPB") business into MLIDAC. Final regulatory and Court approvals are expected in November 2020.
- I have also illustrated the impact post transfer of the proposed reinsurance arrangement to be put in place with Monument Re in respect of the transferring Inora liabilities.
- I note that the transfer is expected to take place by 31 December 2020. As part of the proforma analysis, I have also factored into my analysis the impact of the costs associated with the Scheme, including an allowance of €1m portfolio transfer costs.
- A summary of the relative capital strength of Inora and MLIDAC pre- and post-transfer is set out in Table 2.1.

Table 2.1: MLIDAC Pro-forma Solvency Position as at 31 March 2020 (€m)

Component	Inora – pre-transfer	MLIDAC – pre-transfer	MLIDAC – pre transfer but post various Schemes*	MLIDAC – post transfer (Gross)**	MLIDAC – post transfer (Net)**
Assets	87.9	1,005.3	1,994.2	2,066.0	2,130.9
Liabilities	74.9	977.4	1,963.5	2,036.3	2,100.9
Own Funds	13.1	27.9	30.7	29.7	30.0
Solvency Capital Requirement	3.1	8.8	16.6	18.4	15.9
Capital required	3.7	8.8	16.6	18.4	15.9
Excess of Own Funds over SCR	9.4	19.1	14.1	11.3	14.0
Solvency Coverage Ratio	353%	317%	185%	161%	188%

Source: MLIDAC Inora proforma analysis

*These various Schemes include Project Trinity, Project CARP HNW, Project Boris and Project Puma.

** These reflect the Gross and Net positions after implementation of the intragroup reinsurance arrangement.

■ MLIDAC has an internal capital management target of 140% of the Solvency Capital Requirement (“SCR”) plus an intragroup reinsurance capital buffer of €5.4m. The proforma results include a capital management action of a dividend payment of €5m from Inora to MLIDAC. This dividend payment serves to reduce MLIDAC’s SCR and ensures that MLIDAC is capitalised to meet its internal capital management target at the Scheme date. This is a key capital management action and an assumption in my assessment.

■ I note that for Inora policyholders:

- As at 31 March 2020, Inora had a solvency capital requirement of €3.1m, which is floored at the MCR level of €3.7m. Inora had Own Funds of €13.1m, excess of available Own Funds above the regulatory requirement of €9.4m and a solvency coverage ratio of 353%. A key management action which was agreed at Board level and assumed within the calculation of the technical provisions is that the business will transfer to MLIDAC as at 30 September 2020. The strong regulatory capital position reflects this management action and is a key consideration for me. Without the management action, Inora would be impacted with diseconomies of scale and its solvency would be threatened. This is highlighted in the Inora ORSA report - I note that it is not possible to perform a solvent run off of the business without this assumption.
- Post-transfer, the Inora policyholders will move to MLIDAC, a larger life insurance company that specialises in the service and administration of closed books of insurance business such as the Inora book. Post transfer of Inora (but pre the intragroup reinsurance arrangement) and various other Schemes (Project Trinity, Project CARP High Net Worth, Project Boris and Project Puma), MLIDAC is anticipated to have a regulatory capital requirement of €18.4m, available Own Funds of €29.7m, and excess available Own Funds above the regulatory requirement of €11.3m, with a solvency coverage ratio of 161%.
- Once the intragroup reinsurance arrangement is implemented and the €5m dividend is paid from Inora to MLIDAC, the regulatory capital requirement decreases from €18.4m to €15.9m and Own Funds increase from €29.7m to €30.0m. Overall, the capital management action results in the solvency coverage ratio of 161% increasing to 188%. I note that the solvency coverage remains well in excess of the regulatory minimum levels and is above MLIDAC’s internal capital target.
- While the regulatory capital coverage has reduced for transferring Inora policyholders, they are now part of a larger entity with a higher level of own funds and a more diversified risk profile. Furthermore, I note that the current level of regulatory capital coverage that Inora policyholders currently enjoy reflects the transfer being executed, as without it the solvency position of Inora as a stand-alone entity would be threatened.

■ I note that, for the existing MLIDAC policyholders:

- Part of the MLIDAC's regulatory capital position already reflects its investment in Inora i.e. contribution to Own Funds of €13.1m and contribution to SCR (undiversified) of €2.9m.
 - Pre-transfer of various Schemes, the MLIDAC Own Funds are €27.9m, the regulatory capital requirement is €8.8m and the solvency coverage ratio is 317%. Post transfer of various Schemes, MLIDAC is anticipated to have available Own Funds of €30.7m with a regulatory capital requirement of €16.6m, giving a solvency coverage ratio of 185%.
 - Post transfer of Inora had the dividend payment, the available Own Funds decrease to €29.7m, whilst the regulatory capital requirement increases from €16.6m to €18.4m. Therefore, MLIDAC's coverage of the regulatory capital requirement reduces from 185% to 161%. Once the intragroup reinsurance arrangement is implemented and the €5m dividend is paid from Inora to MLIDAC, the regulatory capital coverage increases from 161% to 188%. The level of Own Funds decreases by a small extent from €30.7m to €30.0m but the SCR decreases from €16.6m to €15.9m.
 - Overall, the combined impact of the reinsurance and capital management action mean that the solvency coverage which existing MLIDAC policyholders enjoy has remained broadly stable i.e. it still remains well in excess of the regulatory minimum levels and continues to meet its internal capital targets.
- I have been provided with MLIDAC's brief tax memo addressing all aspects of the Scheme. I understand that no tax impacts are expected as a consequence of the Scheme for the transferring Inora policyholders and the existing MLIDAC policyholders. Any tax issues will be dealt with by the shareholders of Inora and MLIDAC.
- I have considered the effects of the Scheme on the risk profile of each entity:
- As a result of the Scheme, Inora policyholders will be exposed to certain different risks than they are currently exposed to. There will be some exposure to non-life risks that form part of MLIDAC's balance sheet as a result of the transfer of MIDAC business. However, these non-life risks are not material, are well understood by MLIDAC and are anticipated to run-off quite quickly. Furthermore, there are regulatory capital buffers and risk management processes in place to manage these risks. I am comfortable that this does not materially impact the financial security of the Inora policyholders.
 - If the proposed transfer takes place, MLIDAC's risk profile does not change as Inora is consolidated onto the MLIDAC balance sheet as a subsidiary.
 - I have been provided with each entity's most recent ORSA report – these relate to 2019. Post the Scheme, MLIDAC will maintain a positive solvency capital coverage ratio (greater than 100% though well below its internal capital management targets) under even the most adverse scenarios. This gives comfort over the robustness and financial stability of MLIDAC.
 - While Inora's profile is projected to be similarly robust, it is based on the management action of the business transferring to another entity – without the Scheme taking place and other actions, it would not be able to run off in a solvent manner.
- I have considered the effects of the Scheme on the fair expectations and treatment of each of the transferring Inora policyholders and existing MLIDAC policyholders, focusing on the following aspects:
- *Fund Range*: All the funds which are available to Inora policyholders will still be available after the Scheme completes. I also note that it is MLIDAC's intention to maintain the breadth of offering currently provided by Inora. In my opinion, the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.
 - *Entitlement to benefits*: Existing practices in respect of surrender, maturity, transfer, or death will remain in place post-transfer. Claims which are settled as part of the normal course of business will be dealt with in the same way post-transfer.
- I note that there are some German policies in force where an annuity must be paid under the regulations i.e. a payment of capital is not permitted. The general approach has been to communicate with these policyholders in the lead up to policy maturity and I expect this to continue post transfer. As for Inora, MLIDAC do not have a ready annuity offering so there will

be no change to practice and the exposure still remains. Work continues to ensure a suitable solution is in place for the policyholders.

I further note that existing contractual mechanisms in place in respect of French policyholders will remain in place post the transfer.

I note that Inora currently receive rebates from investment managers in respect of some structured fund products. These fund rebate arrangements will novate to MLIDAC upon execution of the Scheme.

Therefore, in my opinion, the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.

- *Policy Terms & Conditions:* Policy terms and conditions will remain unchanged as a consequence of the Scheme for all policyholders. I have no issues to note.
- *Service standards:* Inora intends to migrate the finance, policy administration and fund administration services from the existing service provider, DST, effective 31 August 2020. Policy administration services will migrate to Equiniti and this will take effect from 10 August 2020. Fund administration and finance services will migrate to MISL and will take effect from 31 August 2020. I have no issues to note as this is expected to be completed prior to the Scheme.
- *Expenses and charges:* These will remain unchanged as a consequence of the Scheme for all policyholders. I have no further issues to note
- *Costs of the Scheme:* All costs associated with the Scheme will be borne by MLIDAC and Inora. No costs will be borne by policyholders. Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard. I have no issues to note.

Discretion: With regard to the management of the Inora policies, the levels of discretion available to management are limited, relating to the charges levied, the funds offered and the approach to unit-pricing. There are some minor areas of discretion where Inora has the right to vary charges on some policies sold in Belgium. I have been advised that Inora has never exercised these discretionary powers. I expect that this practice will not change. The HoAF of MLIDAC has noted my comments in this regard.

- *Complaints and redress:* I note that the complaints handling procedures adopted by both entities at present are well aligned and policyholders currently escalate their claims to Financial Services and Pensions Ombudsman (“FSPO”). I have no issues to note.

Some changes to practice was implemented as part of the Equiniti migration but this was prior to the Scheme and addressed in terms of existing business practice.

Overall, I consider that the Scheme does not impact on the fair expectations of any policyholders.

2.1.6 Policyholder Communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs, (and I understand Inora and MLIDAC will seek the High Court’s dispensation from this requirement, in so far as it relates to existing policyholders of MLIDAC) certain materials must be transmitted to each policyholder of each Company.

I have been provided with draft versions of this policyholder circular and I have no issues to note with the detail included in it.

I note that:

- The Inora policyholders are residents of EEA Member States, namely France, Belgium, Italy, Germany Austria, Denmark, Luxembourg, The Netherlands, Poland and the UK. In addition, there are a number of policyholders now resident in countries outside the EEA. The entities have sought local law advice from each of the EEA Member States as to the notification requirements to be complied with and have also obtained advice from local counsel in Ireland. Counsel in each of the member states have confirmed that there is no obligation for Inora or MLIDAC to publish a notice of the Transfer in these Member States.

- The transferring Inora policyholders will each be sent a circular by Equiniti on behalf of Inora (comprising of a letter with details about the Transfer, a summary of the terms of the Scheme, a summary version of this Report, a copy of the draft legal notice and a questions and answer sheet in relation to the transfer). Inora will have oversight of the entire communications process and provide a scripted Questions and Answers Sheet and customer response handling decision tree to assist Equiniti.
- The summary version of this Report, which I have prepared, covers all the material points and issues raised in this full Report.
- The communication to Inora policyholders will include my conclusion as Independent Actuary and also highlight very clearly the availability of my full Report on request and its availability on the Inora website. The CBI will be advised of this approach.
- The language used in the communication shall be the same language used in the policy documentation provided to that policyholder by Inora.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- A notice will also be published in the Financial Times (International Edition) which is in wide circulation throughout Europe.
- Subject to the directions of the Court, there is no intention to issue a direct mailing to MLIDAC's existing policyholders. However, MLIDAC's existing policyholders may contact MLIDAC about the transfer having seen press advertising or notifications using their usual contact details. The contact centre will be provided with a separate questions and answers sheet specific to MLIDAC's existing policyholders and be trained to enable them to deal with the queries and complaints received regarding the proposals. Any queries outside of the questions and answers sheet and complaints received regarding the proposals will be referred to MLIDAC for drafting a response .

Overall, I am comfortable with this communication approach and am comfortable that the and existing MLIDAC policyholders will not be disadvantaged in any way by not being issued with a copy of either this Report or my Summary Report.

2.1.7 Supplementary Report

This Report is based on information provided to me on or before 30 July 2020 and therefore reflects a point in time view of the proposed transfer. My understanding is that Inora and MLIDAC intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing (and possibly even prior to the initial Directions hearing) at which the High Court will be asked to consider and sanction the proposed Scheme. My Supplementary Report will contain an update on any developments that may have occurred since July 2020. In my Supplementary Report, I will review my findings and opinion which will include consideration of the following:

- Address any issues identified as part of the Directions hearing;
- Business performance in the period and updated regulatory and financial information;
- Confirmation that assumptions identified in Section 2.4 remain appropriate;
- Confirmation that the various portfolio transfers have been completed;
- Confirmation that the overall capital strength of MLIDAC will be sufficient post transfer in terms of meeting internal capital targets based on the most up to date financial information;
- Review of MLIDAC's latest stress and scenario testing and proforma solvency projections in the 2020 ORSA;
- Review that policy administration and fund administration have been migrated successfully and are operating in line with business as usual requirements;
- Progress on wider market and regulatory developments;

- Progress on the inclusion of Project Boris and Project Puma policies in the intra-group reinsurance arrangement that MLIDAC has with Monument Re and status of the project to include Inora policies post transfer;
- Progress on the finalisation of the intra-group reinsurance arrangement that MLIDAC will have in place with Monument Re in respect of Inora policies at the point of the portfolio transfer;
- Validation of the level of capital buffer in respect of intragroup reinsurance arrangements; and
- Other issues may of course arise, and these will be factored into such a Report.

If required to be produced, this Supplementary Report is intended to be made available alongside this Report at the registered offices of Inora and MLIDAC and on the Inora website as soon as is practicable once it has been issued.

2.2 Conclusions

Having considered the impact of the Scheme on both the transferring policyholders of Inora and the existing policyholders of MLIDAC, it is my opinion that:

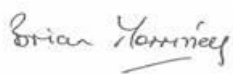
- The Scheme will not have a material adverse effect on the reasonable benefit expectations of any of the policyholders involved; and
- The risk to policyholder security is remote. Therefore, in my view, policyholders will not be materially adversely affected by the proposed Scheme.

My opinion in relation to Inora and MLIDAC policyholders is based on:

- My review of all the pertinent historic, current and projected information provided by Inora and MLIDAC ;
- The investigations completed by the Inora Head of Actuarial Function, the MLIDAC Head of Actuarial Function and their respective conclusions based on those investigations, as set out in their actuarial assessments; and
- Discussions with the management of Inora and MLIDAC on what will happen post-transfer.

My assessments are made in the context of the Solvency II regulatory regime in Europe.

I note that there is adequate planned communication of the Scheme to the relevant policyholders.



11 August 2020

Brian Morrissey, FSAI

Date

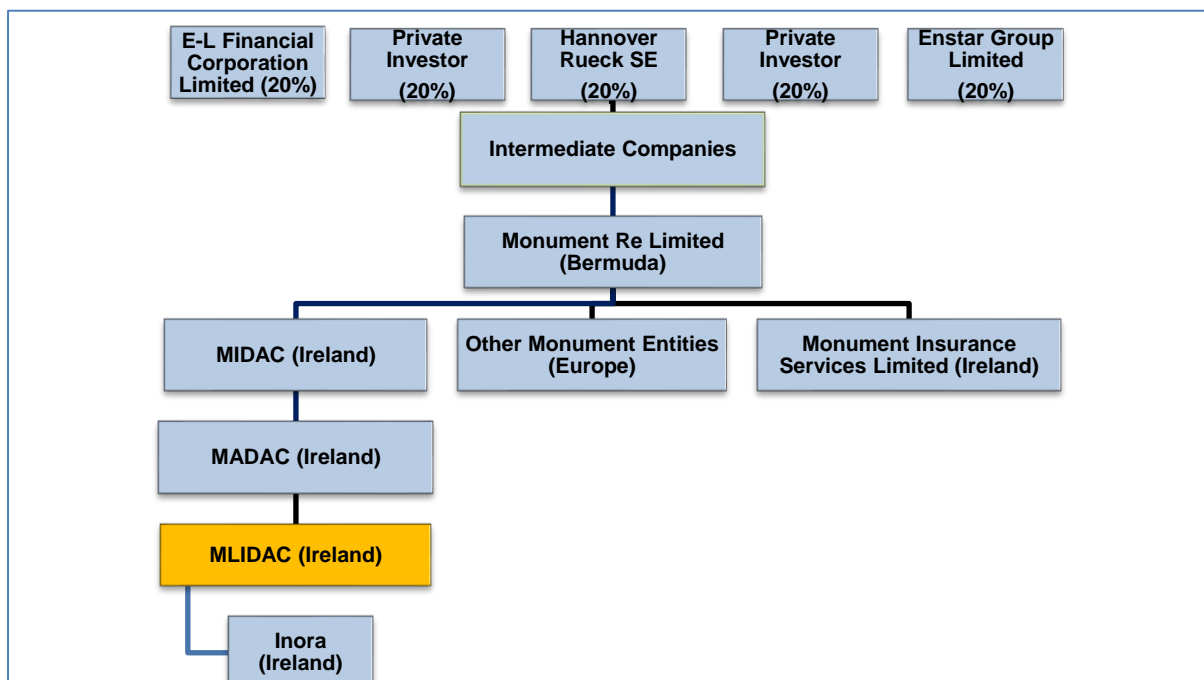
Independent Actuary
KPMG in Ireland

3 Monument Re Limited

3.1 Overview

3.1.1 Current company structure

Monument Re is a Bermuda based class E life reinsurer and designated insurer with Group supervision by the BMA. It was set up to operate as a reinsurer and acquirer of asset intensive European insurers. Monument Re is the ultimate holding entity within the regulated group. The corporate structure of Monument Group is set out below: intensive European insurers. Monument Re is the ultimate holding entity within the regulated group. The corporate structure of Monument Group is set out below:



3.2 Structure and background

Monument Re is backed by high quality shareholders which include Hannover Re, the world's third largest reinsurer; NYSE listed Enstar Group Ltd, a leading P&C run-off consolidator; and E-L Financial Corporation Ltd, the parent company of Canadian life insurer Empire Life as well as senior insurance executives as private investors. Monument Re has an experienced Board of Directors, chaired by Jonathan Yates, former CEO of Guardian Assurance Company Ltd, and a strong management team led by Manfred Maske.

Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset-based risks within its risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland, Benelux and Crown Dependencies; and
- Reinsurance of long-dated guaranteed life insurance liabilities.

MISL forms a key element of Monument Re's business model, in terms of resources to support the management of the group, both in supporting Bermuda group functions, Irish entities and providing expertise to Monument Re's Benelux and Crown Dependencies entities. MIDAC and MADAC are in the

process of surrendering their licences to the CBI and following this they will commence a solvent winding up process and will both be placed into member's voluntary liquidation. As part of the liquidation of MIDAC and MADAC, the liquidator will distribute the shares in MLIDAC to Monument Re so MLIDAC will become a direct subsidiary of Monument Re.

3.3 Nature of business written

Some of this detail was noted earlier in different parts of my report but I am consolidating it here for completeness.

In 2017:

- Monument Re completed the acquisition of two Irish insurance subsidiaries of Barclays on 1 March 2017. These subsidiaries were rebranded MIDAC, a non-life assurance company and MADAC, a life insurance company. These entities are both established in Ireland and regulated by the CBI. They were established to underwrite PPI and short-term income protection to Barclays' customers in the UK on a freedom-of-services basis. This portfolio is closed to new business. A full mis-selling indemnity was agreed with Barclays as part of the acquisition terms.
- In August 2017, Monument Re completed the acquisition of MLIDAC (then called Laguna) from Enstar which comprises a closed book of term life protection risks within UK and Spain.
- In May 2017, Monument Re established a service company, MISL, in Ireland to provide services to the Monument entities regulated in Ireland. The staff, previously employed by MIDAC, MADAC and MLIDAC transferred to MISL. MISL now acts as an outsourced service provider for these entities as well as supporting other limited Group activities.

