The Equitable Life Assurance Society

Proposed Transfer of Irish and German Business to Equitable Life Ireland

**Report by M. W. Sinkinson, Chief Actuary of
The Equitable Life Assurance Society, on the impact of
the proposed transfer on its policyholders**

29 November 2018

V1.4

1. Introduction

1.1 Background

The Equitable Life Assurance Society (the “Society”) is a mutual life insurance company. Equitable Life Ireland (“ELI”) is a designated activity company limited by shares which is 100% owned by the Society.

An application is being made to the High Court for approval of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “Scheme”) to transfer all Irish and German business (the “Transferring Business”) from the Society to ELI. If approved, the Scheme is expected to take effect on 29 March 2019 (the “Effective Date”).

The transfer is required following the UK’s decision to exit the EU (“Brexit”). There is no financial benefit for policyholders under the transfer of the business to ELI. Rather, there is a cost that will be borne by all with-profits policyholders to ensure continued compliance with European authorisation requirements. The cost, however, is not expected to be material.

The Transferring Business is currently administered by the Society. Responsibility for the administration of the Transferring Business will pass to ELI upon the Scheme becoming effective. This will allow the continued administration of the Transferring Business following Brexit. ELI will outsource all administration to the Society following the Effective Date.

The Society has one long-term business fund and, as a mutual company, has no shareholder fund. The Transferring Business is a liability of the long-term business fund. With-profits policyholders participate in the profits and losses of the Society, including those attributable to the Transferring Business.

1.2 Purpose of Report

The purpose of this report is to describe the impact of the Scheme on all policyholders of the Society. In particular, this report describes how the Scheme will affect the security of their benefits and their reasonable benefit expectations. It also sets out how the Scheme is consistent with the requirement to treat customers fairly.

This report has been written for the Society’s Board in my capacity as Chief Actuary. The report may also be used by the Independent Expert, the High Court, Prudential Regulation Authority (“PRA”), Financial Conduct Authority (“FCA”) and overseas regulators, particularly those in Ireland and Germany, in forming their own judgements about the Scheme.

1.3 Other opinions

The Society’s With-Profits Actuary has prepared a report on the Scheme and concludes that the proposed Scheme is fair to both Transferring and non-Transferring with-profits policyholders. She regards the planned communications to be proportionate and to meet the needs of with-profits policyholders.

An Independent Expert has prepared a report on the Scheme and concludes that he believes no policyholders will be materially adversely affected by the proposed Scheme.

1.4 Disclosure

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as Actuarial Function Holder for the Society in October 2011. I was appointed Chief Actuary on 1 January 2016, at the time of the introduction of the Solvency II regime.

I am an employee of the Society. I am a Director of the Society and of ELI. I am not a policyholder of either the Society or ELI. I have no interest in the shares of ELI.

The opinions expressed in this report have been formed without regard to my personal interests.

2. Governance

I confirm that Work Review has been carried out by a senior member of the Society's actuarial team in accordance with Actuarial Practice Standard 'APS X2: Review of Actuarial Work', issued by the Institute and Faculty of Actuaries.

In preparing this paper, I have taken into account the requirements of the Technical Actuarial Standards issued by the Financial Reporting Council. The Technical Actuarial Standards which apply to the work performed in preparing this paper are TAS 100: Principles for Actuarial Work and TAS 200: Insurance. In my opinion, there have been no departures from these Technical Actuarial Standards in performing this work.

3. Overview of the Equitable Life Assurance Society

3.1 History

The Society was established in 1762 as the Society for Equitable Assurances on Lives and Survivorships. It was registered as an unlimited company with its current name, The Equitable Life Assurance Society, on 18 August 1892.

The Society is authorised in the United Kingdom by the PRA to effect and carry on insurance policies in long term insurance authorisation classes I (Life and annuity), II (Marriage and birth), III (Linked long-term), IV (Permanent health), VI (Capital redemption) and VII (Pension fund management). The Society is regulated by the PRA and the FCA.

