



Appointed Actuary Part 9 Report

Integrity Life Australia Limited

Report on the proposed Scheme Transfer of Life Insurance Business
from Integrity Life Australia Limited to AIA Australia Limited

12 December 2024



KPMG Actuarial

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12 December 2024

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

Please find enclosed my report on the proposed scheme transfer of the life insurance business from Integrity Life Australia Limited to AIA Australia Limited.

Yours sincerely

Michael Dermody
Authorised Representative
KPMG Financial Services Consulting Pty Ltd



Disclaimer

Inherent Limitations

This report has been prepared as outlined in Section (A) of the Executive Summary “Purpose and Scope of Report”. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Integrity Life Australia Limited (“ILAL”) and AIA Australia Limited (“AIAA”) management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. KPMG has relied on the data and information provided by ILAL and AIAA and have assumed that it is prima facie accurate and complete. While generally we have satisfied ourselves that the data and information provided is reasonable and consistent with other data and information provided, and/or with data and information otherwise known to us, we have not sought to verify independently nor establish the reliability, accuracy or completeness of the data and information provided or used for this review unless otherwise noted within the report. Further, KPMG does not make any representation or warranty as to the achievement or reasonableness of any plans, projections or forecasts described in the report. There will usually be differences between forecast or projected and actual results, because events and circumstances frequently do not occur as expected or predicted, and those differences may be material.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in Section (A) of the Executive Summary “Purpose and Scope of Report” and for ILAL’s information and is not to be used for any other purpose or distributed to any other party without KPMG Financial Services Consulting Pty Limited’s (“KPMG”) prior written consent. In that regard, we consent to the report being made available for public inspection in relation to the proposed Part 9 Transfer and being provided to owners of policies referable to the ILAL Statutory Fund No.1, owners of policies referable to the AIAA Statutory Fund No.1, the Australian Prudential Regulation Authority, and the Federal Court of Australia as part of the proposed scheme of transfer application, pursuant to Section 191(2)(a) of the Life Insurance Act 1995.

This report has been prepared at the request of ILAL in accordance with the terms of KPMG’s engagement letter dated 30 January 2024. Other than our responsibility to ILAL, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party’s sole responsibility.



Executive Summary

(A) Purpose and Scope of Report

The purpose of this report is to address various actuarial aspects of the proposed transfer of the Retail Advised and Ex-QBE insurance business of Integrity Life Australia Limited (ABN 83 089 981 073) (“ILAL”) (“Transferring ILAL Policies”) to AIA Australia Limited (ABN 79 004 837 861) (“AIAA”) by way of a scheme under Part 9 of the *Life Insurance Act 1995* (Cth) (“Life Act”) (referred to in this report as the “Scheme” or “Part 9 Transfer”). This report describes and comments upon the arrangements proposed as the basis of this transfer.

This report has been prepared by the Appointed Actuary of ILAL, Mr Michael Dermody.

The key focus of this report is the effect of the proposed Part 9 Transfer on:

- The contractual benefits and rights of the transferring policy owners’ (“Transferring ILAL Policy Owners”); and
- The benefit security and reasonable benefit expectations of the Transferring ILAL Policy Owners; and
- The contractual rights, benefit security and reasonable benefit expectations of the remaining ILAL policy owners (“Remaining ILAL Policy Owners”); and
- The capacity of ILAL to transfer any remaining policy liabilities to alternative insurers outside the Part 9 Transfer.

In addressing this scope, I have focussed on the changes that arise as a result of the proposed Part 9 Transfer.

(B) Background to Proposed Transfer

ILAL has not achieved the scale and sales volumes required to sustain its business over the medium term and has accordingly implemented a run-off plan (“Run-off Plan”).

Under the Run-off Plan, ILAL is closed to new business and is conducting a wind-down of the in-force business. This includes seeking to transfer its existing policies to other life companies.

AIAA is an Australian life insurance company registered under the Life Act. AIAA is an entity within AIA Group Limited. AIA Group Limited and its subsidiaries comprise the largest independent publicly listed pan-Asian life insurance group. Worldwide the AIA Group serves the holders of more than 42 million individual policies and over 18 million participating members of group insurance schemes.

ILAL and AIAA have agreed to the terms and conditions for a scheme for the proposed Part 9 Transfer.

It is anticipated that the ILAL insurance policies which are not being transferred under the proposed Part 9 Transfer (collectively referred to as the “Remaining ILAL Policies”) will be assigned, transferred or lapsed before or within 3 months after the Transfer Date of the proposed Part 9 Transfer. Specifically,



the following is noted in relation to the progress of the transition of the portfolios comprising the Remaining ILAL Policies:

- **Group Insurance:**

- **Corporate Group Insurance:** ILAL has identified a willing acquirer to receive a transfer of the Group Corporate Insurance business and policy liabilities and is progressing engagement with them to agree terms.

ILAL's expectation is that it will be able to agree terms and that these terms will involve the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.

- **Coverforce:** ILAL does not have any active plans. ILAL's only policy liability for this business comprises approximately 160 in-force claims. ILAL has commenced discussions with potential insurers to transfer these liabilities to.

ILAL's expectation is that it will be able to agree terms with the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.

- **Mercer Marsh Benefits:** ILAL has identified a willing acquirer to receive a transfer of the Mercer Marsh Benefits business and policy liabilities and is progressing engagement with them to agree terms.

ILAL's expectation is that it will be able to agree terms with the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.

- **ART:** ILAL does not have any active plans. ILAL's only policy liability for this business is one in-force claim. It is likely that this claim will be closed by the Transfer Date of the proposed Part 9 Transfer.

- **Five +:** ILAL approached other life insurers to accept a transfer of this business but this was not successful.

Following this unsuccessful attempt to transfer the business, ILAL has advised intermediaries and policy owners of a series of premium rate increases that will occur between November 2024 and April 2025.

These premium rate increases are intended to prompt intermediaries and policy owners to seek alternative solutions which are likely to be more cost effective for employers and insured employees, particularly after the proposed increases take effect.

Once all of these scheduled increases have been implemented, premium rates will be more than 10 times current premium rates. It is expected that all of the current 20 policies will have lapsed their policy by the time that the final premium rate increase is scheduled in April 2025. ILAL is also seeking an arrangement with an insurer to insure any remaining policy liabilities on lapsed policies. If, different to ILAL's expectations, not all policies lapse by April 2025, early indications are that the insurer taking on the open claims for the Corporate Group Insurance would be open to taking on the risk for any in-force remaining business, subject to ILAL's best efforts to run off the portfolio.



ILAL's expectation is that it will be able to agree terms for transferring the policy liabilities associated with claims from policies that have lapsed, and, if necessary, transferring the risk for any policies that have not lapsed by April 2025. It expects that these terms will involve the transfer occurring within 3 months of the Transfer Date of the proposed Part 9 Transfer.

- **NEOS/Medibank:** ILAL has agreed terms with a willing acquirer to receive a transfer of the NEOS/Medibank business and policy liabilities under the voluntary transfer provisions of Part 3) of the Financial Sector (Transfer and Restructure) Act 1999 (Cth) ("FSTR Act"). ILAL's expectation is that this transfer will occur in late 2024.

(C) Rationale for Proposed Part 9 Transfer

ILAL is in breach of minimum regulatory capital requirements with the position continuing to deteriorate if it continues to operate its Retail Advised and Ex-QBE business. ILAL's Retail Contingency Plan ("RCP") indicates that without a Part 9 Transfer, ILAL policy owners are expected to otherwise lose cover by February 2028 and ILAL's capacity to meet policy owner benefits in full would be exhausted. 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.

ILAL has sought to partner with a life insurance company to transfer the Transferring ILAL Policies for two primary reasons:

1. To provide ongoing cover
2. To improve the financial security of policy owners

I understand that ILAL has contacted 6 life insurers, including AIAA, to understand their interest in receiving the Transferring ILAL Policies via a Part 9 transfer. My understanding of these discussions and the outcomes of them relies upon discussions I have had with ILAL staff and my reading of certain reports addressed to the ILAL Board.

It is noted that based on discussions with AIAA and the 5 other potential life insurer partners, it was not commercially viable for any of them to replicate the contractual terms and conditions because of the scale of the portfolio and the cost involved in building resource and capability to replicate ILAL's products (except for Ex-QBE CCI products). AIAA was chosen as the life insurer partner because the timeframe and terms provide the best outcome for ILAL policy owners.

Therefore, with the exception of the Ex-QBE CCI products, the only viable approach to affecting a transfer of the Transferring ILAL Policies on terms acceptable to AIAA is to amend ILAL's products to the premiums, terms and conditions of AIAA's products.



The following table summarises the consequences to Transferring ILAL Policy Owners of the Part 9 Transfer versus not undertaking the Part 9 Transfer and continuing as policy owners of ILAL.

	Part 9 Transfer to AIAA	No Part 9 and remain in ILAL
Insurance coverage	Insurance cover continues under an AIAA product which provides overall similar benefits to the ILAL product.	Insurance cover is expected to cease by February 2028.
Financial Security	AIAA meets the Prudential Capital Requirement ("PCR") under the Australian Prudential Regulation Authority's ("APRA's") prudential standards.	ILAL is operating below its PCR and its capacity to meet policy owner benefits in full are expected to be exhausted by February 2028.
Premium increase	<p>On the Transfer Date, AIAA's current premium rates will apply.</p> <p>A high-level comparison on average across all of ILAL's policies, of ILAL's current rates with AIAA's premium rates is:</p> <ul style="list-style-type: none"> - Here For You: average increase of 22.3% - Ex-QBE Term Life: average reduction of 19.4%. <p>ILAL will make a one-off ex-gratia payment to provide temporary assistance where the increase is more than 60%.</p> <p>Proposed AIAA FY25 repricing will not apply to the Transferring ILAL Policies.</p>	<p>2025: ILAL intended increase of 20-60%</p> <p>2026: ILAL intended increase of 50%</p>

In terms of the mechanism for the proposed transfer, methods of regulatory transfer other than by way of a scheme under Part 9 of the Life Act have been considered and have been concluded to be not presently viable. This is discussed further in Section 4.3.1.

(D) Implications for Transferring ILAL Policy Owners

Premium Rate Changes

From the Transfer Date, Transferring ILAL Policy Owners will be charged premiums based on the AIAA product that their ILAL product is mapped to. That is, for policies that pay premiums annually this will be on their first policy anniversary following the Transfer Date. For policies with monthly paying premiums, this will be on the due date of the first monthly premium after the Transfer Date.

ILAL is planning to make a one-off ex-gratia payment to provide temporary assistance to Transferring ILAL Policy Owners where the AIAA premium exceeds the current ILAL premium by more than 60%. Further details are contained in Section 7.5.

It is noted that premium rate changes, if any, that AIAA makes to its Priority Protection Product in 2025 will not apply to Transferring ILAL Policy Owners. However, any premium rate changes that AIAA makes in 2026 or beyond, will apply to the Transferring ILAL Policy Owners.



Proposed Terms and Conditions Changes

For the purposes of the transfer, the approach was to map Transferring ILAL Policies to the main AIAA retail advised life insurance product, which has the product name “Priority Protection”.

Where this AIAA product had features and/or options that did not closely match those of the ILAL product, but there was a product feature/option which was more generous, this was generally selected.

The objective of this approach is to, as much as possible, avoid Transferring ILAL Policy Owners having their cover reduced as a result of the proposed Part 9 Transfer.

Where benefits are provided by the ILAL product that are not provided by the AIAA product and/or where the benefit is lower/option less generous, these more generous conditions/benefits will cease on the Transfer Date and Transferring ILAL Policy Owners will have their benefits based on the AIAA product.

Communication Plan

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.

Timeframes and Options for Policy Owners

Transferring ILAL Policy Owners who are able to, (that is, policy owners who if they applied at another insurer for the same cover, could expect to be provided a similar level of cover without additional exclusions and/or a higher underwriting loading) have the option to check if they can find another life company with more suitable terms and conditions than those under the AIAA product. They are also free to take out an alternate product with AIAA to the one they are transferred to under the proposed Part 9 Transfer.

Under the Communication Plan described above Transferring ILAL Policy Owners and their advisers will be notified of the premium changes at least 30 days but less than 60 days before the Transfer Date. They will be notified approximately two and a half months before the Transfer date of the Scheme and be provided access to the Scheme Document which contains the product mapping.



This a relatively short amount of time to identify and obtain alternative cover. Policy owners who are unable to organise cover by the Transfer Date will have their benefits based on the cover provided by the AIAA policy from the Transfer Date until cover with the policy from an alternative insurer is organised.

All Transferring ILAL Policy Owners, i.e. policy owners who are able to find alternative cover and those unable to find alternative cover, have the option to reduce the level of benefits under the AIAA product to manage the impact of premium rate increases.

(E) Implications for Remaining ILAL Policy Owners

Based on the progress made engaging with the prospective receiving insurers, arrangements are anticipated to be entered into to transfer the business of the Remaining ILAL Policy Owners before or within 3 months after the Transfer Date of the proposed Part 9 Transfer.

The arrangements being proposed involve the transfer of all claim liabilities relating to the remaining business. In each case, ILAL would transfer assets to the receiving insurer based on commercial terms agreed between the parties.

Based on ILAL's analysis and provided that claims and expenses are as anticipated, ILAL expects to have sufficient assets after the proposed Part 9 Transfer takes effect to facilitate the transfer of the Remaining ILAL Policies to the other life companies, provided these transfers are completed within a reasonable timeframe after the Transfer Date of the proposed Part 9 Transfer.

Under this expected outcome, Remaining ILAL Policy Owners will receive their benefit entitlements in full.

A risk to obtaining this expected outcome is failing to reach a final agreement with a receiving insurer or reaching an agreement with terms less favourable than is currently expected. At this stage, ILAL believes suitable terms can be agreed but this cannot be taken for granted.

(F) My Overall Conclusions on the proposed Part 9 Transfer

My overall conclusion is that the proposed Part 9 Transfer is in the interests of ILAL policy owners as a whole. Without the proposed Part 9 Transfer, ILAL policy owners are expected to otherwise lose cover by February 2028 and ILAL's capacity to meet policy owner benefits in full would be exhausted. Also, 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.

There is likely to be some policy owners who, if they applied to another insurer for the same or similar cover they have with ILAL, would be declined cover entirely, be provided cover but with additional exclusions and/or with a higher underwriting loading. These policy owners are better off under the proposed Part 9 Transfer as cover will continue with AIAA whereas they will lose this cover should the proposed Part 9 Transfer not proceed.

Transferring ILAL Policy Owners who are currently on claim or who claim in the future are better off under the proposed Part 9 Transfer because under the proposed Part 9 Transfer the financial security of their benefits is greater.



ILAL is progressing engagement with licensed Australian life insurers to agree terms to transfer or assign all claim liabilities relating to the Remaining ILAL Policies with a similar date to the Transfer Date of the proposed Part 9 Transfer. Should an agreement be made, the Remaining ILAL Policy Owners are expected to receive their benefit entitlements in full and will have access to a life company that holds assets in excess of its PCR (a requirement that ILAL cannot meet).

A risk to obtaining this expected outcome is failing to reach a final agreement with a receiving insurer or reaching an agreement with terms less favourable than is currently expected. At this stage, ILAL believes suitable terms can be agreed but this cannot be taken for granted.

(G) Executive Summary Not Report

Please note that this executive summary is intended only as an overview of this report and it does not cover or mention all of the issues addressed in the report. To properly understand the analysis and the basis of the comments and conclusions requires an examination of the report in full.

Table of Contents

1.	Introduction	1
2.	Overview of ILAL	4
3.	Overview of AIAA	21
4.	Overview of Transfer Proposal	29
5.	Financial Impact of Transfer	35
6.	Transferring ILAL Policy Owner Considerations – Contractual Benefits and Rights	39
7.	Transferring ILAL Policy Owner Considerations – Reasonable Benefit Expectations and Interests	48
8.	Transferring ILAL Policy Owner Considerations – Benefit Security	58
9.	Remaining ILAL Policy Owners	60
10.	Summary of Conclusions	62

Appendices

A	Data Received	65
B	Glossary of Terms	67

1. Introduction

1.1 Purpose of Report

This report has been prepared at the request of ILAL.

The purpose of this report is to address the actuarial aspects of the proposed Part 9 Transfer of Transferring ILAL Policies from ILAL to AIAA. This report describes and comments upon the arrangements proposed as the basis of this transfer and provides the opinion of the author on the matters set out in Section 1.2 below.

In terms of Section 191(2)(a) of the Life Act, this report forms one of the actuarial reports upon which the proposed Part 9 Transfer, to be the subject of an application to the Federal Court of Australia ("Court") for confirmation, is based.

