MILLIMAN REPORT

The proposed transfer of the UK wealth management business of MetLife Europe d.a.c. to MetLife UK Limited

The Report of the Independent Expert

25 October 2023

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1. Introduction

BACKGROUND

1.1 MetLife Europe d.a.c. (“**MLE**”), an insurance company authorised and regulated in the Republic of Ireland, wishes to transfer its closed portfolio of UK wealth management business, which was written in the UK branch of MLE (“**the UK Branch**”), to MetLife UK Limited (“**MLUK**”), a newly established UK company for which regulatory authorisation as an insurance company was granted on 17 October 2023. The transfer will be effected by means of an insurance business transfer scheme (“**the Scheme**”).

1.2 MLE and MLUK are part of the MetLife Group (“**MetLife**”), whose parent is MetLife, Inc., a company domiciled in the USA. In this Report (the “**Report**”), MLE and MLUK will collectively be referred to as the “**Companies**”.

1.3 The Scheme will be a scheme of transfer pursuant to Part VII of the UK’s Financial Services and Markets Act 2000 (“**FSMA**”), for which approval will be sought from the High Court of Justice of England and Wales (the “**Court**”).

1.4 The transfer is being sought in conjunction with an application to the Prudential Regulation Authority (“**PRA**”) under Part 4A of FSMA for the authorisation of the UK branch of MLE on a permanent basis but, given the quantum and the nature of MLE’s UK wealth management business, it has been agreed with the PRA that MLE will seek a transfer of this business into a UK authorised insurance company.

1.5 When an application is made to the Court for an order to sanction the transfer of insurance business from one insurer to another, Paragraph 109 of Part VII of FSMA requires the application to be accompanied by a report on the terms of the scheme (a “**Scheme Report**”) by a person nominated or approved by the PRA, referred to as the “Independent Expert”. The Companies have appointed me as the Independent Expert for the Scheme, and this appointment was approved by the PRA, having consulted with the Financial Conduct Authority (“**FCA**”), on 19 May 2023.

1.6 This Report is intended to meet the requirements of the Scheme Report.

1.7 The Directions Hearing for the Court Process (the “**Directions Hearing**”) will take place on 8 November 2023. The corresponding Sanction Hearing (the “**Sanction Hearing**”) is currently expected to take place in February 2024.

1.8 The transfer will not go ahead unless the Scheme is approved by the Court. If the Scheme is sanctioned by the Court it is expected to become effective from 1 April 2024; in this Report I refer to the date on which the Scheme becomes effective as the “**Transfer Date**”.

1.9 The PRA, in consultation with the FCA, has approved the form of this Report.

THIS REPORT

1.10 The purpose of this Report is to review the terms of the proposed transfer and to consider its effects on the transferring and non-transferring policyholders of MLE, as well as any other relevant stakeholders.

1.11 In this Report, the policies transferring from MLE to MLUK under the Scheme are referred to as the “**Transferring Policies**” or the “**Transferring Business**”. Holders of Transferring Policies are referred to as “**Transferring Policyholders**”. The policies of MLE that are not transferring to MLUK under the Scheme are referred to as “**Non-Transferring Policies**” or the “**Non-Transferring Business**”. Holders of Non-Transferring Policies are referred to as “**Non-Transferring Policyholders**”.

1.12 For the avoidance of doubt, as MLUK is a newly established insurance company without any existing insurance business, this Report does not need to consider the impact of the Scheme on existing policyholders of MLUK.

1.13 I have produced a summary of this Report (my “**Summary Report**”) that will be sent to Transferring Policyholders as part of the mailing pack relating to the Court Process.

1.14 I will prepare a supplementary report (my "**Supplementary Report**"), to be finalised as close as is practicable to the Sanction Hearing, in which I will update my assessment of the Scheme in light of financial conditions and any other developments at that time.

1.15 In relation to the scope of this Report, it is important to note that:

- I am only required to comment on the effects of the implementation of the Scheme on policyholders who enter into contracts with MLE prior to the Transfer Date.
- I have not restricted my assessment of the Scheme to consideration of potentially adverse effects.
- I have limited my assessment to the proposals put forward by MLE and MLUK, and have not considered alternative arrangements or proposals.
- As far as I am aware, there are no matters within the scope of my role as Independent Expert that I have not taken into account in undertaking my assessment of the Scheme, and in preparing this Report, which nonetheless should be drawn to the attention of policyholders or of the Court in their consideration of the terms of the Scheme.
- I have received all the information I have requested from MLE and MLUK for the purpose of preparing this Report.

1.16 This Report includes some technical terminology relating to UK and Irish insurance regulations, insurance products and certain other areas. Section 4 of this Report contains an overview of key aspects of regulations applying to UK and Irish life insurers and a description of the insurance product types affected by the Scheme, including a description of the types of policies which are Transferring Policies. Section 4 therefore includes a number of items of terminology that may be useful to readers of this Report. A glossary of terms used in this Report is set out in Appendix 4.

QUALIFICATIONS AND DISCLOSURES

1.17 I am a Fellow of the UK's Institute and Faculty of Actuaries ("**IFoA**"), having qualified in 2009. I am also a Fellow of the Society of Actuaries in Ireland ("**SAI**"), having applied for fellowship of the SAI under the terms of the Actuarial Association of Europe Mutual Recognition Agreement (of which both the IFoA and SAI are signatories) by virtue of being a Fellow of the IFoA.

1.18 I am a partner of Milliman LLP ("**Milliman**") and I am a member of its UK Life Insurance and Financial Services practice. I have not previously discharged the role of Independent Expert or Independent Actuary for other transfers of insurance business, but I have supported the Independent Expert in relation to a number of UK and Irish insurance business transfers and other, similar, assignments.

1.19 I currently hold the role of Chief Actuary of Invesco Pensions Limited on an outsourced basis, and previously held the Chief Actuary role for another UK insurance company.

1.20 I confirm that neither I, nor any member of the Milliman team who supported me in producing this Report, have any direct or indirect interest in MLE, MLUK or other related firms that could compromise my independence.

1.21 My fees for discharging the role of Independent Expert for the Scheme will be paid by MLE.

1.22 A certificate of compliance with Part 35 of the Civil Procedure Rules is attached as Appendix 3. I confirm that I have understood my duty to the Court.

THE PARTIES FOR WHOM THE REPORT HAS BEEN PREPARED

1.23 This Report, and any extract or summary thereof has been prepared for the use of the Court and the policyholders of MLE, but may also be of interest to the bodies or persons listed below:

- The Directors and senior management of MLE;
- The Directors and senior management of MLUK;
- The Central Bank of Ireland ("**CBI**"), the FCA and the PRA, and any other governmental department or agency having responsibility for the regulation of insurance companies in the UK or the Republic of Ireland; and
- The professional advisers of any of the above.

1.24 In accordance with the relevant legal requirements, copies of my Report may be made available to the policyholders of MLE and to other interested parties.

LIMITATIONS

1.25 I am an actuary practising primarily in the UK. Therefore, while I am familiar with the Solvency II insurance regulations applicable within the EEA, I am not an expert in the specifics of the application or operation of Solvency II or other insurance-related legislation, regulation, supervision or guidance in the Republic of Ireland.

1.26 In preparing this Report, I have had access to certain documentary evidence provided by MLE and MLUK, and I have had access to, and discussions with, senior management of MLE and MLUK. My conclusions depend on the substantial accuracy of this information without independent verification. The principal documents which I have reviewed in respect of MLE and MLUK are listed in Appendix 2. I have considered, and am satisfied with, the reasonableness of this information based upon my own experience of the UK and Irish life insurance industries and on the level of review and validation carried out on this information including, in the case of published financial information, external audit.

1.27 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose. I have provided my Summary Report for inclusion in the policyholder pack (and, where relevant, distribution to any persons requesting a copy of it); other than this, no summary of my Report may be made without my express consent.

1.28 This Report has been prepared on an agreed basis for the Court in the context of the Scheme and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of my 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 Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.29 Neither this Report nor the Summary Report provides financial or other advice to individual policyholders.

REGULATORY AND PROFESSIONAL GUIDANCE

1.30 This Report has been prepared having regard to the guidance set out in:

- the PRA's Policy Statement[1] entitled "The PRA's approach to insurance business transfers", dated January 2022 (the "**PRA Policy Statement");**

[1] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2022/the-pras-approach-to-insurance-business-transfers-sop-jan-2022.pdf

- Chapter 18 of the Supervision Manual ("**SUP 18**") contained in the FCA Handbook[2]; and
- FG22/1[3] "The FCA's approach to the review of Part VII insurance business transfers", dated 15 February 2022 (the "**FCA Guidance**"),

collectively referred to in this Report as the "**UK Regulatory Guidance**".

1.31 As the PRA Policy Statement and FG22/1, as well as some parts of SUP 18, include requirements specifically in relation to scheme reports, I have included a checklist against these requirements in Appendix 5 of this Report.

1.32 This Report has also been prepared having regard to Technical Actuarial Standard ("**TAS**") 100 Version 2.0 (General Actuarial Standards), dated March 2023[4], and TAS 200 (Insurance), dated December 2016[5], issued by the UK's Financial Reporting Council. In my opinion, my Report complies with these standards. In complying with these requirements, I note that several of the key documents listed in Appendix 2 have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, in certain cases, TAS requirements.

1.33 Actuarial Profession Standard ("**APS**") X2, issued by the IFoA, and version 1.2 (effective 1 March 2022) of Actuarial Standard of Practice ("**ASP**") PA-2 ("General Actuarial Practice")[6], as issued by the SAI, require members of the IFoA and SAI respectively to consider whether their work requires an independent peer review. In my view this Report does require independent peer review, and such peer review is also required by Milliman's internal quality assurance standards for reports of this nature. This peer review has been carried out by a senior actuary of Milliman who has not been part of my team working on this assignment and who has experience of acting as an independent expert.

1.34 In my opinion, this Report also complies with 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")[7] issued by the SAI.

1.35 In addition to peer review processes that have taken place within Milliman, at the request of the PRA a draft of this Report has been subject to an independent peer review by Hymans Robertson LLP (a UK actuarial consultancy), with the following conclusion:

"We consider the Scheme Report to be clear, logically structured, and thorough. We believe that it stands alone as a self-contained piece of actuarial work which does not require an unreasonable knowledge of facts, information and analyses beyond those presented in it. The ultimate conclusions are also supported by and logically follow from those facts, information and analyses, in the context of the judgements made. We therefore consider the Scheme Report to be appropriate for its intended audience, and that it fulfils its stated purpose and scope. This is expanded upon in the rest of this report."

THE STRUCTURE OF THIS REPORT

1.36 Section 2 of this Report provides an executive summary of the proposals and of my considerations and conclusions.

1.37 Section 3 of this Report provides some information on the matters to be considered by the Independent Expert and Section 4 gives some background information on the current regulatory regime in the UK and Republic of Ireland, and on the UK and Irish life insurance market, including a description of the product types relevant to this Report.

1.38 Sections 5 and 6 of this Report provide some background to MLE and MLUK respectively.

[2] https://www.handbook.fca.org.uk/handbook
[3] https://www.fca.org.uk/publications/finalised-guidance/fg22-1-fcas-approach-review-part-vii-insurance-business-transfers
[4] https://www.frc.org.uk/getattachment/67478854-f362-419b-9317-ae27063f824b/TAS-100-v2-0.pdf
[5] https://www.frc.org.uk/getattachment/c866b1f4-688d-4d0a-9527-64cb8b1e8624/TAS-200-Insurance-Dec-2016.pdf
[6] https://web.actuaries.ie/sites/default/files/asp/ASP%20PA-2/220301%20ASP%20PA%202%20v1.2.pdf
[7] https://web.actuaries.ie/sites/default/files/asp/ASP%20INS-2/ASP%20INS-2_V1.0.pdf

1.39 Section 7 explains the purpose of the Scheme and summarises the key aspects of, and background to, the Scheme.

1.40 Section 8 contains my assessment of the Scheme and its impact on the Transferring Policyholders.

1.41 Section 9 contains my assessment of the Scheme and its impact on the Non-Transferring Policyholders.

1.42 Section 10 outlines a number of other considerations, Section 11 lists the assumptions made in reaching my conclusions, and Section 12 contains my conclusions on the impact of implementing the Scheme.

1.43 The appendices contain my Statement of Independence, a schedule of data relied upon in forming my conclusions, my Certificate of Compliance, my terms of reference as Independent Expert, a glossary of terms used throughout this Report and details of how this Report complies with the PRA Policy Statement, SUP 18 and FG18/4.

2. Executive Summary

2.1 This section provides a summary of the proposed transfer, and a summary of my conclusions. Details and background to the information in this section, as well as definitions of some of the terms used in this section, are contained in the other sections of this Report.

SUMMARY OF PROPOSED SCHEME

2.2 It is proposed to transfer the UK wealth management business of MLE's UK branch to MLUK via the Scheme. MLE is an Irish insurance company, and MLUK is a newly authorised UK insurance company, and therefore MLUK currently has no insurance business. MLE is authorised and regulated by the CBI. MLUK is authorised by the PRA and regulated by the PRA and the FCA. Both MLE and MLUK are within the MetLife Group.

2.3 The Scheme is proposed in order to allow MetLife to continue to operate the Transferring Business after the expiry of the UK's Temporary Permissions Regime on 31 December 2023.

2.4 The Transferring Business consists of a portfolio of Variable Annuity ("**VA**") and individualised Constant Proportion Portfolio Insurance ("**iCPPI**") policies. These are both a type of unit-linked policy under which the policyholder bears the investment risk, but which also allow policyholders to protect the value of their investments in certain circumstances by selecting one of a number of optional policy guarantees, for which additional charges are payable. In this Report, these optional guarantees are referred to as the "**Policy Guarantees**". If selected, the Policy Guarantees oblige MLE to ensure that certain types of policy pay-out are at least at the level of a guaranteed minimum amount, even if the policyholder's unit fund does not support these pay-outs. More detail on the available Policy Guarantees is given in Section 5.

2.5 MLE has entered into an arrangement with Deutsche Bank under which Deutsche Bank provides asset allocation services and "gap protection" for the iCPPI business. Under the gap protection arrangement, Deutsche Bank provides protection to MLE against the impact of severe short-term movements in investment markets on the Policy Guarantees under the iCPPI business.

2.6 The Transferring Business is a closed block of business; MLUK does not intend to issue any new insurance policies and has no plans to accept other blocks of insurance business or insurance risk via insurance business transfers or reinsurance.

2.7 MLE has a capital management policy in place which provides, inter alia, for an operating range for its Solvency Capital Requirement ("**SCR**") Coverage Ratio of 145% to 150%. The capital management policy of MLUK after the transfer will have the same operating range as the MLE capital management policy.

2.8 The risks and liabilities associated with the Transferring Business are 100% reinsured from MLE to MetLife Reinsurance Company of Bermuda ("**MRB**"), a Bermudan reinsurance company within the MetLife Group. This reinsurance arrangement is referred to in this Report as the "**UK Treaty**".

2.9 Under the UK Treaty:

- Assets equal to the unit funds of reinsured policies are deposited back with MLE;
- A collateral mechanism is in place under which MLE or MRB (as appropriate) is required to post collateral based on a measure of its liabilities under the UK Treaty;
- While MLE is the counterparty to the arrangement with Deutsche Bank (described in paragraph 2.5), the economic risks and rewards of this arrangement accrues to MRB.

2.10 The UK Treaty will be transferred to MLUK with effect from the Transfer Date, with equivalent deposit-back and collateral arrangements as are currently in place with MLE. The arrangement with Deutsche Bank will also be replicated in MLUK with effect from the Transfer Date, on broadly equivalent terms to those in place with MLE.

2.11 To protect MLE in the event of a default of MRB, MetLife, Inc. has agreed, up to a limit of $1 billion, to guarantee the policyholder benefit payments related to the Policy Guarantees under the VA business (other than those benefit payments that are met by the unit funds, which are deposited back with MLE). This arrangement is referred to in this Report as the "**UK Treaty Group Guarantee**". The UK Treaty Group Guarantee will be replicated in MLUK with effect from the Transfer Date, and it will no longer apply to MLE after this date owing to the low volume of UK wealth management business remaining in MLE after the transfer.

2.12 MLE has also entered into a "Net Worth Maintenance Agreement" ("**NWMA**") with American Life Insurance Company ("**ALICO**") (a U.S.-domiciled insurance company within the MetLife Group). Under this arrangement, ALICO is obliged to provide capital and liquidity support to ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis. An equivalent arrangement (the "**UK NWMA**") with materially the same terms will be put in place between ALICO and MLUK with effect from the Transfer Date.

ASSESSMENT OF THE IMPACT OF THE SCHEME ON THE TRANSFERRING POLICYHOLDERS

2.13 In Section 8 I have considered the impact of the implementation of the Scheme on:

- the security of benefits of the Transferring Policies and the profile of risks to which the Transferring Policies are exposed; and
- the reasonable expectations of the Transferring Policyholders.

Security of benefits and profile of risks of the Transferring Policies

2.14 The security of benefits of the Transferring Policies is currently provided by the financial resources of MLE, including the value of future recoverables from MRB under the UK Treaty.

2.15 Following the transfer, the security of benefits of the Transferring Policies will be provided by the financial resources of MLUK, including the value of future recoverables from MRB under the post-Scheme UK Treaty.

2.16 Table 2.1 below shows the Solvency II financial position as at 31 March 2023 of MLE, along with a pro forma Solvency II financial position of MLUK at the same date assuming the transfer had already taken place.

TABLE 2.1: COMPARISON OF SOLVENCY II FINANCIAL POSITIONS OF MLE (PRE-SCHEME) AND MLUK (POST-SCHEME) AT 31 MARCH 2023

31 March 2023	MLE (pre-Scheme) (€m)	MLE (pre-Scheme) converted to £m*	MUKL (post-Scheme) (£m)
Total Assets (A)	9,445.9	8,299.9	4,643.6
Total Liabilities (B)	8,187.1	7,193.8	4,626.3
Available Own Funds (C = A – B)	**1,258.8**	**1,106.1**	**17.3**
Own Funds Eligibility Restriction (D)	-	-	- 7.9
Eligible Own Funds (E = C + D)	**1,258.8**	**1,106.1**	**9.4**
SCR (F)	628.3	552.1	6.3
Excess Own Funds (= E – F)	**630.5**	**554.0**	**3.1**
SCR Coverage Ratio (= E / F)	***200.4%***	***200.4%***	***150.0%***

**£/€ exchange rate used = 0.878684945*

2.17 Table 2.1 shows that, based on 31 March 2023 financials, the SCR Coverage Ratio of MLUK after the implementation of the Scheme is expected to be 150%, which is lower than the SCR Coverage Ratio of MLE prior to the transfer.

2.18 However, MLE's SCR Coverage Ratio is significantly higher than the SCR Coverage Ratio provided for by MLE's capital management policy, which specifies an operating range for the SCR Coverage Ratio of 145% to 150%. Moreover, MLE is free to remit capital in excess of the requirements of its capital management policy to its shareholders, or otherwise use it to fund strategic initiatives or write new insurance business. In particular, MLE is open to new business, whereas there are no plans for MLUK to sell any new business, which means MLUK's working capital needs will be lower than MLE's. It is, therefore, not appropriate for me to put significant weight on the fact that MLE has a greater level of excess capital resources prior to the transfer than MLUK after the transfer.

2.19 More detail on the respective financial positions of MLE and MLUK is given in Section 8.

2.20 More relevant to my conclusions in relation to the implementation of the Scheme is the relative strength of the MLE and MLUK capital management policies. MLE's normal operating level of 145% to 150% has been calibrated by MLE to be consistent with MetLife, Inc.'s Treasury policy which requires an assessment of the level of capital required to protect against a breach of SCR with a confidence of '1 in 25' over a one year period.

2.21 MLUK's capital management policy is also governed by MetLife, Inc.'s Treasury policy, and MLUK has carried out analysis to assess how much capital would be required to meet the requirement for a 1-in-25 confidence level. This conclusion of this analysis is that a normal operating range of 145% to 150% for the SCR Coverage Ratio would be consistent with the MetLife, Inc. Treasury policy. This analysis, together with analysis around UK market practice and certain other areas, has led MLUK to propose a normal operating range for its SCR Coverage Ratio of 145% to 150%.

2.22 The assessment of the level of resilience provided for by a given SCR Coverage Ratio is somewhat subjective and requires significant judgement. However, in my view, the analysis undertaken by MetLife indicates that it is reasonable to expect that an operating range of 145% to 150% is consistent with MetLife, Inc.'s Treasury policy, and therefore that MLE's and MLUK's capital management policies offer broadly equivalent protection against adverse events. It should be noted that the assessment against MetLife, Inc.'s Treasury Policy does not take into account the mitigation available from recovery options that may be available to MLE or MLUK; further detail on such options is given in paragraph 2.25.

2.23 Following the implementation of the Scheme, the Transferring Business will remain 100% reinsured to MRB. Given that the Transferring Business will be the only business of MLUK, MLUK will be significantly more exposed to the risk of the failure of MRB than is the case for MLE currently. If MRB were to fail, MLUK's regulatory capital requirements (i.e. its Risk Margin

and SCR) would increase significantly as it would no longer have the risk-mitigating benefit of the reinsurance. However, the risk of the failure of MRB has been considered by MetLife and would be subject to the following mitigating actions:

- Upon the failure of MRB, the collateral assets would be available to MLUK, which would partially mitigate[8] the impact of higher regulatory capital requirements.
- Depending upon the impact of the failure of MRB on MLUK's regulatory solvency position, MLUK may elect to investigate its options to improve its regulatory solvency position, which would include consideration of available internal capital optimisation actions, although the internal capital optimisation options available would be highly unlikely to be sufficient to mitigate the impact of the failure of MRB. MLUK would also be likely to make a decision on whether it is necessary to seek capital support from the MetLife Group. It is likely that MLUK would seek the agreement of the MetLife Group to provide voluntary capital support in the first instance.
- At the same time, MetLife Group would be likely to investigate the feasibility of alternative internal reinsurance arrangements to replace those with MRB.
- If the failure of MRB resulted in MLUK's SCR Coverage Ratio falling below 100% or being likely to fall below 100%, and if MLUK had failed to secure voluntary capital support or alternative internal reinsurance arrangements from the MetLife Group, MLUK would have the unilateral option to invoke the UK NWMA and seek capital support from ALICO (which ALICO would be contractually obliged to provide) to ensure MLUK remained at or above a 100% SCR Coverage Ratio.

  I have discussed ALICO's ability to honour its obligations under the UK NWMA in Section 8, and concluded that ALICO's financial resources would be likely to be sufficient to do so and that any constraints on ALICO would not materially compromise its ability to honour its obligations.

2.24 As described in paragraph 8.10, the UK Treaty Group Guarantee would, if invoked, not provide protection for all of MRB's obligations under the UK Treaty. Further, MetLife has indicated to me that the UK Treaty Group Guarantee would operate to provide protection for the relevant policy guarantees upon an MRB insolvency only for so long as MRB exists as an entity. Thereafter, the UK Treaty Group Guarantee (since it is a guarantee of MRB's performance of certain obligations under the UK Treaty) would cease to operate. Given that:

- The scope of the UK Treaty Group Guarantee excludes certain of MRB's obligations under the UK Treaty;
- The UK Treaty Group Guarantee would not operate upon an MRB insolvency event that resulted in MRB ceasing to exist; and
- The UK NWMA in isolation provides a high level of protection to MLUK against the risk of an already unlikely event (that is, the failure of MRB),

I have not placed material reliance on the presence of the UK Treaty Group Guarantee when considering the protections available to MLUK policyholders in the event of the failure of MRB, and have instead obtained significantly more comfort from the presence of the UK NWMA to provide policyholder protection.

2.25 It should be noted that the options available to MLUK to restore its solvency position should its SCR Coverage Ratio fall below 145% (that is, below the level required by MLUK's capital management policy) but remain above 100%, would be relatively limited. In practice, MLUK's principal options, if it chose to take action, would be to adjust the assets it holds (outside of policyholder unit funds) to ensure that they attract the least onerous capital requirements, or to seek capital support from the MetLife Group, which the MetLife Group would not be obliged to provide. However, if the situation

[8] As described in paragraph 8.108, the collateral assets may not be sufficient to fully mitigate the impact of higher capital requirements, as the required collateral is based on a loss-given-default measure that does not fully reflect the impact of the higher capital requirements, and additionally the collateral may not have been topped up to a sufficient level if MRB failure was accompanied by a market shock.

deteriorated further and MLUK's SCR Coverage Ratio fell below 100% (that is, the regulatory minimum) or was likely to fall below 100%, then the UK NWMA could be invoked and ALICO would be contractually required to provide capital support to MLUK. The relatively small number of available options to restore MLUK's solvency position is primarily a function of the fact that MLUK is exposed to relatively few financial risks, with the most material risk being the failure of MRB, and therefore, outside of the failure of MRB (which would be an extreme and unlikely scenario, and against which the UK NWMA is intended to protect MLUK), there are relatively few ways in which MLUK's regulatory solvency position could be substantially weakened; I am therefore comfortable that this relative lack of available options does not pose an issue for Transferring Policyholders and the security of benefits under their policies.

2.26 Notwithstanding the Transferring Policyholders' increased exposure to the risk of the failure of MRB following the implementation of the Scheme, they will no longer be exposed to the wider risks of MLE. These risks include both market and non-market risks.

2.27 Prior to the transfer, Transferring Policyholders are exposed to a range of potential sources of liquidity risk, which is managed by MLE via its liquidity risk framework. Following the transfer, MLUK will have a significantly lower level of liquid resources than MLE, but Transferring Policyholders will be exposed to a commensurately lower level of liquidity risk as all of the business of MLUK (including its material liquidity exposures) will be reinsured to MRB. MLUK is in the process of developing its own liquidity framework to determine its liquidity requirements, but has shared its current expectations around MLUK's liquidity framework with me, which is likely to be similar to that of MLE. The framework will consider both short-term cash needs, based on known, upcoming cash outflows, and liquidity stress scenarios under which available liquidity is compared to MLUK's liquidity needs over a variety of time horizons and under a range of stress scenarios. In MLUK's case, its principal liquidity exposure will relate to the fact that it will be required to settle any guarantee claims and expenses before it can reclaim this outgo from MRB under the reinsurance arrangement.

2.28 Based on what I have been provided with in relation to liquidity, I am satisfied that MetLife appears to be adequately considering and addressing the liquidity risk to which MLUK will be exposed, but I will comment more fully on MLUK's liquidity framework in my Supplementary Report, by which time it is expected to be available.

2.29 I have set out more fully in Section 8 why I am comfortable that:

- the implementation of the Scheme will not have a material adverse impact on the financial resources available to provide security of benefits under the Transferring Policies; and
- the change in risk profile to which the Transferring Policies will be exposed as a result of the transfer will not have a material adverse impact on the security of their benefits.

Reasonable expectations of Transferring Policyholders

2.30 In Section 8 I have considered the impact of the Scheme on the likelihood that the reasonable expectations of Transferring Policyholders will be met. This analysis considers:

- The reasonable benefit expectations of Transferring Policyholders; and
- The standards of service, management and governance applicable to the Transferring Policies.

In summary, in relation to reasonable benefit expectations, there will be no change to the charges levied on Transferring Policies, to the range of investments funds available, or to the method used to determine unit prices in the relevant linked funds. I have also concluded that the implementation of the Scheme will not have a material adverse impact on the security of benefits under the Transferring Policies.

2.31 In relation to service standards, the Transferring Policies are currently serviced by SS&C, and MLUK will be added to MLE's existing contract with SS&C, meaning that SS&C will continue to service the Transferring Policies on MLUK's behalf after

the implementation of the Scheme. This will, in my view, ensure that the transfer does not result in disruption to servicing of the Transferring Policies.

2.32 In relation to the management and governance applicable to the Transferring Policies, the MLUK Board will include two non-executive directors, both of which will be independent of MetLife. As a result of their existing roles, MLUK's senior management are already familiar with the Transferring Business.

2.33 I have set out more fully in Section 8 why I am comfortable that the implementation of the Scheme will not materially adversely affect the likelihood that the reasonable expectations of Transferring Policyholders are met.

ASSESSMENT OF THE IMPACT OF THE SCHEME ON THE NON-TRANSFERRING POLICYHOLDERS

2.34 In Section 9 I have considered the impact of the implementation of the Scheme on:

- the security of benefits of the Non-Transferring Policies of MLE; and
- the reasonable expectations of the Non-Transferring Policies of MLE.

Security of benefits of the Non-Transferring Policies

2.35 The security of benefits of the Non-Transferring Policies is currently provided by the financial resources of MLE, including the value of future recoverables from MRB under the UK Treaty.

2.36 Following the implementation of the Scheme, the financial resources of MLE will continue to provide security for the benefits of the Non-Transferring Policies, albeit that certain assets of MLE will have transferred to MLUK.

2.37 Table 2.2 below shows a summarised Solvency II financial position as at 31 March 2023 of MLE, along with a pro forma Solvency II financial position of MLE at the same date assuming the transfer had already taken place.

TABLE 2.2: SUMMARY COMPARISON OF SOLVENCY II FINANCIAL POSITIONS OF MLE PRE- AND POST-SCHEME AS AT 31 MARCH 2023

31 March 2023 (€m)	MLE (pre-Scheme)	MLE (post-Scheme)
Total Assets (A)	9,445.9	4,161.1
Total Liabilities (B)	8,187.1	2,923.1
Available Own Funds (C = A – B)	**1,258.8**	**1,238.0**
Own Funds Eligibility Restriction (D)	-	-
Eligible Own Funds (E = C + D)	**1,258.8**	**1,238.0**
SCR (F)	628.3	625.7
Excess Own Funds (= E – F)	**630.5**	**612.3**
SCR Coverage Ratio (= E / F)	***200.4%***	***197.9%***

2.38 Table 2.2 shows that, while MLE's assets and liabilities will reduce significantly as a result of the transfer, the net impact of the transfer on its SCR Coverage Ratio is relatively small. This is because the Transferring Business is 100% reinsured from MLE to MRB, and therefore removing the Transferring Business from MLE does not have a material effect on its risk exposures or its capital position. The majority of the €20.8 million net reduction in MLE's Own Funds as a result of the implementation of the Scheme arises because it is intended that MLE will provide capital to MLUK upon the implementation of the Scheme.

2.39 Moreover, the implementation of the Scheme will not affect the provisions of MLE's capital management policy, nor the extent to which MLE complies with this policy.

2.40 The impact of the Scheme on the risk profile to which Non-Transferring Policyholders will be exposed is relatively small. The main change will be to reduce significantly the risk to Non-Transferring Policyholders of the failure of MRB, as the vast majority of business covered by the UK Treaty with MRB will be transferring to MLUK under the Scheme. The other risks of MLE will remain, and the capital held against those risks by MLE will also be materially unchanged.

2.41 I have set out more fully in Section 9 why I have concluded that the implementation of the Scheme will not have a material adverse effect on the security of benefits under the Non-Transferring Policies of MLE.

Reasonable expectations of Non-Transferring Policyholders

2.42 In Section 9 I have considered the impact of the Scheme on the likelihood that the reasonable expectations of Non-Transferring Policyholders will be met. This analysis considers:

- The reasonable benefit expectations of Non-Transferring Policyholders; and
- The standards of service, management and governance applicable to the Non-Transferring Policies.

2.43 In summary, the Scheme will not result in any changes to the terms and conditions of Non-Transferring Policies, the charges applicable to the Non-Transferring Policies, or any other aspect of the operation of the Non-Transferring Policies.

2.44 The Scheme will not affect the administration or servicing of the Non-Transferring Policies, nor the governance and management arrangements applicable to the Non-Transferring Policies.

2.45 I have set out more fully in Section 9 why I am comfortable that the implementation of the Scheme will not materially adversely affect the likelihood that the reasonable expectations of Transferring Policyholders are met.

OTHER CONSIDERATIONS ARISING FROM THE SCHEME

2.46 In this Report I have considered:

- The approach to communication with policyholders;
- The costs of the Scheme;
- Reinsurance counterparties of MLE;
- Events since the financial information in this Report was produced;
- Tax;
- Other creditors of MLE;
- Future corporate transactions;
- The Financial Services Compensation Scheme and Financial Ombudsman Service;
- The effect of the Scheme on the nature and value of any rights of policyholders to participate in profits;
- The effect of the proposed Scheme on previous schemes; and
- The future operation of the Scheme.

2.47 My analysis of the areas listed in paragraph 2.46 is contained in Section 10 of this Report. Based on this analysis, I am satisfied that none of these areas alters my conclusions in relation to the proposed Scheme.

OVERALL CONCLUSIONS

2.48 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of MLE, including the Transferring Policyholders; or
- The reasonable benefit expectations of the policyholders of MLE, including the Transferring Policyholders; or
- The standards of service, management and governance applicable to the policies of MLE, including the Transferring Policies.

2.49 I am satisfied that the Scheme is equitable to all classes and generations of MLE policyholders.

3. General Considerations of the Independent Expert

THE ROLE OF THE INDEPENDENT EXPERT

3.1 As described in Section 1 of this Report, the Scheme concerns two life insurance companies: MLE and MLUK. I need to consider the terms of the Scheme generally and how the different groups of policyholders of MLE are likely to be affected by the implementation of the Scheme.

3.2 I am required by the UK Regulatory Guidance to consider:

- The effect of the transfer on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- The effect of the transfer on matters such as investment management, new business strategy, administration, expense levels and valuation bases insofar as they may affect:
  - the security of policyholders' contractual rights;
  - levels of service provided to policyholders; or
  - the reasonable expectations of policyholders; and
- The cost and tax effects of the transfer, insofar as they may affect the security of policyholders' contractual rights or their reasonable expectations.

3.3 In this Report I have not restricted my assessment of the Scheme to the consideration of potential adverse effects.

3.4 In this Report I have restricted my assessment to the proposals put forward by the Companies and have not considered alternative arrangements or proposals.

3.5 It is common for independent experts to focus on the impact of a transfer on two areas, namely the security of policyholders' contractual rights and benefits and policyholders' reasonable expectations. I have described my considerations in relation to both areas below.

3.6 The type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholder's risk exposure will be the characteristics of the company in which the policy is held, for example:

- The amount and quality of capital resources available, other calls on those capital resources and any capital support currently available to the company;
- The internal capital management policy of the company;
- The investment strategy of the company;
- The mix of business of the company;
- The company's business strategy, e.g. whether the company is open or closed to new business, its acquisitions strategy; and
- Other factors, such as operational risks faced by the company, reinsurance arrangements of the company, the company's governance framework and its tax position.

SECURITY OF POLICYHOLDER BENEFITS

3.7 As part of my role as Independent Expert for the Scheme, I need to consider the security of policyholders' contractual rights; that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their policy benefits when these are due.

3.8 In considering and commenting upon policyholder security, I shall primarily consider policyholders' contractual benefits. The amount by which the assets available to support the insurance business exceed the insurance liabilities provides security for the contractual benefits. In this Report I have interpreted "contractual benefits" to include all benefits to which the policyholder is contractually entitled, even if those benefits are not guaranteed in monetary terms, for example, where the policy is a unit-linked investment policy under which the policyholder is entitled to receive the value of their policy's units, less any applicable charges, as the policy benefit.

3.9 The prudential regulations applicable in the UK and Ireland require insurance companies to hold a minimum amount of capital in addition to assets backing a market-consistent estimate of their liabilities to policyholders.

3.10 When commenting on the Companies' financial strength in this Report, I have primarily focused on "**SCR Coverage Ratio**" as a measure of financial strength. The SCR Coverage Ratio is the ratio of an insurer's Own Funds to its Solvency Capital Requirement, i.e. the ratio of its available capital to its required capital. Definitions and descriptions of Own Funds and the Solvency Capital Requirement are given in Section 4.

3.11 The SCR Coverage Ratio is a commonly used measure of financial strength, but insurers' financial positions are complex and therefore a single ratio cannot provide complete information about financial strength, despite the improvement in comparability of insurers' financial positions that the Solvency II regulations (described in Section 4) brought about. In particular, SCR Coverage Ratio is a "point in time" measure and only gives information about the ability of the insurer to meet its capital requirements at that point in time[9]. For example, it does not reflect any future capital needs the insurer may have to execute its strategy in the future. Additionally, the SCR Coverage Ratio does not provide full information on how resilient the SCR Coverage Ratio is to adverse scenarios, and two insurers with the same SCR Coverage Ratio may therefore have a different level of solvency resilience.

3.12 For these reasons I have also commented in this Report on scenario analysis carried out by the Companies that tests the continued resilience of their respective solvency positions to future plans around new business and potential adverse scenarios, which will be of particular relevance to my assessment of the impact of the Scheme on the Transferring Policyholders.

3.13 In addition, unlike the SCR Coverage Ratio, capital management policies are commonly formulated to give information about resilience to potential future adverse scenarios, and therefore it is important that I consider the relative strength of the requirements of the Companies' respective capital management policies in parallel with their respective SCR Coverage Ratios.

POLICYHOLDERS' REASONABLE EXPECTATIONS

3.14 I also need to consider the transfer in the context of its effect on policyholders' reasonable expectations.

[9] For the avoidance of doubt, the reference to a "point in time" measure does not mean that the SCR Coverage Ratio only reflects the ability of an insurer to meet those obligations expected to arise over the short term. Rather, it means that it is based on the insurer's in-force business and market conditions at a particular point in time (in the case of information in this Report, that point in time is 31 March 2023), but included in the SCR Coverage Ratio is an assessment of the extent to which the insurer is able to meet its liabilities in full over their entire duration, both under baseline assumptions (based on conditions at 31 March 2023) and under the stress scenarios that underpin the calculation of the SCR.

3.15 This involves considering the effect of the implementation of the Scheme on any areas where discretion is involved on behalf of the relevant insurance company, for example in determining the charges applied to a policy or the method used for unit pricing[10].

