



Summary Report of the Independent Actuary

on the Proposed Scheme to transfer the life insurance business of
Nordben Life and Pension Insurance Co. Limited ("Nordben")
to
Monument International Life Assurance Company Limited ("MILAC")

Prepared by:
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1 INTRODUCTION

- 1.1 I have prepared an Independent Actuary's Report ("**Full Report**") in order that the Bailiwick of Guernsey Royal Court ("**Guernsey Royal Court**"), the High Court of Justice of the Isle of Man, the Guernsey Financial Services Commission ("**GFSC**"), the Isle of Man Financial Services Authority ("**IOMFSA**"), and the policyholders and other affected parties may properly assess the impact of a proposed transfer of life insurance business (the "**Proposed Scheme**").
- 1.2 Monument Re Limited ("**Monument Re**") is a Bermuda based reinsurance group with insurance subsidiaries in various European countries and the UK Crown Dependencies. Monument Re is the ultimate parent of both Nordben Life and Pension Insurance Co. Limited ("**Nordben**") and Monument International Life Assurance Company Limited ("**MILAC**"), (collectively "**the Companies**").
- 1.3 Nordben is authorised and regulated as an insurance company in Guernsey. It was acquired by Monument Re in June 2019. MILAC is authorised and regulated as an insurance company in the Isle of Man. It was acquired by Monument Re in February 2021.
- 1.4 Monument Re now has two separate subsidiary entities in the Crown Dependencies (i.e. MILAC and Nordben) and it wishes to simplify and consolidate these businesses into a single entity. The Proposed Scheme involves the transfer of all of the life insurance policies of Nordben ("**the Transferring Policies**") from Nordben to MILAC.
- 1.5 In order to complete the transfer, a Scheme of Transfer must be presented to both the Guernsey Royal Court and the High Court of Justice of the Isle of Man (together, "**the Courts**"). The Transferring Policies in question will be transferred from Nordben to MILAC via the Proposed Scheme of Transfer only if approved by the Courts.
- 1.6 It is anticipated that the Proposed Scheme will be presented to the Guernsey Royal Court in 2022 with a proposed effective date on or around 29 December 2022 (the "**Effective Date**") and that the Proposed Scheme will be presented to the High Court of Justice of the Isle of Man in 2022, in parallel with the submission dates to the Guernsey Royal Court and with the same proposed Effective Date.
- 1.7 This Summary Report describes the Proposed Scheme and considers the likely effects on the Companies' policyholders including, but not limited to, the security of their benefits and their reasonable expectations. This Summary Report is a summary of the Full Report. The Full Report is available for download from the Monument website (www.monumentregroup.com/transfers), and is also available on request from Nordben or MILAC, or their legal representatives.

The role of the Independent Actuary in the transfer process

- 1.8 The Companies have engaged me to act as the Independent Actuary who is required to report to the Courts on the terms of the Proposed Scheme.
- 1.9 My appointment as the Independent Actuary has been notified to GFSC and IOMFSA who have not objected to my appointment. The Full Report and this Summary Report was shared with GFSC and IOMFSA as the regulators of the Companies.
- 1.10 Unless the Courts otherwise direct, certain materials must be transmitted to each policyholder and each Member of both Nordben and MILAC. These materials include a statement summarising the Proposed Scheme together with an abstract summarising the Full Report (together the "**Circular**"). This Summary Report is the required abstract summarising the Full Report for inclusion in the Circular.
- 1.11 I will also prepare a Supplementary Report prior to the final Court hearings to provide an update for the Courts on my conclusions in respect of the effect of the Proposed Scheme on the different groups of policyholders in light of any significant events (if any) subsequent to the date of the finalisation of the Full Report and this Summary Report.

The Independent Actuary

- 1.12 I, Mike Claffey, am a Principal of Milliman and am a consulting actuary based in the firm's Irish insurance practice at 7 Grand Canal, Grand Canal Street Lower, Dublin 2. I am a Fellow of the Society of Actuaries in Ireland and I have more than 30 years' experience in the insurance industry, including acting as the Independent Actuary in relation to a number of previous transfers of life assurance business in Ireland. I am also acting as the Independent Actuary on another scheme of transfer involving MILAC as it is planned to occur separately over 2022, but in close alignment with the Proposed Scheme. My biographical details are included in the Full Report.
- 1.13 The Full Report and this Summary Report have been prepared under the terms of the guidance set out in version 2.3 (effective 1 September 2021) of ASP LA-6 ("Transfer of long-term business of an authorised insurance company – role of the independent actuary") and ASP PA-2 ("General Actuarial Practice") version 1.2 (effective 1 March 2022) issued by the Society of Actuaries in Ireland.