1.2 Scope of Report

The scope of this report is to review the basis and terms of the proposed Part 9 Transfer of the Transferring ILAL Policies from ILAL to AIAA, and identify and comment upon the effect of the proposed Part 9 Transfer on:

- The Transferring ILAL Policy Owners' and Remaining ILAL Policy Owners' contractual benefits and rights; and
- The benefit security, reasonable benefit expectations and interests of the Transferring ILAL Policy Owners and Remaining ILAL Policy Owners.

In considering the proposed Part 9 Transfer, I note that there are aspects of the Transferring ILAL Policy Owners' and Remaining ILAL Policy Owners' contractual benefits and rights, reasonable benefit expectations and benefit security that can evolve and/or experience change in the ordinary course of business. In addressing the above scope, I have focused on the changes that arise as a consequence of the proposed Part 9 Transfer, rather than changes that might arise in the ordinary course of business.

1.3 Federal Court Practice Note

I have read, understood and complied with, and agree to be bound by the Federal Court of Australia's Expert Evidence Practice Note (GPN-EXPT) ("Practice Note"). The declarations required by the Practice Note are contained in Section 10.2.

This report has also been prepared in accordance with the professional requirements of the Institute of Actuaries of Australia, specifically:

- the Code of Conduct; and
- Professional Standard 201: Actuarial Advice to a Life Insurance Company or Friendly Society.



1.4 Author of Report & Disclosures

This report has been prepared by the Appointed Actuary of ILAL, Mr Michael Dermody, B. Economics (Honours), FIAA, and NZSA.

Mr Dermody is a Fellow of the Institute of Actuaries of Australia and is an executive of KPMG Financial Services Consulting Pty Limited ("KFSCCL"), a firm of consulting actuaries, and a Partner of KPMG. Mr Dermody has over 24 years life insurance industry experience. The opinions in the report are substantially based on the specialised knowledge gained from this experience.

He has the following interests in ILAL (and Integrity Group Holdings Limited (ABN 33 159 865 666) ("IGHL")) and AIAA:

- Consulting fees earned by KFSCCL in relation to work performed as the Appointed Actuary to ILAL; and
- Remuneration earned as executive of KFSCCL and partner of KPMG from consulting fees earned by those entities from ILAL and AIAA.

1.5 Structure of Report

Sections 2 and 3 of this report provide an overview of the financial and business structure of ILAL and AIAA, and Section 4 provides an overview of the proposed Part 9 Transfer.

Section 5 examines the financial consequences of the proposed Part 9 Transfer on ILAL and AIAA.

Sections 6 to 9 discuss the ramifications of the proposed Part 9 Transfer on the contractual benefits and rights, reasonable benefit expectations, and benefit security of various groups of policy owners.

The principal conclusions of the report are summarised in Section 10.

1.6 Data

In preparing this report I have relied on certain data and information as provided by ILAL and AIAA, including, but not limited to:

- A summary of the data and information relied upon in Appendix A.
- The statements and representations made by, and information provided by, ILAL and AIAA management and personnel.
- The financials as at 31 May 2024 and forecasts produced by ILAL.
- The financials as at 31 December 2023 and forecasts produced by AIAA.
- ILAL's RCP approved by ILAL's Board.
- The detailed company policy comparisons performed by ILAL and AIAA.
- The detailed product policy terms and condition comparisons by ILAL and AIAA



I have relied upon the general completeness and accuracy of all information provided to me for the purpose of this report. I have not independently verified or audited the information provided to me, but I have assessed it for general reasonableness and consistency. It should be noted that if any data or other information is inaccurate or incomplete, any advice I provide may need to be revised.

Financial projection results are based on certain assumptions as to the possible future experience of the business. The actual outcome will depend on the actual future experience which may differ from these assumptions.

The conclusions in this report have been formed on the basis of the circumstances and information as at the date of the report.

1.7 Glossary of Terms

A glossary of terms, parties and relevant legislative instruments referred to in this report is included in Appendix B to help readers with the interpretation of the report.

2. Overview of ILAL

2.1 Integrity Life Australia Limited

ILAL is an ultimately wholly (100%) owned subsidiary of IGHL, operating as a life company under the Life Act. IGHL acquired ILAL (then named QBE Life (Australia) Limited) (“QBE Life”) from the QBE Group effective 22 December 2017.

Prior to being acquired by IGHL, QBE Life’s main business lines consisted primarily of:

- Consumer Credit Insurance (“CCI”) policies, both regular premium and single premium, sold in conjunction with mortgages and personal loans. Policies under the regular premium product have all lapsed and there is currently no policies in force;
- Term life product line; and
- Some residual group business.

This business is collectively referred to as “Ex-QBE” business throughout this report.

ILAL’s business plan under the new management and ownership was to cease writing new business under the Ex-QBE channels and expand into the Retail Advised and Group Insurance business channels.

The specific business lines that ILAL expanded into include:

- Retail Advised: includes the “Here For You” product line for individual life, total and permanent disablement (“TPD”), critical illness and income protection (“IP”) coverage;
- Group Insurance: offers group life and group salary continuance cover for corporates with 15 or more employees. It is a product suite that allows for flexible design of cover. It includes the following:
 - “Corporate Group Insurance”: business distributed via a broker network;
 - “Coverforce”: short-term IP cover for predominantly blue-collar industries distributed via a commercial partnership with Coverforce;
 - “Mercer Marsh Benefits”: facility providing life, TPD and group salary continuance insurance coverage for employees of the small to medium enterprise clients of Mercer Marsh Benefits; and
 - “ART”: group life and group salary continuance cover to corporate plans within the ART Superannuation Fund.
- Five +: offers life and IP coverage for small and medium enterprises with between 5 and 50 employees; and
- NEOS/Medibank: ILAL entered into an agreement with NDLI Pty Ltd (“NEOS”) to sell direct Medibank insurance business, offering life, TPD, critical illness and IP cover from 4 July 2023. Administration and distribution are performed by NEOS.

ILAL has not achieved the scale and sales volumes in its business plans and is not able to operate profitably by meeting the expenses incurred in running the business and the current cost of claims. ILAL's financial position is addressed at Section 2.10 below.

During 2023 the Integrity Group conducted an extensive process exploring various options to continue the business. These included:

- injection of capital from an existing institutional shareholder(s), together with restructuring of Integrity Group equity and debt;
- trade sale of Integrity Group entities. The Integrity Board was open to a sale of the overall Integrity Group of companies or of individual entities IGHL or ILAL; and
- restructure of business. Included considering alternatives of retaining/transferring individual business lines ILAL or trade sale for individual business lines within ILAL.

This exploration of options was unsuccessful and ILAL then began implementing its Run-off Plan which involved closing to new business and conducting an orderly wind-down of the in-force business, including seeking partners to transfer its existing policies to.

On 5 September 2023 IGHL announced that ILAL would no longer be writing new life insurance policies in the Retail Advised and Corporate Group Insurance channels.

For the Retail Advised and Ex-QBE business, ILAL concluded that the business should be transferred via a Part 9 Transfer.

ILAL approached suitable Australian life insurers to gauge their appetite for receiving the Retail Advised and Ex-QBE business under a Part 9 transfer and AIAA was selected as the most appropriate.

It is noted that in discussions with AIAA, and other potential life insurer partners, it was not commercially viable for them to replicate the contractual terms and conditions because of the scale of the portfolio and the cost involved in building resource and capability to replicate ILAL's products (except for Ex-QBE CCI products).

Therefore, with exception of the Ex-QBE CCI products, the only viable approach to effecting a transfer of the Transferring ILAL Policies on terms acceptable to AIAA is to amend ILAL's products to the premiums, terms and conditions of AIAA's products.

2.2 Statutory Fund & Shareholders' Fund

The financial structure of ILAL is comprised of one statutory fund ("ILAL Statutory Fund No.1") and a shareholders' fund ("ILAL Shareholders' Fund").

The ILAL Statutory Fund No.1 maintains the life insurance business of ILAL. All products are non-participating business. The Retail Advised and group insurance products span both ordinary and superannuation business. There is no investment business.

ILAL's Shareholders' Fund is maintained separately from the ILAL Statutory Fund No.1 as required under the Life Act.

2.3 Nature of Business & Major Products

2.3.1 ILAL Statutory Fund No.1

Table 1: ILAL Statutory Fund No.1 Policy Information

31 May 2024	Annual Premium Income \$m	No of Policies	Sum Insured \$m	Net Current Termination Value ("Net CTV") \$'000
Ex-QBE	0.3	506	48.8	39
Ex-QBE Term Life	0.3	275	39	19
Ex-QBE CCI Mortgage Insure / Loan Insure ("MLI") (single premium)	0.05 ¹	125	4.8	15
Ex-QBE CCI LFI (single premium)	0.003 ¹	52	1.7	1
Ex-QBE CCI OnePath (single premium)	0.02 ¹	54	3.3	3
Retail Advised	26.0	10,356	12,420	8,236
Stepped	23.4	9,451	12,089	7,429
Level or Level/Stepped	2.6	905	331	807
Group Insurance	33.9	299	n/a²	22,619
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
Five +	0.5	30	107	19
NEOS/Medibank	2.0	1,428	1,150	7
ILAL Total Business	62.7	12,619	13,726³	30,920

¹ Proxy for annual premium based on the change in UPR for the single premium business.

² The sum insured for Group Insurance is not included in the above table due to the unavailability of data for some corporate plans.

³ Total sum insured excluding Group Insurance.

Net Current Termination Value ("Net CTV") at a particular date (for Table 1 above, the particular date is 31 May 2024) is an estimate of ILAL's liability for past incurred claims, net of reinsurance. A liability is also included in respect of expected claims where premiums received provide cover in respect of a period after the particular date. These are calculated using ILAL's best estimate assumptions on the most recent set of audited accounts, that is 30 June 2023.

Liabilities for past claims incurred include an estimate of:

- Incurred but not reported claims;
- Income protection claims in the course of payment; and
- Reported but not admitted claims.

It also includes an allowance for claims handling expenses associated with these claims.

As noted above ILAL is conducting an orderly wind-down of the in-force business, including seeking partners to transfer its existing policies to. The Transfer Date for the proposed Part 9 Transfer is 1 March 2025 and ILAL intends to transfer (or, in the case of Five+, encourage the business to lapse) the Remaining ILAL Policies within 3 months after the Transfer Date of the proposed Part 9 Transfer. In particular it expects all business to have been transferred or to have lapsed before the policy expiry date.

On this basis, and as the Net CTV as defined above does not include the value of premiums and associated claims and expenses to be received beyond when the business is expected to be transferred or to have lapsed, it was considered the most suitable measure of ILAL's policy liabilities for managing the run-off.

It is therefore adopted as the measure of ILAL's policy liabilities throughout this report.

ILAL performs a financial analysis of the expected remaining assets across the Integrity Group once the Run-off Plan is complete called the Residual Capital Value ("RCV"). This is detailed in Section 2.10.

2.3.2 Policy Classification & Participation Rights

In terms of Section 9 of the Life Act, the business of the ILAL Statutory Fund No.1 is life insurance business under Section 9(1).

2.4 Overview of Guarantees

For Retail Advised, Ex-QBE Term Life, Five + and NEOS/Medibank, premiums are not guaranteed and can be changed by ILAL. If prices are increased, this must be done for all policies within a common group (i.e. not for individual policies).

Of the in-force Group Insurance business (including Corporate Group and Mercer Marsh Benefits) the expiry date for current premium rate guarantee periods vary by scheme, with none being any later than 30 June 2026. Any Corporate Group Insurance policies which renew with ILAL at the expiry of their current rate guarantee period post June 2024, has not been (to the date of this report), and will not be, offered rate guarantees for renewal. Instead, all Corporate Group Insurance policies with a rate guarantee expiring after June 2024, and who continue cover, will be provided with a 90 day notice period if premiums are to be increased.

Other points on key guarantees provided by ILAL are set out below.

- All policies: the sum insured is guaranteed payable on death, TPD, temporary disablement or trauma subject to policy terms and conditions including definitions of disablement or trauma. Some benefits also provide certain guarantees, such as guaranteed future insurability; and
- Ex-QBE CCI: this business pays surrender values on early termination based on the "Rule of 78" formula for CCI in accordance with regulatory requirements. The remainder of ILAL's policies do not pay surrender values.



2.5 Operations & Administration

For Retail Advised business, the principal policy administration (including business management, finance, reporting) and operational functions are performed in-house by ILAL.

For Ex-QBE business, policy administration is performed by an outsourcing arrangement as described below.

ILAL has in place the following outsourcing arrangements:

- QBE Management Services Pty Ltd (“QBEMS”) – core activities relating to distribution and management of CCI products as detailed in the Schedule to the QBE Outsourcing Contract;
- Integrity Group Holdings Services Pty Ltd (“IGHS”) – all non-technical transactions which include but are not limited to employment of staff, premises, purchasing office equipment and office consumables; and
- Australian Group Insurance Pty Ltd (“AGI”) – an outsourcing arrangement in place as of July 2022 to provide specialised group insurance administration services.

2.6 Expense Allocation Basis

ILAL pays IGHS for administration services based on its actual underlying expenses. These costs comprise both direct expenses and ILAL’s share of the overheads and general management expenses incurred by Integrity Group.

It is noted that IGHL does not charge to ILAL its costs of preparing IGHL’s accounts (including audit) and managing items specific to IGHL (such as costs associated with management of IGHL’s debt instruments).

2.7 Tax Status and Basis

2.7.1 Income Tax Basis

Income tax is levied on ILAL shareholder profits, which in broad terms include:

- risk business underwriting profits net of reinsurance; and
- realised investment income earned on the shareholders’ capital and retained profits in the business.

In practice ILAL has not paid income tax since it was purchased by IGHL in 2017.

2.7.2 GST

The business is subject to Goods and Services Tax (“GST”) as an input taxed business. ILAL receives a 75% “reduced input tax credit” on commissions paid to credit unions and intermediaries in Australia, medical fees and any other commission payments (including the 10% distribution fee paid to QBE).

Expenses incurred by IGHS that are charged to ILAL includes costs of GST net of any reduced input tax credit.

2.8 Investment Strategy

ILAL's investment strategy is to invest in short term, high quality fixed interest securities to match the duration of the liabilities. This reflects that, while ILAL has some policies with long-term benefit periods e.g. to age 65 for some income protection covers, on average the liabilities of ILAL are relatively short term in nature.

2.9 Reinsurance Strategy

Reinsurance is an important aspect of risk management for ILAL with a number of reinsurance treaties in place.

ILAL complies with the reinsurance requirements for life insurance companies which are set out in APRA Prudential Standard LPS 230 Reinsurance Management ("LPS 230").

ILAL generally has high levels of reinsurance. For example ILAL:

- reinsures approximately 75% of the insurance risk for Retail Advised, Corporate Group Insurance and Mercer Marsh Benefits;
- reinsures approximately 50% of the insurance risk for Five + business; and
- reinsures 100% of the insurance risk for NEOS/Medibank business.

The reinsurance treaties significantly reduce the impact of claims volatility.

ILAL is exposed to credit risk with its reinsurers. These credit ratings are currently strong and the risk to ILAL of reinsurers not being able to meet their claim obligations is low.

2.10 Financial Position

The regulatory prudential capital requirements for life insurance companies are set out in a series of APRA's Prudential Standards.

APRA Prudential Standard LPS 110 Capital Adequacy ("LPS 110") requires a life company to:

- determine the Capital Base of each statutory fund and the shareholders' fund. The Capital Base ("Capital Base") of a fund recognises the quality of the support provided by various forms of capital;
- determine its Prescribed Capital Amount ("PCA") of each statutory fund and the shareholders' fund. The PCA is the required level of capital for regulatory purposes;
- ensure for each statutory fund and the shareholders' fund that the Capital Base exceeds the PCA plus any supervisory adjustment. The PCA plus any supervisory adjustment is referred to as the PCR. APRA has stated that it will intervene at an early stage should a regulated institution's capital show any signs of falling below the PCR and will require remedial action if capital is not maintained or restored; and
- the objective of the regulatory prudential requirements calculations is to ensure that each statutory fund retains sufficient funds to meet the contractual benefits of policy owners under a range of significantly adverse circumstances.

On 13 October 2023 ILAL notified APRA that as at 30 September 2023:

- ILAL's Capital Base was below the PCR, and therefore in breach of paragraph 23 of LPS 110; and
- ILAL's Capital Base was below 90% of the PCA, and therefore in breach of paragraph 10 of APRA Prudential Standard LPS 100 Solvency Standard.

The breaches and financial position are impacted by expense overruns occurring due to ILAL's business being below scale and the level of fixed costs.

The breaches remain as at 31 May 2024 and also as at the date of this report. Based on ILAL's financial position, it provides lower financial security to policy owner benefits than is expected of a regulated life insurance company that is open to new business.

