SYNGE & NOBLE

Proposed Transfer of Part of the Life Insurance Business of Integrity Life Australia Limited to AIA Australia Limited

12 December 2024

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Dear Andrew and Damien,

Proposed Transfer of Part of the Life Insurance Business of Integrity Life Australia Limited to AIA Australia Limited Ltd

I am pleased to enclose my report on the Proposed Transfer of the Part of Life Insurance Business of Integrity Life Australia Limited to AIA Australia Limited Ltd.

Please do not hesitate to contact me if you have any questions.

Yours sincerely

David Goodsall FIAA
Director

SYNGE & NOBLE

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Introduction

1.1. Scope

I have been engaged by Integrity Life Australia Limited **(ILAL)** and AIA Australia Limited **(AIAA)** to review the Scheme prepared in accordance with Part 9 of the Life Insurance Act 1995 (Cth) (**Act**) for the proposed transfer of the Retail Advised and ex-QBE life insurance business of ILAL to AIAA. (Proposed Transfer).

This report sets out the findings from my review of the proposed Scheme including my opinions in relation to:

- whether or not the interests of Policy Owners of ILAL and AIAA will be materially prejudiced;
- the security of Policy Owner benefits for Policy Owners of both ILAL and AIAA;
- the nature and reasonableness of any changes to contractual rights or benefits of Policy Owners of ILAL or AIAA; and
- whether there will be an adverse impact on reasonable benefit expectations of Policy Owners of ILAL and AIAA.

This report will be provided to APRA and the Federal Court and made available to ILAL and AIAA Policy Owners.

A glossary of terms used in this report is included in Appendix A.

All amounts shown in this report are in Australian dollars.

Note that totals in tables and commentary may not agree exactly because of rounding.

1.2. Qualifications and Experience

I am a consulting actuary, Fellow of the Institute of Actuaries of Australia, and a Chartered Enterprise Risk Actuary. Since qualifying in 1984, I have mainly worked as a consulting actuary in the life insurance industry, having led the Actuarial Practice at Ernst & Young for many years. I have held several appointed actuary roles in Australia and prepared or advised on actuarial reports for several Part 9 transfers. I am the director of Synge & Noble, a consulting actuarial firm and a former member of the Life Insurance Code Compliance Committee.

1.3. Background to the Transfer

In 2017 QBE Life (Australia) Limited which provided Consumer Credit Insurance, term life and a small amount of group life business was purchased by IGHL Holdings Limited (IGHL) with the intention of developing the company to distribute product through the retail advised and group insurance channels.

ILAL did not achieve the planned sales volumes and is not able to reach the required scale to operate profitably by meeting the expenses incurred in running the business and the current cost of claims, as well as providing the capital necessary to meet statutory capital requirements. ILAL is now in breach of minimum regulatory capital requirements with the position continuing to deteriorate if it continues to operate the Ex-QBE and Retail Advised business.

I am advised that, in 2023, IGHL explored options to obtain more capital, conduct a trade sale of ILAL, or restructure the business, including considering alternatives of retaining/transferring individual business lines or a trade sale for separate business lines within ILAL. While this process was undertaken, premium increases required to the products to reflect up-to-date claims and expenses were deferred[1].

This process was unsuccessful. Consequently, noting that the Life Act doesn't provide for a life insurer to be wound up until it has no insurance liabilities, a Run-off Plan was implemented that involved ceasing writing new business, transferring the Ex QBE and Retail Advised business including insurance liabilities under out-of-force policies (Transferring Policies) to another insurer under a Part 9 transfer, ceasing to renew some group contracts, and finding partners to take over the remaining group insurance business liabilities through other mechanisms such as APRA approval of the use of the voluntary transfer provisions of the Financial Sector (Transfer and Restructure) Act and Section 27A of the Life Act. A target date of 1 June 2025 has been set to complete the transfer of all the insurance business.

Importantly, ILAL has also prepared a Retail Contingency Plan (RCP) for the Ex-QBE and Retail Advised business if the Proposed Transfer does not proceed. This plan shows that despite planned significant premium increases for the Ex-QBE and Retail Advised policies, ILAL is projected to exhaust its capacity to pay claims in full and meet expenses within two to three years.

Suitable life insurers were approached to take over the Ex QBE and Retail Advised businesses via a Part 9 Transfer, and AIAA was selected as the most appropriate[1]. However, to make the transaction commercially viable, AIAA requires the terms and conditions for most products, including premium rates, to be changed to those of the closest matching existing AIAA products rather than making costly amendments to AIAA Systems to replicate the current ILAL terms and conditions. The CCI products of the Ex-QBE business will retain the current policy terms and conditions. Changes to many policies will be significant. As a result, the outcome of the Proposed Transfer on the Transferring Policies will be a combination of:

- No change to benefit terms and conditions, for example a benefit payable on death will still be payable on death
- An improvement in benefit conditions, for example increased number of conditions covered under a critical illness benefit; in some cases with benefits are improved, the premium will increase accordingly
- A decrease in core benefit conditions, for example a reduction in conditions covered under critical illness benefit, or a reduction in the maximum age to which disability income benefits are paid
- A change in ancillary benefits which is not considered material
- An increase or decrease in premium rates to reflect AIAA's current premium rates

1.4. Overview of the Proposed Scheme

The Proposed Transfer is set out in the Scheme document, which is based on the ILAL Appointed Actuary Report (ILAL Report) and the AIAA Appointed Actuary Report (AIAA Report) on the Proposed Transfer prepared by the appointed actuary of ILAL and AIAA, respectively.

The main components of the Scheme are that on the Transfer Date:

- The Retail Advised and ex-QBE policies in ILAL's Statutory Fund No 1 will be transferred to AIAA 's Statutory Fund No. 1, including all liabilities attaching to these policies.

[1] Source ILAL Appointed Actuary Report Section 2.1 and Retail Contingency Plan

- Assets, including Investment Assets, referable to the Transferring Policies as defined in the Transfer Deed will also be transferred.
- the ILAL Policy Owners cease to be ILAL Policy Owners and become AIAA Policy Owners;
- With the exception of Ex-QBE CCI Policies, the terms and conditions of the Transferring Policies will be amended as outlined in the ILAL Appointed Actuary Report and detailed in the Scheme to be the same as the closest AIAA product to which they have been mapped. Claims made or arising from an insurable event before the Transfer Date will be assessed on the basis of the pre-Scheme ILAL terms and conditions
- The Terms and Conditions of the ILAL Remaining Policies and AIAA Existing Policies will not be affected by the Proposed Transfer.
- Subject to the changes to policy terms and conditions mentioned above, the rights and liabilities of the ILAL Policy Owners will otherwise be the same as they would have been if:
    - the applications on which the ILAL policies were based had been made to, or accepted by, AIAA instead of ILAL; and
    - the ILAL policies had originally been issued and administered by AIAA

The Transfer Date is expected to be 1 March 2025.

1.5. Approach

Unlike most Part 9 transfers, the primary purpose of the Proposed Transfer is to protect the benefit security of the ILAL Policy Owners. In conducting the review, I have considered the terms of the Scheme and its impact separately on the ILAL Transferring Policy Owners, the ILAL Remaining Policy Owners and the AIAA Policy Owners from the perspectives of their contractual rights and benefits, the security of their policy benefits, their reasonable benefit expectations, and whether the scheme materially prejudices their interests.

My review has considered the considerations of the Scheme and the potential impact from the changes in the management of the business that may be made as a result of the Proposed Transfer that may, in turn, impact Transferring Policy Owners and Remaining Policy Owners. This includes the application of Governance Policies that will apply following the transfer.

Normally in a Part 9 transfer the consideration of the impact of a transfer is made against the current policy terms and conditions, including premium rates, which generally are not altered significantly. Because of the weak state of the ILAL capital position and the relatively small size of the business, maintaining the current policy terms and conditions is not viable. Consequently, I have compared the impact of the Proposed Transfer on Policy Owners against the impact of actions that ILAL intends to take if the Proposed Transfer does not proceed.

To prepare this report and form my conclusions, my review primarily involved considering the Appointed Actuary Reports. To verify the statements in the report, where practical, I have also considered documents listed in Appendix B and made enquiries of the appointed actuaries of ILAL and AIAA, as well as the management of both ILAL and AIAA.

2. Opinion

Based on my review of the Proposed Transfer and a comparison of the outcomes against the Retail Contingency Plan which would be implemented if the Proposed Transfer does not proceed, in my opinion:

- There will be significant changes to the policy terms and conditions and premium rates of most of the Transferring Policies, in some cases disadvantageous, through a significant increase in premiums and/or a reduction in some benefits. I consider that the proposed changes are acceptable compared to the alternative of increased premiums in the short term, followed by the eventual loss of all cover under the Retail Contingency Plan if the Proposed Transfer does not proceed;
- Apart from the proposed changes to policy terms and conditions, the Proposed Transfer will not further materially prejudice the interests of ILAL Transferring Policy Owners of ILAL;
- Apart from the proposed changes to policy terms and conditions there will not be any further adverse impact on reasonable benefit expectations of Transferring Policy Owners of ILAL which will otherwise improve as a result of the Proposed Transfer;
- The Financial Position of ILAL will improve following the Proposed Transfer, improving the benefit security of the ILAL Remaining Policy Owners;
- There will be no changes to the policy terms and conditions of the ILAL Remaining Policies as a result of the Proposed Transfer;
- Following the Proposed Transfer the financial position of AIAA will remain in a sound financial position, meeting regulatory capital requirements. The financial position and benefit security of the Transferring Policies will be materially improved following the Proposed Transfer;
- The security of existing AIAA Policy Owners benefits will not be impacted by the Proposed Transfer;
- There will be no changes to the policy terms and conditions of the AIAA Existing Policies as a result of the Proposed Transfer;
- The reasonable benefit expectations of AIAA Non-Participating and Participating Policies will not be adversely impacted;
- The Proposed Transfer will not materially prejudice the interests of Policy Owners of AIAA.