Parties for whom my report has been prepared

- 1.14 The Full Report has been prepared for use by the Courts in approving the Proposed Scheme but will also be of interest to the following interested parties (listed below). This Summary Report is for inclusion in the Circular being sent to all relevant policyholders, and it will also be of interest to the following interested parties:
- Policyholders of Nordben and MILAC
 - Members of Nordben and MILAC (noting the “**Members**” of these two companies are the shareholders. Both companies have the same ultimate shareholder – i.e. Monument Re)
 - The Directors and senior management of Nordben and MILAC and their parent company
 - The IOMFSA or any other governmental department or agency having responsibility for the regulation of insurance companies in the Isle of Man
 - The GFSC or any other governmental department or agency having responsibility for the regulation of insurance companies in Guernsey
 - The professional advisers of any of the above with respect to the Proposed Scheme.

Reliances and limitations

- 1.15 In preparing the Full Report, I have had access to certain documentary evidence provided by Nordben and MILAC, the principal elements of which I list in Appendix A to the Full Report. In addition, I have had access to, and discussions with, the senior management and Appointed Actuaries of both Nordben and MILAC. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without independent verification. There are no documents or other information that I have requested and that have not been provided.
- 1.16 I have relied on the work of the external auditors of Nordben and MILAC in gaining confidence in the financial information as at 31 December 2021 as summarised in the Full Report.
- 1.17 I have relied on the Companies’ Appointed Actuary (one person currently discharges the role for both companies) in relation to the calculation of the technical provisions as at 31 December 2021 (as submitted to the IOMFSA and GFSC). I have provided the Appointed Actuary of the Companies with a copy of the Full Report to ensure the actuarial information I have presented in the Full Report relating to Nordben and MILAC is consistent with the valuation reports. No issues were raised by the Appointed Actuary.
- 1.18 Neither I, nor any member of my team, is a qualified legal or tax expert. I have relied on the opinions and assurances of the Companies’ internal and external legal and tax experts in these matters and I have not sought independent expert legal or tax advice.
- 1.19 This Summary Report is based on the information available to me at, or prior to, 7 September 2022, and takes no account of developments after that date.
- 1.20 The Full Report has been prepared within the context of the assessment of the terms of the Proposed Scheme. No liability will be accepted by Milliman, or me, for any application of Full Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the Full Report (or any summary thereof). Judgments as to the conclusions contained in the Full Report should be made only after studying the report in its entirety. Furthermore, conclusions reached by the review of a section or sections on an isolated basis may be incorrect. This report should be read in conjunction with the Full Report and other documents that pertain to the Proposed Scheme.
- 1.21 This report contains various technical terms which I use in assessing the Proposed Scheme. Those terms are not always highlighted in my report (for ease of readability) but are listed in the glossary in Appendix C of the Full Report.

2 THE PROPOSED SCHEME

Business to be transferred

- 2.1 The scope of the transfer is every policy written by Nordben under which any liability remains unsatisfied or outstanding at on the Effective Date. This covers a range of different products issued by Nordben since its inception. The Transferring Policies include all the in-force policies of Nordben on the Effective Date of the Proposed Scheme.
- 2.2 The Transferring Policies will be transferred to MILAC via the mechanism of the Proposed Scheme, subject to the approval of the Courts in Guernsey and the Isle of Man. If one or both Courts do not approve the Scheme, the Scheme will not progress and no change will occur.
- 2.3 If the Proposed Scheme is approved, Nordben will return its insurance licence to the GFSC. Nordben's name will change from "Nordben Life and Pension Insurance Co. Limited" to "Nordben Limited" and it will continue to provide insurance administration support to MILAC on an interim basis. I have been informed that this insurance administration support is expected to be for an interim period of 6-9 months during which MILAC will finalise the development of its administration capacity to onboard and manage the Nordben business. Once this is completed, it is planned that Nordben Limited will close down and will be liquidated.

