

## ***Introduction***

An Independent Actuary's Report ("Report") dated 17 August 2020 has been prepared in order that the Irish High Court, the Central Bank of Ireland ("CBI"), the policyholders and other affected parties may properly assess the impact of the proposed transfer of the insurance policy liabilities and associated assets from Omega Life Designated Activity Company ("Omega") into Monument Assurance Luxembourg S.A. ("MAL") via a Portfolio Transfer (the "Scheme"). Omega and MAL are referred to collectively herein as the "Scheme Companies". The Scheme arises as Omega (supported by its shareholder, Monument Re Limited) has decided to transfer its insurance business in line with its strategy (and the strategy of the Monument Re Group) to run-off legacy insurance business as efficiently as possible. MAL is a closed-book consolidator and the acquisition of the Omega book aligns with MAL's strategic plans to grow and develop its unit-linked offering.

This Summary Report describes the Scheme and considers the potential impact and benefits on affected policyholders (of the Scheme Companies), including on the security of their policies. This Summary Report is a summary of the full Independent Actuary's Report. The full Report is available on request from the offices of Omega, MAL, the relevant legal advisors (Matheson), on the Omega website: <https://www.omegalife.ie/en/> and on the MAL website: <http://www.monumentassurance.lu/>

The proposed transfer of insurance business from Omega, as an Irish insurer to MAL, as a Luxembourg insurer, must be approved by the Irish High Court. In addition, the CBI, as the regulator of Omega and Commissariat aux Assurances ("CAA"), the supervisory authority for the insurance industry in Luxembourg, as the regulator of MAL will be consulted. The terms covering the proposed Scheme are set out in the Scheme document that will be presented to the Irish High Court. I refer to that document as the "Scheme of Transfer". It is anticipated that the Scheme of Transfer will be presented to the Irish High Court under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 (as amended) and SI No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015 on 1 September 2020, at which time the directions of the Irish High Court will be sought. It is intended that the Sanctions Hearing will take place on 8 December 2020, when final approval of the Scheme of Transfer will be sought with a proposed effective date of 31 December 2020 (the "Effective Date").

## ***About the Independent Actuary***

I am a partner in KPMG Ireland. I am a Fellow of the Society of Actuaries in Ireland with more than 25 years of experience of working in the insurance industry. I have previously conducted similar Independent Actuary roles with respect to businesses in Ireland. My full biography is included in the Report.

## ***Use and Limitations***

This Summary Report covers the main conclusions of the full Report. However, this Summary Report must be considered in conjunction with that Report and reliance must not be placed solely on this Summary Report. Both this Summary Report and the full Report must be considered in their entirety. Individual sections, if considered in isolation, may be misleading. This Summary Report is subject to the same limitations on its use as are set out in the full Report. In the event of any real or perceived conflict between this Summary Report and the full Report, my Report contains the definitive description.

Neither the full Report, nor any extract from it, may be published without my specific written consent having been given, save that copies of the Report may be made available for inspection by policyholders and shareholders of the Scheme Companies and copies may be provided to any person requesting the same

in accordance with legal requirements or any order of the Court. In the event such consent is provided, the full Report must be provided in its entirety. A summary of my Report is set out below.

### ***Background to MAL***

MAL (formerly Aspecta Assurance International Luxembourg S.A.) was incorporated in Luxembourg in 2000 as a 100% subsidiary of Talanx Group. In 2018, Aspecta was acquired by Monument Re Limited ("Monument Re") and renamed as Monument Assurance Luxembourg S.A.. MAL is regulated by the CAA, the supervisory authority for the insurance industry in Luxembourg. MAL owns 3 branches in Italy, Spain and Germany. MAL has been closed to new business since 2011. The in-force business is predominantly unit-linked with a small portfolio of traditional products. The business was principally sold via MAL's branches in Italy, Spain and Germany, with some business sold via freedom of services in Italy, France and Germany.

### ***Background to Omega***

Omega (formerly Cattolica Life DAC until June 2020) received regulatory approval from the CBI in November 1999 to operate as a life assurance head office undertaking in Ireland and commenced trading in February 2000. Omega is authorised to conduct life insurance business in Class I (Life assurance and contracts to pay annuities on human life, but excluding Classes II and III), Class III (Contracts linked to investment funds) and Class IV (Permanent health insurance contracts) life assurance. Omega was a joint venture between former shareholders Società Cattolica di Assicurazione Società Cooperative ("Cattolica Assicurazioni") (60%) and Banca Popolare di Vicenza ("BPV") (40%). In June 2017, BPV was put into liquidation according to the provisions of Italian law. The liquidators sold a part of the bank to Banca Intesa. BPV was the primary distribution channel for Omega and following the loss of this distribution channel, Omega closed to new business on 28 July 2017 and no longer wrote new insurance business from this date. Prior to this, Omega wrote conventional unit-linked (single premium and regular premium) business on a freedom of services basis in Italy. The majority of the unit linked products are single premium policies with some issued on a whole of life basis.

