# The Equitable Life Assurance ELAS

# Proposed Transfer of Irish and German Business to Equitable Life Ireland

**Report by Louise Eldred, With-Profits Actuary of**
**The Equitable Life Assurance Society**

**6 December 2018**

**V1.6**

# 1. Introduction

## 1.1 Purpose

The purpose of this report is to consider the impact on the with-profits policyholders of Equitable Life Assurance Society (“ELAS”) from the proposed transaction to move Irish and German business (the “Transferring Business”) to Equitable Life Ireland (“ELI”) via a Part VII agreement (the “Scheme”). In particular, this report is concerned with whether the Scheme is fair to both Transferring and non-Transferring with-profits policyholders, any impact on the amount and security of their benefits, service levels and other factors affecting policyholder experience. I have also considered the proposed communications with policyholders and whether these meet their needs.

In my capacity as With-Profits Actuary of ELAS, I am writing this report for ELAS’s Board. In addition to ELAS’s Board, this report may be used by the Independent Expert, the High Court, the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (”FCA”) and the Central Bank of Ireland (“CBI”) in forming their own judgements about the Scheme.

In preparing this report I have relied on information in the following reports:

- Chief Actuary report from ELAS’ Head of Actuarial Function which considers the impact of the Scheme on all of ELAS’ policyholders.
- Report from ELI’s Head of Actuarial Function which considers the impact of the scheme on all policyholder of ELI following the transfer.
- The Internal Reinsurance Agreement (“Reinsurance Agreement”) between ELI and ELAS which outlines the nature of the arrangement to reinsure the transferred with-profits policies from ELI to ELAS.
- The Master Services Agreement (“MSA”) between ELI and ELAS which outlines the nature and conditions of the services to be provided to ELI by ELAS, the terms of which are outlined in the report from ELAS’ Chief Actuary.
- The Group Capital Policy for ELI and ELAS which outlines the measures and controls for capital management between ELI and ELAS.

Details of ELAS, ELI, the Scheme and the work undertaken are given in these reports, and are not repeated here. Terms defined in these reports carry the same meaning in this report unless otherwise specified and are defined in the Glossary.

The opinions set out in this report have required the exercise of judgement. They are based on current proposals and work undertaken to date. I will prepare a supplementary report to the ELAS Board should I become aware of any changes to the Scheme or other information that alters my opinions.

## 1.2 Background – UK Exit from the European Union (“EU”)

In view of the UK’s planned exit from the EU, in order to continue to administer the German and Irish business, ELAS is setting up a subsidiary, ELI. The continued administration of ELAS EU business from the UK is not an option as passporting rights to provide services from the UK into the EU are not guaranteed. Suitable transitional arrangements may be introduced which allow this temporarily, but this is not certain.

ELI will be set up in Ireland as a designated activity company authorised to administer life insurance business in the EU and limited by shares which shall be 100% owned by ELAS. The German and Irish business will transfer from ELAS to ELI via the Scheme and ELI will operate that business, passporting services for the German business across EU borders into Germany.

The Scheme has not been proposed as a strategic action with the objective of providing financial benefits for with-profits policyholders. Rather, the Scheme is in response to changes to the operating environment. It is intended to ensure the continued compliance with authorisations in Ireland and Germany and thereby ensure the continued security of policyholder benefits, and the ability to continue to operate and administer the Irish and German policies. As such, the proposal carries a cost which will have some impact on the security and benefits of both Transferring and non-Transferring with-profits policyholders. In writing this report, I have reviewed the proposal to ensure that the cost of this proposal is borne by all policyholders in a fair manner.

### 1.3 Background – ELAS Strategic Plans

During 2017, ELAS conducted a feasibility study in regard to a potential alternative to run-off, this being: a strategy to fully and fairly distribute all of ELAS's with-profits assets to with-profits policyholders by uplifting policy values and removing investment guarantees, then immediately afterwards, to execute a Part VII and transfer ELAS's business in its entirety to a new provider.