Maintenance and operation of with-profits business

- 2.4 Nordben maintains a with-profits long term business fund for its with-profits business. The with-profits business resides in a number of internal sub-funds, which are split by currency (reflecting the denomination of the liabilities) and product type. Some funds contain a mixture of product types.
- 2.5 The with-profits fund closed to new business at the end of 2015. At that time the with-profits fund had generated and accumulated a surplus that had not yet been distributed to policyholders. A surplus remains within the with-profits fund and is managed and distributed to policyholders in line with the stated bonus philosophy and approach on the management of the with-profits business.
- 2.6 On the Effective Date, Nordben's with-profits business and the associated internal sub-funds will transfer to MILAC. The products and policyholder bonus philosophy and approach to the management of the with-profits business will be unchanged by the Proposed Scheme.

Maintenance and operation of internal unit-linked funds

- 2.7 Nordben maintains a number of notional internal funds for its unit-linked business ("**internal linked funds**"). This structure is a standard approach in the insurance industry for the administration of linked business where the policyholder takes all investment risk on the underlying assets. Policyholder benefits are linked to these internal linked funds, which are typically valued daily.
- 2.8 After the Effective Date, Nordben's internal linked funds within the scope of the Proposed Scheme will be replaced by equivalent funds in MILAC. This will be achieved by transferring ownership of the Nordben assets underlying each internal linked fund from Nordben to MILAC, and by putting in place the necessary equivalent fund management agreements with external fund managers and fund administrators and custodians.
- 2.9 The rules of operation (including the valuation of fund units used in calculating policyholder benefits) of the internal linked funds following the Effective Date will comply with the following principles:
 - MILAC may exercise any discretion formerly available to Nordben under the terms and conditions of any policy, but will do so in accordance with any applicable regulatory principles and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in MILAC.
 - MILAC may modify the terms and conditions of any policy or internal linked fund to the same extent as Nordben formerly could, but will do so in accordance with any applicable regulatory principles and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in MILAC.

subject in every case to the provisions of the applicable policy conditions and the rules of any relevant internal linked fund and, where relevant, to the opinion of MILAC's Appointed Actuary and the MILAC Board.

- 2.10 The product and policyholder fund charges on the internal linked funds will be unchanged by the Proposed Scheme and all the existing internal funds in Nordben will be replicated in MILAC.
- 2.11 However the application of Value Added Tax ("**VAT**") differs between Guernsey and the Isle of Man. There is no VAT for services provided to Nordben (and other insurers) in Guernsey, but there is VAT applied to services provided to MILAC (and other insurers) in the Isle of Man. Therefore some investment advisory services relating to the three

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actively managed funds linked to the International Investment Plan will attract VAT in the Isle of Man. MILAC will ensure the charges passed to the policyholders will be unchanged under the Proposed Scheme.

Payment of premiums

- 2.12 Any ongoing or regular premiums payable in respect of Transferring Policies to Nordben will become payable to MILAC from the Effective Date.
- 2.13 Nordben's regular premiums are typically invoiced and settled by bank transfers and the relevant bank accounts are being transferred from Nordben to MILAC with bank account details remaining unchanged. Therefore no action will be required by policyholders.

Exercise of options and operational arrangements

- 2.14 Any policy options that currently exist under Nordben policies will continue to exist.
- 2.15 The Transferring Policies are currently administered by Nordben. Nordben and MILAC have agreed a Transitional Services Agreement whereby Nordben will continue to provide administration services to MILAC after the transfer on an interim basis until MILAC has implemented the necessary processes and procedures via another Monument Group subsidiary called Monument Insurance Services (IOM) Limited, ("MIS"). This is expected to occur within 6-9 months of the Effective Date.
- 2.16 The Proposed Scheme includes the arrangements necessary for the transfer of insurance administration from Nordben systems to MIS. The full migration and transfer of services will not conclude until after the Effective Date of the Proposed Scheme. This will include a migration of existing client information and data from the Nordben administration platform to the MIS administration platform. The functionality detail of the MIS systems differs slightly from those of Nordben, which may result in some minor changes in the way the Transferring Policies will be administered by MILAC.

Policyholder assets held in Trust

- 2.17 In accordance with the standard condition imposed by the GFSC on all insurance licences in Guernsey, assets representing at least 90% of policyholder liabilities in respect of an insurer's business must be held in trust. No such equivalent insurance law exists for insurance companies established and regulated in the Isle of Man.
- 2.18 Nordben complies with the GFSC trust requirement via the existing trust arrangement between Nordben and Zedra Trust Company (Guernsey) Limited ("**Zedra**"). This is described in the Full Report.
- 2.19 The rights and obligations of Nordben under the Trust Agreements will be transferred to MILAC in anticipation of the Proposed Scheme. In addition, MILAC will undertake to procure that assets of MILAC representing at least: (a) 90% of liabilities in respect of non-linked Transferring Policies which are reinsured by Monument Re; and (b) 100% of liabilities in respect of Linked Long-Term Transferring Policies, will be held in trust by an external trustee or trustees at all times.