3.16 Consideration of policyholders' reasonable expectations also extends to the effect of the transfer on the management, service and governance standards of the company in question.

THE CONCLUSIONS OF THE INDEPENDENT EXPERT

3.17 My assessment of the impact of the Scheme on the various groups of affected policies is ultimately a matter of actuarial judgement regarding the likelihood and impact of possible future 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 about their effect on the policies.

3.18 In order to acknowledge this inherent uncertainty, the conclusions of the independent expert in respect of transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is unlikely to happen and does not have a large impact, or is likely to happen but has a small impact, then it is not considered to have a material effect on the policies.

3.19 There are some instances in this Report where I have used the term "unlikely" to describe a particular event or scenario. Unless otherwise stated, I have not attempted to quantify the likelihood of such events or scenarios when describing them as unlikely; readers of this Report should interpret the term as meaning that the likelihood of the event happening in the foreseeable future is deemed to be significantly lower than the likelihood of the event not happening, even if a precise quantification of these likelihoods is not possible.

3.20 My primary focus as Independent Expert is on identifying any consequences of the transfer that may be adverse to one or more groups of policyholders or other stakeholders, in other words, effects that may be contrary to their interests. This, along with the materiality framework outlined in paragraph 3.18, results in many of my conclusions being framed with a view to identifying whether or not particular aspects of the transfer will, in my view, result in a 'material adverse effect' on a particular group.

3.21 Additional guidance on the approach to be taken by the Court in relation to Part VII transfers was provided by the Court of Appeal in December 2020 in its judgment on a proposed transfer of business from The Prudential Assurance Company Limited (part of the M&G Group) to Rothesay Life Plc.

3.22 The judgment from the Court of Appeal gave the following guidance:

- The Court's primary concern is whether the proposed scheme will have a material adverse effect on policyholders, employees or other stakeholders.
- An adverse effect is only material if it is:
  - a possibility that cannot sensibly be ignored having regards to the nature and gravity of the feared harm in the particular case;
  - a consequence of the proposed scheme; and
  - material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.

[10] Where policyholders' premiums are used to purchase units in an internal linked fund operated by the insurer, the insurer has a degree of discretion over the method it uses to determine the price of the fund's units at any given time.

- Where policy benefits are contractually guaranteed, the main issue is whether the proposed scheme will have a material adverse effect on the receipt by policyholders of those benefits, or on the standards of service provided.
- The likelihood of non-contractual parental support being available to the transferor and transferee in the future is not a relevant factor, nor is it appropriate to place weight on resources in excess of the amounts which the insurers are obliged to retain[11].
- Factors such as the age, venerability and reputation of the transferor and transferee are not relevant to the Court's consideration.

3.23 I have taken account of this guidance in my consideration of the Scheme.

MY SUPPLEMENTARY REPORT

3.24 As noted in paragraph 1.14, I will prepare my Supplementary Report prior to the Sanction Hearing, to provide an update for the Court on my conclusions in the light of any significant events subsequent to the date of the finalisation of this Report.

3.25 The Supplementary Report will be made available on the MetLife website.

RELIANCE ON LEGAL ADVICE

3.26 There are some aspects of the Scheme that relate to legal matters which fall outside my expertise. For these areas, I have considered whether it is appropriate to take independent legal advice and I have decided that it is appropriate for me to rely on the advice provided to MLE and MLUK by CMS Cameron McKenna Nabarro Olswang LLP ("**CMS**").

3.27 The only areas where I have relied on advice from the Companies' legal advisers are:

- Various factual matters in relation to the features of the proposed Scheme and the legal processes to be followed to seek the sanction of the Scheme, and
- Advice on any potential impediments that may arise in relation to the small number of Transferring Policies whose holders are resident outside of the UK in the following areas:
  - The ability of MLUK to service such policies; and
  - The recognition of the Court's sanction of the Scheme in the jurisdictions in which holders of such policies reside.

3.28 My reasons for being content to rely on this advice are:

- CMS is a large and experienced legal firm;
- The relevant legal matters do not appear to be contentious; and
- The fair treatment of policyholders is not dependent on the legal advice.

3.29 I am therefore satisfied that it is appropriate for me to rely on the conclusions of CMS in forming my view on the Scheme.

[11] This is a reference to the amounts of capital insurers are required to retain under the Solvency II regulations, as well as amounts of capital required by insurers' internal capital management policies, which set out the target level of capitalisation of the insurer.

4. The UK and Irish Life Insurance Markets and Regulatory Environments

INTRODUCTION

4.1 The respective regulatory regimes to which UK and Irish insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and are summarised in this section.

THE UK AND IRISH REGULATORS

4.2 Responsibility for the regulation of UK insurance companies is split between the PRA and the FCA.

4.3 The PRA is a part of the Bank of England and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

4.4 The PRA has statutory objectives to promote the safety and soundness of the insurers that it regulates, and to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.

4.5 The FCA regulates the conduct of all financial services firms in relation to consumer protection, industry stability and the promotion of healthy competition between providers, as well as being the prudential supervisor for financial services firms that are not supervised by the PRA.

4.6 Responsibility for the regulation of Irish insurance companies lies with the CBI.

4.7 The CBI has the mission to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

THE UK AND IRISH PRUDENTIAL REGULATORY REGIMES FOR INSURANCE COMPANIES

Introduction

4.8 The regulatory framework applicable to European Economic Area ("**EEA**") insurance and reinsurance companies is known as Solvency II, which came into effect on 1 January 2016[12].

4.9 Prior to the UK's exit from the European Union ("**EU**") on 31 January 2020, and during the Brexit transition period between 31 January 2020 and 31 December 2020, UK insurance and reinsurance companies were subject to Solvency II.

4.10 Solvency II imposes capital requirements on insurers and reinsurers that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.

4.11 With effect from 1 January 2021 responsibility for the regulatory framework applicable to UK insurance and reinsurance companies reverted to the UK authorities. The UK insurance regulatory framework currently remains largely aligned with the EU Solvency II regime, which was adopted into UK law as part of the UK's exit from the EU in a process known as "on-shoring", albeit that the two regimes are no longer identical.

4.12 In this Report, I have described the regulatory framework applicable to EEA insurers and reinsurers as "**EU Solvency II**" and that applicable to UK insurers as "**UK Solvency II**".

4.13 I describe below the relevant features of the EU Solvency II regime, followed by a sub-section describing the differences between UK Solvency II and EU Solvency II.

[12] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

4.14 In this section references to "insurers" can generally be interpreted as being equally applicable to both insurance and reinsurance companies.

Reform of UK Solvency II

4.15 On 23 July 2020 the UK Government announced that it would review certain features of UK Solvency II, and in April 2022 HM Treasury launched a consultation on its review of UK Solvency II with the following objectives:

- to spur a vibrant, innovative and internationally competitive insurance sector;
- to protect policyholders and ensure the safety and soundness of firms; and
- to support insurance firms to provide long-term capital to underpin growth.

4.16 On 17 November 2022 HM Treasury published the UK Government's response[13] to the consultation, and on 20 June 2023 HM Government published drafts of The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023[14] and The Insurance and Reinsurance Undertakings (Prudential Requirements) (No. 2) Regulations 2023[15]. This was followed by the publication by the PRA of CP12/23 – "Review of Solvency II: Adapting to the UK insurance market"[16] on 29 June 2023 and CP19/23 – "Review of Solvency II: Reform of the Matching Adjustment" on 28 September 2023. These documents contained details of a reform package which is described in paragraphs 4.51 to 4.58.

Reform of EU Solvency II

4.17 Similarly, the EU is currently undertaking a review of EU Solvency II. On 17 December 2020, the European Insurance and Occupational Pensions Authority ("**EIOPA**")[17] published its Opinion on the EU's 2020 Review of (EU) Solvency II, which set out its advice to the European Commission in relation to its review of certain areas of the Solvency II framework.

4.18 On 6 June 2022, the European Parliament's rapporteur published their draft report[18] on proposed reforms to the EU Directive 2009/138/EC[19] ("**EU Solvency II Directive**"). On 14 June 2022, the European Council published its agreed position and on 2 August 2022 the European Parliament published 805 amendments to the rapporteur's proposals. The European Parliament Committee on Economic and Monetary Affairs ("**ECON**") will vote on the proposed reforms. The date for this vote has not yet been scheduled.

4.19 Once the EU Solvency II Directive amendments are approved, the European Commission will publish its proposed changes to the Commission Delegated Regulation (EU) 2015/35[20], which provide a greater level of detailed guidance on implementation of EU Solvency II than the genera l principles contained within the EU Solvency II Directive.

4.20 More detail on the reform to EU Solvency II is given in paragraphs 4.59 to 4.69.

[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118359/Consultation_Response_-_Review_of_Solvency_II_.pdf

[14] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164571/Draft_Insurance_and_Reinsurance_Undertakings__Prudential_Requirements__Regulations__1_.pdf

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164850/Draft_Insurance_and_Reinsurance_Undertakings_Prudential_Requirements_Regulations_2.pdf

[16] https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/review-of-solvency-ii-adapting-to-the-uk-insurance-market

[17] EIOPA is an EU supervisory body responsible for advising EU institutions on the regulatory framework for, and supervision of, insurance and occupational pensions sectors in Europe.

[18] https://www.europarl.europa.eu/doceo/document/ECON-PR-732668_EN.pdf

[19] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II):

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009L0138-20210630&from=EN

[20] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II): http://publications.europa.eu/resource/cellar/163318c6-1824-11ed-8fa0-01aa75ed71a1.0009.03/DOC_1

General structure of EU Solvency II

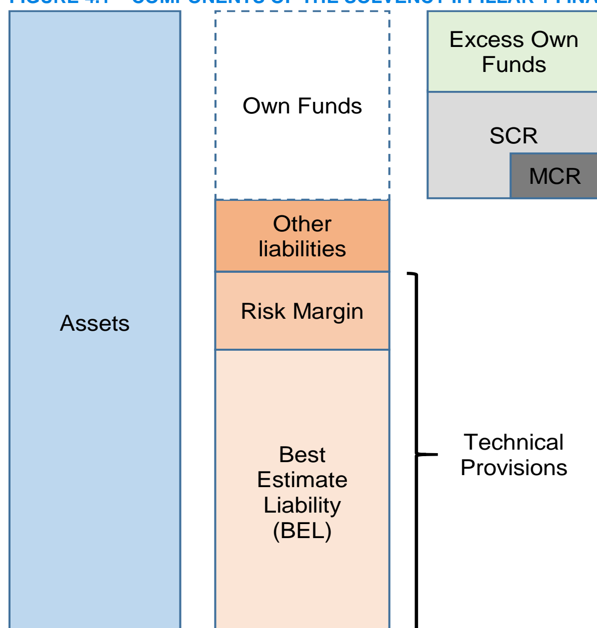
4.21 I have described in more detail later in this section the EU Solvency II regime and wider aspects of regulation and capital management for EEA insurers but, in summary, the principal areas providing for the financial safety and soundness of EEA insurers are:

- The **Solvency II Pillar 1 requirements**, which require the regular determination of the insurer's financial position in accordance with the Solvency II regulations. This financial position is reported regularly to the local insurance regulator and ensures that the insurer's available capital resources are regularly determined and compared against the level required by Solvency II. The amounts required to be held under Solvency II comprise:
  - **Technical Provisions**, which represent the insurer's liabilities in relation to its insurance obligations, and are intended to represent the amount of assets that would need to be transferred to a third party in an arm's length transaction in order for that third party to take over the insurer's insurance obligations;
  - **Other liabilities**, which represent liabilities of the insurer not directly related to its insurance obligations; and
  - The **Solvency Capital Requirement** ("**SCR**"), which represents the minimum required level of assets in excess of Technical Provisions and other liabilities ("**Own Funds**") that insurers are required to maintain. The derivation of the SCR is intended to ensure that the insurer remains able to meet its Technical Provisions over a one year period with a probability of at least 99.5%; in other words that it would remain able to transfer its obligations to a third party following a 1-in-200 year adverse event.
  - Solvency II also provides for the calculation of a **Minimum Capital Requirement** ("**MCR**"), which is normally smaller than the SCR[21] and which, if breached, would trigger intensive regulatory intervention.
- The **Solvency II Pillar 2 requirements**, which require insurers to put in place effective risk management and governance frameworks allowing them to measure, monitor, manage and report on their risks on a continuous basis. The Pillar 2 requirements also require insurers to conduct an Own Risk and Solvency Assessment ("**ORSA**") which, inter alia, considers the solvency needs of the insurer (taking into account its risk profile) and assesses the insurer's ability to continuously meet its Technical Provisions and capital requirements.

[21] The MCR is subject to an absolute floor of €4.0 million, meaning that it may be larger than the SCR for very small insurers.

The Pillar 1 requirements

FIGURE 4.1 – COMPONENTS OF THE SOLVENCY II PILLAR 1 FINANCIAL POSITION



4.22 Under EU Solvency II, an insurer's liabilities relating to its insurance obligations are known as its Technical Provisions, which are required to be determined using market-consistent[22] principles. However, as insurance liabilities are not generally traded in listed markets, the market-consistent requirement is typically met by deriving the Technical Provisions as the sum of the insurer's Best Estimate Liability ("**BEL**") and its Risk Margin, the Risk Margin being an adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.

4.23 The BEL is determined by using actuarial/financial models to project the expected future obligations of the insurer over the lifetime of the contracts using the most up-to-date financial information and using best estimate actuarial assumptions. The BEL is then derived as the net present value[23] of these projected cash flows. In the absence of approval to apply the Matching Adjustment or the Volatility Adjustment (see paragraphs 4.37 to 4.39), the discount rates[24] used in the derivation of this present value are based on the market swap curve[25] prevailing at the balance sheet date, and are intended to reflect a risk-free rate of return.

4.24 In the case of investment contracts where the insurer offers some level of investment protection or guaranteed performance, the BEL is often determined using stochastic techniques. This involves using specialist mathematical models to simulate a large number of equally likely potential paths for future investment returns; these paths are called stochastic simulations. The net present value of the pay-out(s) under the policy, reflecting the impact of any attaching investment guarantees, is calculated in each stochastic simulation, and the BEL for these contracts is determined as the average of these net present values across all simulations. Stochastic techniques are generally required where the investment guarantee is asymmetric, i.e. the insurer is required to pay money out over and above the policyholder's

[22] In this context, "market-consistent" means that assets and liabilities should be valued at the amount for which they could be exchanged/transferred/settled between knowledgeable willing parties in an arm's length transaction

[23] The net present value of a set of future cash flows refers to the amount that would need to be invested now, under a given assumption about future rates of interest, in order to exactly meet the cash flows.

[24] "Discount rates" refers to the future rates of interest assumed in the derivation of the net present value.

[25] "Swap curve" refers to the fixed rates available on interest rate swaps of different tenors as at the balance sheet date. An interest rate swap is a financial instrument under which two parties swap cash flows based on an agreed notional amount; one party pays a fixed proportion of the notional amount in each period (this proportion being known as the "fixed rate") and the other pays a proportion of the notional in each period equal to the prevailing short-term interest rate at that time.

underlying fund value (i.e. to meet their obligations under the guarantee) if markets fall but the benefit of markets rising accrues to the policyholder.

4.25 Assets are, broadly speaking, recognised at their market value on the Solvency II Pillar 1 balance sheet. Future recoverables from outward reinsurance arrangements are recognised as an asset on the Solvency II balance sheet, with the value attributed to reinsurance recoverables being derived consistently with the BEL for the liabilities covered by the reinsurance arrangement[26]. There are no prescriptive restrictions or requirements under Solvency II in relation to the amounts or types of assets in which insurers are permitted to invest, but Solvency II includes the requirements of the "Prudent Person Principle", which (inter alia) requires that insurers may "only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs".

4.26 Under the Solvency II regime, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital available in the company to meet capital requirements.

4.27 Under Solvency II, companies are required to classify their Own Funds into three tiers, which broadly represent differing levels of quality of Own Funds in respect of their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must exhibit both of the following:

- **Permanent availability**, i.e. the item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up.
- **Subordination**, i.e. in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.

4.28 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

4.29 For Own Funds not classified as Tier 1, certain quantitative restrictions exist on the extent to which such Own Funds can be used to meet Solvency II capital requirements. The amount of Own Funds after the application of such restrictions is known as the insurer's Eligible Own Funds.

4.30 Insurers are required to maintain sufficient Eligible Own Funds to meet the higher of the SCR and the MCR[27].

4.31 As stated in paragraph 4.21, the SCR under Solvency II is intended to be the amount of capital required to ensure that the insurer's assets continue to exceed its Technical Provisions over a one year time frame with a probability of 99.5%. The SCR is derived based on the risks inherent in the specific assets and liabilities of the insurer, and makes allowance, subject to certain criteria being met, for the presence of any risk-mitigating instruments such as reinsurance arrangements and financial derivatives.

4.32 It should be noted that, while the SCR is calibrated by reference to the impact of adverse scenarios that manifest themselves over a one year period, the SCR is not intended to relate merely to the insurer's ability to meet its outgoings during that year. Instead, it relates to the ability of the insurer to meet its outgoings during the year and to meet its Technical Provisions in full at the end of the year, noting that Technical Provisions take account of all of the insurer's future obligations in respect of its in-force business, however far into the future they arise. Moreover, while the SCR is intended to be calibrated based on adverse scenarios over a one-year period, in practice many of the stress tests prescribed in the SCR calculation as part of the Solvency II Standard Formula (see paragraph 4.34) are expressed as permanent, rather than one year, adverse scenarios.

4.33 The MCR, which is lower than the SCR other than for very small insurance companies, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.

[26] The value of reinsurance recoverables is adjusted downwards by an amount representing the cost of the default of the reinsurer multiplied by an assessment of the probability of such a default.

[27] By design, the SCR is larger than the MCR for all but the very smallest insurers.

4.34 In deriving the SCR, most EU insurers use the "**Standard Formula**", which is a methodology for determining the SCR that is prescribed by EIOPA. However, Solvency II also permits firms to use their own internal models, or alternatively a combination of a partial internal model and the Standard Formula, to derive the SCR. These internal models and partial internal models are subject to approval by the relevant local regulator.

4.35 The Standard Formula SCR is derived by evaluating standalone capital requirements for a set of prescribed risks to which most insurers are exposed. The capital requirement relating to each risk is usually derived by applying a prescribed stress to the insurer's assets and liabilities, with the adverse impact of this stress on the net assets representing the capital requirement for that risk. Each of these capital requirements is intended to represent a "1-in-200" level of severity (i.e. equivalent to the 99.5% confidence level described in paragraph 4.31) for the risk to which it relates. The overall SCR is then derived by aggregating the standalone capital requirements using a set of formulae that are intended to reflect the level of diversification[28] between the individual risks.

4.36 The methodology used in internal models to derive the SCR varies from insurer to insurer, but in essence the internal model ensures that all material quantifiable risks to which the insurer is exposed (and against which capital is an appropriate mitigant) are reflected in its SCR, and allows the insurer to calibrate the capital requirement for those risks to its individual circumstances.

Long-Term Guarantee Measures

4.37 Under EU Solvency II certain measures are available to insurers writing long-term insurance business. These "**long-term guarantee measures**" are:

- The Volatility Adjustment;
- The Matching Adjustment; and
- The Transitional Measures.

4.38 The **Volatility Adjustment** is an increase to the discount rate used in the calculation of the BEL for liabilities that are eligible for the Volatility Adjustment. It is a mechanism that aims to prevent forced sales of assets in the event of extreme bond spread movements. In some territories (including the UK and Ireland), the use of the Volatility Adjustment requires the approval of the local regulator.

4.39 The **Matching Adjustment** is similar to the Volatility Adjustment, in that it is an increase to the discount rate used in the calculation of the BEL. However, the Matching Adjustment is typically significantly larger than the Volatility Adjustment and the criteria insurers must meet in order to apply it are more stringent. MLE does not make use of the Matching Adjustment.

4.40 The **Transitional Measures** were introduced to allow insurers to phase in the balance sheet impact of moving from the pre-Solvency II regulatory regime to the Solvency II regulatory regime. There are two transitional measures available to insurers, neither of which is used by MLE.

UK Solvency II

4.41 As stated in paragraph 4.11, UK Solvency II currently remains broadly aligned with the EU Solvency II framework in most areas.

4.42 The most material differences between the UK and EU Solvency II frameworks are in the following areas:

[28] Diversification refers to a situation where an insurer is exposed to a number of risks where the risks are not expected to manifest themselves at the same time, which means that the insurer is less likely to be materially affected by the manifestation of any single risk. By contrast, an insurer exposed to a single risk, a small number of risks, or connected risks that are likely to manifest themselves at the same time, is more likely to be materially affected by the manifestation of a single risk, all other things being equal. In the latter case, the insurer would be deemed to have a lower level of diversification as it is more exposed to the manifestation of a single risk.

- The determination of the risk-free interest rates referred to in paragraph 4.23;
- The approach to determining the Volatility Adjustment (see paragraph 4.38); and
- The approach used to calculate the Symmetric Adjustment of the Equity Capital Charge ("**SAECC**").

4.43 In relation to the determination of the **risk-free interest rates** referred to in paragraph 4.23, under UK Solvency II the risk-free interest rates are calculated and published monthly by the PRA, whereas for EU Solvency II they are calculated and published monthly by EIOPA. Both EIOPA and the PRA publish different sets of risk-free interest rates for different currencies, with insurers required to discount liability cashflows in their Solvency II calculations using the risk-free interest rates corresponding to the currency denomination of the relevant liabilities.

4.44 The PRA changed its approach to determining the sterling-denominated risk-free interest rates applicable to UK Solvency II from 31 July 2021 as a result of the planned discontinuation of the London Inter-Bank Offered Rate ("**LIBOR**"). The sterling risk-free interest rates published by the PRA are now based on financial instruments linked to the Sterling Overnight Index Average ("**SONIA**") rate.

4.45 EIOPA made a similar change to its sterling-denominated risk-free interest rates (applicable to EU Solvency II) as of 1 January 2022, but the methodology used to determine the sterling risk-free interest rates now differs from that used by the PRA, resulting in a divergence between the PRA and EIOPA risk-free interest rates for sterling. However, this divergence is only material for insurance liabilities that are more than 30 years in the future.

4.46 The approach used by the PRA to determine the euro-denominated risk-free interest rates applicable to UK Solvency II remains the same as that used by EIOPA for EU Solvency II, and therefore the euro-denominated risk-free interest rates for UK and EU Solvency II are currently identical.

4.47 There is also a technical difference in the approach used to determining the **Volatility Adjustment** (see paragraph 4.38) between EU and UK Solvency II. This relates principally to differences in the reference portfolios of assets used to determine the UK Volatility Adjustment versus the EU Volatility Adjustment.

4.48 Finally, there has been a divergence in the approach used to calculate the **SAECC** between UK and EU Solvency II. The SAECC is intended to be a countercyclical measure that adjusts the capital requirement insurers must hold against holdings of equities in their asset portfolios under the Standard Formula. The SAECC has the effect of increasing the Standard Formula equity capital requirement when equity prices are high (relative to historical averages) and reducing the equity capital requirement when equity prices are historically low. The SAECC is calculated and published by EIOPA (for EU Solvency II) and the PRA (for UK Solvency II) each month; however, the methodology used to determine the size of the SAECC under UK Solvency II changed post-Brexit and has consequently diverged from that used under EU Solvency II.

4.49 In addition to the differences in approach to sterling risk-free interest rates, the sterling Volatility Adjustment and the SAECC, the PRA has made some changes to the format and content of the reporting templates insurers are required to submit to them, such that these templates differ in some cases from those required under EU Solvency II.

4.50 In addition to the differences in the technical regulations, local regulators have a degree of discretion over their approach to the supervision of insurers in their territories, meaning that the PRA's supervisory approach may differ from the supervisory approach of regulators in EEA states (including Ireland), even in areas where the Solvency II regulations themselves are identical. However, this potential source of variation around supervisory approach was also present when the UK was subject to EU Solvency II.

Reform of UK Solvency II

4.51 As described in paragraph 4.15, the UK is currently undertaking a review of UK Solvency II, and various documents have been published by HM Government and the PRA containing some details of a reform package.

4.52 The reform package focuses on four areas:

- The Risk Margin;
- The Matching Adjustment;
- Investment flexibility for insurers; and
- Reducing reporting and administrative burdens.

4.53 The reform proposals relating to the Matching Adjustment are not relevant to MLE or MLUK (as neither firm uses, or plans to use, the Matching Adjustment) and therefore I have not described them further. Similarly, the proposals relating to investment flexibility focus on eligibility criteria for the use of the Matching Adjustment, and therefore I have not described them further.

4.54 The reforms to the Risk Margin will involve a change to the calculation methodology for the Risk Margin, with the consequence that the Risk Margin for long-term life insurance business will reduce (based on economic conditions at the time of publication) in aggregate across the UK insurance industry by 65%.

4.55 A reduction in the Risk Margin would, all else equal, increase insurers' SCR Coverage Ratios and therefore potentially free up capital to invest in strategic ventures or pay out as dividends. The UK Government expects that the Risk Margin reforms will free up capital in the insurance sector, reduce the volatility of life insurers' balance sheets, and safeguard against the Risk Margin becoming too high and volatile during periods of low interest rates, while ensuring that insurers hold sufficient assets to transfer their liabilities to another insurer if required.

4.56 Confirmation of the precise changes to the Risk Margin calculation methodology has not yet been published, but HM Treasury has published proposals on the Risk Margin calculation in the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023.

4.57 The reforms aimed at reducing reporting and administrative burdens include updating approval requirements for Solvency II internal models (see paragraph 4.34), the removal of capital requirements for branches of foreign insurers operating in the UK, and the introduction of a new mobilisation regime for insurers entering the UK market.

4.58 The implementation of the Risk Margin reform is expected to come into force in advance of the end of 2023, and is therefore expected to be reflected in UK insurers' regulatory solvency positions as at 31 December 2023. Other aspects of the reforms to UK Solvency II are expected to come into force during 2024.

Reform of EU Solvency II

4.59 As described in paragraphs 4.17 to 4.19, the EU is currently undertaking a review of EU Solvency II, and on 6 June 2022, the European Parliament's rapporteur published his draft report[29] on proposed reforms to the EU Solvency II regime, which was subsequently followed by a series of amendments on 2 August 2022 by the European Parliament.

4.60 The proposed reforms to EU Solvency II include the following main areas:

- Measures relating to proportionality;
- The calculation of Technical Provisions;
- The calculation of the Standard Formula SCR and MCR;
- The structure and content of reporting and disclosures;
- Long-term guarantee measures;
- The derivation of the risk-free interest rate curve;
- Macroprudential policy;
- Establishing a harmonised recovery and resolution framework; and

[29] https://www.europarl.europa.eu/doceo/document/ECON-PR-732668_EN.pdf

- Insurance Guarantee Schemes.

4.61 As described in paragraph 4.19, some significant details of the EU Solvency II review will not be available until proposed reforms to the Commission Delegated Regulation (EU) 2015/35[30] are published. This includes changes to the Risk Margin, Volatility Adjustment, the derivation of risk-free interest rates, and the calculation of the SCR and MCR. Where the exact specifics of proposed reforms remain uncertain I have not described such reforms in detail, as to do so would, in my view, be speculative.

4.62 The reform proposals relating to proportionality include increasing size thresholds for exclusion from EU Solvency II, introducing the concept of low risk profile insurers, and other proportionality measures.

4.63 The reforms to the Technical Provisions include a change to the calculation methodology for the Risk Margin. Similarly to the UK Risk Margin reform, the change is expected to reduce the Risk Margin for all insurers subject to EU Solvency II, but there is currently no indication as to the exact extent to which the proposed reduction in the EU Solvency II Risk Margin will differ to the planned reduction to the UK Solvency II Risk Margin.

4.64 EIOPA and the European Commission are proposing a number of changes to the calculation of the SCR (as described in paragraph 4.35). This includes increasing the available diversification benefit between the capital requirements for interest rate risk and credit risk, updating the calibration of the interest rate risk capital requirement, and expanding the range of values the SAECC can take.

4.65 The reforms to the long-term guarantee measures (as described in paragraphs 4.37 to 4.40) include changes to the Matching Adjustment and Volatility Adjustment. The reform proposals related to the Matching Adjustment are not relevant to MLE or MLUK and therefore I have not described them further.

4.66 The reform proposals include a change to the derivation of the risk-free interest rates (as described in paragraph 4.23). The European Parliament has proposed the introduction of a new "Alternative Methodology" that makes greater use of market interest rates for terms that are beyond the starting point of the extrapolation towards a long-term interest rate assumption. The extent to which market interest rates beyond the starting point of the extrapolation will be used will depend upon their reliability, as measured by EIOPA.

4.67 The reforms aimed at establishing a harmonised recovery and resolution framework include a set of measures for member state supervisors to put into place in order to ensure that policyholders are protected consistently across the EU in the event of an insurer being in financial distress.

4.68 EIOPA is also proposing to introduce a European network of national insurance guarantee schemes which meet a minimum set of harmonised features, such that, in the event of insurance failures, policyholders are protected consistently across the EEA.

4.69 ECON is yet to vote on proposed reforms to the EU Solvency II Directive. Following this, and prior to implementation, the European Commission will publish its proposed changes to the Commission Delegated Regulation (EU) 2015/35, which will then need to be agreed. It is therefore not expected that any parts of the reform package will come into force prior to the Transfer Date.

THE GOVERNANCE OF LONG-TERM INSURERS IN THE UK AND IRELAND

4.70 For most UK and Irish long-term insurers the Board of Directors is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.

4.71 Under EU and UK Solvency II, all insurers are required to establish a number of functions as part of their systems of governance, specifically:

[30] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II): http://publications.europa.eu/resource/cellar/163318c6-1824-11ed-8fa0-01aa75ed71a1.0009.03/DOC_1

- **Actuarial Function** – the Actuarial Function is responsible for, amongst other things, coordinating the calculation of the Technical Provisions and providing an opinion to the Board of Directors on the firm's underwriting policy and the adequacy of the firm's reinsurance arrangements. The person having responsibility for the Actuarial Function under UK Solvency II is known as the Chief Actuary and in Ireland as the Head of Actuarial Function ("**HoAF**").
- **Risk Management Function** – the Risk Management Function's role is to facilitate the implementation of the insurer's risk management system. The person having responsibility for the Risk Management Function under Solvency II is typically known in the UK and Ireland as the Chief Risk Officer.
- **Compliance Function** – the Compliance Function's role is to advise the Board of Directors on compliance with the prevailing regulatory regime and on other aspects of the legal environment.
- **Internal Audit Function** – the Internal Audit Function's role is to evaluate the effectiveness and adequacy of the insurer's internal control system and of the system of governance. The Internal Audit Function is required to be objective and independent from the operational functions.

4.72 In addition to the common requirements of EU and UK Solvency II relating to governance, UK insurers are subject to the Senior Managers and Certification Regime ("**SM&CR**"), which is jointly operated by the PRA and the FCA. The SM&CR defines a set of senior management functions ("**SMFs**"), which includes:

- Chief Executive Officer;
- Chief Financial Officer;
- Chief Risk Officer;
- Chief Actuary;
- Head of Internal Audit; and
- Head of Key Business Area.

4.73 UK branches of EEA and third-country insurers are required to hold a different set of SMFs.

4.74 Prior to the implementation of the Temporary Permissions Regime (as discussed in paragraphs 4.81 to 4.92) the SM&CR that applied to UK branches of EEA insurers was regulated solely by the FCA. Requirements included the appointment of an EEA Branch Senior Manager.

4.75 The individuals responsible for SMFs are subject to regulatory approval.

4.76 Comparably, in addition to the EU Solvency II requirements relating to governance, Irish insurers are subject to the Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011 as amended ("**CBRA**"), operated by the CBI. The CBRA prescribes a set of pre-approval controlled functions ("**PCFs**"), which includes:

- Chief Executive;
- Head of Finance;
- Chief Risk Officer;
- Head of Actuarial Function; and
- Head of Internal Audit;

4.77 The individuals responsible for these functions are subject to CBI approval.

FINANCIAL SERVICES COMPENSATION SCHEME AND FINANCIAL OMBUDSMAN SERVICE

4.78 The Financial Services Compensation Scheme ("**FSCS**") is a company limited by guarantee, with statutory backing, which provides compensation to customers of authorised financial institutions (such as banks and insurers) in the event that the institution is in default (meaning unable to pay).

4.79 The eligibility of holders of long-term insurance policies for compensation from the FSCS, and the amount of compensation payable, are dependent upon the type of policyholder, the type of policy and where the insurer is based. The FSCS will pay compensation to eligible individual holders of long-term insurance policies issued by UK insurers in the UK. I note that the FSCS is an unfunded scheme which relies on levies on participating financial institutions to cover compensation costs.

4.80 The Financial Ombudsman Service ("**FOS**") is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS.

TEMPORARY PERMISSIONS REGIME

4.81 Prior to the end of the Brexit transition period on 31 December 2020, EEA financial services firms established in EEA member states were authorised, under the EU's "freedom to provide services" or "freedom of establishment" regimes, to provide financial services in the UK (with or without a UK branch) without being authorised by the FCA or PRA. This ability was known as "passporting".

4.82 At the end of the Brexit transition period, the Temporary Permissions Regime ("**TPR**") came into effect in the UK. Enacted by the UK Government, the TPR enabled previously passporting EEA firms to continue to operate within the UK for a maximum of three years. This 3-year period is extendable by HM Treasury in increments of 12 months.

4.83 EEA firms that notified the PRA and FCA of their wish to enter the TPR or submitted an application for Part 4A permission under the FSMA prior to the end of the Brexit transition period would have entered the TPR. Firms under the TPR were required, if they had not already done so, to submit an application for Part 4A permissions by the closing date of their formal "landing slot" (or otherwise within the first two years of the TPR).

4.84 Firms operating under the TPR are deemed to have temporary Part 4A permissions until such a time that the PRA and FCA has determined the outcome of the firm's application for a Part 4A permission.

4.85 Firms under the TPR are subject to the same regulatory requirements and supervisory framework required by the PRA and FCA as if they were Part 4A authorised firms. Firms in the TPR with a UK branch are required to adhere to the same rules set out in the PRA Rulebook[31] as any other UK third-country branch. Additionally, firms under the TPR fall within the full scope of FCA supervision and such firms are required to comply with the relevant rules set out in the FCA Handbook[32].

4.86 If a firm's Part 4A authorisation were rejected after entering the TPR they would be required to wind down their existing UK business adhering to the requirements set out in the Financial Services Contracts Regime[33].

Financial Services Compensation Scheme and Financial Ombudsman Service

4.87 Prior to the end of the Brexit transition period, EEA insurers passporting to the UK were in the scope of the FSCS for UK, Isle of Man, Gibraltar or Channel Islands insurance policies.

[31] https://www.prarulebook.co.uk/

[32] https://www.handbook.fca.org.uk/

[33] Firms in the Financial Services Contracts Regime are unable to write new UK business and are limited to carrying out only those regulated activities that are required in order to ensure an orderly run-off of existing business. https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr/cancelling-temporary-permission

4.88 For firms operating under the TPR, policies issued before the end of the Brexit transition period that were, at that point, covered by the FSCS, remain in scope of FSCS protection providing that firm remains a "participant firm" as defined in the Policyholder Protection section of the PRA Rulebook.

4.89 For policies issued after the end of the Brexit transition period via a UK branch of a TPR firm, only risks or insurance commitments based in the UK, Isle of Man, Gibraltar or Channel Islands are protected by the FSCS.

4.90 For policies issued after the end of the Brexit transition period through an EEA branch of a TPR firm, only risks or insurance commitments based in the UK are protected by the FSCS, provided that firm is in the process of seeking authorisation for a UK branch.

4.91 Firms in the TPR (with or without a UK branch) continue to be covered by the FOS. Customers of these firms continue to be able to refer complaints to the FOS in the same way they could do as before the end of the Brexit transition period.

4.92 Firms under the TPR continue to be required to pay FSCS and FOS levies in respect of protected policies.

THE FCA'S CONSUMER DUTY REQUIREMENTS

4.93 In July 2022 the FCA published its final rules and guidance for a new Consumer Duty, setting out expectations for the standard of care that FCA-regulated firms, including insurers, give consumers.

4.94 The new Consumer Duty rules and guidance aims to increase the level of consumer protection in retail financial markets. It applies to both UK-domiciled insurers and UK branches of non-UK insurers.

4.95 The Consumer Duty rules will come into force in two phases:

- For products or services that are open to sale or renewal, the rules come into force on 31 July 2023;
- For closed products or services, the rules come into force on 31 July 2024.

4.96 It should be noted that the Transferring Business is classified as closed to new business for the purposes of Consumer Duty.

4.97 The Consumer Duty includes a new Consumer Principle that requires firms to act in a way that delivers good outcomes for retail customers. In addition to this Consumer Principle, there are:

- Cross-cutting rules that aim to provide clarity on the FCA's expectations under the Consumer Principle. The cross-cutting rules require firms to:
  - act in good faith;
  - avoid causing foreseeable harm; and
  - enable and support retail customers to pursue their financial objectives.
- Rules relating to four outcomes that the FCA wishes to see under the Consumer Duty, with these outcomes relating to:
  - Products and services;
  - Price and value;
  - Consumer understanding; and
  - Consumer support.

RISK APPETITE AND INTERNAL CAPITAL MANAGEMENT POLICY

4.98 The Board of Directors of an insurer is responsible for the management of the company and for its exposure to risk. In both the UK and Ireland, the Board will typically set out its appetite for risk in a form which references, amongst other things, the probability that the Board is willing to accept of not being able to pay policyholder liabilities as they fall due and/or meet regulatory solvency requirements.

4.99 In order to ensure that day-to-day fluctuations in markets and other experience do not lead to a breach of regulatory capital requirements, insurers usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's capital management policy.

4.100 The capital management policy of a firm is set by and owned by the Board and describes the amount and quality of capital resources that the Board has determined should be held in the company. Changes to this policy usually require Board approval and often take place in consultation with the local regulator.