It is also noted that LPS 110 requires life insurers to set a target capital level in the context of the life company's risk profile, the ILAL Board's risk appetite and regulatory capital requirements. As noted above ILAL does not have sufficient assets to meet the PCR and therefore it has no assets for Target Surplus.

As a result of the breaches of the Life Act, APRA issued the following directions to ILAL on 18 October 2023 under Section 230B of the Life Act:

1. Subject to Direction 2 below, ILAL must only carry on life insurance business for the purpose of discharging liabilities arising under life policies issued on or before 31 October 2023.
2. ILAL may, following written approval from APRA for existing contractual arrangements with certain business partners, carry on life insurance business for the purpose of discharging liabilities arising under life policies to be issued under those arrangements on or before 31 March 2024.
3. ILAL must seek APRA's written approval before making a reduction in its Capital Base or before making any payments to shareholders or related entities whether by dividend, interest, or any other means.
4. ILAL must seek APRA's written approval before transferring any asset of a statutory fund.

Notwithstanding the risks associated with the breaches noted above, ILAL has performed an assessment of the *Corporations Act 2001* (Cth) requirement that it is able to remain solvent over the course of executing the Run-off plan and meet its liabilities as and when they fall due if the Run-off Plan is implemented as expected and claims experience is as anticipated.

In particular, ILAL performs a financial analysis of the expected remaining assets across the Integrity Group (i.e. it includes the capital available in IGHL and IGHS as well as in ILAL) once the Run-off Plan is complete. This is referred to as the Residual Capital Value ("RCV").

I have performed limited review over the assumptions and modelling of the RCV and have relied on ILAL's governance processes.

This analysis is performed regularly, currently monthly, and is updated for actual experience over the past month, material changes in anticipated future experience of the policies and any other material changes to the Run-off Plan.

The RCV analysis is one analysis that the ILAL Board adopts for monitoring risk and managing the run-off. This includes analysis on a “Baseline Scenario” and a “Risk Scenario”. A description of the Baseline Scenario and Risk Scenario is as follows:

- **“Baseline Scenario”**: The Baseline Scenario takes into account ILAL’s expected internal and external expenses, including those involved in transitioning the business, including the costs of this proposed Part 9 Transfer, and the ultimate winding up of Integrity Group.
- **“Risk Scenario”**: compared with the Baseline Scenario there are longer timeframes for the transfer of cover. In particular, the Transferring ILAL Policies are assumed to transfer in August 2025 and the Corporate Group Insurance business is assumed to be transferred in September 2025 (for the Remaining ILAL Policies other than the Corporate Group Insurance policies the assumed date of transfer under the Risk Scenario is the same as for the Baseline Scenario).

Baseline scenario

Table 2 below shows the “Baseline Scenario” projection of net outgoings up to 30 June 2025. This analysis highlights that the expenses incurred in running the business and the current cost of claims exceeds premium and interest revenue.

Section 4.3.6 notes that ILAL will bear a portion of AIAA’s costs relating to the Part 9 Transfer and has agreed payments to third parties for terminating arrangements with them as part of the proposed Part 9 Transfer. For the analysis in the table below, these are assumed to be incurred in the 3 months to 31 March 2025. These costs are also the main reason that the net outgoing for this period of the 3 months to 31 March 2025 is larger than the net outgoing for the other periods.

It is noted that the calculation results set out below are based on unaudited accounts.



Table 2: Integrity Group Net Income (Baseline scenario)

Integrity Group Net Income (Outgoing) \$m	4 months to 30 Sep 2024	3 months to 31 Dec 2024	3 months to 31 Mar 2025	3 months to 30 Jun 2025
<u>ILAL</u>				
Income				
Premium (net of reinsurance)	5.9	3.4	2.6	0.4
Interest	0.5	0.3	0.3	0.2
Total Income	6.4	3.8	2.9	0.6
Outgo				
Expenses ¹	-5.7	-4.0	-8.1	-2.3
Claims (net of reinsurance)	-2.5	-1.5	-1.2	-0.2
Other Outgoings	-1.4	-0.5	-0.2	-0.1
Total Outgoing	-9.6	-6.0	-9.5	-2.6
ILAL Net Income (Outgoing)	-3.2	-2.2	-6.6	-2.0
<u>IGHL & IGHS</u>				
IGHL & IGHS Net Income (Outgoing)	0.0	0.0	0.0	0.0
Total Integrity Group Net Income (Outgoing)	-3.2	-2.2	-6.6	-2.0

¹ "Expenses" are expected internal and external expenses. The expenses include the costs involved in transitioning the business which includes the cost of this proposed Part 9 Transfer. The expenses also include the costs for the ultimate winding up of Integrity Group. "Other Outgoings" includes stamp duty and other tax expenses payable by ILAL, and net commission.

The net outgoings shown in Table 2 above are taken into account in projecting ILAL's assets under the Baseline Scenario to 30 June 2025 when the business is expected to be completely closed and all liabilities have been transferred.

Table 3 below shows the projected values for "Integrity Group Capital Base (Net CTV)" which represent Integrity Group assets in excess of the Net CTV.



Table 3: Integrity Group Capital Base (Baseline scenario)

Integrity Group Capital Base (Net CTV ¹) \$m	31 May 2024	30 Sep 2024	31 Dec 2024	31 Mar 2025	30 Jun 2025
Assets Available to Fund Net Claims and Expenses¹	51.1	40.1	35.4	20.1	6.3
Net CTV - Total Business	30.9	23.1	20.6	11.8	0.0
Net CTV - Transferring ILAL Policies	8.3	7.2	7.2	0.0 ²	0.0
Net CTV - Remaining ILAL Policies	22.6	15.8	13.4	11.8	0.0 ³
Integrity Group Capital Base (Net CTV) before Deducting Amount Withheld for Warranties and Indemnities	20.2	17.0	14.8	8.3	6.3 ⁴
Amount held in escrow to fund potential warranty or contract breach claims from AIAA				1.5	1.5
Integrity Group Capital Base (Net CTV) after Deducting Amount Withheld for Warranties and Indemnities				6.8	4.8

¹ The "Assets Available to Fund Net Claims and Expenses" are the tangible assets held by ILAL, IGHL and IGHS to fund the net of reinsurance claims and expenses. Because it represents assets available to fund net of reinsurance claims, it excludes reinsurance receivables.

The amount for "Assets Available to Fund Net Claims and Expenses" at 31 March 2025 allows for expected payments made to AIAA under the transfer deed for the proposed Part 9 Transfer. This includes the payment expected to be made after the Transfer Date as noted in Section 4.3.1.

² The Net CTV of the Transferring ILAL Policies at 31 March 2025 is zero as it is assumed that by this time it has been transferred under the Part 9 Transfer discussed in this report.

³ The Remaining ILAL Policies are expected to have been transferred after 31 March 2025 but by 30 June 2025 and therefore it has a zero Net CTV at 30 June 2025.

⁴ The \$6.3m (\$4.8m if the \$1.5m to be held in escrow is excluded) across the Integrity Group at 30 June 2025 is comprised of \$4.2m in ILAL and \$2.1m of IGHL assets (\$0.6m if the \$1.5m to be held in escrow is excluded). No net assets are currently held in IGHS. It is noted that, while ILAL is the only operating business that IGHL owns, the assets in IGHL may be used for purposes other than to fund ILAL claims and transfer costs.



Integrity Group Capital Base (Net CTV) reduces by the net outgoings shown in Table 2. In particular Integrity Group Capital Base (Net CTV) is expected to reduce over time from 31 May 2024 to 30 June 2025 by which time, after policy liabilities are assumed by other insurers, the policy liabilities of ILAL will be extinguished.

The final Integrity Group Capital Base (Net CTV) amount at 30 June 2025, referred to as the "RCV", is \$6.3m or \$4.8m if the \$1.5m to be held in escrow is excluded.

Under the agreement between ILAL and AIAA as part of the proposed Part 9 Transfer, an amount of \$1.5m will be held in escrow on behalf of IGHL to fund potential claims made by AIAA under the transfer deed for breach of contract/breach of warranty claims in relation to the asset transfer.

IGHL will be required to transfer this amount of \$1.5m into the escrow account where it will be held for a period of 18 months after the Transfer Date. 18 months after the Transfer Date any amount which has not been called upon under the Escrow Deed will be made available to meet any remaining policy liabilities of ILAL should the winding up of ILAL not have been completed by that time.

The amount in escrow will be the first recourse for a claim less than \$1.5m.

IGHL will take out an 18 month warranty and indemnity insurance policy for \$3m, where the insurance premium of approximately \$0.2m is paid by IGHL. This policy will (provided that a claim(s) meets the conditions for claiming under both the escrow agreement and the insurance policy) reimburse IGHL for claims paid from the escrow account. As the sum insured for the warranty and indemnity insurance policy is \$3m, it also provides protection for claims above \$1.5m (i.e. a further \$1.5m of protection so that the total protection to AIAA is \$3m).

It is noted that the maximum exposure to IGHL from the warranty and indemnity protection provided to AIAA is the \$1.5m that it transfers to the escrow account (for example if a claim is larger than \$1.5m and the insurance does not respond, IGHL cannot be compelled to make further payments and AIAA will receive a maximum amount of the \$1.5m in the escrow account).

As the Integrity Group does not conduct any business other than the life insurance business of ILAL, and given ILAL and IGHL are both APRA-regulated entities who have a common Board of Directors (and therefore there is aligned interests in meeting policy owner obligations), it is expected that any of this \$1.5m which is not required to fund such a claim, will be available to meet any policy owner obligations that ILAL would otherwise have been unable to meet.

Therefore, the ability of the Integrity Group, and ILAL in particular, to access the \$1.5m that is transferred to the escrow account is contingent on the expiry of the 18-month period and that the funds are not required to meet a claim by AIAA which is not reimbursed to IGHL under the insurance policy which ILAL plans to take out (which is further discussed at Section 4.3.6).

Because the availability of this \$1.5m to meet claims and expenses of ILAL is dependent on these contingencies, Table 3 above and Table 4 below shows Integrity Group Capital Base (Net CTV) both including this amount and excluding it. Earlier in this section it was noted that ILAL had assessed that it is able to remain solvent over the course of executing the Run-off Plan and meet its liabilities if the Run-off Plan is implemented as expected and claims experience is as anticipated. ILAL considered the analyses in Table 2 and Table 3 in making this assessment.

ILAL undertook further analyses to assist understanding its financial strength to withstand insurance risk. This included performing an analysis assuming claims 20% higher than expected and 50% higher than expected. These increases were based on assuming a sustained increase in claims costs that included an increase for both previously incurred but not reported claims (“IBNR”) and open IP and group salary continuance (“GSC”) claims, and future claims. Based on the analysis performed, effective 31 May 2024, the RCV under various scenarios are shown in Table 4 below:

Table 4: Integrity Group RCV under stressed scenarios

Scenarios	RCV projected at 30 June 2025 (\$m), assuming the \$1.5m to be held in escrow to meet AIAA warranty and contract breach claims is available	RCV projected at 30 June 2025 (\$m), assuming the \$1.5m to be held in escrow to meet AIAA warranty and contract breach claims is excluded
Baseline scenario	6.3	4.8
20% higher claims risk	0.7	-0.8
50% higher claims risk	-7.5	-9.0
Risk scenario	3.0	1.5
20% higher claims risk	-2.7	-4.2
50% higher claims risk	-11.4	-12.9

In summary, the analysis indicates that ILAL is expected to meet its obligations to policy owners on the Baseline Scenario and the Risk scenario if claims are as expected. The Risk Scenario highlight that delays in transfers increase the risks of ILAL being unable to meet policy owner obligations in full, earlier than February 2028.

For example, under the Risk scenario and if claims are 20% higher than expected, the RCV is negative \$2.7m (negative \$4.2m if the \$1.5m to be held in escrow is excluded). A negative RCV indicates that ILAL would be unable to meet all of its policy owner obligations in full.

My overall view is that ILAL is not in a strong financial position to address the potential risks that may emerge.

It is noted that experience under the Run-off Plan is uncertain and scenarios more adverse than those considered above are possible.

Further details of risk management actions and the plans and actions if the proposed Part 9 Transfer does not proceed are set out in Section 2.11 and Section 2.12.

Key areas of risk involve:

- **Strategic risk:** including Run-off Plan timing and delivery. For example, there are risks that ILAL does not reach agreements and/or does not obtain the support and co-operation from stakeholders to achieve the commercial and timing outcomes assumed in the Run-off Plan. Section 2.12 discusses plans and risks if the proposed Part 9 Transfer does not proceed. There is also litigation risk.
- **Insurance risk:** including adverse claims experience.
- **Financial risk:** includes the risk of a reduction in the value of assets held or of reinsurer default.
- **Operational risk:** includes people risk and it is noted that achieving the reduction in expenses as expected in the Run-off Plan involves operating with fewer staff. There are also potential impacts if there are unexpected staff resignations and/or difficulties in securing required resources. Other operational risks include business disruption, outsourcing, IT, data and residual contract risk which can result in expenses being higher than expected or risk of fraud.
- **Compliance and regulatory risk:** includes risk of adverse impact on ILAL and potential for expenses to be higher than expected due to changes in regulatory environment, or ILAL's ability to comply with laws, rules, regulations, standards and voluntary codes to which ILAL subscribes. There is the risk that meeting regulatory requirements/expectations in Run-off take longer than expected and/or costs are higher than expected.

2.11 Risk Management

ILAL has a comprehensive risk management strategy in accordance with APRA Prudential Standards. As noted above ILAL is not in a strong financial position to address the potential risks that may emerge in relation to having sufficient assets to satisfy its obligations to its policy owners. ILAL is focussed on managing these risks.

ILAL's risk management strategy also involves managing risks so that ILAL continues to meet the Life Insurance Code of Practice ("LICOP") obligations and manages compliance and regulatory risks, and operational risks.

ILAL's risk management strategy and approach includes:

- Planning the resources and capability required for the Run-off Plan.
- Management of the Run-off Plan by the senior management team.
- Reporting to the Board and Board oversight of risks and Run-off Plan progress.
- Active engagement with transition partners (other life companies) and early escalation of issues where required.

2.12 Implications for Policy Owners if Proposed Part 9 Transfer Does Not Proceed

ILAL has developed a Board approved “in principle” plan, referred to as the Retail Contingency Plan (“RCP”). It sets out the approach to run-off the Retail Advised and Ex-QBE business if the proposed Part 9 Transfer does not proceed and no other opportunity to transfer the business arises.

Key features of the RCP include:

- ILAL’s current plans are to increase premiums on the first policy anniversary following the failure of the proposed Part 9 Transfer to proceed by somewhere between 20% and 60%. And at the second policy anniversary in the order of 50% (on the premium after the first year increase).
- Under the RCP it was assumed that ILAL was required to continue to administer the Transferring ILAL Policies. That is, it assumed that:
 - no Part 9 Transfer of the Transferring ILAL Policies occurred;
 - no transfer of the Transferring ILAL Policies under the voluntary transfer provisions of Part 3 of the FSTR Act occurred); and
 - that any actions taken by ILAL that may reduce policy numbers, for example that would encourage policy owners to seek alternative insurers, are not successful in reducing policy numbers to a level that would substantially eliminate costs associated with this business.

On this basis, it is expected that expense overruns will continue to occur notwithstanding ILAL seeking to reduce and manage expenses.

Under the RCP the dates at which ILAL’s capacity to meet policy owner benefits in full is expected to be exhausted, i.e. the date at which its available assets to fund claims and expenses falls below the Net CTV, ranged between July 2027 and February 2028. If the proposed Part 9 Transfer is not confirmed and ILAL considers that obligations to policy owners are not expected to be met, it may be required to appoint an external administrator and costs involved are expected to be significantly higher.

It is noted that the scenarios allowed for in this analysis included the level of premium increases noted above and varying policy owner behaviour in terms of lapses and the impact of anti-selective claims (that is, the extent to which claims rates of the portfolio change because of the greater rate of lapses of more healthy lives (relative to less healthy lives) with high premium rate increases).

It is noted that the level of shock lapse and anti-selective claims are uncertain and that actual experience outside of the scenarios modelled are possible. Higher anti-selective claims would result in assets being exhausted earlier.

Claims assumptions were consistent with the Baseline Scenario (unstressed except for an allowance for anti-selection i.e. the scenarios did not include an allowance for sustained adverse claims experience as set out in the RCV analysis in Section 2.10). Expenses were also consistent with the Baseline Scenario adjusted for anticipated additional expenses associated with maintaining the Transferring ILAL Policies beyond the expected Transfer Date.