The Society started selling pension business in 1913 and, in 1957, introduced the Retirement Annuity contract as a flexible pension for the self-employed. The Society actively started growing its pensions and life business in 1973 through a direct sales force. During the 1980s and 1990s Equitable Life experienced a period of rapid growth, particularly in the area of pensions.

On 8 December 2000, the Society closed to new business, including open market options from other insurers' pension policies.

On 1 March 2001, the Society's unit-linked business and all non-profit business, excluding immediate annuities in payment at that time, were reinsured with Halifax Life.

On 9 February 2007, £4.6bn of the Society's UK pension annuity business was transferred to Canada Life.

On 31 December 2007, the Society's with-profits annuity business, with a value of around £1.75bn, was transferred to Prudential.

In April 2012 an arrangement was set with Canada Life to provide for policyholders wanting an annuity at retirement. Policyholders are offered an annuity with Canada Life which is higher than Equitable can provide. Consequently, the Society has written relatively few annuities since this time.

On 7 March 2015, the Society's unit-linked business and pension term assurance business was recaptured from Halifax Life. This significantly reduced the Society's Solvency II capital requirements.

On 19 February 2016, the majority of the Society's remaining non-reinsured annuity business was transferred to Canada Life. Investments and cash, with a value of around £850m, were transferred to Canada Life to match the liabilities of the business at that date.

The Society is a mutual organisation set up and run for the benefit of its members. These are the with-profits policyholders.

The Society's strategy is to recreate policyholder value. It is stated on the Society's website that this will be delivered by:

- Reducing risks leading to lower solvency capital requirements, so increasing the amount available for distribution.
- Distributing all of the assets among with-profits policyholders as fairly and as soon as possible.
- Our aim is that with-profits policyholders leaving the Society receive their fair share of capital, provided there is enough left for those who remain.
- Carefully managing solvency to enable capital distribution and only then seeking to maximise return.
- We will reduce the cost base in line with run off while delivering a trusted and valued service.

On 1 April 2011, the Society began the process of distributing capital to its with-profits policyholders by enhancing claim values. The initial level was 12½% of policy values. That was increased to 25% of policy values in 2014 and to 35% with effect from 1 April 2015.

In June 2018, the Society entered into an agreement to transfer itself and all its policies to Reliance Life, part of the LCCG Group. As part of the agreement, eligible with-profits policyholders will be asked to vote in favour of removing investment guarantees and convert their policies to unit-linked in exchange for an uplift in policy values through a court approved compromise. As a result, it is expected that the current 35% capital distribution on with-profits policies will be increased to between 60% and 70%.

3.2 Nature of business written

The vast majority of the Society's business was written in the UK. A small proportion was written through branches in Guernsey, Germany and the Republic of Ireland. The Transferring Business was all sold through the latter two branches.

Business was sold by representatives of the Society and by direct marketing.

3.2.1 With-profits business

Key features of the governance of the Society's with-profits business and information on the possible risks, rights and rewards attaching to the with-profits policies are set out in the Society's Principles and Practices of Financial Management. This document is available on the Society's website.

The Society uses Policy Values as a proxy for a smoothed asset share. These reflect premiums paid, less charges and investment return on the underlying assets. They increase with a smoothed return, which is currently 2% per annum for the majority of policies. A lower rate is paid to some policies, for example life policies, in recognition of tax due on investment returns.

The Society's with-profits business is summarised in Table 1 below.

The majority of the business, c98% by value, is accumulating with-profits business where each premium bought its own slice of benefits. These are known as Recurrent Single Premium (RSP) contracts and are akin to unitised with-profits business offered by other insurance companies. These policies have a guaranteed interest rate (GIR). For the vast majority of the business, this is either 3.5% pa or 0% pa.

The business contains contracts with a range of other features and benefits, including life cover and critical illness benefits.

Conventional With-Profits (CWP) business accounts for the remaining c2% of policies by value. These are policies such as endowments and whole of life business where benefits are related to the amount of the annual premium.