Costs of the Proposed Scheme

- 2.20 Each of the Companies will bear its own direct costs incurred in connection with the preparation and carrying into effect of the Proposed Scheme, other than certain agreed shared costs relating to the implementation of the Proposed Scheme which shall be paid by MILAC.
- 2.21 No costs or expenses relating to the Proposed Scheme will be borne by policyholders of either of the Companies or by the with-profits fund of Nordben.

3 ASSESSMENT OF THE PROPOSED SCHEME

Context of assessment by the Independent Actuary

- 3.1 My assessment is conducted within the context of the Proposed Scheme, and only the Proposed Scheme, and considers its likely effects on the policyholders of Nordben and MILAC. My assessment will also be of interest to other parties, including the introducers, insurance intermediaries, agencies, and financial advisors connected to the Transferring Policyholders. However, my primary assessment is on the impacts on the various categories of policyholders alone.
- 3.2 My assessment includes consideration of the position immediately before and immediately after the Proposed Scheme, and in particular where both MILAC and Nordben are subsidiaries of Monument Re.
- 3.3 It is not within my remit to consider possible alternative schemes or to form a view as to whether this is the best possible scheme.
- 3.4 My assessment of the impact arising from the implementation of the Proposed Scheme on the various affected policyholders is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 3.5 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that either of the Courts should reject a Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.
- 3.6 In order to acknowledge this inherent uncertainty, and to be consistent with normal practice in these matters, the conclusions of the Independent Actuary in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.
- 3.7 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

Principles of assessment

- 3.8 The conditions to be met by the Proposed Scheme are:
- that the security of policyholders' benefits will not be materially adversely affected; and
 - that the Proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations.
- 3.9 In the following sections I have summarised my assessment of the Proposed Scheme in the context of security of policyholders' benefits, and the fair treatment of policyholders' including their reasonable benefit expectations. I have discussed these issues in more detail in the Full Report.
- 3.10 It is necessary to consider the position separately for relevant groups of policyholders. In the Full Report I set out my analysis of the implications of the Proposed Scheme for:
- Policyholders of Nordben, all of whom will transfer to MILAC; and
 - Existing (at the Effective Date) policyholders of MILAC.

Consequences if the Proposed Scheme is not approved

- 3.11 The Courts of both Guernsey and the Isle of Man have to approve the Proposed Scheme for it to occur. If for any reason the Proposed Scheme is not approved, then no transfer of business can occur and both MILAC and Nordben will continue to operate as they operate now. The Transferring Policies will not transfer and will remain in Nordben.
- 3.12 If the Proposed Scheme is not approved (and in any case) the shared costs incurred by the Companies on the transfer of business project will be paid by MILAC and not the policyholders.

Assumptions made when assessing the Proposed Scheme

- 3.13 When considering the implications of the Proposed Scheme, I need to make certain assumptions about how the Companies will run their respective businesses. The main assumptions are listed below. I have discussed all my assumptions in more detail in the Full Report.
- 3.14 The main assumptions I have made relating directly to the Proposed Scheme include:
- MILAC will reinsure 90% of the residual cashflows on the transferring business with Monument Re.
 - MILAC will use the services of MIS to administer the transferring business. MIS will successfully on-board the business from Nordben (noting this will include an interim period of 6-9 months beyond the Effective Date to allow for this change).
 - Under the Proposed Scheme no employees will transfer from Nordben to MILAC.
- 3.15 The main assumptions I have made following the Proposed Scheme include:
- The transferring policyholders will not be covered by the Isle of Man Policyholders Compensation Scheme.
 - The assets underlying the liabilities in respect of Linked Long-Term Transferring Policies will be held in a trust with an external trustee or trustees as described in the Full Report.
 - MILAC will continue in its current ownership within the Monument Group.
- 3.16 My assumptions are based on my understanding of the issues in question and have been shared with the Companies' respective senior management teams and Appointed Actuaries for confirmation. I believe, therefore, that it is reasonable to make the assumptions I have made when assessing the implications of the Proposed Scheme. However, if any of these assumptions were to be invalid, then my assessment of and conclusions on the Proposed Scheme may need to be revised.