In 2018:

- In March 2018, Monument Re completed the acquisition of ABN AMRO Life Capital Belgium S.A. ("AALCB"), a Belgian Life insurance company in run-off, following receipt of regulatory approval by the National Bank of Belgium. AALCB was subsequently renamed to Monument Assurance Belgium N.V. ("MAB"). On that same date, Monument Re established a service company, Monument Insurance Belgium Services Sprl in Belgium, to provide services to the Group's regulated entities in the Benelux region and to also provide services to other Monument Group entities.
- In June 2018, Monument Re also acquired a run-off portfolio of linked and traditional business from MetLife Europe Designated Activity Company ("MetLife"), an Irish incorporated entity. This transaction was initially done through reinsurance to Monument Re. In accordance with the approval of the Irish High Court, the portfolio has transferred, as of the 1st April 2019, into Laguna.
- In September 2018, following receipt of regulatory approval, Monument Re completed the acquisition of a run-off portfolio of flexible premium retail life insurance contracts from Ethias S.A., a Belgian registered insurer, known as the FIRST A Portfolio. In accordance with the authorisation by the National Bank of Belgium, the FIRST A portfolio has transferred into MLIDAC with the terms and conditions unchanged except for the loss of Belgian state guarantee. Ireland does not maintain an equivalent system of guarantee.
- In October 2018, following receipt of regulatory approval by the Commissariat aux Assurances ("CAA"), Monument Re completed the acquisition of Aspecta Assurance International Luxembourg S.A. ("Aspecta"), a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain. Aspecta specialised in unit-linked single premium products targeted towards high net-worth individuals as well as in unit-linked regular premium products for the retail market and it ceased writing new business at the end of 2010. After completion, Aspecta was renamed as MAL.
- In June 2018, Monument Re signed an agreement to acquire Robein Leven N.V. and its subsidiaries from Amerborgh Financial Services B.V. Robein Leven is a closed life insurer domiciled in the Netherlands with traditional and unit-linked products. This transaction received regulatory approval on 18th March 2019.
- In October 2018, Monument Re signed an agreement to acquire a run-off portfolio of traditional life and credit life business from Alpha Insurance S.A., a Belgian composite insurance company and a wholly-owned subsidiary of Enstar Group Limited. This transfer completed on the 29th of May 2019

- , with the portfolio transfer to Monument Assurance Belgium NV, the Belgian carrier of the Monument Re Group to take effect with a date of 31 May 2019.
- In December 2018, Monument Re signed an agreement to acquire Nordben Life and Pension Insurance Co Limited from BenCo Insurance Holding B.V., which is owned 89.96% by Storebrand Livsforsikring AS. The acquisition was completed on 27th June 2019 and established Monument Re's presence in Guernsey.

In 2019:

- In March 2019, Monument Re entered into an agreement to acquire the €140m portfolio of Irish annuities from Rothesay Life Plc, a UK based life insurer. The acquisition has been structured initially as reinsurance to Monument Re and is expected to be followed by a UK Part VII transfer of the portfolio to MLIDAC, subject to regulatory and UK court approvals.
- In March 2019, Monument Re signed a definitive agreement to acquire Inora from Société Générale S.A.
- In May 2019, following receipt of regulatory approvals, Monument Re completed the acquisition of a run-off portfolio of traditional life and credit life business from Alpha Insurance S.A., a Belgian composite insurance company and a wholly-owned subsidiary of Enstar Group Limited. The portfolio transferred into MAB in Belgium. In December 2019, following receipt of regulatory approvals, Monument Re completed the acquisition of a run-off portfolio of traditional savings business from Curalia OVV, a Belgian mutual insurer. The portfolio transferred into MAB in Belgium. In addition to the above transactions signed in 2019, there are three further transactions to highlight which have been signed in 2020 and remain subject to regulatory approval as of the date of this report.
- In 2020: In March 2020, Monument Re signed an agreement to acquire GreyCastle Holdings Ltd and its subsidiaries, which include GreyCastle Life Reinsurance (SAC) Ltd and GreyCastle Services, from the shareholders of GreyCastle Holdings Ltd. Closing was on 27th May 2020, following receipt of regulatory approval from the BMA.
- MADAC and MIDAC transferred their entire portfolios to MLIDAC, the scheme effective date for this transfer was 30 June 2020. MIDAC and MADAC are now in the process of surrendering their licences to the CBI.
- An agreement was reached between Zurich Life Assurance Plc ("ZLAP") and MLIDAC on 7 May 2020 for the transfer of a portfolio of ZLAP's International Portfolio Bond business to MLIDAC by means of a transfer of the relevant policy assets and liabilities. The proposed effective date is 30 November 2020.

These transactions further support Monument Re's strategy to build and grow its Ireland and Benelux platforms as well as develop opportunities in a number of other territories e.g. in the Crown Dependencies.

I have reviewed the financial statements¹ and the Financial Condition Report² for Monument Re for period ending 31 December 2019 as reported to the BMA. I have not reproduced the detail in this report. I have reviewed these for the purposes of understanding the financial strength of the Monument Group. No issues were noted from my review of the regulatory documents

¹ <https://www.monumentregroup.com/wp-content/uploads/2020/06/FY19-Monument-Re-Group-Audited-Consolidated-Financial-Statements.pdf>

² <https://www.monumentregroup.com/wp-content/uploads/2020/06/FY19-Monument-Re-Group-Financial-Condition-Report.pdf>

4 Monument Life Insurance DAC

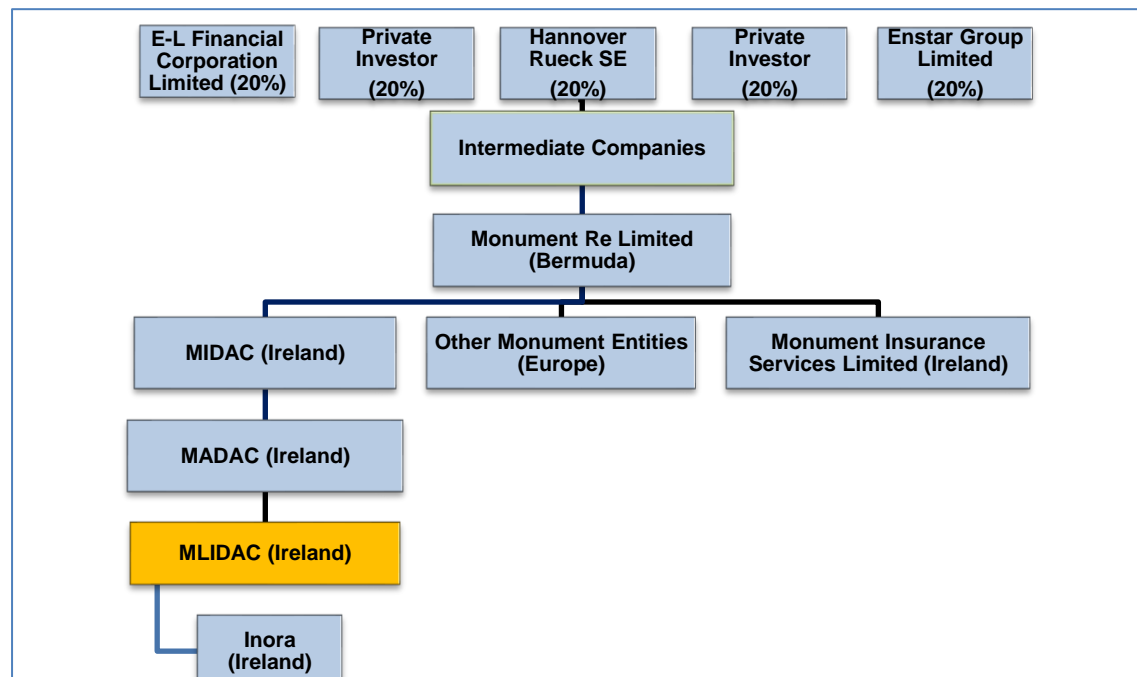
4.1 Overview

Monument Re is a Bermuda based class E life reinsurer and designated insurer supervised by the BMA. It was incorporated on 27 October 2016 to operate as a reinsurer and acquirer of asset intensive European life insurers. Monument Re is backed by high quality shareholders which include Hannover Re, the world's third largest reinsurer; Enstar, a leading P&C run-off consolidator; and E-L Financial Corporation Ltd, the parent company of Canadian life insurer Empire Life along with two individual private investors. Monument Re is the ultimate holding entity of four regulated insurance entities in Ireland:

- MIDAC, a non-life assurance company,
- MADAC, a life assurance company,
- MLIDAC, a life assurance company, and
- Inora Life.

Together, the four entities are collectively known as “Monument Insurance Ireland” in local company documentation. All of the companies above are subject to CBI supervision, and are indirectly owned by the Monument Re Group’s regulated parent, Monument Re Limited. I note that Project Trinity portfolio transfer concluded in June 2020 which transferred the portfolios from MIDAC and MADAC into MLIDAC. As outlined above, MIDAC and MADAC are in the process of surrendering their licences to the CBI and following this they will commence a solvent winding up process and will both be placed into member’s voluntary liquidation. As part of the liquidation of MIDAC and MADAC, the liquidator will distribute the shares in MLIDAC to Monument Re so MLIDAC will become a direct subsidiary of Monument Re.

The image below reflects the current Group structure:



4.2 Structure and background

MLIDAC is a designated activity company regulated in Ireland under company number 325795 which was incorporated in Ireland on 31 July 2000. It is authorised by the CBI to write Class I (life assurance and contracts to pay annuities on human life, but excluding Class II and III), Class III (contracts linked

to investment funds) and Class IV (permanent health insurance contracts) life insurance business. MLIDAC's authorisation was extended in 2019 to include Class 1 (Accident), 2 (Sickness) and 16 (Miscellaneous Financial Loss) non-life insurance business to cover the portfolios which were transferred to it by MIDAC and MADAC on 30 June 2020. MLIDAC is also in the process of applying to the CBI for a Class VI (Capital redemption operations) life licence to facilitate the transfer of the Project Puma policies. This report assumes that this application is successful. This licence application is unrelated to this transfer as Inora does not have any Class VI business.

MLIDAC's business is in run-off which means that MLIDAC is no longer selling new insurance. MLIDAC commenced writing business in September 2000 under the name of CitiLife Financial Limited, a subsidiary of Citigroup Insurance Holdings Corporation. In March 2011, MLIDAC was sold by Citigroup Insurance Holdings Corporation to Enstar. MLIDAC was sold by Enstar to Monument Re, on 29 August 2017. MLIDAC has acted as the consolidation vehicle for the group for Irish transactions detailed in Section 4.3.1. MLIDAC agreed to purchase Inora in March 2019 and received regulatory approval for the transaction August 2019, with it completing in September 2019.

At the time of writing, I note that a project is underway to rationalise and streamline Monument Re's operations in Ireland. This project's aims are to simplify the ownership structure, optimise capital efficiency and reduce the reporting requirements for the Irish subsidiaries of the Group.

The first phase of this project took effect on 2 April 2020, with Laguna being re-branded as MLIDAC.

In the second phase of this project, MADAC and MIDAC's insurance liabilities and corresponding assets were transferred to MLIDAC, with MLIDAC becoming the sole insurance carrier for Monument Re in Ireland. This was effective as at 30 June 2020.

Portfolio transfers in respect of portfolios from Project Boris and Project Puma are assumed to be approved by the UK High Court (in respect of Project Boris) and the Irish High Court (in respect of Project Puma) later in 2020 but prior to the Inora Scheme. As a result, my Report considers the Scheme assuming Project Boris and Project Puma policyholders are part of MLIDAC. In addition, there are a number of other ongoing acquisitions and transfers, described below, that I also factor into my analysis.

4.3 Nature of business written

As at 31 December 2019, MLIDAC had €492.6m in insurance liabilities in respect of savings / protection policies and c11,300 policies worldwide across the company. The company received €39m in net premium income in 2019. The details captured in tables 4.1 and 4.2 below are as at 31 December 2019, prior to the portfolio transfers planned to take place in 2020:

Table 4.1: MLIDAC Earned Premiums (€m)		
Line of Business	31 December 2018	31 December 2019
Life	28.9	39.0
Total	28.9	39.0

Source: 2018, 2019 MLIDAC SFCR

Table 4.2: MLIDAC Sum Assured and Policy Count – 2019				
Line of Business	Policy Count	Sum Assured (gross - €m)	Sum Assured (net - €m)	Surrender Value (gross - €m)
Laguna Term	2,592	391.7	40.2	0
Ethias/Freyr	1,784	-	-	60.0
Met Life/CARP				
- Non-Linked	184	21.6	2.2	
- Fixed Term Annuity	2,066	-	-	
- Unit-Linked	3,423	5.8	0.2	163.4
- Variable Annuity	1,240	1.1	-	86.6
Total	11,289	420.3	42.5	308.0

Source: MLIDAC QRT S14.01

4.3.1 Products

MLIDAC (which originally comprised regular and single premium, level and decreasing term assurance business in Spain and the UK) has acquired the following portfolios:

- **Project Freyr (completed):** On 28 September 2018, MLIDAC completed the acquisition of a Belgian closed portfolio of around 4,300 flexible premium whole of life savings contracts from Ethias S.A. This portfolio is known as the “FIRST A” or “Freyr” portfolio. The portfolio is predominantly single premium and is in run-off, with small amounts of regular premiums.
- **Project CARP (completed):** On 19 June 2018, MLIDAC entered into an agreement with MetLife Europe DAC an Irish authorised life insurer to acquire an additional block of variable annuity, fixed term annuity, annuity and protection business. The block is closed to new business. This transaction was initially executed through reinsurance to Monument Re. In accordance with the approval of the Irish High Court, the portfolio has transferred, as of 1 April 2019, into MLIDAC in Ireland with the terms and conditions of transferring policies unchanged. The breakdown of the products are as follows:
 - *Variable Annuity:* This block comprises unit-linked business with guarantees, including Guaranteed Minimum Withdrawal Benefits, written in Greece, Spain and Poland. They were sold under the MetLife Europe Income Guarantee Solution name. This block is closed to new business.
 - *ALIL unit-linked:* This block comprises unit-linked business written in Germany, Italy, Spain and the UK, both regular and single premium in nature.
 - *ALIL non-linked:* The ALIL non-linked business comprises of several non-linked term assurance, income protection and group protection policies.
 - *High Net Worth:* This block comprises of several unit-linked single premium investment policies, written predominately in the UK.
 - *Fixed Term Annuity:* This block comprises policies issued in the UK under two fixed-term non-linked products that pay an immediate annuity while the client is alive during the policy term.

I note that an immaterial additional component of the Project CARP portfolio is yet to transfer to MLIDAC. This aspect of this transaction is due to complete in third quarter of 2020. The results provided to me by MLIDAC indicate it is not material, as the impact on Own Funds is less than €40k. Given the low materiality of this item, I have not commented upon it any further within this Report.

- **Project Trinity (completed):** As at 30 June 2020, MIDAC and MADAC portfolios were transferred into MLIDAC.
 - MIDAC underwrites the non-life element of Payment Protection Insurance (“PPI”) policies and Income Protection Policies to Barclays Bank UK debt customers. It underwrites the non-life cover elements of PPI offered to the same partners as for MADAC, as well as some other standalone benefits. Business written includes short-term critical illness (“CI”) and short-term accident and sickness (“AS”) business. MIDAC also writes involuntary unemployment (“IU”) business. All risks covered were in the UK. The entire portfolio held by MIDAC transferred to MLIDAC on 30 June 2020. Further detail is included in a separate Report of the Independent Actuary.³
 - MADAC underwrites PPI and Income Protection Policies to Barclay Bank debt customers. It underwrites the life cover element of PPI policies sold to UK policyholders with all lives assured being from the UK. In addition, MADAC writes long-term critical illness (“LCI”) and long-term accident and sickness (“LAS”). The entire portfolio held by MADAC transferred to MLIDAC on 30 June 2020. Further detail is included in a separate Report of the Independent Actuary.

I also note that the following transfers are in progress and must also be considered as part of my overall deliberations on the Scheme:

³ <https://www.monumentregroup.com/wp-content/uploads/2020/01/IA-Report-Final.pdf>

- **Project Boris (In progress):** On 26 March 2019, the Company entered into an agreement to acquire the €140m portfolio of Irish annuities from Rothesay Life Plc, a UK based life insurer. The acquisition has been structured initially as reinsurance to Monument Re and followed by a Part VII transfer of the portfolio to MLIDAC, subject to applicable regulatory and UK court approvals. The final Court hearing date is July 2020 with an expected portfolio transfer date of September 2020. I note that this transfer is being considered by another Independent Expert and is beyond the scope of my report, but I have considered the MLIDAC balance sheet, prior to execution of the Scheme, as if this transfer had already been executed. I have access to his reporting as it is publicly available on the Rothesay Life website.
- **Project Puma (in progress):** An agreement was reached on 7 May 2020 between ZLAP and MLIDAC for the transfer of a portfolio of ZLAP's IPB business to MLIDAC by means of a transfer of the relevant policy assets and liabilities. The proposed effective date is 30 November 2020. I am acting as the Independent Actuary in respect of Project Puma, so I understand that Scheme

MLIDAC has three lines of business on its books, classified under Solvency II as follows:

- Insurance with profit participation: Life and potential for a minimum rate of interest
- Index-linked and unit-linked insurance: Investment return, guaranteed withdrawal value, guaranteed death benefit, and
- Other Life Insurance: Life benefit.

4.3.2 Unit-linked business

I note that prior to Project CARP, MLIDAC did not manage unit-linked business, hence this drove a material change in both MLIDAC's business operations and governance structures. Since the acquisition of this portfolio, MLIDAC has established the processes and controls required to effectively manage this business in line with best practice. The management of the unit-linked business is overseen by the Unit-linked Investment Committee, which is chaired by the Head of Fund Administration and whose members comprise of individuals from the senior management team of MLIDAC. The Unit-linked Investment Committee report to the Board of MLIDAC.

MLIDAC follows the Association of British Insurers ("ABI") Guidance for Unit-linked Funds, applying the requisite governance structures to ensure that unit-linked funds are managed appropriately and in accordance with policy disclosures. MLIDAC acts in accordance with the Financial Conduct Authority's ("FCA") Principles of Business; complying with the Treating Customers Fairly requirements which includes PRE. Issues, should they arise, are brought to the Unit-linked Investment Committee to review and provide advice on.

As part of my work in preparing this Report, I discussed MLIDAC's approach to monitoring unit-linked funds and the structures that have been put in place since Project CARP completed:

- As a result of the continued growth, a Fund Administration function has been established in MLIDAC to support and report on unit linked activity. There are three employees now in place and it is anticipated that this team will continue to expand in time.
- The system used by Fund Administration is Invest | Pro, a widely used unit-pricing system. Since acquiring the unit-liabilities under Project CARP, MLIDAC has enhanced the existing control framework that was in place, developing a series of automated controls and checks within Invest | Pro. The intention here was to enhance the overall control framework and improve the efficiency of the administration process.
- The unit-pricing process carried out by Fund Administration is supported by a detailed checklist, which is completed for each pricing exercise (i.e. each business day). As part of the process, a number of checks are carried out on the unit prices, considering price moves relative to the underlying assets, with defined tolerances in place.
- In addition to the Unit-linked Investment Committee, a unit-pricing working group has been established. This group has only recently been established but will meet on a monthly basis going forward. The terms of reference for this working group are a work in progress, but it is intended to be comprised of members of the Fund Administration function, representatives of the administrators for the underlying policies and representatives of various control functions, such as Risk and

Compliance. I have had sight of the minutes of the first meeting of this working group and have no issues to raise.

- MLIDAC adheres to the requirements of Article 132 under EU Directive 2009/138/EC, i.e. MLIDAC adheres to the “Prudent Person Principle” established under Solvency II for the purposes of investment management.
- I note that the following reporting structures also apply:
 - The above controls are also supplemented by oversight from the Actuarial Function, who prepare a report on a quarterly basis considering asset mixes, unit-prices and investment performance. This report carries out statistical analysis of the funds, ensuring that the structures and performance are as expected.
 - The Unit-linked Investment Committee meets on a quarterly basis and are provided with a dedicated reporting pack, facilitating oversight of the performance, structure and management of the unit-linked funds.
- As part of my review, I have considered some of the reporting packs prepared for the Unit-linked Investment Committee and the minutes of one of their meetings. Whilst I note that the Committee is a relatively new addition to the governance structure of MLIDAC, the content of the reports is broadly aligned to what I would expect. I note that MLIDAC management have not identified any material issues that need to be brought to the attention of either the Unit-linked Investment Committee or myself as part of this review.