4.101 The capital management policy is typically framed in terms of the capital the insurer aims to hold in excess of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example the (UK and EU) Solvency II regulatory regime specifies that the SCR should be such that firm's assets continue to exceed its Technical Provisions over a one year time frame with a probability of 99.5%. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided by the insurer.

4.102 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

THE PRODUCTS AND LONG-TERM BUSINESS RELEVANT TO THIS REPORT

4.103 The Scheme provides for the transfer of a portfolio of wealth management business written by MLE's UK branch. The Transferring Business consists entirely of life and pension policies that are used as investment vehicles, including vehicles used to save for, and provide an income during, retirement.

4.104 All policies within the Transferring Business are unit-linked policies. Under a unit-linked policy, the policyholder's premiums/contributions (net of any applicable charges or commission) are used to purchase units in investment funds (known as "**linked funds**") of the policyholder's choice. These funds can be operated by the insurer that issued the policy, in which case they are known as "**internal linked funds**", or units can be purchased in funds operated by a third party insurer or investment manager; such funds are known as "**external linked funds**".

4.105 Under the simplest form of unit-linked policy, the amount of benefits the policyholder is entitled to take from a linked fund is equal to the number of units being encashed multiplied by the price of the units. The price of the linked fund's units changes in line with the investment performance of the underlying assets of the fund, which means that the policyholder bears the investment risk associated with the policy. The insurer's revenue arises from the charges levied on the policy; for example, an annual management charge ("**AMC**"), typically expressed as a percentage of the policy's fund value, may be deducted from the policy's unit values each year and retained by the insurer. Therefore, the insurer may also be indirectly exposed to investment risk as the charges it receives may reduce if the unit price of the relevant linked fund reduces. The insurer's profit is the excess of this charge income over the expenses it incurs in originating and managing the business.

4.106 Some forms of unit-linked policies have additional guarantees attaching to them which allow the policyholder to choose to pass on some of the risk associated with the policy's performance to the insurer, in effect providing an element of guaranteed performance to the policy from the policyholder's perspective in return for an additional charge payable to the insurer (intended to compensate the insurer for taking on the investment risk and for the additional regulatory capital requirements that will be generated as a result of providing the guarantee). The types of guarantees relevant to this Report include:

- A Guaranteed Minimum Accumulation Benefit ("**GMAB**") under which the insurer guarantees that the policy's pay-out at one or more specified dates will be no less than a specified amount, regardless of the performance of the underlying investments. The guaranteed minimum level of benefit often has the potential to increase over time if investment performance is positive.
- A Guaranteed Minimum Death Benefit ("**GMDB**"), under which the insurer guarantees that the policy's pay-out upon the death of the policy beneficiary will be no less than a specified amount, regardless of the performance of the underlying investments. The guaranteed minimum level of benefit often has the potential to increase over time if investment performance is positive.
- A Guaranteed Lifetime Minimum Withdrawal Benefit ("**GMWB4L**"), under which the insurer guarantees that a minimum level of regular income can be withdrawn from the policy for the remainder of the life of the policy beneficiary. The level of the guaranteed minimum income can often be increased by the policyholder electing to defer the receipt of some or all of the income, or by positive investment performance.

4.107 Under EU and UK Solvency II, the Technical Provisions for unit-linked business are often expressed as the sum of:

- The value of the policyholders' units (sometimes referred to as the unit liability), i.e. the number of units multiplied by the price of the units as at the date in question;
- The "**non-unit BEL**" for the business, which comprises:
    - the present value of the insurer's expected future outgo in excess of policyholder unit values, in particular the insurer's future expenses associated with maintaining the business plus the expected cost of honouring any guarantees attaching to the business (such as those described in paragraph 4.106)

      less
    - the present value of the insurer's expected future income from charges levied on the policies.

  The non-unit BEL often makes a negative contribution to the Technical Provisions, for example if (as might be expected) the expected future charge income is higher than the expected future non-unit outgo.
- The Risk Margin for the business, which is described in paragraph 4.22, and which represents the compensation a third party acquirer of the business would require (in excess of the items listed above) in an arm's length transaction.

4.108 The fact that the non-unit BEL is permitted to be negative means that, under EU and UK Solvency II, insurers writing unit-linked business are, in effect, able to capitalise the value of expected future profits from charge income less expense and other outgo in their Solvency II financial positions.

Risks associated with the Transferring Business

4.109 Insurers writing unit-linked business with attaching guarantees are subject to a number of risks to their financial position, some of which I have referred to later in this Report. In this sub-section I have summarised the most material of the financial risks to which such insurers are commonly exposed in relation to their in-force portfolios, noting that different providers will have different risk exposures reflecting their individual circumstances.

4.110 **Investment risk**: This refers to the risk that the investments of the linked funds reduce in value, which results in a reduction in the expected value of future income from AMCs and other fund-related charges for the insurer. A reduction in the value of the assets in the linked fund will also increase the expected cost to the insurer of providing any investment guarantees attaching to the policies, such as those described in paragraph 4.106.

4.111 Investment risk is often subdivided into the risks associated with specific asset classes, such as equities, property and bonds, as well as foreign exchange movements. In the case of bonds, investment risk can refer to the risk that a bond's market value reduces as a result of market forces or a downgrade of the issuer's credit rating, as well as the risk that the bond issuer defaults on its obligations to pay the contractual cashflows under the bond.

4.112 Insurers providing investment guarantees often use financial instruments such as derivatives to hedge their exposure to the investment risk brought about by the guarantees. For example, if policyholders have guaranteed minimum pay-outs attached to their policy but their unit fund is invested primarily in equities, the insurer might enter into financial instruments constructed in such a way as to increase in value as equity values reduce. The presence of such an instrument should then allow the insurer to meet any shortfall in the unit fund relative to the guaranteed minimum pay-out following a shock to equity markets.

4.113 It would normally be expected that the additional charge (referred to in paragraph 4.106) levied on the unit fund in exchange for the insurer providing investment guarantees should be sufficient to meet the cost to the insurer of implementing any hedging of the investment risk brought about by the guarantees.

4.114 Such hedging instruments would typically be held outside of the linked funds and are therefore not investments to which the policy's unit price is exposed.

4.115 Insurers are required to hold capital under UK and EU Solvency II against the various different categories of investment risk described in paragraph 4.111. To the extent that insurers use hedging programmes to hedge their investment risk, this can (subject to certain restrictions) be used to reduce the amount of capital required to be held against investment risk to reflect the risk reduction brought about by the hedging instruments.

4.116 **Longevity risk:** This refers to the risk that policyholders to whom the insurer is guaranteeing an income for the rest of their lives (such as in the case of a GMWB4L – see paragraph 4.106) survive for longer than the insurer has assumed, either as a result of a mis-estimation of current mortality rates of policyholders or greater than expected future reductions in mortality rates as a result, for example, of unexpected medical breakthroughs. The financial impact of longevity risk is that the income is required to be paid over a longer period, which can also result in additional expenses being incurred to manage these policies over a longer period.

4.117 Longevity risk can be mitigated to some extent by ensuring that the portfolio is sufficiently large and diversified, and by suitable underwriting processes at the inception of the policy. Longevity reinsurance arrangements are also common for some types of business.

4.118 Insurers are required to hold capital against longevity risk under UK and EU Solvency II.

4.119 **Interest rate risk**: Changes in the level of risk-free interest rates can affect insurers' solvency positions. This is particularly the case for policies with attaching guarantees, as the net present value of the guaranteed amount(s) will change as risk-free interest rates change, and therefore the insurer's BEL will change. The insurer will often hold hedging instruments (similar to those described in paragraph 4.112) whose value responds to changes in interest rates in a similar way to the BEL; this has the effect of significantly reducing the insurer's exposure to the risk of interest rates changing.

4.120 Insurers writing policies without attaching guarantees are generally less affected by the level of interest rates as policyholders bear all of the investment risk, but a fall in interest rates could increase the net present value of the insurer's future expenses related to the maintenance of such policies, and therefore interest rates can also affect the solvency position of insurers writing non-guaranteed policies. To the extent that charge income is expected to be received significantly earlier or later than the time at which expenses and other outgo is paid, changes in interest rates can result in volatility in the values of these items on the insurer's balance sheet.

4.121 Insurers are required to hold capital against interest risk under UK and EU Solvency II.

4.122 **Persistency risk:** Insurers offering investment products are exposed to the risk that the pattern in which policyholders elect to withdraw their funds is different from expected; in particular the risk that more policyholders than expected withdraw their funds where the policies are profitable, or fewer policyholders than expected withdraw their funds where the policies are loss-making or where the policy has guarantees that are valuable to the policy beneficiary and that would be forgone upon surrender. Lower than expected withdrawal rates can also result in higher expense outgo for the insurer as there are more policies in-force to administer.

4.123 Persistency risk can be mitigated through providing a high standard of customer service, through product design (e.g. additional charges for withdrawals in the early years of a policy) or through various types of reinsurance arrangement which compensate the insurer in the event of adverse persistency experience.

4.124 Insurers are required to hold capital against persistency risk under UK and EU Solvency II.

4.125 **Counterparty risk**: Insurers' financial positions are exposed to the risk of the failure of key counterparties, in particular reinsurers and derivatives counterparties, as well as bank deposit counterparties.

4.126 In the case of a reinsurer, if the reinsurer were to fail the insurer may not receive the full value of its liabilities from the reinsurer but would still be required to meet the liabilities covered by the reinsurance; it is also likely that the insurer's Risk Margin and SCR would increase upon a default as the risk-mitigating benefit of the reinsurance (described in paragraph 4.31) falls away.

4.127 In the case of derivatives counterparties, the failure of such a counterparty could leave the insurer with a loss in a situation in which the value of the derivative to the insurer is positive and exceeds the amount recoverable through taking ownership of associated collateral, and could also leave the insurer's financial position exposed to changes in market conditions (against which the derivative in question was providing protection), meaning the insurer may need to hold a higher capital requirement as a result.

4.128 Insurers generally mitigate counterparty risk by ensuring that appropriate collateral arrangements are in place, and by ensuring that they are exposed to a diversified range of counterparties, often with limits on the level of exposure to individual counterparties or groups of counterparties.

4.129 Insurers are also required to hold capital against their counterparty risk under UK and EU Solvency II.

4.130 **Liquidity risk**: Liquidity risk refers to the risk that an insurer does not have sufficient cash to meet its liabilities as they fall due. For insurers offering investment products, liquidity strains can arise where derivative transactions have been entered into, as such transactions typically require the insurer to post cash or other liquid assets as collateral at short notice if market movements cause the value of the derivative to move against the insurer. Liquidity issues can also arise where linked funds are invested in illiquid investments, such as commercial property, and a larger than expected number of investors wish to redeem their holdings in the fund at a given time.

4.131 Liquidity risk is typically mitigated by ensuring that the insurer has sufficient liquid assets and projected cash income from its investments to meet its outgo as it falls due, even under stressed conditions, or alternatively that the insurer has recourse to external liquidity facilities in the event of a liquidity strain. In the case of unit-linked funds, the insurer typically has the ability to suspend fund redemptions where assets in the fund have become prohibitively illiquid.

4.132 UK and EU Solvency II do not require capital to be held against liquidity risk as capital is not necessarily an appropriate mitigant for this risk, but local insurance regulators typically require insurers to put frameworks in place to monitor, manage and mitigate their liquidity risk.

4.133 **Operational Risk**: Operational risk refers to the risk of loss as a result of inadequate or failed internal processes, systems, or human error, or from external events (such as a cyber-attack). For example, for an insurer offering investment products, operational losses could arise as a result of systematic errors in unit pricing processes, inadequate data protection measures or errors in the administration of insurance policies.

4.134 Operational risk is typically mitigated through the implementation of robust internal processes and systems, a strong risk management framework, employee training, and various other measures.

4.135 Insurers are also required to hold capital against operational risk under UK and EU Solvency II.

4.136 **Outsourcing Risk**: Outsourcing risk refers to the risk of non-performance, or poor performance, by a service provider of a function carried out by the service provider on behalf of the insurer.

4.137 Outsourcing risk is typically mitigated through due diligence processes on the service provider before contracting with them, ongoing oversight and monitoring of service levels relative to agreed service levels, and contingency plans to replace the service within an acceptable timeframe in the event of the failure of the provider.

4.138 Insurers are not required to hold capital against outsourcing risk under the UK and EU Solvency II Standard Formula, but insurers with internal models (and for which the risk is material) may choose to hold capital against it if it is sufficiently material.

4.139 **Climate Risk:** In the context of insurers, climate risk refers to risks associated with climate change. Climate risk is often split into three sub-categories:

- **Physical risk**: the first-order risks which arise from weather-related events, such as floods and storms. They comprise impacts directly resulting from such events, such as damage to property, and also those that may arise indirectly through subsequent events, such as disruption of global supply chains or resource scarcity.
- **Transition risk:** the financial risks which could arise for insurance firms from the transition to a lower-carbon economy. For insurance firms, this risk factor is mainly about the potential re-pricing of carbon-intensive financial assets, and the speed at which any such re-pricing might occur.
- **Liability risks:** risks that could arise for insurance firms from parties who have suffered loss and damage from climate change, and then seek to recover losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some or all of the cost to insurance firms under third-party liability contracts. This risk is less applicable to firms solely writing life insurance business.

5. Background to MLE

BACKGROUND

5.1 MLE is a proprietary insurance company domiciled in Ireland. It was incorporated as a private limited company on 8 February 2006 and changed its legal form to a designated activity company on 19 July 2016.

5.2 MLE's immediate parent is MetLife EU Holding Company Limited, a company domiciled in Ireland. MLE's ultimate parent is MetLife, Inc., a company domiciled in the USA, which operates as the parent company for the MetLife Group.

5.3 The MetLife Group is a global provider of insurance, annuities and employee benefit programmes, operating in the USA, Japan, Latin America, Asia, Europe, the Middle East and Africa.

5.4 The MetLife Group operates in Europe through various of its subsidiaries, including MLE.

5.5 MLE has used its ability to "passport" throughout the EU to establish branches in the UK, Italy, Spain, Portugal, France, Czech Republic, Bulgaria, Slovakia, Hungary, Romania and Cyprus. MLE also operates in Poland, Germany, Austria and the Netherlands via the EU's "freedom to provide services" regime.

5.6 MLE established its UK branch on 22 June 2006.

5.7 MLE is authorised and regulated by the CBI. MLE has authorisation from the CBI to transact life assurance business in Life Classes I (life insurance and contracts to pay annuities on human life), III (life insurance[34] and annuities linked to investment funds), IV (permanent health insurance) and VI (capital redemption operations), and Non-Life Classes 1 (Accident) and 2 (Sickness) under the European Union (EU) (Insurance and Reinsurance) Regulations 2015[35].

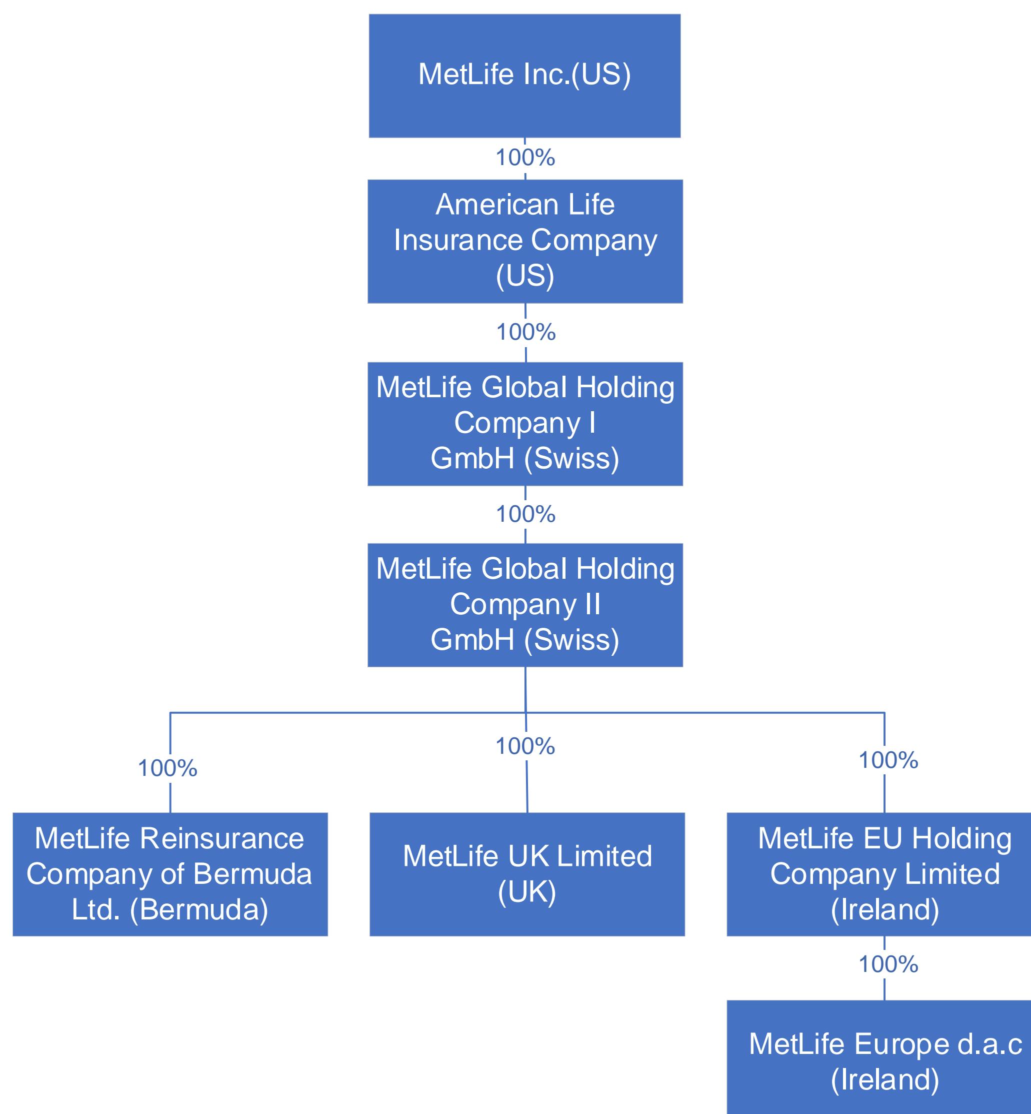
5.8 As at 31 March 2023, MLE had approximately €9.4 billion of assets and €8.2 billion of liabilities (including Solvency II Technical Provisions of approximately €4.9 billion).

5.9 Figure 5.1 below shows a structure chart of relevant legal entities within the MetLife Group, including MLE and MLUK.

[34] In the context of Class III, "life insurance" refers to life insurance which comprises assurance on survival to a stipulated age only, assurance on death only, assurance on survival to a stipulated age or on earlier death, life assurance with return of premiums, marriage assurance, birth assurance.

[35] https://www.irishstatutebook.ie/eli/2015/si/485/made/en/print

FIGURE 5.1 – METLIFE LEGAL ENTITY STRUCTURE CHART



MLE'S PRODUCTS

Overview of MLE's business

5.10 MLE's business includes a wide range of life, pension and health business. The life and pension business includes a mixture of unit-linked and non-linked products, on both individual and group bases. MLE's primary life products are endowments, term assurances, whole of life products and investment bonds (including both onshore and offshore bonds). MLE's pension business largely consists of annuities and group pension business. MLE's health business is primarily personal accident business (individual and group); it also includes some smaller blocks of waiver of premium, medical and critical illness business, as well as other types of health business.

The Transferring Business

5.11 The Transferring Business is MLE's closed portfolio of UK wealth management business that was written out of MLE's UK Branch. The Transferring Policies are unit-linked policies with a range of optional guarantees (the "**Policy Guarantees**") described in paragraph 5.14. Approximately 56% of MLE's Solvency II BEL at 31 March 2023 relates to the Transferring Business (approximately €2.6 billion of MLE's €4.7 billion BEL).

5.12 The Transferring Business was written through MLE's UK Branch, via a number of different tax wrappers:

- **Stocks and Shares Individual Savings Accounts** ("**ISAs**"), which are written under the UK's ISA regime, meaning that capital gains and investment income are tax-free, as are withdrawals/income taken from the policies, but contributions to the policies are made from post-tax income. The ISA policies within the Transferring Business are written as a series of life assurance policies. ISAs do not have a fixed term, and policyholders are able to withdraw funds at any time. Upon the death of the policyholder, 100.1% of the value of the policyholder's investment is paid to their estate, albeit that the death benefit received may be higher than this in some circumstances if relevant Policy Guarantees (described in paragraphs 5.13 to 5.14 below) have been selected.
- **Investment Bonds**, which are single premium, whole of life policies. Holders of Investment Bonds are subject to a specific taxation regime where a tax liability for the customer is crystallised upon the occurrence of "chargeable events", such as the death of the policyholder (assuming this gives rise to policy benefits being paid) and (in some circumstances) the surrender or part-surrender of the policy. Investment Bonds do not have a fixed term, and policyholders are able to withdraw funds at any time. Upon the death of the policyholder, 100.1% of the value of the policyholder's investment is paid to their estate, albeit that the death benefit received may be higher than this in some circumstances if provided for by any GMDB within the Policy Guarantees that have been selected.
- **Retirement Portfolios,** which are personal pension policies, and which are therefore subject to the UK's tax regime for pensions under which contributions to the policy generally attract tax relief (subject to certain limits), investment returns within the policy are generally free from income tax and capital gains tax, and withdrawals from the policy are taxed as income, although customers can usually receive a tax-free lump sum of up to 25% of the pension fund value[36]. Additionally, the Retirement Portfolio fund is not usually subject to inheritance tax. Retirement Portfolio policies do not have a fixed term, and retirement benefits can be accessed from the age of 55.
- **Trustee Investment Plans ("TIPs"),** which are a pension product allowing trustees of an HMRC-registered Self-Invested Personal Pension ("**SIPP**") or Small Self-Administered Scheme ("**SSAS**") to access MetLife's funds. The TIP is held as an asset of the pension scheme with a similar tax treatment to the Retirement Portfolio. The main difference from the Retirement Portfolio is that the policyholder of a TIP is the pension trustee, rather than the underlying beneficiary.

5.13 The Policy Guarantees allow the policyholder to choose to pass on some of the investment risk and (in the case of one of the Policy Guarantees) longevity risk[37] to the insurer in some way, in effect providing an element of guaranteed performance to the policy from the policyholder's perspective in return for an additional charge payable to the insurer.

5.14 The Policy Guarantees under the Transferring Policies are as follows:

- The "**Secure Capital Option**", which is a GMAB and GMDB (see paragraph 4.106) under which the insurer guarantees that the policy's pay-out at one or more specified dates, or on earlier death of the policy beneficiary, will be no less than a specified amount, regardless of the performance of the underlying investments. Withdrawals or additional payments out of the policy before the agreed date are not subject to this guarantee and proportionally reduce the minimum guaranteed benefit amount. Other than in the case of withdrawals or additional payments out of the policy, the minimum guaranteed benefit amount never reduces, but it has the potential to increase over time if investment performance is positive.
- The "**Secure Income Option**", which is a GMWB4L (see paragraph 4.106) under which the insurer guarantees that a minimum level of regular income for life can be withdrawn from the policy. This option is available for policyholders who are above a specified minimum age and is available (for some policy types) on a single or a

[36] Under the UK Government's Spring Finance Bill 2023, the tax-free lump sum will be capped at £268,275, except where protections apply.

[37] In this context, longevity risk refers to the risk that the policyholder lives longer than expected, resulting in them outliving their retirement savings.

joint life basis[38]. Under the Secure Income Option, the level of the guaranteed minimum income can be increased by the policyholder electing to defer the receipt of some or all of the income, or by positive investment performance. The guaranteed minimum income is reduced proportionally if the policyholder elects to take withdrawals or additional payments out of the policy. In some scenarios, particularly if the policyholder dies earlier than expected, the Secure Income Option provides a GMDB via an underpin to the policy proceeds that are payable upon the death of the policy beneficiary.

5.15 If the policyholder does not select any of the Policy Guarantees then their policy operates as a simple unit-linked policy where the policy proceeds that can be withdrawn from a given linked fund are equal to the unit price multiplied by the number of units held (less any applicable charges).

5.16 The fund types that Transferring Policyholders are invested in consist of, at the time of writing, actively managed funds, passively managed funds, managed volatility funds and individualised CPPI (‘**iCPPI**’) funds. The Transferring Business under each tax wrapper falls into four broad investment categories:

- Variable Annuity (“**VA**”) investments, which offer the Secure Capital Option and Secure Income Option, as described above. Investments for which either Secure Option is chosen are restricted to a specified list of funds;
- iCPPI investments, which offer investment guarantees similar to the VA business, i.e. GMAB, GMDB and GMWB4L, and which use asset allocation techniques (including daily asset rebalancing for individual policyholder accounts) to provide protection against large falls in policyholder account values; and
- Investments in unit-linked funds with no investment guarantees or fund price protection.

5.17 It is possible for individual policies to include more than one type of these investment categories.

5.18 MLE closed its UK wealth management business to all new investments in 2017, although it continues to receive regular contributions from approximately 1,100 pension customers. I understand that it is not possible for customers to increase the level of regular contributions. Therefore, the Transferring Business is expected to run off over time.

5.19 The Transferring Business was sold through UK financial advisers only; MLE did not directly sell any of the products.

5.20 As the Transferring Business is closed to new business, policyholders are no longer able to switch into or between funds offering the Policy Guarantees but can switch into a limited selection of non-guaranteed funds.

5.21 Table 5.2 below shows a breakdown of the BEL of the Transferring Business between the product types described above as at 31 March 2023.

TABLE 5.2 – TRANSFERRING BUSINESS – BEL BY PRODUCT AS AT 31 MARCH 2023

Product Type	Number of policies	BEL (gross of reinsurance)
		€m
Stocks and Shares ISA	1,174	55.4
Investment Bond	7,762	625.1
Retirement Portfolio	15,707	1,789.0
Trustee Investment Plan	838	160.5
Total	**25,481**	**2,630.0**

5.22 It should be noted that there are a number of wealth management policies of MLE which were sold to UK residents but which were not sold through the UK Branch, and which are therefore not proposed to transfer under the Scheme.

[38] Under a single life basis, the income is paid until the death of the policyholder, whereas on a joint life basis the income is paid until the later of the death of the policyholder and the death of a contingent beneficiary, e.g. the policyholder’s spouse.

These non-transferring UK wealth management policies are offshore investment bonds that were provided to UK residents by MLE out of Ireland, and had assets under management of £136 million at 31 March 2023.

MLE'S REINSURANCE ARRANGEMENTS

The UK Treaty

5.23 MLE has a reinsurance arrangement in place with MetLife Reinsurance Company of Bermuda ("**MRB**"), which is a reinsurance company within the MetLife Group. Under this treaty (the "**UK Treaty**") 100% of the economic interest in the Transferring Business is reinsured to MRB. The business within the scope of the UK Treaty also includes the offshore investment bond business described in paragraph 5.22, which is not part of the Transferring Business.

5.24 Prior to January 2021, the UK Treaty only ceded MLE's risk in respect of the Secure Capital Option and the Secure Income Option guarantees under the VA investments, that is, any amounts due to policyholders over and above their unit fund values arising from these guarantees. On 3 February 2021, effective from 1 January 2021, the UK Treaty was amended to widen the scope of the risks ceded by MLE to MRB, to include all UK wealth management in-force products (including the Transferring Business) and broaden the scope of the reinsurance. The new elements added to the UK Treaty were:

- All liabilities in respect of the UK wealth management business (i.e. not just the Policy Guarantees). This includes any liabilities in relation to:
  - Any UK wealth management liabilities that were active at the time of the UK Treaty but were not covered under the original UK Treaty due to not having any VA guarantees in place; and
  - Any UK wealth management liabilities written after the UK Treaty was put in place. This includes the iCPPI product launched by MLE in 2015 (which includes individual Policy Guarantees), and any other liabilities (with or without Policy Guarantees) in respect of UK wealth management business written after the original UK Treaty was put in place.
- Any extra contractual obligations of MLE, which covers claims for damages against MLE in respect of the amounts due to beneficiaries of the reinsured policies.

5.25 In respect of the Transferring Business under the UK Treaty, MLE transfers to MRB 100% of all fees and charges levied on the Transferring Policies (including management fees, guarantee charges, fund manager payments, surrender charges and rebates), along with any recoveries from the "Gap Protection" (as described in paragraph 5.34) provided by Deutsche Bank A.G. ("**Deutsche Bank**") on the iCPPI business. In return, MRB meets the costs associated with:

- 100% of benefit payments in excess of the value of policyholder units, i.e. additional benefit payments arising from the presence of the Policy Guarantees (as assets backing policyholder units are deposited back with MLE);
- All of MLE's expenses related to the Transferring Business (including fixed costs deemed to be allocated to the Transferring Business);
- Any commissions owed to intermediaries in respect of the Transferring Business;
- Any extra contractual obligations associated with the Transferring Business (including those outlined in paragraph 5.24);
- The cost of remediating any operational risk events that are attributable to the Transferring Business.;
- Any tax in respect of the Transferring Business; and
- Any premiums payable to Deutsche Bank in respect of the Gap Protection on the iCPPI business.

5.26 It should be noted that, where applicable, the UK Treaty also covers the same cashflows described in paragraph 5.25 for the non-transferring offshore investment bonds referred to in paragraph 5.22.

5.27 MRB maintains a portfolio of derivatives which are intended to mitigate the investment risks associated with the Policy Guarantees reinsured via the UK Treaty.

5.28 The UK Treaty includes a collateral arrangement in order to mitigate the counterparty risk associated with the treaty. The collateral arrangement uses an economic basis to calculate the required collateral, which is calculated based on the Solvency II loss given default[39]. This partially mitigates the counterparty risk associated with MRB[40]. The required collateral is fully recalculated by MLE on a quarterly basis with a standard re-balance occurring if the required collateral differs from the posted collateral by +/-2.5%. In addition, the required collateral is estimated and monitored on a weekly basis. In the event that a prescribed set of conditions (in respect of timing and magnitude of deviation) are met, the weekly estimate is deemed as the required collateral. If the deemed required collateral differs from the posted collateral by +/-2.5%, then an exceptional rebalance is triggered.

5.29 The assets that form the collateral arrangement are subject to a variety of investment guidelines which are specified in the UK Treaty. These include:

- A list of categories of permissible investments and investments that are not permitted; and
- A schedule of concentration limits for specific asset categories, i.e. limits on the proportion (by value) of the collateral portfolio that can be invested in certain asset categories;

5.30 Other mechanisms used to manage the counterparty risk under the UK Treaty are:

- The assets backing the unit linked funds that comprise the policyholder accounts are withheld in MLE;
- A revolving credit facility held by MetLife, Inc. (see paragraph 5.56);
- MetLife, Inc. provides the UK Treaty Group Guarantee to MLE (see paragraph 5.59); and
- The creditworthiness of MRB is monitored annually by MetLife's global risk management team via an annual credit assessment of MRB; this serves as an early warning indicator of any issues associated with MRB and its creditworthiness, allowing proactive action to be taken in the event of material concerns.

MLE's other reinsurance arrangements

5.31 In addition to the UK Treaty, MRB provides 3-year aggregate mortality stop-loss reinsurance cover in respect of MLE's employee benefits business in the UK and French individual term business, along with a number of smaller reinsurance treaties.

5.32 MLE has an internal reinsurance treaty in place with Metropolitan Life Insurance Company (part of the MetLife Group) to cover catastrophic loss on MLE's employee benefits business in the UK And Portugal, as well as MLE's term life business in France. MLE also has a reinsurance arrangement in place with American Life Insurance Company ("**ALICO**") (part of the MetLife Group) covering personal accident business across a number of MLE's branches.

5.33 MLE also has external reinsurance arrangements in place with several different providers. These external reinsurance treaties cover a range of risk exposures, including mass lapse risk.

[39] Under the Solvency II Standard Formula, the SCR required to be held against counterparty default risk includes a component called "loss given default", which is intended to be a measure of the capital loss that an insurer would incur upon the default of a counterparty.

[40] As described in paragraph 8.108, the collateral assets may not be sufficient to fully mitigate the impact of higher capital requirements, as the required collateral is based on a loss-given-default measure that does not fully reflect the impact of the higher capital requirements, and additionally the collateral may not have been topped up to a sufficient level if MRB failure was accompanied by a market shock.

MLE's relationship with Deutsche Bank

5.34 I understand from MLE's management that Deutsche Bank is contracted by MLE to provide fund allocation services (i.e. determining the asset allocation at an individual policyholder level), to support the Secure Capital Option and Secure Income Option guarantees issued on iCPPI business written by MLE after 30 September 2015, or any of the Retirement Portfolio, TIP, onshore bond and ISA tax wrappers with iCPPI investments offered by the UK Branch of MLE.

5.35 MLE has also purchased "**Gap Protection**" from Deutsche Bank in respect of MLE's iCPPI business. My understanding of this arrangement is that it serves to mitigate some of the risk of significant short-term market movements (i.e. those that occur before asset rebalancing can take place) which could reduce a policyholder's fund below the value of any guaranteed benefit. Broadly speaking, if investment market movements over a 24-hour period cause the present value of guaranteed benefits under any of the iCPPI investments to exceed the policyholder's iCPPI unit value, then Deutsche Bank will pay an amount of money equal to the difference between the "floor" (the present value of the guaranteed benefit plus guarantee charges prior to the investment market event) and the policyholder's unprotected account value (after the investment market event). The Gap Protection only covers equity and interest risk; spread risk[41] is not covered.

5.36 Under this Gap Protection arrangement, Deutsche Bank places collateral with MLE that is designed to represent the amount that would be payable to MLE under the Gap Protection under an agreed market stress scenario.

5.37 MLE pays a premium to Deutsche Bank in return for the Gap Protection. As noted above, under the UK Treaty, these fees are recoverable from MRB under the UK Treaty; however, any amounts received from Deutsche Bank under the Gap Protection also accrue to MRB under the terms of the UK Treaty.

REGULATORY APPROVALS

5.38 The CBI has granted approval for MLE to use the Volatility Adjustment for all its euro-denominated branches, as well as its euro-denominated liabilities from Bulgaria.

5.39 MLE does not use the Volatility Adjustment in relation to the Transferring Policies, the liabilities for which are denominated in pounds sterling.

5.40 MLE uses the Standard Formula under EU Solvency II to determine its SCR.

FINANCIAL CONDITION

5.41 Table 5.3 shows the financial position of MLE under EU Solvency II as at 31 March 2023.

[41] Spread risk refers to the risk of a reduction in the market value of fixed interest investments for reasons other than changes in underlying risk-free interest rates, e.g. due to a change in the perceived creditworthiness of the borrower/issuer.

TABLE 5.3 – MLE FINANCIAL POSITION UNDER EU SOLVENCY II AS AT 31 MARCH 2023

MLE Solvency II financial position	€m
Assets held to match Unit-Linked Liabilities	3,889.5
Other Invested Assets	1,982.7
Non-Invested Assets (other than Reinsurance Recoverables)	582.8
Reinsurance Recoverables	2,990.8
Total Assets (A)	**9,445.9**
Technical Provisions	4,941.4
Other Liabilities	3,245.6
Total Liabilities (B)	**8,187.1**
Eligible Own Funds (C = A – B)	**1,258.8**
SCR (D)	628.3
Excess Own Funds (=C – D)	**630.5**
SCR Coverage Ratio (=C/D)	***200.4%***

Note: Under the UK Treaty, MLE retains the assets backing policyholders' units on its balance sheet, which means that the assets include both the unit-linked assets and the reinsurer's share of the unit-linked liabilities, that is, the unit-linked assets are "double counted" within the assets. This means that an offsetting liability to the reinsurer is required within "Other Liabilities".

5.42 At 31 March 2023, MLE's SCR Coverage Ratio was 200%, which is significantly in excess of the minimum regulatory requirement of 100%.

CAPITAL STRUCTURE

5.43 All of MLE's Own Funds (i.e. its capital resources to cover its Solvency II capital requirements), with the exception of the contribution to its Own Funds from a deferred tax asset, are categorised as Tier 1 (as described in Section 4).

5.44 The contribution of MLE's deferred tax asset to its Own Funds is classified as Tier 3.

FINANCIAL STRENGTH RATINGS

5.45 MLE has received a financial strength rating of A+ from S&P Global.

RISK AND CAPITAL MANAGEMENT

5.46 The MLE Board is responsible for the management of MLE's exposure to risk and, in particular:

- Determining MLE's risk appetite and therefore its capacity to accept risk; and
- Managing the overall risk level of MLE, having regard to the capacity for risk and MLE's internal capital management policy.

5.47 The MLE Board has ultimate responsibility for ensuring the adequacy of capital for MLE. MLE has a Board-approved capital management policy in place, which sets out the principles and approaches to capital management by MLE.

5.48 MLE's capital management policy sets out MLE's risk appetite in relation to capital, which applies on an ongoing basis. It is the duty of MLE's risk management function to review MLE's actual risk exposure against the overall stated risk appetite on a regular basis. In the event that MLE is in breach of its risk appetite, the risk management function is required to provide the MLE Board with its opinion of the seriousness of the breach and report on actions to be taken to address the breach. Following this, the MLE Board is required to determine the materiality of breaches, and whether it is necessary to provide detail to the CBI, in accordance with CBI requirements.

5.49 MLE targets a normal operating SCR Coverage Ratio of between 145% and 150%. In the event that MLE's SCR Coverage Ratio falls below 145%, then MLE's executive management team are required to determine the materiality of the breach and decide whether a corrective action plan is warranted. If a corrective action plan is determined as being required, then the MLE Board will be notified. If MLE's SCR Coverage Ratio falls below 125% then MLE's recovery plan will be invoked. MLE's capital management policy notes that, in this scenario, MLE would expect to restore its SCR Coverage Ratio to above 125% within 6 months of the breach.