My full report contains a summary of the products offered by the Scheme Companies; and my full Report contains details about Monument Re. I have not reproduced the detail in this Summary Report, as my full Report is available on request from the Scheme Companies.

### ***Details of the Scheme***

The Scheme proposed is one for the transfer of the insurance policies of Omega by order of the Irish High Court. The Scheme provides for the transfer of the insurance policies, incorporating the underlying insurance contracts, together with the associated liabilities and assets as at the Effective Date to MAL, such that Omega has no further liabilities to policyholders.

The Scheme proposes on the Effective Date:

- To transfer the insurance liabilities from Omega to MAL.
- That MAL 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 right to receive future tax recoveries under the Italian Tax Withholding system will transfer to MAL.

- That the administration, reinsurance, investment manager, custodian and any other contracts will transfer over from Omega to MAL.
- 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 (Omega and MAL).
- To maintain the same type, number and overall value of units in the Omega unit-linked funds for the policies transferring as part of the Scheme (i.e. the operation of the Omega unit-linked funds will remain unchanged).
- 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. However, I note that MAL is considering a change to the administration arrangements post-transfer and I have considered and commented upon this point in further detail below.

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

### ***Independent Actuary's Approach***

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

- Understand the businesses of the companies affected by the Scheme; and
- Understand the effect of the Scheme on the assets, liabilities and regulatory capital of the companies involved.

Having identified the effects of the Scheme on the various companies, I then:

- Identify the groups of policyholders directly affected;
- Consider the impact of the Scheme on the security of each group of policyholders;
- Consider the impact of the Scheme on the benefit expectations of each group of policyholders; and
- Consider other aspects of the impact of the Scheme (for example, policyholder service).

### ***Policyholder impacts***

The Assumptions underpinning my analysis are set out in Section 2.1 in my Report. The assumptions underlie the analysis and conclusions in my Report and, at this stage, these assumptions correctly represent the current intentions of the Scheme Companies. If any of these assumptions were to change, my opinion may also change. Whilst my full Report captures all of the detail, below I have summarised some of the more significant assumptions:

### Security of benefits at portfolio transfer date

I have considered the relative capital strength of MAL and Omega prior to and post the transfer and in respect of all groups of policyholders. I have based my analysis on the most recent audited financial information as at 31 December 2019, including regulatory returns to the CBI, projected financial information and interim results prepared by the Scheme Companies over 2020 thus far.

The projected capital and solvency position of MAL pre- and post-transfer is set out in Table 1 below, based on pro-forma results as at 31 December 2019. In addition, for comparison purposes, the solvency position of Omega is provided:

Table 1: Omega and MAL Illustrative Solvency Position (€m)				
	Omega Pre-Transfer 31 Dec 2019	Omega – business to be transferred* 31 Dec 2019	MAL Pre-Transfer 31 Dec 2019	MAL Post-Transfer 31 Dec 2019
Own Funds	18.7	1.8	30.3	30.8
Solvency Capital Requirement	4.8	4.7	5.1	9.5
Excess of Own Funds over Solvency Capital Requirement	13.9	-2.9	25.2	21.4
<b>Solvency Coverage Ratio</b>	<b>388%</b>	<b>38%</b>	<b>595%</b>	<b>325%</b>

Note: MAL results are pro-forma results prepared by MAL management.

\*Omega Own Funds after adjustments consist of liabilities of €3.2m and assets of €5.1m, including a cash balance which serves as a proxy for the losses expected to be incurred by Omega in 2020, prior to the Scheme. Fund units and the corresponding BEL have not been included for ease of illustration.

\*\*The figures reflect the transfer price based on Solvency II valuation principles.

I have considered below the effects of the Scheme on the security of the transferring Omega policyholders and the existing MAL policyholders.