At the end of 2017, ELAS Board concluded that this should become the Society's preferred strategy, subject to ELAS finding a suitable partner. In June 2018, ELAS entered into an agreement with Reliance Life in line with its strategy. The transfer is expected to complete towards the end of 2019.

The UK's withdrawal from the EU occurs in March 2019, prior to the completion of the transfer to Reliance Life. In the absence of appropriate transitional arrangements, ELAS needs to proceed with the Scheme outlined in sections 1.1 and 1.2. A key consideration in designing the Scheme is that, on successful completion of the Scheme and the strategic plans, Transferring with-profits policyholders should continue to benefit from the distribution of the Society's capital as a result of the strategic change and not be disadvantaged.

## 1.4 Transferring Business

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

The Transferring Business comprises:

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

In my report I focus on with-profits policies only, excluding German-style with-profits policies, which do not participate in the profits and losses of the Society through the Society's with-profits fund. Only members of the Society are entitled to participate in profits and losses, and the holders of German-style with-profits policies are not members of the Society. The impact on the non-participating business such as German-style with-profits, non-profit and unit linked policyholders are considered in the Chief Actuary's report.

The Scheme does not differentiate between different sub-groups of policyholder except for the country where the business was written as described above. I have considered whether any sub-groups of with-profits policies need particular attention. With the exception of with-profits contracts with Guaranteed Annuity Rates (GARs), I have concluded that all Transferring with-profits policies are treated in the same way. There is no difference by sub-group of the treatment under the Scheme of non-Transferring with-profits policies. For this reason I have not discussed any other sub-groups of with-profits policies in this report. Contracts with GARs are discussed in section 2.1.4.

## 1.5 Overview of the Scheme

The Irish and UK-style German with-profits contracts, excluding any associated Guaranteed Annuity Rates, will be transferred into a new ELI with-profits fund. This with-profits fund will be a Ring-Fenced Fund within ELI. The liabilities of this fund will be reinsured back into the main UK with-profits fund through the Reinsurance Agreement between ELAS and ELI. The reinsurance arrangement has been constructed so that Irish and UK-style German policyholders maintain consistent benefit expectations pre- and post-transfer of the business to ELI.

Assets held by ELI in respect of the with-profits business will be the value of the reinsurance recoverable. There will be a floating charge ("Floating Charge") over a defined subset of ELAS assets at least equal in value to ELI's with-profits liabilities to reduce counterparty default risk. This provides security to ELI's policyholders.

ELAS will perform almost all of administration services for ELI. The services to be provided, and the costs for providing the services, are set out under an expense agreement, the Master Services Agreement (MSA).

A Group Capital Policy has been put in place for the Equitable Life group of companies, namely ELAS and ELI, to provide security for the Transferring Business in ELI. The details of the security provided is discussed in Section 2.2 of this report.

### 1.6 Disclosures

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as With-Profits Actuary for ELAS on 12 December 2013.

I am employed by ELAS. I am not a Director of ELAS. I have an interest in two non-profit life assurance policies issued by ELAS. I am not a policyholder of ELI and have no interest in the shares of ELI.

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

### 1.7 Governance

Under the professional standards of the Institute and Faculty of Actuaries, I confirm that:

- This report has been subject to Work Review by a senior actuary within the Society in accordance with Actuarial Practice Standard 'APS X2: Review of Actuarial Work' issued by the Institute and Faculty of Actuaries.
- I have taken into account the requirements of the Technical Actuarial Standards issued by the Financial Reporting Council when preparing this report. The Technical Actuarial Standards which apply to the work performed in preparing this report are TAS 100: Principles for Actuarial Work and TAS 200: Insurance.
- In my opinion, there are no departures from any of these Technical Actuarial Standards.