Different types of benefit are held separately within each policy record. Tables 1 to 6 below include the number of policy benefits. There is some double counting of the number of benefits because some policy benefits include investments in both with-profits and unit-linked funds. All figures are in Sterling.

Table 1: With-profits business volumes summary as at 31/12/17

Product	Policy Value (£m)	Number of Benefits (thousands)
Individual Pensions	1,780	256
3.5% GIR	*1,343*	*126*
0% GIR	*437*	*130*
Group Pensions	442	263
3.5% GIR	*423*	*257*
0% GIR	*19*	*6*
Life Insurance (0% GIR)	65	*10*
Conventional With-Profits	34	2
German-style with-profits	5	0.1
Total	2,326	530

The RSP pension plans form the largest category of the business currently in force. Several of these plans originally contained Guaranteed Annuity Rates ("GARs"). In 2002, a compromise scheme was agreed in which policyholders gave up their GARs in exchange for an uplift to their policy values. The few remaining categories of policies on which GARs still exist, for some German business and for some CWP business, were excluded from the 2002 scheme.

3.2.2 Unit-Linked business

The Society's unit-linked business is summarised in Table 2 below.

Table 2: Unit-linked business volumes summary as at 31/12/17

Product	Policy Value (£m)	Number of Benefits (thousands)
Individual Pensions	1,492	113
Group Pensions	241	97
Life insurance	138	3
Total	1,870	213

3.2.3 Non-profit business

The Society's non-profit business is summarised in Table 3 below.

Table 3: Non-profit business volumes summary as at 31/12/17

Product	Policy Related Liabilities (£m)	Number of Benefits (thousands)
Deferred annuities	214	3
Annuities in payment	176	3
Pensions life cover	2	7
Other	5	18
Total	397	31

Other includes temporary assurances, endowment and whole of life policies.

All non-profit business with the exception of a small number of annuities in payment is reinsured.

The mortality risk from pensions life cover business is reinsured with Swiss Re.

Other non-profit business is fully reinsured with Scottish Widows.

3.2.4 Transferring Business

The Transferring Business was written through branches in Germany and the Republic of Ireland.

The Transferring Business comprises:

- Republic of Ireland and German Branch Euro-denominated with-profits life and pension policies;
- Republic of Ireland and German Branch Euro-denominated unit-linked life and pension policies; and
- Republic of Ireland and German Branch Euro-denominated non-profit life and pension policies;

The Transferring Business comprises approximately 4,750 benefits. Additional detail is provided in Tables 4 to 6 below:

Table 4: Analysis of Transferring With-Profits Business as at 31/12/2017

Product	**Policy Value (£m)**		**Number of Benefits**	
	Ireland	**Germany**	**Ireland**	**Germany**
Individual Pensions	12.4	4.1	1,087	215
Group Pensions	2.7	-	736	-
Life Insurance	5.1	2.5	417	137
German-style with-profits	-	5.2	-	105
Total	20.2	11.8	2,240	457

Table 5: Analysis of Transferring Unit-Linked Business as at 31/12/2017

Product	**Policy Value (£m)**		**Number of Benefits**	
	Ireland	**Germany**	**Ireland**	**Germany**
Individual Pensions	12.6	2.2	687	78
Group Pensions	0.7	-	81	-
Life Insurance	0.5	1.7	20	44
Total	13.8	3.9	788	122

Table 6: Analysis of Transferring Non-Profit Business as at 31/12/2017

Product	Policy Related Liabilities (£m)		Number of Benefits	
	Ireland	Germany	Ireland	Germany
Deferred annuities	3.6	-	56	-
Annuities in payment	4.7	0.1	70	3
Pensions life cover	0.1	-	96	-
Other	0.0	0.1	771	174
Total	8.4	0.2	993	177

4. Proposed High-Level Structure of ELI

4.1 ELI will be established as an insurance entity in Ireland. It will be 100% owned by the Society.

4.2 The with-profits elements of Irish and UK-style German contracts, excluding any associated GARs, will be transferred into a new ELI with-profits fund. This with-profits fund will be a Ring-Fenced Fund (RFF) within ELI. The liabilities of this fund will be reinsured back into the main UK with-profits fund. A Reinsurance Agreement will be put in place between ELAS and ELI.