I have also had sight of the unit pricing policy of MLIDAC and note that the content is broadly aligned to what I would expect and what I have seen within peers offering similar types of business.

I also note that, as part of Project CARP transfer, MLIDAC had to establish relationships with many fund managers for the first time. Practically, this is a challenging exercise and MLIDAC has succeeded in agreeing terms with all of the fund managers with whom MetLife had relationships.

Hence, overall, I have no issues to note here, but I do note that work is ongoing in this regard and it is assumed that MLIDAC will continue to enhance and improve its governance and controls in this area, particularly in light of the recent acquisition of unit linked blocks, namely Project Puma and Inora.

4.3.3 Assets

Table 4.3 summarises the profile of MLIDAC’s assets at 31 December 2019:

Table 4.3 Assets - YE 2019 (€m)	
Reinsurance recoverable	435.7
Assets held for linked contracts	250.2
Bonds	188.9
Derivatives	86.9
Collective Investment Undertakings	60.6
Holdings in related undertakings	19.3
Other assets	12.4
Total	1,071.5

Source: 2019 MLIDAC Financial Statements

4.4 Risk Profile and management

4.4.1 Overview of risks

MLIDAC’s main risk exposure from underwriting life policies such as term assurance, whole of life, unit-linked and variable annuity policies are set out below:

- Counterparty risks (exposures to banks, debt instruments, reinsurers and deposit accounts);
 - Market risks such as interest rate risk, currency risk, spread risk, and exchange rate risk;
 - Underwriting risks such as deterioration in claims experience, morbidity risk, lapse and expense risk.
- See Section 4.8.1 for breakdown of regulatory capital figures by risk category.

MLIDAC is also exposed to a range of other risks as follows:

- Liquidity risk (the risk is where there are not enough liquid assets in MIDAC in order to pay claims when they are due which can arise in stressed scenarios);
- Operational risks mainly arising from management and staff e.g. key person risk, process execution (e.g. products, contracts, customer service, service providers, activity steering, communication etc.) delays to the run-off plan, IT dysfunction and compliance risk, fraud;
- Group risk which include includes reputational, contagion, accumulation, concentration and intra-Group transactions risk;
- Strategic risks which include Brexit and acquisition risks; and
- Regulatory / fiscal risk which can come from increases in taxation, revisions in asset admissibility, changing reserve requirements and changing disclosure requirements.

These risks are overseen and managed by the Board. The Board reviews all risk and compliance issues affecting MLIDAC. The primary risk to the security of MLIDAC's policyholder benefits is that one or more of the risks identified give rise to an event which renders MLIDAC insolvent. Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of benefits could be considered remote.

4.4.2 Risk Appetite

The Risk Appetite Statement is reviewed at least annually by MIDAC's Board of Directors. It identifies the company's key risks and provides a framework for testing these risks and establishing risk tolerances. The Company has the following capital policy which was updated in 2019 which highlights different risk tolerance levels and associated actions required:

Table 4.4 Capital policy			
Description of measure	Metric	Risk Tolerance	Action Required
Greater than Surplus Level	> 150% of Max (SCR, MCR) + buffer	Within tolerance	Pay a dividend subject to criteria being met. After a dividend payment, solvency coverage must remain at or above the Surplus Level (150% of SCR).
Between Surplus and Target Level	150 - 140% of Max (SCR, MCR) + buffer	Within tolerance	Monitor the Company's Solvency position.
Between the Target Level and the Minimum Operating Level	140 - 130% of Max (SCR, MCR) + buffer	Within tolerance if target level achievable within 12 months.	Agree and implement a plan to restore the Company's Solvency position to the Target Level within 12 months.
Between the Minimum Operating Level and the Recovery Level	130 - 105% of Max (SCR, MCR) + buffer	Outside tolerance, materially so if Minimum Operating Level not achievable within 6 months.	Agree and implement a plan to restore the Company's Solvency position to the Minimum Operating Level within 6 months.
At or below the Recovery Level	Less than or equal to 105% of Max (SCR, MCR)	Materially outside tolerance	Notify regulator, review and agree recovery plan, share within regulator within 2 months. Implement recovery plan aimed at complying with 100% of SCR within 6 months.

Source: 2019 MLIDAC ORSA

The intragroup reinsurance buffer has been calculated as €5.4m such that MLIDAC will be able to meet:

- 100% of the MCR following the default of Monument Re after paying a dividend such that MLIDAC's solvency is at the Surplus Level and prior to taking any management actions, and
- 100% of the SCR after taking management actions (as set by the Board).

The Risk Appetite Statement seeks to connect MLIDAC's strategy and the required level of regulatory capital with the company's risk management framework, which is supported by a suite of risk policies and manuals. These policies and manuals are reviewed and approved by MLIDAC's Board on an annual basis or more frequently if deemed appropriate.

The Risk Committee supports the Board in their review of the Risk Appetite Statement.

4.4.3 Risk sensitivities

I have been provided with sensitivity analysis which illustrates MLIDAC's exposure to key risks by considering the impacts that these have on MLIDAC's solvency position as at 31 December 2019 (and subsequent years) through the ORSA process. I have not reproduced the detail. The key risks are in line with those outlined in Section 4.4.1 above and as discussed in the MLIDAC ORSA. The most material point in time stresses are those driven by increases in expenses, decreases in interest rates and adverse market shocks combined with increases in claim costs. I note that the Project Trinity, Project Boris and Project Puma portfolio transfers are considered in detail in the ORSA given the material impact they have on MLIDAC. The impacts of the transfers not being approved or otherwise not proceeding have also been considered.

4.4.4 Risk Issues

The current listing of open risk issues for MLIDAC was shared with me and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk events and ongoing issues, with owners for each issue and actions identified (where relevant/applicable). No specific issues were identified which impact upon the Scheme.

4.4.5 Governance

The Board represents the administrative, management and supervisory body of the Company. With the oversight of the Board, the Company has implemented a risk management framework which includes:

- A Risk Appetite Statement;
- A Risk Register;
- A suite of formal risk policies;
- Appointment of a Chief Risk Officer ("CRO");
- Internal audit;
- Risk and Control Self-Assessment on an annual basis; and a
- Risk Event Process.

The Board has established and delegated responsibilities to its Audit Committee and its Risk Committee to set the approach to internal controls and assist in its oversight of risk management. Each committee has been delegated matters for review or approval as set out in their terms of reference. Further details on these, and the other key features of MLIDAC's governance structures, are set out below:

- There is an Audit Committee of the Board: the Audit Committee comprises the two independent non-executive directors and one non-executive director. The Head of Compliance and Head of Internal Audit are also standing attendees. The committee's main responsibilities are to review:
 - The Company's accounting policies and financial reports and review management's approach to internal controls;
 - The adequacy and scope of the external and internal audit functions; and
 - The Company's compliance with regulatory and financial reporting requirements.
- The Risk Committee is also a sub-committee of the Board and comprises all members of the Board. The CRO is a standing attendee. The main responsibilities of the committee are to:
 - Advise the Board on risk appetite and tolerances;
 - Oversee the risk management function; and
 - Advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, the amount and type of capital that is adequate to cover the risks of the Company.
- The Executive Committee comprises the CEO and his direct reports who manage the delivery of business objectives.

- The company's CRO has access to the Board of Directors. Any decisions which will materially impact MLIDAC's balance sheet, or risk profile requires the approval of the CRO.
- The Actuarial Function, led by the Head of Actuarial Function, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. In summary, the key responsibilities of the actuarial function are to review and validate the calculation of the technical provisions, provide opinions on the underwriting and reinsurance policies and assist the risk management function with certain tasks.
- The Compliance Function, led by the Head of Compliance, is responsible for identifying, assessing, monitoring and reporting compliance risk exposure, focusing on compliance with applicable laws and regulatory requirements;
- The Internal Audit Function, led by the Head of Internal Audit, is responsible for developing and delivering an agreed internal audit plan and monitoring the control environment;
- The company's Board is responsible for monitoring and assessing risk. The Board meets at a minimum of four times a year and the CRO and indeed other Control Function leads attend meetings as required. The Board ensures that the company operates within the confines of its Risk Appetite and that defined Risk Indicators and Tolerances are acceptable, under the advice of the CRO;
- The Board Risk Committee reviews the top risks at each meeting, where these are quantified as (Exposure x Probability of Occurrence over a 1 year time horizon); and
- A Risk Matrix is maintained by MLIDAC detailing the risks. This is reviewed on an annual basis or more frequently if deemed appropriate and quantified on a "bottom up" approach. The quantification of the operational risks is cross checked against the SCR held in respect of operational risk.

4.5 Operational arrangements

In May 2017, MLIDAC changed to an operating model that outsourced its service provision via an inter-group outsourcing agreement, to MISL, a company established by Monument Re to provide services to the Monument entities. Existing employees of MIDAC and MADAC transferred employment to MISL on agreed terms and conditions with effect from 1 July 2017, MLIDAC employees subsequently transferred over from MLIDAC to MISL on 1 September 2017. Following the transfer of staff to MISL, MLIDAC entered into a Management Services Agreement ("MSA") with MISL. The MSA enables MISL to provide a full suite of services to the Company including oversight of the services provided by external parties from July 2017. This arrangement will enable the Company to continue to operate in an effective manner, meeting both policyholder and regulator obligations.

These relationships with MISL are managed by the CEO of each respective business. Quarterly service reviews are conducted to ensure that the services company is meeting the agreed performance standards as set out in the services schedule of the agreement and the outcomes are reported to the Executive Committee ("ExCo") with escalation of significant issues to the Board. The ExCo is a committee within the company which is responsible for the oversight and management across the business and authority is granted by the Board to ExCo to make decisions that are carried out.

Comprising of representation from all key management areas of the business, ExCo meets on a (at least) quarterly basis and is responsible for reviewing key areas of focus for the company.

Core management functions are carried out by MISL including the roles of Head of Actuarial Function, Head of Risk and Compliance Officer. The number of full-time equivalents ("FTE") at 31 March 2020 was 39, employed in the areas of Operations (Outsourcing & Operations teams), Administration, Actuarial, Risk, Finance and Compliance. This number is made up of 38 employees and 1 contractor, employed within the Finance function.

The existing business also has a number of key outsourcing arrangements. Table 4.5 provides details of the outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located as of the end of quarter one 2020.

The only key outsourcing arrangements that MIDAC/ MADAC had in place that were not already in place for MLIDAC comprised of:

- the Policy Administration arrangement of the PPI business with Covéa, and

- the customer communication and premium collection services provided by OSP Barclays/Barclaycard.

Both agreements were novated from MIDAC and MADAC to MLIDAC as part of the portfolio transfer of those businesses on 30 June 2020.

I also note for completeness that, separately, MLIDAC has a project underway to migrate the administration of some of its term life insurance in-force portfolio from the current life administration platform P1 to VWSFP. The administration is currently performed by MISL in Dublin. This relates to 1,704 policies in force in Spain and 888 in the UK (figures as at year end 2019). The project has a target closure date on 30 September 2020. This has no impact upon the Scheme and is noted for information purposes only.

Table 4.5 Outsourcing arrangements	
MISL (Intra-group)	Insurance administration services
MISL (Intra-group)	Actuarial function
MISL (Intra-group)	Risk and Compliance
MISL (Intra-group)	Fund Administration, Internal Audit & HR
MISL (Intra-group)	Policy Administration Services - Claims, Premium and Complaints
Irish Progressive Services International Ltd ("IPSI") (External)	Policy servicing and claims administration
IBM (External)	IT services
Equiniti Group (External)	Policy servicing and claims administration
Monument Insurance Belgium Services (Intra-group)	Policy Administration
Crawford & Company (Norway) (External)	Policy Administration Services - Claims, Premium and Complaints.
Norsk Forsikring (External)	Premium Collection
Conning Asset Management Limited (External)	Investment and asset management
Goldman Sachs Asset Management (External)	Investment and asset management
Monument Re (Intra-group)	Middle & back office operations including Investment and asset management

4.6 Reinsurance

4.6.1 Overview of reinsurance

MLIDAC employs reinsurance agreements to reduce the Company's exposure to mortality, morbidity, lapse and expense risk. Arrangements vary for each of the acquired portfolios, as described below:

Reinsurance Arrangements for Spanish Legacy business

At present, MLIDAC employs a proportional re-insurance strategy with Swiss Re. The ceded premium is set out in the special conditions of the re-insurance agreement and is based on age, sex, and amount of cover of the underlying policyholder.

Reinsurance Arrangements for UK Legacy business:

MLIDAC has proportional reinsurance arrangements in place for UK business. The arrangements are with SCOR (i.e. 80% quota share with a maximum retention of £25k). The ceded premium is set out in the special conditions of the re-insurance treaty and is based on age, sex, and the amount of cover of the underlying policyholder.

Reinsurance - Project Freyr:

MLIDAC has a quota share reinsurance agreement to reduce the Company's exposure to mortality, morbidity, lapse and expense risk. This reinsurance agreement is with Monument Re to reinsure 90% of all benefits and expenses arising under the policies purchased on 28 September 2018 under the acquisition of a Belgian closed portfolio of flexible premium whole of life savings contracts from Ethias S.A. The portfolio is predominantly single premium and is in run-off, with small amounts of regular premiums. Counterparty risk to Monument Re (which is unrated) is mitigated through a collateral (funds withheld) structure on the MLIDAC balance sheet, with a quarterly collateral review process. The

requirements and process for collateral top-ups are set out in the relevant reinsurance treaties, the terms of which are reviewed by the Reinsurance Committee.

This is a capital efficient structure for the group as long as Monument Re meets its capital obligations under the BMA regime and also maintains collateral levels as required under the treaty. It is noted that this is monitored closely and that the financial strength of Monument Re is reported to MLIDAC as a condition of the treaty.

At 31 December 2019, MLIDAC held collateral of €444m (€8m of which is in respect of MetLife Reinsurance Company of Bermuda ("MrB")) as compared with a reinsurance asset of €436m under its reinsurance arrangement with Monument Re and MrB – there are excess assets in the arrangement and this excess amounts can be recovered by Monument Re in line with the collateral terms. This collateral amount can change over time and needs to be rebalanced on a frequent basis. Appropriate clauses are included in the treaty to allow for this mechanism to take place.

I note that there is a legal process underway to finalise the MSA between Monument Re and MLIDAC in relation to the collateral arrangements supporting the funds withheld reinsurance arrangements. My assumption is that this MSA will be finalised in line with how the current collateral arrangements work in relation to the existing agreements. My understanding, based on conversations with MLIDAC management, is that this is expected to be in place by end 2020 in line with the current format and structure.

Reinsurance - Project CARP:

Under Project CARP, MLIDAC has entered into a 100% Quota Share reinsurance treaty in respect of the variable annuity exposure in respect of the guaranteed cashflows with MrB. As MrB is unrated, MLIDAC has collateral agreements in place with MrB. This is monitored on a regular basis, and collateral is expected to be rebalanced on a regular basis, subject to 'de minimis' thresholds as set out in the treaty. MrB has agreed to inform MLIDAC of its compliance or not with the BMA capital requirements on a quarterly basis.

The Company also put a new reinsurance arrangement in place following the transfer of the MetLife Europe liabilities to MLIDAC under Project CARP – this agreement is in respect of 90% of the non-operational risks (or non-guaranteed cashflows) that have not already been transferred to MrB under the terms of the quota scheme reinsurance Treaty. This was a novation of the reinsurance agreement that was in place between MetLife Europe and Monument Re to MLIDAC – the Monument Re structure was put in place to give effect to MetLife of the economics at the date of the agreement, pending the portfolio transfer which was executed in April 2019. This reinsurance arrangement has a collateral structure in place and was amended to reference UK Law as opposed to the original treaty which referenced New York Law. Some other minor changes were also applied.

Reinsurance - MIDAC and MADAC portfolios:

As at year-end 2019, no reinsurance was in place in respect of the portfolios of MADAC and MIDAC and there are no plans to put reinsurance cover in place post transfer.

Reinsurance – Project Boris

As noted earlier, the Project Boris transfer is anticipated to complete in September 2020. I understand that intra-group reinsurance cover for Project Boris liabilities has already been signed and will be effective from the date of the Project Boris portfolio transfer.

The exact terms of the reinsurance have not been agreed nor specified at this stage, however, MLIDAC management have indicated that the intended cover will function in a similar manner to the cover established under Project Freyr discussed above. That is, the reinsurance cover will reduce the Company's exposure to mortality, market and expense risks, with 90% of the annuity benefits and expenses arising under the policies being reinsured. As with the Project Freyr reinsurance, it is expected that the reinsurance will be supported by a collateral/ funds withheld arrangement which will be subject to quarterly monitoring.

Reinsurance – Project Puma

As noted earlier, the Project Puma transfer is anticipated to complete in November 2020. Project Puma policies have no reinsurance in place. I understand that intra-group reinsurance cover for Project Puma liabilities will be signed and will be effective from the date of the Project Puma portfolio transfer. MLIDAC

management have indicated that the intended cover will function in a similar manner to the cover established under Project Boris and Project Freyr discussed above.

Reinsurance – Inora

When Inora was consolidated onto the MLIDAC balance sheet as at year-end 2019, Inora had no reinsurance cover in place. The intention is that the Inora policies will be included in the intra-group reinsurance arrangement that MLIDAC has with Monument Re post transfer. The exact terms of the reinsurance have not been agreed nor specified at this stage, however, MLIDAC management have indicated that the intended cover will function in a similar manner to the cover established under Project Freyr and Project Boris discussed above. The reinsurance is expected to be executed at the Effective Date.

4.6.2 Ratings of reinsurers

The default risk of the reinsurance counterparties is monitored – the credit ratings of the reinsurance counterparties are described below and summarised in Table 4.6:

- MLIDAC limits its risk to reinsurance default by requiring the reinsurance companies to have a minimum Standard & Poor's credit rating of BBB or its equivalent. In cases where there is no rating or a rating which is of lesser quality, appropriate levels of collateral are required to be put in place.
- At 31 December 2019 the credit rating of Swiss Re (Spanish reinsurer) was AA- and the credit rating of SCOR (UK reinsurer) was AA-.
- Monument Re is an unrated reinsurance company, licensed as a class E reinsurer in Bermuda. Monument Re will provide an update of its capital position relative to its regulatory requirements on a quarterly basis, as per the reinsurance treaty terms. At 31 December 2019, Monument Re was capitalised to a level of 474% of its minimum regulatory capital requirement.
- MLIDAC is enabled to take credit for this reinsurance on its Solvency II balance sheet so long as Bermuda retains Solvency II Equivalence. There are no reasons to believe that this will change in the near future, as it can be noted that the Bermuda regime is making changes to its regime so as to actively maintain this status.

Table 4.6 summarises MLIDAC's reinsurance asset and collateral by treaty at 31 December 2019.

Table 4.6 MLIDAC's Reinsurance Asset by location for 2019 ("RI Asset") (€m)		
Entity	31 December 2019	
	RI asset	Collateral
Scor	0.1	-
Swiss Re	-	-
Mon Re	431.6	435.8
MetLife Bermuda	4.0	8.0
Total	435.7	443.8

Source: MLIDAC analysis

4.6.3 Terms of reinsurance

The reinsurance treaties are arranged on a treaty basis with full cover on guaranteed terms until expiry, so there should be no issues with renewals or reinstatements.

4.7 Financial Profile

4.7.1 Background

The Solvency II regulatory reporting regime came into effect across the EU from 1 January 2016. As Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings, it applies in Ireland and across the EU in a harmonised way. Therefore, there is no difference between the underlying regulatory reporting regime for any insurance business sold in the EU.

Under the CBI implementation of Solvency II, there is a prescribed role known as ‘The Head of Actuarial Function’ which is performed by Gareth McQuillan in MLIDAC. This is a Pre-Approved Controlled Function or PCF role under the CBI’s Fitness and Probity Regime. An overview of the Solvency II regime is given in Appendix 5.