### Omega Policyholders

For the Omega policyholders, I note the following impacts of the Scheme based on the analysis above:

- There are no remaining policyholders in Omega post the Scheme. Omega will surrender its licences to the CBI and will then be liquidated. I have no further considerations in that regard.
- Post-transfer, the Omega policyholders are part of MAL, with Own Funds post-transfer of €30.8m and solvency coverage of 325%. Therefore, the Omega policyholders become part of a company with a higher level of Own Funds (and a higher excess of Own Funds over the regulatory capital requirements). This is in excess of the regulatory requirements and MAL's capital management targets. Therefore, Omega policyholders will be part of a stronger regulated entity post the transfer.

## Existing MAL Policyholders

For existing MAL policyholders, I note the following impacts of the Scheme based on the analysis above:

- Pre-transfer, the MAL policyholders have Own Funds of €30.3m, a Solvency Capital Requirement of €5.1m and a solvency ratio of 595%. Post the transfer, the Own Funds increase to €30.8m and the Solvency Capital Requirement increases to €9.5m as a result of the increased market risk exposure introduced by the Omega portfolio. The solvency ratio reduces to 325%. MAL policyholders remain part of a company which will, post-transfer, have a higher level of Own Funds, but a higher regulatory capital requirement. Overall, the inclusion of the Omega business means that the solvency coverage which existing MAL policyholders enjoy has decreased but it remains well in excess of the regulatory minimum levels and of its capital management targets

I note that MAL intend to put in place intra-group reinsurance with Monument Re for some of the key risks for the Omega portfolio post-transfer, effective 1 January 2021. It is MAL's intention that this reinsurance would be structured and operate in a similar manner to the reinsurance that is already in place for its existing policyholders. The detail is reflected within the full Report, but I note here that if the planned cover is allowed for in the above results, then the result is a larger increase in Own Funds and smaller increase in regulatory capital requirements. The post transfer solvency position for MAL improves from 325% to 478%. From the perspective of the Omega policyholders, it improves level of solvency coverage.

I also note that, in preparing my Report, I primarily considered the results made available to me as at 31 December 2019. However, 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 supplemented my analysis by considering the 31 March 2020 results for both entities:

- In Omega's case, I note that the available Solvency II Own Funds reduced from €18.7m to €17.6m, whilst the regulatory capital requirement fell from €4.8m to €4.3m. Therefore, Omega's coverage of the regulatory capital requirement improved and increased from 388% to 409%.
- In MAL's case, I note that the available Solvency II Own Funds reduced from €30.3m to €29.4m, whilst the regulatory capital requirement fell from €5.1m to €4.3m. Therefore, MAL's coverage of the regulatory capital requirement improved and increased from 595% to 689%.
- Overall, the latest results do not indicate any material deterioration in the solvency position for Omega or MAL as a result of recent market volatility. I am comfortable using 31 December 2019 figures for the purpose of the proforma analysis.

## *Security of benefits on projected basis*

I have been provided with the projected solvency positions over the next 5 years for Omega and MAL, with these projections prepared as part of the Own Risk and Solvency Assessment ("ORSA") processes in each of the Scheme Companies. I note that MAL's projected solvency position has since been adjusted to reflect a dividend payment in 2020. These projections illustrate how the solvency positions of Omega and MAL are anticipated to evolve over this time horizon, in a number of both benign and adverse stressed cases. These projections also reflected the anticipated impacts of the Scheme.

Based on the financial analysis of MAL, the SCR coverage is projected to grow over time, with a projected level of capital coverage in excess of both internal capital targets and the regulatory minimum. No material

issues arise from my assessment of the projected solvency position both pre- and post- the transfer for the transferring Omega and existing MAL policyholders.

Therefore, based on the financial analysis provided I do not believe that the implementation of the Scheme will have a material adverse effect on the security of the transferring Omega policyholders or existing MAL policyholders.

### *Risk profile analysis*

The primary differences here arise due to the mix of business of the two Scheme Companies and I have considered the impacts for the relevant policyholder groups below.

The transferring Omega business is not materially different in terms of design features, operation and key risks to those already on MAL's balance sheet. The Omega book of business is closed with no new business being added. The policies are now being transferred to a closed-book consolidator, who specialises in acquiring and running-off such portfolios. As the overall book of business for MAL declines, issues related to economies of scale can arise in areas such as expense and capital management, as overheads can be large relative to the size of the book. Such issues do not typically emerge in the short to medium term. I do not believe that the Omega policyholders are disadvantaged here as managing this risk is MAL's specialty and forms a core part of its business plan going forward. Similarly, existing MAL policyholders are not disadvantaged as a result of the scheme.