5.50 MLE's Board is free to make changes to its capital management policy at any time.

5.51 MLE's recovery plan is intended to identify and assess the options available to restore financial strength and viability should MLE come under severe stress. The recovery plan lists potential recovery options available to MLE. The recovery plan must be reviewed in its entirety every 12 months, or following any event which could have a material impact on the recovery plan.

5.52 MLE's risk management system includes a number of aspects, including:

- MLE's Risk Management Function (see paragraph 4.71);
- A suite of risk policies setting out principles and approaches to managing the risks to which MLE is exposed;
- MLE's risk management framework which sets out the approach to risk management with the following objectives:
  - To promote a strong risk culture of the Company, rooted in MetLife's purpose and values, in particular customer protection;
  - To ensure consistent, systematic management of risks across all businesses, operations and risk types; and
  - To enable decision makers to direct the Company's resources to attractive business opportunities that are within the Board's risk appetite
- MLE's ORSA (see paragraph 4.21); and
- MLE's Risk Strategy and Appetite document (including the capital management policy).

CAPITAL SUPPORT AVAILABLE TO MLE

5.53 MLE has several group support mechanisms in place with MetLife, Inc., both directly and indirectly through support for MRB.

5.54 MLE has a "Net Worth Management Agreement" (the "**NWMA**") in place with ALICO, which is a U.S.-domiciled insurance company within the MetLife Group. Under the terms of the NWMA, ALICO is contractually obliged to provide capital and liquidity support to ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis.

5.55 ALICO is licensed in Delaware, U.S.A. and is regulated by the Delaware Department of Insurance. It was acquired by MetLife, Inc. in 2010 from American International Group, Inc. As at 31 December 2021, on a U.S. accounting basis, its shareholders' equity at 31 December 2021 was $30 billion. Its total revenue during 2021 was $2.2 billion. As of December 2022, it has an insurance financial strength rating of A1 with a 'stable' outlook from Moody's. ALICO paid dividends to its parent of $1.3 billion and $1.1 billion in 2022 and 2021 respectively. ALICO operates in a number of insurance markets, most notably in Japan, but also in other parts of Asia and Europe, the Middle East, Africa and Latin America. Its product offerings cover life insurance, retirement and savings, and accident and health insurance.

5.56 It should be noted that the NWMA includes the following clauses:

- A clause providing for the automatic termination of the NWMA in the event that MLE ceases to be a subsidiary of ALICO; and

- A clause permitting ALICO to terminate the NWMA with 30 days' prior written notice if MLE is rated at least A by Standard & Poor's.

5.57 In addition to the NWMA, MetLife, Inc. has a $3.0 billion unsecured revolving credit facility which it may use for the benefit of its entities, including MLE. Any borrowings under this facility must be repaid by 8 May 2028, and the facility must be used for general corporate purposes, to support the borrowers' commercial paper programmes, or for the issuance of letters of credit.

5.58 The MetLife Group previously provided capital injections to MLE in 2011, 2012, 2013 and 2014 (totalling approximately $932 million), to support inorganic and organic growth.

5.59 As noted in paragraph 5.23, via the UK Treaty MLE has reinsured to MRB the UK wealth management business; this reinsurance includes 100% of the economic interest in the Transferring Business and a block of non-transferring offshore investment bond business. MLE has a parental guarantee arrangement in place with MetLife, Inc., under which MetLife, Inc. is obliged to guarantee payments in respect of the VA investment guarantees (i.e. the Secure Capital Option and Secure Income Option) covered under the UK Treaty (i.e. the business that was originally included under the UK Treaty prior to its extension in February 2021 to cover the entirety of the UK Wealth Management liabilities), up to an aggregate value of $1 billion. This is referred to as the "**UK Treaty Group Guarantee**" throughout this Report.

5.60 The business covered by the UK Treaty Group Guarantee forms part of the Transferring Business; however, some of the Transferring Business is not covered by the UK Treaty Group Guarantee. In particular, the UK Treaty Group Guarantee does not cover the iCPPI product launched in 2015, which was comprised of approximately 5,800 policies and €603 million of BEL as at 31 March 2023.

5.61 MRB also benefits from a $500m revolving credit facility from MetLife, Inc., which contributes to benefit security within MLE as a result of the presence of the UK Treaty.

ADMINISTRATION AND OUTSOURCING

5.62 MLE outsources certain services, including activities of the actuarial, compliance, risk management, IT and internal audit functions, to other entities within the MetLife Group.

5.63 In addition, MLE benefits from MetLife Group services such as investment services from MetLife Group entities in the UK and USA.

5.64 External outsourcing takes place in relation to the following tasks/functions:

- Complaint handling;
- Storage of policyholder data and policy servicing;
- Claim handling;
- Storage of data;
- Inbound services (inbound mail and document management); and
- Outbound mail services.

5.65 The administration of the Transferring Business (and MLE's other business) is outsourced to a third-party administrator SS&C International Managed Services Limited ("**SS&C**"), which carries out the majority of the administration services relating the business on the behalf of MLE and MetLife Pension Trustees Limited ("**MPTL**").

5.66 MPTL is the trustee and scheme administrator for the MetLife Personal Pension Scheme (the pension scheme supporting the Retirement Portfolio product under the Transferring Business).

RISKS INHERENT IN MLE

5.67 The most significant financial risks in MLE are:

- **Persistency risk**: This is principally the risk that policyholders lapse/surrender their policies differently from expected in a financial adverse way for MLE. In some cases, it may be that higher than expected lapses result in an adverse impact, for example where a product is expected to be profitable if it remains in-force or where the insurer is relying on the receipt of future premiums in order to recoup the costs it incurred in issuing the policy. In other cases, lower than expected lapses can be financially adverse, for example where the surrender of the policy results in the policyholder forgoing valuable guarantees under the policy.
- **Mortality risk**: This is the risk of a financially adverse outcome for MLE as a result of higher than expected mortality rates amongst its policyholders, either as a result of consistently higher mortality rates over an extended period of time, or as a result of a shorter-term spike in mortality rates, e.g. as the result of a pandemic. MLE's principal exposure to mortality risk arises on group life insurance business written in the UK and individual life insurance business written in France.
- **Expense risk**: This is the risk that the expenses MLE incurs in administering and otherwise maintaining its in-force portfolio are higher than expected, either because of unexpected outgo or as a result of higher than expected inflation.
- **Market risk**: This is the risk of adverse financial impacts resulting from changes in equity prices, property prices, interest rates, bond prices and currency exchange rates.
- **Credit/counterparty risk**: This is the risk of losses resulting from the default of third parties or the increase in the probability of default or the associated loss. This can arise as a result of investment in fixed income assets such as corporate bonds where MLE is exposed to the risk of default of the bond issuer. It can also arise in relation to the risk of the default of reinsurance or derivative counterparties.

5.68 Table 5.4 below shows a breakdown of MLE's SCR into the relevant risk modules as at 31 March 2023.

TABLE 5.4 – BREAKDOWN OF MLE'S SCR AT 31 MARCH 2023

Risk Module/Sub-Module	€m
Market Risk	179.0
Life Underwriting Risk	462.6
Health Underwriting Risk	190.2
Non-Life Underwriting Risk	0.0
Counterparty Default Risk	51.1
Operational Risk	66.9
Diversification benefit	(243.8)
Loss-Absorbing Capacity of Deferred Taxes	(77.7)
Total	**628.3**

*The Loss-Absorbing Capacity of Deferred Taxes refers to an adjustment to the SCR that is permissible under EU and UK Solvency II to reflect the fact that, under the hypothetical stress scenarios used to determine the SCR, it is possible that the stress scenarios will reduce the expected amount of future tax payable by the insurer, and therefore there may be a tax benefit under stress which could partially offset the adverse impact of the hypothetical stress scenarios.

6. Background to MLUK

BACKGROUND

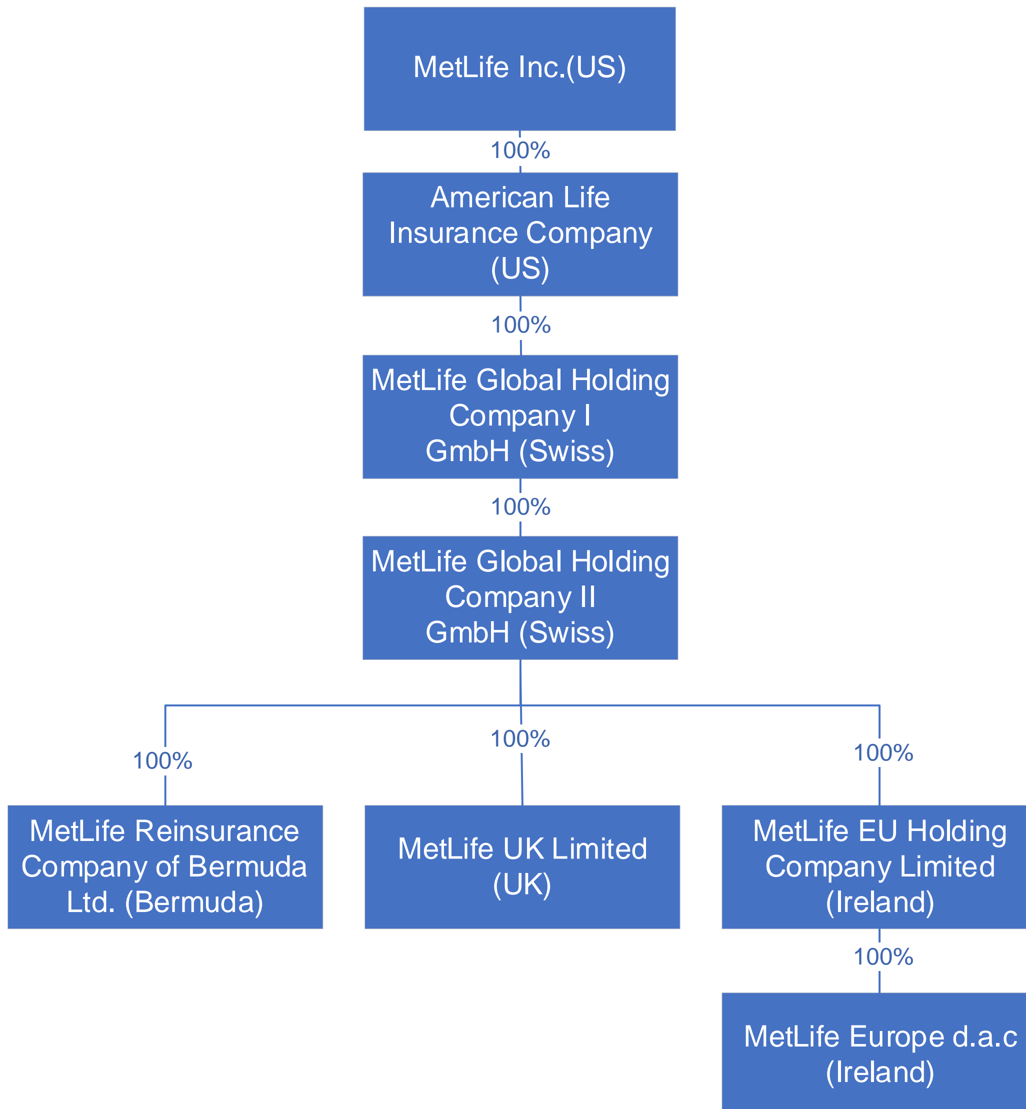
6.1 MLUK is a proprietary insurance company domiciled in the UK. It was incorporated in England and Wales as a private limited company on 21 March 2022. MLUK's immediate parent is MetLife Global Holding Company II GmbH, a company incorporated in Switzerland. Like MLE, MLUK's ultimate parent is MetLife, Inc.

6.2 On 17 October 2023 MLUK received authorisation to carry on insurance business in classes I (Life and Annuity) and III (Linked Long-Term). As a newly authorised insurance company, MLUK currently has no insurance business.

6.3 Other than the business to be transferred in under the proposed Scheme, MLUK does not intend to issue any new insurance policies and has no plans to accept other blocks of insurance business or insurance risk via insurance business transfers or reinsurance.

6.4 Figure 6.1 below shows a structure chart of relevant legal entities within the MetLife Group, including MLE and MLUK.

FIGURE 6.1 – METLIFE LEGAL ENTITY STRUCTURE CHART



PRODUCTS

6.5 As noted above, MLUK currently has no insurance business. It was newly established as a UK-based insurer to accept and service the Transferring Business from MLE's UK branch.

OUTWARD REINSURANCE ARRANGEMENTS

6.6 MLUK does not currently have any reinsurance arrangements in place; however, the UK Treaty currently in place between MLE and MRB will be novated to MLUK upon the implementation of the Scheme (with the non-transferring offshore bond business described in paragraph 5.22 removed from the scope of the treaty and this business reinsured from MLE to MRB through a new treaty).

6.7 Further details are provided in Section 7.

REGULATORY APPROVALS

6.8 MLUK will not seek authorisation from the PRA to use any long-term guarantee measures in the determination of its Solvency II financial condition, nor does MLUK plan to seek approval for the use of any such measures after the implementation of the Scheme.

6.9 MLUK will determine its SCR using the Standard Formula, as set out in UK Solvency II regulations. As an authorised insurance company, it is required to hold an absolute minimum level of capital of €4.0 million (which is the regulatory minimum set by the PRA), which equates to approximately £3.4 million as at 31 March 2023.

FINANCIAL CONDITION

6.10 MLUK currently has no insurance policies but has been capitalised to an extent sufficient to cover its minimum capital requirements (described above).

6.11 Moreover, in advance of, the implementation of the Scheme MLUK will be further capitalised to ensure its SCR Coverage Ratio after the transfer is at least 150%. This capital will be provided by MLE.

6.12 Table 6.2 shows the pro forma Solvency II financial position of MLUK as at 31 March 2023 assuming the Scheme had been implemented as at that date.

TABLE 6.2 – PRO FORMA POST-SCHEME FINANCIAL POSITION OF MLUK AT 31 MARCH 2023

MLUK Solvency II financial position	£m
Assets held to match Unit-Linked Liabilities	2,295.0
Other Invested Assets	-
Non-Invested Assets (other than Reinsurance Recoverables)	38.7
Reinsurance Recoverables	2,309.9
Total Assets (A)	**4,643.6**
Technical Provisions	2,313.2
Other Liabilities	2,313.1
Total Liabilities (B)	**4,626.3**
Available Own Funds (C = A – B)	**17.3**
Own Funds Eligibility Restriction	**(7.9)**
Eligible Own Funds	**9.4**
SCR (D)	6.3
Excess Own Funds (=C – D)	**3.1**
SCR Coverage Ratio (=C/D)	***150.0%***

CAPITAL STRUCTURE

6.13 All of MLUK's Own Funds (i.e. its capital resources to cover its Solvency II capital requirements) with the exception of the contribution to its Own Funds from a deferred tax asset, are categorised as Tier 1 (as described in Section 4).

6.14 The contribution of MLUK's deferred tax asset to MLUK's Own Funds is classified as Tier 3. Tier 3 Own Funds are only permitted to be recognised to the extent that they do not exceed 15% of the SCR, which is expected to result in a restriction to Own Funds eligibility of MLUK (as shown in Table 6.2).

RISK AND CAPITAL MANAGEMENT

6.15 Upon the implementation of the Scheme, MLUK will put in place risk and capital management policies and other documents, similar to those currently in place for MLE.

6.16 As is the case for MLE, the Board of MLUK has ultimate responsibility for ensuring the adequacy of MLE's capital resources.

6.17 Under MLUK's capital management policy MLUK will be subject to a normal operating range for its SCR Coverage Ratio of 145% to 150% (equivalent to that for MLE). In the event that MLUK's SCR Coverage Ratio falls below this range, MLUK would implement management actions to attempt to restore solvency.

6.18 As is the case for MLE, MLUK's Board will be free to make changes to its capital management policy at any time, albeit that MLUK's capital management policy will be subject to the requirements of the PRA's supervisory statement (SS4/18) on "Financial management and planning by insurers"[42], which includes certain minimum expectations around the strength of capital management policies. In the UK it would be common for insurers to notify the PRA in advance of making any material changes to capital management policies.

6.19 Table 6.3 below shows a pro forma breakdown of MLUK's SCR into the relevant risk modules as at 31 March 2023, assuming the Scheme had been implemented as at that date.

[42] https://www.bankofengland.co.uk/prudential-regulation/publication/2018/financial-management-and-planning-by-insurers-ss

TABLE 6.3 – BREAKDOWN OF MLUK'S POST-TRANSFER SCR AT 31 MARCH 2023

Risk Module/Sub-Module	£m
Market Risk	1.4
Life Underwriting Risk	0.7
Health Underwriting Risk	-
Non-Life Underwriting Risk	-
Counterparty Default Risk	2.2
Operational Risk	3.1
Diversification benefit	(1.1)
Loss-Absorbing Capacity of Deferred Taxes*	-
Total SCR	**6.3**

*The loss-absorbing capacity of deferred taxes ("**LACDT**") is a negative adjustment to the SCR which reflects that, in a stress scenario, the insurer may have an expectation of a lower future tax liability via a reduced deferred tax liability or increased deferred tax asset. MLUK's pro forma post-Scheme balance sheet includes a net deferred tax asset but, for prudence, MLUK has elected not to assume that this deferred tax asset could increase under stress, and therefore its LACDT is zero.

CAPITAL SUPPORT AVAILABLE TO MLUK

6.20 As MLUK does not currently have any insurance business, it does not benefit directly or indirectly from any contractual capital or parental support arrangements from other entities within the MetLife Group. However, upon the implementation of the Scheme:

- A Net Worth Maintenance Agreement ("**the UK NWMA**") will be put in place between ALICO and MLUK. The UK NWMA will be a contractual arrangement under which MLUK benefits from the same capital and liquidity support undertakings that are provided to MLE under its NWMA with ALICO (described in paragraph 5.54), that is, ALICO will be contractually obliged to ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis. The terms of the UK NWMA will be materially the same as those of the NWMA, other than that:
    - The UK NWMA will not allow ALICO unilaterally to terminate the UK NWMA if MLUK's financial strength is rated above a certain rating by an external credit rating agency (such termination is permitted by ALICO under the NWMA with MLE if MLE's financial rating is rated at least "A" by Standard & Poor's Ratings Services); and
    - The UK NWMA will include a provision that will require MLUK to seek the prior consent of ALICO should MLUK wish to issue any new insurance contracts.

  The UK NWMA will include a clause which provides for the automatic termination of the UK NWMA in the event that MLUK ceases to be a subsidiary of ALICO. An equivalent clause is present in relation to MLE in the NWMA.

  A brief description of ALICO is given in paragraph 5.55.

- MLUK will enter into an equivalent arrangement to the UK Treaty Group Guarantee (described in paragraph 5.59) with MetLife, Inc., which means that MetLife, Inc.'s obligations under the UK Treaty Group Guarantee will apply to MLUK. The UK Treaty Group Guarantee contractually obliges MetLife, Inc. to guarantee payments in respect of the VA investment guarantees (i.e. the Secure Capital Option and Secure Income Option) covered under the UK Treaty, up to an aggregate value of $1 billion.

6.21 After the implementation of the Scheme the terms of the UK NWMA and the UK Treaty Group Guarantee between MLUK and MetLife, Inc. will be materially unchanged from the equivalent arrangements that currently apply to MLE.

6.22 MetLife, Inc. also has a $3.0 billion unsecured revolving credit facility which it may use for the benefit of its entities, including MLUK.

ADMINISTRATION AND OUTSOURCING

6.23 As is the case for MLE, upon the implementation of the Scheme MLUK will:

- outsource certain services, including activities of the actuarial, compliance, risk management, IT and internal audit functions, to other entities within the MetLife Group; and
- benefit from MetLife Group services such as investment services from MetLife Group entities in the UK and USA.

6.24 MLUK will make use of external outsourcing of the following tasks/functions:

- Complaint handling;
- Storage of policyholder data and policy servicing;
- Claim handling;
- Storage of data;
- Inbound services (inbound mail and document management); and
- Outbound mail services.

6.25 MLUK does not currently have any insurance business to administer; however, as noted in Section 7, following the implementation of the Scheme, SS&C (MLE's outsourced third-party administrator) will administer the Transferring Business on behalf of MLUK, with MLUK being responsible for oversight of SS&C's services insofar as they relate to MLUK.

GOVERNANCE OF MLUK

6.26 MLUK is in the process of appointing a Board which will include two non-executive directors, both of which will be independent of MetLife. One of these will be the Chair of the MLUK Board and one will chair MLUK's Risk and Audit Committee.

6.27 MLUK has also identified the individuals that it will nominate to discharge the required SMF roles (see paragraph 4.72).

6.28 It should be noted that, whilst this Report describes MLUK's intended approach to risk and capital management and the associated policies, such approaches and policies will ultimately be subject to ratification by MLUK's Board when that is fully constituted.

7. The Scheme

THE MOTIVATION FOR THE SCHEME

7.1 MLE is authorised under the TPR to conduct insurance business in the UK on a branch basis, via the UK Branch. The initial TPR is due to end on 31 December 2023, although it is extendable by HM Treasury in increments of 12 months.

7.2 MLE has applied to the PRA under Part 4A of FSMA for the authorisation of the UK Branch on a permanent basis. MLE expects a decision on the authorisation of the UK Branch to be made by 31 December 2023 (the expected end date of the TPR).

7.3 Given the quantum of the liabilities for the Transferring Business and the PRA's risk appetite in respect of third country branches, and following discussion with the PRA, MetLife established MLUK as a new UK subsidiary and MLUK is applying to the Court to sanction the transfer of these wealth management policies from the UK branch of MLE to MLUK, and therefore, if the Scheme is implemented, the Transferring Policies will only reside in the newly authorised UK Branch of MLE temporarily. As described in paragraph 6.2, MLUK has received authorisation from the PRA to carry on insurance business in classes I (Life and Annuity) and III (Linked Long-Term).

7.4 As noted in Section 6, MLUK will operate solely to insure and service the policies comprising the Transferring Business and has no intention of developing or offering any new policies to customers.

SUMMARY OF THE TERMS OF THE SCHEME

7.5 Under the terms of the Scheme, the Transferring Policies will be transferred from the UK branch of MLE to MLUK.

7.6 The Scheme is expected to be presented to the Court for a Directions Hearing on 8 November 2023, with its Sanction Hearing expected to be held during February 2024. The purpose of the Directions Hearing is for the Court to confirm its satisfaction with the plans for policyholder notification and other relevant matters, and to order that a date be set for the Sanction Hearing.

7.7 If the Scheme is approved by the Court at the Sanction Hearing, it will be implemented on the Transfer Date and, on that date, the Transferring Business will transfer from MLE's UK branch to MLUK.

IRISH COURT REQUIREMENTS

7.8 MetLife has received advice that a separate scheme of transfer in Ireland (pursuant to Section 13 of the Assurance Companies Act 1909, subject to Section 36 of the Insurance Act 1989 and Regulation 178 of the European Union (Insurance and Reinsurance) Regulation 2015) is not required in order to effect the transfer. MLE has notified the CBI of this and has not received any objection.

7.9 Additionally, the Companies have received legal advice that an Irish scheme of transfer is not necessary based on the understanding that the Transferring Business relates to UK policyholders and therefore the risks are not located within the EU, and that MLUK will not be carrying on assurance business in the Republic of Ireland.

7.10 Therefore, approval will not be sought for such a scheme from the High Court of Ireland.

THE TRANSFERRING BUSINESS

7.11 As described in Section 5, the Transferring Business comprises MLE's UK wealth management business that was written out of MLE's UK Branch. The business is made up of unit-linked business with optional Policy Guarantees attached, sold through a number of different tax wrappers, namely ISAs, Investment Bonds, Retirement Portfolios and TIPs; further details of the Transferring Business is provided in Section 5.

7.12 The Transferring Business does not include the part of MLE's UK wealth management policies not written out of its UK Branch, i.e., the offshore investment bonds that were issued to UK residents by MLE out of Ireland.

7.13 The investments of the Transferring Business fall into four broad categories:

- VA investments, which offer the Secure Capital Option and Secure Income Option;
- iCPPI investments, which offer investment guarantees similar to the VA business, i.e. GMAB, GMDB and GMWB4L, and which use asset allocation techniques (including daily asset rebalancing for individual policyholder accounts) to provide protection against large falls in policyholder account values; and
- Investments in unit-linked funds with no investment guarantees or fund price protection.

7.14 The portfolio is generally grouped into two categories for MLE's internal management purposes, i.e., "Traditional Variable Annuity" or "Traditional VA" (which covers all the non-iCPPI fund types), and iCPPI.

7.15 Table 7.1 below sets out the Solvency II BEL (gross of reinsurance) and policy count for the Transferring Business as at 31 March 2023, which has been split between each tax wrapper category and between the Traditional VA and iCPPI categories.

TABLE 7.1– TRANSFERRING BUSINESS BREAKDOWN AS AT 31 MARCH 2023

Product Type	Traditional VA		iCPPI		Total	
	No. policies	BEL (gross of reinsurance) €m	No. policies	BEL (gross of reinsurance) €m	No. policies	BEL (gross of reinsurance) €m
Stocks and Shares ISA	13	0.3	1,161	55.2	**1,174**	**55.4**
Investment Bond	6,860	537.3	902	87.8	**7,762**	**625.1**
Retirement Portfolio	12,188	1,388.2	3,519	400.8	**15,707**	**1,789.0**
Trustee Investment Plan	611	101.5	227	59.0	**838**	**160.5**
Total	**19,672**	**2,027.3**	**5,809**	**602.8**	**25,481**	**2,630.0**

7.16 There are no policies within the scope of the proposed transfer that will require separate court schemes in British Crown Dependencies such as the Bailiwick of Jersey, the Bailiwick of Guernsey or the Isle of Man.

TRANSFERRING ASSETS

7.17 The unit-linked assets backing the unit-linked liabilities of the Transferring Business will transfer to MLUK under the Scheme. This is because, while the unit-linked liabilities are included in the scope of the UK Treaty, the unit-linked assets backing these liabilities are deposited back with MLE, and therefore this deposit-back arrangement will be transferred to MLUK.

7.18 The derivatives described in paragraph 5.27 are assets of MRB and, therefore, after the transfer, MRB will remain the direct counterparty to these derivatives.

7.19 MLUK has already been capitalised to a level sufficient to meet its MCR, and in advance of the implementation of the Scheme, MLUK will be further capitalised by MLE to an SCR Coverage Ratio of at least 150%. With the exception of the assets required to effect this capitalisation, the unit-linked assets described in paragraph 7.17, and the notional asset representing the value of the reinsurance recoverables relating to the Transferring Business under the UK Treaty, no other assets of MLE will be transferred to MLUK under the Scheme.

LINKED FUNDS

7.20 The linked funds in which Transferring Policies' units are invested will be instantaneously replicated in MLUK after the transfer, and Transferring Policies will be allocated the same number of units with the same unit price as they had before the transfer, with the transfer therefore having no impact on the value of their units.

7.21 Transferring Policies' units are invested in linked funds that are separate from linked funds in which other of MLE's unit-linked policies are invested, and therefore the transfer will not result in any linked funds needing to be split between Transferring and Non-Transferring Policies.

7.22 The transfer will have no impact on any linked funds in which Non-Transferring Policies' units are invested.

RESIDUAL POLICIES

7.23 Within the Scheme there is a provision for "Residual Policies". These are policies that that would otherwise be included as Transferring Policies, but which will not transfer when the Scheme takes effect, for example:

- if the Court determines not to transfer such policies at that time; or
- if MLE and MLUK agree in advance that such policies should not transfer at that time.

7.24 Currently, the Companies do not anticipate that there will be any Residual Policies.

7.25 Under the Scheme, any Residual Policies will remain with MLE until such date as it is possible for these to be transferred to MLUK. The assets and liabilities of Residual Policies will remain with MLE until this date. On this date the assets and liabilities of the relevant Residual Policy will be transferred to MLUK and the policy will be dealt with as if it were a Transferring Policy.

7.26 Given that MLE will retain non-transferring offshore bond business (described in paragraph 5.22) after the transfer, a relationship between MLE and the external fund managers managing the linked funds will remain in place after the transfer, which would allow any Residual Policies remaining in MLE to continue to retain their unit-linked investments.

7.27 In the event that a Transferring Policyholder is or becomes a politically sanctioned person prior to the Transfer Date, then MLE and MLUK can agree that the relevant policy will not transfer, and will therefore be an "Excluded Policy"[43] under the terms of the Scheme. The policy would therefore remain with MLE, who would take steps to suspend the policy in line with MLE's existing procedures.

REINSURANCE

7.28 As noted above, the UK Treaty will be novated to MLUK on the Transfer Date. Prior to this novation, MLE will enter into a partial termination of the UK Treaty, to remove the non-transferring offshore bond business (described in paragraph 5.22) from the scope of the UK Treaty, and simultaneously enter into a replacement reinsurance arrangement with MRB in respect of these non-transferring policies only.

7.29 Therefore, the UK Treaty that is novated to MLUK will only cover the Transferring Business.

7.30 The UK Treaty between MLUK and MRB, and the separate reinsurance arrangement between MLE and MRB for the non-transferring offshore bond business, will require separate custody arrangements. I understand from MetLife that the required collateral arrangements will be in place prior to the Transfer Date, which will enable new security and account control arrangements to be in place for MLUK and MLE from the Transfer Date (replacing those currently in place for MLE). The collateral arrangements in place for the UK Treaty after the transfer will be the same as those currently in place for the UK Treaty.

[43] Under the terms of the Scheme an Excluded Policy is any policy that is not a Transferring Policy and any other policy that MLE and MLUK agree prior to the Transfer Date should not be transferred.

7.31 No other reinsurance arrangements of MLE will transfer to, or be replicated in, MLUK.

PARENTAL/CAPITAL SUPPORT ARRANGEMENTS

7.32 With effect from the Transfer Date:

- The UK NWMA will be put in place between ALICO and MLUK. The UK NWMA will be a contractual arrangement under which MLUK benefits from the same capital and liquidity support undertakings that are provided to MLE under its NWMA with ALICO (described in paragraph 5.54), that is, ALICO will be contractually obliged to ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis. The terms of the UK NWMA will be materially the same as those of the NWMA, other than that the UK NWMA will not allow ALICO unilaterally to terminate the UK NWMA if MLUK's financial strength is rated above a certain rating by an external credit rating agency (such termination being permitted by ALICO under the NWMA with MLE if MLE's financial rating is rated at least "A" by Standard & Poor's Ratings Services).
- MLUK will enter into an equivalent arrangement to the UK Treaty Group Guarantee (described in paragraph 5.59) with MetLife, Inc., which means that MetLife, Inc.'s obligations under the UK Treaty Group Guarantee will apply to MLUK. The UK Treaty Group Guarantee contractually obliges MetLife, Inc. to guarantee payments in respect of the VA investment guarantees (i.e. the Secure Capital Option and Secure Income Option) covered under the UK Treaty, up to an aggregate value of $1 billion.

7.33 As described in paragraphs 5.56 and 6.20, the NWMA and the UK NWMA both include a clause providing for their automatic termination in the event that MLE (in the case of the NWMA) or MLUK (in the case of the UK NWMA) cease to be a subsidiary of ALICO.

7.34 The NWMA will continue to apply to MLE after the transfer. However, the UK Treaty Group Guarantee will no longer apply to MLE after the transfer, given that the only UK wealth management business remaining in MLE after the transfer will comprise the relatively small block of offshore policies described in paragraph 5.22.

MIS-SELLING LIABILITIES

7.35 I understand MLE is not exposed to the risk of any mis-selling liabilities in respect of the Transferring Business; the Transferring Business was sold by external intermediaries only.

ADMINISTRATION

7.36 The Transferring Business is currently administered on MLE's behalf by MLE's third-party administrator SS&C. Upon the implementation of the Scheme, MLUK will be added as a party to the administration agreement with SS&C (the "**SS&C Administration Agreement**"). This will allow SS&C to continue to administer the Transferring Policies on behalf of MLUK after the transfer.

7.37 MPTL is the scheme administrator for the MetLife Personal Pension Scheme (the pension scheme supporting the Retirement Portfolio product). MLUK has applied to the PRA and FCA for the relevant permissions to replace MPTL as scheme administrator with effect from the Transfer Date.

DEUTSCHE BANK

7.38 As noted in Section 5, Deutsche Bank is contracted by MLE to provide fund allocation services in respect of the iCPPI business. Deutsche Bank also provides Gap Protection in relation to iCPPI business, which helps to mitigate the risk of significant market movements within a 24-hour period.

7.39 Upon the implementation of the Scheme, the contract with Deutsche Bank, including that in respect of the Gap Protection will be replicated with MLUK on broadly the same terms as the current arrangement. The services provided by Deutsche Bank to MLUK will be unchanged from those currently provided to MLE. In particular, the benefit of the Gap Protection arrangement will continue ultimately to accrue to MRB under the UK Treaty. MLE will continue to benefit from Gap Protection with Deutsche Bank after the implementation of the Scheme in relation to certain Non-Transferring Policies.

7.40 The existing arrangement between Deutsche Bank and MLE relevant to the offshore wealth management business of MLE (described in paragraph 5.22) will remain in place after the transfer in order to cover this business, which is not transferring to MLUK under the Scheme.

COSTS OF THE SCHEME

7.41 All costs in relation to the proposed transfer will be borne by MLE. This includes my fees as Independent Expert, the Court fees and the costs of any notifications and communications to policyholders.

7.42 For the avoidance of doubt, no policyholders, including the Transferring Policyholders, will bear any of the costs associated with the proposed transfer.

INVESTMENT MANAGEMENT AGREEMENT

7.43 The management of the assets backing the Transferring Business is carried out on behalf of MLE by MetLife Group's internal investment management division under an investment management agreement ("**IMA**").

7.44 Upon the implementation of the Scheme, the IMA will transfer to MLUK and the investment management activities will continue unchanged.

IDENTIFICATION OF AFFECTED GROUPS OF POLICYHOLDERS

7.45 In this Report I have considered the following groups of policyholders separately:

- Transferring Policyholders; and
- Non-Transferring Policyholders of MLE.

7.46 Given the similarity of the policy types held by Transferring Policyholders, I do not consider it necessary to subdivide this group into smaller categories.

7.47 Given the small financial and operational impact expected as a result of the implementation of the Scheme on Non-Transferring Policyholders, I do not consider it necessary to subdivide this group into smaller categories.

THE FINANCIAL INFORMATION IN THIS REPORT

7.48 The CBI has granted approval for MLE to use the Volatility Adjustment for all of its euro-denominated branches, as well as the euro-denominated liabilities from Bulgaria.

7.49 MLE does not use the Volatility Adjustment in relation to the Transferring Policies, the liabilities for which are denominated in pounds sterling.

7.50 MLUK does not expect to seek approval from the PRA for the use of the Volatility Adjustment or any other Long-Term Guarantee Measures.

7.51 MLE uses the Standard Formula under EU Solvency II to determine its SCR. MLUK expects to use the Standard Formula under UK Solvency II to determine its SCR.

7.52 The UK and EU Solvency II financial information shown in this Report reflects these approvals.

7.53 The financial information shown in this Report is, unless otherwise stated, as at a balance sheet date of 31 March 2023. The financial information shown in this Report has not, unless otherwise stated, been subject to external audit or other forms of external review.

7.54 The financial information used in the analysis of the effects of the Scheme is set out in Sections 8 and 9 of this Report.

7.55 I have not carried out a full independent review of the Solvency II financial information that has been provided to me as at 31 March 2023, but MetLife has provided the materials supporting the overall internal sign-off of this information for MLE. These materials include:

- Details of the sign-off process for components of the various reporting outputs;
- Details of individuals responsible for each task and confirmation that sign-off of each task has been received;
- An attribution of the movement in MLE's Solvency II financial position between 31 December 2022 (i.e. the last point at which MLE's solvency position was subject to external audit and its Technical Provisions subject to external peer review) and 31 March 2023;
- Detailed explanation of changes in MLE's assets and liabilities between 31 December 2022 and 31 March 2023

7.56 Having reviewed these materials, I am satisfied that it is reasonable to rely upon the Solvency II results as at 31 March 2023 for the purpose of this Report.

7.57 My Supplementary Report will contain Solvency II financial information as at the most recently available date and will provide an update on the effect of the implementation of the Scheme based upon these figures.

8. The effect of the implementation of the Scheme on the Transferring Policyholders

INTRODUCTION

8.1 In this section I consider the effect of the implementation of the Scheme on the Transferring Policyholders of MLE.

8.2 As described in Section 7, the Transferring Business comprises unit-linked policies, including policies with embedded guarantees. As at 31 March 2023, the Transferring Business had unit reserves (i.e. policyholder unit values) of £2.3 billion (€2.6 billion).

8.3 The Transferring Business is 100% reinsured to MRB under the UK Treaty (described in paragraphs 5.23 onwards).

8.4 As a result of the implementation of the Scheme, the Transferring Policies will transfer into, and become direct policies of, MLUK, and MLUK will be ultimately responsible for meeting the benefits payable under those policies. The important points to consider in relation to the Transferring Policyholders in this context are:

- The financial resources available to provide security for the benefits of the Transferring Policies after the implementation of the Scheme compared to those currently available within MLE;
- Any change to the profile of risks to which the Transferring Policies will be exposed as a result of the implementation of the Scheme. For example, the transfer will result in Transferring Policies being within a different insurer with a different risk profile to MLE, which means there may be risks that, if they were to manifest, could cause MLUK difficulties that would not cause MLE difficulties, and vice versa; and
- The effect of the implementation of the Scheme on the reasonable expectations of the Transferring Policyholders and the ability of the relevant insurer to meet those expectations. These reasonable expectations include benefit expectations, areas where the insurer is able to exercise discretion, service standards, management and governance that these policyholders should expect for their policies after the implementation of the Scheme.

These are considered in turn below.