4.7.2 Technical Provisions

The “Technical Provisions calculated as a whole” figures, in the context of MLIDAC’s balance sheet, correspond to the unit-linked liabilities of the business and are determined directly from the value of the underlying assets.

The gross best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates, whilst the risk margin is intended to reflect the compensation that a third-party would require for the capital costs incurred in taking on the insurance liabilities.

In terms of key judgements used to prepare their Solvency II technical provisions, at present MLIDAC do not use any transitional measures and use the prescribed EIOPA risk free yield curve. I note that, just prior to preparation of this report, the CBI granted approval for MLIDAC to use the EIOPA risk free yield curve allowing for the volatility adjustment in its assessment of the technical provisions. Whilst this is not reflected in the year-end results provided above, it is captured in the projections of solvency coverage and the 31 March 2020 results that MLIDAC has made available to me.

Table 4.7 below summarises MLIDAC’s Solvency II technical provisions:

Table 4.7: MLIDAC Technical Provisions* by region - Gross of reinsurance (€m)		
Component	31 December 2018	31 December 2019
Ireland		7.9
UK	2.0	138.5
Belgium	109.5	109.2
Germany		34.9
Greece		43.9
Italy		14.0
Norway		0.0
Poland		4.5
Spain	0.7	49.6
Non-EEA		87.7
Risk Margin	1.4	2.5
Total	113.6	492.7

Source: MLIDAC 2019 SFCR

Table 4.8 below summarises MLIDAC’s BEL as at 31 December 2019 Gross and Net of reinsurance.

Table 4.8: MLIDAC Technical Provisions Gross and Net of Reinsurance - YE 2019 (€m)		
Component	Gross	Net
Best Estimate Liability	240.2	29.5
Technical Provisions as a Whole	250.0	25.0
Risk Margin	2.5	2.5
Total	492.7	57.0

Source: MLIDAC 2019 ARTP

4.8 Solvency Position

4.8.1 Solvency II Solvency Capital Requirement

Under Solvency II, firms must hold capital equal to the higher of the Solvency Capital Requirement (“SCR”) or Minimum Capital Requirement (“MCR”). In MLIDAC’s case, at 31 December 2019, it is the SCR that applies.

The SCR is determined by subjecting the overall balance sheet to a prescribed series of 1-in-200 year shocks and aggregating the impacts in a specific way. The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk, the Technical Provisions, written premiums and administrative expenses. The MCR is also subject to an absolute minimum amount, specified in Euro terms. Further detail on the determination of both is set out in Appendix 5.

Under Solvency II, the assets available to cover the capital requirements are referred to as “Own Funds”, with the Own Funds reflecting the value of the net asset position of the firm. Comparing the SCR to the level of Own Funds gives an indication as to the level of solvency coverage within a firm.

Table 4.9 sets out the regulatory capital position of MLIDAC, under the Solvency II framework at 31 December 2018 and 31 December 2019:

Table 4.9: MLIDAC SCR Coverage (€m)		
Component	31 December 2018	31 December 2019
Assets	399.3	1,071.5
Liabilities*	368.5	1,043.3
Own Funds	30.8	28.2
SCR	3.5	10.0
MCR	3.7	3.7
Capital Required	3.7	10.0
Excess Own Funds over requirement	27.1	18.2
Solvency Coverage Ratio	832%	282%

Source: MLIDAC 2019 SFCR, combined with MLIDAC analysis and results.

*MLIDAC’s 2019 reported Own Funds position reflected a €1.5m dividend it intended to pay to its parent in early 2020, hence the liabilities have been increased by €1.5m to capture this.

As at 31 December 2019 the Solvency II returns showed total Own Funds available net of liabilities of MLIDAC were €28.2m, an excess of €18.2m over the SCRNT of €10.0m. There was a Solvency II solvency coverage ratio of 282%.

The 2019 position reflects the addition of the Project CARP assets and liabilities, the own funds of Inora and the payment of a dividend of €3.5m during 2019. The capital requirement also reflects the impacts of the additional insurance liabilities from Project CARP and the application of the equity shock to the Own Funds of Inora on MLIDAC’s overall risk profile, leading to an increase in the capital required to be held.

I also note that MLIDAC’s reported Own Funds as at 31 December 2019 were €28.2m, whereas the actual surplus of assets over liabilities was €29.7m. All the €28.2m Own Funds capital held is classified as Tier 1 unrestricted capital. MLIDAC had anticipated the payment of a dividend of €1.5m to its parent in the first quarter of 2020 and this anticipated dividend was removed from the Own Funds as at 31 December 2019. Dividends of €32m were paid in 2017, no dividends were paid in 2018 and dividends of €3.5m were paid in 2019.

In addition to the above, I note the Financial Statements show a financial loss over 2019 of €3.5m, primarily driven by various one-off charges in the period due to acquisition and integration activity. The analysis conducted by management in respect of this has been shared with me and I do not comment further on it in this report.

Over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. I note that in preparing this report, I have also

considered the results made available to me as at 31 March 2020. I note that the solvency position has not been materially impacted by the COVID-19 pandemic, the associated market turbulence and policyholder responses. I note that the available Solvency II Own Funds reduced from €28.2m at 31 December 2019 to €27.9m, whilst the regulatory capital requirement fell from €10.0m to €8.8m. Therefore, MLIDAC's coverage of the regulatory capital requirement increased from 282% to 317%. This reflects the actual dividends paid over the period versus those allowed for in the year-end position (a €5.5m dividend was paid from Inora to MLIDAC and the planned dividend of €1.5m from MLIDAC to its parent was not proceeded with). The 31 March 2020 position also reflects the impact of the volatility adjustment, which was approved by the CBI in the period. The MLIDAC HoAF advised that certain adverse experience manifested on the MIDAC book and that the required reserve strengthening was reflected in the purchase price/ asset transfer in respect of that book of business, so there was no impact on the overall MLIDAC figures pre the portfolio transfer.

MLIDAC has also provided pro-forma results which reflect the anticipated evolution of the balance sheet in advance of the Scheme. The proforma results are captured in Table 4.10 and reflect the results as at 31 March 2020 and the results after allowing for MIDAC/MADAC transfers that will take place as part of the Group restructure as well as the Project Carp HNW, Project Boris and Project Puma transfers and the use of intra-group reinsurance in respect of these transfers.

Table 4.10: MLIDAC Pro-forma SCR Coverage (€m)						
Component	31 Dec 2019	31 March 2020				
	<i>Reported Result</i>	<i>Reported Result</i>	<i>Add: Trinity</i>	<i>Add: CARP HNW</i>	<i>Add: Boris</i>	<i>Add: Puma</i>
Assets	1,071.5	1,005.3	1,014.7	1,078.8	1,343.6	1,994.2
Liabilities*	1,041.8	977.4	986.8	1,050.9	1,315.1	1,963.5
Own Funds	28.2	27.9	27.9	28.0	28.5	30.7
SCR	10.0	8.8	14.2	14.3	15.6	16.6
MCR	3.7	3.7	3.7	3.7	3.7	3.7
Capital Required	10.0	8.8	14.2	14.3	15.6	16.6
Excess Own Funds over requirement	18.2	19.2	13.7	13.7	12.9	14.1
Coverage ratio	282%	317%	196%	196%	182%	185%

Source: MLIDAC 2019 SFCR, combined with MLIDAC analysis and results

Considering the above in totality, total Own Funds available net of liabilities were €30.7m, an excess of €14.1m over the SCR of €16.6m. MLIDAC's reported solvency coverage at 31 March 2020 was 317%, but this is expected to decrease to 185% once the activities anticipated to take-place in advance of the Inora transfer have occurred. I note that this is well in excess of the minimum regulatory requirements and generally in line with MLIDAC's internal capital targets.

Table 4.11 below sets out the breakdown of solvency capital position of MLIDAC by risk category, under the Solvency II framework as at 31 December 2019 and 31 March 2020. In addition, the 31 March 2020 results have been set out considering the impacts of the Group restructuring as well as the Project Carp HNW, Project Boris and Project Puma transfers.

Table 4.11: MLIDAC Proforma SCR Components (€m)

Component	31 Dec 2019	31 Mar 2020				
	<i>Reported Result</i>	<i>Reported Result</i>	<i>Add: Trinity</i>	<i>Add: CARP HNW</i>	<i>Add: Boris</i>	<i>Add: Puma</i>
Market risk	6.8	5.2	5.4	5.4	6.1	6.5
Counterparty default risk	1.0	1.8	2.1	2.1	2.1	2.1
Life underwriting risk	2.1	2.0	2.0	2.0	2.7	2.8
Health underwriting risk	0.0	0.0	0.4	0.4	0.4	0.4
Non-life underwriting risk	0.0	0.0	7.6	7.6	7.6	7.6
Diversification	-1.9	6.7	12.0	12.1	12.8	13.2
Operational risk	2.1	2.1	2.2	2.2	2.8	3.4
SCR	10.0	8.8	14.2	14.3	15.6	16.6

Source: MLIDAC 2019 SFCR, combined with MLIDAC analysis and results.

Over 2019, it can be seen that the main driver of the increase in MLIDAC's SCR was market risk exposure, stemming from Project CARP and Inora transfers (in particular, the capital charge associated with MLIDAC's investment in Inora). The pro-forma results above show that the SCR is expected to increase once the internal Group restructure and the Project CARP HNW, Project Boris and Project Puma transactions are allowed for – the bulk of the increase in the pro-forma SCR arises from the non-life underwriting risks in the transferred MIDAC business and counterparty risk associated with the reinsurance arrangements. The overall risk is mitigated heavily by the collateralised reinsurance structures in place, which are assumed to also cover the Project Boris and Project Puma liabilities. Additionally, a €5.4m intragroup reinsurance capital buffer is held in order to allow MLIDAC to meet the SCR in the event that Monument Re defaults following a series of Board approved management actions.

4.8.2 Projected Solvency Position

I have considered MLIDAC's most recent ORSA report, completed in December 2019 (and indeed the ORSA completed in June 2019). I have not reproduced the detail in this report. This is dated at this stage and the 2020 ORSA is currently in production and will be subject to review in my Supplementary Report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario over the five year period to year end 2023, where the projected SCR coverage ratio is targeted to exceed the internal capital management target. The stress and scenarios used are included in the 2019 ORSA provided and these included the items captured in table 4.12.

The December 2019 ORSA provided included a similar set of scenarios reflecting the passage of time, an updated financial position and updated calibrations. A number of new scenarios were also introduced including consideration of the Scheme and its non-approval as well as the impacts of the non-approval of Project Trinity, Project Boris and Project Puma. A longevity stress, an interest rate stress calibration (including the last liquid point), a foreign exchange stress and a hard Brexit were also considered.

Table 4.12: ORSA Stresses and Scenarios	
Scenario	Description
Base Case – non approval of VA	Impact if VA application not approved
Non approval of Project Trinity	Impact if Project Trinity (MIDAC/MADAC) not approved
Non approval of Project Boris	Impact if Project Boris not approved
Non approval of Project Puma	Impact if Project Puma not approved
Global Recession	Blackrock Aladdin Global Financial Crisis historical scenario, spreads rise to levels not seen since crisis and defaults on credit assets for 2 years, claim frequencies increase and currency stress
Hard Brexit	Blackrock Aladdin Eurozone Crisis, increase in expenses and Project Boris and Project Puma not approved
Increase in spreads	A 1% increase in all government and non-government spreads, a 0.67% increase in DRM spreads
Interest rate stress	interest rates fall by 2% across the yield curve
Longevity stress	A reduction in mortality for business with a longevity exposure.
Equity stress	20% fall in the value of equities
Expense stress	10% increase in all expenses plus 1 percentage point increase in expense inflation
Lapse stress	25% fall in surrender rates for portfolios with guaranteed interest rates and 20% mass lapse over 1 year for all other business
Currency stress	Non-Euro currencies depreciate by 25%
Last liquid point stress	EUR Last Liquid Point extends from 20 years to 30 years
No transactions	MIDAC/ MADCA approved, Project Boris and Project Puma not approved
Default	Default of Monument Re
Global recession plus default	Blackrock Aladdin Global Financial Crisis historical scenario, spreads rise to levels not seen since crisis and defaults on credit assets for 2 years and default of Monument Re

Within the December 2019 ORSA, a projection is made in line with the company's run-off plan which assumes the transfer of the remaining MIDAC/ MADAC businesses to MLIDAC during 2020, the portfolio transfer of Project Boris, Project Puma and Inora in 2020 and the approval of the use of the volatility adjustment by the CBI (which was granted in advance of my preparation of this report). These form the base projection described in the table 4.13 below, which sets out the solvency coverage ratio in the base case for MLIDAC, noting that this does not include the impacts of the Scheme:

Table 4.13: MLIDAC Base Case ORSA	2019	2020	2021	2022	2023
MLIDAC Solvency Coverage	328%	230%	264%	296%	327%

Source: MLIDAC 2019 ORSA report; this includes MIDAC/MADAC, Inora, Project Boris, Project Puma, planned dividends and the approval of the volatility adjustment.

The 2019 solvency coverage set out here does not align to that actually reported by MLIDAC for 31 December 2019; the ORSA was prepared prior to year-end 2019 and shows a projected expected position and then the impact in 2020 of various transfers.

The year-end 2019 results from these projections do not coincide with the reported position provided above – this is due to the fact that the ORSA was prepared in advance of 31 December 2019, whereas the reported results reflect actual asset and liability positions at the reporting date. I have discussed the drivers of these differences with MLIDAC and am satisfied that they are reasonable and do not lead to concerns with either the pro-forma positions above, nor the projections below. I note that the updated proforma projections will be considered in my Supplementary Report.

Overall, the projections show a SCR coverage ratio in excess of the internal capital management target for each year in the base scenarios and for each stress scenario including management actions. While the portfolio is in run-off, the SCR runs down slowly with the level of own funds remaining broadly stable leading to a projected improvement in the solvency coverage ratio over time. This profile is as expected

I have also considered the range of management actions available to MLIDAC as described in the ORSA and consider these to be reasonable.

I have no issues to note from my review of the OSRA projections provided by MLIDAC.

4.9 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider guidance issued by the Society of Actuaries in Ireland with regard to Policyholders' Reasonable Expectations ("PRE"). ASP LA-6 ("Transfer of Long-term Business of an Authorised Insurance Company – Role of the Independent Actuary") sets out items to be considered in this regard.

Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. Being mindful of the above guidance and requirements and considering the detailed consideration which the MLIDAC HoAF gives to PRE within his annual Actuarial Function Report, my views are:

- **Benefits:** benefits payable to existing MLIDAC policyholders are straightforward, with limited amounts of options and guarantees applying. The benefits offered to existing MLIDAC policyholders are not going to change as a result of the Scheme.
- **Security of benefits:** the policyholders of MLIDAC have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the policyholders are exposed to before and after the transfer, including the relevant financial position of MLIDAC.
- **Entitlement to benefits:** policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. I have reviewed some of MLIDAC's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms or constrain the use of discretion by MLIDAC.
- **Service standards:** MLIDAC policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly. The existing structures applied for policy servicing are not expected to change as a result of the Scheme.
- **Discretionary powers available to MLIDAC:** policyholders have a reasonable expectation that any discretion available to MLIDAC will be applied in a fair and reasonable manner. The use of discretion by MLIDAC is reasonably limited but is broad in nature given the nature of its business mix (particularly after allowing for the MIDAC and MADAC transfers). The Scheme does not lead to any anticipated changes with how discretion is applied for existing MLIDAC policyholders. The use of discretion principally relates to the following general areas:
 - Assessment as to whether a claim is valid or not;
 - Appropriate premium rate to charge;
 - Assessment as to whether monthly recurring premium (non-life, i.e. former MIDAC) contracts are written such that the premium rate may be altered or the policy terminated at the discretion of MLIDAC at each renewal date.
 - The determination of charges levied against policyholders for unit-linked business. The recently established Unit-linked Investment Committee have oversight of this aspect;
 - The amendment of premium rates for certain UK critical illness policies; and
 - The application of bonuses to the Project Freyr business, noting that it is MLIDAC's priority to meet all guaranteed claims and that bonuses are not envisaged.

In general, I would note that practice is well established in MLIDAC in these areas. However, as noted earlier in my Report, the management of unit-linked business is a relatively new area of focus for MLIDAC and practice in relation to this is still becoming embedded in the firm.

The approach to the use of these discretionary powers will not be materially altered as a result of the Scheme, I comment on this further in Section 9.2.

4.10 Complaints and Litigation

MLIDAC has a formal complaints process in place, which varies by the jurisdiction in which contracts were issued. As an example, the process for dealing with complaints from UK based customers may

vary to that for Belgium based customers, reflecting differences in legislative and regulatory requirements and market practice. The established processes in place for addressing complaints for existing MLIDAC customers will not change as a result of the Scheme. Given the above, I have not reproduced significant additional detail within the Report.

I received a complaints log containing pending complaints for MLIDAC. There are a small number of open cases which are neither expected to generate notable costs nor set a precedent. No material issues were noted.

I also note that MLIDAC had one Financial Ombudsman Service (“FOS”) Complaint upheld in quarter one 2020. I understand that there are no open complaints currently with FOS.

I have been advised that MLIDAC currently have no legal matters outstanding.

4.11 Other Regulatory matters

4.11.1 CBI Matters

I have been made aware that MLIDAC has no regulatory matters open with the CBI. I have also been provided current CBI Themed Risk Assessments in progress to understand the nature of the issues and regulatory focus. I note that there were certain actions and Risk Mitigation Plans (“RMP”) identified by the CBI in regard to weakness in outsourcing processes. The RMP has been resolved and closed as of 16 July 2020.

I note that in 2018, the CBI requested that MLIDAC, MIDAC and MADAC prepare a Resolution and Recovery plan. This has been shared with me. This gives further insight into the scenarios which would cause MLIDAC to fall below the regulatory MCR. The entities had to set out the recovery plan to allow sustainable recovery of the solvency position; if recovery of the solvency position was not possible, sufficient information had to be provided to the CBI to allow them to resolve the situation and to ensure policyholders would receive all of their entitlements. The document is generally in line with other documents I have reviewed in terms of the available options.

For completeness, I have asked about any conduct matters in the UK as MLIDAC has business which originated there. Within the UK, MLIDAC is subject to conduct oversight by the Financial Conduct Authority (“FCA”) – no issues were noted.

4.11.2 Compensation Schemes

I note that the former MIDAC and MADAC UK-based policyholders of MLIDAC are captured in the FSCS scheme, but that the UK policyholders that were part of MLIDAC prior to this transfer are not. However, there is potential for these policyholders to be in scope of FSCS if liabilities exceed £500m. I note that, given the existing liability profile of MLIDAC and the planned transfers, this limit would be reached. As a result, it is anticipated that all UK policyholders of MLIDAC will be covered under the FSCS post the Scheme.

4.11.3 Brexit

Brexit is a material issue for consideration for MLIDAC given the volumes of UK business in force. MLIDAC has applied for inclusion into the Temporary Permissions Regime (“TPR”). The TPR was written into British legislation offering an alternative approach whereby EU regulated insurers carrying on business in the UK could opt into a simplified process allowing the opportunity to carry on business in the UK for 3 years post Brexit before committing to submitting an application for authorisation of a third company branch in the UK to the UK regulatory authorities to maintain business in the UK post Brexit. However, it is noted that should a binding agreement be finalised between the European Union and UK Government prior to 31 December 2020, which enables an EU based insurer to continue to operate in the UK on a passporting basis, the TPR will not become effective or be required.

The Board’s discussions on the Brexit approach over this extended period indicated that the TPR approach was preferred for MLIDAC. This will ensure that MLIDAC is capable and legally entitled to continue to manage its UK based business during the transition to a post Brexit structure.

This is not a specific concern for the Inora portfolio transfer.