## 2. Impact on the Transferring with-profits policyholders of the Scheme in isolation

### 2.1 Impact on Transferring with-profits policyholder benefits and benefit expectations

As ELI's with-profits policyholders, the Transferring with-profits policyholders will have the right to participate in the profits and losses of the ring-fenced ELI with-profits fund. When the Scheme first becomes effective, the only asset of this fund will be the Reassurance Agreement, so the participation right is equivalent to the profits and losses arising from the ELAS with-profits fund. ELI will be a creditor of ELAS in respect of these contracts under the Reinsurance Agreement, and not the individual ELI policyholders.

Immediately after the Transfer, and for the duration of the Reassurance Agreement, Transferring with-profits policies will receive the same level of benefits including any capital distributions as they would have without the scheme. This will be achieved through the Reinsurance Agreement described in Section 1.5 which ensures that the Transferring with-profits policyholders remain able to benefit from distributions from the ELAS with-profits fund as they did before the Scheme.

Given that the Transferring with-profits policies will therefore still effectively participate in the ELAS with-profits fund, and that no changes will be made to the assets held in this fund, I do not expect the Scheme in isolation to have any material impact on the benefits of the Transferring with-profits policyholders.

The structure of ELI as a limited company means that the Scheme will result in the loss by Transferring with-profits policyholders of membership of ELAS and related voting rights. These rights do not confer any financial benefit on policyholders under the Articles of Association. In my opinion, these voting rights do not have a material value.

The position of the Transferring with-profits policyholders and their participation in the profits and loses of the ELI with-profits fund after the Reassurance Agreement falls away is described in section 3.1.

### 2.1.1 Governance

The Scheme will impact the governance arrangements for the Transferring with-profits policies by moving the responsibility for the governance and administration of these policies from ELAS to ELI. This should not, of itself, impact the benefits, security or experience of Transferring with-profits policyholders.

The ELI with-profits policyholders will not directly participate in the ELAS with-profits fund, but will do so through the operation of the Reassurance Agreement for as long as that remains in force. As With-Profits Actuary, I will have a responsibility to ELI, as holder of the reassurance contract. In practice I will continue to treat ELI's with-profits policyholders as legitimately interested in the operation of the ELAS with-profits fund. I will still consider their interests when assessing the fairness of decisions that affect the with-profits fund. I would expect the ELAS With-Profits Committee to continue to consider the interests of ELI's with-profits policyholders.

The performance of the ELAS with-profits fund directly determines the benefits of ELI with-profits policyholders through the Reassurance Agreement. This means that the investment strategy and management actions applied to the ELAS with-profits fund will still impact the ELI with-profits policies in the same way as if the Scheme had not happened.

The Transferring policyholders will enjoy the protection of the Irish regulatory regime regarding conduct standards instead of the FCA's regime. I do not consider this to be detrimental to the interests of the Transferring policyholders.

Following the strategic change, the principles for managing the ELI with-profits fund are set out in the Principles of Financial Management (PFM) which will be put in place by ELI. The first witness statement of ELAS states that ELAS understands that ELI will operate its with-profits sub-fund in accordance with the PFM when the Reassurance Agreement terminates. The draft PFM reflects the principles set out in the PPFM of ELAS and I consider the principles set out in the draft PFM to be fair.

I am aware that the Irish regulators are introducing requirements for protection of with-profits policyholders. There is no With-Profits Actuary role in Irish regulations, instead ELI's Chief Actuary will be required to attest as to the fair treatment of with-profits policyholders.

### 2.1.2 Expenses

ELAS will perform all administration services for ELI. The services to be provided, and the costs for providing the services, are set out under the MSA. As part of the MSA, the charges for the services provided by ELAS are defined for a period of 10 years, subject to increases linked to inflation, where expenses are charged on a per-policy basis. This provides security to Transferring with-profits policyholders against diseconomies of scale that may emerge in administration costs.

The Transferring Business will be subject to additional expenses, these being additional costs incurred by ELI for the day to day running of ELI, not covered by the MSA. These costs will be funded from ELI's own capital resources provided by ELAS on establishment of ELI. Additional charges for such costs will not be levied on ELI policyholders.