THE FINANCIAL RESOURCES AVAILABLE TO PROVIDE SECURITY OF BENEFITS

Sources of security of policy benefits

8.5 The Transferring Policies are currently fully reinsured to MRB. This means that MLE is paid an appropriate amount by MRB under the UK Treaty to reimburse it for the benefits paid to holders of reinsured policies. However, MLE remains responsible for paying the benefits due to policyholders. Should MRB be unable to fulfil its obligations under the UK Treaty, MLE would remain responsible for continuing to pay the benefits, and MLE therefore holds capital, as required by the Solvency II regulations, in respect of the risk that MRB is unable to meet its obligations under the UK Treaty. Therefore, the Transferring Policies currently rely on the available resources of MLE for the security of their contractual benefits. Those resources comprise:

- Assets backing the liabilities and capital requirements of MLE's business; and
- Excess assets in MLE (i.e. any assets over and above those backing MLE's liabilities and capital requirements).

8.6 A significant asset backing the liabilities of MLE is the value of the amounts due to MLE from MRB under the UK Treaty. The ability of MRB to fulfil its obligations under the UK Treaty therefore affects the financial strength of MLE and therefore security for the benefits of the Transferring Policies is currently also provided indirectly by the assets of MRB. Recognising this, the UK Treaty is collateralised by custody accounts containing assets that must meet certain eligibility criteria and rules which apply to the management of the collateral assets held in the custody accounts. If MRB were unable to meet its obligations under the UK Treaty then MLE would have recourse to the collateral assets. This

currently contributes to the financial strength of MLE and therefore to the security of the benefits of the Transferring Policies.

8.7 If the Scheme is implemented, the UK Treaty, including the collateral arrangements, will be transferred to MLUK (with the non-transferring offshore bond business removed from its scope and reinsured from MLE to MRB under a new treaty) such that the Transferring Policies will continue to be 100% reinsured to MRB after being transferred to MLUK. Following the transfer, the responsibility for paying benefits to holders of the Transferring Policies will lie with MLUK, regardless of the onward reinsurance of those benefits. However, after the implementation of the Scheme, the assets of MRB will, in practice, continue to provide security for the benefits of the Transferring Policies under MLUK. Holders of Transferring Policies will no longer have any recourse to MLE after the transfer.

8.8 It should be noted that, in this section, the pre-Scheme financial position of MLE and the pro forma post-Scheme financial position of MLUK reflect the impact of the UK Treaty, under which the economic risks and rewards of the Transferring Policies are transferred to MRB.

8.9 As noted in paragraph 5.54, MLE has the NWMA in place with ALICO, under which ALICO is obliged to ensure that MLE's SCR Coverage Ratio is at least 100% at all times and that MLE has sufficient liquidity to meet its contractual obligations in a timely manner. The NWMA provides additional security for the policyholders of MLE over and above that provided by the assets of MLE. As described in paragraph 6.20, on the Transfer Date the UK NWMA will be put in place between MLUK and ALICO, under which ALICO will be contractually obliged to ensure that MLUK's SCR Coverage Ratio is at least 100% at all times and that MLUK has sufficient liquidity to meet its contractual obligations in a timely manner. This will provide additional security to the policyholders of MLUK over and above that provided by the assets of MLUK.

8.10 MLE also has a parental guarantee arrangement in place with MetLife, Inc., i.e., the UK Treaty Group Guarantee, which contractually obliges MetLife, Inc. to act as guarantor for payments in respect of the Secure Capital Option and the Secure Income Option guarantees under the VA investments covered under the original UK Treaty (i.e., the UK Treaty prior to its extension in 2021), up to an aggregate value of $1 billion. On the Transfer Date, MetLife, Inc., will issue a new version of the UK Treaty Group Guarantee to MLUK on the same terms as the existing guarantee, covering the same liabilities in respect of the Transferring Business. Therefore, the UK Treaty Group Guarantee will continue to provide security for the benefits of the Transferring Policies following the transfer (noting the comments I have made in paragraph 8.38 on the practical operation and effectiveness of the UK Treaty Group Guarantee).

The financial strength required under Solvency II

8.11 Under UK and EU Solvency II the value of assets required to be held in respect of a policy or group of policies is represented by the Technical Provisions (consisting of the BEL and Risk Margin) and the SCR[44]. This required amount is then typically increased in accordance with the insurer's capital management policy in order to ensure that a buffer is held over and above the minimum amount required by the relevant Solvency II regulations. In comparing financial strength, it is therefore necessary to consider:

- How the Technical Provisions and SCR are determined by the Companies;
- The level of assets held by each of the Companies in excess of the Technical Provisions and SCR;
- The capital management policy of each of the Companies; and
- Any contractual parental capital support available to the Companies.

8.12 As would be expected, there will be some differences between the way in which MLE currently determines the Technical Provisions and SCR for the Transferring Business and the way in which MLUK will determine the Technical Provisions and SCR for the Transferring Business after the transfer, albeit that these differences principally relate to the divergence of the UK Solvency II regime from the EU Solvency II regime.

[44] A description of the relevant aspects of the UK and EU Solvency II regimes is included in Section 4.

Differences in the approach to the Technical Provisions

8.13 The only difference between the approach to Technical Provisions for the Transferring Policies currently used by MLE and the approach that will be used after the transfer by MLUK relates to differences in the risk-free interest rates between those applicable to UK Solvency II and those applicable to EU Solvency II, albeit that these differences are very small for cashflows up to 30 years in the future (on average 0.002 percentage points difference in the annualised interest rate up to year 30 as at 31 March 2023).

8.14 The pro forma financial information for MLUK in this Report has been produced using the interest rates applicable under EU Solvency II. However, MLE has used its existing sensitivity analysis to estimate whether using UK Solvency II interest rates would result in materially different Technical Provisions (after allowing for the impact of the UK Treaty) and has concluded that the impact is likely to be very small, and I am satisfied that this conclusion is reasonable.

8.15 As described in paragraphs 4.51 to 4.58, HM Treasury has published some details of planned reforms to UK Solvency II, albeit that details that would allow precise quantification of the likely impacts of the planned reforms are not yet available. However, HM Treasury has indicated that there will be a significant reduction in the Risk Margin under UK Solvency II once the reforms are enacted. A reduction to the Risk Margin of 65% for long-term life insurance business was indicated in HM Treasury's consultation response; however, that figure was based on economic conditions at the time of publication and is likely to represent an aggregate reduction across the industry for long-term life insurance business, rather than a figure that will apply to each insurer. In particular, the fact that the business of MLUK will be 100% reinsured to MRB may mean that any reduction in Risk Margin arising from the reform of UK Solvency II could be smaller for MLUK than for the average insurer. Additionally, reforms to the Risk Margin are currently expected to be enacted before the end of 2023, which means that they would be in force at the Transfer Date. This means that, prior to the Transfer Date, MLUK will capitalised to at least a 150% SCR Coverage Ratio based on its Risk Margin under the reformed UK Solvency II requirements rather than the current requirements, and therefore none of the financial analysis in this section would be affected.

8.16 Given that no other details have yet been confirmed on the specifics of the planned UK Solvency II reforms, I have not commented on their potential implications in detail in this Report as to do so would, in my view, be speculative. To the extent that more detailed information on the impacts of these reforms is available at the time, I will comment further on this area, including any potential material impacts of the reforms on the Companies, in my Supplementary Report.

Differences in the approach to the SCR

8.17 MLE uses the Standard Formula to determine the SCR under EU Solvency II, and MLUK will use the Standard Formula under UK Solvency II.

8.18 As described in paragraph 8.14, the pro forma MLUK financial position shown in this Report is determined using the EU Solvency II approach. In the case of the SCR, the only differences between EU and UK Solvency II are:

- The impact of the (small) differences between UK and EU Solvency II risk-free interest rates on the SCR; and
- The difference in the SAECC (see paragraph 4.48) between UK and EU Solvency II.

8.19 As is the case for the Technical Provisions, the difference between the SCR on an EU and UK Solvency II basis is expected to be very small, particularly given that 100% of the economic risks associated with the Transferring Business will be reinsured from MLUK to MRB.

8.20 In addition to differences in the SCR calculation brought about by the divergence between UK and EU Solvency II, the fact that MLUK is a UK insurer means that its reporting currency is pounds sterling, whereas the reporting currency of MLE (as an Irish insurer) is euros. Moreover, insurers are required, as part of their SCR under both EU and UK Solvency II, to hold capital against "currency risk", i.e. the risk that the net value of assets or liabilities denominated in currencies that are not the insurer's reporting currency change adversely as a result of movements in exchange rates. As the reporting currency of MLUK is different from that of MLE, the contribution of the Transferring Business to the

currency risk portion of the SCR will change after the implementation of the Scheme. In the pro forma MLUK financial position shown in this Report, the currency risk portion of the SCR has been approximated based on a prudent estimate (i.e. the currency risk portion of the SCR included in this Report is, if anything, likely to be slightly overstated).

8.21 In addition to the differences described above, the presence of other business in MLE will result in a different level of diversification (as described in paragraph 4.35) within the SCR of MLE compared to that of MLUK. The consequence of this is that the reduction in the SCR of MLE as a result of the transfer will be smaller than the increase in the SCR of MLUK as a result of the transfer. This difference is not a consequence of differences between the UK and EU Solvency II regimes, but simply arises because of the presence of other blocks of business within MLE, which have associated risks that are different from those of the Transferring Business. These differences in risks means that the SCR required to be held by MLE is less than the sum of the SCRs that would be held for each block of business in isolation, as the risks associated with each block of business are not perfectly correlated and therefore holding the blocks of business in the same insurer provides a level of resilience against risks as the risks are unlikely to manifest themselves at the same time. By contrast, the Transferring Policies will be the only block of business within MLUK, and therefore a higher SCR will be needed to reflect the relative lack of diversification. This difference in diversification does not indicate a material differential in policyholder protection; rather, differences in the level of diversification within the SCR calculation are intended to ensure that policyholder protection is broadly equivalent between the two entities.

8.22 MLE's management has concluded that the Standard Formula is appropriate for its risk profile, and MLUK has concluded that, following the transfer, the Standard Formula will also be appropriate for its risk profile. Therefore, neither MLE nor MLUK has any plans to implement an internal model or partial internal model to determine their respective SCRs. In relation to MLUK, I have reviewed the rationale as to why the Standard Formula is appropriate, which concludes that an "internal" view of the 99.5th percentile level of capital required would be lower than the capital required under the Standard Formula, principally because the Standard Formula still requires a material capital requirement in relation to operational risk, whereas in practice all financial or solvency losses arising from the manifestation of an operational risk event would be passed to MRB under the UK Treaty. While I have not carried out my own analysis in this area, I am comfortable with MLUK's analysis and the conclusion that the Standard Formula is appropriate for MLUK's risk profile.

Use of EU Solvency II figures in this Report

8.23 Notwithstanding that the pro forma MLUK post-Scheme Technical Provisions and SCR shown in this Report (Table 8.1) have been produced based on EU Solvency II rather than UK Solvency II, MetLife intends to inject capital into MLUK in advance of the Transfer Date to target an SCR Coverage Ratio under UK Solvency II of 150% after the implementation of the Scheme. Therefore, while the Technical Provisions and SCR of MLUK might be slightly different on a UK Solvency II basis from the figures shown in Table 8.1, the assets injected into MLUK in practice will ensure that the post-Scheme SCR Coverage Ratio is (at least) 150% on a UK Solvency II basis, i.e. consistent with that shown in Table 8.1.

8.24 I am therefore comfortable that the use of EU Solvency II to produce the pro forma post-Scheme MLUK financial position in Table 8.1 is appropriate and does not alter my conclusions or analysis in relation to the proposed Scheme.

Comparison of pre- and post-Scheme financial strength available to support the Transferring Business

8.25 Table 8.1 below shows the pre-Scheme financial strength of MLE and the pro forma post-Scheme financial strength of MLUK as at 31 March 2023 under Solvency II. This shows a comparison of the Solvency II financial position that currently provides security for the contractual benefits of the Transferring Policies (i.e. MLE's pre-Scheme financial position) with the one that will provide such security after the transfer (i.e. MLUK's post-Scheme financial position).

8.26 MetLife currently plans to capitalise MLUK to an SCR Coverage Ratio of 150% following the implementation of the Scheme, and therefore the post-Scheme position in Table 8.1 reflects this.

8.27 As described above, the pro forma post-Scheme financial position of MLUK is presented on an EU Solvency II basis, whereas in practice MLUK will report under UK Solvency II. However:

- As described above, the differences between UK and EU Solvency II are not currently material; and
- In practice MLUK will be capitalised to an SCR Coverage Ratio of 150% under UK Solvency II and therefore the SCR Coverage Ratio in Table 8.1 is the same as the one that will be targeted in practice after the transfer.

8.28 It should be noted that the figures in Table 8.1 are primarily presented in the reporting currency of the respective company, that is, MLE's figures are presented in euros and MLUK's figures are presented in sterling, but I have also presented MLE's figures in sterling using a sterling/euro exchange rate provided by MetLife.

TABLE 8.1: COMPARISON OF SOLVENCY II FINANCIAL POSITIONS OF MLE (PRE-SCHEME) AND MLUK (POST-SCHEME) AT 31 MARCH 2023

31 March 2023	MLE (pre-Scheme) (€m)	MLE (pre-Scheme) converted to £m*	MLUK (post-Scheme) (£m)
Assets held to match Unit-Linked Liabilities	3,889.5	3,417.6	2,295.0
Other Invested Assets	1,982.7	1,742.2	-
Non-Invested Assets (other than Reinsurance Recoverables)	582.8	512.1	38.7
Reinsurance Recoverables	2,990.8	2,628.0	2,309.9
Total Assets (A)	**9,445.9**	**8,299.9**	**4,643.6**
Technical Provisions	4,941.4	4,342.0	2,313.2
Other Liabilities	3,245.6	2,851.9	2,313.1
Total Liabilities (B)	**8,187.1**	**7,193.8**	**4,626.3**
Available Own Funds (C = A – B)	**1,258.8**	**1,106.1**	**17.3**
Own Funds Eligibility Restriction (D)	-	-	- 7.9
Eligible Own Funds (E = C + D)	**1,258.8**	**1,106.1**	**9.4**
SCR (F)	628.3	552.1	6.3
Excess Own Funds (= E – F)	**630.5**	**554.0**	**3.1**
SCR Coverage Ratio (= E / F)	***200.4%***	***200.4%***	***150.0%***

Note: The Own Funds Eligibility Restriction of £7.9 million in the MLUK financial position arises because of the presence of a deferred tax asset[45] in MLUK, which is classified as a Tier 3 Own Funds item under the Solvency II Own Funds classifications. The (UK and EU) Solvency II rules require that Tier 3 items can comprise a maximum of 15% of the SCR, and therefore part of the value of the deferred tax asset is removed from MLUK's Available Own Funds to determine its Eligible Own Funds.

**£/€ exchange rate used = 0.878684945*

8.29 It should be noted that MLUK's post-Scheme SCR of £6.3 million is very small compared to the value of policyholder units (£2.3 billion); this is principally because 100% of the risks associated with the Transferring Business will continue to be reinsured to MRB under the UK Treaty, and therefore the SCR is only required to reflect the residual risks within MLUK, principally residual operational risk and the risk that MRB defaults on its obligations under the UK Treaty.

8.30 The pro forma post-Scheme SCR Coverage Ratio of 150% for MLUK represents a decrease in SCR Coverage Ratio relative to the MLE pre-Scheme SCR Coverage Ratio of 200% as at 31 March 2023.

8.31 However, it is important to recognise that that MLE's SCR Coverage Ratio of 200% is in excess of that required by MLE's capital management policy, which provides for a normal operating range for the SCR Coverage Ratio of 145% to 150%. Consequently, MLE's Board is free at any time to remit capital resources in excess of these capital

[45] A deferred tax asset arises where a company has tax losses from prior tax years available to carry forward to reduce future tax payable. These tax losses therefore have value to the company and can (subject to meeting the requirements of the relevant accounting standards) be recognised as an asset on the insurer's balance sheet.

management policy requirements to MLE's parent, or to use the excess capital to invest in strategic ventures, such as writing new business into MLE. Therefore, it is not appropriate for me to rely on excess capital resources within either company when assessing the financial strength available to meet the benefits of the Transferring Policies as they could be removed from MLE, or otherwise used by MLE, at any time.

8.32 I also note that MLE is open to new business, whereas there are no plans to sell new business via MLUK. This means that MLE chooses to hold capital in excess of its capital management policy requirement in order to meet the capital requirements of writing new business, whereas this is not necessary for MLUK.

8.33 I have commented on the relative strengths of MLE's and MLUK's respective capital management policies in paragraphs 8.77 to 8.83.

Additional sources of policyholder benefit security

8.34 In addition to its capital resources, as described in paragraphs 5.54 and 5.59, MLE has:

- The NWMA with ALICO in place. Under the NWMA, ALICO is obliged to ensure that MLE's SCR Coverage Ratio is at least 100% at all times and that MLE has sufficient liquidity to meet its obligations.
- The UK Treaty Group Guarantee in place with MetLife, Inc., which contractually obliges MetLife, Inc. to guarantee, up to an aggregate value of $1 billion, all payments to be made in respect of the reinsurance cover of the original UK Treaty (i.e. the UK Treaty prior to its extension in 2021, which reinsured Secure Capital Option and Secure Income Option guarantees on certain VA business).

8.35 The NWMA and UK Treaty Group Guarantee are available to provide protection to MLE in the event that MRB gets into financial difficulty and cannot not discharge its obligations under the UK Treaty.

8.36 As described in paragraph 7.32, upon the implementation of the Scheme:

- The UK NWMA will be put in place between ALICO and MLUK. The UK NWMA will be a contractual arrangement under which MLUK benefits from the same capital and liquidity support undertakings that are provided to MLE under its NWMA with ALICO, that is, ALICO will ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis.
- MLUK will enter into an equivalent arrangement to the UK Treaty Group Guarantee (described in paragraph 5.59) with MetLife, Inc., which means that MetLife, Inc.'s obligations under the UK Treaty Group Guarantee will apply to MLUK. The UK Treaty Group Guarantee contractually obliges MetLife, Inc. to guarantee payments in respect of the VA investment guarantees (i.e. the Secure Capital Option and Secure Income Option) covered under the UK Treaty, up to an aggregate value of $1 billion.

8.37 Therefore, after the transfer, the UK Treaty Group Guarantee and UK NWMA will provide comparable protection to MLUK to that currently provided to MLE by the current UK Treaty Group Guarantee and NWMA.

8.38 It should be noted that, while I understand that it is (and has always been) MetLife, Inc.'s firm intention that the UK Treaty Group Guarantee obliges MetLife, Inc. unconditionally to guarantee policyholder benefits for the guarantees associated with the VA business, the UK Treaty Group Guarantee does not cover the performance of all of MRB's obligations under the UK Treaty and the wording of the UK Treaty Group Guarantee does not specify the practical form that MetLife, Inc.'s obligations would take in the event of the failure of MRB. Additionally, MetLife has indicated to me that the UK Treaty Group Guarantee would cease to operate if MRB were to become insolvent and ceased to exist as an entity. This is because the UK Treaty Group Guarantee requires MetLife, Inc. to guarantee MRB's performance of certain obligations under the UK Treaty, and these obligations would disappear if MRB ceased to exist. This issue aside, it is also not clear to what extent the invocation of the UK Treaty Group Guarantee following the failure of MRB would allow MLUK to take credit through its regulatory capital requirement for the guarantee being provided by MetLife, Inc. In particular, MetLife, Inc. is not an insurance or reinsurance company and therefore it is not obvious that it would be in a position to step in directly to replace MRB as the reinsurer of the VA guarantees, nor is it obvious that MLUK could recognise such an arrangement as reinsurance for the purposes of its regulatory solvency position.

8.39 Given the uncertainties over the operation of the UK Treaty Group Guarantee and its duration in the event of the insolvency of MRB, I have not placed material reliance on the presence of the UK Treaty Group Guarantee when considering the protections available to MLUK policyholders in the event of the failure of MRB, and have instead obtained significantly more comfort from the presence of the UK NWMA to provide policyholder protection.

8.40 In addition, the UK Treaty Group Guarantee only applies to the guarantees on the VA business, and does not oblige MetLife, Inc. to honour payments under the iCPPI business.

8.41 As described in paragraph 8.39, I have not placed material reliance on the replication of the UK Treaty Group Guarantee in for MLUK in relation to policyholder protection, and have instead obtained significantly more comfort in the replication of the benefits of the NWMA in MLUK (via the UK NWMA), and this was an area where I challenged MetLife on its proposals, in particular to challenge MetLife to explain the operation and effectiveness of the UK Treaty Group Guarantee. In particular, the NWMA obliges ALICO to ensure that MLE is capitalised to a 100% SCR Coverage Ratio if its SCR Coverage Ratio falls below that level, or is likely to fall below that level, for any reason, including the failure of MRB, and this will be the case for MLUK under the UK NWMA after the implementation of the Scheme. By contrast the UK Treaty Group Guarantee only applies to the VA business and not to the iCPPI business and there are questions around how the UK Treaty Group Guarantee would operate in practice (as set out in paragraph 8.38). The NWMA also requires ALICO to provide liquidity support to MLE where needed, and this will also be the case for MLUK under the UK NWMA.

8.42 In summary, after the transfer the Transferring Policyholders will benefit from the same contractual parental protections as they currently enjoy in MLE, and in particular they will continue to benefit from the protections of the (UK) NWMA with ALICO. I have commented in more detail on a scenario in which MRB defaults on its obligations under the UK Treaty, and the associated operation of the UK Treaty Group Guarantee and the NWMA/UK NWMA, in paragraphs 8.105 onwards.

8.43 In addition to the contractual parental support arrangements described above, MetLife's management has informed me that MetLife, Inc. has approximately $5.4 billion in cash and liquid assets as at 31 December 2022. These funds would be equally available to support MLUK and MLE should either insurer get into difficulty, and in practice it is likely that such support would be forthcoming. However, the Group would be under no legal obligation to make such assets available to MLE or MLUK if they were to get into difficulty (beyond the contractual amounts required by the UK Treaty Group Guarantee).

8.44 Based on the analyses above, I am satisfied that the differences in additional sources of financial strength set out above are not material and will therefore not lead to a material adverse impact on the security of benefits of the Transferring Policies.

Quality of Own Funds

8.45 As at 31 March 2023, MLE's Own Funds were comprised of Tier 1 and Tier 3 capital items. The Tier 1 items consisted of equity and retained earnings, and the Tier 3 item being the contribution to Own Funds of MLE's deferred tax asset. The deferred tax asset relates to the Transferring Business (described below in paragraph 8.46), as well as to:

- Unrealised losses on certain investments held by MLE; these losses can be brought forward and offset against future tax outgo; and
- A change in the tax basis for MLE's branch in the Czech Republic.

8.46 At 31 March 2023, MLE's Tier 1 Own Funds were €1,234.7 million, and its Tier 3 Own Funds (i.e. the value of its net deferred tax asset) were €24.1 million.

8.47 Following the implementation of the Scheme, MLUK's Own Funds are expected to be comprised of Tier 1 and Tier 3 items, the Tier 3 item being the expected contribution to Own Funds of MLUK's deferred tax asset. The deferred tax asset arises because of past losses on an "I minus E" basis (i.e. expenses exceeding income) for business classified

as "BLAGAB", i.e. Basic Life Assurance and General Annuity business[46]. This excess "E" can be carried forward to reduce tax in future years, and the value of this tax reduction is recognised via a deferred tax asset.

8.48 In MLUK's pro forma post-Scheme financial position as at 31 March 2023, MLUK's Available Own Funds comprised £8.5 million of Tier 1 Own Funds and £8.8 million of Tier 3 Own Funds (i.e. a deferred tax asset of £8.8 million). However, the EU and UK Solvency II regulations stipulate that Tier 3 Own Funds items can make up no more than 15% of the SCR. MLUK's SCR at 31 March 2023 (in the pro forma post-Scheme position) was £6.29 million, and therefore MLUK's Eligible Own Funds can only recognise £0.94 million of the deferred tax asset (i.e. 15% of £6.29 million), resulting in total Eligible Own Funds of £9.4 million.

8.49 Therefore, MLUK's Tier 3 Own Funds make up a larger proportion of its Own Funds than is the case in MLE. However:

- It is a requirement when determining a deferred tax asset to assess that it is probable that sufficient future profits[47] will be available to realise its value, and therefore MLE and MLUK will have been required to carry out this analysis of expected levels of future profits before recognising the deferred tax assets in their balance sheets; and

- As described in paragraph 8.48, nearly 90% of MLUK's deferred tax asset has been disallowed in determining the availability of Own Funds to meet the SCR, and hence in determining the SCR Coverage Ratio of MLUK. Therefore nearly 90% of the value of deferred tax asset of MLUK would need to be written down before it would no longer be possible to realise the value of the deferred tax asset that is recognised for solvency purposes. Given that the assessment described in the first bullet of this paragraph has taken place, it is reasonable to assume that the portion of the deferred tax asset that is recognised in MLUK's Solvency II financial position will be realised.

- In the absence of the Solvency II tiering limits described in paragraph 8.48, the pro forma post-Scheme SCR Coverage Ratio of MLUK as at 31 March 2023 would be approximately 275%.

8.50 Taking this into account, I am satisfied that differences in the relative composition of the Own Funds of MLE and MLUK will not have a material adverse impact on the security of benefits of the Transferring Policies.

Resilience of the Solvency II financial positions of MLE and MLUK

8.51 The financial positions of MLE and MLUK shown in Table 8.1 show that both MLE and MLUK have significant capital resources in excess of the regulatory minimum. This means that their respective abilities to meet their Technical Provisions are resilient to all but the most severe adverse scenarios. However, the financial positions in Table 8.1 do not give full information on the level of resilience of the Companies' abilities to continue to meet their respective SCRs against:

- Actions planned to be taken over the short to medium term in line with the Companies' respective business plans, for example planned new business volumes; and

- Adverse scenarios over the short to medium term once the impact of the Companies' business plans are taken into account.

8.52 I have received MLE's 2022 ORSA report under which MLE seeks to estimate its future regulatory solvency position based on its business plan, and to estimate the impact on its regulatory solvency position of a number of adverse scenarios.

8.53 I have also received MLUK's draft ORSA report, which it produced as part of its submission to the PRA to seek the authorisation of MLUK as a UK insurance company.

[46] BLAGAB business is taxed on its "I minus E" profits, where "I" refers to certain types of investment income and capital gains attributable to the BLAGAB business, and "E" refers to certain categories of expenses attributable to the BLAGAB business. "I minus E" tax is sometimes referred to as "policyholder tax" as it is intended broadly to be a proxy for the tax that would be paid by a basic rate UK taxpayer if they directly held the assets held by the insurer in respect of their life insurance policy.

[47] In the case of MLUK, future profits would comprise future investment gains which reverse past investment losses under the "I minus E" tax basis described in paragraph 8.47.

8.54 The solvency projections and scenario analysis in MLE's 2022 ORSA report use a starting point of 30 June 2022 with a true-up as at 31 September 2022, i.e. the projections and scenario analysis are based on economic conditions and business in-force as at 30 June 2022, with an adjustment to reflect MLE's actual SCR Coverage Ratio as at 31 October 2022. By contrast, the equivalent analysis in MLUK's draft ORSA is based on economic conditions and business in-force as at 30 June 2021. However, I have also received the MLE 2021 ORSA report in which the projections and scenario analysis are based on a starting point of 30 June 2021, which allows a direct comparison with MLUK.

8.55 MLE's 2022 ORSA report shows the projected development of its SCR Coverage Ratio between 2022 and 2026 under the assumption that MLE's business plan is executed and economic conditions remain broadly stable from 30 June 2022. Under this projection, the ORSA report indicates that SCR Coverage Ratio of MLE would be expected to increase gradually over time, assuming that no dividends are paid from MLE during the projection period. This increase in SCR Coverage Ratio reflects the net impact of future new business sales and the run-off of MLE's in-force portfolio.

8.56 MLE's 2021 ORSA report shows a very similar projected pattern to the future SCR Coverage Ratio (projected from 2021 to 2025).

8.57 MLUK's draft ORSA report shows a similar projected pattern of SCR Coverage Ratios (projected from 2021 to 2025) to that shown in MLE's ORSA reports, that is, a steady increase in the SCR Coverage Ratio over time (again assuming stable economic conditions from Q2 2022). In MLUK's case this is driven by the projected reduction in its SCR as its business runs off over time, as MLUK does not plan to sell any new business.

8.58 MLE's ORSA report also shows the impact on MLE's SCR Coverage Ratio of a number of adverse scenarios, covering changes in economic conditions, changes in claims and persistency experience, a default of MRB and lower than expected new business sales volumes and profitability, including scenarios in which combinations of these adverse events are assumed to take place simultaneously.

8.59 MLE has qualitatively assessed the likelihood of the occurrence of each scenario as "plausible", "plausible but unlikely", "unlikely" or "extremely unlikely", but has not attempted precise quantification of these likelihoods. In particular, the scenarios are not intended to have the same probability of occurrence and therefore some scenarios are considered more unlikely to occur than others. Care must therefore be taken when comparing the impacts of different scenarios on MLE's solvency position and drawing conclusions on relative levels of exposure and resilience to different scenarios.

8.60 MLE's scenario analysis considers the impact of the scenarios on MLE's actual SCR Coverage Ratio as well as the impact on MLE's SCR Coverage Ratio assuming a pre-scenario SCR Coverage Ratio of 150%, i.e. close to the minimum level required by MLE's capital management policy.

8.61 Noting the difficulties in directly comparing scenario impacts described in paragraph 8.59, based on the 2022 ORSA, MLE's regulatory solvency position appears to be most exposed to a combined scenario involving adverse changes in economic conditions (e.g. interest rate levels, equity markets and credit markets) and non-economic conditions (e.g. mortality rates, persistency experience); MLE has qualitatively assessed such a scenario as "plausible but unlikely".

8.62 By contrast, the scenario analysis in MLUK's draft ORSA indicates that its regulatory solvency position is most exposed to a failure of MRB to meet its obligations under the UK Treaty. In particular, the fact that MLUK's only business will be the Transferring Business (which will be 100% reinsured to MRB) means that MLUK's regulatory solvency position would be more severely affected by a MRB default than MLE's.

8.63 It should be noted that, while the presence of the UK Treaty means that MLUK's regulatory solvency position is not materially exposed to changes in economic and non-economic conditions (as the adverse impact of any such changes would accrue to MRB under the UK Treaty), such changes could affect MRB and hence potentially affect MLUK indirectly (i.e., in the scenario where such economic and non-economic changes led to the default of MRB under the UK Treaty).

8.64 MLUK's regulatory solvency position is also somewhat exposed to certain other, less material, risks, specifically:

- A downgrade of MRB's internally assigned credit rating, which could have a small impact on MLUK's SCR Coverage Ratio;

- A significant reduction in interest rates could result in the provision held by MLUK in relation to a default of MRB under the UK Treaty increasing, which could reduce MLUK's SCR Coverage Ratio;
- An increase in MLUK's operating expenses would not affect MLUK's solvency position directly, as all expenses are reimbursed by MRB under the UK Treaty, but the capital requirement in relation to operational risk under the Solvency II Standard Formula is linked to operating expenses, and MLUK's SCR and Risk Margin could therefore increase if MLUK's operating expenses were to increase, resulting in a lower SCR Coverage Ratio.

8.65 It should be noted that the details and results of the ORSA scenario and sensitivity analyses are not publicly available and I am not permitted to disclose them. They are also unaudited, and I have not conducted a review of the accuracy of the underlying financial modelling. However, MetLife has provided me with details of its internal processes for review, validation and sign-off of the financial modelling and, based on this, I am satisfied that it is appropriate for me to rely on the results of the modelling without further independent analysis.

8.66 From the perspective of Transferring Policyholders, the results I have received from MetLife show that MLUK's regulatory solvency position is expected to remain in excess of the level required by its capital management policy over the medium term, and is expected to be resilient to adverse scenarios other than to the scenario of the failure of MRB, which can be considered an unlikely event given that MRB is a reinsurance company that is regulated in a jurisdiction deemed to be "equivalent" to Solvency II (see paragraph 8.107) and that has capital resources in excess of the minimum required by local regulations. This scenario would be expected to result in MLUK being unable to meet its SCR or MCR in full from its own resources, and potentially being unable to meet 100% of its Technical Provisions, even after taking possession of the collateral assets.

8.67 However, in such a scenario, if (as is indicated by MLUK's ORSA modelling) MLUK's SCR Coverage Ratio following the failure of MRB were to be less than 100% or was likely to be fall below 100%, MLUK would have the unilateral option to invoke the UK NWMA and ALICO would be required to recapitalise MLUK to at least a 100% SCR Coverage Ratio.

8.68 I have given my views on the strength of the UK NWMA later in this section.

8.69 As described in paragraph 5.35, the Gap Protection arrangement with Deutsche Bank also provides protection to MetLife in relation to the Transferring Business, and this arrangement will continue on broadly the same terms after the implementation of the Scheme; the benefit of the Gap Protection accrues ultimately to MRB, but this provides additional resilience to MRB's financial position which is ultimately to the benefit of MLE (and to MLUK after the transfer).

8.70 In accordance with common market practice regarding scenario analysis, MLE and MLUK have not carried out any scenario analysis which considers the impact of adverse scenarios over the long term, i.e. beyond their respective business planning periods. This is because any such scenario analysis would be subject to significant uncertainty over such time periods that would materially limit its usefulness; for example, it is not clear what assumptions should be made around economic conditions, new business volumes or new business margins beyond the business planning period.

8.71 In conclusion, while it is speculative to measure risks to solvency for both MLE and MLUK over the long periods during which their policies remain in force, I am satisfied that, owing to the presence of the collateral arrangements and the UK NWMA, MLUK would remain able to meet its obligations to policyholders and maintain a 100% SCR Coverage Ratio even after the manifestation of MLUK's most material risk, i.e., the extreme scenario that is the failure of MRB.

The MLE and MLUK capital management policies

8.72 The capital management policy of an insurer sets out the amount of capital that the insurer aims to hold, how it manages its business to that target and the actions it would expect to take if its capital resources were out of line with that target. Target capital levels are often expressed relative to the level of regulatory capital requirements. The regulatory capital requirements may target a specified probability of remaining solvent over a certain time horizon: for example, for UK

and EU Solvency II it is a 99.5% probability of remaining able to meet Technical Provisions over one year. By committing that additional capital will be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits of business that is subject to the capital management policy.

8.73 Capital management policies often also provide triggers for, and descriptions of, actions by the insurer's management aimed at reducing the likelihood of a breach of regulatory capital requirements and subsequent regulatory intervention.

8.74 When considering the capital resources available to provide security for policy benefits, greater reliance can be placed upon capital resources held up to the level required by the capital management policy than on capital resources in excess of this level, since assets in the latter category are potentially available for distribution to shareholders (subject to the relevant rules on dividend payments) or for investment in strategic initiatives or business growth. Therefore, the relative strength of the requirements of the capital management policies of MLE and MLUK is relevant in considering the security of benefits of the Transferring Business, as is the governance that would apply to changes made to those policies.

8.75 Currently, the security of the benefits under the Transferring Policies is provided by the assets of MLE (including the value of amounts recoverable from MRB through the operation of the UK Treaty) held in accordance with the MLE capital management policy described in Section 5. Following the implementation of the Scheme, the Transferring Business will be transferred into MLUK and security for the benefits of the Transferring Policies will subsequently be provided by the assets of MLUK (including the value of amounts recoverable from MRB through the operation of the UK Treaty that is to be novated to MLUK, with the exception of the reinsurance for the non-transferring offshore bond business) held in accordance with the MLUK capital management policy described in Section 6.

8.76 MLE has informed me that it does not expect to make any changes to its risk appetite or capital management policy as a result of the proposed transfer, although both Companies are free to change their risk appetite or capital management policies in the future, albeit that any change to capital management policies may be scrutinised by the CBI (in the case of MLE) or the PRA (in the case of MLUK).

The relative strengths of the capital management policies

8.77 In accordance with common practice among UK insurers, both MLUK and MLE test their capital management policies against a minimum level of resilience to adverse changes in conditions during a one-year period, consistent with the "one year" approach to the calibration of the SCR.

8.78 MLE's capital management policy is described in Section 5, but in summary it provides for a normal operating level for MLE's SCR Coverage Ratio of 145% to 150%, with a "heightened attention range" between 125% and 145%. The normal operating level of 145% to 150% is believed by MLE to be consistent with MetLife, Inc.'s Treasury policy which requires an assessment of the level of capital required to protect against a breach of SCR with a confidence of '1 in 25' over a one-year period.

8.79 MLUK's capital management policy will also be governed by MetLife, Inc.'s Treasury policy, and MLUK has carried out analysis to assess how much capital would be required to meet the requirement for a 1-in-25 confidence level, in other words, how much capital would be needed in excess of the SCR such that the probability that MLUK's SCR Coverage Ratio after one year is less than 100% is no higher than 1-in-25. In order to assess this, MLUK has carried out stress and scenario testing, as well as assessing the impact of an adverse scenario with a 1-in-25 level of severity. The stress and scenario testing indicated that MLUK's regulatory solvency position would be resilient against all adverse scenarios except the failure of MRB. MLUK does not consider it necessary for the capital buffer to be sufficient to allow MLUK to withstand the failure of MRB, as it regards such a failure as being significantly more severe than a 1-in-25 event, and I agree with this conclusion. The assessment of the impact of a 1-in-25 adverse scenario considered the impact of such a scenario (based on MetLife's internal view of what constitutes an adverse 1-in-25 scenario) on MLUK under different operating conditions and concluded that a target SCR Coverage Ratio of 136% to 148% would be sufficient to withstand the 1-in-25 scenario, albeit that an assessment of what constitutes a 1-in-25 scenario is not an exact science and is subject to very significant judgement.