2.13 Remediations and Class Actions

ILAL is currently implementing a number of remediation programs in relation to the Transferring ILAL Policy Owners for historical breaches of financial services laws. All of these programs are expected to be completed before the Transfer Date, but for any that are not resolved, they will continue to be implemented by AIAA after the Transfer Date. AIAA will have controls and resources in place to continue to manage the current ILAL remediation programs, in the event that the current remediation programs are not resolved before the Transfer Date.

The cost of the current remediation is estimated by ILAL to be low and has been taken into account in the RCV analysis. ILAL will bear the cost of any open remediation programs that have not been resolved by the Transfer Date.

ILAL is not currently subject to any class actions or is aware of any potential class actions against it.

It is noted that under the proposed Part 9 Transfer ILAL will remain liable for any remediations and litigation in respect of:

- expired Ex-QBE policies. This includes any remediation or litigation that is identified any time after the Transfer Date.
- expired Here for You policies for a period of 18 months. Any such remediation and litigation will be funded through the \$1.5m set aside in escrow for 18 months (this amount that is set aside in escrow is discussed in Section 2.10).

2.14 Arrangements to Transfer Remaining ILAL Policies

APRA is supportive of actions being taken by ILAL to transfer the Transferring ILAL Policies and to assign, transfer or lapse the Remaining ILAL Policies before or within 3 months after the Transfer Date of the proposed Part 9 Transfer.

APRA has discussed with ILAL measures to facilitate the run-off of the Remaining ILAL Policies including through the use of the voluntary transfer provisions of Part 3 of the FSTR Act and APRA's power, in exceptional circumstances, to require the assignment of a life company's liabilities under Section 27A of the Life Act. This is with the intent of protecting policy owner interests by increasing the likelihood of ILAL reaching commercial terms with other insurers to secure the run-off of its liabilities while it retains the capacity to meet its policy liabilities as and when they become due.

APRA has indicated that should it come to the view that ILAL's liabilities cannot be extinguished within the timeframe noted above and the solvency position of ILAL

deteriorates, serious consideration will need to be given by ILAL to other options, including seeking a winding up of ILAL.

The following provides a summary of the arrangements that ILAL is proposing to enter into for transferring the Remaining ILAL Policies and extinguishing its remaining policy liabilities.

The arrangement noted below which is expected to be adopted for NEOS/Medibank is a transfer of policy liabilities under the voluntary transfer provisions of Part 3 of the FSTR Act. For the other business a decision on the most suitable legal mechanism for the arrangements and transfers has not yet been determined. However, they are likely to involve the use of measures noted above including the use of the voluntary transfer provisions of Part 3 the FSTR Act and/or APRA's power, in exceptional circumstances, to require the assignment of a life company's liabilities under Section 27A of the Life Act. This approach supports the objective to effectively extinguish ILAL's liabilities.

- Group Insurance:
 - Corporate Group Insurance: ILAL has identified a willing acquirer to receive a transfer of the Group Corporate Insurance business and policy liabilities and is progressing engagement with them to agree terms.

ILAL's expectation is that it will be able to agree terms and that these terms will involve the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.
 - Coverforce: ILAL does not have any active plans. ILAL's only policy liability for this business are approximately 160 in-force claims. ILAL has commenced discussions with potential insurers to transfer these liabilities to.

ILAL's expectation is that it will be able to agree terms and that these terms will involve the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.
 - Mercer Marsh Benefits: ILAL has identified a willing acquirer to receive a transfer of the Mercer Marsh Benefits business and policy liabilities and is progressing engagement with them to agree terms.

ILAL's expectation is that it will be able to agree terms and that these terms will involve the transfer occurring at a similar date to the Transfer Date of the proposed Part 9 Transfer.
 - ART: ILAL does not have any active plans. ILAL's only policy liability for this business is one in-force claim. It is likely that this claim will be closed by the Transfer Date of the proposed Part 9 Transfer.
- Five +: ILAL approached other life insurers to accept a transfer of this business but this was not successful.

Following this unsuccessful attempt to transfer the business ILAL has advised intermediaries and policy owners of a series of premium rate increases that will occur between November 2024 and April 2025.

These premium rate increases are intended to prompt intermediaries and policy owners to seek alternative solutions which are likely to be more cost effective for employers and insured employees, particularly after the proposed increases take effect.

Once all of these scheduled increases have been implemented premium rates will be more than 10 times current premium rates. It is expected that all of the current 20 policies will have lapsed their policy by the time that the final premium rate increase is scheduled in April 2025. ILAL is also seeking an arrangement with an insurer to insure any remaining policy liabilities on lapsed policies. If, different to ILAL's expectations, not all policies lapse by April 2025, early indications are that the insurer taking on the open claims for the Corporate Group Insurance would be open to taking the risk for any in-force remaining business, subject to ILAL's best efforts to run off the portfolio.

ILAL's expectation is that it will be able to agree terms for transferring the policy liabilities associated with claims from policies that have lapsed, and, if necessary, transferring the risk for any policies that have not lapsed by April 2025. It expects that these terms will involve the transfer occurring before or within 3 months after the Transfer Date of the Part 9 Transfer.

- NEOS/Medibank: ILAL has agreed terms with a willing acquirer to receive a transfer of the NEOS/Medibank business and policy liabilities under the voluntary transfer provisions of Part 3 of the FSTR Act. ILAL's expectation is that this transfer will occur in late 2024.

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.

2.15 Events Subsequent to 31 May 2024

There have been no material changes to the ILAL financial position since 31 May 2024 that would change the commentary or conclusions above.

3. Overview of AIAA

3.1 AIA Australia Limited

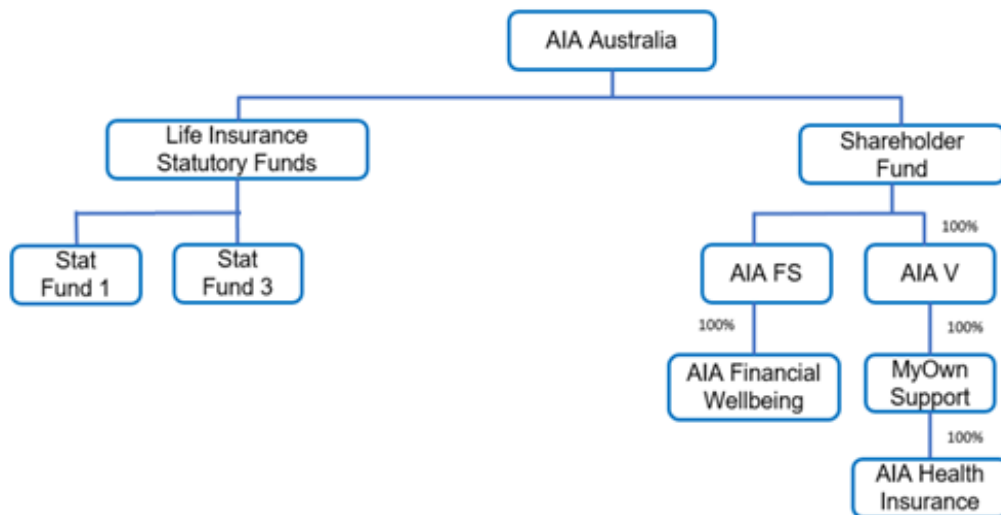
This section describes the current state of AIAA’s business prior to the proposed Part 9 Transfer.

AIAA operates as a life company under the Life Act. The assets and liabilities of AIAA are maintained in a shareholder’s fund and separate statutory funds as required by the Life Act.

Since 28 February 2009 AIAA has been a wholly owned subsidiary of AIA Company Limited (“AIA Co”), a company incorporated in Hong Kong.

Figure 1 illustrates the structure of the funds that AIAA maintains prior to the proposed Part 9 Transfer.

Figure 1: AIAA’s Fund Structure prior to the proposed Part 9 Transfer



AIAA is an entity within the AIA Group. AIA Group Limited and its subsidiaries comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets and had total assets of US\$286 billion as of 31 December 2023, and serves the holders of more than 42 million individual policies and over 18 million participating members of group insurance schemes.

The long-term financial strength rating of AIA Co is AA-/Stable as measured by Standard’s & Poor’s (“S&P”) as at 31 December 2023.

AIA Group has operated in Australia since 1972. It has shown its continued commitment to the Australian market enabling strong growth in AIAA businesses core to the AIA Group strategy.



3.2 Statutory Funds & Shareholders' Fund

AIAA's life insurance business is managed within two statutory funds:

- AIAA Statutory Fund No.1 for non-investment linked business ("AIAA SF1"); and
- AIAA Statutory Fund No.3 for investment linked ordinary business ("AIAA SF3").

As at 31 December 2023, AIAA also had three other statutory funds (No.1L, No.2L and No.4). Following AIAA's Part 9 transfer of the ex-Colonial Mutual Life Assurance Society savings & investments business to Resolution Life Australia, these statutory funds do not hold any life insurance business and have been closed in 2024.

3.3 Nature of Business & Major Products

The tables below summarise the products in each statutory fund and key elements underpinning management of the business.

3.3.1 AIAA SF1

Product Line	Description
Group	<p>Group Lump Sum (Death, Disablement, Trauma) and Income Protection insurance. Gross annual premium in-force were \$2,068m as at 31 December 2023.</p> <p>The key elements underpinning the management of AIAA's group business are:</p> <ul style="list-style-type: none"> - Automatic acceptance criteria for default cover and underwriting requirements for voluntary cover. - Product design and pricing updates to maintain a competitive and sustainable new business proposition. - Claims management to ensure that policy owners are paid their contractual benefits and are appropriately supported in the recovery process.
Individual	<p>Individual Lump Sum (Death, Disablement, Trauma) and Income Protection insurance. Gross annual premium in-force were \$1,511m as at 31 December 2023.</p> <p>The key elements underpinning the management of AIAA's individual business are:</p> <ul style="list-style-type: none"> - Product design and pricing updates to maintain a competitive and sustainable new business proposition. AIAA manages the profitability of its individual business by making changes to premium rates on existing life policies, where premium rates are not guaranteed. - Claims management is maintained under a dedicated framework to ensure that policy owners are paid their contractual benefits and are appropriately supported in the recovery process. - Underwriting new insurance applications to maintain the age and policy duration profile of AIAA's individual business. This includes assessing applications for new life policies from prospective policy owners and increases / alterations to existing life policies. The underwriting process can result in new insurance applications being accepted on standard or loaded premium rates, accepted with exclusions or being rejected.

Product Line	Description
Credit Insurance	Credit insurance for various financing arrangements.
Traditional Business	Participating Whole of Life and Endowment business. The portfolio of participating business had insurance contract liabilities of \$334m as at 31 December 2023, with the assets and liabilities being “ring fenced” from the non-participating business. Distributions of policy owners’ retained profits or the shareholders’ capital and retained profit are made to life policies that provide for participating benefits, in accordance with AIAA’s policyholder Dividend and Bonus Declaration Policy, which aims for a robust and sustainable bonus structure for each bonus series.
Return of Premium	Money Back Term, Cashback Flexi.
Annuities	Non-participating term certain annuities.

3.3.2 AIAA SF3

Product Line	Description
Unit-Linked	Ordinary unit-linked regular/single premium savings and investment business. Insurance contract liabilities were less than \$1m as at 31 December 2023.

3.3.3 Policy Classification & Participation Rights

In terms of Section 9 of the Life Act, the business of AIAA SF1 and AIAA SF3 are life insurance business under Section 9(1).

3.4 Overview of Guarantees

AIAA have premium guarantees for some retail products.

For some retail products, there are premium rate guarantee periods for the first 2 years or 5 years where no increase to premium rates will be imposed during this guarantee period of the benefit. Aside from these guarantees, the retail premium rates are generally not guaranteed and may be varied from time to time provided that the alteration applies to a homogeneous group of policy owners rather than to an individual.

Since 2019, its cancel and replace business, (those Priority Protection policies that are modified by cancelling the original policy and replacing it with a new policy), has not been treated as new business and may receive a premium increase at the first policy anniversary of the replacement policy.

AIAA guarantees claim payments to long-term IP and GSC claimants, which can be up to a maximum of ‘to age 70’ with increases in line with changes in the CPI index, although benefit periods are generally to a maximum of ‘to age 65’. AIAA also has a small portfolio of IP policies with lifetime benefits.

There are also guarantees in place for other business lines, including premium guarantees for some group insurance business, declared bonus guarantees for the traditional participating and surrender value guarantee for the annuities business.



3.5 Product and Pricing Strategy

A life insurer's product and pricing strategy impacts the product design process, the products offered for sale to the policy owner as well as the pricing and profitability of the product.

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 policy owners.

3.6 Underwriting

A life insurer's approach to underwriting impacts the access to, and cost of, insurance cover for prospective and existing policy owners.

AIAA's underwriting philosophy is to protect as many Australians as possible. Underwriters currently assess applications for cover under a well-defined framework. This framework includes a Board endorsed underwriting philosophy, documented internal underwriting guidelines, an underwriting delegation framework and an underwriting quality and assurance framework.

AIAA's underwriting approach is evidence-based and utilises international best practice from reinsurer underwriting manuals. AIAA is committed to being consistent, efficient and fair in its underwriting decisions.

3.7 Claims Management

Claims management is core to AIAA fulfilling its promise to policy owners.

Claims assessors currently assess claims 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 states it is committed to doing the right thing for its policy owners and is a signatory to LICOP.

3.8 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 the existing AIAA systems.



3.9 Expense Allocation Basis

AIAA has adopted an Activity Based Costing (“ABC”) methodology which is used to perform an expense apportionment exercise to split general operating expenses amongst the appropriate products. This apportionment exercise is based on an internal expense allocation survey carried out across all AIAA departments. The survey provides an expense split by product and by type of expense, i.e. acquisition, maintenance or claims expenses, for each cost centre.

All expenses in relation to the acquisition of the Transferring ILAL Policies that AIAA are liable for will be funded by shareholder assets within AIAA.

3.10 Tax Status and Basis

No change is expected to be made to the methods used to comply with tax legislation as a result of the proposed Part 9 Transfer.

Life companies calculate their tax liability with reference to the underlying tax classes. Different tax rates are applicable to each tax class.

The tax classes that are in ILAL will transfer over such that the Transferring ILAL Policies will continue to be charged their respective rates post the proposed Part 9 Transfer.

Tax on participating policy owner assessable income, including investment earnings, is levied at the applicable policy owner tax rate for the tax class. This will not change as a result of the proposed Part 9 Transfer.

3.11 Investment Strategy

AIAA’s assets are separately maintained and managed between its statutory funds, and within AIAA SF1 are separately maintained and managed between AIAA’s participating business and its non-participating business (of which the individual business is a constituent part).

The investment strategy and the asset allocation impact benefit security and shareholder outcomes. It also impacts policy owner benefits for participating life policies.

AIAA’s assets are managed according to separate investment strategies each with well-defined Strategic Asset Allocations (“SAA”) and Tactical Asset Allocation (“TAA”) ranges, appropriate for meeting the product objectives and delivering on policy owner reasonable expectations with appropriate levels of benefit security.

The investment process has a well-defined governance approach. This approach includes the Financial Risk Committee reviewing and recommending SAAs and TAAs for board approval, and the investment committee reviewing and approving portfolio mandates, which include more specific investment and risk limits for each asset class.

The SAA and TAA for the non-unit linked portfolios are reviewed at least annually.

3.12 Reinsurance Arrangements

AIAA uses reinsurance as a risk and capital management tool.

AIAA has reduced its use of reinsurance on its retail business as it has grown in size and has increased capacity to retain insurance risk. Currently AIAA reinsures approximately 20% of the insurance risk on new retail business sales.

AIAA complies with the reinsurance requirements for life insurance companies which are set out in LPS 230.

AIAA's Reinsurance Management Policy is reviewed annually.

3.13 Capital & Risk Management

3.13.1 Risks & Risk Management

In accordance with APRA Prudential Standard CPS 220 Risk Management ("CPS 220"), the board and senior management of AIAA have a well-established and mature Risk Management Framework ("RMF").

The RMF consists of strategies, policies, procedures and controls to manage risks that the business faces.

Key principles underpinning the 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 policy owner outcomes; and
- 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.

3.13.2 Regulatory Capital Reserve Requirements

AIAA meets the capital requirements for life insurance companies which are set out in a series of APRA Life Prudential Standards.

The business is managed over time towards holding a target level of capital above the PCR.

3.13.3 Target Surplus

AIAA maintains additional capital buffers above its PCR, and this target capital buffer is referred to as “Target Surplus”. The principles of AIAA’s Target Surplus policy are:

- the level of Target Surplus is established to provide protection against breaching the regulatory capital requirements under LPS 110 as a result of unanticipated adverse events;
- the level of Target Surplus held is determined in line with the approved risk appetite; and
- varying management actions will be taken through regular monitoring of the current and forecasted capital position relative to Target Surplus in accordance with AIAA’s Capital Management Framework.