During the period of the Reassurance Agreement, all with-profits policyholders share in any profits and losses from the MSA which fall to the ELAS with-profits fund, so the MSA therefore has no impact on policyholder benefit expectations. On closure of the ELAS with-profits fund the Reassurance Agreement terminates. The MSA transfers to Reliance Life at that point and would be subject to changes agreed by the parties at that time, or either party could terminate the agreement within 3 months. From that point any profits and losses from the MSA fall to Reliance Life, not the ELAS with-profits fund or policyholders.

Transferring with-profits policyholders are protected against increases in expenses that fall to ELI through the capital support provided by ELAS should solvency coverage fall below 120%.

Transferring with-profits policyholders will bear a proportion of the initial project costs incurred in setting up ELI, as these are borne by the ELAS with-profits fund.

I consider these arrangements to be fair.

### 2.1.3 Charges

The Scheme will not result in any changes to charges levied on contracts for the Transferring with-profits policies. Following termination of the Reassurance Agreement, policyholder protection regarding charges would be provided by the terms of the Part VII transfer to Reliance Life. This protection includes ELI policyholders.

### 2.1.4 Cost of Guaranteed Annuity Rates (GARs)

Some of the Transferring with-profits policies contain GARs which carry associated risks and costs. These risks and costs will be met by ELI, and not the ring-fenced ELI with-profits fund. In this way, Transferring with-profits policies benefit from not being directly exposed to the variation in costs arising from these risks, with only some indirect exposure remaining. Current estimates of the size of this additional liability is c£1m.

The indirect exposure arises from the potential impact that GAR costs could have on the solvency position of ELI, which in turn could affect the capital support or dividend payments between ELI and ELAS, which will in turn impact the capital available for distribution from the ELAS with-profits fund. This can be considered a fair arrangement as these costs are ultimately shared by all with-profits policyholders as they are currently.

The Transferring GAR policyholders rely on the reserves held by ELI, and the capital support provided by ELAS, for the security of their GAR benefits where these exceed the value of their funds.

#### 2.1.5 Taxation

Tax clearances have been applied for from the relevant tax authorities. There is one outstanding item still to be agreed, but this is expected to be resolved prior to the Scheme. It is expected that there will be no adverse policyholder taxation impacts.

#### 2.1.6 Impact on Transferring with-profits policyholders of the transfer of German and Irish Unit-linked and Non-profit contracts and Liabilities from Guarantees

German and Irish Unit-linked and Non-profits policies are being transferred to the main fund of ELI, together with any additional liabilities arising from guarantees on with-profits business in the ELI with-profits fund. Such guarantees can arise from guaranteed investment returns or from Guaranteed Annuity Rates (GARs).

Profits and losses arising from this business will eventually accrue to the ELAS with-profits fund through dividends paid from ELI to ELAS, or through capital support provided to ELI by ELAS. Such profits and losses are thereby shared between all Transferring and Non-transferring with-profits policyholders.

### 2.2 Impact on the security of Transferring with-profits policyholder benefits

#### 2.2.1 Assets

ELI will have security provided by a Floating Charge over a subset of ELAS's assets. The assets subject to this charge will at least match the reinsured liabilities and this arrangement mitigates counterparty default risk.

#### 2.2.2 Solvency

A Group Capital Policy has been put in place for the Equitable Life group of companies. This will maintain SCR coverage of at least 120% for ELI or to a level equivalent to that of ELAS should ELAS's SCR coverage fall below 120%. Initial solvency coverage will be 150%. Under the Group Capital Policy, ELAS will provide support for ELI where ELI's solvency coverage falls below 120% provided ELAS's SCR coverage is in excess of 120%. If ELI's solvency coverage were to rise above 150% a dividend may be payable from ELI to the ELAS, subject to ELI's solvency coverage remaining above 150% after payment of the dividend. The Transferring with-profits policyholders therefore benefit from the security arising from this capital support.