5 Inora Life DAC

5.1 Overview

5.1.1 Current company structure

Inora is registered in Ireland under company number 329745 and is regulated by the CBI. Inora received regulatory approval in 2001 to operate as a life assurance head office undertaking in Ireland. Inora sold a range of unit-linked products, written on both single premium and regular premium bases. The products offered customers access to the investment returns earned on a range of underlying funds, including both mutual funds and structured investments

5.2 Structure and background

Resulting from a lack of new business, the decision by mutual agreement was taken at a Board meeting on 16 February 2012, to close Inora to new business and to place it into run-off. This followed a strategic review of the Inora's operations by its previous parent Société Générale SA.

Notwithstanding this, Société Générale SA initiated a process in 2019 with the intention of selling Inora to a third party. On 13 September 2019, the Company was acquired by Monument Re, through its European subsidiary MLIDAC, following receipt of regulatory approval from the CBI. Inora is authorised to conduct life insurance business in the following classes of insurance:

- Class III (Contracts linked to investment funds) with associated Class I, and
- Class VI (Capital redemption operations) with associated Class I.

A Class I license is "Life assurance and contracts to pay annuities on human life, but excluding contracts within Classes II and III". Inora does not currently have any Class VI business.

Inora transacts life assurance and long-term savings business. The principal locations where policies have been sold, through a mixture of local branches and the "freedom of services" facility in accordance with European legislation, (at the time the European Communities (Life Assurance) Framework Regulations 1994), are as follows:

- France
- Belgium
- Austria
- Germany
- Italy

Inora had total assets held for index-linked and unit-linked contracts of €68.6m as at 31 March 2020.

5.3 Nature of business written

5.3.1 General Overview

As at 31 December 2019, Inora's technical provisions in respect of unit linked and traditional insurance policies was €85.7m with c2,680 policies. There were no premiums received in 2019. In 2018, premiums related to regular premiums on existing regular premium policies, and a small amount of top-up premiums were received.

Table 5.1 summarises the asset under management and policy count as at 31 December 2019.

Table 5.1: Inora assets under management and policy count - 2019		
Line of Business	In-force AUM (€m)	Policy Count
France	59.1	1,755
Belgium	11.4	431
Italy	1.7	181
Germany	8.1	302
Austria	0.8	12
Ireland	0.1	1
Total	81.1	2,682

*Source: 17. Surrenders & Claims Analysis May 2020.docx

5.3.2 Products

As noted above, Inora sold a range of unit-linked products, written on both single premium and regular premium bases. The products offered customers access to the investment returns earned on a range of underlying funds, including both mutual funds and structured investments. Inora did not write non-linked business.

A charge is deducted from the policyholders' premiums as they are allocated to these funds, along with ongoing deductions in respect of fund management charges. In the event of the death of a policyholder, limited additional benefits are payable by Inora on top of the customer's fund value. For most products, with the exception of certain business sold in Belgium, charges cannot be varied by Inora.

Circa 18% of Inora's internal funds invest in assets that provide a guarantee on maturity. The balance of the guarantee is underwritten by Société Générale. The policyholder bears the counterparty risk in all of these cases.

The death guarantee is typically equal to:

- 1% of the net asset value until the age of 60;
- 0.1% of the net asset value over the age of 60;
- 0.01% beyond 75 limited to €100.

Inora and Société Générale have an investment manager fund rebate arrangement in respect of a number of structured funds included in Inora policies. Inora receives up to 0.5% per annum for some funds and the total amount accrued year to date to 30 June 2020 is €133k.

France

This is Inora's largest market with total assets of €59.1m. Approximately 80% of the portfolio is sold by 2 distributors:

- ODDO Private Bank: From 2005 to 2012 ODDO sold a "white labelled" product range of Société Générale structured products in an Inora wrapper. From 2007, ODDO was allowed to include its own mutual funds selection within its Inora policies.

ARCA Patrimoine: About 46% of the portfolio is held in the cash fund.

On 1 May 2014, the law was amended for contracts sold after 1 May 2006, meaning that the cool off period will end 8 years after the policyholder has been informed that their contract has been concluded regardless of the quality or relevance of the information and documentation provided to the policyholder. This has resulted in Inora sometimes being liable to repay the initial premium to the policyholder, regardless of the current surrender value of the policy.

Belgium

This is Inora's second largest market with total assets under management of €11.4m. The Belgian in force book is 94% invested in a range of funds (Inora Invest range) sold via a single distribution channel, Median NV. There are some areas of discretion where Inora has the right to vary charges on some of the Belgian policies. I have been advised that Inora has never exercised these discretionary powers. I

have noted that this should remain the case post the Scheme and the Head of Actuarial Function has noted my comments in that regard.

Italy

The Italian market represents 2% of the Inora business. The last Société Générale structured fund in Italy reached maturity at the end of October 2019. The Italian business is currently all invested in the cash fund. There is a negative return on placements in the monetary fund due to the annual policy charge. Following the publication by the Italian regulator of new rules in 2009, Inora has been exposed to counterparty default risk on a number of new investment funds relating to products sold after November 2009.

Germany

Some of the policies that Inora sold in the German market provided an option that permits policyholders at maturity of their policies to convert to an annuity using a factor provided to them at the date of the sale of the policy. The annuity option offered in the earlier tranches was not tax effective and so to date those policies maturing have overwhelmingly elected to take the capital payment. Furthermore, these earlier tranches had minimal gain on the original premium invested, providing additional encouragement to policyholders to surrender the policy with no tax implications. Where policyholders have not attained minimum retirement age of 60, they may until then invest the proceeds of the structured product at maturity in two exchange traded funds ("ETF"), one invested in the Eurostoxx 50 and the other in cash. The tranches due to mature between 2020 and 2021 offer a tax effective annuity option and also have up to 65% appreciation on investment, thus increasing the likelihood that policyholders will elect to take the annuity option. There are approximately 20 policies in force where an annuity must be paid under the regulations i.e. a payment of capital is not permitted. The earliest possible date for these policyholders to take an annuity option is in April 2021. Communication with these policyholders in the lead up to policy maturity is a key area of consideration. I note that MLIDAC intend to mitigate any potentially onerous risks relating to this prior to the transfer.

Austria

There are no Austrian in force policies as at 30 June 2020.

5.4 Reinsurance

Previously, Inora had three reinsurance treaties in force, all of which were with Société Générale. An analysis of the mortality risks within the business was carried out and presented to the Board. The Board decided to terminate the reinsurance treaties based on the low level of mortality risk that remained within the book and the relative cost of reinsurance. The treaties with Société Générale were rescinded on 8 January 2014, meaning that no reinsurance treaties remain in force.

5.4.1 Overview of risks

Inora is exposed to a range of risks which it separates by nature and manages through a systematic risk management approach. The most significant individual risks as described in the ORSA are described below:

- Life insurance underwriting risk is the risk of loss or other adverse impact arising from unexpected fluctuations in the timing, frequency or severity of insured events, or timing and amount of claim settlements and expenses. Inora is mainly exposed to:
 - Lapse risk: Arises from quicker than anticipated lapse rate leading to a loss of income.
 - Expense risk: This is the risk of loss arising through increases in the expense levels, or expense inflation over time.
 - Mortality risk: The level of mortality risk is not material. Death benefits insured are up to a maximum of 1% of fund value.
- Market risk, notably equity, interest rate and currency risk. Market risk is limited as, through a 100% matching of policyholder assets and liabilities, the risk on the valuation of assets is borne by the policyholders:

- Equity risk arises from price fluctuations on equity securities. Inora has minimal shareholder funds in equities.
 - Interest rate risk is the risk of loss due to changes in interest rates and arises for Inora as assets held (both directly by Inora and within the unit-linked funds) can be adversely impacted by interest rate movements. Inora has exposure to Government Bonds. All the bonds currently held are due to mature in less than 3 years. The exposure to bonds is not material.
 - Currency risk is the risk of loss due to changes in exchange rates. Inora has exposure to currency risk due to the outsourcing arrangement it has in place with Equiniti.
 - Inora’s objective in managing its market risk is to ensure risk is managed in a sound and prudent manner in line with the risk profile and risk appetite. Inora does not hold any complex financial instruments such as derivatives or swaps and has no off-balance sheet positions.
 - Inora has a limited amount of credit spread exposure. Any credit risk on policyholder funds is passed on to the policyholders and Inora does not assume significant credit risk on the shareholder investments. The majority of the shareholder investments are invested in bank accounts. There is also an exposure to spread risk connected to falls in unit-linked fund values and fund management charge income. Inora also typically has a small amount of exposure to investment banks as a result of assuming Ensemble assets upon optional surrender by the policyholders.
- Credit risk means the risk of loss or other adverse impact arising from one party to a financial instrument failing to discharge an obligation. Credit risk comprises the spread risk as well as the risk of downgrade of issuer credit rating. In addition, credit risk may be further amplified by concentration risk, which arises from a large exposure to a given risk, to one or more counterparties, or to one or more homogeneous groups of counterparties. Credit risk is only relevant on the assets that are not matching the policyholder unit liabilities.
 - Counterparty risk on policyholder funds is borne by the policyholders themselves. Shareholder funds asset allocation is mainly in French, German and Belgian government bonds. No financial assets are past due or impaired.
 - Operational risk also exists within Inora’s risk universe. This refers to the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events. Inora is exposed to operational risk as most of the key and important functions are outsourced. Several measures are taken to mitigate this outsourcing risk.
 - Liquidity risk refers to the risk of loss or other adverse impact arising from insufficient liquidity resources being available to meet obligations as they fall due. There are no material liquidity risk concentrations.
 - COVID-19 Risk: This arises from a pandemic resulting in an increase in insurance claims, investment losses and disruption of business operations. Measures taken by various governments to contain the virus have also affected economic activity. Counterparty credit risk and liquidity risk may also increase.
 - Group Risk: This is the risk of loss or other adverse impact arising from financial or non-financial relationships between entities within the Group. This includes reputational, contagion, accumulation, concentration and intra-group transactions risk.

5.4.2 Risk Management Framework

To facilitate a structured approach to risk-taking, Inora has adopted a risk management system which aims to eliminate risk where possible and otherwise to mitigate and manage risk through adequate monitoring, oversight and controls. The overall framework is structured around a “three lines of defence” model. The role of CRO is outsourced to Rosemary Commons of Willis Towers Watson. Day to day risk management is carried out by the Risk Manager, Damien Hynes.

5.4.3 Risk Appetite

As part of its broader Risk Management Framework, Inora has established a Risk Appetite Statement, which is intended to allow Inora to operate its Risk Management system in a controlled manner. The Risk Appetite Statement provides details on how Inora seeks to manage its capital and risk exposures so that it is able to meet all financial commitments to policyholders in full after an extreme shock. Inora’s

Risk Appetite considers the risk universe to which Inora is exposed and the aggregate level of risk that Inora is willing and has capacity to assume to achieve its strategic objectives.

Inora has a hard capital target of 273% of SCR. This target allowed for the risks associated with market volatility, expense risk and a risk of a change to the proposed transfer date. A soft target of 335% of SCR has been adopted to provide for some additional, but less plausible, scenarios within the capital buffer. The capital targets have been updated as at 30 June 2020 to a hard capital target of 149% and a soft capital target of 176%.

5.4.4 Risk Sensitivities

I have been provided with Inora's ORSA. The ORSA is mandated under the Solvency II regulatory regime that applies to life insurance companies in Europe and requires an entity to consider its capital requirements and risk exposure. It is also expected that the ORSA will illustrate the entity's exposure to key risks by performing a series of stress and scenario tests.

Inora's latest approved ORSA report was prepared as at 31 December 2019 and I have considered the sensitivity analysis prepared within that report. I have not reproduced the detail. The key risks are in line with those outlined in Section 5.4.1. As discussed in the Inora ORSA, the most material relates to a downgrade of Société Générale. This will initially result in a slight decrease in the solvency coverage ratio. However, if the €5.5m dividend is paid the soft target of 335% of SCR would be breached.

5.4.5 Risk Issues

The current listing of open risk issues for Inora was also shared and I considered this as part of my review. No specific issues were identified which impact upon the Scheme.

5.4.6 Governance

Inora has a comprehensive governance structure in place which establishes roles and responsibilities across the entity.

The Inora Board

Inora's board of directors ('the Board') represents the administrative, management and supervisory body. The Board comprises the Chairman (a non-executive director), two Independent non-executive directors, CEO, and four additional non-executive directors. The Board is responsible for the effective, prudent and ethical oversight of Inora and sets its strategy and risk appetite. All independent non-executive directors of the Board sit as members of the Audit Committee and the Risk Committee. The Board's responsibilities include establishing and overseeing:

- the business strategy;
- the amount and type of capital that is adequate to cover the risks of the business; and
- the strategy for the on-going management of material risks.

Committees of the Inora Board

The Board has established the following committees which report directly to it:

- The Audit Committee main responsibilities are to review the accounting policies and the integrity of financial reports and review management's approach to effective internal controls. The Committee is comprised of two independent non-executive directors and one non-executive director. The CEO, the Finance and Compliance Officer and the Head of Internal Audit are also standing attendees.
- The Risk Committee is responsible for the effectiveness of Inora's risk management system and the implementation of the risk strategy and maintenance thereof. It also provides oversight of Solvency II developments and the ORSA report. The Committee is composed of the two independent non-executive directors, five non-executive directors and the CEO. The CRO and the Finance & Compliance Officer are also standing attendees.
- General management: Inora's General Management is composed of the CEO who ensures the overall management of Inora. He is assisted in his duties by the Finance and Compliance Officer who is in charge of all the finance and compliance functions, as well as assisting with the risk management function.

Key Functions

Key function holders are appointed by the General Management, considering their expertise and the adequacy of the key function with the managerial position they exercise.

- The Risk Management Function which is led by the CRO is responsible for supporting the Board and its committees in discharging their risk management related responsibilities. Other responsibilities include providing challenge to the business consistent with the Three Lines of Defence risk governance.
- The Compliance Function is part of the second line of defence and is led by the Finance and Compliance Officer. The Compliance Function reports to the Audit Committee to provide assurance on Inora's adherence to laws, regulations, guidelines and specifications relevant to its business. This is provided through an approved annual compliance plan and through the on-going reporting against that plan. At all times, the Compliance Function acts within the second line of defence and independently to the business. It provides the framework to allow the business to operate in a compliant manner with regards to all relevant regulatory, statutory and corporate governance obligations.
- The Actuarial Function, which is led by Rosemary Commons who is employed by Willis Tower Watson, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. The responsibilities of the HoAF and the Actuarial Function include coordinating the calculation of the technical provisions and reporting on the solvency position of Inora.
- The Internal Audit Function, which is led by the Head of Internal Audit, Colm Brennan of the Monument Group, is responsible for developing and delivering an agreed internal audit plan and monitoring the control environment. The function provides independent and objective assurance services, via an outsourcing arrangement in respect of Inora's processes, as carried out by its service providers with due regard to the adequacy of the governance, risk management and internal control framework.

5.5 Financial profile

5.5.1 Background

Inora is regulated by the CBI and assesses its regulatory capital requirements in line with Solvency II, a pan-European regulatory regime which came into effect from 1 January 2016.

Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings.

The CBI introduced the Domestic Actuarial Regime following the introduction of Solvency II, which introduced a prescribed role known as the HoAF. This is a Pre-Approved Controlled Function or PCF role under the CBI's Fitness and Probity Regime. For Inora, the role of HoAF is discharged by Rosemary Commons.

An overview of the Solvency II regime is given in Appendix 5.

5.5.2 Technical Provisions

Table 5.2 below sets out the Inora Technical Provisions, as required under Solvency II, for the lines of business introduced in Section 5.3.

Table 5.2: Inora Technical Provisions as at YE 2019 (€m)			
Line of Business	Best Estimate Liability	Risk Margin	Total Technical Provisions
Index-linked and unit-linked insurance	84.9	0.8	85.7
Total	84.9	0.8	85.7

Source: Inora 2019 SFCR

The best estimate liability corresponds to the probabilistic amount of future cash flows (inward or outward) related to insurance contracts in force, discounted using risk-free rate. It represents unit linked liability less the projected future surplus from the unit-linked policies. The risk margin represents the

cost of capital, above the best estimate; a transferee would need to support the insurance obligations over the lifetime of the portfolio.

In terms of key judgements used to determine the Technical Provisions, Inora do not apply any transitional measures or volatility adjustment to the prescribed risk-free term structure of interest rates.

5.5.3 Solvency II Capital Requirements and Capital Coverage

Under Solvency II, firms must hold capital equal to the higher of the SCR or MCR. In Inora's case, it is the MCR that applies. The table below sets out Inora's overall SCR .

Table 5.3: Inora Solvency Coverage (€m)			
	31 Dec 2018	31 Dec 2019	31 Mar 2020
Assets	130.3	106.8	87.9
Liabilities	111.4	87.5	74.9
Excess of assets over liabilities	18.9	19.3	13.1
Foreseeable dividends, distributions and charges	0.0	5.5	0.0
Own Funds	18.9	13.8	13.1
SCR	3.3	3.5	3.1
MCR	3.7	3.7	3.7
Capital required	3.7	3.7	3.7
Excess of Own Funds over SCR	18.9	10.1	9.4
Solvency Coverage Ratio	511%	394%	353%

Source: 2018, 2019 Inora SFCR, Q1 2020 QRT

Over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. Consequently, I have also considered the 31 March 2020 results from Inora. I note that the solvency position has not been materially impacted by the COVID-19 pandemic, the associated market turbulence and policyholder responses. I note that the available Solvency II Own Funds reduced from €13.8m to €13.1m, whilst the SCR fell from €3.5m to €3.1m. The MCR still applies and therefore, Inora's coverage of the regulatory capital requirement decreased from 394% to 353%.

The Own Funds are all Tier 1. The decrease in Own Funds in 2019 was due to a foreseeable dividend of €5.5m. The table below sets out the components of Inora's SCR as at 31 December 2018 and 31 December 2019. The main drivers of Inora's capital requirements are life underwriting risks (associated with an increase in lapse SCR due to post transfer expenses increasing) and counterparty default risk. Currency SCR was introduced in 2019 due to the policy administration services being migrated to Equiniti, a UK based service provider that has costs denominated in Sterling.

Table 5.4: Inora SCR and MCR (€m)				
Capital Measure	Component	31 Dec 2018	31 Dec 2019	31 Mar 2020
Solvency Capital Requirement	Market Risk	0.5	0.9	0.7
	Life Underwriting Risk	1.2	1.3	1.3
	Counterparty Default Risk	1.5	1.3	1.0
	Diversification	-0.8	-1.0	-0.1
	Operational Risk	0.9	1.0	0.1
	Total SCR	3.3	3.5	3.1
Minimum Capital Requirement		3.7	3.7	3.7

Source: 2018, 2019 Inora SFCR, Q1 2020 QRT

5.5.4 Projected Solvency Position

As noted above, as part of my review I was provided with the Inora ORSA report. I have considered the report as part of my review but have refrained from replicating all of the detail within this Report. The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA is an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. As part of Inora's overall ORSA process, a central base projection was prepared, which considered how the Solvency II capital position is expected to emerge over Inora's business planning horizon.

Within the ORSA process and report, Inora also subjected its projected balance sheet to a number of adverse stresses and scenarios, so as to assess the resilience of its balance sheet going forward. I have not replicated the detail within this Report, but no material issues were identified which need to be commented upon within this Report.

More specifically, I note that, within the ORSA base case projection, Inora has considered the transfer of the business to another provider. This projection assumed that the transfer takes place by Q3 2020. The projections were also updated to reflect the Equiniti outsourcing costs as the policy administration services are being migrated from the current service provider, DST, to Equiniti. A reverse stress test was considered which reflected Inora's inability to withstand various operational events with the soft and hard capital targets being breached, in particular when the proposed €5.5m dividend was paid. In addition, it was estimated that Inora would not be able to meet its MCR at the end of 2024 if the transfer to MLIDAC failed to occur and MLIDAC continued to operate at 2020 expense levels.