Assessment - security of policyholders' benefits

- 3.17 In assessing the implications of the Proposed Scheme on the security of benefits for the various groups of policyholders, I have considered a number of factors including the risk profiles of the two Companies and the outlook for their respective future solvency development (including consideration of their strategic plans).
- 3.18 The security of policyholders' benefits is provided by the amount by which an insurer's assets exceed its liabilities. In addition, the regulatory regime for both Guernsey and Isle of Man insurers requires that this excess of assets over liabilities (so called Eligible Own Funds) must in turn exceed a prescribed level (called the Solvency Capital Requirement ("SCR") - which is calculated taking account of the risks to which the insurer is exposed), thus providing a minimum level of security.
- 3.19 The principal issue with regard to security of benefits for Transferring Policies therefore is whether or not MILAC will have adequate financial resources following the completion of the Proposed Scheme and whether this is likely to remain the case over time. This assessment must also have regard to the corresponding situation which would pertain should the Proposed Scheme not be proceeded with and the Transferring Policies remain in Nordben.
- 3.20 The Proposed Transfer involves moving from an insurer authorised and regulated in Guernsey to one authorised and regulated in the Isle of Man. This results in some changes relating to the Guernsey requirement to hold policyholder assets in trust and the scope of the Isle of Man Policyholder Compensation Scheme. I consider these issues in the Full Report, and I have summarised the issues in the paragraphs below.

SOLVENCY ASSESSMENT

- 3.21 I note that, as at 31 December 2021, both Companies had available capital resources in excess of both the regulatory prescribed level (100% of SCR) and their respective target levels as per their capital management policies.
- 3.22 In addition, projections carried out by both Companies indicate that the two companies in their current form assuming the Proposed Scheme is not approved are expected to maintain adequate solvency levels (in excess of the target levels specified in their capital management policies) over the projection period.
- 3.23 If the Proposed Scheme is approved, Nordben will have no policyholders. It will then return its insurance licence to the GFSC and cease to be an insurance company.
- 3.24 The impact of the Proposed Scheme on the solvency position for MILAC (i.e. as measured by the solvency coverage ratio) is not that material as it manages solvency risk via the use of intra-group reinsurance with Monument Re.

- 3.25 Overall I believe the security of benefits for policyholders of Nordben (all of whom will transfer to MILAC) and existing MILAC policyholders are not adversely materially impacted by the Proposed Scheme.

RISK PROFILES AND RISK MANAGEMENT ASSESSMENT

- 3.26 In my view, any consideration of the respective future solvency positions needs to include an assessment of the extent to which the projected future development of the Companies' solvency positions could vary as a result of differences in the Companies' risk profiles and approach to risk management. Comparison of the Companies' respective risk profiles is also an important consideration when examining the impact on the Transferring Policyholders of moving from a company with one particular risk profile to a company with a different risk profile.
- 3.27 In the Full Report I summarised the key risks for both Nordben and MILAC. In summary, the two Companies are exposed to broadly similar types of insurance risk. However, in terms of strategy, MILAC has acquired additional run-off portfolios of life insurance portfolios in the past, and to date Nordben was managed to run-off its inforce business and it did not acquire any new life insurance portfolios. This means Nordben is more exposed to expense risk as the cost inefficiencies of running a declining book on a relatively fixed cost base are increasing over time.
- 3.28 In terms of risk management, both Companies adopt similar approaches in terms of risk management policies, frameworks, oversight and governance (as is to be expected as they are both subject to broadly similar regulatory and supervisory regimes in this regard) and both are within the Monument Group.
- 3.29 In terms of risk mitigants, both Companies make substantial use of reinsurance, including external reinsurance. Also, there is (and will be) a material use of intra-group reinsurance to Monument Re by both Companies. However MILAC (and Nordben) both manage the counterparty exposure to Monument Re with the use of funds withheld whereby Monument Re deposits back assets underlying the reinsurance commitments with MILAC (and Nordben) as cedants. These assets form part of a collateral mechanism that further acts as a risk mitigant as the collateral agreement within the intra-group reinsurance allows for the funds withheld assets to revert to the cedants on a set of defined solvency (or insolvency) triggers.
- 3.30 Having reviewed the relevant documentation provided to me, and based on my experience of insurance risk management, I am satisfied that both Companies' risk management frameworks, while different, are fit for purpose in assessing the impacts of the Proposed Scheme.