8.80 MLUK's conclusion from this analysis is that a normal operating range of 145% to 150% SCR Coverage Ratio (that is, the same operating range as applies to MLE) would be sufficient to meet the requirement of the MetLife, Inc. Treasury policy. This analysis, together with analysis around UK market practice and certain other areas, has led MLUK to propose a normal operating range for its SCR Coverage Ratio of 145% to 150%.

8.81 I have reviewed MLUK's analysis and explanation of the way in which its capital management policy range has been determined and the way in which MLUK has determined that its normal operating range is sufficient to meet the requirement of the MetLife, Inc. Treasury policy, and I am satisfied that it is reasonable, noting that assessing the level of capital required to target a given level of confidence around avoiding an SCR breach is a complex exercise requiring significant judgement.

8.82 Moreover, MetLife's analysis indicates that the capital management policy of MLUK is broadly comparable, both in the definition of the normal operating range, and in the level of confidence around avoiding an SCR breach, to that of MLE.

8.83 The financial information shown for MLE in Table 8.1 indicates it comfortably met its regulatory capital requirements at 31 March 2023. Moreover, had the transfer taken place at that date, Table 8.1 shows that MLUK would also have comfortably met its regulatory capital requirements. Furthermore, both companies' capital resources were/would have been sufficient to meet the requirements of their respective capital management policies. This means that both companies would be expected to be resilient to adverse changes in future experience at or beyond the level required by their respective capital management policies.

8.84 I am therefore satisfied that the impact of a change of capital management policy will not have a material adverse effect on the security of benefits under Transferring Policies.

The available responses of management to a breach of the capital management policies and risk appetite

8.85 Given that both companies test their capital management policies against a specified level of resilience of the SCR Coverage Ratio over a one-year period, it is difficult to assess with any precision the level of resilience the Companies have to adverse changes in conditions over a longer period. In particular, any quantification would have to recognise the way in which companies manage their capital resources and risk exposures in practice, and also recognise the reality of prudential regulation, under which the intensiveness of regulatory oversight would increase as the solvency position of an insurer deteriorated.

8.86 In practice, UK and Irish insurers monitor their solvency positions on a frequent basis, and it is common for the output of this monitoring to be shared with the relevant regulator. Indeed, insurers would have the obligation to inform their regulator of anything about which the regulator might reasonably expect to be told, which would include a material deterioration in solvency. In practice, in the event of a deterioration in solvency, I would therefore expect the following:

- Owing to the frequency of solvency monitoring, it is likely that such a deterioration would be detected before it resulted in a breach of the company's capital management policy, and it is also likely that mitigating actions, consistent with the insurer's internally agreed schedule of available actions, could be taken to avoid a breach of the capital management policy.

- To the extent that these actions are taken and do not succeed in avoiding a breach of the capital management policy, it is likely that a plan would be developed to rapidly restore compliance with the capital management policy, and further mitigating actions would be taken.

- To the extent that solvency levels continued to deteriorate, regulatory oversight would become ever more intensive, and in particular, in the event that the insurer were to breach its SCR (i.e. its SCR Coverage Ratio dropped below 100%), I would expect the local regulator to require the firm to use any and all actions available to it to restore compliance with the SCR, noting that the CBI and PRA have certain powers available to them that allow them to require firms to take (or not to take) certain actions.

8.87 Therefore, it is likely that deteriorations in solvency would be detected early and capital management activities would typically take place promptly in response to such deteriorations in order to avoid a breach of the capital management policy.

8.88 The actions that would be available to MLUK to alleviate a deterioration in its regulatory solvency position are likely to be similar to those available to MLE in relation to the Transferring Business. MLE may have other actions at its disposal to the extent that they relate to the Non-Transferring Business of MLE, but these actions are not relevant for MLUK.

8.89 In practice, if MLE's or MLUK's SCR Coverage Ratio dropped below 100% or it did not have the ability to meet contractual payments, the main action available to MLE/MLUK would be to seek capital support from ALICO under the NWMA/UK NWMA. If the support capable of being provided by ALICO turned out to be insufficient then MLE/MLUK could seek capital support from MetLife, Inc., albeit that MetLife, Inc. would not be obliged to provide this support. If a deterioration of MLE's or MLUK's solvency position arose as a result of the failure of MRB in relation to the UK Treaty, then MLE/MLUK would also have the option of invoking the UK Treaty Group Guarantee; however, there are questions around whether the UK Treaty Group Guarantee would provide protection following the insolvency of MRB, as described in paragraph 8.38.

8.90 In addition, MLE and MLUK would have the option of seeking a capital injection or equivalent capital support from their respective parents within the MetLife Group. Their parents would be under no contractual obligation to provide this support, but in practice I understand that the MetLife Group has agreed to provide capital support to its subsidiaries in the past, and, in the context of assessing the impact of the Scheme, there is no reason to suppose that the Group would be more inclined to provide capital support to MLE than to MLUK, or vice versa. As noted in Section 5, MetLife, Inc. has significant liquid investments as at 31 December, and also has a $3.0 billion unsecured revolving credit facility which it may use for the benefit of its subsidiaries.

8.91 MLE's ORSA sets out additional recovery actions that it believes may be available to it to alleviate a deterioration in its solvency position, namely:

- Contingent liquidity funding;
- Suspension of dividends;
- Additional hedging;
- Changes to new business strategy;
- A reduction in expenses;
- External reinsurance of part of MLE's business;
- Closure of a branch or product line to new business;
- The sale of a block of business to a third party; and
- Additional intra-group reinsurance.

8.92 Some of these actions would also be available to MLUK following the transfer, for example, the suspension of dividends. Most of the other actions listed in paragraph 8.91 would be less likely to be available to MLUK, largely because they are not relevant to MLUK, for example, because MLUK will not be open to new business.

8.93 In practice, the principal actions that would be available to MLUK if its SCR Coverage Ratio were to deteriorate below the level required by its capital management policy but remained above 100% would be:

- Suspension of dividends (if relevant);
- To the extent that the deterioration related to capital requirements associated with MLUK's asset holdings (outside of assets held in policyholder unit-linked funds), MLUK could reinvest such assets to ensure that they do not result in unnecessarily onerous capital requirements; and

- Seeking a capital or liquidity injection from the MetLife Group, as described in paragraph 8.90.

8.94 With that being said, the only material financial risk to which MLUK is exposed is the failure of MRB, which is a severe scenario (and significantly more severe than the "1-in-200 year" event that is required to underlie the Solvency II capital requirement). Moreover, even in this extreme scenario, in the event that it caused, or was expected to cause, MLUK's SCR Coverage Ratio to fall below 100%, MLUK could invoke the UK NWMA and ALICO would be contractually required to provide capital support to MLUK in order to restore a 100% SCR Coverage Ratio. This capital support could take the form of a direct injection of equity capital into MLUK, or it could take some other form, but would be required to take a form that would allow MLUK to recognise it as eligible capital under Solvency II.

8.95 Taking this into account, I am satisfied that both firms have a sufficient range of actions at their disposal to mitigate a scenario in which their solvency position starts to deteriorate, and therefore there is no material adverse impact on the security of benefits of the Transferring Policyholders arising from the range of available actions in such circumstances.

Governance surrounding the capital management policies and risk appetite

8.96 In theory, the MLE and MLUK Boards are free to make changes to their respective capital management policies at any time, including making them weaker in terms of the level of SCR Coverage Ratio that is targeted. However, neither firm has plans to make any such changes and, in practice, I would expect the CBI (in the case of MLE) or the PRA (in the case of MLUK) to be notified in advance of any material planned changes to capital management policies.

8.97 Furthermore, I consider it unlikely that MLE or MLUK would be willing to implement any material changes to their respective capital management policies if those changes did not meet with the non-objection of the CBI or PRA respectively.

8.98 Taking this into account, I am satisfied that there is no material impact on the security of benefits of the Transferring Policies arising from the change in governance applicable to the capital management policy covering the Transferring Business.

Conclusion on the financial resources available to provide security of benefits

8.99 Based on the analysis above, I am satisfied that:

- The capital management policy of MLUK will provide adequate support for the security of benefits of the Transferring Policies;
- Based on the financial position of the Companies at 31 March 2023 and other analysis with which I have been provided, the Scheme will not have a material adverse effect on the financial resources available to support the security of the benefits of the Transferring Business.

8.100 For these reasons, I am satisfied that the implementation of the Scheme will not have a material adverse impact on the financial resources available to provide security of benefits under the Transferring Policies.

THE PROFILE OF RISKS TO WHICH THE TRANSFERRING POLICIES ARE EXPOSED

8.101 After the implementation of the Scheme, the Transferring Policies will be policies of MLUK and will therefore be directly exposed to the risk profile of a different company, in particular a company that has no other insurance business in it other than the Transferring Business.

8.102 Table 8.2 below shows a comparison of the SCRs of MLE (pre-Scheme) and MLUK (post-Scheme) as at 31 March 2023.

TABLE 8.2: COMPARISON OF SOLVENCY II FINANCIAL POSITIONS OF MLE (PRE-SCHEME) AND MLUK (POST-SCHEME) AT 31 MARCH 2023

Risk Module/Sub-Module	MLE Pre-Scheme (€m)	MLE Pre-Scheme converted to £m*	MUKL Post-Scheme (£m)
Market Risk	179.0	157.2	1.4
Life Underwriting Risk	462.6	406.5	0.7
Health Underwriting Risk	190.2	167.2	-
Non-Life Underwriting Risk	0.0	0.0	-
Counterparty Default Risk	51.1	44.9	2.2
Operational Risk	66.9	58.7	3.1
Diversification benefit	(243.8)	(214.2)	(1.1)
Loss-Absorbing Capacity of Deferred Taxes	(77.7)	(68.3)	-
Total SCR	**628.3**	**552.1**	**6.3**

**£/€ exchange rate used = 0.8787*

8.103 It can be seen that MLUK's post-Scheme SCR will be significantly smaller than MLE's, reflecting the fact that 100% of MLUK's business will be reinsured to MRB under the UK Treaty.

8.104 The largest component of MLUK's SCR relates to operational risk. The size of this component reflects the formulaic nature of the calculation of the operational risk contribution to the SCR under the Solvency II Standard Formula. However, in practice, under the UK Treaty, MRB is required to meet the cost of remediating any operational risk issues within MLE (and MLUK post-Scheme), and therefore MLUK's operational risk exposure will be minimal. Consequently, as described earlier in this section, the dominant risk for policyholders of MLUK will be the risk of a default of MRB under the UK Treaty.

The exposure of Transferring Policyholders to MRB

8.105 Currently Transferring Policyholders (and other policyholders of MLE) have a significant exposure to the risk of default of MRB under the UK Treaty. Following the transfer, the Non-Transferring Policyholders will have a significantly smaller exposure to this risk[48], but the Transferring Policyholders will continue to be exposed to the risk of the default of MRB as the UK Treaty will be replicated in MLUK.

8.106 As described in paragraphs 5.27 and 5.30, under the UK Treaty the assets backing UK wealth management policyholders' unit-linked funds are retained by MLE, and a collateral arrangement has been established to protect MLE against any counterparty risk from MRB in relation to amounts in excess of unit-linked liabilities, with the required collateral being the Solvency II "loss given default", which is a measure of the capital loss that MLUK would incur upon the default of MRB, including any additional amounts in excess of policyholder units required to honour the Policy Guarantees.

8.107 The likelihood of the failure of MRB is deemed to be extremely low, as it is a reinsurance company subject to the Bermudian solvency regime for insurers, which has been deemed by the EU to be equivalent to the EU Solvency II regime (i.e. its insurance regulatory regime is deemed to achieve the same outcomes as those determined under the EU Solvency II framework).

8.108 Moreover, the presence of the collateral arrangement would partially mitigate the impact of a default by MRB. However, the collateral arrangement may not fully mitigate all impacts of a default since:

[48] The risk of MRB failure will not be entirely removed for Non-Transferring Policyholders as the non-transferring offshore wealth management business referred to in paragraph 5.22 will continue to be reinsured to MRB

- If a default is accompanied by (or even caused by) a market shock of some kind, the assets in the collateral account may not have been topped up to a level sufficient to meet the expected (post-shock) cashflows in excess of policyholder units, given that a market shock would typically increase the expected cost of honouring the Policy Guarantees. However, given that required collateral is monitored and estimated weekly, with exceptional rebalances triggered if the deemed required collateral differs from the posted collateral by +/-2.5%, the market shock would need to be fast-moving in order for there to be a material deficit in the available collateral versus that required.

  The Gap Protection provided by Deutsche Bank (described in paragraph 5.35) would also partially mitigate this risk, as a pay-out from Deutsche Bank would be triggered if market movements over a 24-hour period were sufficient to reduce a policyholder's fund value below the value of any guaranteed benefit. This would allow any shortfall in the collateral arrangements to be at least partially made up by a pay-out from Deutsche Bank. As described in paragraph 5.35, the economic effect of the Gap Protection currently accrues to MRB under the UK Treaty, but Deutsche Bank's counterparty is MLE (and will be MLUK after the transfer), and therefore in the event of the failure of MRB the benefit of the Gap Protection would revert to MLE (MLUK after the transfer).

- The assets in the collateral account are only intended to be sufficient to meet the expected Solvency II "loss given default" of MRB. However, the Solvency II loss given default is a relatively crude proxy for the full solvency impact of a recapture of the reinsurance.

  In particular, upon the failure of MRB and the recapture by MLE of the reinsured liabilities, MLE's Risk Margin and SCR would increase significantly (reflecting the fact that the risks of the business would revert to MLE and would no longer be reinsured). However, the impact of the Risk Margin increase is not reflected in the Solvency II loss given default calculation, and the impact of the SCR increase is only partially reflected.

  This means that, upon a recapture of the reinsured liabilities, there would be an increase to MLE's SCR and Risk Margin that the collateral assets would not be expected to be sufficient to meet.

- Whilst all of MLUK's expenses would ordinarily be reimbursed by MRB under the UK Treaty, the default or failure of MRB could result in MLUK incurring expenses related to the recapture of the liabilities reinsured to MRB that could not be reclaimed from MRB, which could erode MLUK's liquid capital resources.

8.109 MLE has produced an estimate (as at 31 December 2021) of the solvency impact on MLE of a default of MRB under the UK Treaty (this does not take into consideration any benefits of the invocation of the UK Treaty Group Guarantee). It is estimated that, as at 31 December 2021, MLE's SCR Coverage Ratio would have reduced from 250% to 221% had MRB defaulted under the UK Treaty. This reduction in SCR Coverage Ratio reflects the following sequence of events that would be expected to take place in the event of an MRB default:

- MLE would take possession of assets in the collateral accounts[49].

- The value on MLE's balance sheet of the recoverables from MRB under the UK Treaty would reduce to zero, other than any receivables expected to be recovered from MRB in excess of the collateral assets.

- MLE's BEL would change because the economic interest in the Transferring Business reverts to MLE. This means that MLE could take credit in its Solvency II financial position (via a negative non-unit BEL) for future net charge income from the Transferring Business (as described in paragraph 4.108), but it would also need to ensure its BEL is sufficient to meet the expected cost of honouring the Policy Guarantees.

[49] At the time the MRB default impact was estimated, the derivatives described in paragraph 5.27 were assets of MLE with the economic impact of these derivatives being passed from MLE to MRB under the UK Treaty. By contrast, these derivatives are now held directly by MRB. This means that, if MRB were to default now, the benefit of the derivatives would not revert to MLE, and instead MLE would consider whether it is necessary to put in place its own derivatives hedging programme. However, in the MRB default impact quoted in paragraph 8.109, it was assumed that the benefit of the derivatives would revert automatically to MLE upon an MRB default.

- MLE's Risk Margin and SCR would increase because the risks associated with the Transferring Business revert to MLE and no longer lie with MRB.

8.110 The impact of an MRB default shown in paragraph 8.109 does not include the impact of costs incurred by MLE upon the default of MRB, but these would not be expected to be material in the context of the size of MLE. Additionally, the default of MRB is not assumed to trigger any claims under the Gap Protection contract with Deutsche Bank, but such claims may be forthcoming if the default of MRB was accompanied by a fast-moving market shock.

8.111 As described in paragraph 8.109, the net impact of these events would be a reduction in MLE's SCR Coverage Ratio.

8.112 Following the transfer, the UK Treaty will be replicated within MLUK, with collateral arrangements established which are equivalent to those currently in place. Therefore, the collateral arrangements will afford MLUK a similar level of protection against a default by MRB as is currently afforded to MLE, with the same limitations described in paragraph 8.107 in relation to the risk-mitigating effect of the collateral arrangements applying to MLUK.

8.113 After the transfer, the sequence of events that would ensue in the event of the failure of MRB would be largely the same for MLUK as that described in paragraph 8.109 for MLE.

8.114 MetLife has shared details of the actions MLE, MLUK and the wider MetLife Group would have available in the event of the failure of MRB, which include:

- Taking possession of the collateral;
- Putting in place an alternative reinsurance arrangement with another reinsurance company within the MetLife Group; and
- Capital management actions, including support for MLE or MLUK from MetLife Group.

8.115 MetLife has not specified precisely which actions would be taken in such a scenario, as this would be decided in response to the specific circumstances of the situation. However, in my view it is reasonable to assume that, from MLUK's perspective, a scenario in which MRB were to fail would be likely to include the following actions:

- MLUK would take possession of the assets in the collateral pool. As MLUK is not the counterparty to the derivatives held by MRB as protection against market movements, MLUK would not gain possession of these derivatives in the event of the failure of MRB, although the Gap Protection arrangement with Deutsche Bank will be replicated with MLUK after the transfer; MLUK would therefore seek to put in place its own risk and capital management programmes, which may include new hedging arrangements.
- As the recapture of the reinsured liabilities following the failure of MRB would be expected to result in a material adverse impact on MLUK's SCR Coverage Ratio, MLUK would be likely to consider:
  - Any available capital optimisation options, such as ensuring that its assets are invested in such a way as to minimise its regulatory capital requirements. However, the internal capital optimisation options available would be highly unlikely to be sufficient to mitigate the impact of the failure of MRB.
  - Seeking voluntary capital support from the MetLife Group.
- At the same time, upon the failure of MRB, the MetLife Group may seek to put in place alternative internal reinsurance arrangements to replace those that had been in place with MRB.
- To the extent that MLUK had been unable to secure voluntary capital support or alternative reinsurance arrangements from the MetLife Group, if the situation was such that MLUK's SCR Coverage Ratio had reduced below 100% or was likely to reduce below 100%, MLUK would have the unilateral right to invoke the UK NWMA which would contractually require ALICO to provide capital support to MLUK to ensure that its SCR Coverage Ratio is restored to at least 100%.

8.116 Given that the Transferring Business will be MLUK's only business, the impact of the failure of MRB on MLUK's SCR Coverage Ratio after the transfer would be expected to be significantly more severe than the impact on MLE's SCR

Coverage Ratio of the failure of MRB before the transfer. In particular, MetLife's analysis as at 31 December 2021 is that, had the Scheme been effective at that date and MRB had defaulted on its obligations under the UK Treaty, MLUK's SCR Coverage Ratio would reduce from 153%[50] to 20%[51], that is, MLUK's capital resources would be insufficient to cover its SCR (or indeed its MCR). Recapitalising MLUK from a 20% SCR Coverage Ratio to 150% would require approximately £300 million of capital resources to be provided to MLUK (using figures as at 31 December 2021). This compares to a reduction from 250% to 221% for MLE following the failure of MRB, as described in paragraph 8.109.

8.117 However, it should be noted that:

- As described in paragraph 8.107, MRB is a reinsurance company regulated in Bermuda, and the Bermudian regime has been deemed by the EU to be equivalent to EU Solvency II (i.e. its insurance regulatory regime is deemed to achieve the same outcomes as those determined under the EU Solvency II framework). Moreover, at 30 June 2023, MRB had a solvency ratio under the Bermudan solvency regime of 237%, which is comfortably in excess of its target capitalisation of 120%. Moreover, in August 2022 MetLife assessed MRB's financial strength rating as being broadly equivalent to an A1 rating from Moody's or an AA- rating from Standard & Poor's.

  Therefore, it is reasonable to assume that a default of MRB can be considered to be a severe scenario, and in particular the likelihood of a default is likely to be beyond a 1-in-200 year event, which is the level of risk against which the EU and UK Solvency II regulations require insurers to hold capital.

- The collateral arrangement, together with the Gap Protection provided by Deutsche Bank, are intended to ensure that MLE (and MLUK post-transfer) can take possession of the assets required to meet its liabilities if MRB were to fail. This collateral arrangement is subject to the limitations set out in paragraph 8.108, both before and after the implementation of the Scheme.

- In addition to the collateral assets, MLUK will hold capital within its SCR against the risks to which it is exposed, including the risk of MRB default, albeit that the capital required to be held against an MRB default is significantly lower than the adverse solvency impact of an MRB default. This is because, as an insurer with a significantly higher solvency ratio than 100% under a Solvency II equivalent regime, the implied likelihood of an MRB default is significantly lower than the 1-in-200 year event against which Solvency II requires capital to be held, principally because MRB is required by its capital management policy to hold capital resources in excess of its regulatory capital requirement and, therefore, under a 1-in-200 year default event involving MRB, the losses assumed to be incurred by MLUK for the purpose of determining the SCR are significantly lower than those that would be incurred upon the full insolvency of MRB.

- The recapture impacts described above for MLE and MLUK do not reflect the presence of the NWMA/UK NWMA and the UK Treaty Group Guarantee.

  The NWMA is a commitment by ALICO to ensure that the SCR Coverage Ratio of MLE does not fall below 100% at any time (for any reason) and that MLE can make contractual payments on a timely basis.

  The UK Treaty Group Guarantee is a contractual commitment by MetLife, Inc. to guarantee up to $1 billion of payments from MRB to MLE related to policy guarantees under the VA policies reinsured to MRB under the original UK Treaty (i.e. the UK Treaty prior to its extension in 2021).

  These arrangements are currently available to MLE and they will be replicated in MLUK after the Scheme.

  In practice, it is not clear precisely how the NWMA/UK NWMA and the UK Treaty Group Guarantee would interact in a scenario in which MRB had failed, and the extent to which one or both arrangements would be invoked. For example, in practice the MetLife Group might elect to step in to recapitalise MRB if it got into difficulty, or put in place alternative reinsurance arrangements, rather than to directly support MLE or MLUK. However, if they deemed it necessary, the respective Boards of MLE and MLUK would have the unilateral right to invoke the

[50] An SCR Coverage Ratio of 153% for MLUK was the assumed base solvency position of MLUK for the purposes of the ORSA.

[51] This post-MRB default SCR Coverage Ratio assumes that MLUK would gain possession of the derivatives held by MRB following the failure of MRB, or alternatively would put in place equivalent hedging arrangements.

NWMA and UK NWMA respectively if the MRB failure had resulted in MLE or MLUK's SCR Coverage Ratio falling, or being expected to fall, below 100%, and therefore, even after the failure of MRB, both MLE (pre-transfer) and MLUK (post-transfer) would have the ability to take action to meet their regulatory capital requirements in full. This would mean that, even after the occurrence of a very extreme, adverse scenario (i.e. the failure of MRB), MLE (pre-transfer) and MLUK (post-transfer) would be in a position to meet their liabilities and regulatory capital requirements, which would allow them to discharge their obligations to the Transferring Policyholders with a confidence level at or above the 1-in-200 level required under the Solvency II regulations.

The Board of MLUK would also have the unilateral option to invoke the UK Treaty Group Guarantee under this scenario. However, as discussed in paragraph 8.38, I have not placed material reliance on the presence of the UK Treaty Group Guarantee and instead have obtained significantly more comfort from the presence of the UK NWMA to provide security to Transferring Policyholders, given the scope of the UK Treaty Group Guarantee (i.e. it does not require MetLife, Inc. to protect any guarantees under the iCPPI business) and the lower level of clarity over precisely how the UK Treaty Group Guarantee would operate in practice and its duration in the event of MRB's insolvency.

- While Transferring Policyholders will, after the implementation of the Scheme, be more exposed to the risk of the failure of MRB, MLE is more highly exposed to other types of risk than MLUK, and therefore Transferring Policyholders will no longer be exposed directly to these risks following the transfer (albeit that MLE holds capital against the manifestation of many of these risks which will not be required to be held by MLUK).

8.118 The presence of the UK NWMA will mean that, in the event of the failure of MRB, MLUK would be dependent on ALICO having the financial resources available to honour its obligations under the UK NWMA. Moreover, MLUK's dependence on ALICO after the transfer will be greater than MLE's current dependence on ALICO, given that MLUK's own financial resources will be relatively limited. I have therefore considered:

- The quantum of ALICO's financial resources in order to assess its capacity to honour its obligations under the UK NWMA should it be invoked; and
- Whether ALICO would be subject to any constraints on its ability to honour its obligations under the UK NWMA should it be invoked.

8.119 In relation to the first point:

- As described in paragraph 5.55, ALICO had approximately $30 billion of shareholders' equity under its U.S. accounting basis as at 31 December 2021. Moreover, while financial projections for ALICO on a U.S. accounting basis are not available, MetLife has provided summary output of three-year financial projections for ALICO on a statutory reporting basis, which indicates that its available capital on that basis will remain broadly level over the next three years, and has confirmed that it would not be unreasonable to infer a similar trend for its U.S. accounting equity.
- ALICO paid dividends to its parent of $1.3 billion and $1.1 billion in 2022 and 2021 respectively, which gives an indication of the level of financial resources available to it.
- At the same date, as described in paragraph 8.116, the failure of MRB would result in approximately £184 million of capital being required by MLUK to achieve a 100% SCR Coverage Ratio after recapturing the business reinsured to MRB (and approximately £300 million of capital would be required to achieve a 150% SCR Coverage Ratio); this quantum of capital support would represent a relatively small proportion of ALICO's shareholders' equity of $30 billion at 31 December 2021.
- Moreover, the expected quantum of capital required by MLUK to achieve a 100% SCR Coverage Ratio in the event of the failure of MRB is expected to reduce over time.

8.120 In relation to the second point in paragraph 8.118, the potential constraints on ALICO's ability to honour its obligations under the UK NWMA are:

- ALICO itself has an indirect exposure to MRB as a result of MRB being an indirect subsidiary of ALICO. However, the contribution of MRB to ALICO's shareholders' equity on a U.S. accounting basis was approximately 2% as at 31 March 2023, and therefore I would not expect the failure of MRB to materially compromise ALICO's ability to honour the UK NWMA.
- I understand that ALICO has entered into a number of other capital support arrangements with other entities within the MetLife Group. MetLife has provided me with some details of these arrangements, and has confirmed that these arrangements commit ALICO to providing significantly smaller levels of capital support than would be required if the NWMA/UK NWMA were to be invoked. Moreover, the invocation of the NWMA/UK NWMA would not necessarily coincide with any of these other arrangements needing to be invoked. Given the size of ALICO and the quantum of its capital resources, I would not expect these arrangements to materially compromise ALICO's ability to honour the NWMA/UK NWMA if needed.

8.121 In relation to the clause in the NWMA and UK NWMA that provides for the automatic termination of the NWMA and UK NWMA in the event that MLE (in the case of the NWMA) or MLUK (in the case of the UK NWMA) cease to be a subsidiary of ALICO:

- The automatic termination clause is present in both the NWMA and the UK NWMA; therefore, the implementation of the Scheme does not change the position for the Transferring Policyholders.
- Any change of ownership of MLUK would require PRA approval, and it is likely that, in such an eventuality, the PRA would seek comfort that policyholders of MLUK would not be exposed to materially greater risk as a result of the change of ownership, and therefore in practice (and in the absence of a significant capital injection into MLUK) it is likely that a similar arrangement to the UK NWMA would need to be put in place with MLUK's new controller.
- I have not been made aware of any plans for the MetLife Group legal entity structure to change in such a way that MLUK will cease to be a subsidiary of ALICO.
- In the event that such plans were developed in the future, my understanding is that MetLife would seek to ensure that arrangements were put in place sufficient to ensure broadly equivalent protection for MLUK as that conferred by the UK NWMA.
- MetLife's recovery plan includes a number of management actions that could be used in mitigation to stressed scenarios that affect ALICO, but none of these documented actions will involve a change in ownership of MLUK.

8.122 Therefore, while the Transferring Policyholders will be exposed to a greater level of concentration risk as a result of their exposure to MRB after the implementation of the Scheme, the very low likelihood of an MRB default combined with the presence of the collateral assets, and the presence of the UK NWMA are sufficient to mitigate this risk to a level that will not result in a material adverse effect on Transferring Policyholders.

8.123 It should also be noted that the PRA's Supervisory Statement 1/20 ("**SS1/20**")[52] on "Solvency II: Prudent Person Principle", published on 27 May 2020, which sets out the expectations of the PRA in relation to the Prudent Person Principle (described in paragraph 4.25), is relevant to the question of the concentration risk with MRB. In particular, SS1/20 applies to all assets, including outwards reinsurance arrangements such as the UK Treaty, and paragraph 3.17 of SS1/20 states that the PRA's existing rules require firms to:

"ensure that assets issued by the same issuer, or by issuers belonging to the same group, shall not expose the insurance firm to excessive risk concentration".

Moreover, paragraph 3.19 of SS1/20 states that the PRA expects that:

"with regard to risks arising from a particular asset, issuer or group of undertakings, or geographical area (eg default, change in government policies, deterioration in market or macroeconomic conditions), or other single source of risk:

[52] https://www.bankofengland.co.uk/prudential-regulation/publication/2020/solvency-ii-prudent-person-principle-ss

- *the solvency risk appetite of the firm is not threatened in a moderate stress scenario; and*
- *the solvency of the firm is not threatened in a severe stress scenario and the firm is able to recover from a severe shock and restore compliance with all its regulatory requirements"*

8.124 While any assessment of an insurer's compliance with PRA regulations or guidance is a matter for the PRA, in relation to these requirements from SS1/20, it is, in my view, reasonable to conclude that the arrangements that MetLife intends to put in place with MLUK are sufficient to meet the requirements of paragraph 3.19 of SS1/20, given that:

- It is, in my view, reasonable to regard the complete failure of MRB as a severe stress scenario in the context of paragraph 3.19 of SS1/20, given that MRB is a well-capitalised reinsurance company in a territory whose regulatory regime is deemed to be equivalent to Solvency II; and
- The presence of the UK NWMA would allow MLUK to restore compliance with its SCR following this severe scenario.

8.125 Moreover, it is my interpretation of SS1/20 that being in compliance with the requirements of paragraph 3.19 is likely to be sufficient to be in compliance with the higher-level requirement of paragraph 3.17.

8.126 I understand that MetLife will continue to refine its contingency planning related to the failure of MRB and I will therefore comment on any updates to such planning in my Supplementary Report.

Risk exposures of MLE

8.127 As described above, MLE is also exposed to the default of MRB, but to a lesser extent than MLUK; by contrast, MLE is more exposed than MLUK to adverse scenarios around economic conditions and the persistency and mortality experience of its business.

8.128 Following the implementation of the Scheme, the Transferring Policies will no longer be exposed to these risks directly, albeit that MRB will, through its reinsurance arrangements (including the UK Treaty) have some exposure to these risks.

Climate risk

8.129 In 2017 the IFoA issued a "risk alert" in relation to climate-related risks, in which it suggested that all actuaries should consider how climate-related risks could affect the advice they are providing. I have therefore commented specifically on climate-related risk in this sub-section.

8.130 MLE has updated me on the work it is carrying out around climate risk and the wider topic of sustainability. In particular, MLE has put in place a risk management plan in relation to climate risk, consisting of the following workstreams:

- **Governance**: ensuring all committee terms of reference are updated to appropriately consider climate risk.
- **Risk management**: integration of climate risk throughout MLE's risk management framework.
- **Strategy – Materiality Assessments**: the implementation of a climate risk identification exercise (including quantitative assessments) to refresh climate risks and opportunities already identified and identify those that have recently emerged.
- **Strategy – Scenario Analysis**: MLE has licensed climate modelling software to conduct detailed scenario analysis, which is focused on the potential for transition risk (see paragraph 4.139) to affect MLE's asset portfolio. The scenarios focus on global temperature scenarios in different categories, for example an orderly vs. a disorderly transition.
- **Metrics and Targets**: MLE has defined climate-related metrics for monitoring climate risk exposures and has defined a climate-related risk appetite.

8.131 MetLife has also confirmed that MLUK will adopt a similar framework and that relevant work on climate-related risk carried out by or on behalf of MLE will also be available to MLUK management.

8.132 Given the presence of the UK Treaty, it is unlikely that Transferring Policies will have a direct or material exposure to climate risk after the transfer, as any such exposure would fall upon MRB. The presence of the UK Treaty also means that the transfer will not materially affect MLE's climate risk exposure, given that climate risk exposures for Transferring Policies currently fall upon MRB.

Liquidity risk

8.133 As is currently the case, MRB (rather than MLUK) will be the counterparty to the derivatives described in paragraph 5.27 after the transfer, albeit that the gap protection arrangement with Deutsche Bank will be replicated with MLUK as the counterparty. The fact that MRB is, and will continue to be, the counterparty to the derivatives means that MLUK will not be exposed to potential liquidity calls from the derivative instruments[53]. This means that MLUK's principal liquidity exposure will relate to:

- The timing difference between any guarantee payments (and associated expenses) it makes to policyholders and MLUK's ability to reclaim these payments from MRB under the UK Treaty; and
- Any short-term timing mismatch between payments to policyholders when divestments are made from external unit-linked funds and the sales of relevant assets held in such funds.

Both of these sources of liquidity risk are currently present in MLE in relation to the Transferring Business.

8.134 It should be noted that, in addition to its existing liquid resources, MLUK will receive regular cash income in the form of charges levied on its policies, which can be used to meet any such outgo.

8.135 A liquidity framework for MLUK has not yet been finalised; however, MetLife has shared its expectations around the form of MLUK's liquidity framework, albeit that the details have yet to be agreed.

8.136 MLUK's liquidity framework is expected to be similar to that of MLE, and will cover:

- Short-term cash monitoring, which compares the cash holding of MLUK to a target balance, based on an analysis of regular cash requirements and any known, one-off payments.
- Liquidity stress monitoring, under which MLUK's cash and liquid assets (plus any less liquid assets, with an allowance for the time taken to liquidate them) are compared to MLUK's liquidity needs over a range of time horizons between 7 and 365 days, and under a range of stress scenarios.

8.137 The details of MLUK's specific framework are still in development, and therefore I will comment further on liquidity risk in my Supplementary Report. However, based on the information I have received thus far, I am satisfied that MetLife appears to be adequately considering and addressing the liquidity risk to which MLUK will be exposed.

Other comments on risk exposures

8.138 In general, MLE's business mix is more varied than MLUK's and, therefore, the Transferring Policies are currently exposed to a greater variety of risks than they would be after the implementation of the Scheme. Therefore, the proposed transfer will reduce the range of risks to which the Transferring Policies are exposed, but it will also reduce the levels of risk diversification from which the Transferring Policies benefit. However, the SCR that MLUK will be required to hold under UK Solvency II will reflect the risk profile of the company, its business and the lower level of diversification benefits that are available.

8.139 In addition to the capital that MLUK will be required to hold under UK Solvency II:

[53] Under many derivative instruments, counterparties to those instruments are required to post liquid assets as collateral as a mitigant against one counterparty defaulting on its obligations. As the market value of the derivative instrument changes, daily changes to the amount of collateral posted are required from the counterparties to match the change in market value. This can result in large amounts of liquid assets being required from counterparties at short notice in the event of significant fluctuations in the derivative's market value.

- MLUK will have an internal risk management framework that documents its approach to identifying, measuring, monitoring, managing and reporting its risks.
- MLUK will have an independent Risk Function whose role is to provide oversight, advice and challenge to management and the Board in order to ensure that business risks are managed effectively, and a Board which will include two experienced, independent non-executive directors. The two independent non-executive directors will chair MLUK's Board and Risk and Audit Committee respectively.
- MLUK will be required to produce an ORSA regularly (and following any significant change), which analyses the profile of risks to which the company and its future plans are subject, and quantifies its exposure to its key risks through extensive stress and scenario testing.

8.140 All of the risk management activities described in paragraph 8.139 are common to life insurers above a certain size in the UK. Nevertheless, they provide additional comfort that any differences in risk profile to which the Transferring Policies will be exposed after the implementation of the Scheme will be suitably identified, managed and protected against.

Conclusion in relation to the profile of risks to which Transferring Policies will be exposed

8.141 In summary, Transferring Policies will move out of a company which has a more diversified risk exposure into one that has a concentrated exposure to a single risk, that is, the default of MRB, albeit that MRB may itself have risk exposures that are similar to those of MLE.

8.142 However, this means that Transferring Policies will be exposed to a smaller number of risks, and therefore will not be exposed directly to all of the risks to which they are currently exposed within MLE. Moreover, the lack of diversification of MLUK's risk exposures is reflected in its SCR through a lower diversification benefit, as described in paragraph 8.21.

8.143 The exposure of MLUK to the concentration risk of the failure of MRB will be mitigated by the same factors as are currently available to them in MLE, that is, those set out in paragraph 8.117.

8.144 I am therefore satisfied that the change in risk profile to which the Transferring Policies will be exposed as a result of the transfer will not have a material adverse impact on the security of their benefits.

THE REASONABLE EXPECTATIONS OF TRANSFERRING POLICYHOLDERS

8.145 The Transferring Policies are wealth management products, and policyholders' reasonable expectations in respect of their policies are principally that:

- They receive their benefits under the Policy Guarantees as specified under the policy, on the dates and in the contingencies specified in the policy's terms and conditions;
- The unit-linked benefits they receive reflect the investment performance of the assets in which their units are invested, net of contractual charges payable under the policies;
- The linked funds in which their policies are invested are managed appropriately and in line with fund factsheets and other information on the funds provided to policyholders;
- The administration, management, and governance of the policies are in line with the contractual terms under the policies;
- A good standard of service is received; and
- The charges levied on their policies are reasonable and represent value for money.