3.13.4 Net Assets Above Capital Reserves

Capital Management Framework

AIAA’s capital represents important protection for policy owners and is maintained at a sufficient level to provide benefit security under a range of extreme adverse circumstances.

AIAA capital reserving and management strategy comprises a number of key elements:

- In accordance with Life and General Insurance Capital (“LAGIC”) Prudential Standards set by the APRA, AIAA holds PCR at an entity level and for each of its funds (statutory fund and shareholder’s fund) in respect of its residual risk exposures.
- Additional “Target Surplus” (as defined in Appendix B) that it holds within its statutory funds and AIAA’s SHF above its regulatory capital requirements (the PCR) in accordance with AIAA’s Capital Management Framework, AIAA’s Internal Capital Adequacy Assessment Process (“ICAAP”) Summary Statement, and AIAA’s Target Surplus policy.
- Stress and scenario testing is used as an additional check that the overall capital is adequate for certain extreme but plausible scenarios.
- Managing capital levels in accordance with AIAA’s Capital Management Framework and AIAA’s ICAAP summary statement. This includes taking appropriate action to restore the capital position if capital levels drop below the targeted level of capital, as well as paying out sustainable dividends if capital levels exceed the targeted level of capital.

Dividend Philosophy

Distributions of shareholders’ capital and retained profits are made at a level that is in line with AIAA’s Capital Management Framework. This requires AIAA as a whole to remain appropriately capitalised after each distribution payment.



3.14 AIAA's Current Financial Position

3.14.1 Key Financial Measures

Table 5 below shows AIAA's capital position as at 31 December 2023.

Table 5: AIAA's Capital Position (as at 31 December 2023)

31 December 2023 Net Asset and Capital Position (A \$'m)							
	SF1	SF1L	SF2L	SF3	SF4	SHF	Total AIAA
Net assets	1,325	1	7	10	2	881	2,226
Regulatory Adjustments to Net Assets	(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 (%) ("CAM")	212%	n.a.	n.a.	Large	n.a.	Large	223%

As at 31 December 2023, there was \$374m capital in excess of PCA for AIAA (in aggregate across all of its funds). Each of the statutory funds of AIAA had capital in excess of the relevant PCA and PCR as at 31 December 2023.

Overall, AIAA's capital position at 31 December 2023 exceeded all external regulatory requirements.

3.15 Events Subsequent to 31 December 2023

There have been no material changes to AIAA's operational profile nor to the financial or capital position of AIAA (including regulatory capital and Target Surplus) since 31 December 2023 that would materially change the analysis, commentary or conclusions in this section of the report.

4. Overview of Transfer Proposal

4.1 Background to Proposed Part 9 Transfer

As noted in Section 2.1, on 5 September 2023 IGHL announced that ILAL would no longer be writing new life insurance policies in the Retail Advised and Corporate Group Insurance channels.

4.2 Policies Being Transferred

There are two groups of Transferring ILAL Policy Owners under the proposed Part 9 Transfer.

As at 31 May 2024, these groups are:

- Retail Advised: comprising of 10,356 policies across 6,133 unique policy owners (one policy owner may have multiple covers) with annual premium income of \$26.0m and a total Net CTV of \$8.2m. It is noted that, for the Retail Advised business, a policy may have multiple covers across life, TPD, critical illness and IP; and
- Ex-QBE: comprising of 506 policies with annual premium income of \$0.3m and a total Net CTV of approximately \$39,000.

All of these policies are non-participating policies under the Life Act.

Table 6: Transferring ILAL Policies Information

31 May 2024	No. Policies	Net CTV (\$'000s)	Annual Premium Income (\$m)
Retail Advised	10,356	8,236	26.0
Stepped	9,451	7,429	23.4
Level or Level/Stepped	905	807	2.6
Ex-QBE	506	39	0.3
Ex-QBE Term Life	275	19	0.3
Ex-QBE CCI MLI (single premium)	125	15	0.05 ¹
Ex-QBE CCI LFI (single premium)	52	1	0.003 ¹
Ex-QBE CCI OnePath (single premium)	54	3	0.02 ¹
Total under proposed Part 9 Transfer	10,862	8,275	26.3

¹ Proxy for annual premium based on the change in UPR for the single premium business.

Table 6 above shows products that have in-force policies with ILAL at 31 May 2024. For products transferring which have no in-force policies (and are being transferred for the purposes of capturing late reported claims), these products have not been included in Table 6 above. Please refer to Schedule 1 of the Scheme Document for the full list of products being transferred which includes products with no in-force policies.

4.3 Transfer Process – Policy Owner Contracts and Assets

4.3.1 Transferring of Policies, Liabilities and Assets

The proposed Part 9 Transfer is to be undertaken by way of a Scheme under Part 9 of the Life Act. Transfer. This is the only viable mechanism considering:

1. Transfer of the Transferring ILAL Policies under Part 9 of the Life Act was contemplated in the Runoff Plan;
2. Discussions with AIAA have proceeded on the basis that the transfer of the Transferring ILAL Policies will be effected under Part 9 of the Life Act. Consequently, it is a condition precedent of the transfer agreement executed by ILAL and AIAA that the Court confirm the transfer of the Transferring ILAL Policies; and
3. ILAL is progressing arrangements for transfers of the Remaining ILAL Policies which is necessary to improve the benefit security for Remaining ILAL Policy Owners (this is discussed further in Section 9). APRA is supporting ILAL progressing these transfers for the Remaining ILAL Policies on the basis that ILAL is also progressing arrangements for the Transferring ILAL Policy Owners under Part 9 of the Life Act.

If the proposed Part 9 Transfer is confirmed by the Court, on and from the Transfer Date, Transferring ILAL Policies will be transferred from the ILAL Statutory Fund No.1 to the AIAA SF1.

In particular, on the Transfer Date ILAL is transferring claim payment obligations to AIAA.

The assets that ILAL is transferring to AIAA is set out in the transfer deed. It includes assets in respect of the claim obligations being transferred to AIAA and an amount in respect of a portion of AIAA's costs that ILAL has agreed to bear.

The following is noted in respect of each of these amounts:

- The amount of assets transferred in respect of claim payment obligations takes into account "cut-off" rules relating to premiums, claims, reinsurance and tax items which are discussed in Section 4.3.2.

There are differences between the assumptions adopted for estimating these reserves for this transfer and the assumptions that ILAL adopts for calculating CTV reserves in its reporting to APRA. This difference has been allowed for in the calculation below in Section 4.3.6 on "Costs and Expenses" and in Section 5.3 of the "Post Transfer" "Capital Base (CTV)" amount.

- The assets in respect of a portion of AIAA's costs that ILAL has agreed to bear is discussed in Section 4.3.6 on "Costs and Expenses" and in Section 5.3 of the "Post Transfer" "Capital Base (CTV)" amount.

The timing of asset transfers from ILAL to AIAA are expected to occur as follows:

- A payment before the Transfer Date¹. This is based on an estimate of 90% of claim payment obligations, taking into account “cut-off” rules, described above.
- A payment of \$1.45m. Half of this is payable on or before 31 January 2025 and half on the day before the Transfer Date¹.
- A payment after the Transfer Date¹ to “true-up” the initial payment for claim obligations, and taking into account “cut-off” rules, based on data effective on the Completion Date.

4.3.2 Policy “Cut-Off” Rules

ILAL has developed a set of rules relating to the payment of premiums, claims, reinsurance and tax items. These rules are summarised below:

- Premiums
 - ILAL will process its last premium charge on 28 February 2025. After this point premium billing will be performed by AIAA. Payment of reinsurance premiums will follow the same set of rules, with ILAL being responsible for reinsurance premiums prior to 1 March 2025.
 - The amount payable to AIAA will be reduced for any outstanding premiums that ILAL has charged for, but it has not received.
 - ILAL will calculate an unearned premium reserve and pay AIAA an amount in respect of this.
- Commissions
 - AIAA will be responsible for commission payments on premiums that it collects.
 - AIAA will bear the impact of adjustments to commission in respect of any premium adjustments that occur post transfer in relation to historical premiums due at the Transfer Date. For clarity it is noted that AIAA will retain any commission clawback that it recovers from advisers (including commission that was owed to ILAL at the Transfer Date).
- Policy Benefits
 - Claims payments scheduled to be paid on or prior to 28 February 2025 will be made by ILAL. AIAA will make all payments from 1 March 2025 onwards.
- Reinsurance
 - ILAL is entitled to the reinsurance claim recoveries relating to claim payments that ILAL makes, and similarly AIAA is entitled to the reinsurance recoveries relating to claim payments AIAA makes.

¹ Under the transfer deed payment times are by reference to the “Completion Date” as defined in the transfer deed. The “Completion Date” is expected to be the business day before the Transfer Date as defined in this report.

- At the Transfer Date, AIAA will pay assets to ILAL equal to the reinsurance recovery receivable processed through the completion accounts. AIAA then owns the asset and is entitled to receive the reinsurance recovery receivable from the reinsurers.
- Tax Implications are discussed in Section 4.3.7.

4.3.3 ILAL Contractual Policy Term Changes

Immediately after the Transfer Date, the AIAA contractual policy terms will apply for the Transferring ILAL Policies, with the exception of Ex-QBE CCI products. This includes ILAL's "Here For You" Retail Advised product and the "Term Life" Ex-QBE product. Changes to contractual policy terms are discussed further in Section 6.

The Ex-QBE CCI products are to be transferred under the proposed Part 9 Transfer, but the terms and conditions of these policies will not be changed, subject to AIAA becoming the issuer of those policies and formal changes prescribed under the proposed Scheme Document.

For the Remaining ILAL Policies, the terms and conditions will not change as a result of the proposed Part 9 Transfer because they are not being transferred under it.

4.3.4 Operational Aspects of the ILAL Policies

Immediately after the Transfer Date, changes to the administration systems and rules for the Transferring ILAL Policies will be made to align their operation to AIAA policies.

Further details of the proposed changes are contained in Section 7.3.

4.3.5 AIAA Contractual Policy Terms

The terms and conditions of AIAA's existing in-force life policies (as defined under the Life Act) issued by AIAA ("Existing AIAA Policies") will not change as a result of the proposed Part 9 Transfer.

4.3.6 Costs and Expenses

ILAL will bear expenses it incurs relating to the transfer and has also agreed to fund a portion of AIAA's costs. All costs and expenses incurred by ILAL in relation to the proposed Part 9 Transfer is being paid from the ILAL statutory fund (for clarity it is noted that the amount of \$1.5m to be transferred to the escrow account by IGHL, as discussed below and in Section 2.10, is funded by IGHL).

ILAL has agreed payments to third parties for terminating arrangements with them as part of the proposed Part 9 Transfer. These include reinsurance and reinsurance related arrangements as well as trustee arrangements for the superannuation policies. ILAL will also fund a share of expenses incurred by AIAA relating to the proposed Part 9 Transfer. The one-off ex-gratia payment for certain policy owners where the AIAA premium exceeds the current ILAL premium by 60% will be paid by ILAL (approach set out in Section 7.5).

As noted in Section 2.10, under the agreement between ILAL and AIAA as part of the proposed Part 9 Transfer, an amount of \$1.5m will be held in escrow on behalf of IGHL to

fund potential claims made by AIAA under the transfer deed for breach of contract/breach of warranty claims in relation to the asset transfer.

IGHL will be required to transfer this amount of \$1.5m into the escrow account where it will be held for a period of 18 months after the Transfer Date. 18 months after the Transfer Date any amount which has not been called upon under the Escrow Deed will be made available to meet any remaining policy liabilities of ILAL should the winding up of ILAL not have been completed by that time.

The amount in escrow will be the first recourse for a claim less than \$1.5m.

Lastly, there is difference, as noted in Section 4.3.1, between the assets to be transferred to AIAA in respect of incurred claims (being those claims in the course of payment, IBNR claims and claims that are reported but not admitted) and the net liability ILAL was holding for these reserves.

The total amount of the above items is approximately \$4.3m. For clarity it is noted that this \$4.3m amount does not include the \$1.5m to be held in escrow.

4.3.7 Tax Implication of the Proposed Part 9 Transfer

As detailed in Section 2.7 and 3.10, ILAL and AIAA are liable for tax and no change is expected to be made to the methods used to comply with tax legislation as a result of the proposed Part 9 Transfer. The broad implications for tax from this proposed Part 9 Transfer are:

- GST: AIAA will assume the obligation for payment of GST following the transfer. ILAL will retain liability and make payment for any GST accruing prior to the transfer.
- Stamp Duty: ILAL will retain liability and make payment for any stamp duty accruing prior to the Part 9 Transfer. AIAA will assume the obligation for payment of stamp duty following the transfer.

There are additional tax-related costs anticipated as a result of the proposed Part 9 Transfer, including:

- Stamp duty on the transfer of the transferring assets to AIAA, which will be borne by AIAA; and
- Tax credits held by ILAL that cannot be transferred to AIAA (retained by IGHL).

Since all the Transferring ILAL Policies are non-participating, the tax implication of the proposed Part 9 Transfer has no impact on the policyholder benefits.

4.4 Transfer Process – Reinsurance Contracts

There are two reinsurance treaties covering the Retail Advised business. One with Hannover Life Reinsurance Australasia Limited (“HLRA”) covering business written up to 11 April 2022. Business written after 11 April 2022 is covered by a treaty with RGA Reinsurance Company of Australia Limited (“RGA”).



Both treaties will be subject to the proposed Part 9 Transfer and will be modified with an addendum to take effect on the Transfer Date. For both treaties the modifications include reducing the level of reinsurance on future claims.

Other reinsurance arrangements covering the Transferring ILAL Policies of “Term Life” Ex-QBE product and Ex-QBE CCI product will be terminated by ILAL immediately prior to the Transfer Date.

The reduction in the level of reinsurance for future claims for the Transferring ILAL Policies is appropriate given the greater size of the AIAA portfolio and amount of capital of AIAA.

At the Transfer Date, the rights and liabilities of the reinsurance treaties related to the Transferring ILAL Policies will become rights and liabilities of AIAA, and AIAA will assume the position of ILAL under the above reinsurance arrangements.

4.5 Communication Plan

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.

5. Financial Impact of Transfer

5.1 Overview

This section of the report examines the financial impact of the proposed Part 9 Transfer on ILAL and AIAA.

5.2 Impact of Transfer on AIAA

5.2.1 Net Assets & Capital Position of AIAA

Table 7 below sets out AIAA’s financial position with respect to the AIAA SF1, before and after the proposed Part 9 Transfer, based on:

- AIAA’s financial position as at 31 December 2023 as set out in Section 3.14; and
- Advice from AIAA regarding the impact of the proposed Part 9 Transfer on the PCA of AIAA.

Table 7: AIAA's financial position pre and post proposed Part 9 Transfer

	Net Asset and Capital Position (\$m)	
	AIAA SF1 31 December 2023	
	Pre-Transfer	Post-Transfer
Net Assets	1,325	1,325
Regulatory Adjustments to Net Assets	(688)	(688)
Capital Base	637	637
Prescribed Capital Amount ("PCA")	301	303
Capital in excess of PCA	336	335
Capital Adequacy Multiple (%) ("CAM")	212%	210%

In relation to the AIAA SF1, the proposed Part 9 Transfer is expected to slightly reduce the CAM mainly due to increased capital requirements (PCA) for AIAA SF1 arising from a slight increase in insurance risk.

5.2.2 Prescribed Capital Amount Change

AIAA have determined that the addition of Transferring ILAL Policies increases the PCA of the AIAA SF1 by \$2m.



5.2.3 Financial Strength Outlook

The Transferring ILAL Policies are forecast to generate free capital over time for AIAA, as profits are recognised, and required capital margins are released. The acquisition costs associated with the Transferring ILAL Policies are low because initial commissions and underwriting costs are not incurred. Although it is expected that some of the Transferring ILAL Policies will lapse their cover shortly after the proposed Part 9 transfer, the acquisition of the Transferring ILAL Policies is expected to improve AIAA's future capital generation over the current business planning period.

The net payments related to the completion of the sale are reflected in the pro forma capital position of AIAA immediately after the proposed Part 9 Transfer.

AIAA's capital projection indicates that immediately on and following the proposed Part 9 Transfer each fund within AIAA is forecast to generate free capital in each year that has been projected and is expected to meet or exceed the regulatory requirement in each fund throughout the projection.

The additional capital buffer over the regulatory capital requirement is currently below the target level and is forecast to be organically restored back to target within a reasonable time period following the proposed Part 9 transfer. The proposed Part 9 Transfer does not have a material impact on AIAA's additional capital buffer over the regulatory capital requirement nor the restoration of the additional capital buffer back to the target level.

The capital position of AIAA following the Part 9 Transfer, before any future dividends are paid, is projected to improve over the three years that have been projected. This means that AIAA is anticipated to fund its own capital requirement over the projection period.