CAPITAL MANAGEMENT PLANS ASSESSMENT

- 3.31 Having examined the two Companies' respective capital management policies (particularly with the Transferring Policyholders in mind), while they differ, I am satisfied that MILAC's policy is not materially weaker than Nordben's in terms of the protection that it affords to policyholders.

BUSINESS MODEL SUSTAINABILITY ASSESSMENT

- 3.32 In assessing the security of policyholders' benefits, I believe it is also necessary to give some consideration to the sustainability of the Companies' business models.
- 3.33 Nordben's business model is the management of its international life insurance in selected territories. The closure of Nordben to new business in 2015 followed a strategic review at the time. To date Nordben has not expanded to manage any new portfolios of international life insurance, and therefore the cost inefficiencies of running a declining book on a relatively fixed cost base are increasing over time. However the transfer of the Nordben business to MILAC is in line with a more efficient (and cost effective) run-off of the business given it is closed to new business.
- 3.34 MILAC's business model in the past has been to acquire and integrate portfolios of Isle of Man insurance business and to manage them in run off. The similarity of insurance regulation in Guernsey also makes transfers of insurance business from these locations to the Isle of Man feasible. In addition, Monument Group's business model is to support its subsidiaries in acquiring portfolios of international insurance business and create capital efficiencies within the Group using intra-group reinsurance to the parent Monument Re in Bermuda.
- 3.35 The Companies have similar operating models, but the proposed transfer is in line with Monument Group's strategy of seeking critical mass in its subsidiary run-off entities. The operation in the Isle of Man was selected by Monument Group as its preferred location for Crown Dependencies business. On that basis I do not see the proposed transfer resulting in any material implications for policyholders in that regard.

PARENTAL SUPPORT ASSESSMENT

- 3.36 Both Nordben and MILAC are capitalised and managed to be self-sufficient on a standalone basis, without needing recourse to their parent (except potentially to fund any material future acquisitions or other similar transactions). Nevertheless, both companies benefit from the support of their parent, both in terms of reinsurance and in terms of

potential access to capital if required (noting that such capital support may or may not be forthcoming depending on the circumstances), which makes parental support an additional factor to consider when evaluating the impact of the Proposed Scheme. Note a parent is not legally obliged to provide new capital to a subsidiary.

- 3.37 Both Nordben and MILAC are subsidiaries of Monument Re. Therefore, the proposed transfer does not change the material nature or character of parental support provided to policyholders of either Company.

Assessment - Regulatory Regimes, Policyholder Complaints Process, and Policyholder Protection Schemes

- 3.38 Nordben is a life assurance company incorporated, authorised and regulated in Guernsey. MILAC is a life assurance company incorporated, authorised and regulated in the Isle of Man.
- 3.39 The regulation and supervision of conduct of business risk depends on the territory where the insurer has written the business. For the business being transferred and for the existing business of MILAC this will not change.
- 3.40 The Guernsey and Isle of Man solvency regimes (as set by regulation) are broadly similar in terms of asset and liability valuation rules, and the calculation of solvency capital requirements. Both regimes are therefore somewhat similar in terms of balance sheet presentation. However there are some differences in the overall regulatory regimes in Guernsey and the Isle of Man – as outlined in the following paragraphs.
- 3.41 Nordben as a Guernsey authorised and regulated insurer must have a trust arrangement with an external trustee in place. An aspect of the Proposed Scheme is that pursuant to the Guernsey Royal Court order, MILAC will be required to enter into and maintain a trust arrangement with an external trustee (which will be Zedra, the current external trustee used by Nordben) even though it is not a regulatory requirement for insurance companies based in the Isle of Man. The MILAC trust arrangement will replicate the existing arrangement relating to policyholder assets between Nordben and Zedra – as described in the Full Report.
- 3.42 Guernsey as a financial jurisdiction does not have an Insurance Guarantee Scheme or a Policyholder Protection Scheme. The failure of an insurance company in Guernsey is not subject to any Guernsey compensation or indemnity system.
- 3.43 The Isle of Man Policyholders Compensation Scheme (“PCS”) is governed by the Life Assurance (Compensation of Policyholders) Regulations 1991. The objective of the PCS is to provide a compensation scheme for policyholders should an Isle of Man authorised insurer be unable to satisfy its long term-insurance liabilities.
- 3.44 Policyholders in respect of the Nordben policies will not be covered by the Isle of Man PCS as these policies were not effected by a “participant insurer” as defined in the PCS regulations. As a consequence of this, MILAC will not be required to pay any levies relating to the Nordben policies to the Isle of Man PCS.
- 3.45 Current MILAC policyholders (where applicable) will continue to be covered by the Isle of Man PCS. However MILAC already has some previous business transferred from Guernsey to the Isle of Man that is not covered by the Isle of Man PCS – this situation will remain unchanged.
- 3.46 Policyholders of Nordben, as a Guernsey authorised and regulated insurer, have the right to complain to the Guernsey regulator. If the Proposed Scheme is approved, the transferred policyholders will have the rights and access to complaints procedures for Isle of Man authorised and regulated insurers, including access to the Isle of Man Financial Services Ombudsman¹ Scheme. Policyholders have the same rights to complain under both insurers and there are no differences in rights of complainants between the two regulatory regimes.