Should ELAS's solvency coverage fall below 120%, this capital support is restricted, but the policyholders are in the same position as they are now. Given solvency coverage including proportionate management actions at 31 December 2017 is in excess of 200%, I consider this to be a remote possibility. Should both ELA and ELI fail to cover their solvency requirements they are treated equally under the capital support policy. I consider these arrangements to be appropriate. The equivalence of their positions is less clear should the solvency position deteriorate drastically and the funds wind up. Such an outcome would only occur in very extreme conditions, which, in my opinion, have an even more remote likelihood and therefore I have not considered it further.

#### 2.2.3 Financial Services Compensation Scheme

Transferring with-profits policyholders currently benefit from the protection provided by the UK's Financial Services Compensation Scheme. Such eligibility would cease after the Scheme. This means that Transferring with-profits policyholders are disadvantaged by the scheme through withdrawal of this protection.

The loss of this protection would impact Transferring with-profits policyholders in the event that ELI is unable to meet their obligations to policyholders in a situation where ELAS' solvency position had deteriorated such that it was unable to provide capital support. In my opinion, the possibility of this is remote.

#### 2.2.4 Financial Ombudsman Service

Transferring policyholders do not currently benefit from access to the UK's Financial Ombudsman service, and this position is not changed by transfer to ELI.

### 2.3 Impact on service standards for Transferring with-profits policyholders

ELAS will continue to administer these policies via the MSA described in Section 1.5. Therefore, there will be no change in the way that the Transferring with-profits policies are administered and the service experience by policyholders. It is intended that there will be no impact on the level of service provided to policyholders.

I do not expect the Scheme to have any material impact on the administration of the Transferring with-profits policies.

### 2.4 Communications with Transferring with-profits policyholders

The communication strategy outlines plans for giving notice of the Scheme to ELAS policyholders, by writing to Transferring with-profits policyholders on an individual basis enclosing summary documents, and by publishing notices in various newspapers and gazettes. I regard these proposals as providing transparent and appropriate notice of the Scheme to Transferring with-profits policyholders.

In particular, I note the intention when writing to Transferring with-profits policyholders to direct them to view full documentation on the Scheme on ELAS website, or request a copy from ELAS, instead of issuing full documentation to all such members. I regard these proposals as proportionate, providing transparent and appropriate notice of the Scheme to Transferring with-profits policyholders. The expense of automatically supplying full details in paper form to all policyholders, and the fact that the costs of the scheme fall on with-profits policyholders have informed my opinion here.

## 3. Impact on the Transferring with-profits policyholders of the Scheme considered in conjunction with the Society's strategic plans

### 3.1 Impact on Transferring with-profits policyholder benefits and benefit expectations

Section 2 above describes how, in my opinion, the benefits of Transferring with-profits policyholders are not materially impacted by the Scheme in isolation. I now consider the combined impact on these policyholders of the Scheme and the subsequent planned strategic changes described in section 1.3. The following describes my understanding of the current intentions of the Society with regard to the strategic change.

Following the Scheme, the Transferring with-profits policyholders will no longer be with-profit policyholders of the Society, and therefore will not be included in the proposed Scheme of Arrangement to remove investment guarantees and convert such policies to unit-linked contracts. The Society has concluded that it will not carry out an equivalent Scheme of Arrangement for with-profits contracts in ELI having assessed the risks to achieving a successful outcome. I agree with the rationale put forward for this decision and support it.

Following the Scheme, the strategic changes will transfer ELI to Reliance Life. The with-profits Transferring policies will continue to be held in a ring-fenced with-profits fund. The Reassurance Agreement will fall away as a result of the closure of the ELAS with-profits fund, and assets will be moved directly into the ring-fenced ELI with-profits fund. With-profits Transferring policies will differ from non-Transferring with-profits policies in that they will retain their investment guarantees and will not convert to unit-linked contracts.