4.3 Assets held by ELI in respect of the with-profits business will be the value of the reinsurance. There will be a floating charge over certain of the Society's assets to mitigate counterparty default risk.

4.4 Other liabilities, ie unit-linked business, German-style with-profits business, non-profit business and GAR liabilities, will be transferred into a separate ELI fund.

4.5 Assets will be transferred from the Society to ELI to match unit-linked business, German-style with-profits business and GAR liabilities. Those parts of existing reinsurance treaties covering business being transferred to ELI will also be transferred to ELI. Reinsurance treaties will continue to operate unchanged and will be the assets backing the majority of the non-profit business.

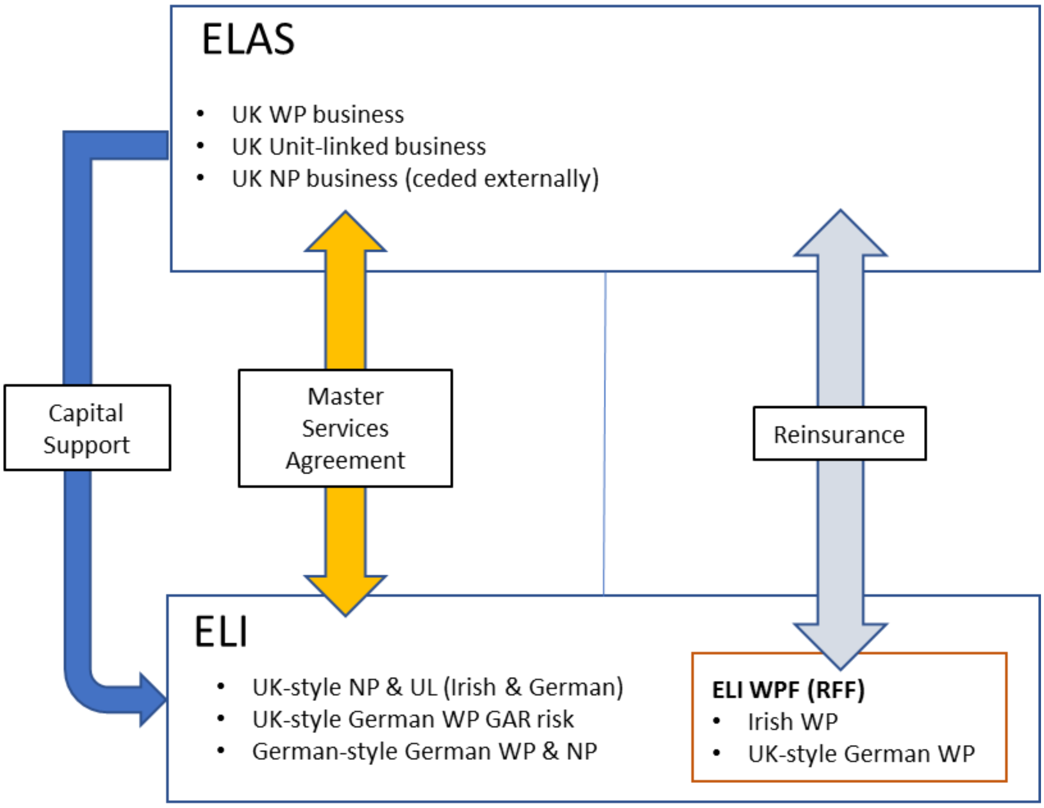
4.6 The Society will perform all administration services for ELI. Services to be provided, and the costs for providing the services, are set out under the Master Services Agreement (MSA). The MSA will be agreed by the Society and ELI.

4.7 A Group Capital Policy will be put in place for the Equitable Life group of companies. This will maintain SCR coverage of at least 120% for ELI. Initial solvency coverage will be 150%.