Assessment - fair treatment and policyholder benefit expectations

- 3.47 I must also consider whether the Proposed Scheme treats policyholders fairly and consider the effect of the Proposed Scheme on policyholders’ reasonable benefit expectations.
- 3.48 In the case of the Proposed Scheme, this involves consideration of:
- Contractual obligations to policyholders
 - Any changes that would be caused to the tax treatment of policyholder premiums and/or benefits
 - The management of discretionary benefits on the with-profits business in Nordben

¹ The Ombudsman Scheme is a free, independent dispute resolution service for customers with a complaint against an Isle of Man financial firm such as a bank, insurance company or financial adviser which the firm has been unable to resolve. The role and powers of the Ombudsman Scheme are established in Schedule 4 of the Financial Services Act 2008.

- Any other areas where the Companies are required to exercise discretion in relation to the fulfilment of their contracts with their policyholders. Such areas of discretionary powers may include: in respect of internal linked funds, the investment criteria, unit-pricing rules and the level of charges applicable to those funds; the ability to vary the level of non-guaranteed charges; and the ability to vary premiums on policies with reviewable premiums, amongst others
- The levels of customer service to policyholders.

3.49 The arrangement with regard to the costs of the Proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

3.50 In the Full Report, I set out my views on the impact of the Proposed Scheme on the fair treatment and reasonable benefit expectations of the identified categories of policyholders.

GENERAL COMMENTS FOR ALL GROUPS OF POLICYHOLDERS

3.51 No costs or expenses relating to the Proposed Scheme will be borne by policyholders of either of the Companies. I confirm that I am satisfied that the proposals are fair to all the categories of policyholders in both Nordben and MILAC.

3.52 The current product charges, fund charges, and annual management fees for policies and funds of both MILAC and Nordben policyholders are unaffected by the Proposed Scheme. The existing terms and conditions for all policyholders will be unchanged by the Proposed Scheme.

3.53 As discussed in the Full Report, the application of Value Added Tax (“VAT”) differs between Guernsey and the Isle of Man. MILAC will ensure the fees passed to the policyholders of the Transferring Policies will be unchanged under the Proposed Scheme.

3.54 No policyholder ongoing charges or fees applicable to transferring policyholders will increase as part of the migration to the MIS administration platform.

3.55 Nordben and MILAC have retained external tax experts to review the Proposed Scheme from the perspective of the VAT, corporate tax, and policyholder/product tax implications (if any) on the Companies. The experts conclude that the transfer of the business is exempt to UK VAT and Isle of Man or Guernsey tax.

TRANSFERRING POLICYHOLDERS FROM NORDBEN

3.56 The Transferring Policyholders’ contractual terms and conditions will not change as a consequence of the Proposed Scheme. There are no changes in the cover and benefits provided on the policies.

3.57 The linked liability business fund range and choice of investment managers will not change as a result of the Proposed Scheme. However, MILAC will have the same practice as Nordben of altering the fund range from time to time.

3.58 The existing policy options currently available in Nordben on the Transferring Policies will continue to be available in MILAC. The ability to pay ongoing premiums and to pay additional non-contractual ad-hoc additional premiums (where available on the product and currently available in Nordben) will continue in MILAC.

3.59 The investment managers for a limited number of Nordben plans may have to amend bank account payment details, and MILAC will address this issue in advance of the Effective Date. No action will be required by policyholders.

3.60 The transfer of the business is not expected to change the tax obligations or impacts of the life insurance policies for policyholders. The Companies have sought external tax advice on this point.

3.61 MILAC may exercise any discretion formerly available to Nordben under the terms and conditions of any policy, but will do so in accordance with any applicable regulatory principles and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in MILAC.