Table 5.5 Projected Inora Solvency Coverage (€m)			
Balance Sheet Component	30 Sep 2019	31 Dec 2019	30 Sep 2020
SCR Coverage	502%	354%	357%

Source: 2019 Inora ORSA

While Inora's profile is projected to be similarly robust, it is based on the management action of the business transferring to another entity – without the Scheme taking place and other actions, it would not be able to run off in a solvent manner. Overall, I have no issues to note.

5.6 Operational arrangements

The majority of Inora's operations, and in particular its key management operations, are carried out in its offices in Ireland. However, some critical activities are outsourced, as summarised in Table 5.6.

For the Inora portfolio, a key point to note is that the administration for this portfolio of business was outsourced to DTS, a service provider of administration services based in Ireland. The contract was terminated effective 30 June 2020, but in March 2020 was extended to 31 August 2020. Policy administration will be transferred to Equiniti and will take effect from 10 August 2020. Equiniti is a large,

UK-based organisation that provides outsourced administration services to pension funds, banks and insurance companies (amongst others).

Fund administration and finance services (preparation of management accounts and statutory accounts) are also outsourced to DST. These will be migrated to MISL to manage and will take effect from 31 August 2020. MISL are already managing fund administration for other Monument Group portfolios in Ireland.

As the migration of policy administration, fund administration and finance services from DST to other service providers (Equiniti and MISL) is expected to be completed prior to the Scheme, it has not been formally considered and has been assumed to be completed successfully.

Table 5.6: Operational arrangements

Service Provider	Services Provided	Jurisdiction
Monument Group*	Insurance administration services	Ireland
External	Policy and fund administration services	Ireland
External	Actuarial function	Ireland
External	Solvency II reporting	Ireland
External	Custodial services	France
Monument Group*	IT services	Ireland
Monument Group*	Internal audit function	Ireland
External*	Investment management	UK
External	Tax services	Ireland, France
External	Company secretarial	Ireland
External	Chief Risk Officer	Ireland
External	Legal services	Ireland
External	Banking services	Ireland, France
External	Telephone and data capture	Germany, France, Italy

Source: 2019 SFCR

*The entity has been a service provider since September 2019

5.7 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider guidance issued by the Society of Actuaries in Ireland with regard to Policyholders' Reasonable Expectations ("PRE"). ASP LA-6 ("Transfer of Long-term Business of an Authorised Insurance Company – Role of the Independent Actuary") sets out items to be considered in this regard.

Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. Being mindful of the above guidance and requirements, considering the detailed consideration which the Inora HoAF gives to PRE within her annual Actuarial Function Report, and considering the transferring policies in isolation, my views are:

- **Benefits:** the benefits arising under the transferring policies are straightforward and are determined with reference to the value of the underlying unit-linked funds.

There are a number of pending late cool off period litigations in France. These relate to policies invested in funds which performed poorly and consequently the current fund values were significantly lower than the initial premium invested. As a result of the change in the definition of "cool-off" period in 2014, policyholders are entitled to a return of their premium regardless of the current lapse value of the policy. The cost of litigation is not paid for by Inora but by Société Générale under the terms of the Sale Agreement with Monument Re.

- **Security of benefits:** transferring policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the transferring policyholders are exposed to before and after the transfer, including the relevant financial position of the companies.

- **Entitlement to benefits:** the transferring policyholders have a reasonable expectation that withdrawals, surrenders, maturity, and valid death claims will be paid in accordance with policy terms and conditions. I have reviewed some of Inora's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions.

I note that there are some German policies in force where an annuity must be paid under the regulations i.e. a payment of capital is not permitted. The general approach has been to communicate with these policyholders in the lead up to policy maturity. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms.

- **Service standards:** transferring policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly. Policy and fund administration services are currently outsourced to DST. The policy administration will be migrated to Equiniti and fund administration will be migrated to MISL, taking effect in the third quarter of 2020, prior to the Scheme.
- **Discretionary powers available to Inora:** transferring policyholders have a reasonable expectation that any discretion available to Inora will be applied in a fair and reasonable manner. The use of discretion by Inora is reasonably limited and principally relates to:
 - Terms and conditions: The terms and conditions of unit-linked policies typically contain clauses that allow Inora discretion in the way that the terms of the policy are applied. However, the majority of Inora products are invested in funds with fixed maturity dates with some form of capital guarantee being available at the maturity of the fund. This guarantee is provided by Société Générale.
 - There are some minor areas of discretion where Inora has the right to vary charges on some policies sold in Belgium. However, the range of discretionary powers currently available to Inora for the transferring policies is very limited i.e. charges have not been raised for many years.

Practice is well embedded on these matters in Inora.

5.8 Complaints and Litigation

Inora has a well-established complaints process, which is set out clearly for customers up on its website. Customers may make complaints in writing or via email, and, once a complaint is made, Inora follows a defined process, committing to respond to policyholders within a set timeframe.

Where the policyholder is not satisfied with Inora's response, they have the option to refer the complaint to the FSPO, which is an independent statutory body in Ireland for dealing with such issues.

As part of my review, I was provided with specific information relating to historic and ongoing complaints and litigations associated with the Inora portfolio. Inora has experienced a number of litigations in France, Germany and Italy relating to late cool-off periods, fund eligibility and misleading information.

I note that prior to being acquired by Monument Re, Société Générale provided Inora with letters of guarantee confirming that Société Générale would indemnify Inora from any financial costs or liabilities resulting directly from any ex-gratia payments made to policyholders in compensation for complaints or litigations on their policies, subject to a maximum limit. Post Scheme, Société Générale will continue to provide indemnity, subject to no maximum limit, as per the Share Purchase Agreement entered into by Société Générale, MLIDAC and Monument Re, dated 27 March 2019.

With regard to the open complaints in particular, I note that there are only a small number outstanding and none are expected to generate either significant costs or set a precedent that may have implications for other Inora policyholders.

5.9 Other Regulatory matters

5.9.1 CBI Matters

I have asked about any regulatory matters open with the CBI – no material issues were noted.

5.9.2 Compensation Schemes

I note that there is no policyholder Compensation Scheme in Ireland.

6 The proposed Scheme

6.1 Background to and motivation for the proposed Scheme

6.1.1 Motivation for proposed Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

Inora is a wholly owned subsidiary of MLIDAC. MLIDAC agreed to purchase Inora from Société Générale SA in March 2019, received regulatory approval from the CBI for the transaction in August 2019 and the transaction was executed in September 2019. It is MLIDAC's intention to transfer the liabilities of Inora to MLIDAC on 31 December 2020 and liquidate Inora in early 2021.

MLIDAC is a closed-book consolidator and the Inora business aligns with MLIDAC's strategic plans to grow and develop its unit-linked offering and its capability for portfolios based mainly in Ireland and the Benelux region.

6.1.2 Overview of proposed Scheme

The Scheme proposed is one for the transfer of the insurance policies of Inora by order of the Irish High Court. The transfer of the Inora insurance policies to MLIDAC will be completed under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015. The Scheme provides for the transfer of the Inora insurance policies, incorporating the underlying insurance contracts, together with the associated liabilities and unit-linked assets as at the Effective Date to MLIDAC, such that Inora's policyholder liabilities are extinguished.

The Scheme proposes on the Effective Date:

- To transfer the Inora policyholder liabilities from Inora to MLIDAC .
- That MLIDAC will establish regulatory technical provisions in respect of the transferring liabilities and associated capital requirements under the Solvency II regulatory basis and methodology.
- That the portfolio transfer will be made on an arm's length basis and will include the transfer of assets to support the maintenance of the portfolios post the portfolio transfer.
- To maintain policyholder terms and conditions, i.e. there will be no changes to policyholders' terms and conditions across any of the entities.
- To allocate the same type, number and overall value of units in the MLIDAC unit-linked funds as held by Inora in their unit-linked funds for the policies transferring as part of the Scheme.
- To maintain the operation of the insurance contracts, i.e. the operation of the policies will not change and all supporting contractual arrangements such as scheme administration should remain unchanged – the Equiniti and MISL administration arrangements novate or transfer across as part of the Scheme.

The Effective Date of the Scheme is expected to be in 31 December 2020.

6.2 Continuity of proceedings

Inora is a party to complaints, legal actions and regulatory proceedings arising out of normal business operations related to the insurance business, including as the plaintiff and defendant in arbitration and litigation matters related to contested insurance claims. Whilst Inora has indicated that it cannot predict the outcome or impact of any pending or future arbitration, litigation or regulatory proceedings, it does

not believe that any pending arbitration, litigation or regulatory proceedings will have a material adverse effect on its business, financial condition or results of operations.

It is my understanding that at the Effective Date, any legal proceedings which may be pending, current or future against Inora in relation to the insurance business being transferred will become the responsibility of MLIDAC.

6.3 Rights and obligations

Every holder of a transferring policy will be entitled to the same contractual rights against MLIDAC as the holder currently has against Inora. As such there are no changes to the contract terms and conditions as a result of the Scheme. The effect of the Scheme will be that every holder of or the potential claimant against a transferring policy shall become entitled to the same rights against MLIDAC as the holder or potential claimant has against Inora and shall be subject to the same obligations to MLIDAC as the holder or potential claimant.

6.4 Administration arrangements

At the Effective Date, it is intended that the existing administration arrangements will be maintained and the contracts in place with transfer to MLIDAC.

I note that Inora is currently migrating its policy administration services to Equiniti. The intention is to finalise the migration by 10 August 2020. I also note that fund administration is also being migrated to MISL with a live date of 31 August 2020.

6.5 Maintenance of existing reinsurance arrangements

Inora has no existing reinsurance arrangements in place. The transferring Inora policies will be included in the intra-group reinsurance arrangement that MLIDAC has with Monument Re. This is expected to be executed at the Scheme Effective Date.

6.6 Maintenance and operation of funds

This refers to the breadth of fund offering and the level of charges associated with the investment funds available to Inora policyholders. There are no changes to the charges or breadth of offering available to policyholders as a result of the Scheme.

6.7 Fund guarantees

This refers to the structured products and fund guarantees which are available on Inora policies. These will continue to exist and the contract with Société Générale, who currently underwrite these guarantees, will transfer over. There are no planned changes as a result of the Scheme.

6.8 Capital support arrangements

Post transfer, all Inora policies will be on the balance sheet of MLIDAC, which is part of a larger group, the Monument Re Group. MLIDAC will have the option of availing of capital support from its parents, if so required, and this does not change as a result of the Scheme.

6.9 Other arrangements

The indemnity arrangement with Société Générale will not change as a result of the Scheme. Société Générale will continue to provide Inora indemnity, subject to no maximum limit, as per the Share Purchase Agreement entered into by Société Générale, MLIDAC and Monument Re, dated 27 March 2019.

Inora and Société Générale have an investment management fund rebate arrangement in respect of a number of structured funds included in Inora policies. The contracts in place for these rebates will transfer over. There are no planned changes as a result of the Scheme.

6.10 Risk Management

Both entities have a comprehensive risk management framework in place, reflecting the requirements of the Monument Re Group and the Solvency II regime, as regulated by the CBI. There are no planned changes are planned to the risk management approach of either entity as a result of the Scheme.

6.11 Exercise of options

Any policy options that currently exist under the Inora policies will continue to exist and there are no planned changes in this regard. There are no planned changes to the policy options of other policies of either entity as a result of the Scheme.

6.12 Taxation

MLIDAC management have confirmed that no formal tax analysis is required, and I have been provided with a summary note from MLIDAC briefly setting out the tax impacts on the Scheme, noting that I am not a tax expert. I have not obtained separate tax advice and have relied on the independent tax advice prepared by the tax advisors to MLIDAC.

6.13 Costs of the proposed Scheme

All costs associated with the Proposed Transfer will be borne by the shareholders of Inora and MLIDAC, with no impacts upon either the transferring Inora policyholders and the existing MLIDAC policyholders.

6.14 Policyholder communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs, (and I understand Inora and MLIDAC will seek the High Court's dispensation from this requirement, in so far as it relates to existing policyholders of MLIDAC) certain materials must be transmitted to each policyholder of each Company.

I note that:

- The Inora policyholders are residents of EEA Member States, namely France, Belgium, Italy, Germany Austria, Denmark, Luxembourg, The Netherlands, Poland and the UK. In addition, there are a number of policyholders now resident in countries outside the EEA. The entities have sought local law advice from each of the EEA Member States as to the notification requirements to be complied with and have also obtained advice from local counsel in Ireland. Counsel in each of the member states have confirmed that there is no obligation for Inora or MLIDAC to publish a notice of the Transfer in these Member States.
- The transferring Inora policyholders will each be sent a circular by Equiniti on behalf of Inora (comprising of a letter with details about the Transfer, a summary of the terms of the Scheme, a summary version of this Report, a copy of the draft legal notice and a questions and answer sheet in relation to the transfer). Inora will have oversight of the entire communications process and provide a scripted Questions and Answers Sheet and customer response handling decision tree to assist Equiniti.
- The summary version of this Report, which I have prepared, covers all the material points and issues raised in this full Report.
- The communication to Inora policyholders will include my conclusion as Independent Actuary and also highlight very clearly the availability of my full Report on request and its availability on the Inora website. The CBI will be advised of this approach.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- A notice will also be published in the Financial Times (International Edition) which is in wide circulation throughout Europe.

- Subject to the directions of the Court, there is no intention to issue a direct mailing to MLIDAC's existing policyholders. However, MLIDAC's existing policyholders may contact MLIDAC about the transfer having seen press advertising or notifications using their usual contact details. The contact centre will be provided with a separate questions and answers sheet specific to MLIDAC's existing policyholders and be trained to enable them to deal with the queries and complaints received regarding the proposals. Any queries outside of the questions and answers sheet and complaints received regarding the proposals will be referred to MLIDAC for drafting a response .

6.15 Governing law

The sanctioning of the Scheme is subject to the laws of Ireland, in particular Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/ 2015).

7 General considerations when reviewing the proposed scheme

7.1 Introduction

As the Independent Actuary, the key areas in my opinion that I need to consider for the different groups of policyholders that could potentially be affected by the Scheme, namely the transferring Inora policyholders and the existing MLIDAC policyholders are:

- Security of policyholder benefits; and
- Fair treatment of policyholders and impacts upon their reasonable expectations, which include disclosures to policyholders, maintenance of terms and conditions, the use of discretion by companies, local legislative requirements and the day to day administration of policies.

The considerations when reviewing the proposed Scheme are discussed briefly below and then assessed in Section 7 and 8 of this Report.

7.2 Impact on the security of policyholders' benefits

Aspects of the business and the Scheme which could impact on the security of policyholder benefits and should therefore be considered when reviewing the Scheme include:

- Financial security following the implementation of the Scheme for the different groups of policyholders, through consideration of the regulatory capital position under Solvency II.
- I note that the CBI supervise both entities under the Solvency II regulatory regime and that, once the Scheme is implemented, the entities will continue to be subject to supervision by the CBI under Solvency II.
- I consider the financial impact of the transaction which gives effect to the Scheme i.e. a payment from MLIDAC to Inora of assets in respect of BEL and risk margin as calculated by the Inora HoAF, at the Effective Date and ensure it is reflected in my assessment of the implementation of the Scheme.
- Other elements impacting on financial security involves consideration of:
 - Business planning outlook;
 - Stress and Scenario tests on a plausible basis to understand how robust the regulatory capital position is to such tests;
 - Impact of the Scheme on the risk levels in MLIDAC and Inora and whether new additional risks are created as a result of the Scheme;
 - Quality of capital including any capital support arrangements;
- External reviews/ audit findings on material areas;
- Continuation of reinsurance arrangements and any potential issues with reinsurance counterparties;
- Other elements including custody of assets; Group financial support; and any other aspects worthy of consideration e.g. expenses, outsourcing, strategic asset allocation.

7.3 Fair treatment of policyholders and the impact on their reasonable expectations

Aspects of the business and the Scheme which could impact on the fair treatment of policyholders and their reasonable expectations which should be considered when reviewing the Scheme include, but are not limited to:

- Policy terms and conditions;
- Servicing of policies;
- Application of discretion;
- Expenses and charges;
- Costs of the Scheme;
- Current practices and approaches;
- Complaints and redress; and
- Policyholder communications.

8 Assessment of the Scheme on the financial security of policies

8.1 Introduction

The following section considers the pro-forma regulatory balance sheets of the entities (Inora and MLIDAC) following implementation of the Scheme. I comment on the relative level of security of transferring Inora policyholders and existing MLIDAC policyholders by considering the impact of the transfer under the Solvency II regime.

In this consideration, I have examined the transfer on both a quantitative and qualitative basis.

I also include discussion of other aspects of the Scheme relating to Inora and MLIDAC that could affect security to policyholders and note my conclusions on them.

8.2 Financial Strength Assessment

8.2.1 Introduction

I have considered the relative capital strength of Inora and MLIDAC respectively prior to and post the Scheme and in respect of all groups of policyholders. I have based my analysis on the most recent audited financial information at 31 December 2019, including regulatory returns provided to the regulator, pro-forma results prepared as at 31 March 2020 and the ORSA projections produced by both entities.

For MLIDAC, I have focused on the pro-forma 31 March 2020 position, as it reflects the most up to date position of the entity given the planned transfer is 31 December 2020. The 31 March 2020 position also reflects the market volatility and general economic uncertainty arising from COVID-19 pandemic. This proforma results also capture the portfolio transfers associated with the internal restructure occurring in Monument's Irish operations and transfers that are anticipated to take place in advance of the Scheme.

As described in Section 6 above, the Scheme will not make any material change to the assets and liabilities of Inora or MLIDAC. The liabilities being transferred are unit-linked in nature, meaning that the bulk of the assets transferring are those committed to policyholders in line with policy terms and conditions. Where there is a transfer of assets outside of the unit-linked assets, this reflects the cash consideration paid by Inora to MLIDAC under the terms of the Scheme.

8.2.2 Solvency Coverage at Transfer Date

Table 8.1 below sets out the pro-forma balance sheet of MLIDAC post the Scheme. I note:

- This analysis considers the point in time solvency cover pre- and post-transfer, taking account of the impact of the Scheme in line with the Solvency II requirements, as if it had been implemented at 31 March 2020. I note that due to time constraints various simplifications were applied. MLIDAC will carry out a more detailed analysis in the 2020 MLIDAC ORSA and this will be included in the Supplementary report.
- For Inora pre transfer, I have identified the assets and liabilities to be transferred as part of the proforma analysis. I have not included a post transfer position for Inora, as there are no policyholders remaining and the Company will ultimately be liquidated after handing back its licence to the CBI. Sufficient assets will remain to ensure it continues to meet its regulatory capital requirements post the Scheme and prior to handing back its insurance licence.
- Part of the MLIDAC regulatory capital position already reflects its investment in Inora i.e. contribution to Own Funds of €13.1m and contribution to SCR (undiversified) of €2.9m.

- The MLIDAC proforma position is complicated by the various portfolio transfers which have been completed and are planned to be completed over the rest of 2020 but prior to the Inora portfolio transfer. The proforma financial analysis adjusts for the following:
 - Project Trinity i.e. transfer of MIDAC and MADAC portfolios into MLIDAC. Final regulatory and Court approvals have been received with an effective date of 30 June 2020.
 - Project Boris i.e. transfer of Rothesay annuity portfolio into MLIDAC. Final regulatory and Court approvals from the UK are expected in July 2020.
 - Project Puma i.e. transfer of ZLAP IPB portfolio into MLIDAC. Final regulatory and Court approvals are expected in November 2020.
- I note that there has been an allowance of €1m portfolio transfer costs in the proforma analysis. The analysis prepared by MLIDAC supporting the assumed level of expenses have been shared with me and the approach appears reasonable. I note that various simplifications have been applied due to time constraints but does not materially impact my assessment.
- I note that it is the intention of MLIDAC to put reinsurance cover in place for the Inora business at the point of the transfer. This reinsurance cover is anticipated to be aligned to the existing structures that MLIDAC has in place with Monument Re and will help mitigate risk associated with the market, mortality, lapse and expense risks within the acquired portfolio. It is intended that the arrangement will make use of a similar collateral/funds withheld arrangement (as used for the current reinsurance).
- MLIDAC has an internal capital management target of 140% of SCR plus an intragroup reinsurance capital buffer of €5.4m. The proforma results include a capital management action of a €5m dividend payment from Inora to MLIDAC prior to the Scheme. This dividend payment serves to reduce MLIDAC's solvency capital requirements and ensures that MLIDAC is capitalised well enough to meet its internal capital management target. This is a key assumption of mine.
- The proforma analysis is set out in the two tables below. Table 8.1 reflects the position of MLIDAC post the various Schemes underway prior to the Inora portfolio transfer. Table 8.2 then reflects the impact of the Inora portfolio transfer itself and the intragroup reinsurance arrangement.