4.8 Under the Group Capital Policy, the Society will provide support for ELI where solvency coverage falls below the higher of risk appetite and 120%. If ELI's solvency coverage were to rise above 150% a dividend may be payable from ELI to the Society, subject to ELI's solvency coverage remaining above 150% after payment of the dividend.

4.9 Figure 1 below sets out the proposed ELI structure:

Figure 1: High-Level Structure of the Equitable Life Group



5. Proposed Transfer

5.1 Rationale for Scheme

The UK's exit from the European Union (EU) means that the Society must be authorised for insurance business in one of the EU member states in order to continue to administer the Transferring Business. It currently does not have authorisation. Given the relative sizes of the Society's European business, i.e. with gross reserves for business in Ireland being larger than those in Germany, the Society has applied for authorisation for ELI with the Central Bank of Ireland (CBI). The authorisation of ELI will allow the Society to use 'passporting' to conduct business in Germany.

The Scheme will enable the Society to move the Transferring Business to ELI.

5.2 Proposed Scheme

Under the Scheme, liabilities in respect of the Transferring Business will be transferred to ELI together with assets attributable to the Transferring Business. Those assets comprise:

- The value of the Reinsurance Arrangement between the Society and ELI for the with-profits business. The Reinsurance Arrangement has been constructed so that Irish and UK-style German with-profits policyholders maintain the same benefit expectations pre- and post-transfer of the business to ELI.

- Assets to match unit-linked business.

- Assets to match German-style with-profits business

- Assets to match GAR liabilities.

- The value of those parts of existing reinsurance treaties with Scottish Widows, Swiss Re, LV=, Cologne Re and GenRe covering Transferring Business to match liabilities for non-profit business and mortality risk for some German-style German with-profits and unit-linked policies. Operation of the treaties will be unaffected by the Scheme.

- Assets to match non-profit liabilities to the extent that they are not reinsured.

- Assets to match ELI's projected future running costs and future obligations under the MSA in respect of non-linked business.

- Assets to provide capital for ELI.

Irish and UK-style German with-profits policyholders would no longer be members of the Society. They will share in the profits of the ELI with-profits fund rather than the Society's main with-profits fund. However, as stated above, the Reinsurance Agreement between the Society and ELI ensures that those policyholders will continue to receive the same benefits as they would have received without the Scheme.

6. Financial position before and after transfer

6.1 Solvency capital measures

PRA requires insurance companies to maintain a minimum level of capital under the Solvency II capital regime. The Solvency Capital Requirement ("SCR") is the amount of capital required to meet this test.

6.2 The Society's financial position

The Society's published Solvency II balance sheet at 31 December 2017 is shown in Table 7 below with comparatives at 31 December 2016:

Table 7: Society Solvency II Balance Sheet

	31/12/17	**31/12/16**
Asset Values	6,209	6,491
Reinsurance Recoverable	404	424
Total Assets	**6,613**	**6,915**
Best Estimate Liabilities	5,734	5,949
Risk Margin	217	241
Transitional Measures	(100)	(107)
Technical Provisions	**5,851**	**6,083**
Own Funds	762	832
Solvency Capital Requirement	455	472
SCR Coverage	167%	177%

Project costs to set up ELI are expected to be c£2.5m; annual running costs are expected to be c£0.4m per annum. These additional expenses would not be incurred if the Society did not have to set up ELI, so there is an impact on benefit expectations for with-profits policyholders. However, total costs are less than 0.5% of with-profits fund assets, so the impact of setting up ELI on the Society's Solvency II calculation, and on policyholders' benefit expectations is minimal.

6.3 ELI's financial position

ELI has no business other than that to be transferred from the Society under this Scheme.

The report of the Head of Actuarial Function for ELI states that, allowing for the Scheme, SCR coverage would be c150%.