3.62 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, Nordben has informed me that it has not exercised any discretionary powers on the Transferring Policies in the past in relation to aspects of their terms and conditions such as adjusting the level of product or fund charges levied.

3.63 The management of the with-profits business in Nordben includes the exercise of discretion in setting the bonus levels for policyholders. The bonus philosophy and approach will continue on the same basis within MILAC.

3.64 Nordben undertakes its own insurance administration activities using its systems and staff based in Guernsey. MILAC will consolidate, in time, all necessary insurance administration activities relating to the transferring business in its services company MIS in the Isle of Man. Further details on this are in the Full Report.

- 3.65 Having considered the relevant facts, as set out in the Full Report, I am satisfied that there is no reason to believe that the services standards experienced by the Transferring Policies will be materially adversely affected by the Proposed Scheme. I am also satisfied that MIS and MILAC will have the capabilities to administer the with-profits business and deal with the additional governance in managing the discretionary benefits on the with-profits business.

MILAC'S POLICYHOLDERS

- 3.66 There will be no change arising from the Proposed Scheme to the terms and conditions of the policies of MILAC's existing policyholders, nor will there be any changes to the way in which MILAC will exercise its discretionary powers. There will be no change to the administration and customer service arrangements arising directly from the Proposed Scheme for MILAC's existing policyholders.
- 3.67 I am satisfied that the Proposed Scheme has no material adverse impact on the fair treatment and reasonable benefit expectations of the current policyholders in MILAC.

Separate Scheme of Transfer involving MILAC over 2022

- 3.68 Monument Re agreed to acquire the entire book of long-term insurance business carried on by Zurich International Life Limited ("ZILL") in Singapore as a Singapore branch of ZILL. This business will transfer from ZILL to MILAC via a separate scheme of transfer will be presented to the High Court of Justice of the Isle of Man (Civil Division) and the General Division of the High Court of the Republic of Singapore in September 2022.
- 3.69 The ZILL Singapore Branch transfer is independent of the Proposed Scheme and involves different groups of policyholders. This other transfer issued its own publication of the proposed scheme of transfer. I was appointed as the Independent Actuary on this other scheme of transfer as the two schemes both involve MILAC and were planned to occur in close succession to each other. I have prepared a separate report on my assessment of that scheme of transfer and my full report and summary extract are available to the public from the two companies, or their websites.
- 3.70 Further details of this separate scheme of transfer are available on the Monument website at the following link [Monument transfers](#). This separate scheme of transfer is also discussed in my Full Report.
- 3.71 In assessing the Proposed Scheme, I consider the policyholders of MILAC including the Singapore branch of MILAC with its presumed Singapore business. My assessment of the Proposed Scheme in the Full Report assumes the relevant Courts will approve the separate scheme of transfer of the ZILL Singapore business to MILAC referred to above. If this does not occur, I will address this in my Supplementary Report on the Proposed Scheme to the Courts.

Matters not considered

- 3.72 I do not believe that there are any material relevant issues concerning benefits that have not been considered in this Report or the Full Report.

4 CONCLUSIONS ON THE PROPOSED SCHEME

Conclusions

- 4.1 I confirm that I have considered the effects of the Proposed Scheme on the following groups of policyholders:
- Policyholders of Nordben, all of whom will transfer to MILAC;
 - Existing (at the Effective Date) policyholders of MILAC.
- 4.2 I further confirm that I do not consider further subdivisions to be necessary.
- 4.3 In summary, for the reasons discussed in the Full Report, and as summarised in this Report, I am satisfied that the implementation of the Proposed Scheme would not have a material adverse effect on:
- the security of benefits under the policies of Nordben and MILAC;
 - the reasonable expectations of the policyholders of MILAC and Nordben with respect to their benefits; and
 - the standards of administration, service, management and governance that apply to the Nordben and MILAC policies.
- 4.4 I confirm that I am satisfied that the arrangement with regard to the costs of the Proposed Scheme are fair to all the categories of policyholders in both Nordben and MILAC.
- 4.5 I am also satisfied with the proposed approach to policyholder communications in respect of the Proposed Scheme.
- 4.6 I will prepare a Supplementary Report prior to the final Court hearings (expected in 2022) to provide an update for the Courts on my conclusions in respect of the effect of the Proposed Scheme on the different groups of policyholders in light of any significant events subsequent to the date of the finalisation of this Report.



Mike Claffey
Fellow of the Society of Actuaries in Ireland

7 September 2022