Table 8.1: MLIDAC Pro-forma Solvency Position as at 31 March 2020 (€m)

Component	MLIDAC – pre transfer	Add: Trinity	Add: CARP HNW	Add: Boris	Add: Puma
<i>Before intra-group reinsurance</i>					
Assets	1,005.3	1,014.7	1,078.8	1,343.6	1,994.2
Liabilities	977.4	986.8	1050.9	1,315.1	1,963.5
Own Funds	27.9	27.9	28.0	28.5	30.7
Solvency Capital Requirement	8.8	14.2	14.3	15.6	16.6
Capital required	8.8	14.2	14.3	15.6	16.6
Excess of Own Funds over SCR	19.1	13.7	13.7	12.9	14.1
Solvency Coverage Ratio	317%	196%	196%	182%	185%

Source: MLIDAC proforma analysis

Table 8.2: MLIDAC Pro-forma Solvency Position as at 31 March 2020 (€m)

Component	Inora – pre-transfer	MLIDAC – pre-transfer	MLIDAC – pre transfer but post various Schemes*	MLIDAC – post transfer (Gross)**	MLIDAC – post transfer (Net)**
Assets	87.9	1,005.3	1,994.2	2,066.0	2,130.9
Liabilities	74.9	977.4	1,963.5	2,036.3	2,100.9
Own Funds	13.1	27.9	30.7	29.7	30.0
Solvency Capital Requirement	3.1	8.8	16.6	18.4	15.9
Capital required	3.7	8.8	16.6	18.4	15.9
Excess of Own Funds over SCR	9.4	19.1	14.1	11.3	14.0
Solvency Coverage Ratio	353%	317%	185%	161%	188%

Source: MLIDAC Inora proforma analysis

*These various Schemes include Project Trinity, Project CARP HNW, Project Boris and Project Puma.

** These reflect the Gross and Net positions after implementation of the intragroup reinsurance arrangement

The impact of the various transfers to take place prior to the Inora transfer are set out below:

MLIDAC Policyholders

In terms of the impacts upon MLIDAC's balance sheet, I note the following:

- Post transfer of various Schemes (Project Trinity, Project CARP High Net Worth, Project Boris and Project Puma) but pre Inora portfolio transfer:
 - Overall, MLIDAC's level of Own Funds is expected to increase from €27.9m to €30.7m as a result of the transfer of the various Scheme's assets and liabilities to the MLIDAC balance sheet. MLIDAC's SCR is expected to increase from €8.8m to €16.6m.
 - The level of excess Own Funds (i.e. the level of Own Funds available in excess of the SCR) decreases from €19.1m to €14.1m. MLIDAC's solvency coverage is still above its internal capital management target capital level at 185% and is well in excess of regulatory minimum levels.
 - This is my starting point for the proforma analysis of the impact of the Scheme.
- Post transfer of Inora:
 - There is a dividend payment of €5m from Inora to MLIDAC that serves to ensure that MLIDAC is capitalised to meet its internal capital management target at the Scheme date.
 - Overall, MLIDAC's level of Own Funds decreases from €30.7m to €29.7m due to a reduction of €1m from portfolio transfer costs.
 - MLIDAC's SCR is expected to increase from €16.6m to €18.4m. The level of excess Own Funds falls from €14.1m to €11.3m. MLIDAC's solvency coverage ratio still meets its internal target capital level at 161%.
 - After the intragroup reinsurance arrangement is implemented and the dividend is paid, the regulatory capital coverage increases from 161% to 188%. The level of Own Funds increases to a small extent from €29.7m to €30.0m and the SCR decreases from €18.4m to €15.9m. This is useful to note from the perspective of the existing MLIDAC policyholders, as the planned reinsurance is similar in nature to the existing reinsurance structures that are already in place.
 - Overall, the combined impact of the reinsurance and capital management action mean that the solvency coverage which existing MLIDAC policyholders enjoy has remained broadly stable as a result of the Scheme i.e. it still remains well in excess of the regulatory minimum levels and continues to meet its internal capital targets.

Inora Policyholders

In terms of the impacts upon Inora, I note the following:

■ Pre-transfer of Inora:

- Inora has a solvency capital requirement of €3.1m, which is floored at the MCR level of €3.7m.
- Inora's has Own Funds of €13.1m, excess of available Own Funds above the regulatory requirement of €9.4m and a solvency coverage ratio of 353%.
- A key management action which was agreed at Board level and assumed within the calculation of the technical provisions is that the business will transfer to MLIDAC as at 30 September 2020. The strong regulatory capital position reflects this management action and is a key consideration for me. Without the management action, Inora would be impacted with diseconomies of scale and its solvency would be threatened. This is highlighted in the Inora ORSA report - I note that it is not possible to perform a solvent run off the business without this assumption.

■ Post-transfer of Inora:

- The Inora policyholders will move to MLIDAC, a larger life insurance company that specialises in the service and administration of closed books of insurance business such as the Inora book. Post transfer of Inora and various other Schemes, MLIDAC is anticipated to have a regulatory capital requirement of €18.4m, available Own Funds of €29.7m, and excess available Own Funds above the regulatory requirement of €11.3m, with a solvency coverage ratio of 161%. Overall, the portfolio transfer of the Inora business means that the solvency coverage which transferring Inora policyholders currently enjoy has decreased.
- While the regulatory capital coverage has reduced for transferring Inora policyholders, they are now part of a larger entity with a higher level of own funds and a more diversified risk profile. Furthermore, I note that the current level of regulatory capital coverage that Inora policyholders currently enjoy reflects the transfer being executed, as without it the solvency position of Inora as a stand-alone entity would be threatened.
- After the implementation of the intragroup reinsurance cover, the regulatory capital coverage is still lower than the position before the portfolio transfer. However, as noted earlier, this reflects the transfer being executed, as without it the solvency position of Inora as a stand-alone entity would be threatened.

Overall

Based on the above I do not believe that the implementation of the Scheme should have a material adverse effect on the financial security of the transferring Inora policyholders and the existing MLIDAC policyholders. The level of Own Funds and solvency coverage in MLIDAC post-transfer is well in excess of the regulatory minimum and is above the internal target levels set by MLIDAC.

8.2.3 Capital Targets

Both entities have defined a level of target capital in excess of the overall Solvency II SCR. The approach adopted is similar in both entities and MLIDAC is not planning a revision in approach as a result of the Scheme.

8.2.4 Business Plan and Projected Solvency

I was also provided with the most recent MLIDAC and Inora ORSA reports, prepared in December 2019 showing the projected balance sheet and the ability of the balance sheet to absorb stresses from a variety of stress events. Updated projections were not available at the date of my Report but I expect to receive this information to prepare a Supplementary Report.

I note that MLIDAC management is preparing a new ORSA to reflect all the portfolio transfers (Project Trinity, Project CARP, Project Boris and Project Puma) and the Inora portfolio transfer. The stress and scenario testing and solvency projections are not ready at this stage. However, this is a key assessment area and will be reviewed in the Supplementary Report.

Considering the above, I have not identified any concerns with regard to MLIDAC's projected solvency coverage after the transfer.

8.2.5 Sensitivity Testing

As noted earlier, I have been provided with the most recent ORSA reports prepared by MLIDAC and Inora, which illustrate the sensitivity of the Scheme Companies to various risk issues.

For MLIDAC, whilst I have not been provided with any explicit sensitivities which capture the impacts of the Inora portfolio, considering the existing ORSA projections and stresses in conjunction with the pro-forma balance sheet enable me to form a view as to how MLIDAC's balance sheet may evolve in stressed situations after completion of the Scheme. I have not identified any material issues.

I will revisit this as part of the preparation of my Supplementary Report.

8.2.6 Risk Profile

I have considered the effects of the Scheme on the risk profile of each entity.

If the proposed transfer takes place, MLIDAC's risk profile does not change as Inora was consolidated onto the MLIDAC balance sheet as at 31 December 2019.

As a result of the Scheme, Inora policyholders will be exposed to certain different risks than they are currently exposed to. There will be some exposure to non-life risks that form part of MLIDAC's balance sheet as a result of the transfer of MIDAC business. However, these non-life risks are not material, are well understood by MLIDAC and are anticipated to run-off quite quickly. Furthermore, there are regulatory capital buffers and risk management processes in place to manage these risks. I am comfortable that this does not materially impact the financial security of the Inora policyholders.

8.3 Reinsurance arrangements

Inora has no reinsurance arrangements in place. The transferring Inora policies will be included in the intra-group reinsurance arrangement that MLIDAC has with Monument Re. This is expected to be executed at the Scheme Effective Date.

This reinsurance cover is anticipated to be aligned to existing structures that MLIDAC has in place with Monument Re and will also have a collateral/ funds withheld arrangement structure. I note that the intragroup reinsurance reduces considerably the capital requirements required of the business but introduces exposure (albeit reduced via the collateral structure) to Monument Re.

I further note that MLIDAC takes the approach of setting its internal capital targets with reference to the cost of replacing the reinsurance cover, hence the planned reinsurance will be factored into MLIDAC's internal assessment of its capital needs.

In Section 3, I have commented upon the financial strength of Monument Re and the capital requirements of the Bermuda regulatory regime. Hence, I have identified no issues in respect of the information shared at this stage of the process.

8.4 Conclusion on the impact of the Scheme on the security of policies

8.4.1 Conclusion on the impact of the Scheme on the security of the transferring Inora policyholders

In this section I have considered the aspects of the Scheme that I consider having the potential to affect the security of the transferring Inora policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans.

Based on my consideration of these key elements, in my opinion the risk of the Inora policyholders' benefits being adversely affected in terms of financial security is remote. Therefore, in my view, the Inora policyholders will not be materially adversely affected by the proposed Scheme.

8.4.2 Conclusion on the impact of the Scheme on the security of MLIDAC policyholders

In this section I have considered the aspects of the Scheme that I consider having the potential to affect the security of MLIDAC policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans.

Based on my consideration of these key elements, in my opinion the risk of MLIDAC policyholders' benefits being adversely affected in terms of financial security is remote. Therefore, in my view, MLIDAC policyholders will not be materially adversely affected by the proposed Scheme.

9 Assessment of the Scheme on the fair treatment of policyholders

9.1 Introduction

The fair treatment of policyholders is a key consideration for Inora and MLIDAC. The concept relates to how insurance companies deal with their policyholders across a wide range of areas and the following paragraphs cover the areas which, in my opinion, need to be specifically addressed in relation to the Scheme. I note that there are more explicit requirements on the HoAF under CBI requirements, I consider both entities operate with prudential and consumer requirements on treating customers fairly.

I have discussed with Inora and MLIDAC the key elements of fair treatment (or PRE as it is understood in Ireland) and what will happen post-transfer. In particular, I have discussed with the Actuarial Function of MLIDAC the company's views of PRE and what existing PRE practices in respect of the Inora policies will remain unchanged post the transfer.

In particular, I have considered the following:

- **Security of benefits:** Policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. I have considered financial strength and ongoing compliance with the Solvency II regulatory requirements in Section 7 above.
- **Fund range:** Policyholders have a reasonable expectation that the available fund range will be maintained.
- **Entitlement to benefits:** Policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions, and that maturity, surrender and withdrawal claims will be paid when requested.
- **Terms and Conditions:** Policyholders have a reasonable expectation that contracts remain unchanged.
- **Service standards:** Policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly.
- **Charges:** Policyholders have a reasonable expectation that charges levied remain in line with policy terms and conditions and that approaches do not change.
- **Discretion:** Policyholders have a reasonable expectation that the application of discretion will remain unchanged.
- **Policyholder notifications:** Policyholders impacted by the Scheme would have an expectation that they would be communicated with (including technical information on the Scheme along with a summary of the Independent Actuary Report) and if they had issues, to have the option to raise them.

My overarching assessment is to focus on changes to any of the broad requirements brought about by the Scheme.

9.2 Specific considerations

9.2.1 Security of benefits

This is considered in Section 7.

9.2.2 Fund Range

There will be no change to current investment funds available to the transferring Inora policies or the existing MLIDAC policies.

Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.

9.2.3 Entitlement to Benefits

Existing practices in respect of surrender, maturity, transfer, death or conversion to paid up will remain in place post transfer. Claims which are settled as part of the normal course of business will be dealt with in the same way post-transfer. For disputed claims, I note that the claims governance processes within Inora and MLIDAC are similar and the approach will not be impacted by the transfer.

I note that there are some German policies in force where an annuity must be paid under the regulations i.e. a payment of capital is not permitted. The general approach has been to communicate with these policyholders in the lead up to policy maturity and I expect this to continue post transfer. There will be no change in practice. I further note that MLIDAC intend to mitigate any potentially onerous risks relating to this prior to the transfer and this will be considered in the Supplementary Report.

Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.

9.2.4 Policy Terms & Conditions

There will be no change to policy terms and conditions of the transferring Inora policies or the existing MLIDAC policies.

Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.

9.2.5 Service standards

Service standards will remain unchanged as a consequence of the Scheme for all policyholders.

However, as noted in Section 5.6, Inora is in the process of migrating policy administration services to Equiniti, a service provider that MLIDAC also use. I note that MLIDAC has prior experience of managing a number of such transitions as part of its business as usual work; in particular, the UK liabilities acquired under Project CARP were successfully migrated from Capita to Equiniti by MLIDAC after that transfer completed.

I also note that Inora is migrating fund administration and finance services to MISL.

Such migrations, when they proceed, could have some impact upon service standards, although this is not anticipated by MLIDAC. As the migration projects are currently underway and should be finalised prior to the Effective Date, I will review the progress and comment upon the migration in a Supplementary Report.

In relation to the consequences of Brexit on the ability of MLIDAC to outsource activities to Equiniti post the portfolio transfer, I have been advised by MLIDAC management that many of the processes proposed to be outsourced may (consistent with the position taken by the CBI and with industry practice) be carried out by an entity not regulated as an insurance intermediary in the EU. This will continue to be closely examined and, if required, a further update will be provided in the Supplementary Report.

9.2.6 Expenses and charges

My understanding is there is no intention on MLIDAC's part to amend the charges applied post completion of the Scheme.

9.2.7 Cost of the Scheme

All costs associated with the Proposed Transfer will be borne by MLIDAC and Inora. No costs will be borne by policyholders. Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard. I have no specific issues to note.

9.2.8 Discretion

Policyholders expect that the application of discretion will be unchanged as a result of the scheme. With regard to the management of the Inora policies, the levels of discretion available to management are limited, relating to the charges levied, the funds offered and the approach to unit-pricing.

I note that there are discretionary charges levied on certain Inora products sold in Belgium. The range of discretionary powers currently available to Inora for the transferring policies is very limited i.e. charges have not been raised for many years. The MLIDAC Head of Actuarial Function has assessed the practice in this regard and has confirmed that this practice will not change.

Insofar as possible, MLIDAC will endeavour to maintain the existing structures. There are no issues emerging that I am aware of that can adversely impact upon policyholders.

9.2.9 Complaints and redress

I note that the complaints handling procedures adopted by both entities at present are well aligned and that policyholders will continue to be able to escalate claims to the FSPO after the Scheme. As a result, there will be no consequence of the Scheme for policyholders. I have no issues to note.

9.2.10 Taxation

MLIDAC management have confirmed that no formal tax analysis is required, and I have been provided with a summary note from MLIDAC briefly setting out the tax impacts on the Scheme, noting that I am not a tax expert. I have not obtained separate tax advice and have relied on the independent tax advice prepared by the tax advisors to MLIDAC.

With regard to policyholder tax, a key area of focus for me as Independent Actuary is whether the Scheme would trigger a “chargeable event” for policyholders. MLIDAC has indicated that this is not an issue. It is expected that transferring Inora policyholders will be unaffected by the Scheme in respect of taxation.

No other tax impacts are expected as a consequence of the Scheme for transferring the portfolio and the existing MLIDAC policyholders.

9.2.11 Policyholder communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs, (and I understand Inora and MLIDAC will seek the High Court’s dispensation from this requirement, in so far as it relates to existing policyholders of MLIDAC)) certain materials must be transmitted to each policyholder of each Company.

I have been provided with draft versions of this policyholder circular as detailed and I have no issues to note with the detail included in it.

I note that:

- The Inora policyholders are residents of EEA Member States, namely France, Belgium, Italy, Germany Austria, Denmark, Luxembourg, The Netherlands, Poland and the UK. In addition, there are a number of policyholders now resident in countries outside the EEA. The entities have sought local law advice from each of the EEA Member States as to the notification requirements to be complied with and have also obtained advice from local counsel in Ireland. Counsel in each of the member states have confirmed that there is no obligation for Inora or MLIDAC to publish a notice of the Transfer in these Member States.
- The transferring Inora policyholders will each be sent a circular by Equiniti on behalf of Inora (comprising of a letter with details about the Transfer, a summary of the terms of the Scheme, a summary version of this Report, a copy of the published legal notice and a questions and answer sheet in relation to the transfer). Inora will have oversight of the entire communications process and provide a scripted Questions and Answers Sheet and customer response handling decision tree to assist Equiniti.
- The summary version of this Report, which I have prepared, covers all the material points and issues raised in this full Report.

- The communication to Inora policyholders will include my conclusion as Independent Actuary and also highlight very clearly the availability of my full Report on request and its availability on the Inora website. The CBI will be advised of this approach.
- The language used in the communication shall be the same language used in the policy documentation provided to that policyholder by Inora.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- A notice will also be published in the Financial Times (International Edition) which is in wide circulation throughout Europe.
- Subject to the directions of the Court, there is no intention to issue a direct mailing to MLIDAC's existing policyholders. However, MLIDAC's existing policyholders may contact MLIDAC about the transfer having seen press advertising or notifications using their usual contact details. The contact centre will be provided with a separate questions and answers sheet specific to MLIDAC's existing policyholders and be trained to enable them to deal with the queries and complaints received regarding the proposals. Any queries outside of the questions and answers sheet and complaints received regarding the proposals will be referred to MLIDAC for drafting a response.

Overall, I am comfortable with this communication approach and am comfortable that the and existing MLIDAC policyholders will not be disadvantaged in any way by not being issued with a copy of either this Report or my Summary Report.

9.3 Conclusion on the impact of the Scheme on the fair treatment of policyholders

9.3.1 Conclusion on the impact of the Scheme on the fair treatment of the transferring Inora policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme will not have a material adverse effect on the fair treatment of transferring Inora policyholders.

9.3.2 Conclusion on the impact of the Scheme on the fair treatment of existing MLIDAC policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme will not have a material adverse effect on the fair treatment of existing MLIDAC policyholders.

Appendix 1 Information received

The table below sets out a summary of the information provided to me to facilitate preparation of this Report. I would note that, in addition to the list below:

- I had regular calls with management to discuss queries and issues arising, and
- That supporting emails and documents were also provided to supplement the key reports outlined below.