An estimated pro forma Solvency II balance sheet for ELI on a standalone basis and assuming the business had been transferred at 31 December 2017 is shown in Table 8 below:

Table 8: Pro Forma ELI Solvency II Balance Sheet at 31 December 2017

	31/12/17 £m
Asset Values	50.5
Reinsurance Recoverable	35.0
Total Assets	**85.5**
Best Estimate Liabilities	75
Risk Margin	3
Transitional Measures	0
Technical Provisions	**78**
Own Funds	7.5
Solvency Capital Requirement	5
SCR Coverage	150%

7. Effect of the Scheme on the Society's policyholders

7.1 Transferring Business

Liabilities in respect of Transferring Business will transfer to ELI under the Scheme.

7.1.1 Capital and Security of Benefits

The Group Capital Policy referred to in sections 4.7 and 4.8 means that solvency coverage for ELI will be at least 120% and, initially, 150%. The expected coverage level of ELI is, therefore, lower than the current solvency coverage for the Society. However, the Group Capital Policy ensures that support will be provided for ELI were ELI's solvency coverage to fall below the higher of risk appetite and 120%. If the Society's SCR coverage on a solo basis were to fall below the higher of risk appetite and 120%, support would be limited to that required to increase ELI's SCR coverage to the same level as the Society's solo SCR coverage. Given the Society's current solvency coverage, the probability of this event occurring is remote.

The effect of the Group Capital Policy is to provide the same capital support to the Transferring Business as is currently available within the Society.

Transferring with-profits policyholders currently benefit from the protection provided by the UK's Financial Services Compensation Scheme (FSCS). As there is no equivalent form of compensation scheme in the Republic of Ireland, Transferring Policyholders would lose the benefit of FSCS protection upon the Scheme becoming effective.

The loss of this protection would impact Transferring with-profits policyholders in the event that ELI is unable to meet their obligations to policyholders and the Society is unable to provide capital support. In my opinion, the possibility of this is remote.

I consider that the security of benefits for Transferring Business is broadly unchanged following the transfer.

7.1.2 Benefit expectations

a) With-Profits Policies

Irish and UK-style German With-Profits policies continue to be invested via the reinsurance of the business back to the Society's main with-profits fund. The Society's operation of its with-profits fund will be unchanged from that described in the PPFM. Therefore, I do not believe there are any changes in benefit expectations for with-profits policyholders as a result of the transfer of the business to ELI.

The Society has recently announced a change in strategy that will, if successful, allow it to distribute its capital to policyholders. The process is expected to complete in late 2019 and will involve a Scheme of Arrangement and a Part VII transfer to Reliance Life. ELI will be a subsidiary of Reliance Life.

When distributing its capital at this point, the Society will treat Irish and UK-style German with-profits business in the same way as other with-profits business. The capital allocated to Irish and UK-style German with-profits business will be transferred to ELI and the reinsurance agreement between the Society and ELI will fall away. Uplifted Policy Values will be allocated to ELI's with-profits fund. However, the uplift applied will not include any additional amount for the residual value of guarantees because policyholders will retain their with-profits guarantees. The future costs of investment guarantees and GARs will be met from assets held by ELI outside the with-profits fund.

I do not believe there will be material changes in benefit expectations for ELI with-profits policyholders as a result of the Scheme of Arrangement and transfer to Reliance Life.

b) German-style German With-Profits Policies

Benefits payable on German-style German with-profits contracts are set out in a Business Plan agreed with the German regulator at the time of the launch of the business in the early 1990s. Contracts are fundamentally non-profit in return and are backed by a hypothetical portfolio of assets. No changes will be made to policy terms and conditions of this business.

I consider that benefit expectations for these contracts will be unchanged following the transfer to ELI.

c) Non-profit Transferring Business

Benefits payable on non-profit Transferring Business are set out in the policy terms and conditions. No changes will be made to policy terms and conditions of any non-profit Transferring Business under the Scheme.

I consider that benefit expectations for these contracts will be unchanged following the transfer to ELI.

d) Unit-linked Transferring Business

Benefits payable under unit-linked Transferring Business are dependent on the performance of the funds in which the policyholder has invested.