The with-profits Transferring policies will have their policy values enhanced by the same basic uplift as is paid to all other ELAS with-profits policies at the time of the strategic change, but will not participate in any additional uplift paid to policyholders that have a residual economic value after the basic uplift has been applied. The resulting uplifted policy values will thereafter change in line with investment returns and there will be far less smoothing of policy payouts to ensure that policyholders benefit fully from future investment returns. I consider this to be an appropriate way to manage the with-profits fund following the enhancement to policy values which distributes most of the capital. There are expected to be no other profits or losses arising in the ELI with-profits fund. After the removal of the Reassurance Agreement, the liability for the investment guarantees will be met by ELI from outside the ring-fenced with-profits fund.

At the point that the strategic changes happen, all surplus assets are distributed and no future profits or losses from non with-profits business accrue to with-profits policyholders. This will apply equally to all such policies within ELAS and ELI which will receive the same basic uplift to policy values. I consider that the basic uplift provides adequate compensation for removing the right to share in those profits and losses. I consider this fair to ELAS and ELI policyholders.

Were the Scheme not to occur, the end-state of the German with-profits policies would be very similar to that described above, as guarantees cannot be removed due to the requirements of German Law. They would be in a smaller with-profits fund within Reliance Life, the terms of which would depend on the terms of the Part VII transfer to Reliance Life. The Irish with-profits policies would remain in the ELAS with-profits fund and would be included in the proposed Scheme of Arrangement and Part VII to Reliance Life. They would become unit-linked contracts with no investment guarantees in the same way as UK with-profits policies.

The treatment of the Irish with-profits policies under the proposed strategic change differs depending on whether or not the Scheme occurs. If the Scheme occurs the treatment of Transferring and non-Transferring with-profits policyholders is different. Despite these differences, in my opinion the proposed treatment following the Scheme is not unreasonable for the following reasons:

- The Transferring with-profits policies receive a fair share of the capital distribution from the ELAS with-profits fund, but no additional compensation for loss of their investment guarantees, as these are not being given up.
- The strategic change leaves the non-Transferring policies as unit-linked and hence subject to investment risk. The Transferring policyholders are similarly subject to investment risk through enjoying far less smoothing of their with-profits policy values, albeit that they retain an investment guarantee which offers a level of protection against this risk.

I consider that the proposals will give Transferring and non-Transferring policyholders similar outcomes after the strategic change and can be considered fair.

### 3.2 Communications

The proposed strategic change shortly after the Transfer complicates the communications to the Transferring with-profits policyholders. It is important, however that the expected combined impact of the Transfer and strategic change on the policies is made clear to affected policyholders.

### 3.3 Other considerations

The adequacy of the arrangements and protection for the Transferring with-profits policies following the proposed subsequent move to Reliance Life will need to be considered as part of the strategic change to ensure the benefits, security and experience of Transferring with-profits policyholders are protected.

I will prepare a report for Board considering these issues at the appropriate time, which will take into account the interests of ELI policyholders. Other parties, such as the ELAS Chief Actuary, the Policyholder Independent Expert for the Scheme of Arrangement and the Independent Expert for the Part VII transfer to Reliance Life, will also prepare reports on the strategic plans.

# 4. Impact on non-Transferring with-profits policyholders

## 4.1 Impact on non-Transferring with-profits policyholder benefits and benefit expectations

Prior to the Scheme, the risks associated with the Transferring Business required capital to be retained by ELAS in its with-profits fund.

Following the Scheme, these risks will still fall to ELAS's with-profits fund. The interest rate and persistency risks from the with-profits business will be retained via the Reinsurance Agreement which cedes 100% of the with-profits liabilities from ELI back to ELAS. Administration expense risk is effectively retained by ELAS who provides the administration services via the MSA. Local ELI expense risk falls to the main ELI fund and not directly to the Transferring with-profits policyholders. This risk is mitigated by the solvency security provided by the Group Capital Policy.

A key element of the reinsurance arrangement will be the Floating Charge on an identified set of assets, or the charged assets, within the ELAS with-profits fund to provide security for ELI as discussed in Section 1.5. The Floating Charge will result in an encumbrance upon the charged assets to restrict the transfer, sale and substitutions of these assets.