Inora Information	
Subject	Document
Constitution	11. Memorandum and Articles of Association revised Dec 2011
	15. Inora Life DAC Business Update 30.09.2019
SFCR	Inora Life SFCR 2019_Final
	SFCR solo_Inora Life 31 December 2018_Final_2
	Inora Life SFCR 2019_Final
	Solvency and Financial Condition (SFCR) Report 2017_2
Risk Management and Governance	Inora Life Risk Appetite Statement 30 06 2020_IA
	Risk Report Q1 2020_Final
	SII-9.0 Risk Management System Policy_2020_IA
Product Information	17. Surrenders & Claims Analysis May 2020
	5. December post-2019 Cashflows_29.01.20
	20,21 CG Inora Invest Median FR after tax change_EN - General Conditions
	22 CG Kobelcosafe Serie A Mars 2006 FR_EN - General Conditions
	23 Spaar Select - Lexicon + General conditions Belgium_EN
	24 CG-Equalys-Lexique-FR-HD_EN - General Conditions
	Sample Conditions Particulières Belgique
	2 CG ODDO_Quattro_Tonic - EN_REF_for_MAXILLIA.CG
	3 CG ARCA_ESQUISSE_EN
	4 CG imaging+ Premium Multigestion+_EN
	5 CG Coffalys Coff Inovation_EN
	6 Top Innovation CG & IN_EN_Recd_Apr2020
	7 CG Orelis_EN_AL_FINAL
	7 Conditions Générales Orelis Vie up to May 2005_EN
	7 Orelis Vie CG & IN from May 2005_EN
	8 CG VIACTIS_RD8_FR_EN_AL
	8 NI VIACTIS RD8_FR_EN_AL
	9 Aquarelle Vie - Information Notice-EN
	9 CG Aquarelle Vie_FR_EN
	10 CG Regence NI - Henry IV_EN - Information Notice
	10 NI Regence -HenryIV_EN - General Conditions
	11 CG_NABAB VIE_EN
	12 CG (General Conditions) Distriplus_EN & Information Notice
	13 O'TOP Stratégies_EN - Combined GC & Info Notice
	14 Cocktail Evolution - Notice d'information_EN
	14 Contrat Cocktail Evolution - Conditions Générales_EN
	15 CG (General Conditions) SportInvest Vie_EN
	17 061025-Inno-Annexe1_EN_UCITS_Datasheet
	17 061025-Inno-Annexe1-2_EN_UCITS_Datasheet

	17 061025-Inno-Annexe2_EN_Securities_Datasheet_Opalis_Booster
	17 061025-Inno-Annexe3_EN_Pricing_Addition_Death_Cover
	17 061025-Inno-Annexe4_EN_Tax_Provisions_20070101_Non_Contractual
	17 061025-Innorescence-A4-april_EN GC_NI
	18 CG_NABAB VIE+_EN Comb GC & Info Notice
	25 Verbraucherinformation DiamantPlus 6 1-2008 D_EN - General Conditions
	25a Verbraucherinfo_Diamant 4_EN
	25b Verbraucherinformation Diamant5-9-2007_EN
	25c Verbraucherinformation Diamant 6 1-2008 D_EN
	25d Verbraucherinformation Diamant 7 6-2008_EN
	25e Verbraucherinfo Diamant 8 November 2008_EN
	26 Besondere_Bedingungen_Basisrente_EN - special Conditions DF qs
	26 Besondere_Bedingungen_Basisrente_EN - special Conditions
	27 Verbraucherinformation (Consumer information) BestOF_D_EN
	28 Verbraucherinformation_IWI300_D_072005_EN
	German legal opinion - maturity funds
	29 Centra Unit Linked_Policy conditions & nota informativa_EN
	30 Farad Unit Linked 1. Policy conditions_EN
	30 Farad Unit Linked 2. Nota Informativa_EN
	31 Part 1 Private Insurance Unit Linked 072008 - GC & IN_EN
	31 Part II Private Insurance Unit Linked 072008 English_EN
	31 Part III Private Insurance Unit Linked 072008_EN
	31 PIUL-Condizioni di polizza_v04_stampa_EN - policy conditions
	32,33 Condizioni di polizza Certis Unit Linked_EN - fact sheet & policy conditions
ORSA	Inora_ORSA_19.12.19_Final
	ORSA_June2017_Final
	ORSA_June2018_27.09.18_Final
	OSN Memo 2020_22.06.2020_Final
HoAF Reports	AFH_Report_2017_final
	AFH_Report_2018_final
	AFH_Report_2019_Final_31.12.19
	assumption_note_YE_2019_clean_31_Jan_20
	Inora_AOTP_2019_06.04.20
	Inora_AOTP_2018_15.04.19
	Inora_AOTP_2017
	Inora_ARTP_2019_06.04.20
	Inora_ARTP_2018_15.04.19
	Inora_ARTP_2017_Final_Signed_19.04.18
RSR	RSR solo_Inora Life 2018_Summary_Final
	RSR solo_Inora Life 2017_Summary_Final
	Inora Life RSR 2019_Final
Financial Statements	Inora Life DAC 2019_Final_Signed
	Inora Life DAC_Final_Signed
	Inora Life DAC 2017_Final_Signed
Outsourcing Information	13. Custodian Services Agreement Inora Life 2002
	IFDS Percana Agency Services Agreement Schedules 1-2 PP1-46 12_06_2014
	IFDS Percana Agency Services Agreement Schedules 2 PP 47-118 12_06_2014

	IFDS Percana Agency Services Agreement Schedules 2 PP 47-118 12_06_2014
	IFDS Percana Agency Services Agreement Schedules 2 PP 47-118 12_06_2014
	IFDS Percana Agency Services Fees schedule 12_06_2014
Complaints	46. Complaints Register 2014-2020
Other	15. Inora Life DAC Business Update 30.09.2019
	17. Surrenders & Claims Analysis May 2020

MLIDAC Information	
Subject	Document
Outsourcing information	Monument SLA_201905.xlsx
	Monument Premiums Delegated Authority.docx
	RE_ Summary Document Inventory.msg
	BID Letter Matrix 2014 v1.0.xls
Products	Barclays_Income_Insurance_VW09049_20091029_Final.pdf
	BarclaysLoan_RP_PD_VW09044 policy doc 200900128_v11 FINAL.pdf
	Bcard_PC_VW04732_20060119_v5.pdf
	Mcare2_PC_VW07229_20110311_FINAL.pdf
	OD_PC_VW03475_20041105_v1.pdf
	SPARTA LETTER CLEAN VERSION Company Name Change Mailing Loans and Select Customers BB06012017 v9_AH_JP_EC.doc
Schedules	Schedule 01 - Services Description.docx
	Schedule 02 - Service Levels.docx
	Schedule 03 - Charges and Invoicing.docx
	Schedule 04 - Anti Bribery and Corruption (ABC).docx
	Schedule 05 - Governance.docx
	Schedule 06 - Contract Change Control Procedure.docx
	Schedule 07 - Bank Dedicated Space.docx
	Schedule 08 - Employment Matters.docx
	Schedule 09 - Approved Service Delivery Locations.docx
	Schedule 10 - Approved Subcontractors.docx
	Schedule 11 - Termination Assistance and Exit Plan.docx
	Schedule 12 - Minimum Control Regs.docx
Reinsurance:	IA_12_Monument Re - MLIDAC Reinsurance Agreement - Executed Version (Freyr).pdf
	Swiss Re Index.pdf
	Swiss Re Treaty - Section (A-F).pdf
	Scor Reinsurance Treaty Index.pdf
	Scor Reinsurance Treaty - Section (A-C).pdf
HoAF reports	Q119 MI Pack_Mgt Accounts_Ireland_V2.xlsx
	MLIDAC Life Reporting Basis YE 2017.pdf
	BID - Actuarial Function Report - year-ended 31 October 2016_final_sent020317_V2_clean.pdf
	IA_22_BID - Actuarial Function Report - year-ended 31 October 2016_final_sent020317_V2_clean.pdf
	IA_22_MLIDAC Life Actuarial Function Report 2017 (31Dec2016 valuation).pdf
	3.2 - MLIDAC Life Actuarial Function Report 2017 (31Dec2016 valuation).pdf
	IA_22_MLIDAC Life Actuarial Report on Technical Provisions 31 Dec 2017.docx
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Scheme / Joint Information	
Subject	Document
Background	Inora Transition - Draft Scheme Query Log
	Draft scheme of transfer - Inora portfolio transfer
Communications	Inora- Communications plan
	Project Inora - Table of all advertising requirements
	Redline - Inora scheme
Proforma Results	All deals MLIDAC ProForma 31Mar2020_Q120_pastevalues
Sales and Purchase Agreement	Project Diane - SPA - (execution version - v.27.03.2019 - signed by allpdf

Appendix 2 Scope from Engagement Letter

The role of Independent Actuary will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the transferring policyholders of Inora, the policyholders remaining in Inora following the transfer and the existing policyholders of MLIDAC , and to opine as to whether the interests of any of those groups of policyholders could be in any way (either directly or indirectly) materially adversely affected by the proposed transfer.

In order to form my opinion, we will expect the tasks that will be carried out will include the following:

- review of the internal actuarial and risk assessments of the proposed transfer;
- review of existing company documentation (in particular, documentation sent to policyholders to ground existing expectations);
- review of the Scheme documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;
- review the proposed transfer considering the effect on policyholders covering their contractual rights, benefit security, and benefit expectations;
- in particular review the approach to PRE and the proposals post transfer;
- review the application of discretion including claims settlement, dispute resolution, application of charges etc.;
- review the status and proposed resolution around policyholder complaint/ data issues;
- review any changes to reinsurance arrangements in connection with the transfer;
- review existing/ proposed fund arrangements/structures proposed;
- review pro forma comparative solvency levels on a Solvency II basis before and after the proposed transfers (other financial measures can be considered and agreed) at a point in time, business planning horizon and sensitivities;
- review of the effects of the transfer on the risks within the companies and the resources of those companies to meet those risks;
- liaise and raise issues and questions as necessary with the appropriate persons at Inora and MLIDAC ; and
- liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.

Appendix 3 Independent Actuary CV

- Brian Morrissey is a qualified actuary with over 25 years' experience.
- He currently heads up KPMG's actuarial practice in Ireland focusing on life and non-life insurance and reinsurance markets, both domestically and internationally.
- He has previously worked with KPMG in the UK and a regional role for KPMG out of Hong Kong (18 months 2001/02). During his time overseas, he gained significant exposure to the international insurance markets and the range of products sold in these markets.
- He has carried out some significant assignments in the Irish market including acting as Finance Director to an international life company for a period of 5 months, as Head of Actuarial to a life entity with local/ international operations as part of a transition to a new owner for a 4 month period.
- He has acted as Independent/Expert Actuary on a number of expert opinions required by life insurance and reinsurance companies including significant portfolio transfers in the Irish and Isle of Man markets. He has acted as actuarial peer reviewer on a range of technical matters.
- He holds a number of statutory roles including Appointed Actuary to a life insurance company; Actuarial Function Holder under Solvency II to six life insurance/ reinsurance companies regulated in Ireland and Independent Actuary to six Bermudan regulated life reinsurance companies.
- He is involved with KPMG International's initiatives in relation to IFRS 17 and Solvency II.
- He has previously sat on Council of Society of Actuaries in Ireland and is a member of various sub committees of the Society and is the Society's representative on the Insurance Accounting subcommittee of the International Actuarial Association.

Appendix 4 PRE

Overview of PRE regime in Ireland

- The interpretation of PRE was originally considered to be an issue for companies writing “with-profits” investment policies of the type traditionally offered in the UK and Ireland. These contracts give the life insurance company significant discretion in relation to their operation particularly as regards to the amounts distributed to policyholders by way of bonuses and the timing of such distributions. The concept has, however, been extended to encompass the operation of unit linked business and to a lesser extent non-profit non linked business.
- Although the phrase “PRE” came into use in the 1970’s it does not appear in the Irish insurance legislation. PRE in Ireland has evolved over time and has been affected by, and in some instances overtaken by, legal, regulatory, consumer and industry developments such as the Consumer Protection Code, the Unfair Contract Terms legislation and the Personal Retirement Savings Account (“PRSA”) regulations of the Pensions Board (which is distinct from the CBI). It was mentioned in guidance notes produced in 2000 by the Department of Enterprise, Trade and Employment (a predecessor of the CBI) in relation to the European Communities (Life Assurance) Framework Regulations 1994. Under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. While there are no prescribed regulations, the CBI does consider PRE as part of its individual company engagements.
- The SAI adopted the Institute of Actuaries guidance notes until 1995 and these referred in places to PRE. In 1995 the SAI issued professional standards that referred to PRE and were mandatory for Irish Appointed Actuaries under the Solvency I regime. These standards have been updated several times and in 2006 an additional standard was issued to provide more guidance specifically to PRE. In early 2020, the SAI cancelled this standard and is in the process of developing a new one, recognising the changed role of actuaries under Solvency II.
- As mentioned above under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. Ultimately the Board is responsible for running the company and meeting PRE.
- Where not overtaken by legal aspects, PRE in Ireland remains a largely judgemental area because the actuarial standards are principle based. In applying these principles Irish HoAFs would usually take good practice into account such as that applied in the UK (such as the ABI’s “A guide of good practice for unit linked funds”, actuarial papers and regulatory requirements).
- It is worth noting that the standard previously set out by the SAI, ASP LA-4, applied only to Irish HoAFs and therefore would not have applied to business sold into Ireland on a freedom of establishment basis.

Appendix 5 Solvency II

The European Solvency II Directive is a fundamental review of the capital adequacy and solvency supervision regime for the European insurance industry. As Solvency II is an EU initiative it applies in Ireland (and across Europe) in a harmonised way. Solvency II was implemented on 1 January 2016.

Under Solvency II, the statutory role of the Appointed Actuary (“AA”) was abolished, with the Directive establishing the role of the Actuarial Function. The Central Bank of Ireland, under the Domestic Actuarial Regime, then enhanced the requirements under Solvency II by establishing the role of Head of Actuarial Function. The role and responsibilities of the Head of Actuarial Function (“HoAF”) under Solvency II are slightly different and somewhat narrower than those of the AA under Solvency I. For the purposes of this report, the HoAF of Inora and the HoAF of MLIDAC have prepared the Solvency II figures. The change in actuarial governance does not impact on my assessment of the Scheme.

The Solvency II framework is made up of three Pillars.

Pillar 1 focuses on the quantitative aspects of the regime and sets out the the financial resources that a company needs to hold in order to be considered solvent. In particular, it contains guidance on the valuation of assets and liabilities and sets out how the capital requirements of the regime are determined.

The liabilities determined under Solvency II are referred to as Technical Provisions and in general consist of two components, a best estimate liability and a risk margin. The best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates. The risk margin is an additional layer on top of the best estimate, determined using a cost of capital approach, and is intended to reflect the margin that would be required by a third party to take over the obligations of the insurer.

Eligible capital under Solvency II is referred to as Own Funds and is broadly split into two types, Basic Own Funds and Ancillary Own Funds. Basic Own Funds comprise of the surplus of assets over liabilities and any subordinated liabilities, whilst Ancillary Own Funds comprise of other loss-absorbing items, including unpaid share capital and letters of credit. Own funds are also separated into three tiers based on overall quality, with tier 1 being the highest quality and tier three the lowest. There are no limits applied to the tier 1 own funds, but the regime does specify quantitative limits with regard to how much of the capital used to cover the regulatory requirements can comprise of tier 2 and tier 3 own funds.

The capital requirements under Solvency II comprise of the Minimum Capital Requirement, or MCR, and the Solvency Capital Requirement, or SCR.

The SCR represents the capital required to meet quantifiable risks on the existing portfolio and is assessed by applying a series of instantaneous shocks to the balance sheet. The SCR is calibrated to a 99.5% value-at-risk and can be assessed using a standard formula published by the regulatory authorities, or through an internal model approach (with regulatory approval required to use this approach). The risks considered in the standard formula approach include market risks (such as interest rates, interest rate spreads, asset valuations and currency risks), life underwriting risks (such as lapse, expense, mortality and longevity risks), non-life underwriting risks (such as catastrophe risk and premium risk), credit risk and operational risk. Regulatory engagement is required if the level of available capital falls below the SCR.

The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk, the technical provisions, written premiums and administrative expenses. For life insurance companies, the MCR has an absolute floor of €3.2m.

Pillar 2 focuses qualitatively on the governance and risk management systems in place and the supervision of these systems and controls. In particular, this includes a review of the SCR and the firm’s Own Risk and Solvency Assessment (“ORSA”). The ORSA is an assessment of the firm’s capital needs



taking into account the specific risk profile and strategy of the firm. It analyses areas in which the SCR does not fully reflect this risk profile.

Pillar 3 involves disclosure of a firm's financial condition in order to improve transparency to outsiders and considers how information is disclosed to both regulators and the general public.

Appendix 6 Glossary

Glossary	
Term	Definition
AA	Appointed Actuary
ABI	Association of British Insurers
ALM	Asset Liability Management
APE	Annual Premium Equivalent
AS	Accident and Sickness
ASP	Actuarial Standard of Practice
BEL	Best Estimate Liability
BMA	Bermuda Monetary Authority
BPV	Banca Popolare di Vicenza
Brexit	Term used to refer to the departure of the United Kingdom from the European Union
CAA	Commissariat aux Assurances
Capita	Capita Life and Pensions Services (Ireland) Ltd
CBI	Central Bank of Ireland
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CI	Critical Illness
Class 1 Non-life Insurance	Accident
Class 16 Non-life Insurance	Miscellaneous Financial Loss
Class 2 Non-life Insurance	Sickness
Class 7 Non-life Insurance	Goods in transit
Class 8 Non-life Insurance	Fire and Natural Forces
Class 9 Non-life Insurance	Other Damage to Property
Class I Life Insurance	Life Assurance and contracts to pay annuities on human life
Class II Life Insurance	Contracts of insurance to provide a sum on marriage or on the birth of a child expressed to be in effect for a period of more than one year
Class III Life Insurance	Contracts linked to investment funds
Class IV Life Insurance	Permanent health insurance contracts
Class VI Life Insurance	Capital redemption operations
Consolidator	(Insurance context) Insurance entity which acquires insurance portfolios from other entities and aggregates them on a consolidated balance sheet.
CRO	Chief Risk Officer
DAC	Designated Activity Company
DAM	Discretionary Asset Manager
DTA	Deferred tax asset
ECM	Economic Capital Model
ECR	Enhanced Capital Requirement
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
ETF	Exchanged Traded Fund
EU	European Union
FOS	Financial Ombudsman Service
FSCR	Financial Services Contract Regime

FSCS	Financial Services Compensation Scheme
FSPO	Financial Services and Pensions Ombudsman
FTE	Full Time Equivalents
GAAP	Generally Accepted Accounting Principles
HoAF	Head of Actuarial Function
IFRS	International Financial Reporting Standards
IPSI	Irish Progressive Services International
IU	Involuntary Unemployment
IVASS	Istituto per la vigilanza sulle assicurazioni / The Institute for the Supervision of Insurance
KPMG	KPMG Ireland
LAS	Long Term Accident and Sickness
LCI	Long Term Critical Illness
MAB	Monument Assurance Belgium N.V.
MADAC	Monument Assurance Designated Activity Company
MAL	Monument Assurance Luxembourg S.A.
MCEV	Market Consistent Embedded Value
MCR	Minimal Capital Requirement
MIDAC	Monument Insurance Designated Activity Company
MLIDAC	Monument Life Insurance DAC
MISL	Monument Insurance Services Limited
MSA	Management Services Agreement or Master Services Agreement
NYSE	New York Stock Exchange
Inora	Inora Life DAC
ORSA	Own Risk and Solvency Assessment
PCF	Pre-Approval Controlled Function
PPI	Payment Protection Insurance
PRE	Policyholders' Reasonable Expectations
RSR	Regular Supervisory Report
QISL	Quality Insurance Services Luxembourg S.à r.l
S.I.	Statutory Instrument
SAI	Society of Actuaries in Ireland
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
Solvency II	Risk based EU wide insurance directive which codifies and harmonises the EU insurance regulation. Discussed further in Appendix 5.
SPA	Sales and Purchase Agreement
TCF	Treating Customers Fairly
TPR	Temporary Permissions Regime
TPs	Technical Provisions
TRA	Thematic Risk Assessment
UCITS	Units of Collective Investment Schemes
ULC	Union Luxembourgeoise des Consommateurs/ Luxembourg Union of Consumers
UK	the United Kingdom
USD	United States Dollar
YE	Year Ending
YOY	year-on-year

ZLAP	Zurich Life Assurance Plc
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