There are 2 Euro-denominated, unit-linked funds available to each of Irish life and pensions and German policyholders. No other policyholders invest in these funds. At transfer, there will be no change in the unit-linked funds as the assets are transferred to ELI. For the avoidance of doubt, policies will continue to have the same number and value of units, and the same range of fund choices available. The pricing principles used for each of the Society's unit-linked funds and the level of fund Annual Management Charges will also be unchanged under the Scheme.
The Society has not charged a fee to switch funds for many years, although it has the right to under the terms and conditions of the policies. Following the transfer to ELI, ELI rather than the Society will have the right to charge a fee to transferring policyholders for switches. There are no plans for ELI to charge for switches.

I consider that benefit expectations for these contracts will be unchanged following the transfer to ELI.

7.1.3 Quality of Administration

Administration services will be provided by the Society under the terms of a Master Services Agreement (MSA) between the Society and ELI. The quality of the service provide to ELI policyholders will be monitored by ELI.

I consider that the transfer will not affect the quality of administration services provided to transferring policyholders.

7.1.4 Charges for Administration

ELI and the Society have agreed the following treatment for charges which ELI will pay to the Society for administration services under the MSA:

- For unit-linked business, ELI will be charged the difference between the Annual Management Charges and investment management expenses to cover the cost of administrative services provided by the Society.
- For non-profit business, as much of this business is reinsured with Scottish Widows, charges will be calculated based on those under the Scottish Widows reinsurance agreement. Under that agreement, the Society provides administration services for the reinsured business to Scottish Widows. Therefore, charges paid by ELI will mirror those received by the Society. The overall impact on the Society will be unchanged from the pre-transfer position.
- For German-style with-profits business, there will be explicit charges because this business is not included in the Reinsurance Arrangement between the Society and ELI. The charges will be consistent with those for non-profit business.
- For the Irish and UK-style German with-profits business, there would be no explicit charges for ELI since this business will be reinsured to the main UK with-profits fund.

I consider that there will be no impact on policyholder benefits as a result of the charges for administration.

7.2 Non-transferring policies

7.2.1 Capital and Security of Benefits

The effect of the Transferring Business moving to ELI under the Scheme is not expected to have a significant impact on the capital position of the Society. As a result of the higher costs of running ELI, security for the Society's remaining business will be slightly worsened. However, as explained in 6.2 above, the impact is not material.

The Group Capital Policy requires the Society to provide capital support of ELI. However, as explained in 7.1.1 above, if the Society's SCR coverage on a solo basis falls below the higher of risk appetite and 120%, capital support will be limited to that required to bring ELI's SCR coverage up to the same level as the Society's SCR coverage on a solo basis. Given the Society's current solvency coverage, the probability of this event occurring is remote.

I consider that the security of benefits for non-transferring policies will be broadly unchanged following the transfer.

7.2.2 Benefit expectations

a) Non-profit policies

The benefits payable on non-transferring non-profit policies are set out in the policy terms and conditions. No changes will be made to policy terms and conditions of any non-transferring non-profit policies under the Scheme.

I consider that the benefit expectations of the Society's non-transferring non-profit policyholders will be unchanged following the transfer to ELI.

b) Unit-linked policies

In the case of non-transferring unit-linked policies, there will be no changes to the unit-linked funds in which those policies are invested under the Scheme. Policies will continue to have the same number and value of units, and the same range of fund choices available.

The pricing principles used for each of the Society's unit-linked funds and the level of fund charges will also be unchanged under the Scheme.

I consider that benefit expectations for the Society's non-transferring unit-linked policyholders will be unchanged following the transfer to ELI.

c) With-profits policies

I consider that the Scheme will result in no material impact on the benefits payable to with-profits policyholders.

The Scheme will not have a significant effect on the Society's SCR coverage under Solvency II after allowing for the costs of carrying out the transaction, including fees for advisers.

Below, in 7.3, I also summarise the opinion on the Scheme, given by the Society's With-Profits Actuary.

7.2.3 Quality of Administration

The Society will continue to administer the non-transferring business. There will be no changes to the management of the business and governance arrangements which currently apply to the non-transferring policies. Existing service standards will continue to apply. There is no reason to expect the quality of service to deteriorate as a consequence of the Scheme.