3. The ILAL Business

3.1. Overview

Section 2 of the ILAL Appointed Actuary Report provides a detailed description of the ILAL business and its current and potential future financial state to which the reader is referred.

In this section, I have provided a high level summary, focussing on issues that are key to my opinion.

ILAL is a life insurer operating in Australia and is currently closed to new business in accordance with a direction issued by APRA. Following a review of operations, ILAL has decided to transfer its life insurance business to other insurers through a Part 9 for the Transferring Business and other mechanisms for the ILAL Remaining Policies.

ILAL, formerly named QBE Life (Australia) Limited (QBE Life), is a subsidiary of IGHL. It is a registered Life insurance Company under Life Act. IGHL acquired QBE Life in December 2017.

ILAL's in-force product lines are:

- Ex-QBE business
  - Consumer credit insurance (CCI) policies, both regular premium and single premium, sold in conjunction with mortgages and personal loans;
  - Term life Insurance; and
  - Group business
- Retail Advised consisting of the "Here For You" product line for individual Life, Total and Permanent Disability, Critical Illness and Income Protection benefits on both a stepped and level premium basis
- Group Insurance providing Group Life and Group Salary Continuance cover for corporates with 15+ employees
- Five + providing life and Income Protection cover for small businesses with 5 – 50 employees
- NEOS/Medibank is a direct-marketed product sold by NEOS through Medibank that provides individual Life, Total and Permanent Disability, Critical Illness, and Income Protection benefits

ILAL has now closed to new business and is winding-down the in-force business.

The Ex-QBE Business and Retail Advised Business are to be transferred under the Part 9 process.

The Group Insurance, Five + and NEOS/Medibank products will not be transferred under the Part 9 process and are referred to as the Remaining Policies. Following the Approval of the Proposed Transfer, to ensure that all past claims under these policies will be paid and to allow ILAL to apply for deregistration as a Life Insurer, the business needs to be taken over by other insurers. ILAL is negotiating with other insurers to take over these parts of the business through using alternative mechanisms to a separate Part 9 Transfer, with a target date of 30 June 2025.

Extinguishing liabilities under the Remaining Policies can be achieved through APRA exercising its powers under the Life Insurance Act (the power to give an insurer a s.27A direction) and the Financial Sector (Transfer and Restructure) Act (the power to approve a voluntary transfer of business). I understand that APRA is supportive of using its powers to maximise the prospects of a solvent run-off of ILAL's liabilities and maximising benefit security for ILAL's Remaining Policy Owners.

The following table shows the key statistics for each product

Table 3.1: Summary of ILAL's in-force business at 31 May 2024[2]

Product	Annual Premium Income $m	No of Policies	Sum Insured $m	Net Current Termination Value $'000
Transferring Policies				
Ex-QBE				
Ex-QBE Term Life	0.3	275	39	19
Ex-QBE CCI Mortgage Insure / Loan Insure ("MLI") (single premium)		125	4.8	15
Ex-QBE CCI LFI (single premium)		52	1.7	1
Ex-QBE CCI OnePath (single premium)		54	3.3	3
Total Ex-QBE	**0.3**	**506**	**48.8**	**39**
Retail Advised				
Stepped	23.4	9,451	12,089	7,429
Level or Level/Stepped	2.6	905	331	807
Total Retail Advised	**26.0**	**10,356**	**12,420**	**8,236**
Total Transferring Policies	**26.3**	**10,862**	**12,468.8**	**8,275**
Remaining Policies				
Group Insurance*				
Corporate Group Insurance	29.6	183	n/a	17,147
Mercer Marsh Benefits	4.3	116	n/a	1,742
Coverforce	0	0	0	3,730
Total Group Insurance	**33.9**	**299**	**n/a[1]**	**22,619**
Five +	**0.5**	**30**	**107**	**19**
NEOS/Medibank	**2.0**	**1,428**	**1,150**	**7**
Total Remaining Policies	**36.4**	**1,757**	**1,257****	**22,645**
ILAL Total Business	**62.7**	**12,619**	**13,725.8****	**30,920**

*** The sum insured for Group Insurance is not included in the above table due to the unavailability of data for some corporate plans.**
**** Total sum insured excluding Group Insurance.**

Net Current Termination Value ("Net CTV") is a measure of ILAL's liability under the policies at the balance date for past incurred claims, net of reinsurance. A liability is also included in respect of

[2] Source ILAL Appointed Actuary Report Table 1

expected claims where premiums received provide cover in respect of a period after the balance date. Net CTV does not include allowance for future premiums, claims or expenses. The Net CTV is less than the Policy Liability calculated under APRA Prudential Standards, however, in anticipation of the orderly wind down of the business, it is considered the most suitable measure of ILAL's policy liabilities for managing the run-off and for assessing the financial strength of ILAL for the purposes of the actuarial reports on the Proposed Transfer.

ILAL doesn't have any participating or investment products.

Under the Act, a life insurance company holds its assets and liabilities in a shareholder fund and one or more statutory funds from which its life insurance business is carried out. Each life insurance policy must be referable to a single statutory fund. ILAL has one statutory fund which contains the business to be transferred and a Shareholders' Fund.

3.2. Financial Position

Measurement of Financial Position

The financial strength of a life insurance company is generally measured through its capital position. The APRA standards specify a life insurer must hold a minimum amount of capital to meet the Prudential Capital Requirement (PCR). This consists of:

- the Prescribed Capital Amount (PCA) which applies to all insurers. It is the minimum capital a life company is required to hold to meet liabilities in a range of adverse circumstances and is determined per Life Prudential Standards issued by APRA, plus
- a discretionary supervisory capital adjustment which APRA may impose on individual insurers.

Supervisory adjustments, if any, may not be disclosed publicly. So, while the PCR is used for internal and regulatory purposes, only the PCA is disclosed.

The capital position is normally measured as the excess of the Capital Base over the PCA. This is referred to as the capital in excess of the PCA and is indicated by the Capital Adequacy Multiple which is the ratio of the Capital Base to the PCA.

The Capital Base is the net assets of the company less regulatory adjustments as set out in Life Prudential Standards issued by APRA.

In addition, companies normally hold additional capital, referred to as Target Capital, in excess of the PCR to protect against unanticipated adverse events to enable the company to continue to meet minimum regulatory capital. Like the PCR, Target Capital is not publicly disclosed and is funded from excess capital above the PCA.

ILAL Financial Position

I have set out below a summary of key points regarding the Financial Position of ILAL. Section 2.10 of the ILAL Appointed Actuary's Report sets out a detailed consideration of the current and prospective financial position of ILAL, to which the reader is referred.

The Appointed Actuary notes in Section 2.10 that ILAL has advised APRA that since September 2023 the capital of ILAL was less than 90% of the minimum required PCA and ILAL does not meet the requirements outlined above and has been, and remains, in breach of APRA prudential standard LPS110 and LPS 100. Despite this, as supported by ILAL projections shown in Section 6.2, ILAL has determined that it meets the requirements of the Corporations Act that it is able to meet its liabilities as and when they fall due if the Run-off Plan is implemented as expected, and claims experience is as anticipated[3]. The confirmation of the Proposed Transfer is an essential part of the Run-off Plan and the ability of ILAL to meet its liabilities as they fall due.

If the Proposed Transfer does not proceed the situation will be very different. Projections undertaken by ILAL for the Retail Contingency Plan show that, ILAL's assets will reduce to the extent its capacity to meet policy owner benefits in full and fund the continued administration expenses of policies would be exhausted sometime between July 2027 and February 2028, depending on the experience.

The consequence of the breaches of the APRA Prudential Standards is that APRA issued directions to ILAL in October 2023 that:

- prevent ILAL from issuing any new business after 31 October 2023 without APRA's approval
- require APRA approval before ILAL can reduce its capital base or making a payment to shareholders or related entities
- require APRA approval before transferring any asset from ILAL's statutory fund.

Consequently, ILAL is closed to new business and working towards an orderly wind-down of its in-force business through the Proposed Transfer and working co-operatively with APRA and other insurers to facilitate the transfer of the Remaining Policies.

ILAL now measures its capital position as the Capital Base (Net CTV), which represents the net tangible assets available to meet liabilities at a date allowing for claims that have been incurred but not reported and is the only measure of financial strength maintained by ILAL. Consequently the usual capital concepts of PCA, Capital Adequacy Multiple and target surplus cannot be applied to ILAL.

ILAL has determined the Capital Base (Net CTV) at 31 May 2024, for comparison with other figures, and also at 30 September 2024.

The results are shown in Table 3.2 overleaf for the Integrity Group which includes the combined assets of ILAL, IGHL and Integrity Group Holdings Services Pty Ltd (which has net assets of zero). IGHL and ILAL are regulated by APRA and no payments can be made to shareholders without APRA approval. While IGHL Assets are available to meet expenses other than those related to ILAL, in practice the Group assets can be considered in assessing the financial position of ILAL.