5.3 Financial Impact of Transfer on ILAL

The table below shows the impact of the transfer on ILAL and other Integrity Group assets available to meet policy owner benefits.

The "pre-transfer" "Capital Base (CTV)" shown in the first column of numbers below includes the impact of costs that had been incurred on preparing for the proposed Part 9 Transfer up to 31 May 2024.

The "post-transfer" "Capital Base (CTV)" is the 31 May 2024 "pre-transfer" amount, reduced for the items noted at 4.4.6 for completing the proposed Part 9 Transfer. This includes costs incurred from June 2024 which are expected to reduce the Capital Base (CTV) by \$4.0m.

This is slightly less than the \$4.3m of costs noted in Section 4.3.6 which included approximately \$0.3m of ILAL costs and costs of its service providers that have already been incurred to 31 May 2024.

In Section 4.3.6 it is also noted that ILAL has agreed with AIAA as part of the proposed Part 9 Transfer that IGHL will be required to transfer an amount of \$1.5m into an escrow account where it will be held for a period of 18 months after the Transfer Date to fund potential claims made by AIAA under the transfer deed for breach of contract/breach of warranty claims in relation to the asset transfer.

IGHL will be required to hold this amount and make it available for a period of 18 months after the Transfer Date. 18 months after the Transfer Date IGHL will not be required to hold this amount or make good any claims from AIAA.

As the Integrity Group does not conduct any business other than the life insurance business of ILAL, and given ILAL and IGHL are both APRA-regulated entities who have a common Board of Directors (and therefore there is aligned interests in meeting policy owner obligations), it is expected that any of this \$1.5m which is not required to fund such a claim, will be available to meet any policy owner obligations that ILAL would otherwise have been unable to meet.

Analysis for the Post Part 9 Transfer position in Table 8 below includes results both before and after deducting this amount of \$1.5m.

Table 8: Integrity Group Capital Base pre and post proposed Part 9 Transfer

Capital Base (Net CTV) at 31 May 2024 (\$m)		
	Pre Part 9 Transfer	Post Part 9 Transfer
Assets available to meet CTV - Total Integrity Group¹	51.1	38.8
Net CTV ² – Transferring ILAL Policies	8.3	0
Net CTV ² – Remaining ILAL Policies	22.6	22.6
Total Net CTV ²	30.9	22.6
Integrity Group Capital Base (Net CTV) – before Deducting Amount Withheld for Warranties and Indemnities ³	20.2	16.2
Amount held in escrow to fund potential warranty or contract breach claims from AIAA	0.0	1.5
Integrity Group Capital Base (Net CTV) after Deducting Amount Withheld for Warranties and Indemnities ⁴	20.2	14.7

¹ Assets available to meet CTV – Total Integrity Group are the tangible assets held by ILAL and IGHL to fund the net of reinsurance claims. Because it represents assets available to fund net of reinsurance claims, it excludes reinsurance receivables.

² Net CTV as defined in Section 2.3.1 of this report.

³ As noted above and in Section 4.3.6, under the agreement between ILAL and AIAA as part of the proposed Part 9 Transfer, an amount of \$1.5m will be held in escrow on behalf of IGHL to fund potential claims made by AIAA under the transfer deed for breach of contract/breach of warranty claims in relation to the asset transfer. Analysis for the Post Part 9 Transfer position includes results both before and after deducting this amount of \$1.5m.

⁴ The \$20.2m pre the Part 9 Transfer is comprised of \$18.1m in ILAL and \$2.1m in IGHL. The \$16.2m (\$14.7m if the \$1.5m to be held in escrow is excluded) post the Part 9 Transfer is comprised of \$14.1m in ILAL and \$2.1m of IGHL assets (\$0.6m if the \$1.5m to be held in escrow is excluded). It is noted that, while ILAL is the only operating business that IGHL owns, the assets in IGHL may be used for purposes other than to fund ILAL claims and transfer costs.

The results in the table above show that post Part 9 Transfer, assets over Net CTV are lower by \$4.0m (i.e. \$20.2m less \$16.2m) if the \$1.5m AIAA has required to be held in escrow to fund potential claims is not deducted, and by \$5.5m if it is deducted (i.e. \$20.2m less \$14.7m).

The driver of this difference is the costs of implementing the proposed Part 9 Transfer. These costs have been taken into account in the analysis in Section 2.10 of the assets that ILAL is expected to have once all the business is transferred and the business is completely wound-up.



In particular under the Baseline Scenario and assuming claims are as anticipated, ILAL expects to have sufficient assets to transfer all of its business (i.e. including the Remaining ILAL Policies not transferring under the proposed Part 9 Transfer) and extinguishing its remaining policy liabilities by 30 June 2025.

The financial impact of the proposed Part 9 Transfer on the Remaining Policy Owners is discussed in Section 9.2.

6. Transferring ILAL Policy Owner Considerations – Contractual Benefits and Rights

6.1 Overview

In this section the impact of the proposed Part 9 Transfer on the contractual benefits and rights of the Transferring ILAL Policy Owners is considered.

Subject to the Court’s approval, the Transferring ILAL Policies will be transferred to existing AIAA products (that is, to products with terms as they currently exist on already in-force AIAA policies). This is with the exception of the Ex-QBE CCI products where the policies will continue to be administered by QBE and will maintain the current product terms and conditions. It is also noted that claims made or arising from an insurable event before the effective date of the Scheme will be assessed on the basis of the pre-Scheme ILAL terms and conditions.

In deciding to proceed with AIAA, ILAL considered AIAA’s product suite and determined that it was suitable for the ILAL policies as a whole because:

- ILAL’s “Here for You” Retail Advised policies were sold through financial advisers to individuals and couples. AIAA competes in this market and, similar to ILAL, AIAA issues a single policy type called Priority Protection. As for ILAL’s Here for You policy, the Priority Protection policy has a number of options and has had certain updates over time; and
- The benefits and features of the existing AIAA products were generally considered market competitive, and (considered in aggregate across all covers – life, TPD, critical illness and IP) in the 12 months to 31 December 2023, AIAA’s Priority Protection product had a 12% new business market share². One analysis considered was the IRESS ratings which are set out below.

6.1.1 IRESS Ratings

The IRESS Risk Researcher is a tool used by financial advisers to assist them in understanding and summarising the difference in products available when providing advice to clients. This research summarises definition by definition details into ratings which are either % based or provided with a letter (similar to a school report card). A comparison of the average IRESS Risk Researcher ratings between AIAA and ILAL (as at May 2024) is shown in Table 9.

² Source: AIAA Financial Condition Report, 31 December 2023

Table 9: ILAL and AIAA IRESS Risk Researcher ratings

Cover Type / Gender	ILAL		AIAA	
	Core Score	Supplementary Score	Core Score	Supplementary Score
Life, TPD, CI (Male) ¹	99%	74%	97%	86%
Life, TPD, CI (Female) ¹	97%	74%	97%	86%
IP (Pre-IDII, Indemnity, Male)	109% ⁴	48%	104% ⁴	61%
IP (Pre-IDII, Agreed Value, Male)	104% ⁴	48%	100% ⁴	61%
IP (Post-IDII, Indemnity, Male) ^{2,3}	84%	58%	84%	52%

¹ ILAL also offers CI with extras which has a core score of 100% and supplementary score of 76% for both male and female.

² Scores shown are for ILAL's 70% IRR product. ILAL also offers 60% and 50% IRR which has a core score of 80% and supplementary score of 58%.

³ Scores shown are for AIAA's Core Flat product. AIAA also offers the Core product with a core score of 82% and supplementary score of 52%.

⁴ IRESS changed their scoring methodology when the APRA mandated IDII product was introduced in October 2021, to recognise the post-IDII constraints on products. Scores greater than 100% reflect features that the that the new scoring methodology excludes (because new policies can't access those features).

The 'Core Score' refers to the overall score for the core features of the product. The 'Supplementary Score' corresponds to the overall score given to the product's supplementary features. The core features and supplementary features are determined by IRESS depending on the product mix adopted in the comparison.

I note that AIAA's product is well-rated across the cover types and, whilst not exactly the same, broadly similar to ILAL's product. Whilst the IRESS ratings are an important perspective which provides a view of overall product competitiveness, further analysis was then conducted to understand the specific areas of difference between the products.

The remainder of this section sets out the following:

- Product Mapping Principles and Results; and
- Product Comparison Results.

6.2 Product Mapping Principles and Results

6.2.1 Product Mapping Principles

There are differences between ILAL's products and AIAA's products. For the purpose of transferring products under the proposed Scheme, the principle applied was to map each existing ILAL product to the AIAA product with similar cover where available.

ILAL's Here For You products were determined by reference to the date the Transferring ILAL Policy Owner applied for the relevant ILAL policy ("Application Submission Date").

Where AIAA products had features and/or options that did not closely match those of the ILAL product, but there was a close product feature/option which was more generous, this was generally selected.

This was based on the principle that it is generally easier for a policy owner to choose a less generous benefit or reduce their sum insured (i.e. if they are initially offered the more generous benefit but they prefer a less generous benefit and the associated reduction in premiums payable), than it is to choose a more generous benefit or higher sum insured (i.e. if they are initially offered the less generous cover but decided they preferred the more generous cover with the associated higher premium cost).

For example, upgrading cover can involve additional underwriting.

For cases where there are benefits provided by the ILAL product that are not provided by the AIAA product and/or where the benefit is lower/option less generous, these more generous conditions/benefits will cease on the Transfer Date and Transferring ILAL Policy Owners will have their benefits based on the AIAA product. This is discussed further below.

6.2.2 Product Mapping Results

ILAL staff performed product mapping based on the application of the product mapping principles in 6.2.1. The Product Transfer Rules set out in the Scheme reflect the results of this product mapping.

During the period that the Here For You product was on sale, ILAL made two changes which reduced the generosity of terms. Firstly, the APRA mandated removal of agreed value (“AV”) IP terms in April 2020, and secondly, APRA intervened by implementing a series of measures to improve sustainability of the individual disability income insurance products in the industry (“IDII”) and mandated changes effective October 2021. Products before these changes effective October 2021 are referred to as pre IDII and products after these changes effective October 2021 are referred to as post IDII in this report. On this basis, the product variations selected for comparison to the AIAA product terms were the most contemporary ILAL product terms (PDS version 5c), and in respect of IP for policies taken out before the two above mentioned product changes were affected, the last version that contained agreed value terms (PDS version 2), and the last ILAL version before IDII was introduced (PDS version 4).

The results of the product mapping are set out in Table 10 below. As set out in the notes to the Table, the ILAL Here For You product is determined by the Application Submission Date for the relevant ILAL policy.

Table 10: ILAL to AIAA product mapping results

ILAL Product	AIAA Product	Description	Number of Policies ¹	Number of Policy Owners
Integrity’s Here For You (version 5c – 30 January 2023) ²	AIA Priority Protection (version 29 – 12 May 2024)	Lump Sum – 1 October 2021 to present	5,057	3,278
	Lump Sum: PDS Section 2, 3, 4	IP (Post-IDII) – 1 October 2021 to present		
	IP (Post-IDII): PDS Section 5.1 (Core Flat)	IP (Post-IDII) launch version – 1 October 2021 to present Most recent ILAL PDS.		
Integrity’s Here For You	AIA Priority Protection (version 29 – 12 May 2024)	Lump Sum – 1 April 2020 to 30 September 2021	3,826	2,489

ILAL Product	AIAA Product	Description	Number of Policies ¹	Number of Policy Owners
(version 4 – 1 April 2021) ³	Lump Sum: PDS Section 2, 3, 4 IP (Pre-IDII): PDS Section 5.3 (Advantage Optional, Plus Optional)	IP (Pre-IDII) Indemnity – 1 April 2020 to 30 September 2021 Last ILAL PDS version before IDII changes.		
Integrity’s Here For You (version 2 – 13 April 2019) (included for Agreed Value purposes only) ⁴	AIA Priority Protection (version 29 – 12 May 2024) Lump Sum: PDS Section 2, 3, 4 IP (Pre-IDII): PDS Section 5.3 (Advantage Optional, Plus Optional)	Lump Sum – 16 October 2018 to 31 March 2020 IP (Pre-IDII) Indemnity – 16 October 2018 to 31 March 2020 IP (Pre-IDII) AV and Indemnity – 16 October 2018 to 31 March 2020 Last ILAL PDS version with Agreed Value.	460	300
Member Care Term Life & Crisis Recovery Plan (30 June 1996) – TC	AIA Priority Protection (version 29 – 12 May 2024)	Ex QBE (Term Life & Crisis Recovery Plan, under policy group code “TC”)	6	6
Term Life Cover (1 July 1997) – GL	AIA Priority Protection (version 29 – 12 May 2024)	Ex QBE (Term Life – Group Life Plan, under policy group code “GL”)	13	13
Member Care Life Insure (1 October 1999) – LC	AIA Priority Protection (version 29 – 12 May 2024)	Ex QBE (Term Life – Member Care Life Insure Counter, under policy group code “LC”)	130	130
Member Care Life Insure (1 March 20–5) - LI	AIA Priority Protection (version 29 – 12 May 2024)	Ex QBE (Term Life – Member Care Life Insure Campaign, under policy group code “LI”)	99	99
Ex-QBE CCI MLI	Ex-QBE CCI MLI ⁵	There will be no changes to the product mapping for these products		
Ex-QBE CCI LFI	Ex-QBE CCI LFI ⁵	There will be no changes to the product mapping for these products	167	167
Ex-QBE CCI OnePath	Ex-QBE CCI OnePath ⁵	There will be no changes to the product mapping for these products		

¹ The number of policies in this table (Table 10) is based on data extract at 30 April 2024, adjusted for lapses/cancellations up to 28 June 2024. This is different to the number of policies presented in Table 1 which was based on data extract at 31 May 2024.

² ILAL Here For You policies with an Application Submission Date after 1 October 2021 to current date (i.e. covered by versions 5a, 5b and 5c) are deemed to be covered by the latest/current PDS, version 5c.

³ ILAL Here For You policies with an Application Submission Date between 30 April 2020 to 30 September 2021 (i.e. covered by versions 3 and 4) are deemed to be covered by the last PDS before the IP (post-IDII) changes, version 4.

⁴ ILAL Here For You policies with an Application Submission Date between 16 October 2018 to 31 March 2020 (i.e. covered by versions 1 and 2) are deemed to be covered by the last PDS with agreed value terms, version 2.

⁵ Ex-QBE CCI products are maintaining the current PDS, continued to be administered by QBE.

Table 10 above shows the product mapping for products which currently have in-force policies with ILAL. For products transferring which have no in-force policies (and are being transferred for the purposes of capturing late reported claims), these products will maintain their existing PDS and they have not been included in Table 10 above. Please refer to Schedule 1 of the Scheme Document for the full list of products being transferred which includes products with no in-force policies.

6.3 Product Comparison Results

For each of the products mapped in 6.2.2 above, ILAL staff compared the benefits, terms and conditions of the ILAL products and the AIAA products.

I have summarised the results of the product comparison undertaken by ILAL staff described at 6.2.2 in a Supplementary Product Comparison Report. I have performed reasonableness checks on classifying whether the benefit changes is more/less generous and have relied on the governance undertaken by ILAL to perform the product comparison.

While overall the products mapped closely, there are cases where the AIAA product provides more generous benefits than the ILAL product and vice versa (i.e. cases where the ILAL product is more generous).

For cases where the AIAA benefit is more generous this may have resulted in an additional cost. The premium comparison is discussed at Section 7.

Below are set out certain key observations on the product comparison.

6.3.1 Ancillary Benefits, Options to Increase Sum Insured and Indexation Rules

For ancillary benefits, options to increase sum insured and indexation rules, there are cases where the AIAA product provides more generous benefits than the ILAL product and vice versa (i.e. cases where the ILAL product is more generous).

The following broad categories of options and ancillary benefits are noted:

- Ancillary benefits where the benefit amount payable is small e.g. less than 10%, relative to the main product benefit.
- Options to increase the main product benefit. In certain cases there are differences in; the size of the increase in sum insured that a policy owner may apply for and/or the conditions under which an application may be made to increase the sum insured.
- Indexation rules for main product benefit. In some cases there are differences in how benefits may be increased over time, for example to keep pace with inflation.

6.3.2 Main Product Benefits

For the main benefits there are cases where the AIAA product provides more generous benefits than the ILAL product and vice versa (i.e. cases where the ILAL product is more generous).

For example, for critical illness cover there are certain events which are covered under the ILAL product and which are not covered by the AIAA product and vice versa.

Also based on IRESS ratings, or ILAL internal review where IRESS ratings were not available, there are certain critical illnesses where the definition to meet the conditions for a benefit payment of the AIAA product was considered overall less beneficial than ILAL or vice versa.