Benefit expectations of the Transferring Policyholders

8.146 The benefits of the Transferring Policies can broadly be split into two categories:

- The unit-linked benefits available under the policy; and
- Any benefits under the Policy Guarantees that are in excess of unit-linked benefits payable.

8.147 In relation to unit-linked benefits, the reasonable expectation of Transferring Policyholders is that, upon requesting a withdrawal from their policy, they receive an amount equal to the number of units encashed multiplied by the relevant unit price, less any penalties that contractually apply.

8.148 All unit-linked funds in which Transferring Policies are invested will be transferred in their entirety to MLUK, and therefore there no unit-linked funds will need to be split between Transferring and Non-Transferring Policies.

8.149 MLE's practice is to invest assets to fully match the unit-linked liabilities, and MLUK will take the same approach after the transfer. This means that the transfer will not have an impact on the availability of assets equal in value to unit-linked liabilities to meet requests from policyholders to encash units.

8.150 Moreover, the investment management arrangements currently applicable to the unit-linked funds will be replicated in MLUK with MetLife Group's internal investment management division.

8.151 In addition, there will be no changes to the charges levied on Transferring Policies as a result of the Scheme, nor to the application of any areas of discretion in the determination of charges, nor will there be any changes to the methodology used to determine unit prices as a result of the Scheme. Transferring Policyholders will have the same ability to make premium payments into their policies (and access to the same range of funds into which to make these payments) after the transfer as they currently enjoy.

8.152 Therefore, the Scheme should have no impact on the unit-linked benefits that Transferring Policyholders can expect to receive from their policies.

8.153 In relation to benefits in excess of unit-linked benefits, the reasonable expectations of Transferring Policyholders are that they receive the benefits as specified in the policy terms and conditions. I have already concluded above that the Scheme will not have a material adverse effect on the security of contractual benefits, and therefore there should be no material difference between the ability of MLE to pay these benefits and that of MLUK after the transfer.

8.154 Taking the above into account, I am satisfied that the implementation of the Scheme will not have a material adverse effect on the likelihood that the reasonable benefit expectations of the Transferring Policies will be met.

The administration and service standards applied to the Transferring Policies

8.155 The administration of the Transferring Business is currently outsourced to MLE's third-party administrator, SS&C. SS&C is an administration and software services provider specialising in outsourced administration services in the life and pensions sector. SS&C acquired the division of Capita plc which had previously provided administration services to MLE (and MPTL, as the trustee and scheme administrator for certain pension products) since the UK wealth management products were launched.

8.156 In order to ensure that the servicing and administration of the Transferring Policies will be unaffected by the transfer, MLUK will be added as a party to the existing SS&C Administration Agreement, which will allow SS&C to administer and service the Transferring Policies on MLUK's behalf after the implementation of the Scheme using the same team as currently carries this out.

8.157 There will therefore be no change to SS&C's obligations around the services provided in relation to the Transferring Business, nor to the requirements around the levels and quality of service.

8.158 Given that SS&C already administers the Transferring Business, I would not expect significant work to be required in migrating the arrangement from MLE to MLUK, and in particular I would not expect the transfer to put service levels applicable to the Transferring Policies at risk.

8.159 MLE has shared with its contingency plan in the event of a material failure of SS&C in its service provision. This plan would also be applicable to MLUK after the transfer, and includes the following components:

- It notes that MLE has step-in rights which allow MLE to assume direct oversight of SS&C's performance of the outsourced services in the event of a material failure of their provision, albeit that this does not give MetLife the right to transition the services to another provider (internal or external to the MetLife Group)
- It notes that MLE would instigate measures to ensure that the SS&C elements (including, but not limited to, staff, systems and infrastructure) that are required to support MLE are able to continue functioning (this may include effecting a TUPE transfer of impacted staff).
- It notes that MLE would simultaneously instigate a tender process to find an alternative provider in the medium to long term.
- It notes that, once a preferred provider is agreed upon, a programme would be launched to securely transfer knowledge, customer data and staff.

8.160 Having reviewed the contingency plan, I am satisfied that it is reasonable. Moreover, the transfer will have no impact on the overall risk of a material failure of SS&C in its service provision, and the contingency plan in the event of such a failure is the same for both MLE (pre-Scheme) and MLUK (post-Scheme). Finally, the transfer would not introduce any impediments to the execution of such a contingency plan.

8.161 I understand that the contingency plan will continue to be refined in the coming months, and I will therefore comment on any updates to the contingency plan in my Supplementary Report.

8.162 Taking the above into account, I am satisfied that the implementation of the Scheme will not have a material adverse effect on the administration and service standards applicable to the Transferring Policies.

The scheme administrator of the MetLife Personal Pension Scheme

8.163 As noted in Section 7, it is expected that, upon the implementation of the Scheme, MLUK will take over (from MPTL) the role of scheme administrator for the MetLife Personal Pension Scheme (the pension scheme supporting the Retirement Portfolio product). MLUK has applied to the PRA and FCA for the relevant permissions to replace MPTL as scheme administrator.

8.164 Following the implementation of the Scheme, MetLife will apply for the deauthorisation of MPTL and will subsequently wind MPTL up.

Administration impacts on vulnerable consumers

8.165 MLE's UK Branch has a Vulnerable Customers policy which sets out its approach to vulnerable customers. The relevant aspects of this policy will be adopted by MLUK.

8.166 There will be no change in the approach to administration or servicing for policies held by vulnerable customers as a result of the transfer.

Non-UK policies within the Transferring Business

8.167 The Transferring Policies were designed for the UK market and only ever distributed by UK intermediaries.

8.168 Moreover, the state of commitment of all of the Transferring Policies is the UK.

8.169 However, the Transferring Business includes a relatively small number of policyholders (less than 0.5% of the Transferring Policies at the time of writing) who now reside in jurisdictions outside of the UK.

8.170 SS&C currently administers these policies and is expected continue to do so following the implementation of the Scheme. Therefore, it is not expected that the Transferring Policyholders residing outside of the UK will experience any changes to the administration of their policies nor experience any disruption to the administration of their policies, as a result of the proposed transfer.

8.171 According to MLE's records, the territories in which the highest number of Transferring Policyholders reside are France (58), Spain (36), USA (14), Ireland (13) and Australia (13). Given that MLUK is domiciled outside of the EEA, I have sought clarity from MetLife on whether there is any risk of an impediment to MLUK's ability to service policies held by residents of the EEA after the transfer, and indeed its ability to service any other policies held by non-UK residents.

8.172 MLE has received input from its external legal advisers on this point which concluded that there is a very little risk that the transfer would be an impediment to the ongoing servicing of non-UK resident Transferring Policyholders. This conclusion was made as a result of the following arguments:

- It is possible that MLUK's ongoing servicing of the non-UK policyholders would not result in it being deemed to be carrying out a regulated activity locally, which would mean there would be no regulatory issue associated with servicing these policies;
- It is the experience of MLE's legal advisers that jurisdictions would generally require MLUK to uphold its contractual obligations regardless of the regulatory position;
- The numbers of policyholders involved are small and there is no material policyholder presence in any individual jurisdiction; and
- The claims monies are denominated in pounds sterling and paid into a UK bank account.

8.173 Additionally, MLE's external legal advisers have considered the risk that the Court's sanction of the Scheme may not be recognised as effectively transferring policies from MLE to MLUK in non-UK jurisdictions in which non-UK resident Transferring Policyholders reside. The legal advisers have concluded that any non-recognition of the UK Court's sanction of the Scheme would not prevent MLUK from making payments and otherwise fulfilling its contractual obligations to such policyholders, nor would it have any impact on the servicing of such policies.

8.174 Given that:

- SS&C will continue to service the Transferring Policies after the implementation of the Scheme;
- MLE's legal advisers have concluded that there is very low risk of an impediment to policies being serviced, regardless of the extent of any non-recognition of the UK Court's sanction of the Scheme in relevant jurisdictions; and
- The EEA territories in which the most Transferring Policyholders are resident (i.e. France, Spain and Ireland) are likely to be territories in which a significant number of other UK insurers also have policyholders, and given it has now been over two years since the end of the post-Brexit transition period, I would expect any material impediments to servicing such policies to have become known by this point,

I am satisfied that the risk of impediments to the servicing of Transferring Policies whose holders reside outside of the UK is sufficiently low for me to conclude that the transfer will not have a material adverse impact on the ability of MetLife to administer and service the Transferring Policies. However, I will comment further on any developments in this area in my Supplementary Report.

Conclusion in relation to administration and service standards

8.175 Taking the above into account, I am satisfied that the implementation of the Scheme will not result in a material adverse impact on standards of administration and service experienced by holders of Transferring Policies.

Governance and management of the Transferring Policies

8.176 The Transferring Business is currently managed by MLE and is subject to the governance of the MLE Board.

8.177 Following the implementation of the Scheme, the Transferring Business will be managed by MLUK and subject to the governance of the MLUK Board. MLUK is in the process of appointing a Board which will include two non-executive directors, both of which will be independent of MetLife. One of these will be the Chair of the MLUK Board and one will chair MLUK's Risk, Audit and Compliance Committee.

8.178 With the exception of one of the independent non-executive directors (which MetLife has not yet appointed), I have been provided with details of the experience of the individuals who will be nominated as directors of MLUK and holders of other Senior Management Functions within MLUK. Other than in the case of the two independent non-executive directors, all of the nominees for these roles are individuals who already work within the MetLife Group and who are highly familiar with the management of the Transferring Business.

8.179 The presence of the two independent non-executive directors gives comfort that the Board of MLUK will provide independent oversight and constructive challenge to MLUK's management, with a focus on the interests of MLUK rather than those of the wider MetLife Group.

8.180 MLUK will be governed and managed principally through three bodies, namely:

- The MLUK Board of Directors;
- The MLUK Board Risk, Audit and Compliance Committee; and
- The MLUK Management Committee.

8.181 MLE has significantly more Board and management committees in place than MLUK's planned committee structure, but this reflects MLE's significantly more complex business and risk profile. I have reviewed the terms of reference for the bodies listed in paragraph 8.180, and I am comfortable that the proposed governance structure is appropriate for a company of MLUK's planned size and complexity. In the event that MLUK started to carry out material activities beyond those envisaged in this Report, then its governance structure may need to be reviewed.

8.182 It should be noted that MLE and MLUK are subject to comparable regulatory requirements in relation to the oversight of their long-term insurance business. For example, both companies are required by local regulators to appoint:

- A Head of Actuarial Function (in the case of Ireland) or a Chief Actuary (in the case of the UK), whose appointment is subject to regulatory approval, and who is responsible for advising the company's Board of Directors, inter alia, on the reliability and adequacy of the calculation of the Technical Provisions; and
- A Chief Risk Officer, whose appointment is also subject to regulatory approval, and who is responsible for the implementation of the insurer's risk management system.

Both the Chief Risk Officer and the Chief Actuary of MLUK will be members of the MLUK Management Committee.

8.183 Both Companies are also required to have an Internal Audit function in place, which operates as an independent assurance function to evaluate the effectiveness and adequacy of the insurer's internal control system and of the system of governance.

8.184 Given the above, I am satisfied that the implementation of the Scheme will not materially adversely affect the standards of governance and management applicable to the Transferring Business.

The Consumer Duty Requirements

8.185 As described in Section 4, the new Consumer Duty rules and guidance set by the FCA are expected to apply to MLUK from 31 July 2024, given that the only business of MLUK will be the closed portfolio of Transferring Business.

8.186 In preparation for the implementation of the Consumer Duty rules and guidance, the FCA required firms' Board of Directors (or equivalent management body) to, by the end of October 2022, agree implementation plans and evidence that they have scrutinised and challenged the implementation plans to ensure they are deliverable and robust to meet the new Consumer Duty standards.

8.187 I understand that an implementation plan and briefing with regard to MLUK's closed portfolio of wealth management business (i.e. the Transferring Business) was provided to senior management in the UK Branch and the Board of MPTL by this deadline. A working group has been formed to oversee the completion of this work, and activity is already underway in specific areas, with sessions held to identify key policyholder touch points, communications, and processes.

8.188 I understand that product value assessments have taken place for several years following the publication of the FCA's Finalised Guidance on the Fair Treatment of long-standing customers in the life insurance sector (FG 16/8[54], released in December 2016).

8.189 I note that the Consumer Duty rules and guidance would apply to the UK Branch in the absence of the proposed transfer and that the relevant work taking place within MetLife prior to the transfer in relation to Consumer Duty will be made available to MLUK and continued after the transfer.

8.190 I am therefore satisfied that the proposed transfer would not affect the ability of MetLife to comply with the Consumer Duty rules and guidance in relation to the Transferring Business.

Conclusions in relation to the reasonable expectations of Transferring Policyholders

8.191 Taking the conclusions above into account, I am satisfied that the implementation of the Scheme will not have a material adverse effect on the reasonable expectations of Transferring Policyholders.

CONCLUSION FOR THE TRANSFERRING POLICIES

8.192 Overall, I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits of the Transferring Policies; or
- The reasonable expectations of the Transferring Policyholders, including:
    - The reasonable benefit expectations of Transferring Policyholders; and
    - The standards of service, management and governance applicable to the Transferring Policies.

[54] https://www.fca.org.uk/publication/finalised-guidance/fg16-8.pdf

9. The effect of the implementation of the Scheme on the Non-Transferring Policies of MLE

INTRODUCTION

9.1 In this section I consider the effect of the implementation of the Scheme on the Non-Transferring Policies of MLE.

9.2 As described in paragraph 5.10, the Non-Transferring Policies comprise a range of life, pension and health business, including a mixture of unit-linked and non-linked business, issued to individuals and to companies.

THE FINANCIAL RESOURCES AVAILABLE TO PROVIDE SECURITY OF BENEFITS

9.3 The security that the holders of Non-Transferring Policies in MLE enjoy with respect to their contractual benefits currently arises from the assets held by the company:

- Assets backing the Technical Provisions and SCR of MLE; and
- Excess capital resources of MLE.

9.4 The ability of MRB to fulfil its obligations under the UK Treaty currently affects the security for the Non-Transferring Policies. In particular, in the event that MRB were unable to fulfil its obligations under this arrangement, the business of MLE as a whole would absorb any financial impact, not just the Transferring Policies. However, as described in Section 5, the UK Treaty is collateralised and is subject to the UK Treaty Group Guarantee and NWMA, which act to mitigate the impact of a default of MRB, albeit that there are some uncertainties around the effectiveness of the UK Treaty Group Guarantee, as described in paragraph 8.38.

9.5 Under the Scheme, the liabilities relating to the Transferring Policies will transfer to MLUK, while the Non-Transferring Policies and the assets of MLE will remain in MLE, with the exception of the assets backing the policyholder funds for the Transferring Policies and the asset representing the value of amounts recoverable from MRB in relation to the Transferring Policies under the UK Treaty. These assets will be transferred to MLUK.

9.6 The following table shows the pre-Scheme and pro forma post-Scheme financial positions of MLE as at 31 March 2023 under EU Solvency II.

TABLE 9.1 – THE MLE PRE-TRANSFER AND PROJECTED POST-TRANSFER SOLVENCY POSITION AS AT 31 MARCH 2023

31 March 2023 (€m)	MLE (pre-Scheme)	MLE (post-Scheme)
Assets held to match Unit-Linked Liabilities	3,889.5	1,277.6
Other Invested Assets	1,982.7	1,982.7
Non-Invested Assets (other than Reinsurance Recoverables)	582.8	538.8
Reinsurance Recoverables	2,990.8	362.0
Total Assets (A)	**9,445.9**	**4,161.1**
Technical Provisions	4,941.4	2,309.9
Other Liabilities	3,245.6	613.2
Total Liabilities (B)	**8,187.1**	**2,923.1**
Available Own Funds (C = A – B)	**1,258.8**	**1,238.0**
Own Funds Eligibility Restriction (D)	-	-
Eligible Own Funds (E = C + D)	**1,258.8**	**1,238.0**
SCR (F)	628.3	625.7
Excess Own Funds (= E – F)	**630.5**	**612.3**
SCR Coverage Ratio (= E / F)	***200.4%***	***197.9%***

Totals/differences may not be additive due to rounding

9.7 Table 9.1 shows that, if the transfer had occurred at 31 March 2023, it would have resulted in a small decrease in the Eligible Own Funds of MLE and a small reduction in MLE's SCR, which has the net impact of a small reduction to MLE's SCR Coverage Ratio.

9.8 The €20.8 million decrease in the Eligible Own Funds of MLE as a result of the implementation of the Scheme includes the net impact of the following:

- The approximately €29 million reduction in MLE's Own Funds as a result of the capitalisation of MLUK by MLE, described in paragraph 7.19; and
- The expected reduction in MLE's Risk Margin as a result of the transfer, reflecting the reduction in the capital required to be held against operational risk and the reduction in MLE's exposure to the default of MRB as a result of the transfer.

9.9 The expected €2.6 million reduction in MLE's SCR as a result of the transfer reflects the same impacts as for the Risk Margin, that is, a reduction in the capital required to be held against operational risk and the reduction in MLE's exposure to the default of MRB as a result of the transfer.

9.10 It should be noted that MLE is already holding a liability in its pre-Scheme Solvency II balance sheet in relation to the costs of establishing MLUK and the costs of putting the Scheme into effect. This means that these costs are already deducted from MLE's Eligible Own Funds in both the pre-Scheme and post-Scheme figures.

9.11 While the transfer is expected to reduce MLE's SCR Coverage Ratio, I note that:

- The expected reduction in MLE's SCR Coverage Ratio from 200% to 198% is small;
- MLE will still comfortably meet the requirements of its capital management policy after the transfer; and
- As described in paragraph 8.31, MLE is free to use capital that is in excess of the requirements of its capital management policy; in this case it is using a small proportion of that excess capital to effect the capitalisation of MLUK but, even in the absence of the Scheme, MLE would have been free to deploy its excess capital for another purpose, for example, to pay a dividend to its parent.

Longer-term capital management implications of the Scheme

9.12 As described in paragraph 7.33, the only UK wealth management business remaining in MLE after the transfer will be the relatively small portfolio of offshore policies, which had assets under management of £137 million at 30 September 2022, and therefore the UK Treaty Group Guarantee will not remain in place for MLE after the transfer. However:

- As described in paragraph 7.33, the NWMA with ALICO (see paragraph 5.54) will remain in place for MLE after the transfer;
- The portfolio of non-transferring UK wealth management policies (which would be the only liabilities of MLE to which the UK Treaty Group Guarantee would apply if it remained in place after the transfer) is not material in the context of MLE. Moreover, in the event of the failure of MRB, the UK Treaty Group Guarantee would act to honour MRB's obligations to MLE, which are obligations to MLE as a whole and not specifically to the non-transferring UK wealth management policies. Therefore, the loss of the UK Treaty Group Guarantee will not affect non-transferring UK wealth management policies any differently from other policies of MLE, and the low materiality of the non-transferring UK wealth management policies means that the loss of the UK Treaty Group Guarantee will not materially affect MLE's resilience to the failure of MRB after the transfer; and
- I have commented in paragraphs 8.38 to 8.41 on the UK Treaty Group Guarantee and the uncertainty around how it would operate in practice if invoked.

9.13 I am therefore satisfied that the removal of the UK Treaty Group Guarantee will not have a material adverse effect on the ability of MLE to take action to manage its solvency position should the need arise.

9.14 Notwithstanding the removal of the UK Treaty Group Guarantee for MLE, I have not identified any areas where the implementation of the Scheme would have a material impact on longer-term capital management implications for MLE. In particular:

- The transfer has a small impact on MLE's SCR Coverage Ratio and therefore the transfer would not be expected to result in material changes to MLE's capital needs over the longer term; and
- As described above, the transfer will not remove or reduce the extent to which MLE is able to take action to manage its solvency position should the need arise. In particular, the NWMA with ALICO will remain in place after the transfer and therefore the Non-Transferring Policyholders will retain access to contractual capital support from ALICO should this be needed.

9.15 I am therefore satisfied that the transfer will not have a material adverse effect on the ability of MLE to meet or manage its capital needs over the longer term.

Conclusions in relation to security of benefits of Non-Transferring Policyholders of MLE

9.16 Given:

- The small impact of the Scheme on MLE's regulatory solvency position;
- The fact that the Scheme would not cause MLE to breach the requirements of its capital management policy; and
- The fact that the Scheme is not expected to result in changes to MLE's ability to absorb or mitigate the impact of stress events,

I am satisfied that the transfer will not have a material adverse impact on the security of benefits under the Non-Transferring Policies.

The profile of risks to which the Non-Transferring Policies are exposed

9.17 The dominant risks for MLE are market and demographic risks (for example, mortality risk and persistency risk).

9.18 As the vast majority of the risks associated with the Transferring Business have already been transferred to MRB through the UK Treaty, following the implementation of the Scheme, the Non-Transferring Policies will largely be exposed to the same key risk types as currently.

9.19 However, the Scheme will also reduce MLE's exposure to counterparty default risk as a result of the removal of the Transferring Business from the scope of the UK Treaty. Nonetheless, MLE's net counterparty default risk exposure to MRB is currently small, as the majority of the risk to MLE is mitigated by the presence of collateral accounts, the NWMA and the UK Treaty Group Guarantee (subject to the uncertainties described in paragraph 8.38). In addition, MLE holds capital requirements in relation to the residual counterparty default risk. This reduction in counterparty default risk as a result of the transfer can be seen in the decrease in SCR in the pro forma post Scheme figures shown in Table 9.1.

9.20 The implementation of the Scheme will not affect MLE's ability to take actions in mitigation of any of its risks that will remain after the transfer.

9.21 In conclusion I am satisfied that the impact of the implementation of the Scheme on the profile of risks to which the Non-Transferring Policies will be exposed will not have a material adverse effect on the security of benefits under these policies.

Approvals under Solvency II

9.22 As described in paragraph 5.38, MLE has approval to use the Volatility Adjustment in relation to the vast majority of its euro-denominated liabilities, which do not include the Transferring Policies.

9.23 The implementation of the Scheme will not affect MLE's ability to continue to make use of the Volatility Adjustment.

THE REASONABLE EXPECTATIONS OF THE NON-TRANSFERRING POLICYHOLDERS

9.24 The Non-Transferring Policies comprise a range of linked and non-linked policies. No contractual benefits will be affected by the Scheme. Policyholders' reasonable expectations in respect of their policies are principally that:

- Their reasonable benefit expectations are met; in particular, any discretionary benefits payable under their policies, and discretionary charges levied on their policies, are determined fairly.
- The administration, management, and governance of the policies are in line with the contractual terms under the policies, and policyholders receive a good standard of service.

The reasonable benefit expectations of Non-Transferring Policyholders

9.25 The implementation of the Scheme will not lead to any changes in the operation of MLE as regards the Non-Transferring Business. In particular, the implementation of the Scheme will not change:

- The terms and conditions of the Non-Transferring Policies;
- The charges that apply to the Non-Transferring Policies;
- The way in which discretionary benefits are determined, or the way in which other areas of discretion are exercised by MLE;
- The approach used for unit pricing by MLE; or
- The range of fund options (for investment business) and other policy options available to holders of Non-Transferring Policies.

9.26 Moreover, none of the costs associated with the Scheme will be charged to MLE policyholders or policies.

9.27 Therefore, I am satisfied that the implementation of the Scheme will not materially affect the benefits received by Non-Transferring Policyholders, and hence I am satisfied that the implementation of the Scheme will not have a material effect on the risk that reasonable benefit expectations of the Non-Transferring Policyholders are not met.

The governance, management and service standards applicable to the Non-Transferring Policies

9.28 There will be no change to the operation of MLE as a result of the Scheme in relation to Non-Transferring Policies. In particular:

- The Non-Transferring Policies will continue to be serviced and administered under the same arrangements as currently apply, and will therefore not experience any material change to service standards; and
- The governance of the Non-Transferring Policies will continue to be the responsibility of the MLE Board.

9.29 Hence, I am satisfied that the implementation of the Scheme will not have a material effect on the governance, management and service standards of the Non-Transferring Policies.

Conclusions in relation to the reasonable expectations of the Non-Transferring Policyholders

9.30 Taking into account my conclusions above, I am satisfied that the implementation of the Scheme will not have a material adverse impact on the risk that the reasonable expectations of the Non-Transferring Policyholders are not met.

CONCLUSION FOR THE NON-TRANSFERRING POLICIES

9.31 Overall, I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits of the Non-Transferring Policies; or
- The risk that the reasonable expectations of holders of Non-Transferring Policies are not met, including:
    - The reasonable benefit expectations of holders of Non-Transferring Policies; and
    - The standards of service, management and governance applicable to Non-Transferring Policies.

10. Other Considerations arising from the Scheme

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

10.1 Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties under the Scheme. However, this requirement may be waived at the discretion of the Court, which will give consideration to issues such as the practicality and costs of sending notices against the likely benefits for policyholders of receiving such communications.

10.2 Regulations also require that a legal notice in a form approved by the PRA is published in the London, Edinburgh and Belfast Gazettes, as well as two national newspapers in the United Kingdom.

10.3 MLE intends to communicate with interested parties in relation to the transfer in the following ways:

- A communication pack (the "**Policyholder Pack**"), including notice of the transfer, will be sent out by post to Transferring Policyholders;
- MLE will publish a notice to publicise the transfer in The Times and The Guardian.
- MLE's website will have a section dedicated to the transfer; and
- A dedicated helpline will be set up to allow Transferring Policyholders to ask questions and provide feedback on the transfer. Details of this helpline are included in the communications pack.

10.4 MLE intends to seek a waiver from the Court from the requirement to send notice of the transfer to the following groups:

- The Non-Transferring Policyholders of MLE;
- Gone-away policyholders, i.e. policyholders where it has become evident to MLE that it no longer holds the correct address for the policyholder;
- Policies where MLE has received notice of a death but has not received confirmation of the deceased's personal legal representative;
- Recipients of a pension sharing order;
- Nominated persons, who may receive benefits under the relevant Transferring Policy on death of the legal holder of the policy;
- Children under the age of 18 (or their parent or guardian);
- Policyholders whose contact details MLE is unable to obtain;
- Beneficiaries under a trust and multiple trustees;
- Holders of policies that were terminated or surrendered prior to the date on which the contact and policy records are extracted for the purposes of distribution of the communications pack; and
- Persons identified under the Transferring Policies who are not believed by MLE to be policyholders.

10.5 The largest group out of those listed in paragraph 10.4 is the group of Non-Transferring Policyholders of MLE. Given that these policyholders' policies are to remain with MLE, and given that I have concluded that the implementation of the Scheme will have little to no impact on MLE, I am satisfied that it would be disproportionate for MLE to be required to circularise this group, and that it is reasonable for MLE to seek a waiver in relation to this group. Moreover, it is possible that circularising this group could result in confusion if such policyholders were to receive notice of a transfer that largely does not affect them.

10.6 I understand that there are approximately 100 gone-away policyholders, representing less than 0.2% of the Transferring Policies.

10.7 I am satisfied that MLE has made sufficient efforts to ensure that the other groups listed in paragraph 10.4 are as small as possible, and I am therefore satisfied that it was reasonable for MLE to seek a waiver from notifying these groups.

Notification of Transferring Policyholders

10.8 MLE has proposed a communication plan, including the Policyholder Pack, to provide notification of the proposed transfer to all Transferring Policyholders (including relevant trustees holding policies in trust on behalf of beneficiaries).

10.9 It is proposed that each MLE policyholder included within the scope of the communication plan (that is, excluding those policyholder groups listed in paragraph 10.4) will receive the Policyholder Pack. In particular, the Policyholder Pack will comprise a covering letter and an information booklet containing:

- A summary of the terms of the Scheme;
- A summary of this Report; and
- A copy of the legal notice of the transfer.

10.10 The Policyholder Pack will also include a 'Frequently Asked Questions' document.

10.11 I have reviewed draft versions of the documents to be included in the Policyholder Pack and have provided comments to MLE. I consider that the most recent drafts I have reviewed provide an appropriate level of information on the proposed transfer and a clear explanation of the consequences for Transferring Policyholders.

Vulnerable customers

10.12 MLE has shared with me its approach to dealing with vulnerable consumers and has confirmed that its approach will be maintained during all communications with policyholders in relation to the proposed transfer.

Overall conclusion on the approach to communication with policyholders

10.13 I am satisfied that MLE's proposed approaches to communication with policyholders in relation to the transfer is fair and reasonable.

THE COSTS OF THE SCHEME

10.14 All costs associated with the putting into effect of the Scheme will be met by MLE from its shareholder resources. For the avoidance of doubt, no charges will be made to any policies or policyholders of MLE in relation to the costs of the transfer.

10.15 I am satisfied that this approach to meeting the costs associated with the Scheme is reasonable.

REINSURANCE ARRANGEMENTS WHERE MLE IS THE CEDANT

10.16 Under the terms of the Scheme, there will be no change to the reinsurance contracts for which MLE is the cedant, other than the UK Treaty which will be amended to only include any Non-Transferring Policies that are currently within its scope.

10.17 Following the transfer, the UK Treaty will be novated to MLUK for the Transferring Policies. The collateral and other arrangements (e.g. the derivatives held) will be equivalent to those currently in place.

10.18 All of MLE's reinsurers are exposed to risk of default by MLE with respect to any reinsurance premiums due in excess of any collateral posted under the relevant reinsurance treaty. If the Scheme is implemented, MLUK will become the cedant for the treaty with MRB relating to the Transferring Business. I have considered the capital management policy, governance and financial strength of MLUK in comparison to MLE in Section 8. I consider that there will be no material

change to the financial strength of the cedant and therefore I conclude that the Scheme would not lead to a material change in the security of reinsurance premiums or other obligations of the cedant under the reinsurance treaty with MRB that relates to the Transferring Business.

10.19 Given that the implementation of the Scheme is not expected to materially affect MLE's regulatory solvency position, the Scheme should not affect MLE's ability to meet its obligations to reinsurers under its other reinsurance arrangements.

10.20 I am therefore satisfied that the Scheme will not have a material effect on the reinsurers of MLE's policies.

AUTHORISATION OF THE UK BRANCH OF MLE

10.21 It had originally been envisaged that the transfer would take effect on or prior to 31 December 2023 but, due to delays in the project timetable, the Transfer Date is now expected to be 1 April 2024. A consequence of this is that the Transferring Business is now included in the scope of MLE's application for permanent authorisation of its UK Branch in advance of 31 December 2023, as described in paragraph 7.2 and 7.3. Had the transfer proceeded and been sanctioned in line with its original timetable, the Transferring Business would have transferred to MLUK prior to, or at the same time as, the permanent authorisation of the UK Branch, whereas under the current timetable, the Transferring Business will temporarily form part of the UK Branch after its permanent authorisation, until the Transfer Date.

10.22 I understand that the PRA and FCA have confirmed that they are comfortable with the inclusion of the Transferring Business in the UK Branch application, and given that the protections available to Transferring Policyholders following the establishment of the UK Branch on a permanent basis will be the same as those available to them under the current arrangement (pursuant to the TPR), I am satisfied that this does not affect my conclusions in relation to the Scheme.

EVENTS SINCE THE FINANCIAL INFORMATION IN THIS REPORT WAS PRODUCED

10.23 The financial information in this Report is based on the Solvency II financial positions of the Companies at 31 March 2023. As at the time of finalising this Report, financial market conditions have changed since 31 March 2023, with the most relevant changes up to 31 August 2023 being:

- Long-term UK interest rates have increased, with the ten-year annualised interest rate implied by the yield available on UK government borrowing having increased by approximately 0.8 percentage points;
- The FTSE 100 share index has reduced by approximately 2.5% (from 7,632 7,439)

10.24 I have been provided with an estimated SCR Coverage Ratio of MLE as at 31 August 2023 which shows that MLE's SCR Coverage is estimated to have increased moderately since 31 March 2023.

10.25 Capital injected into MLUK will be sufficient to ensure that its SCR Coverage Ratio of MLUK will be at or above 150%, and therefore changes in market conditions do not affect the post-transfer SCR Coverage Ratio of MLUK.

10.26 My conclusions that reference the relative SCR Coverage Ratios of MLE and MLUK are unaffected by these changes.

10.27 I will comment on the actual Solvency II financial positions of the Companies as at the most recently available date in my Supplementary Report.

COVID-19

10.28 In April 2020 the IFoA issued a "risk alert"[55] on points for actuaries to consider in relation to COVID-19. However, whilst certain economic and public health issues to which COVID-19 may have been a contributing factor persist,

[55] https://www.actuaries.org.uk/system/files/field/document/RiskAlert_COVID19_April2020_1.pdf

COVID-19 is no longer causing material disruption to operating conditions for companies in the UK and Ireland, nor is it causing material financial market volatility.

10.29 To the extent that COVID-19 results in enhanced uncertainty around future mortality rates or financial market conditions that affect the Transferring Business, these impacts will accrue to MRB under the UK Treaty, and such uncertainty is in any case subject to stress and scenario testing within MLE, MLUK and MRB.

10.30 Therefore, in my view, there are no additional points to consider in relation to the transfer that relate specifically to COVID-19. However, I note that MetLife demonstrated a good level of operational resilience upon the onset of the pandemic, which gives me confidence that any future serious events that cause significant disruption to markets or operating conditions would be handled appropriately by MetLife.

THE RUSSIA-UKRAINE WAR

10.31 Following the invasion of Ukraine by Russia and the ensuing conflict, MetLife Europe's Unit-Linked Sub-Committee investigated, and continues to monitor, any investment funds that have or may have exposure to Russia. By the end of 2022, all external funds relating to the Transferring Policies had a negligible Russian exposure, with the largest exposure on any one fund being 0.016%. MetLife has received external legal advice that the impact of US/EU/UK sanctions on Russia would not result in it being prohibited for MLUK to acquire ownership of these external funds, and I am therefore satisfied that there is a low risk that these very small exposures to Russia will affect Transferring Policyholders.

10.32 The Russia-Ukraine war has also resulted in an increase in individuals subject to political sanctions. The Transferring Policies were only available to individuals resident in the UK and UK taxpayers at the point at which the policy was taken out. MetLife undertakes continuous screening to identify sanctioned individuals[56], and no sanctioned individuals within the group of Transferring Policyholders have been identified. Following the transfer, MetLife will continue to undertake screening as is currently the case.

10.33 As is the case for COVID-19, to the extent that the Russia-Ukraine war results in enhanced uncertainty around financial market conditions that affect the Transferring Business, these impacts will accrue to MRB under the UK Treaty, and such uncertainty is in any case subject to stress and scenario testing within MLE, MLUK and MRB.

10.34 I am therefore satisfied that the Russia-Ukraine war does not have a material bearing on the impact of the transfer on affected policyholders.

POLITICALLY EXPOSED PERSONS

10.35 A Politically Exposed Person ("**PEP**") is defined in in regulation 35(12) of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 as an individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.

10.36 I understand that MetLife has identified two individuals who are either PEPs or who are believed to have an association with a PEP (for example, through family or business connections) who hold UK wealth management policies with MLE. These policies will be transferred to MLUK under the terms of the Scheme, and MetLife will continue to fulfil all of its legal and regulatory obligations in relation to these individuals.

[56] In this context, sanctioned individuals are individuals whose activities a country or international organisation has imposed certain commercial and economic restrictions upon. These can include putting financial restrictions in place for the individual, such as the freezing of assets and bank accounts, or restrictions on international travel and their freedom of movement.

TAX

10.37 MLE has confirmed that the Scheme should not result in any changes to tax payable by policyholders on policy proceeds, as the Scheme will not alter the tax status of any Transferring Policies, nor the tax jurisdiction applying to them.

10.38 I understand that MetLife has indicated to HMRC that it intends to submit a tax clearance request covering the transfer. To this end, MetLife has retained an external tax adviser to help draft the detailed tax clearance request. Based on initial reviews of the proposed transaction, MetLife does not believe there should be any material UK taxes triggered as a result of this transaction. This is because the transfer is internal within the MetLife Group and therefore there are group tax reliefs available relating to such reorganisations which MetLife will avail itself of; this will be the basis of the tax clearance application to HMRC.

OTHER CREDITORS

10.39 MLE has informed me that there are no bondholders or third parties to securitisation arrangements, or any other creditors of MLE whose interests would be affected by the implementation of the Scheme.

FUTURE CORPORATE TRANSACTIONS

10.40 I am not aware of any future transfers or corporate transactions that could affect MLE or MLUK.

10.41 Any future transfers of insurance business into or out of either company would be subject to a Part VII transfer process (in the case of a UK transfer) or a Section 13 transfer (in the case of an Irish transfer) and their associated safeguards. Any future corporate transactions involving the acquisition or disposal of another insurance company would be subject to change in control processes which requires the approval of the local regulator. In both cases the process would consider the impact of any transaction on affected policyholders.

FINANCIAL SERVICES COMPENSATION SCHEME (“FSCS”) AND FINANCIAL OMBUDSMAN SERVICE (“FOS”)

10.42 As described in paragraphs 4.78 to 4.79, FSCS is a company limited by guarantee, with statutory backing, which provides compensation to customers of authorised financial institutions (such as banks and insurers) in the event that the institution is in default (meaning unable to pay).

10.43 In the case of MLE, only the policyholders of MLE’s UK Branch, including the Transferring Policyholders, would be eligible for consideration of compensation from the FSCS in the event of the insolvency of MLE.

10.44 Following the implementation of the Scheme, both the Transferring Policyholders and the Non-Transferring Policyholders will have the same entitlement to compensation from the FSCS as they would have if the Scheme were not to be implemented. Therefore, the implementation of the Scheme will not adversely affect eligibility for compensation from the FSCS for any policyholder of MLE, including Transferring Policyholders. I have set out in Sections 8 and 9 (without reliance on the existence of the FSCS) why I do not believe the implementation of the Scheme will materially adversely affect the security of benefits under the Transferring Policies or Non-Transferring Policies, and therefore the likelihood that Transferring Policyholders or Non-Transferring Policyholders will need to have recourse to the FSCS is, in my view, materially unchanged by the Scheme.