[3] Source ILAL Appointed Actuary Report Section 2.10

Table 3.2: Summary of Integrity Group's Capital Position ($m)[4]

Integrity Group **Capital Base (Net CTV)**	31 May 2024	30 Sep 2024
IGHL Net Assets	2.1	2.1
ILAL Assets net of other liabilities	49.0	38.0
Integrity Group Assets Available to Fund Net Claims and Expenses	51.1	40.1
Net CTV - Transferring ILAL Policies	8.3	7.2
Net CTV - Remaining ILAL Policies	22.6	15.8
Net CTV - Total Business	30.9	23.1
Integrity Group **Capital Base (Net CTV)**	20.2	17.0

While Table 3.2. shows that at 30 September 2024, the Integrity Group had $17.0m in excess of the Net CTV As shown in Section 6.2, the Capital Base is expected to reduce very quickly over the rest of 2024 and 2025 because of the costs of the Proposed Transfer, as shown in Section 6.2.2, and also the ongoing management expenses of the company which will continue to be incurred until the business is completely run off. As a result the business is very exposed financially to delays in executing the Run-off Plan and adverse claims experience.

3.3. Guarantees

ILAL Premium rates are not guaranteed. They can be changed subject to a specified notice period except for some Corporate and Marsh group policies which have a three year guarantee, the last of which expires in June 2026. Any group policy renewing at the expiry of the guarantee period will have non-guaranteed rates.

Single premium Ex-QBE CCI policies have a guaranteed minimum surrender value in accordance with APRA standards.

3.4. Operations and Administration

ILAL performs the principal policy administration and operational functions Retail Advised business.

The Ex-QBE business is administered by QBE Management Services Pty Ltd under an outsourcing arrangement.

ILAL also has outsourcing arrangements with:
- IGHS for non-technical transactions which including employment of staff, premises, purchasing office equipment and office consumables
- Australian Group Insurance Pty Ltd ("AGI") which provides specialised Group Insurance administration services.

3.5. Expenses

ILAL pays IGHS for administration services based on its actual underlying expenses. These consist of direct expenses and ILAL's share of the overheads and general management expenses incurred by the Integrity Group. The expenses of administering the transferring business and corporate

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[4] Source ILAL Appointed Actuary Report Table 3 and correspondence with the ILAL Appointed Actuary

overheads are largely fixed and are not fully funded from the premiums of the reducing volume of business, resulting in a reduction in capital resources.

3.6. Investments

ILAL's investment strategy is to invest in short term, high quality fixed interest securities to match the duration of the liabilities.

3.7. Product And Pricing Strategy

ILAL has deferred planned increases in pricing while the Run-off plan is being implemented. If the Part 9 transfer does not occur ILAL plans to increase premiums to reflect planned increases from its reinsurers and increase margins to address the expense overruns from operating at its reduced scale. The increase will be between 20% and 60% on the next policy anniversary, and an additional 50% on the increased premium on the following policy anniversary.

It is expected that the increase in premiums will prompt the ILAL Policyowners' financial advisors to contact them to assess their insurance needs and consider if there are better alternative products for them in the market.

3.8. Tax Status and Basis

Income tax on shareholder profits is at the corporate rate of 30%. As ILAL has not made a profit since it was acquired by IGHL it effectively pays no tax, nor can it benefit from tax losses.

3.9. Reinsurance

Reinsurance is a very significant source of risk mitigation and capital for ILAL with high levels of reinsurance amongst several reinsurance treaties in place. As the levels of reinsurance are much higher than AIAA would normally put in place, the reinsurers have, subject to the Scheme being confirmed by the Court, agreed to modify or cancel the treaties prior to the Proposed Transfer with the remaining treaties applicable to ILAL Transferring Policies being transferred to AIAA as part of the Scheme process.

3.10. Risk Management and Capital Management

ILAL has a comprehensive risk management strategy in accordance with APRA Prudential Standards. The Risk management focus is now on managing the orderly exit of ILAL from the market by seeking to maintain the cover for ILAL Policy Owners.

ILAL no longer meets the minimum capital requirements and capital management requirements of the APRA standards which is the driving force behind the Proposed Transfer. ILAL's risk management is now focussed on completing the Proposed Transfer and the separate transfer of the Remaining Business as soon as possible to address the tangible risk that the assets of ILAL may decrease to a level where ILAL exhausts its ability to pay claims in full.

3.11. Remediation Programs

ILAL is currently implementing a number of remediation programs in relation to the Transferring ILAL Policy Owners. All these programs are expected to be completed before the Transfer Date. Any that are not completed will continue to be implemented by AIAA after the Transfer Date.

ILAL will bear the cost of any open remediation programs that have not been completed by the Transfer Date and any arising in the future in respect of out-of-force policies Ex-QBE Policies.

3.12. Significant Events After 31 May 2024

Apart from the outworking of the operations of the business, the company has not identified any significant events that would impact the conclusions reached in this report.

4. The AIAA Business

4.1. Overview

In this section I have set out a high-level overview of AIAA and the financial position of the current AIAA business and other key items relevant to my considerations. Sections 3 of the Appointed Actuary Reports set out further details of the AIAA business.

AIAA is a registered life insurer, wholly owned subsidiary of AIA Company Limited in Hong Kong, which in turn is a wholly owned subsidiary of AIA Group, a large international life insurance group that operates in 18 markets across the world and was rated AA- / Stable by S&P at 31 December 2023.

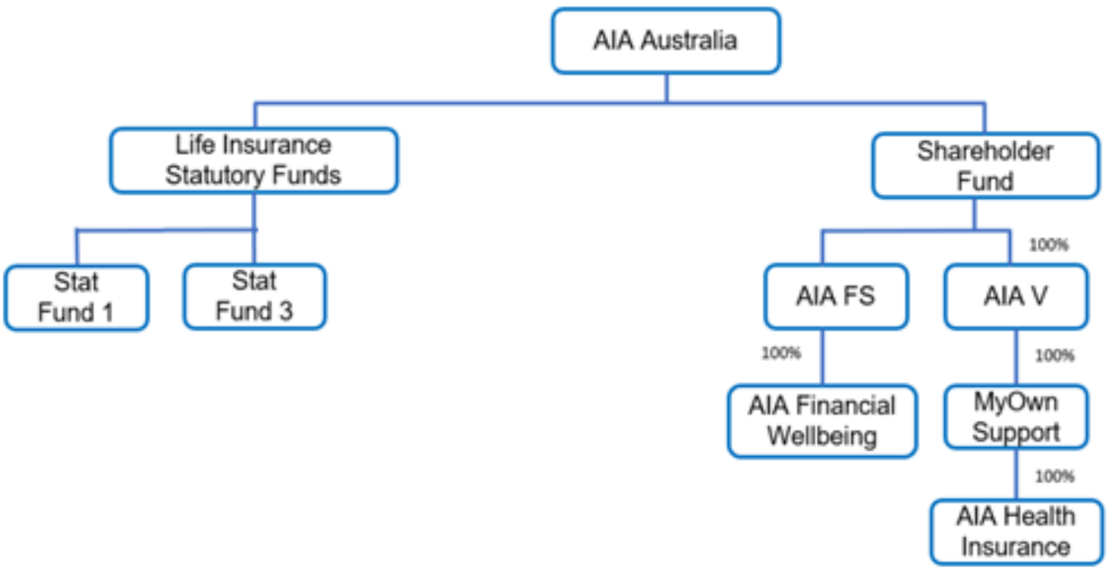
AIAA's strategy is to be the leading life, health and wellness provider in Australia, and it has a significant market share of the Australian life risk insurance market, in terms of both in-force premiums and new business flows. Its participating business and investment-linked business have been largely closed to new business for some years.

AIAA's business currently comprises:

- Retail and group life death and disability insurance products, with AIAA maintaining a substantial market share of both in-force and new business flows.
- A portfolio of Superannuation & Investment business that is closed to new business and in run-off, consisting of a small portfolio of annuities, a portfolio of participating traditional whole of life and endowment business, and investment linked business.

4.2. Corporate and Fund Structure

The following diagram shows the AIAA funds structure and the corporate structure within the Shareholder Fund



AIAA's No.1 Fund consists of group and individual life risk, credit insurance, and a small volume of participating and non-participating whole of life and endowment, and annuity business.

AIAA's No.3 Fund consists of ordinary (non-superannuation) unit linked business.

Note that at 31 December 2023, AIAA operated three investment linked statutory funds in addition to SF1 and SF3. These statutory Funds, SF1L, SF2L and SF4, have since been closed.

4.3. Business Lines

The following table sets out the business lines of AIAA

Table 4.1: AIAA business line description

Statutory Fund	Line of Business	Description
SF1	Group	Group Lump Sum (Death, Disablement, Trauma) and Income Protection insurance.
SF1	Individual	Individual Lump Sum (Death, Disablement, Trauma) and Income Protection insurance.
SF1	Credit Insurance	Credit insurance for various financing arrangements.
SF1	Traditional business	Participating Whole of Life and Endowment business.
SF1	Return of Premium	Money Back Term, Cashback Flexi.
SF1	Annuities	Term certain non-participating annuities.
SF3	Unit-Linked	Ordinary unit-linked regular/single premium savings and investment business.

AIAA has a large portfolio of Individual Business that is managed in AIAA's Statutory Fund No.1 (gross annual premium in-force of $1,511m as at 31 December 2023).

AIAA's Individual Business includes insurance policies that provide death and disability covers sold mainly through financial advisers. AIAA's Individual or retail insurance product that is open to new business is "AIA Priority Protection" and is a comparable product to Integrity's "Here For You" retail insurance product (the main product within the Transferring Business).

4.4. Financial Strength

AIAA's capital position as at 31 December 2023 is shown in the following table.