Some examples of where the AIAA product is more generous than the ILAL product are as follows:

- Here for You IP (pre-IDII) Cover. Transferring ILAL Policy Owners without Care Support Package will be transferred to the IP Advantage Optional AIAA product. Transferring ILAL Policy Owners with Care Support Package will be transferred to the more premium IP Plus Optional AIAA product. Overall, the benefit coverage is increased; and
- Here for You – Critical Illness Cover. ILAL offered an Extra Medical condition option under critical illness that extends cover to pay a partial benefit on 14 additional medical conditions. AIAA's base product covers 7 of these additional 14 medical conditions as a built-in benefit. Hence, Transferring ILAL Policy Owners without the Extra medical Conditions option would be mapped to AIAA's product with more medical conditions covered.

Some examples of where the ILAL product is more generous than the AIAA product are as follows:

- Here for You IP (pre-IDII) Cover
 - ILAL offers a benefit expiry date of age 70 for the "Light Blue" occupation class, which covers a broad range of occupations with low physical activity. The maximum benefit expiry for "Light Blue" under the AIAA product is age 65.
 - Reduction in benefits after age 65 for policies with an Age 70 benefit period. AIAA reduces the monthly benefit by 20% on each policy anniversary after age 65. ILAL does not.
- Here for You IP (post-IDII) Cover
 - Under the AIAA formula the partial disability benefit paid may be lower in certain circumstances. For example:
 - where the policy insures less than 70% of income (for example policy owners with the 50%/60% replacement ratio) this will apply a larger reduction to the benefit amount than ILAL's formula; and
 - where pre-disability income increases from the time of application, ILAL's approach would recognise the higher pre-disability income amount and therefore the reduction in income from that higher base would result in a higher benefit calculation.
 - AIAA offset employer payments for sick leave. ILAL only offset sick leave when the policy is in super.

- Ex-QBE Term Life Cover - LC policy code. The ILAL benefit on death due to accident is 50% more than the benefit under AIAA's product.

6.4 Ability to Seek Cover with an Alternative Insurer

A policy owner who is considered a "healthy life" is someone who, if they applied at another insurer for the same cover, could expect to be provided a similar level of cover without additional exclusions and/or a higher underwriting loading. In-market products refer to products that are currently sold by life insurers, and which a policy owner could apply for from other insurers in the market.

That is, a healthy life has the ability to select a product from another life company if they are able to find one with more suitable terms and conditions than those under the AIAA product. They are also free to take out an alternate product with AIAA to the one they are transferred to under the proposed Part 9 Transfer.

On the other hand, a policy owner who is considered an unhealthy life, is someone who, if they applied at another insurer for the same cover they have with ILAL, would be; declined cover entirely, be provided cover but with additional exclusions and/or with a higher underwriting loading.

The implications of these different abilities of healthy and unhealthy lives to seek cover with an alternative insurer are discussed further below. The implications for policy owners currently on claim is also discussed.

Healthy Life with Active Adviser, In-market Product

Whether or not the proposed Part 9 Transfer proceeds, these policy owners have the option to continue cover with an alternative insurer to AIAA.

Under the proposed Part 9 Transfer, and if they retain the AIAA policy they are transferred into, their cover will continue without requiring any further action from them.

Healthy Life with Active Adviser, Product Features No Longer Available In-Market

The impact of the proposed Part 9 Transfer for these policy owners is similar to those set out above for "Healthy lives with active advisers". An additional point noted is that under the proposed Part 9 Transfer the product they are automatically transferred into includes generous features not available if they sought cover from an alternative insurer to AIAA.

Healthy Life No Active Adviser

While facing the same choices as policy owners with an active adviser, 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.

On this basis, under the proposed Part 9 Transfer the policy owner is transferred into a product providing cover similar to their existing policy, while in the absence of a Part 9 there is the potential that, because they are not under active advice, the policy owner fails to make a decision, or makes a sub-optimal decision, and are otherwise expected to lose cover by February 2028 and ILAL's capacity to pay benefits in full if they claim would be exhausted.

Unhealthy Life and Unable to Find Alternative Cover

As noted above unhealthy policy owners are those who, if they applied at another insurer for the same cover they have with ILAL, would be; declined cover entirely, be provided cover but with additional exclusions and/or with a higher underwriting loading.

Under the proposed Part 9 Transfer, cover continues for these policy owners and the same underwriting loading applies. Without a Part 9 these policy owners are otherwise expected to lose cover by February 2028 and ILAL's capacity to pay benefits in full if they claim would be exhausted.

Policy Owners Currently on Claim

Under the proposed Part 9 Transfer the financial security of benefits for claiming policy owners is supported by the AIAA SF 1.

Alternatively, should the proposed Part 9 Transfer not proceed, claiming policy owners face a significant risk of not receiving their full benefit payment entitlements as ILAL's capacity to pay benefits in full is expected to be exhausted by February 2028.

6.5 Conclusion on Changes to Contractual Terms and Conditions

My overall conclusion is that the only viable approach to the transfer is to amend ILAL's policies to the premiums, terms and conditions of AIAA's products (with the exception of the Ex-QBE CCI policies). Under the alternative without a Part 9 ILAL policy owners are expected to otherwise lose cover by February 2028 and ILAL's capacity to meet policy owner benefits in full would be exhausted.

The following points are noted based on the above discussion and analysis in this section:

- Based on the comparison of products undertaken by ILAL staff, the products generally mapped closely; and
- For the main benefits there are cases where the AIAA product provides more generous benefits than the ILAL product and vice versa (i.e. cases where the ILAL product is more generous).

These more generous ILAL conditions/benefits will cease on the Transfer Date and Transferring ILAL Policy Owners (with the exception of the Ex-QBE CCI policies) will have their benefits based on the AIAA product.

Transferring ILAL Policy Owners who are healthy have the option of seeking cover from another insurer that provides conditions/benefits similar to the ILAL product (subject to underwriting).



Under the Communication Plan Transferring ILAL Policy Owners and their advisers will be notified of the premium changes at least 30 days prior to the premium change coming into effect but less than 60 days before the Transfer Date. They will be notified approximately two and a half months before the Transfer date of the Scheme and be provided access to the Scheme Document which contains the product mapping.

This is a relatively short amount of time to identify and obtain alternative cover. Policy owners who are unable to organise cover by the Transfer Date will have their benefits based on the cover provided by the AIAA policy from the Transfer Date until cover with the policy from an alternative insurer is organised.

Transferring ILAL Policy Owners who are unhealthy will have their cover continue with the AIAA policy they have been mapped to. Unhealthy lives face difficulties seeking cover from an alternative insurer as in they applied for cover with another insurer they would either be; declined cover entirely, be provided cover but with additional exclusions and/or with a higher underwriting loading.

7. Transferring ILAL Policy Owner Considerations – Reasonable Benefit Expectations and Interests

7.1 Overview

In this section the impact of the proposed Part 9 Transfer on the reasonable benefit expectations (“RBE”) and interests of Transferring ILAL Policy Owners is considered.

7.2 Policy Owners’ RBE Issues

The fundamental expectation of policy owners is that they will receive their contractual benefit entitlements when they fall due.

Nonetheless, there are aspects of the operation of the Transferring ILAL Policies that involve some discretion being exercised by ILAL historically, and AIAA in the future, and therefore have the potential to impact the reasonable benefit expectations of a policy owner.

These discretions relate to the following areas and are discussed further below:

- policy administration and systems;
- product and pricing strategy;
- claims management;
- underwriting of sum insured increases;
- investment management; and
- management of guarantees.

7.3 Policy Administration and Systems

As part of the proposed Part 9 Transfer, all Transferring ILAL Policies of "Here for You" Retail Advised product and "Term Life" Ex-QBE product will transfer to existing AIAA administration systems.

These Transferring ILAL Policies will be administered in the same way as AIAA’s Priority Protection policies. There are no material differences to how the policies are administered by ILAL and therefore Transferring ILAL Policy Owners reasonable benefit expectations are expected to be met.

For claims incurred on Transferring ILAL Policies prior to the Transfer Date (such as claims which were incurred prior to the Transfer Date but not reported until after the ILAL policy has transferred to AIAA), AIAA will administer these claims mainly off-system. AIAA will apply additional controls around the administration of these policies to minimise the risk of adverse impact to customer service and do not expect customer service levels for these claims to be impacted by the proposed Part 9 Transfer.

For the Transferring ILAL Policies of Ex-QBE CCI product, these policies will continue to be administered by QBE and the original policy terms and conditions will remain unchanged.

7.4 Product and Pricing Strategy

From the Transfer Date, Transferring ILAL Policy Owners (except for the Ex-QBE CCI policies retaining the current product) will be charged premiums based on the AIAA product that their ILAL product is mapped to.

That is, for policies that pay premiums annually this will occur at their next policy anniversary following the Transfer Date. For policies with monthly paying premiums, this will occur for the first monthly premium due after the Transfer Date.

It is noted that to minimise any impact of AIAA's pricing policy, the Transferring ILAL Policies (except for the Ex-QBE CCI policies retaining the current product) will be exempt from any AIAA repricing in 2025. Any premium rate changes that AIAA makes i.e. in 2026 or beyond, will apply to ILAL policy owners.

ILAL and AIAA staff worked together to perform an analysis to provide an indication on the difference in premiums from the ILAL product to the AIAA product for the Transferring ILAL Policy Owners using an interim calculation process and based on the product mapping in Section 6. These differences are discussed further below.

It is noted that the analysis is based on comparing premiums based on the Transferring ILAL Policy Owners' current sum insured based on data extract at 30 April 2024 and projected age as at 15 December 2024. That is, it includes any changes/increases that will occur on the policy anniversary due to age-based increases in rates for stepped premium policies and/or any sum insured increases due to indexation.

I have performed high level reasonableness checks to understand the factors contributing to the indicative difference in premiums in this analysis. I have relied on the review and governance undertaken by ILAL and AIAA staff in the premium analysis such as sample testing. I understand that as a result of this review, a number of issues have been identified and the plan is not to re-perform this analysis.

The actual premium will be determined when the data of the Transferring ILAL Policy Owners goes live on the AIAA system and pricing engine post the Confirmation Hearing.

Some of the issues identified include:

- ILAL data issues such as compatibility of data fields with the AIAA pricing engine;
- Calculation of the Super continuation option sums insured and premium which was not built into the interim calculation process;

- Calculation of TPD policy owners with 14 day reset to convert to stand alone pricing which was not built into the interim calculation; and
- Policy owners who, due to data reasons, returned nil sum insured (these policy owners have not been removed because of a critical illness claim where a 12 month reset option applied).

7.4.1 “Here For You” Premium Rate Analysis

ILAL has deferred planned premium rate increases while the Run-off Plan is being implemented. These increases were intended to restore the in-force portfolio profitability which was expected to be negatively impacted by increases to reinsurance rates.

In addition to these deferred increases, reinsurers communicated the need for further increases that would be required in 2025.

It is noted that to offset the increased cost to ILAL of these increases an average increase to policy owner premiums across all benefit types of approximately 20% would be required.

Figure 2 and Table 11 below are analyses provided by ILAL which compares the indicative AIAA premium rates with the current ILAL rates increased for both the deferred increase and the reinsurance premium increase signalled for 2025. It should be noted that under the RCP, ILAL has indicated that the minimum premium rate increase it is considering is 20% with a range of between 20% and 60%. Under the RCP further increases in premium of 50% are intended in 2026.

It is noted that the number of policies presented in this section is based on data extract at 30 April 2024, adjusted for lapses/cancellations up to 28 June 2024. This is different to the number of policies presented in Table 1 which was based on data extract at 31 May 2024. It is noted that the actual number of policies being transferred will be based on the number of policies in force on the Transfer Date.

Figure 2: Indicative Premium impact of Part 9 Transfer on **Here For You** Transferring ILAL Policy Owners (including foregone ILAL increases)

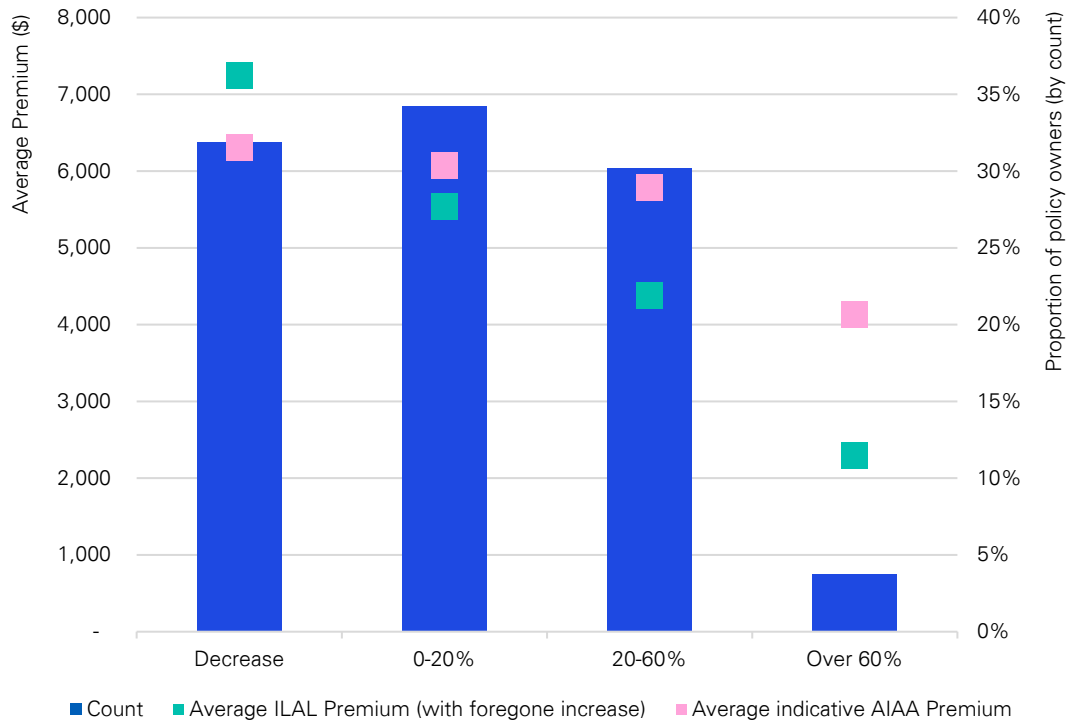


Table 11: Indicative Premium impact of Part 9 Transfer on **Here For You** Transferring ILAL Policy Owners (including foregone ILAL increases)

	Decrease	0-20%	20-60%	Over 60%	Total
Count	1,933	2,076	1,830	228	6,067
Proportion of policy owners	31.9%	34.2%	30.2%	3.8%	100.0%
Average ILAL premium	7,245	5,545	4,382	2,299	5,614
Average indicative AIAA premium	6,303	6,079	5,788	4,135	5,990
Average change (\$)	- 942	534	1,406	1,836	376
Average change (%)	-13.0%	9.6%	32.1%	79.9%	6.7%

On this indicative analysis, that is, taking into account increases in premium foregone by ILAL as referred to above, the average indicative change in premium for “Here for You” policies is an increase of 6.7%.

Figure 3 and Table 12 below are analyses provided by ILAL which compares the AIAA indicative premium rates to the current ILAL premium rates without an adjustment for planned increases.

This comparison provides an indication of the increase in premium rates the Transferring ILAL Policy Owners will face before taking into account an allowance for increases which are planned but yet to be implemented.