10.45 As discussed in paragraph 4.80, the FOS is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. In circumstances where MLE currently refers policyholders to the FOS, MLUK will continue to do so following implementation of the Scheme.

10.46 Any outstanding FOS complaints at the Transfer Date in respect of Transferring Policies will be handled and settled by MLUK.

10.47 The implementation of the Scheme will not adversely affect access to the FOS for either Transferring or Non-Transferring Policyholders.

THE EFFECT OF THE PROPOSED SCHEME ON THE NATURE AND VALUE OF ANY RIGHTS OF POLICYHOLDERS TO PARTICIPATE IN PROFITS

10.48 All of the Transferring Policies are non-profit in nature and therefore have no right to participate in MLE's profits; this will not change as a result of the Scheme.

10.49 I am therefore satisfied that the implementation of the Scheme will not materially adversely affect the nature and value of any rights of policyholders to participate in profits.

THE EFFECT OF THE PROPOSED SCHEME ON PREVIOUS SCHEMES

10.50 I have been informed that MLE is not subject to any previous court schemes, and therefore there is nothing in this regard that I would need to consider in the context of the proposed transfer.

THE FUTURE OPERATION OF THE SCHEME

10.51 If the Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), the Directors of MLE and MLUK are committed to implementing the Scheme as set out in the Scheme document (and reflected in this Report) in accordance with their fiduciary responsibilities under Irish and UK company law.

10.52 At any time after the Court's sanction of the Scheme, MLE and MLUK must apply to the Court for sanction of any amendments to it, except where the amendment is considered to be minor or technical (including amendments to correct manifest errors). In this case, the PRA and FCA must be notified of the proposed amendments and must have confirmed in writing that they do not object to them.

10.53 The published financial position of MLE and MLUK will be derived by the Companies' actuaries and accountants who are subject to professional standards, and will be subject to external audit. The business being transferred consists of non-profit business and therefore the most important aspect is that MLUK will continue to meet any guaranteed liabilities and that sufficient resources are put aside to enable this.

10.54 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented.

THE NON-SANCTION OF THE SCHEME

10.55 MetLife is currently producing a contingency plan setting out its proposed actions should the Court elect not to sanction the Scheme. I will review and comment on this plan in my Supplementary Report.

11. Assumptions made in reaching my conclusions

11.1 Section 12 sets out my conclusions in relation to the Scheme. In reaching those conclusions I have made a number of assumptions based on undertakings made to me by MetLife management, the most material of which are listed below. To the extent that any of these assumptions are not borne out, my conclusions in relation to the Scheme could be invalidated. MetLife has confirmed to me that it is aware of and accepts these assumptions as dependencies in respect of the proposed transfer. I will revisit and comment on these assumptions in my Supplementary Report.

- I have assumed that, upon the implementation of the Scheme:
  - The UK Treaty will be novated to MLUK;
  - The NWMA between ALICO and MLE will remain in place; and
  - The UK NWMA between ALICO and MLUK will be put in place on materially the same terms as apply under the NWMA.
- I have assumed that the fund allocation and Gap Protection arrangement between MLE and Deutsche Bank will be replicated in MLUK upon the implementation of the Scheme.
- I have assumed that MLUK will be capitalised in advance of the Transfer Date to a level that ensures its SCR Coverage Ratio is at least 150% under UK Solvency II after the transfer.
- I have assumed that MLUK's Board will approve capital and risk management policies for MLUK that are materially the same or stronger than those I have described in this Report.

12. Conclusions

12.1 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of MLE or MLUK, including the Transferring Policyholders; or
- The reasonable expectations of the policyholders of MLE or MLUK, including the Transferring Policyholders, including:
  - The reasonable benefit expectations of the policyholders of MLE and MLUK, including the Transferring Policyholders; and
  - The standards of service, management and governance applicable to the MLE and MLUK policies, including the Transferring Policies.

12.2 I am satisfied that the Scheme is equitable to all classes and generations of MLE and MLUK policyholders.

Robert Bugg 25 October 2023

Fellow of the Institute and Faculty of Actuaries

Fellow of the Society of Actuaries in Ireland

Appendix 1: Statement of Independence

On 19 May 2023 the Prudential Regulation Authority, in consultation with the Financial Conduct Authority, approved me to report on the terms of the insurance business transfer, pursuant to Part VII of the Financial Services and Markets Act 2000, of the UK wealth management business of MetLife Europe d.a.c. ("**MLE**") to MetLife UK Limited ("**MLUK**").

I am based in the UK and am a partner of Milliman LLP (Milliman's UK practice).

I am a Fellow of the Institute and Faculty of Actuaries ("**IFoA**")**,** which was established in 2010 by the merger of the Institute of Actuaries and the Faculty of Actuaries. I became a Fellow of the Institute of Actuaries in 2009. I am also a Fellow of the Society of Actuaries in Ireland. I hold a Chief Actuary (Life) Practising Certificate, issued by the IFoA.

Neither me nor any member of my team:

- Holds any policies issued by MLE or other companies within the MetLife Group;
- Is a shareholder of MetLife, Inc. or any of its subsidiaries; nor
- Is a member of any pension schemes under the management of MLE or any other company in the MetLife Group.

In the period 2018 to 2023, Milliman LLP (that is, Milliman's UK practice, of which I am a partner) has not carried out any assignments for any companies within the MetLife Group.

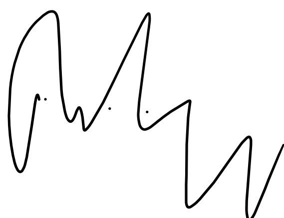
The MetLife Group is a global insurance group, and therefore other practices within Milliman (in which neither I nor any of the other partners of Milliman LLP have a financial interest) have provided services to entities within the MetLife Group. However, in the period 2018 to 2023, Milliman's work globally with MetLife has resulted in revenue of less than 1% of Milliman's total global revenue. It should be noted that, as a result of Milliman's structure, Milliman LLP does not have a financial interest in revenue resulting from work carried out by other parts of Milliman.

It should be noted that Milliman's practice in the Republic of Ireland ("**Milliman Ireland**") has provided consulting support and advice to MLE in the past, and Milliman's Financial Risk Management ("**FRM**") Practice, headquartered in the U.S., has also provided support (principally software provision) to MetLife in relation to its hedging arrangements for many parts of its global business, of which the Transferring Business is a relatively small part. However, in relation to this work by Milliman Ireland and Milliman's FRM Practice:

- I am a partner of Milliman LLP (that is, Milliman's UK practice) and all other members of my team are employed by Milliman LLP.
- Neither I nor any of the members of my team have carried out any work for MetLife, including MLE and MRB.
- None of the members of my team are employees or partners of Milliman Ireland or Milliman's FRM Practice, and none of the partners or employees of Milliman LLP, including me and the members of my team, supported any of the work carried out by Milliman for MLE or MRB.
- No part of Milliman has advised MetLife on any aspect of the transfer in question.
- During the period 2018 to 2023, Milliman Ireland's work for MLE comprised less than 5% of its revenue, with most of that work carried out in 2018 and 2019.
- The work for MetLife carried out by Milliman's FRM Practice was for MRB rather than MLE.
- As a partner of Milliman LLP, the nature of Milliman's financial structure is such that neither I nor any member of my team have any financial interest in any work carried out by other practices of Milliman, including Milliman Ireland and Milliman's FRM Practice. As described above, Milliman LLP has carried out no work for MetLife in the period 2018 to 2023.

- Neither I, nor any of the members of my team, have any visibility of the work that was carried out by other parts of Milliman for MLE or MRB. Moreover, none of the materials I have reviewed as part of my considerations for this transfer were produced by Milliman or had material input from Milliman.
- Other than the challenge I have provided to MetLife in my role as Independent Expert, Milliman has never provided any advice or input to MetLife in relation to any aspect of MLUK nor to the arrangements applicable to it.
- Milliman practices are largely operationally separate from one another. For example, Milliman LLP, Milliman Ireland and Milliman's FRM Practice all provide services from different legal entities, and we ensure information barriers are in place. In particular, employees/partners of these practices have no visibility of, or access to, the work carried out by the other practices.

In light of the above, I am satisfied that there are no actual or potential conflicts of interests, arising from either commercial or personal reasons, for me or my team in relation to MLE, MLUK or the MetLife Group. I do not believe that there is anything that would adversely affect my ability, or that of my team, to act independently in the assessment of the effects of the proposed Scheme.



Robert Bugg 25 October 2023

Fellow of the Institute and Faculty of Actuaries

Fellow of the Society of Actuaries in Ireland

Milliman LLP

Appendix 2: Information relied upon

In addition to discussions (both orally and electronically) with MetLife staff, I have relied upon the following principal documents in formulating my conclusions:

- Draft scheme of transfer dated 15 March 2023
- Pre- and post-Scheme solvency positions of MLE and MLUK as at 31 March 2023
- Communications strategy related to the transfer
- Draft communications pack for Transferring Policyholders
- Correspondence with legal advisers of MLE/MLUK
- Capital management policy of MLE
- Draft capital management policy of MLUK
- Submissions to the PRA in relation to the authorisation of MLUK
- MLE 2022 ORSA
- Draft 2022 ORSA for MLUK
- Net Worth Maintenance Agreement between MLE and ALICO
- UK Treaty Group Guarantee between MLE and MetLife, Inc.
- Risk management framework and policies for MLE
- Product literature for the Transferring Policies
- MLE Recovery Plan
- UK Treaty
- Breakdown of Transferring Policies as at 31 March 2023

Appendix 3: Certificate of Compliance

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, the Practice Direction and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood and complied with my duty to the Court.

I confirm that I have made clear which facts and matters referred to in my Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Robert Bugg 25 October 2023

Fellow of the Institute and Faculty of Actuaries

Fellow of the Society of Actuaries in Ireland

Appendix 4: My Terms of Reference

My terms of reference as Independent Expert, as set out in the agreement between MLE, MLUK and Milliman LLP, are reproduced below.

The Scheme Report will consider the terms of the Scheme generally and the effect that the Scheme will have on the holders of (re)insurance policies of the Companies.

My review and the Scheme Report will address generally the way in which the Companies have conducted their (re)insurance business but taking into account the particular circumstances of each of the different groups of policyholders of the Companies involved in the Scheme. They will deal inter alia with the following aspects:

- *The impact of the Scheme on the security of / financial strength afforded to the different groups of policyholders of the Companies involved in the Scheme;*
- *The impact of the Scheme on the reasonable benefit expectations of the different groups of policyholders of the Companies involved in the Scheme;*
- *The corporate governance arrangements operating in the Companies involved in the Scheme and the impact of any differences in these arrangements on any groups of policyholders in the Companies involved in the Scheme;*
- *The impact of the Scheme on the levels of service provided to the different groups of policyholders of the Companies involved in the Scheme;*
- *The future business plans and the capital management policies of the Companies following implementation of the Scheme;*
- *The existing and proposed agreements between the Companies and their reinsurers;*
- *Guarantees and/or agreements (if any) between the Companies;*
- *Guarantees and/or agreements (if any) between each of the Companies and their respective parent company;*
- *Transactions (outside the Scheme) that impact upon one or both of the Companies;*
- *The terms and conditions (if any) expected to be imposed by the Scheme to be presented to the Courts;*
- *The matters required by applicable provisions of the PRA's April 2015 Statement of Policy on its approach to insurance business transfers (as amended in January 2022) and of Chapter 18 of the supervision manual in the FCA's Handbook (including the guidance contained within the FCA's February 2022 paper on Part VII Transfers (FG22/1));*
- *The matters required by applicable provisions of Actuarial Standard of Practice LA-6 ("Transfer of Insurance Portfolio of a Life Insurance Company – Role of the Independent Actuary"), promulgated by the Society of Actuaries in Ireland;*
- *A review of the communications to be made to policyholders and the categories of policyholders to be excluded from any direct communications;*
- *Any other matters drawn to my attention by the UK Regulators or the Irish Regulators which are required by the UK Regulators or the Irish Regulators to be addressed within the Scheme Report.*

The above list is not intended to be exclusive to any other aspects that may be identified during the completion of the project and which are considered to be relevant.

I shall not be directly involved in the formulation of the proposed transfer although I should expect to give guidance during the evolution of the detailed proposals on those issues that concern me, or that I consider unsatisfactory.

I will meet with the Companies at an early stage to identify key issues and will also discuss the initial findings in respect of the Scheme with the Companies.

I will support the Companies in their liaison with, and provision of information to, the UK and Irish Regulators and will also participate in discussions with the UK and Irish Regulators as required.

I will produce (i) the Scheme Report for submission to the Court; (ii) a supplementary report to the Scheme Report for submission to the Court at the final court hearing; and (iii) a summary of the Scheme Report to form part of the summary of the Scheme for inclusion within letters to policyholders. I will share the Scheme Report (and drafts) and any supplementary reports with those noted at paragraph 7(b) of the engagement letter.

I will also provide guidance to the Companies where relevant in relation to their responses to questions, objections or complaints from affected policyholders, and if necessary I will provide direct responses to such policyholders.

I will also review drafts of the Scheme and give guidance on any areas that I believe are unsatisfactory or any changes that may be needed in order to ensure a fair outcome for policyholders, noting that I am not a legal expert.

I will review drafts of the policyholder circular(s) relating to the Scheme.

If required, I will attend the Court hearings.

I will not provide any advice with respect to the merits of the proposed Scheme.

In discharging my role as Independent Expert, I will liaise with the Companies' Heads of Actuarial Function and their legal advisers, as well as with the CBI, PRA and FCA.

For the avoidance of doubt, the work involved in discharging the Independent Expert role will include the following:

- *Reviewing relevant information about both of the Companies;*
- *Reviewing drafts of the proposed Scheme and providing guidance on any changes that may be required to ensure the transfer does not have a material adverse effect on any group of policyholders;*
- *Liaising with the Heads of Actuarial Function of both of the Companies;*
- *Liaising with legal advisors of both of the Companies;*
- *Liaising with the CBI, PRA & FCA as required;*
- *Preparing a full report on the proposed transfer;*
- *Preparing a summary report for inclusion in the policyholder communication;*
- *Reviewing the policyholder circular; and*
- *Preparing the supplementary report.*

Appendix 5: Glossary of Terms

A glossary of abbreviations used throughout the Report is given below.

A

ALICO	American Life Insurance Company
AMC	Annual Management Charge
APS	Actuarial Profession Standard, published by the IFoA
ASP	Actuarial Standard of Practice, published by the SAI

B

BEL	Best Estimate Liability

C

CBI	Central Bank of Ireland
CBRA	Central Bank Reform Act 2010 (Sections 20 and 22) Regulations 2011 as amended
CMS	CMS Cameron McKenna Nabarro Olswang LLP
The Companies	MLE and MLUK
The Court	High Court of Justice of England and Wales
Credit/Counterparty Risk	The risk of losses resulting from the default of third parties or the increase in the probability of default or the associated loss

D

Deutsche Bank	Deutsche Bank A.G.
Directions Hearing	An initial Court hearing at which the companies' plans for notifying policyholders of the Scheme are considered

E

ECON	European Parliament Committee on Economic and Monetary Affairs
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
Expense Risk	The risk of loss caused by the fact that the timing and/or the amount of expenses incurred differs from those expected
EU	European Union
EU Solvency II	Regulatory solvency framework for the European Economic Area insurance and reinsurance industry
EU Solvency II Directive	EU Directive 2009/138/EC
External Linked Fund	A Linked Fund operated by a third party insurer or investment manager

F

FCA	Financial Conduct Authority
FCA Guidance	FG22/1 - "The FCA's approach to the review of Part VII insurance business transfers", dated 15 February 2022

FG22/1	Final Guidance 22/1 - "The FCA's approach to the review of Part VII insurance business transfers" – 15 February 2022
FOS	Financial Ombudsman Service
FRM	Milliman's Financial Risk Management Practice
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000

G

GMAB	Guaranteed Minimum Accumulation Benefit – a guarantee that a policy pay-out on one or more specific dates will be no less than a specified amount
GMDB	Guaranteed Minimum Death Benefit – a guarantee that a policy pay-out upon the death of the policy beneficiary will be no less than a specified amount
GMWB4L	Guaranteed Lifetime Minimum Withdrawal Benefit - a guarantee that a minimum level of regular income can be withdrawn from the policy for the remainder of the life of the policy beneficiary

H

HoAF	Head of Actuarial Function

I

iCPPI	Individualised Constant Proportion Portfolio Insurance
IFoA	Institute and Faculty of Actuaries
IMA	Investment Management Agreement
Interest Rate Risk	The risk of loss caused by changes in the level of market interest rates
Internal Linked Fund	A Linked Fund operated by the insurer
Investment Risk	The risk that investments in linked funds reduce in value, causing a reduction in the expected value of future income from AMCs and other fund-related charges for the insurer.
ISA	(Stocks and Shares) Individual Savings Account

L

LIBOR	London Inter-Bank Offered Rate
Linked Fund	A fund in which policyholder premiums are invested and whose unit price is linked to the underlying value of the investments
Liquidity Risk	The risk of being unable to meet financial obligations as they fall due. Liquidity risk may arise due to illiquidity of the assets held to meet the cash flow requirements, but also due to insufficient funds being available to meet cash flow requirements
Longevity Risk	The risk of loss resulting from changes in mortality rates whereby a decrease in mortality rates causes an increase in the value of insurance liabilities

M

Market Risk	The risk of loss caused by market prices or volatilities of market prices differing from their expected values
MCR	Minimum Capital Requirement
Milliman	Milliman LLP – The legal entity out of which Milliman's UK practice operates

Milliman Ireland	Milliman's practice in the Republic of Ireland
MLE	MetLife Europe d.a.c.
Mortality risk	The risk of a financial adverse outcome to an insurer as a result of higher than expected mortality rates amongst its policyholders
MPTL	MetLife Pension Trustees Limited
MRB	MetLife Reinsurance Company of Bermuda
MLUK	MetLife UK Limited

N

Net Worth Maintenance Agreement	An agreement between MLE and ALICO under which ALICO is obliged to provide capital and liquidity support to ensure that MLE maintains an SCR Coverage Ratio of at least 100% at all times and can make contractual payments on a timely basis.
Non-unit BEL	In relation to unit-linked business, the net liability of the insurer in relation to items other than the policyholder's unit-linked entitlement, for example, additional guarantees provided to the policyholder and the insurer's expenses, net of future charge income.
NWMA	Net Worth Maintenance Agreement

O

Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events
ORSA	Own Risk and Solvency Assessment. A requirement under Solvency II whereby insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of capital resources
Outsourcing Risk	The risk of non-performance, or poor performance, by a service provider of a function carried out by the service provider on behalf of the insurer
Own Funds	The excess of assets over liabilities under Solvency II

P

PCF	Pre-approval Controlled Function
PEP	Politically Exposed Person
Persistency risk	The risks of losses caused by deviations of the actual rate of policyholders lapsing their policies from their expected rates
Policy Guarantees	Collective term for the Secure Capital Option and the Secure Income Option.
Policyholder Pack	The communication pack to be sent to Transferring Policyholders in relation to the Scheme
PRA	Prudential Regulation Authority
PRA Policy Statement	"Statement of Policy - The Prudential Regulation Authority's approach to insurance business transfers", January 2022
Prudent Person Principle	Principle pursuant to Article 132 of the Solvency II Directive requiring insurers to, inter alia, ensure that all assets, in particular those covering the Minimum Capital Requirement and the Solvency Capital Requirement, are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

R

Residual Policies	Policies that would otherwise be included as Transferring Policies, but which will not transfer when the Scheme takes effect

Risk Margin	An adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction

S

SAECC	Symmetric Adjustment of the Equity Capital Charge – a countercyclical measure which adjusts the amount of capital insurers must hold against the risk of equity falls under the Standard Formula depending on the current level of equity markets
SAI	Society of Actuaries in Ireland
Sanction Hearing	A hearing of the Court to approve the terms of the Scheme prior to effective date of the Scheme
Scheme	The proposed scheme of transfer and all proposals included in the scheme, including any documents referred to in the scheme relating to its proposed implementation and operation
SCR	Solvency Capital Requirement
SCR Coverage Ratio	Own Funds divided by SCR
Secure Capital Option	A GMAB and GMDB offered under the MLE UK wealth management policies
Secure Income Option	A GMWB4L offered under the MLE UK wealth management policies
SFCR	Solvency and Financial Condition Report
SIPP	Self-Invested Personal Pension
SMF	Senior Management Function
SM&CR	Senior Managers and Certification Regime
SONIA	Sterling Overnight Index Average
Spread Risk	The risk of loss due to a deviation of the actual market price of credit risk from the expected price of credit risk.
SS&C	SS&C International Managed Services Limited
SS&C Administration Agreement	The agreement between MLE and SS&C under which SS&C administers some of the business of MLE on MLE's behalf
SS1/20	PRA's Supervisory Statement 1/20 on "Solvency II: Prudent Person Principle", published on 27 May 2020
SSAS	Small Self-Administered Scheme
Standard Formula	Prescribed method of determining the SCR under UK and EU Solvency II
SUP	Supervision Manual contained in the FCA Handbook
SUP 18	Chapter 18 of the Supervision Manual contained in the FCA Handbook

T

TAS	Technical Actuarial Standards
Technical Provisions	Pillar 1 liabilities under Solvency II consisting of the sum of the BEL and Risk Margin
TIP	Trustee Investment Plan
TPR	Temporary Permissions Regime
Transfer Date	The effective date of the Scheme which is expected to be 1 April 2024
Transferring Business	The Transferring Policies, together with the associated assets and liabilities which will be included in the proposed transfer to MLUK
Transferring Policies	The policies of MLE transferring to MLUK under the Scheme
Transferring Policyholders	Holders of Transferring Policies.

U

UK Branch	The UK branch of MLE
UK NWMA	The version of the NWMA that will apply to MLUK after the transfer
UK Regulatory Guidance	Collective term for the PRA Policy Statement, SUP 18 and the FCA Guidance
UK Solvency II	Regulatory solvency framework applicable to insurers and reinsurers in the UK
UK Treaty	Reinsurance treaty under which 100% of the risks under the UK wealth management business of MLE are reinsured to MRB
UK Treaty Group Guarantee	Contractual arrangement between MetLife, Inc. and MLE under which MetLife, Inc. has agreed to guarantee policyholder benefit payments related to the guarantees under the VA business, up to a total amount of $1 billion.

V

VA	Variable Annuity

Appendix 6: Compliance with Regulatory Requirements

The tables below indicate how I have complied with the provisions of SUP 18, the PRA Statement of Policy PS1/22 "The Prudential Regulation Authority's approach to insurance business transfers", dated January 2022 (updated from April 2015); the FCA Guidance FG22/1 *"The FCA's approach to the review of Part VII insurance business transfers"* dated 15 February 2022 that pertain to the form of the Report. The tables include references to relevant parts of this Report. I have not included references to paragraphs in the Executive Summary of this Report; there is nothing material in the Executive Summary that has not been stated or explained in other parts of the Report.

SUP 18 Reference	Requirement	Scheme Report paragraph reference
SUP 18.2.33	The scheme report should comply with the applicable rules on expert evidence and contain the following information:	
	1. who appointed the independent expert and who is bearing the costs of that appointment;	1.5, 1.21
	2. confirmation that the independent expert has been approved or nominated by the appropriate regulator;	1.5
	3. a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	1.17 to 1.19
	4. whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	1.20
	5. the scope of the report;	1.10, 1.15, 3.2
	6. the purpose of the scheme;	7.3
	7. a summary of the terms of the scheme in so far as they are relevant to the report;	7.5 to 7.7
	8. what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;	Appendix 2
	9. the extent to which the independent expert has relied on:	
	(a) information provided by others; and (b)	Appendix 2, 7.53 to 7.56
	(b) the judgment of others;	3.26 to 3.29
	10. the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	3.26 to 3.29
	11. his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
	(a) transferring policyholders;	Section 8

	(b) policyholders of the transferor whose contracts will not be transferred; and	Section 9
	(c) policyholders of the transferee;	N/A
	(11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	10.16 to 10.20
	12. what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme; and	1.15
	13. for each opinion that the independent expert expresses in the report, an outline of his reasons.	Throughout
SUP 18.2.35	The summary of the terms of the scheme should include:	
	1. a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	5.23 to 5.30, 7.28 to 7.31
	2. a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	7.32 to 7.33
SUP 18.2.36	The independent expert's opinion of the likely effects of the scheme on policyholders should:	
	1. include a comparison of the likely effects if it is or is not implemented;	Sections 8 to 12
	2. state whether he considered alternative arrangements and, if so, what;	1.15
	3. where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and	7.45 to 7.47
	4. include his views on:	
	(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	8.5 to 8.144, 9.3 to 9.23
	(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and	Sections 8 and 9
	(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	10.37 and 10.38

SUP 18.2.38	For any mutual company involved in the scheme, the report should: 1. describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; 2. state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and 3. comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	N/A
SUP 18.2.39	For a scheme involving long-term insurance business, the report should: 1. describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	N/A
	2. if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	N/A
	3. describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b)	N/A
	(c) the levels of any discretionary charges;	8.151, 9.25
	4. describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	10.51 to 10.54
	5. include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	8.191, 9.30
	6. state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders; and	12.2
	7. state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	10.51 to 10.54
SUP 18.2.40	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the	7.1 to 7.4, 10.40 to 10.41, and 10.50

	business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run.	
SUP 18.2.41	A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either: 1. the information required is not available and will not become available in time for his report, for instance it might depend on future events; or 2. otherwise, he is unable to report on this aspect in the time available. Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of the Act. Each regulator would wish to consider any such reduction against its statutory objectives and section 113 of the Act allows the court, on the application of either regulator, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	N/A

PRA Statement of Policy Reference	Requirement	Scheme Report paragraph reference
2.30 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	1.4 and 1.21
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator.	1.4
2.30 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.17 to 1.20
2.30 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	1.20 and Appendix 1: Statement of Independence
2.30 (5)	The scope of the report	1.10 to 1.15 and 3.1 to 3.6
2.30 (6)	The purpose of the scheme	1.1 and 7.1 to 7.4
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	7.5 to 7.7
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report, whether they have identified any material issues with the information provided and whether any information that he requested has not been provided	1.26 and Appendix 2: Information relied upon
2.30 (8A)	Any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible	n/a
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	3.26 to 3.29
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	3.26 to 3.29
2.30 (11)	His opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	Sections 8 and 10

	(a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified	
2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	10.16 and 10.20
2.30 (12A)	Their definition of 'material adverse' effect	3.18 and 3.20
2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme	n/a
2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons.	Sections 8 to 12
2.30 (15)	An outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders	n/a
2.31A	The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	3.26 to 3.29
2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	5.23 to 5.30 and 7.28 to 7.31
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	5.31 to 5.33
2.33	The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level	Sections 8 to 12
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	Sections 8 to 12
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with	1.15
2.33 (2A)	The independent expert's opinion of the likely effects of the scheme on policyholders should analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion	Sections 8 to 12

2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on: (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing; (aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets; (aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements; (aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme; (b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations (d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.	(a) to (aaaa) Sections 8 to 9 (b) Sections 8 to 9 (c) 10.14 to 10.15 and 10.37 to 10.38 (d) Sections 8 to 9
2.35 (1)	For any mutual company involved in the scheme, the report should describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders	n/a
2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	n/a
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	n/a
2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	10.48 to 10.49
2.36 (2)	For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of	n/a

	its proposed division is equitable as between different classes and generations of policyholders	
2.36 (3)	For a scheme involving long-term insurance business, the report should describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges	8.151 and 9.25
2.36 (4)	For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)-(3)) that could act to the detriment of existing policyholders of either firm	10.51 to 10.54
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	8.145 to 8.191 and 9.24 to 9.30
2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	12.2
2.36 (7)	For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented	10.51 to 10.54
2.37	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level	7.1 to 7.4, 10.40 to 10.41, and 10.50

FCA FG22/1 reference	Requirement	IE Report paragraph reference
6.2	Report is constructed in such a way that it is easily readable and understandable by all its users, paying attention to the following:	
	• Technical terms and acronyms should be defined on first use.	Appendix 4: Glossary of Terms
	• There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 2
	• The business to be transferred should be described early in the report.	1.1 and 5.11 to 5.22
	• The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when viewed as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	All sections
	• IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	All sections

6.3	Report must consider and compare:	
	• Reasonable benefit expectations (including impact of charges).	8.123 to 8.154, and 9.25 to 9.27
	• Type and level of service. This includes details of the analysis to support any conclusions including factors like claims and complaints handling (speed and quality), means of access to the service (including service provided by third parties) and any changes in functionality, speed and usability of service, past performance and customer feedback, reliability of service, number of requests for assistance or complaints, quality and speed of Policyholder support services, quality and frequency of communications.	8.155 to 8.175, and 9.28 to 9.29
	• Management, administration and governance arrangements.	8.96 to 8.98, 8.155 to 8.175, 8.176 to 8.184, and 9.28 to 9.29
	• Where the scheme includes Employers' Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements	n/a
	• Where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process.	3.24 to 3.25, 7.57, 8.16, 8.135, 8.174, 10.27
The level of reliance on the Applicants assessments and assertions		
6.6	Question the adequacy of assessments carried out by Applicants before relying on them to reach own conclusions (including requesting additional work and evidence from Applicants in order to support their assertions to ensure that the IE can be satisfied on a specific point).	1.26
6.7	Explain the nature of any challenges made to the Applicants and the outcome of these within the IE report, rather than just stating the final position.	Sections 8 to 10
6.8	Where conclusions are supported solely or largely by statements such as 'I have discussed with the firm's management and they tell me that…' followed by 'I have no reason to doubt what they have told me…', then:	
	• Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the Scheme's impact, the IE should review relevant underlying material, rather than relying on the Applicants' analysis of the material and subsequent assertions.	Appendix 2: Information Relied Upon
	• If there are concerns about matters that fall outside the IE's sphere of expertise, such as legal issues, the Applicants must provide the IE with any advice that they have received. If the issue is significant or remains uncertain, the IE must make sure that the Applicants had obtained appropriate advice from a suitably qualified independent subject matter expert.	3.26 to 3.29
6.9	IE has challenged calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, the IE should:	
	• review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate	1.26 and Appendix 2: Information Relied Upon
	• challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	1.26 and Appendix 2: Information Relied Upon
6.10	Documents provided by the Applicants have been challenged where they contain an insufficient level of detail or analysis. For example:	

	• Applicants' assertions that service levels will be maintained to at least the pre-transfer standard: IE should include not only details of the Applicant's plans and any gap analyses that have been produced but also include their view of their adequacy. We also expect the IE to include a comparison of service standards and quality, including where outsourcers are used.	8.155 to 8.175, and 9.28 to 9.29
	• Change in governance arrangements in the Transferee that may lead to poorer customer outcomes: the IE must review and compare the governance arrangements in the Transferor which produce good customer outcomes (e.g. any committees with conduct responsibilities) within the Transferee's governance arrangements.	8.96 to 8.98, 8.176 to 8.190, and 9.28 to 9.29
	• Consideration of the strain on resources that may occur post-transfer and that could impact on the service standards of the Transferee's existing customers and/or control over conduct of business risk. The IE report should include a review of relevant management information indicators and related contingency planning.	n/a
Balanced judgements and sufficient reasoning		
6.12	The IE must state in their report whether they are certain there will be no material adverse impact to Policyholders or whether this is their best judgement, but lacks certainty. In these instances, the IE must consider the following:	
	• Where the IE takes the view that there is probably no material adverse impact, the IE must challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree.	8.41
	• The IE should challenge the Applicants in order to gain the necessary level of confidence that their report's conclusions are robust. Applicants and IEs should be aware that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups.	Sections 8 to 10
6.13	The IE must check that the documents they are relying, and forming judgements, on are the most up-to-date available when finalising their report.	Appendix 2: Information Relied Upon
6.14	If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgement, the Applicants must discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged.	3.24 to 3.25, 7.57, 8.16, 8.135, 8.174, and 10.27
Sufficient regard to relevant considerations affecting Policyholders		
6.15	Consider all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. The IE is expected, when giving their opinion, to consider the:	
	• Current and proposed future position of each Policyholder group	Sections 8 to 10
	• Potential effects of the transfer on each of the different Policyholder groups	Sections 8 to 10
	• Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	Sections 8 to 10
6.16	Consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.	7.45 to 7.47
6.17	Review and give opinion on administrative changes affecting Policyholders, including:	

	• Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty ‘moved’ from the Transferor to the Transferee in preparation for the transfer. Provide a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations.	8.96 to 8.98, 8.155 to 8.175, 8.176 to 8.184, and 9.28 to 9.29
	• Policyholder service level - we expect the IE and the firms not only to have consideration of the impact on Policyholder service levels due to changes in services or service providers specifically contemplated by the proposed transfer, but also to consider the possible risks associated with the transfer that may impact service levels. For example, the risk that the transferee may change services or service providers to align with its broader offering, or risks associated with the migration of systems or services. We expect IEs to consider whether changes in service levels, provision and migrations could lead to consumer harms and what could be done to mitigate those risks. We expect IEs to consider whether there are differences in the identification of customers in vulnerable circumstances. In relation to migration of systems or services we expect to see a sufficiently detailed report of the possible impact.	8.96 to 8.98, 8.155 to 8.175, 8.176 to 8.184, and 9.28 to 9.29
	• For the case where the IE concludes that because the transfer will not create any change to the administrative arrangements, there will be no material impact on Policyholders: consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process.	8.96 to 8.98, 8.155 to 8.175, 8.176 to 8.184, and 9.28 to 9.29
6.18	Where the transferring business involves employer’s liability policies the IE should consider the quality of the firms’ tracing procedures.	n/a
6.19	Review and provide opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	
	• Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.	n/a
	• If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, consider the Scheme as if the reinsurance was not in place.	n/a
6.20	If the IE identifies particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected, the IE should take into account the Transferor’s obligations under Principle 6 (Customers' interests) of the FCA's Principles for Businesses.	n/a
6.21	Ensure there is consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material.	Sections 8 to 10
6.22	Provide the analysis outlined in 6.21 even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where:	
	• Some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure.	n/a
	• Some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer.	8.155 to 8.175, and 9.28 to 9.29

6.23	Ensure that no conclusions are reached based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	All sections
6.25	Present the consideration, evidence and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially adversely impact a group of Policyholders.	Sections 8 to 12
Commercially sensitive or confidential information		
6.26	When considering commercially sensitive information, consider policyholders' interests as the information will not be publically available.	Throughout
6.27	In these situations, document the analysis and the information relied upon and require it to be sent separately from the IE Report. Consider sending a separate document with further details, solely for the Court's use and not for public disclosure. Please note that this is at the Court's discretion.	Appendix 2: Information Relied Upon
The level of reliance on the work of other experts		
6.28	For large scale and complex insurance business transfers, if relying on the analytical work of other qualified professionals, it is still expected the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	1.26 and Appendix 2: Information Relied Upon
6.29	Obtain a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	3.26 to 3.29
6.30	If referring to factors outside of expertise and relying on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue.	3.26 to 3.29
6.31	Consider if the IE needs to obtain separate legal advice, this will depend on the significance and materiality of the issue.	3.26 to 3.29
6.32	Consider whether it is reasonable for the IE to rely on advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers may be challenged.	3.26 to 3.29
6.33	When deciding whether to obtain independent legal advice, the IE should consider, amongst other things, the following:	
	• The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice.	3.26 to 3.29
	• How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact?	
	• The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances.	
	• Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks.	
	• Whether, depending on the issue's significance or uncertainty, the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction.	
	• Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.	

6.34	The IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. The IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. Consider where risks are identified with no suggestion about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations would allow the IE to consider the worst case scenario of these impacts.	Sections 8 to 12
6.35	Consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	n/a
6.37	Consider obtaining a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-UK jurisdictions. Should the work of overseas legal advisors be relied upon, the IE should not use such advice as the sole basis of their conclusion that there are no materially adverse effects, the IE is expected to consider the position if the advice turns out to be incorrect.	7.8 to 7.10
6.38	If the IE is uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.	n/a
6.39	The position may be different depending on whether the Transferor remains authorised/in existence:	n/a
	• If the Transferor's authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the scheme is not formally recognised in another jurisdiction, the courts of that jurisdiction will still act to prevent the Transferee from denying that it is liable. This may well be correct, but we still expect the IE to assess any material possibility, and any mitigations if it is not.	
	• Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We will still expect an IE to examine what possible material adverse impact this could have on Policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements.	
6.40	Ensure the likelihood for consumers to be adversely affected is low. The IE should take a view on that and seek the appropriate reassurances.	Sections 8 to 12
6.42	At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. Overly general reliance will indicate a lack of critical assessment or challenge.	1.26
6.44	If the report does not reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:	
	• That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get	n/a

	clarification, such as seeking further advice from a subject matter expert.	
	• How the IE satisfied themselves about the identified uncertainty and formed an opinion on any potential impact.	n/a
Demonstrating challenge		
6.45	To ensure the IE report is complete and considered there should be challenge from all involved parties. Including evidence that Applicants have made appropriate challenges, especially when believed there are issues that the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account to the IE's disclaimers. Applicants can make these challenges without compromising the IE's independence.	All sections
6.46	To ensure effective two-way challenge it is expected the IE engages with FCA or PRA approved senior management function holders at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the Chief Financial Officer or Senior Underwriters.	1.26
6.48	IEs who are members of the Institute & Faculty of Actuaries should pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.	1.32
6.49	IEs should be aware of the revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.	1.32
6.50	Ensure compliance with paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information' and to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	1.32
6.51	Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	1.33
Review of the communications strategy		
7.3	IEs should include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. There should be evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential effect on Policyholders and how this is addressed.	10.1 to 10.13