Table 4.2: AIAA financial position by funds as at 31 December 2023

A $'m	SF1	SF1L	SF2L	SF3	SF4	SHF	Total AIAA
Net assets	1,325	1	7	10	2	881	2,226
Regulatory Adjustments	(688)	-	-	-	-	(861)	(1,549)
Capital Base	637	1	7	10	2	19	677
Prescribed Capital Amount	301	-	-	0	-	2	303
Capital in excess of PCA	336	1	7	10	2	18	374
Capital Adequacy Multiple	212%	n.a.	n.a.	Large	n.a.	Large	223%

4.5. Capital Management

Capital is managed in accordance with the Internal Capital Adequacy Assessment Process (ICAAP), which sets out the policies, procedures, systems and controls in place to identify, measure, monitor and control the risks associated with the company's activities and to monitor the adequacy of the capital held against them. The ICAAP also defines a series of stress scenarios which are used to support the capital assessments and sets out procedures for taking appropriate action to restore the capital position if capital levels drop below the targeted level of capital.

AIAA meets the minimum capital requirements and capital management requirements of the APRA standards and holds target surplus in addition to the PCR in accordance with the AIAA Target Surplus Policy so that business is managed over time towards holding a target level of capital above the PCR.

The transfer of net assets (retained profits or shareholder capital amounts) from the statutory funds are subject to appointed actuary advice and the guidelines set out in the Board policies such as the ICAAP Summary Statement. The payment of dividends from AIAA is also subject to the guidelines in the AIAA Capital Management Framework which requires AIAA as a whole to remain appropriately capitalised after each distribution payment.

4.6. Risk Management

In accordance with APRA standards, AIAA Risk Management Framework () sets out AIAA's framework for managing risk.

Key principles underpinning AIAA's RMF include:

- The use of the three lines of defence, with risk ownership in the first line, with relevant business leaders.
- Dedicated first line staff to support the implementation and operation of the framework in relevant functional units.
- An appropriately resourced risk management department, with risk and compliance professionals, sufficiently skilled to provide effective oversight and challenge.
- A focus on culture and conduct, to reinforce the leadership behaviours that are supportive of risk management and appropriate customer outcomes.
- A supporting suite of policies, processes, governance and escalations that support management and the Board, in managing risk and compliance in the achievement of sustainable business outcomes including.

4.7. Operations & Administration

AIAA has both in-house and third party administration systems to manage policy administration, claims management and underwriting services. The Transferring ILAL policies will be administered on existing AIAA systems except for the ex-QBE business which will continue to be administered under an outsourcing agreement with QBE.

4.8. Investment Strategy

AIAA's assets are separately maintained and managed between its Statutory Funds. Within AIAA's Statutory Fund No.1 assets are separately maintained and managed between AIAA's participating business and its non-participating business (of which the Individual Business is a constituent part).

AIAA's assets are managed according to separate investment strategies, each with well-defined Strategic Asset Allocations and Tactical Asset Allocation ranges, appropriate for meeting the product objectives and delivering on policyholder reasonable expectations with appropriate levels of benefit security.

Separate portfolios are maintained for investment-linked policies and for participating business.

The investment process includes the Financial Risk Committee reviewing and recommending Strategic Asset Allocations and Tactical Asset Allocations for Board approval, and the investment committee reviewing and approving portfolio mandates, which include more specific investment and risk limits for each asset class.

4.9. Expense Levels and Allocation

AIAA's expenses are made up of investment expenses, expenses that are directly attributable to a product (such as Stamp Duty and medical expenses) and management expenses that are not directly attributable to a product.

AIAA manages its expense levels via a combination of:

- Detailed expense budgeting processes;
- Planned significant investment in technology to reduce costs in future; and
- The use of outsourced service providers to assist with managing unit costs over time.

AIAA allocates expenses to products based on an activity based costing methodology.

4.10. Claims Management

Claims management is core to AIAA fulfilling its promise to customers.

Claims are assessed under a well-defined framework. This framework includes a Board-endorsed claims philosophy, documented internal claims management guidelines and supporting operating procedures, a claims delegation framework and a claims quality and development framework.

AIAA is a subscriber to the Life Insurance Code of Practice.

4.11. Product and Pricing Strategy

AIAA's product and pricing policies articulate the frequency and process for regular review of pricing and set out minimum and target pricing, and profitability thresholds, as well as requirements in regard to achieving transparent, fair and reasonable outcomes for customers.

4.12. Reinsurance

Reinsurance is an important risk and capital management tool for AIAA.

With its growth in size and increased capacity to retain insurance risk, AIAA has reduced its use of reinsurance on its individual business and now reinsures approximately 20% of the insurance risk on new retail advised business sales.

AIAA complies with the reinsurance requirements for life insurance companies which are set out in APRA Life Prudential Standard LPS 230 Reinsurance Management.

5. The Proposed Transfer

5.1. Overview of the Proposed Transfer

The Proposed Transfer involves transferring the Retail Advised and Ex-QBE insurance policies of ILAL, including any remaining liabilities in respect of discontinued policies such as claims that have been incurred, but not reported, to AIAA. The primary purpose of the Proposed Transfer is to provide increased benefit security to the Transferring Policies and ongoing cover.

The Proposed Transfer is to be conducted in accordance with a scheme confirmed by the Federal Court- under Part 9 of the Life Insurance Act. The main components of the Scheme are that on the Transfer Date:

- AIAA assumes the position of ILAL under all Transferring ILAL Contracts as if AIAA was the original party to those contracts in place of ILAL;
- All the liabilities of the Transferring Policies in ILAL SF1 will transfer to AIAA SF1;
- Assets, including Investment Assets, referable to the Transferring Policies and comprise the Completion Payment plus the Adjustment Amount as defined in the Transfer Deed, will be transferred to AIAA SF1 and Shareholders Fund*;*
- the Transferring Policy Owners cease to ILAL Policy Owners and become AIAA Policy Owners;
- The terms and conditions of the Transferring Policies will be amended as detailed in the Scheme. The transferring policies will have their policy conditions and premiums amended to be the same as the closest AIAA product to which they have been mapped. An exception is the EX-QBE CCI policies where there will be no change to policy conditions, however there may be a change in premium rates;
- Where a claim has arisen from an insurable event prior to the Scheme Effective Date the terms and conditions of the Policy prior to the Proposed Transfer will apply to the claim;
- Subject to the changes to terms and conditions mentioned above, the terms and conditions of the Proposed Transferring Policies will be amended so the rights and liabilities of the ILAL Policy Owners will be the same in all respects as they would have been if:
    - the applications on which the ILAL policies were based had been made to, and accepted by, AIAA instead of ILAL; and
    - the ILAL policies had originally been issued by AIAA instead of ILAL;
- References to ILAL in ILAL policies will become references to AIAA;
- References to ILAL Statutory Fund No.1 in ILAL Policies will be read as a reference to AIAA Statutory Fund No.1;
- AIAA assumes all liabilities and obligations of ILAL under, or in respect of, the ILAL policies. ILAL is released and discharged from all liabilities and obligations under, or in respect of, the ILAL policies;
- AIAA is entitled to all rights and benefits of ILAL under, or in respect of, the ILAL policies, including but not limited to:
    - The right to receive premiums payable under, or in respect of, the ILAL policies; and
    - The right to enforce all rights and remedies available under the ILAL policies in respect of any non-payment of such premiums or fees;
- Reinsurance arrangements associated with the Transferring Policies at the Transfer Date will be transferred to AIAA as though they had been issued to AIAA;
- all additional costs in carrying out the Scheme will be paid by ILAL and AIAA and not directly by ILAL Transferring Life Policy Owners or AIAA Policy Owners;
- the terms and conditions of existing AIAA policies will not change as a result of the proposed Part 9 Transfer.

Although not part of the Scheme, in accordance with the provisions of the Transfer Deed, ILAL will make a payment prior to the Transfer Date to AIAA of $1.45m from ILAL SF1.

5.2. Changes to Policy Terms and Conditions

Retail Advised Transferring Policies will have the terms and conditions changed to reflect those of the most closely corresponding product of AIAA. In some cases this may involve receiving more generous benefits and paying a higher premium.

The premium rates of Retail Advised Transferring Policies will be changed to those of AIAA which in many cases will be higher.

Ex-QBE Transferring Policies will retain the current terms and conditions except for policies with a product code of LC. These policies have an accidental death benefit of 50% more than the equivalent AIAA product. The premium rates of Ex-QBE transferring Policies will be changed to those of AIAA which in some cases will be higher.

Transferring Policy Owners will maintain their existing right to take out alternative cover with another insurer and terminate their existing policy at any time before or after the Proposed Transfer. So it is important that Policy Owners are provided with information so that they understand the proposed changes to their policy and can consider whether they wish to continue or amend their policy following the Proposed Transfer.

Communication with Policy Owners about the changes is described on page v of the ILAL Appointed Actuary Report as being:

> “In mid-December 2024 Transferring ILAL Policy Owners will be provided the scheme notice which contains a general description of the Scheme, with reference to the Scheme Document and Appointed Actuary reports available online (“Scheme Notice”). While the Scheme Notice will include a brief and general reference to premiums changing, no policy owner specific information on proposed premium rates will be communicated. The Scheme Document will contain the transition rules and mapping from the ILAL products to the AIAA products. Transferring ILAL Policy Owners can access the PDS of the AIAA product from the AIAA website which contains the terms and conditions of the AIAA product.
>
> Around late January 2025, ILAL will issue policy owner specific information on proposed premium changes. While these communications will be staggered, all Transferring ILAL Policy Owners will be provided this communication at least 30 days prior to the premium change coming into effect.
>
> Shortly after the Transfer Date, AIAA will issue a “welcome pack” to each Transferring ILAL Policy Owner which will include a policy schedule, PDS and policy document setting out their benefits under their policy with AIAA.”