I also note:

- Omega and MAL are all ultimately 100% owned by Monument Re. Therefore, the capital support that was available to Omega and MAL pre-transfer continues to be available if required post transfer.
- Omega and MAL operate under broadly similar Monument Re mandated governance, risk management and capital management arrangements and so there will be no change in the standards of governance which will apply.

### *Fair treatment of policyholders*

I have also considered the effects of the Scheme on the fair treatment of the transferring Omega and existing MAL policyholders, including Policyholders Reasonable Expectations, focusing on the following aspects:

- Fund range: All the funds which are available to Omega policyholders will still be available after the Scheme completes. I also note that it is MAL's intention to maintain the breadth of offering currently provided by Omega under consideration of applicable local regulatory requirements. 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 Omega currently receive rebates from investment managers in respect of the unit linked business and the majority of these are credited to policyholder accounts. These fund rebate



arrangements will novate to MAL upon execution of the Scheme so there is no impact on transferring policyholders.

- Policy terms and conditions: There will be no change to policy terms and conditions of the transferring Omega policies or the existing MAL policies.
- Servicing of policies: In the short-term, the existing arrangements for policy servicing will remain in place, so there will be no immediate impact upon service standards. The assumption is that Irish Progressive Services International can continue to administer the business from Ireland post the portfolio transfer. In the longer-term, MAL intend to migrate the policy administration of the Omega policies from the existing service provider to Quality Insurance Services Luxembourg S.à r.l. ("QISL"). QISL is a MAL subsidiary that currently provides administration services to MAL's existing policies in Italy, Spain and Luxembourg. Given MAL's plans and the existing relationship in place with QISL, I have no specific issues to note. I am aware that QISL was renamed to Monument Assurance Services Luxembourg S.à r.l. ("MASL") 8 July 2020.
- Expenses and charges: These will remain unchanged as a consequence of the Scheme for all policyholders. Overall, with regard to expenses and charges, I have no issues to note.
- Costs of the Scheme: All costs associated with the Scheme will be borne by the shareholders of Omega and MAL or by Omega and MAL directly. 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 Omega policies, the levels of discretion available to management are limited, relating to the charges levied, the funds offered and the approach to unit-pricing. Insofar as possible, MAL will endeavour to maintain the existing structures, so there are no issues emerging that I am aware of that can adversely impact upon policyholders.
- Complaints and redress: I note that the complaints handling procedures adopted by both entities at present are well aligned. Omega policyholders currently escalate their claims to Financial Services and Pensions Ombudsman while MAL policyholders escalate claims to the Insurance Ombudsman. These are similar bodies with similar mandates. There will be no material consequence of the Scheme for policyholders. I have no issues to note.

Overall, I am comfortable that transferring Omega policyholders and existing MAL policyholders will be treated fairly post-transfer and their reasonable expectations will not be adversely affected due to the transfer.

## *General aspects*

I have also considered some more general aspects:

- Taxation: It is expected that policyholders will be unaffected by the Scheme in respect of taxation. I understand that MAL will become the Tax Agent under the Italian Tax Withholding system for the transferring Omega policyholders. The right to receive future tax recoveries under the Italian Tax Withholding system will also transfer to MAL under the Scheme for an agreed consideration.

- Policyholder communications: I have reviewed the intended communications strategy and note that it is aligned to what I would reasonably expect.
- Legal risk: In considering any legal risks, I have relied on the fact that Omega and MAL have followed the advice of their legal advisers and Counsel in finalising the legal agreements in relation to this transaction. Thus, in my opinion, all reasonable steps have been taken to reduce the legal risks arising from the Scheme to a minimum.
- Pending legal proceedings: I understand that there are no material legal proceedings pending or current against Omega and MAL at the date of this Report.

Overall, I do not consider that these aspects will have a material adverse impact on policyholders' entitlements.

I expect that a Supplementary Report will be required from me containing an update on any developments that may have occurred in the period between the Court Directions hearing and the formal order sanctioning the portfolio transfer to proceed. I understand that this Supplementary Report will be made available on the website of the respective Companies.

## Conclusions

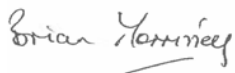
Having considered the impact of the Scheme on both the transferring policyholders of Omega and the existing policyholders of MAL, it is my opinion that:

- 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 Omega and MAL policyholders is based on:

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

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



**Brian Morrissey, FSAI**

*Independent Actuary, KPMG in Ireland*

17 August 2020

Date