The Scheme will not give rise to any material changes in the nature, type or the amount of invested assets in ELAS with-profits fund as a whole. The arrangements relating to the reinsurance and Floating Charge are relevant, but have been structured so as to have a limited impact on the composition of the fund's invested assets.

Given the impact on the assets, and the reinsurance agreements discussed above, I do not expect the Scheme to have any material impact on the benefits of the non-Transferring with-profits policyholders or their current expectations of their benefits.

### 4.1.1 Governance and administration

The Scheme will have no impact on either the governance arrangements for the non-Transferring with-profits policies or the way they are managed. The current principles contained in ELAS Principles and Practices of Financial Management ("PPFM") will remain unchanged.

### 4.1.2 Expenses

Alongside the Scheme, an MSA will be agreed between ELAS and ELI as described in Section 1.5. The terms of the MSA mean that the charges for the services provided by ELAS to ELI in respect of the Transferring with-profits policies are defined for a period of 10 years, subject to inflation-linked increases, where expenses are charged on a per-policy basis. This means that the ELAS with-profits fund will bear any higher costs from any diseconomies of scale suffered over this period in administering the ELI business. The impact of any diseconomies will be reflected in policy benefits and capital distributions paid to Transferring and non-Transferring policies alike in the period after the Scheme until any strategic change is implemented, so can be considered fair.

The non-Transferring with-profits policyholders will bear a proportion of the initial project costs incurred in setting up ELI, as these are borne by the ELAS with-profits fund. The capital support arrangements, described in Section 2.2.2 mean that any further costs arising will diminish solvency coverage in both ELI and ELAS. This may lead to additional capital support being provided by ELAS to ELI.

### 4.1.3 Charges

There will be no change to the structure and framework of the non-Transferring with-profits policyholder charges as laid out in the policyholder contracts. As a result, I do not expect any impact on policyholder benefit expectation arising from changes to charges made to their policies.

## 4.2 Impact on the security of non-Transferring with-profits policyholder benefits

**Solvency**

The obligation to provide capital security to ELI described in Section 2.2.2 has the potential to change the security of the non-Transferring with-profits policyholder benefits. The impacts of the initial transfer of capital to ELI, the additional costs introduced by ELI, and the capital support arrangement provided by ELAS to ELI are not, in my opinion, sufficiently large so as to materially affect the security for non-Transferring with-profits policyholders.

The Group Capital Policy also stipulates a dividend to be paid by ELI to ELAS in the event that ELI's solvency coverage ratio is above 150%. This has the effect of maintaining the current position where the ELAS with-profits fund bears the risk and enjoys profits from Irish and German non-profit business written in it. This ensures, for the benefit of all with-profits policyholders, that capital cannot build up in ELI, but becomes available for distribution through the ELAS with-profits fund.

I do not expect that the terms of the Group Capital Policy will have material impact on the security of the non-Transferring with-profits policyholders.

## 4.3 Impact on service standards for non-Transferring with-profits policyholders

I can see no reason why there would be any change to existing service levels for non-Transferring with-profits policies as a result of the Scheme, related to claims and benefit payments, quality or turnaround times.

## 4.4 Communications with non-Transferring with-profits policyholders

The communication strategy envisages not writing individually to non-Transferring with-profits policyholders about the Scheme, but giving notice of the Scheme to ELAS policyholders on its website, and by publishing notices in various newspapers and gazettes. This decision reflects the materiality of the impact of this Scheme on non-Transferring with-profits policyholders.

In my opinion, the cost of communicating to non-Transferring with-profits policyholders on an individual basis would not be proportional to the impact this Scheme has on these policyholders' benefits. Any such cost would fall to the Society's with-profits policyholders.

## 5. Conclusion

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.

Louise Eldred, FIA
With-Profits Actuary
The Equitable Life Assurance Society
6 December 2018

**Glossary**

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| 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. |