I note that prior to the Welcome pack being issued after the Transfer Date, Policy Owners who wish to understand the changed policy terms and conditions will need to consult their advisor or else consult the transition rules and product mapping in the Scheme document, determine which product their policy is being mapped to, and access the relevant PDS on the AIAA website. This may be a difficult task for Policy Owners without an adviser and I understand that documentation sent with Scheme Notice will contain details of a dedicated phone number, email address, and website that Policy Owners can use to contact AIAA for assistance.

Although not part of the Scheme, ILAL has undertaken that where premiums are increasing by more than 60%, an ex-gratia payment of the increase above 160% of the current premium for 6 monthly instalments if the premium is payable monthly; or half of the increase if the premium is payable annually and the next policy anniversary falls within 6 months of the Transfer Date. No payment will be made to annual policies with a policy anniversary more than 6 months after the Transfer Date. The purpose of the ex-gratia payment is to provide temporary support so that Policy Owners will pay no more than a 60% increase in their premium in the first six months after the Transfer Date in which time they will have an opportunity to seek alternative cover with another insurer.

AIA has also given an undertaking that AIAA will exclude the Transferring Policies from any price increases or decreases applied to AIAA's Individual Business in 2025.

5.3. ILAL Remaining Policyholders

Although not part of the Scheme, the orderly transfer of the obligations under the Remaining Policies to other insurers is an essential component of Securing the benefits of these Policies. Detail of the arrangements for dealing with the Remaining Policies is set out in Section 2.14 of the ILAL Appointed Actuary Report where he concludes *"In summary the lapsation of all Five + policies and the implementation of the arrangements discussed above is expected to result in all of the policy liabilities for the Remaining ILAL Policies being extinguished within 3 months of the Transfer Date of the Part 9 Transfer."*

6. Implications of the Proposed Transfer for Transferring and Remaining Policy Owners and AIAA Policy Owners

6.1. Considerations

In this section I have set out my conclusion on the implications of the Proposed Transfer for the Transferring and Remaining ILAL Policy Owners and the AIAA Policy Owners who will be affected by the Proposed Transfer.

In the Appointed Actuary Reports the Appointed Actuaries of ILAL and AIAA consider the implications of the Proposed Transfer from the perspective of ILAL and AIAA Policy Owners. The Appointed Actuary Reports also provide details of the respective businesses and proposed management of the business following the Proposed Transfer which I have not repeated in this report because of the extensive changes being made to policy terms and conditions and premium rates for Transferring Policies.

In forming my opinions, I have considered the implications on the Policy Owners of ILAL and AIAA arising from the Proposed Transfer from the perspectives of:

- The security of Policy Owner benefits;
- Policy Owner contractual benefits and rights;
- Policy Owner reasonable benefit expectations; and
- Any other matter arising during my review that may prejudice Policy Owners' interests.

The Scheme sets out the legal processes to give effect to the Proposed Transfer. There are substantial changes to the policy terms and conditions of Transferring Policies, but no changes to the contractual rights of ILAL Remaining Policy Owners or AIAA Policy Owners.

I note that some policy documents typically confer discretions on the insurer while the policy is in-force which include primarily the right to change premium rates. The insurer also has discretions regarding the way the policies are administered.

Hence, to assess the implications of the Proposed Transfer on Policy Owners it is necessary to consider how these discretions, which are described in Section 7.2 of the ILAL Appointed Actuary Report, will be exercised after the transfer.

6.2. Benefit Security

Policy Owner benefit security relates to the insurer's ability to pay policy benefits when due. In reviewing benefit security, I have considered the impact of the Proposed Transfer on;

- the financial position of the Statutory Fund in which the business operates, including the amount of capital compared to statutory obligations, the way capital is managed, and projections of capital
- the investment strategy;
- the RMF and its operation; and
- reinsurance

Considering these aspects below, I consider that as a result of the Proposed Transfer there is:

- a necessary and materially positive impact on benefit security of Transferring Policy Owners;
- A positive impact on benefit security of Remaining Policy Owners, and

- negligible change in the benefit security of AIAA Policy Owners.

6.2.1. ILAL Benefit Security and Implications if the Proposed Transfer does not proceed

In this transfer, the primary consideration is benefit security. ILAL has insufficient capital to meet regulatory minimum requirements and the largely fixed costs of administering the business exceed the capacity of the reducing volume of in-force policies to fund them. This would result in an ongoing reduction in capital even with significant increases in premiums if the Proposed Transfer does not proceed.

The Board of ILAL has approved the RCP, an in-principle plan for managing the Ex-QBE and Retail Advised business and alternative approaches to transferring the business to another insurer if the Proposed Transfer does not proceed. ILAL would need to continue to operate and maintain the resources to administer the Retail Advised and Ex-QBE policies until all the policy liabilities are transferred to another insurer. To fund the administration costs and proposed increases by the reinsurers in reinsurance premiums, ILAL's current plan is to increase premiums on the first policy anniversary following the failure of the Proposed Transfer by somewhere between 20% and 60%, and an additional increase at the second policy anniversary in the order of 50% of the increased premium. An increase would apply to all policies.

Projections undertaken for the RCP show that, even with the above increase in premiums, ILAL's assets will reduce to the extent its capacity to meet policy owner benefits in full and fund the continued administration expenses of policies would be exhausted sometime between July 2027 and February 2028, depending on the experience. The consequences of this would be potentially disastrous as all policyholders would lose their cover and payments to ongoing disability income claimants would, at best, be in doubt if not cease altogether. Some Policy Owners may be able to obtain alternative cover if they are in good health and similar cover is available, however there would be many Policy Owners in poor health or otherwise ineligible for cover who would not be able to obtain alternative cover and hence lose their future insurance protection completely despite a higher likelihood of suffering an insurable event.

While the projected timing of the exhaustion of ILAL's assets depends heavily on the assumptions made, which may not reflect the actual experience, in my opinion the assets are unlikely to be able to support the business much beyond the projected time frame, if that.

As ILAL has already canvassed the market to take over the Retail Advised and Ex-QBE business it is highly unlikely that another insurer could be found before the financial resources of ILAL are exhausted. While APRA does have the power under Part 4, Division 2 of the Financial Sector (Transfer and Restructure) Act to force ILAL to transfer its business, it still requires a willing recipient. Even if another insurer could be found, the time taken to undertake a new transfer process would result in a further decline in the capital.

The exhaustion of the assets of ILAL under the RCP would not only endanger the benefit security of the Retail Advised and Ex-QBE business, but it would also endanger the benefit security of the Remaining Policies, particularly those claims in course of payment and claims already incurred but not yet reported, if the Remaining Policies cannot be transferred as planned. This is because the ongoing costs to ILAL of administering the Transferring Polices and funding potential new transfers to another insurer would need to be funded from the assets that were intended to support the Remaining Policies post the Proposed Transfer. In addition, the planned transfer of the Remaining Policies would involve payments which would reduce the assets to continue to meet the liabilities of Transferring Policies making the transfer of the Remaining Polices unlikely to be approved by APRA.

The Proposed Transfer will greatly enhance the benefit security of Transferring Policy Owners as AIAA is a large, strong company that meets its regulatory capital requirements and is able to provide ongoing cover and customer service.

The Proposed Transfer will also enhance, but not necessarily ensure, the benefit security of the Remaining Policies until they can be transferred to another insurer as the significant drain on assets of the administration expenses of the Retail Business will rapidly diminish.

6.2.2. Capital Management and Financial Strength

Holding capital at a level to provide security of policy owner benefits in the event of a range of adverse circumstances is a fundamental part of ensuring a life insurer can meet its commitments to policy owners. The capital management of life insurers is regulated by APRA under the Act and a series of prudential standards setting out required frameworks and minimum levels of capital to be held by life insurers, commonly referred to as the Internal Capital Adequacy Assessment Process or ICAAP. Life insurer's Compliance with ICAAP is reported to, and monitored by, APRA.

APRA standards specify the minimum Prudential Capital Amount (PCA) to be held in each statutory fund and the shareholders' fund. This amount is targeted to meet a 99.5% probability that each fund will be able to meet the Policy Liabilities and other liabilities over the next year. APRA can impose additional prudential regulatory requirements.

Insurers also hold further capital, referred to as Target Surplus, to minimise the probability of not meeting the regulatory capital requirements.

ILAL is currently unable to meet the regulatory minimum capital levels with a very bleak outlook if the Proposed Transfer does not proceed. AIAA, on the other hand, has a comprehensive capital management framework in place which is outlined in the AIAA Appointed Actuary Report in Sections 3.4 and 5.2.

The capital requirements of AIAA will not change materially to reflect the inclusion of the ILAL policies.

In reviewing the financial strength of AIAA and ILAL, I have considered the impact of the Proposed Transfer on the financial position of the ILAL and AIAA Policy Owners including the amount of capital compared to statutory obligations and internal policies, the way capital is managed, and projections of capital. I have considered both the results contained in the Appointed Actuary Reports, set out below and additional reports containing the PCR and target surplus for AIAA that include any regulatory capital adjustments and target surplus, as well as the results of the ILAL Retail Contingency Plan and Residual Capital Value projections.