7.3 <u>Report of the Society's With-Profits Actuary</u>

The Society's With-Profits Actuary has prepared a report on the Scheme and concludes that the Scheme is necessary and fair to with-profits policyholders. Her conclusion is reproduced below:

"The management of the Society has decided that, given the changes in operating environment arising from the UK's exit from the EU, the establishment of ELI and the implementation of the Scheme are necessary to protect the interests of ELAS with-profits policyholders.

In my opinion, the benefits, benefit expectations and benefit security of Transferring and non-Transferring with-profits policyholders will not be materially impacted by the Scheme. Importantly, Transferring and non-Transferring with-profits policyholders will have similar outcomes following the planned strategic change.

In the circumstances, I consider the proposed Scheme to be fair to both Transferring and non-Transferring with-profits policyholders.

I regard the planned communications to be proportionate and to meet the needs of with-profits policyholders."

7.4 Taxation

I am not a tax expert, but I understand that appropriate tax clearances have been applied for from the relevant taxation authorities. At time of writing, the Society has received agreement to all but one of our proposals. I expect we will receive agreement to the final item before the transfer to ELI.

7.5 Notification of Policyholders

It is intended that a communication pack will be sent by the Society to its Transferring policyholders

The letter to policyholders of Transferring Business will also enclose a guide describing the Scheme. The guide will contain questions and answers giving further details about the Transfer proposal. The Society intends to make the guide available on its website.

Non-transferring policyholders will not receive an individual communication from the Society. However, they will be able to view the guide, referred to above, on-line or request a copy from the Society.

The letters will inform policyholders affected by the Scheme how to obtain further information and of their right to make representations to the Court. Notices containing the same details will also be published in two national newspapers in both the Republic of Ireland and Germany and two newspapers in the UK, in the London, Edinburgh and Belfast Gazettes and in national newspapers in certain other EEA States.

The Society has discussed the proposed approach to notifying its policyholders of the Scheme and the content of the guide with the PRA and FCA.

I consider the publicity proposals to be appropriate and proportionate given the likely effects of the Scheme. In particular, I consider that it is reasonable not to mail individual non-transferring policyholders given there is no material impact of the Scheme on the non-transferring policyholders, less than 5% of the Society's policyholders will be included in the Transfer and the cost of a bulk mailing.

7.6 Treating customers fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly both as regards the holders of Transferring Business and all other policyholders of the Society.

7.7 Other Matters

The Society will bear the cost of setting up ELI and implementing the Scheme. This means that all with-profits policyholders will share the cost, expected to be c£2.5m. On-going costs of operating ELI are expected to be c£0.4m pa. These costs will be funded from ELI's own resources. These resources will initially be provided by the Society to ensure ELI is appropriately capitalised. The costs are, effectively, shared by all with-profits policyholders.

8. Conclusion

In my opinion, the Scheme is necessary to protect the interests of ELAS's with-profits policyholders, given the changes in operating environment arising from Brexit.

In my opinion, the Scheme will broadly maintain the current security of benefits of all the Society's policyholders and will not affect the fair treatment of those policyholders.

Martin Sinkinson
Chief Actuary
The Equitable Life Assurance Society

29 November 2018

Glossary

CWP	Conventional With-Profits
ELI	Equitable Life Ireland
ELAS	Equitable Life Assurance Society
EU	European Union
FCA	Financial Conduct Authority
GAR	Guaranteed Annuity Rate
NP	Non-Profit
PRA	Prudential Regulation Authority
RFF	Ring-Fenced Fund
RSP	Recurrent Single Premium
UL	Unit-Linked
WP	With-Profits
German-style WP	Business marketed prior to European Third Life Directive in 1994. These contracts do not participate in the profits and losses of Society's with-profits fund.
German UK-style WP	Recurrent Single Premium accumulating with-profits business marketed after the European Third Life Directive. These contracts participate in the profits and losses of the Society's with-profits fund.