At the Transfer Date, AIAA is projected to meet or exceed the APRA regulatory requirements in respect of PCA and PCR with excess capital over the APRA regulatory requirements managed in accordance with its internal target surplus requirements. It will continue to do so immediately after the Proposed Transfer. Whereas ILAL is unable to meet minimum capital requirements and will exhaust its capacity to pay claims in full within about three years if the Proposed Transfer does not proceed in a timely fashion.

Ideally, the transfer's impact on the companies' financial position would be measured at the Transfer Date. However, the financial position at the Transfer Date is not certain as it can be affected by changes in business volumes, investment markets, claims experience, regulatory changes, and other factors in the period leading up to the Transfer Date. Instead, it is reasonable and usual to consider the impact of the Proposed Transfer on the financial security by comparing the actual financial position of each company with a pro forma of the results as if the Proposed Transfer had occurred on the date at which the most recent audited accounts are available. In this case, the financial position of ILAL is changing rapidly, and the most recent results of 31 May 2024 have been used. AIAA has used the results from 31 December 2023. While the dates are not aligned, as the amounts of assets and liabilities are small relative to AIAA's size, I consider the dates used to be appropriate for the purpose of considering the Proposed Transfer.

ILAL Financial Strength

To show the impact on the capital position of ILAL and AIAA the tables overleaf show the financial position of ILAL and AIAA.

ILAL has determined the Capital Base at 31 May 2024, for comparison with other figures, and also at 30 September 2024 as well as projecting the result at the end of each quarter until 30 June 2025 using a set of baseline assumptions regarding

- premium income,
- policy lapses,
- administration and other expenses, including the cost of the Part 9 Transfer expenses,
- claim costs expenses
- reinsurance costs
- the timing and cost of Transfers of the Remaining Policies
- investment income

The Results under a Risk Scenario have also been prepared which uses adverse assumptions regarding:

- Delays in the approval of the Proposed Transfer to August 2025, and in transferring the Corporate Group Insurance to September 2025 which results in higher ongoing staff and administration costs
- Higher transaction costs and delays in winding up the business
- Higher policy lapse rates

In addition, a claims increase of 20% and 50% have been assumed added to each of the Baseline and Risk scenarios.

The Capital Base (Net CTV) on the Baseline Scenario is shown overleaf in Table 6.1 by quarter for the Integrity Group. Table 6.2 shows the result at 30 June 2025 on the Baseline and Risk scenarios as well as two high claims assumptions for each scenario.

An important assumption in the projections is that the Proposed Transfer will be effective by 1 March 2025 and that all the Remaining Policies will be transferred by 30 June 2025. Consequently the Capital Base (Net CTV) After Escrow Amount at 30 June 2025 represents the assets remaining after all the life insurance liabilities have been transferred out of the Group and is effectively the buffer available to fund any costs above those assumed in the baseline scenario. If the experience is as assumed, then, it represents the amount that could be distributed to shareholders if there were no more expenses incurred. If the Remaining Policies are not transferred by 30 June 2025, then the Capital Base (Net CTV) at 30 June 2025 represents the amount that would be available to support the Remaining Policies until they can be transferred.

IGHL has agreed to withhold $1.5m in escrow in IGHL for 18 months after the Transfer Date to fund any warranty and indemnity claims by AIAA, and purchase a $3m insurance policy over that period to reimburse ILAL for any warranty and indemnity claims and provide further protection for AIAA should more than $1.5m be claimed. While this amount may ultimately be released to IGHL, it is prudent to deduct it for purposes of the consideration of financial strength. Section 2.10 of the ILAL Appointed Actuary Report has further detail.

Table 6.1: Summary of the Integrity Group's Capital Position ($m)

IGHL Capital Base (Net CTV)	31 May 2024	30 Sep 2024	31 Dec 2024	31 Mar 2025	30 June 2025
IGHL Net Assets	2.1	2.1	2.1	2.1	2.1
ILAL Assets net of other liabilities	49.0	38.0	33.3	18.0	4.2
Integrity Group Assets Available to Fund Net Claims and Expenses	51.1	40.1	35.4	20.1	6.3
Net CTV - Transferring ILAL Policies	8.3	7.2	7.2	0.0*	0.0
Net CTV - Remaining ILAL Policies	22.6	15.8	13.4	11.8	0.0**
Net CTV - Total Business	30.9	23.1	20.6	11.8	0.0
Integrity Group Capital Base (Net CTV)	20.2	17.0	14.8	8.3	6.3 [4]
Amount Withheld in IGHL to Fund Warranty and Indemnity Claims				1.5	1.5
Integrity Group Capital Base (Net CTV) After Escrow Amount	**20.2**	**17.0**	14.8	6.8***	4.8***

* Assumes Proposed Transfer is completed by 1 March 2025
** Assumes Remaining Policies are transferred by 30 June 2025
*** Includes IGHL Net Assets of $0.6m net after the Escrow Amount.

While the table shows a residual capital value after the escrow amount of $6.8m at 31 March 2025 and $4.8m at 30 June 2025, these results are very dependent on the assumptions. The actual results could be very different depending on the outcome of, as yet, incomplete commercial negotiations and potential applications to APRA.

To illustrate alternative outcomes, Table 6.2 shows the results at 30 June 2025 in both the baseline and ILAL's alternative Risk Scenario, as well as the impact on each scenario of a 20% and 50% increase in claims.

Table 6.2 Summary of IGHL's Capital Position at 30 June 2025 ($m)

Scenarios	IGHL Capital Base (Net CTV) After escrow amount
Baseline scenario	**4.8**
20% higher claims risk	(0.8)
50% higher claims risk	(9.0)
Risk scenario	**1.5**
20% higher claims risk	(4.2)
50% higher claims risk	(12.9)

I have been provided with and reviewed the basis of the ILAL Retail Contingency Plan and Residual Capital Value projections and have relied on the calculations performed by ILAL as reviewed by the ILAL Appointed Actuary. I note that ILAL Is in a volatile and declining situation and the results are subject to significant and rapid change. While Table 6.2 shows there is expected to be a positive residual capital value of $1.5m on the Risk Scenario at 30 June 2025, a 20% increase in claims, or other adverse events of similar magnitude would extinguish the remaining excess capital under the Baseline Scenario and result in a significant deficit that could not be funded by IGHL under the Risk scenario. The implication is that the outlook for the Transferring Policy Owners and the Remaining Policy Owners is dependent on the successful and timely completion of the Proposed Transfer and the planned arrangements for the Remaining Policies.

AIAA Financial Strength

The tables below show the actual capital position of AIAA as at 31 December 2023 and a pro-forma capital position of AIAA as at 31 December 2023 assuming that the Proposed Transfer occurred at that date.

The assets of AIAA's Shareholders' Fund include the impact of net payments related to the completion of the purchase, including AIAA's project costs in relation to the Proposed Transfer budgeted in 2024 and 2025.

Table 6.3: Actual capital position of AIAA by fund as at 31 December 2023 ($m)

A $'m	SF1	SF1L	SF2L	SF3	SF4	SHF	Total AIAA
Net assets	**1,325**	**1**	**7**	**10**	**2**	**881**	**2,226**
Regulatory Adjustments	(688)	-	-	-	-	(861)	(1,549)
Capital Base	**637**	**1**	**7**	**10**	**2**	**19**	**677**
Prescribed Capital Amount	301	-	-	0	-	2	303
Capital in excess of PCA	**336**	**1**	**7**	**10**	**2**	**18**	**374**
Capital Adequacy Multiple	**212%**	**n.a.**	**n.a.**	**Large**	**n.a.**	**Large**	**223%**

Table 6.4: Pro Forma capital position of AIAA by fund as at 31 December 2023 Assuming the Part 9 Transfer Occurred at that date ($m)

A $'m	SF1	SF1L	SF2L	SF3	SF4	SHF	Total AIAA
Net assets	**1,325**	**1**	**7**	**10**	**2**	**881**	**2,224**
Regulatory Adjustments	(688)	-	-	-	-	(861)	(1,549)
Capital Base	**637**	**1**	**7**	**10**	**2**	**19**	**675**
Prescribed Capital Amount	303	-	-	0	-	2	305
Capital in excess of PCA	**335**	**1**	**7**	**10**	**2**	**16**	**370**
Capital Adequacy Multiple	**212%**	**n.a.**	**n.a.**	**Large**	**n.a.**	**Large**	**221%**

The tables show that Each of the Statutory Funds of AIAA post the Proposed Transfer has capital in excess of the relevant PCA. The primary focus as a consideration of financial strength is the capital adequacy multiple of SF1 which is 210% indicating that the excess assets above PCA are 110% of the PCA. A sound result.

The expected impact to the Capital Adequacy Multiple in each of AIAA's funds immediately following the proposed Part 9 is:

- In AIAA's SF1, slight reduction; and
- In AIAA's SF3, unaltered; and

- In AIAA's Shareholders' Fund, slight reduction.

While the Proposed Transfer has minimal impact on AIAA policy Owners, the Tables clearly show that the Transferring Policy Owners will move from a situation of policies being with a financially distressed organisation to being with a financially sound and stable organisation which is in the interests of Policy Owners.

6.2.3. Investment Strategy and Asset Allocation

The income from the investment of assets supporting the Transferring Business accrues to the benefit of the shareholders.

The Transferring Investment Assets to be transferred to the AIAA SF1 are not material to AIAA investment results. However, they will be invested and managed in the same way as assets supporting similar products in the AIAA risk portfolio.

There will be no material impact to the Transferring Policy Owners or AIAA Policy Owners resulting from the investment of transferring assets as a result of the Proposed Transfer

6.2.4. Risk Management

Prudential standards issued under the Act require life insurers to have a comprehensive enterprise risk management framework. Following the Proposed Transfer, ILAL's policies will be subject to the AIAA Risk Management Framework and key policies, including the Risk Appetite Statement, Risk Management Strategy, and ICAAP. Of greater significance is that the critical risks of exhausting capital will no longer apply.

6.2.5. Reinsurance

AIAA has been reducing its reinsurance levels as it has the scale and capacity to self-insure more of the risk. To conform to the AIAA reinsurance strategy and risk levels, ILAL's reinsurance treaties applicable to the Transferring Policies will be amended or cancelled prior to the Proposed Transfer, at which time the remaining treaties will be transferred from ILAL to AIAA under the Scheme. Some treaties may also be incorporated into existing AIAA treaties with some modifications.

The level of reinsurance on the Transferring Policies will be reduced under AIAA. The significantly greater size of the AIAA portfolio means the claims experience of AIAA will be much less volatile than ILAL, reducing the need for, and cost of, reinsurance. This, together with the stronger capital resources of AIAA results in an appropriate level of reinsurance for the Transferring Policies within AIAA.

6.3. Changes to Policy Terms and Conditions

As part of the Scheme, the terms and conditions of most of the Transferring Policies will be changed to that of AIAA's comparable retail-advised product suite currently available for sale ("AIA Priority Protection"). For the purposes of assessing any claim, the current terms and conditions of Transferring Policies will be applied where a claim has arisen from an insurable event prior to the Transfer Date.

AIAA requires these changes to avoid costly system changes to accommodate the ILAL product for a relatively small volume of business.

The following table summarises the premium rate differences between the ILAL "Here For You" product and the AIAA "Priority Protection" product, the number of policyholders impacted, and policyholder impact. The figures are derived from the tables in the Supplementary Product Comparison Report and the ILAL Appointed Actuary Report which also provides more detailed summaries of the changes in the terms and conditions of the Transferring Policies.

Table 6.5: Changes to the Premium Rates of the Transferring Retail Advised Policies[5]

Description of change	Estimated Number of Retail Life Policies Impacted	Policyholder Impact*
Retail Advised Here For You Policies		
Increases to premium rates (inclusive of policy fee changes) compared to Current ILAL premium / compared to ILAL Premiums including deferred ILAL premium increases	5,369 / 4,134	Higher cost of insurance cover, with most (approximately 4 out of 5) increases between 0% to 50% and an average increase of 27% / 20%.
Decreases to premium rates (inclusive of policy fee changes) compared to Current ILAL premium / compared to ILAL Premiums including deferred ILAL premium increases	698 / 1,933	Lower cost of insurance cover, with an average decrease of 9% / 13%.
Ex-QBE Policies**		
Increases to premium rates compared to current ILAL premium	63	Higher cost of insurance cover, with most increases between (60 policies) 0% to 60% and an average increase of 26%
Decreases to premium rates compared to current ILAL premium	185	Lower cost of insurance cover, with an average decrease of 26%

* Changes in premium rates will be applied at the next billing date for each Transferring Life Policy.
** Ex-QBE Policies are not impacted by the Deferred ILA premium increases

The terms and conditions of the Ex-QBE Consumer Credit Insurance Policies will not be changed. The terms and conditions of the Ex-QBE Life Term Life Policies will be changed to that of AIAA's AIA Priority Protection term life product.

There are 130 Transferring Ex-QBE Life Policies that will have their terms and conditions changed. These policies have an accidental death benefit of 50% more than the equivalent AIAA product. While this is a significant reduction in the benefit, the claim rate for accidental death is very low compared to all causes of death. Given the very small number of in-force policies, very few, if any, future claims will be affected.

When considering the impact of the change in terms and conditions and premium rates it is relevant to consider the position if the Proposed Transfer does not go ahead rather than the current position. If the Proposed Transfer does not proceed, as noted in Section 6.2, all Transferring policies are

[5] Source. – Section 7.4 ILAL Appointed Actuary Report

expected to receive total premium increases in the next two years of the order of 80% to 140% with the very high likelihood of further premium increases, and all cover ceasing within about three years.

In Section 6.3 of his report the ILAL Appointed Actuary summarises the impact of changes, positive and negative, to policy conditions and also sets out in section 6.1.1 a comparison of industry ratings of the ILAL and AIAA products. He notes that, while there are clear differences between the ILAL and AIAA products, they are both well rated, indicating that the AIAA product is competitive overall.

In Section 7.4 of the ILAL Appointed Actuary Report, the Appointed Actuary sets out a detailed comparison of the premium decreases and increases arising from the Proposed Transfer compared to the ILAL's intended premium increase if the Proposed Transfer does not proceed and concludes that:

- "Based on Table 13 the premium rate increases that most Transferring ILAL Policy Owners would face over the next two years with ILAL are expected to be greater than the prospective premium increases under AIAA if the proposed Part 9 Transfer is confirmed.", and
- "On average, the premium rate of Ex-QBE Term Life policy owners is expected to reduce by 19.4% indicatively after being mapped to AIAA products."

While these conclusions are based on average results and the results for individual Policy Owners may be very different to the average, they indicate that the general level of premiums for AIAA products is lower than that necessary for ILAL to continue operations, and the results for individual policy Owners reflects the differences in assumptions and/or experience of AIAA compared to ILAL as well as, in some cases, different benefits under the AIAA products.

I have discussed with the ILAL Appointed Actuary and Management the proposed changes as well as the options pursued by ILAL to find an alternative insurer and, having selected AIAA, to reduce the impact of those changes. As a result, I consider that ILAL has used its best endeavours to secure the best outcome for policyholders from the Proposed Transfer that is commercially viable to AIAA.

While some Policy Owners will retain largely the same or better policy terms and conditions and premiums will decrease for some policies, many policies will have less generous core benefits and /or significant increases in premium.

As noted in Section 5.3, Transferring Policy Owners will receive the Scheme Notice in December, information on proposed premium changes at least 30 days prior to the Transfer Date, and a welcome pack with their policy documentation after the Transfer Date as well as several options for contacting AIAA to enquire about their policy. This is important to enable them to make a choice of whether to continue with their policy, seek a different product from AIAA, seek alternative cover from another insurer or to discontinue their policy and forgo any future insurance cover. Policy Owners with an active adviser will be able to seek assistance from their adviser in understanding the proposed changes and in seeking alternative insurance cover. For those who are not actively advised, particularly those in poor health or otherwise may not be eligible to take out cover with another insurer, the lack of advice assistance increases the risk of failing to make a decision or of making a decision that does not leverage advice to obtain the best outcome in their circumstances.

As noted in Section 5.2, an ex-gratia payment will be made to specified Policy Owners of any increase in premium above 60% for a period of 6 months. This is designed to relieve the cost of the increase for those Policy Owners with premium increase above 60% for up to 6 months to provide time to consider their options.

In Section 6 of his report, the ILAL Appointed Actuary discusses the options available to arrange alternative cover for healthy lives and the impact on those who may not be able to obtain alternative cover, as well as the impact of access to an insurance adviser. Some policyholders who are in poorer health or don't meet eligibility requirements for new insurance will not have an option to take out alternative cover and it will be necessary for them to accept any decreases in cover and any increase in premiums arising from the Proposed Transfer if they wish to continue cover at comparable levels to their current cover with ILAL. However, AIAA is providing a level of ongoing cover that would almost certainly be lost to these policy owners if the Proposed Transfer does not proceed.

Consequently I consider that, on balance, when compared to the likely outcome if the Proposed Transfer does not proceed, and in the absence of an alternative proposal, that where the proposed terms and conditions are less generous than current policy terms and conditions for the Transferring policies, they are acceptable in order to protect Transferring Policy Owners from losing their existing cover.

6.4. Policy Owner Reasonable Benefit Expectations

Policy Owners expect that the benefits under their policies will be paid according to the terms and conditions of their policies.

The policy benefits such as the sum insured payable in the event of a claim and the terms on which claims are payable are fixed and Policy Owners expect that the fixed amount will not change. In addition, where premiums are not guaranteed and are subject to change, they expect any future changes in premiums to be made in a consistent way over time.

Some Transferring Policy Owners benefit expectations will not be met by some of the proposed changes to terms and conditions which I have covered in 6.3. In assessing Policy Owner benefit expectations, I have had regard to the matters covered below, in particular, product and pricing strategy, claims management, and administration and systems.

I note that the AIAA Participating Policy Owners assets and liabilities are managed separately from the non-participating business under which the Transferring Policies will be managed. As a result, there will be no impact on the reasonable benefit expectations of AIAA Participating Policy Owners.

As noted above, if the Proposed Transfer does not proceed, it is projected that ILAL will exhaust its ability to pay claims in full within three years which will result in ILAL Policy Owners benefit expectations not being met to a much greater extent than if the Proposed Transfer proceeds.

Having considered the impact of the Proposed Transfer, I consider that for many Transferring Policy Owners the scheme has an adverse impact, in some case material, on Policy Owners' reasonable benefit expectations in relation to policy benefits and/or premium rates. However, on balance, when compared to the likely outcome if the Proposed Transfer does not proceed, and in the absence of an alternative proposal, the adverse impact on those Transferring Policy Owners is acceptable.

6.4.1. Product and Pricing Strategy

Information about the current product and pricing strategies AIAA can be found in Section 3.6.2 and 5.5.3 of the AIAA Appointed Actuary Report.

A comparison of proposed ILAL price increases compared to premium increases or decreases under the AIAA products is set out in Section 7.4 of the ILAL Appointed Actuary Report.

If the Proposed Transfer does not proceed, the ILAL Pricing Strategy will necessarily change to one of increasing premiums as much as possible to cover fixed expenses as well as any changes to claims experience, which would be a disadvantage to Transferring Policy Owners.

The Transferring Policies will be subject to the AIAA product and pricing policies. Compared to the proposed high price increases by ILAL if the Proposed Transfer does not proceed, The AIAA premiums for individual Policy Owners may increase or decrease, however the analysis performed by the ILAL Appointed Actuary shows that on average the AIAA prices will be lower than the Proposed ILAL prices. To avoid any impact of AIAA pricing policy to the Transferring Policies of planned repricing AIAA has for its existing retail business in 2025, the Transferring Business will be exempt from any AIAA repricing in 2025.

I do not consider that, following the price impact of the Proposed Transfer, there will be any material adverse impact on future product and pricing strategy arising from the Proposed Transfer.

6.4.2. Claims Management

Transferring Policy Owners claim benefits and the conditions to be fulfilled to make a claim will, in many cases, be changed to reflect the change from the ILAL products to the AIAA products.

ILAL claims incurred prior to the Transfer Date but processed from the Transfer date by AIAA will be manually entered into AIAA systems and AIAA will apply additional controls to ensure the ILAL policy terms and conditions are applied and minimise the risk of adverse impact to customer service.

AIAA's claims philosophy will continue unaffected post the Transfer Date. AIAA's claims philosophy is Board-endorsed and is materially aligned with ILAL's claims philosophy. Both companies have established operational policies and guidelines to ensure that the claims philosophy is embedded in claims operations.

6.4.3. Policy Administration and Customer Service

The Retail-advised Business will be moving to AIAA products currently run on AIAA systems. Consequently there will be no material changes to AIAA systems as a result of the Proposed Transfer. This is a key requirement of AIAA in agreeing to the transfer. The Ex-QBE business will still be administered by QBE.

AIAA will migrate all the policy records of the Transferring Policies into its existing administration systems prior to the Transfer Date to minimise operational disruption to Transferring Policy Owners. AIAA will conduct testing of sample policy records and has a formalised test plan to verify operational readiness following the migration of Policy Records.

There should be no impact on policy administration, although Transferring Policy Owners will be billed at AIAA premium rates from the Transfer Date.

The product pricing and claims management policies of ILAL and AIAA include consistent consideration of customer outcomes for both ILAL and AIAA Policy Owners.

Consequently, the service levels and customer experience are not expected to be materially impacted by the Proposed Transfer.

6.5. Expenses

6.5.1. Scheme Expenses

All costs in carrying out the Scheme will be met by AIAA and ILAL out of shareholder assets within ILAL and AIAA and will not be passed on to Policy Owners of ILAL or AIAA. The escrow amount of $1.5m in IGHL and the corresponding insurance premium will be funded by IGHL.

6.5.2. Expense Allocation

There will be no material change to the expense allocation in AIAA because of the small volume of business involved.

In ILAL the Proposed Transfer will allow a significant reduction in expenses which will reduce the rate of depletion of assets to support the Remaining Policies.

In summary, there should be no adverse expense impact affecting ILAL and AIAA Policy Owners as a result of the Proposed Transfer.

6.6. Remediation Programs

ILAL is currently implementing a number of remediation programs which are expected to be completed before the Transfer Date. AIAA will continue to implement any programs not completed by the Transfer Date.

AIAA has the benefit of certain contractual indemnification or other contractual protections from IGHL in respect of related remediation costs which are viewed by the AIAA Appointed Actuary as providing appropriate cover for the corresponding liabilities of the Transferring Business.

6.7. Taxation

There are no taxation implications on the Policy Owners of ILAL and AIAA arising as a result of the Proposed Transfer.

7. Reliances and Limitations

This report has been written to provide an independent actuarial report on the Scheme and prepared in accordance with my engagement letter with ILAL and AIAA dated 19 June 2024.

This report may not be used for any other purpose or provided to any other person than as stated in this report.

Third parties who use this report are not a party to the engagement letter and may not rely on the report for any purpose whatsoever. I and Synge & Noble do not accept any duty to any third party and will not be liable for any losses or damages incurred by a third party as a result of them acting or relying upon any information or opinion contained in this report.

I understand that this report will be provided to
- The legal advisors of ILAL and AIAA
- APRA
- The Federal Court of Australia

I also understand that the report will be made available to Policy Owners of ILAL and AIAA.

In preparing this report and forming the opinions it contains I have relied on the accuracy and completeness of the information provided to me by ILAL and AIAA both written and oral.

I have used the information without independent verification but have reviewed it for general reasonableness and consistency. Nothing has come to my attention to indicate it is not suitable for forming my opinion. I make no representation of the information's accuracy or completeness. If any of the information provided is inaccurate or incomplete this report may need to be revised and amended.

8. Compliance with Expert Evidence Practice Note

I have read, understood, and prepared this report in accordance with the Expert Evidence Practice Note to which I agree to be bound. The opinions expressed in this report are based wholly or substantially on specialised knowledge arising from my training, study and experience.

I declare that I have made all the inquiries which I believe are desirable and appropriate, and that no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Court.

9. Appendix A – Glossary of Terms

Term	Description
Act	Life Insurance Act 1995 (Cth)
AIAA	AIA Australia Limited
APRA	Australian Prudential Regulation Authority
CCI	Consumer credit insurance
Ex-QBE	The CCI policies issued by QBE Life and the Term Life policies issued by CUNA Mutual which became
Existing AIAA Policies	AIAA's policies immediately before the Transfer Date
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
IGHL	Integrity Group Holdings Limited
IGHS	Integrity Group Holdings Services Pty Ltd
ILAL	Integrity Life Australia Limited
Integrity Group	The Integrity group of companies being IGHL, ILAL and IGHS
LPS 100	APRA Prudential Standard LPS 100 Solvency Standard
LPS 110	APRA Prudential Standard LPS 110 Capital Adequacy
Net CTV	Current Termination Value, net of reinsurance
PCA	Prescribed Capital Amount
PCR	Prudential Capital Requirement
Policy Owner	The owner of a policy, also known as a policyholder
Proposed Transfer	The transfer of the Transferring ILAL Policies to AIAA by way of a scheme under Part 9 of the Life Act
QBE Life	QBE Life (Australia) Limited (renamed to ILAL)
RCP	Retail Contingency Plan
Remaining ILAL Policies	ILAL Policies not being transferred under the proposed Part 9 Transfer
Retail Advised	The retail life policy owners of ILAL who hold cover under its 'Here For You' products.
Run-off plan	ILAL's run-off plan as described in Section B of Executive Summary
Scheme	The Scheme under Part 9 of the Life Insurance Act 1995 (Cth) for the transfer of the life insurance business of ILAL to AIAA to be confirmed by the Federal Court
SFn	Statutory Fund No n
Target Surplus	The amount of assets a company retains within its Statutory Funds and/or the Shareholders' Fund above its regulatory capital requirements, to meet its preferred total capital reserving target
Transfer Date	12.01 a.m. on the first calendar day of the month following the Scheme Confirmation Hearing Date, or such other date that the Court may specify as the commencement date of the Scheme

Term	Description
	should the Scheme be confirmed by the Court, expected to be 1 March 2025 (also referred to in other documents as the Scheme Effective Time, Scheme Effective Date)
Transferring ILAL Policies	ILAL policies being transferred under the proposed Part 9 Transfer, specifically the Retail Advised and Ex-QBE business being all policies issued by ILAL in respect of the product groups set out in Schedule 1 of the Scheme that are in-force or which have expired but under which benefits remain payable or may be payable, or in respect of which a person has a guaranteed renewal right as at the Transfer Date
Transferring ILAL Policy Owners	ILAL Policy Owners that are transferring under the proposed Part 9 Transfer

10. Appendix B – Information Relied On

In forming my opinions I have relied on the completeness and accuracy of information provided to me, both written and verbal, and particularly the information listed below. All documents relied on were provided by ILAL, AIAA, and their advisors, in particular, the external Appointed Actuary of ILAL

Appointed Actuary Report on the proposed Scheme Transfer of the Life Insurance Business from Integrity Life Australia Limited to AIA Australia Limited – prepared by the Appointed Actuary of ILAL

AIAA Appointed Actuary's Report on the Proposed Part 9 Transfer of the Retail Advised and Ex-QBE Business of Integrity Life Australia Limited to AIA Australia Limited - prepared by the appointed Actuary of AIAA

Scheme under Part 9 of the *Life Insurance Act 1995* (Cth) for the transfer of retail life insurance business FROM Integrity Life Australia Limited ABN 83 089 981 073 to AIA Australia Limited ABN 79 004 837 861

ILAL Retail Contingency Plan 20240614

Transfer Deed between AIA Australia Limited, Integrity Life Australia Limited, and Integrity Group Holdings Limited

ILAL Draft Communication plan – filename APRA Update 26 September 2024 draft v1.pptx

Supplementary Product Comparison Report by the ILAL Appointed Actuary

Integrity Life Australia Ltd Financial Condition Report as at 30 June 2023

ILAL Updated Run-off Plan DRAFT 20240708

ILAL ICAAP Summary Statement - October 2023

IGHL - Risk & Compliance Management Policy May 2024
AIA Australia Ltd Financial Condition Report 31 December 2023

AIA Australia Ltd Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement Version 11 .0 2023

AIA Australia Stress Testing and Scenario Analysis 10 September 2023 Ver 7 November 2023

AIAA Capital Management Framework Ver 7.0 November 2023

AIAA Target Surplus Policy Ver 10 November 2023