Figure 3: Indicative Premium impact of Part 9 Transfer on **Here For You** Transferring ILAL Policy Owners (excluding foregone ILAL increases)

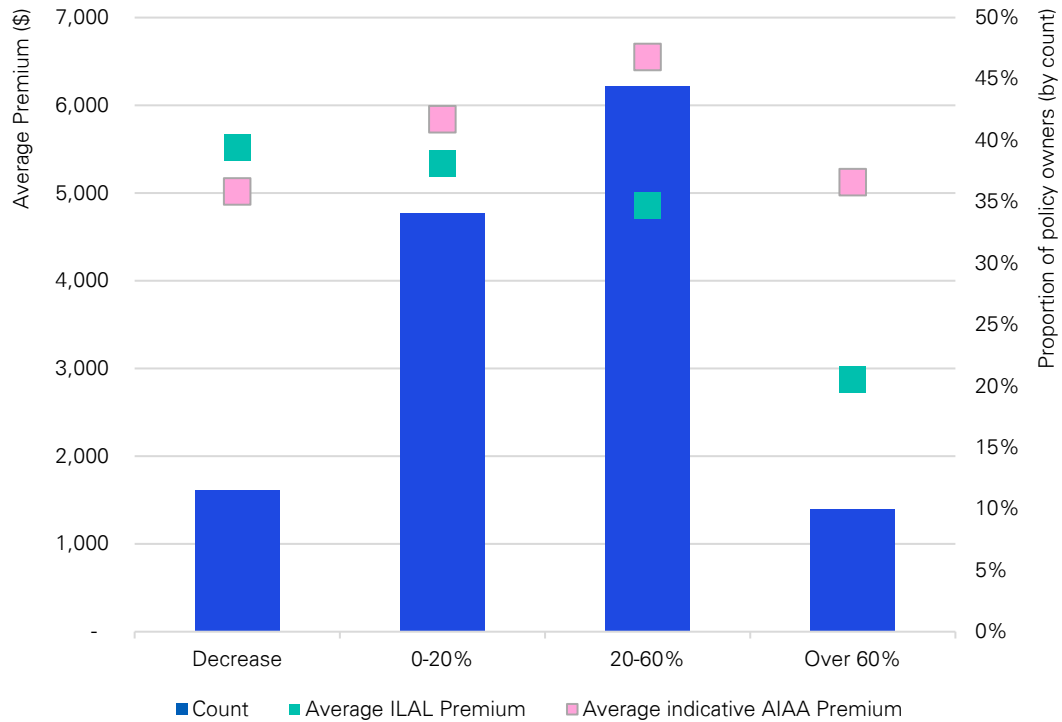


Table 12: Indicative Premium impact of Part 9 Transfer on **Here For You** Transferring ILAL Policy Owners (excluding foregone ILAL increases)

	Decrease	0-20%	20-60%	Over 60%	Total
Count	698	2,066	2,697	606	6,067
Proportion of policy owners	11.5%	34.1%	44.5%	10.0%	100.0%
Average ILAL premium	5,517	5,331	4,864	2,872	4,899
Average indicative AIAA premium	5,017	5,840	6,551	5,124	5,990
Average change (\$)	-500	508	1,687	2,252	1,090
Average change (%)	-9.1%	9.5%	34.7%	78.4%	22.3%

Under this analysis, there is an average indicative increase of 22.3% compared with ILAL's current rates.

A comparison of the average current ILAL premium rate increase, as noted in the RCP, to the average indicative AIAA premium rates is summarised in the table below:

Table 13: Premium impact on [Here For You](#) Transferring ILAL Policy Owners with and without Part 9 Transfer

	If the proposed Part 9 Transfer proceeds	If the proposed Part 9 Transfer does not proceed
Insurer	AIAA	ILAL
Premium increase (average)	<p>AIAA current premium applied immediately on Transfer Date (2025):</p> <ul style="list-style-type: none"> - Average increase 22.3% based on current ILAL premium and indicative AIAA premium - 2025 AIAA repricing: does not apply to Transferring ILAL Policy Owners - 2026 and beyond repricing: No current plan of future increases, but based on prevailing circumstances in the future 	<p>2025:</p> <ul style="list-style-type: none"> - Intended increase 20-60% <p>2026:</p> <ul style="list-style-type: none"> - Intended increase 50%

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.

7.4.2 Ex-QBE Term Life Premium Rate Analysis

Figure 4: Indicative Premium impact of Part 9 Transfer on Ex-QBE Transferring ILAL Policy Owners

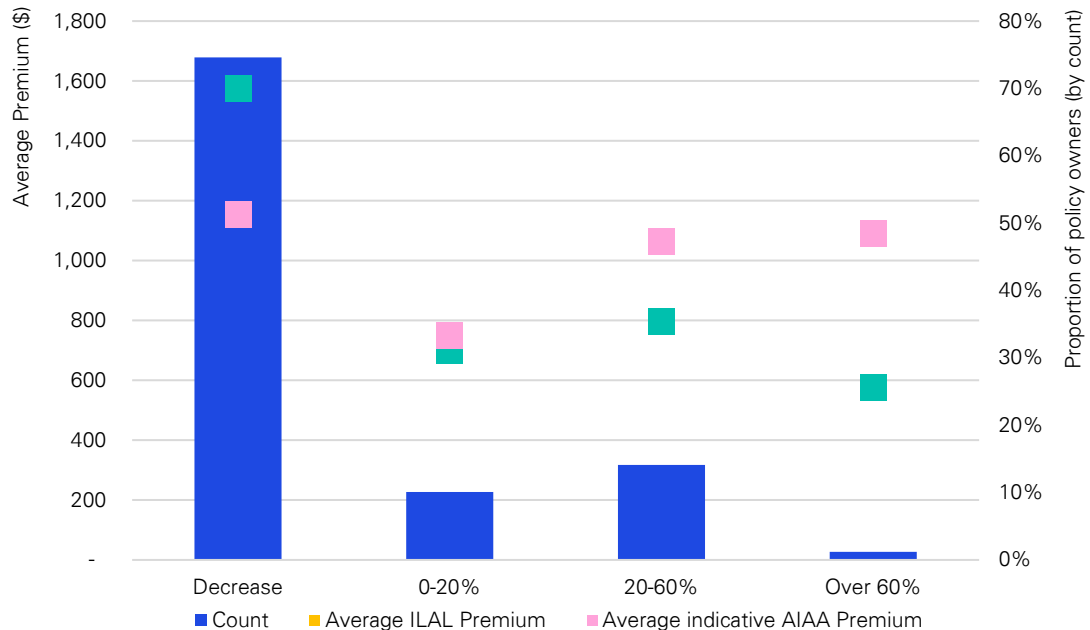


Table 14: Indicative Premium impact of Part 9 Transfer on Ex-QBE Transferring ILAL Policy Owners

	Decrease	0-20%	20-60%	Over 60%	Total
Count	185	25	35	3	248
Proportion of policy owners	74.6%	10.1%	14.1%	1.2%	100.0%
Average ILAL premium	1,575	700	795	575	1,365
Average indicative AIAA premium	1,155	752	1,063	1,092	1,101
Average change (\$)	- 420	51	268	518	264
Average change (%)	-26.7%	7.3%	33.7%	90.1%	-19.4%

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.

Table 15: Indicative Premium impact on Ex-QBE Transferring ILAL Policy Owners with and without Part 9 Transfer

Insurer	If the proposed Part 9 Transfer proceeds		If the proposed Part 9 Transfer does not proceed	
	AIAA	ILAL	AIAA	ILAL
Premium increase (average)	AIAA current premium applied immediately on Transfer Date (2025): <ul style="list-style-type: none"> - Average decrease 19.4% based on current ILAL premium and indicative AIAA premium 2025 AIAA repricing: <ul style="list-style-type: none"> - does not apply to Transferring ILAL Policy Owners 2026 and beyond repricing: <ul style="list-style-type: none"> - No current plan of future increases, but based on prevailing circumstances in the future 		2025: <ul style="list-style-type: none"> - Intended increase 20-60% 2026: <ul style="list-style-type: none"> - Intended increase 50% 	

7.5 Certain Transferring ILAL Policy Owners to Receive a One-Off Ex-Gratia Payment

ILAL is planning to make a one-off ex-gratia payment to provide temporary assistance to Transferring ILAL Policy Owners where the AIAA premium exceeds the current ILAL premium by more than 60%.

The calculations for the one-off ex-gratia payment will be based on comparing premiums based on the Transferring ILAL Policy Owners' current sum insured and age at a particular point in time. That is, changes/increases that will occur on the policy anniversary due to age based increases in rates for stepped premium policies and/or any sum insured increases due to indexation will not be taken into account in the ex-gratia calculation.

60% is the upper range of the first increase planned by ILAL if the proposed Part 9 Transfer does not proceed (as noted in Section 7.4.1).

The estimated cost of the one-off ex-gratia payments is \$110,000 based on the indicative AIAA premium in the premium analysis detailed in Section 7.4. The actual one-off ex-gratia payment will be determined using the actual premium when the Transferring Policy Owners data go live on the AIAA systems. Overall making this one-off ex-gratia payment was considered reasonable to provide some temporary assistance to policy owners in managing the impact of large increases or to allow time to find alternative cover.

Below is set out an overview of the approach to the one-off ex-gratia payment.

- Monthly premium paying policy owners will receive a one-off ex-gratia payment based on 6 months of premiums i.e. difference between AIAA monthly premium and 160% of the ILAL monthly premium, multiplied by six.
- Annual premium paying policy owners with a premium due date within 6 months post the Transfer Date will receive a one-off ex-gratia payment based on half of the excess of the AIAA premium over 160% of the current ILAL premium i.e. difference between AIAA annual premium and 160% of the ILAL annual premium, divided by two.

For example an annual premium paying customer where the AIAA premium is 170% of the ILAL premium (with a premium due date between 1 March 2025 and 31 August 2025) will receive a one-off ex-gratia payment of $\frac{1}{2} \times (170\% - 160\%) \times \text{ILAL Premium}$, i.e. 5% of the ILAL Premium; and

- Annual premium paying policy owners which have a first premium due more than 6 months post the Transfer Date will not receive a one-off ex-gratia payment.

The one-off ex-gratia payment will be rounded up to the nearest \$50. The payment will be made 3 months post Transfer Date for policies in-force at the end of 2 months post Transfer Date.

The one-off ex-gratia payment will be determined at a customer level and based on the net overall increase for the customer. If the customer owns more than one policy and the policies have different billing frequency, then billing frequency of the largest policy by premium will be used to determine the one-off ex-gratia payment for the customer.

7.6 Claims Management

ILAL and AIAA have similar claims management policies as both follow the LICOP and are subject to monitoring by the Life Code Compliance Committee.

Both companies have established operational policies and guidelines to ensure that the claims philosophy is embedded in claims operations.

Based on the above there are no material differences to the claims management policies of ILAL and therefore ILAL policy owners reasonable benefit expectations are expected to be met.

7.7 Underwriting of Sum Insured Increases

Both ILAL and AIAA require health and financial information to support applications for sum insured increases. The financial information requirements are not materially different between ILAL and AIAA.

As part of the required health information policy owners are subject to several medical requirements and tests, dependant on the requested level of sum insured increase.

In the RCP, ILAL has adjusted its resourcing to reflect limiting policy alterations. Therefore overall, the proposed Part 9 Transfer is expected to have a beneficial impact on the ability of Transferring ILAL Policy Owners to increase their sums insured on reasonable underwriting terms comparing to remaining in ILAL if no Part 9 Transfer occurs.

7.8 Investment Management

The income from investment accrues to the benefit of the shareholders and does not impact the benefits of the Transferring ILAL Policy Owners directly.

The asset transferred to AIAA SF1 will be managed in the same way as assets supporting similar products.

7.9 Management of Guarantees

As detailed in Section 7.4, AIAA has guaranteed not to apply any premium rate changes in 2025 to the Transferring ILAL Policy Owners.

Otherwise, premium rates for retail products are not guaranteed under ILAL and AIAA and may vary if the changes apply to a homogenous group of policy owners.

Both ILAL and AIAA products provide a guaranteed benefit to their existing policy cover, where an improvement has been made to the product's life, TPD, trauma or IP cover without any premium increases. Both ILAL and AIAA products provide exclusions to this guarantee where a claim was made before the upgrade, or where the product is not in force when the upgrade was made.

7.10 Conclusions on Reasonable Benefit Expectations and Interests

Based on the analysis in this section ILAL policy owners reasonable benefit expectations in relation to policy administration and claims management are expected to be met as there are no material differences between AIAA and ILAL.

As noted in Section 6.5 my overall conclusion is that the only viable approach to the Part 9 Transfer is to amend ILAL's products to the premiums, terms and conditions of AIAA's products (with the exception of the Ex-QBE CCI policies). Under the alternative without a Part 9 Transfer ILAL policy owners are expected to otherwise lose cover by February 2028 and ILAL's capacity to meet policy owner benefits in full would be exhausted. Also, 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.

The following points are noted based on the above discussion and analysis in this section:

- It is noted that a number of Transferring ILAL Policy Owners will face a significant increase in premiums. For policies that pay premiums annually this will occur at their next policy anniversary following the Transfer Date. For policies with monthly paying premiums this will occur for the first monthly premium due after the Transfer Date.

- Transferring ILAL Policy Owners with a premium increase will be provided communication setting out their options for managing the increase. As noted above the proposed Part 9 Transfer does not obstruct policy owners from obtaining cover from another life insurer. In particular, policy owners who are healthy and are able to find alternative cover are free to cancel their policy and take out a policy with another life insurer if they consider an alternative life insurer's product with its premium rates and benefit is more suitable to them than those under the AIAA product.
- Transferring ILAL Policy Owners who are unhealthy will have their cover continue with the AIAA policy they have been mapped to. Unhealthy lives face difficulties seeking cover from an alternative insurer as if they applied for cover with another insurer they would either be declined cover entirely, be provided cover but with additional exclusions and/or with a higher underwriting loading.
- All policy owners, i.e. policy owners who are able to find alternative cover and those unable to find alternative cover, have the option to reduce the level of benefits under the AIAA product to manage the impact of premium rate increases.

8. Transferring ILAL Policy Owner Considerations – Benefit Security

8.1 Overview

In this section the impact of the proposed Part 9 Transfer on the benefit security of Transferring ILAL Policy Owners is considered.

8.2 Position Pre-Transfer

In Section 2.10 it is noted that ILAL does not meet the regulatory prudential capital requirement and the RCV analysis indicates that, while on the Baseline Scenario and if claims are as expected, ILAL expects to be able to meet its obligations to policy owners, ILAL is not in a strong financial position to address the potential risks that may emerge.

8.3 Position Post-Transfer

Under the proposed Part 9 Transfer, the Transferring Policy Owners will be transferring from ILAL's Statutory Fund No.1 to AIAA's SF1. After the proposed Part 9 Transfer, the policy liabilities of ILAL's Policies will be maintained within AIAA's SF1. Both ILAL's Statutory Fund No.1 and AIAA's SF1 are non-investment linked statutory funds and are required to continue to satisfy the same regulatory capital requirements, as well as other regulatory risk management standards and requirements, as applied to ILAL.

The following subsection discusses the benefit security for the Transferring ILAL Policy Owners after the proposed Part 9 Transfer.

8.3.1 Capital Reserving Levels

As outlined in Section 5, each of the statutory funds of AIAA post the proposed Part 9 Transfer has capital in excess of the relevant PCA and PCR. The expected impact to the CAM in each of AIAA's funds immediately following the proposed Part 9 Transfer is:

- in AIAA's SF1, slight reduction; and
- in AIAA's SF3, unaltered; and
- in AIAA's Shareholders' Fund, slight reduction.

The impact to the CAM in AIAA's SF1 is mainly due to increased capital requirements (PCA) for AIAA's SF1 arising from a slight increase in insurance risk.

The capital position of AIAA's Shareholder Fund is impacted by budgeted project costs in 2024 and 2025 associated with the transfer of Transferring ILAL Policies to AIAA that have been capitalised and shown as an immediate impact in the pro forma position.

8.4 Appropriateness of Fit within AIAA SF1

As described in Section 3.2, AIAA operates 2 statutory funds for life insurance business:

- AIAA SF1 contains non-investment linked business; and
- AIAA SF3 contains investment linked ordinary business.

Given the Transferring ILAL Policies provide life cover, TPD, critical illness cover and IP cover, a transfer under the proposed Part 9 Transfer into AIAA SF1 is considered appropriate.

8.5 Conclusion on Benefit Security

On the basis of the above discussion and analysis, I concluded that:

- the AIAA SF1 and AIAA as a whole will remain in a sound financial position and the Transferring ILAL Policy Owners' benefit security will be improved with financial assets exceeding all regulatory requirements after the proposed Part 9 Transfer. While the additional capital buffer over the regulatory capital requirement is currently below the target level, it is forecast to be organically restored back to target within a reasonable time period following the proposed Part 9 transfer; and
- The benefit security of Transferring ILAL Policy Owners is likely to be materially improved if the Part 9 Transfer is confirmed.

9. Remaining ILAL Policy Owners

9.1 Overview

The proposed Part 9 Transfer does not impact the contractual benefits and rights of the Remaining ILAL Policy Owners.

For the Remaining ILAL Policies, ILAL has liabilities in respect of past claims for IBNR and open IP and GSC claims (where these have not been transferred). ILAL will also incur future liabilities in respect of cover it continues to provide for business that has not yet terminated (e.g. schemes in Corporate Group Insurance and Mercer Marsh Benefits that have not yet transferred, Five + and NEOS/Medibank).

The in-force premium and Net CTV as at 31 May 2024 for the Remaining ILAL Policies are shown in Table 16 below:

Table 16: Remaining ILAL Policies Information

31 May 2024	Annual Premium Income (31 May 2024) \$m	Net CTV (31 May 2024) \$m
Group Insurance	33.9	22.6
Corporate Group Insurance	29.6	17.1
Mercer Marsh Benefits	4.3	1.7
Coverforce	0	3.7
Five +	0.5	0.0
NEOS/Medibank	2.0	0.0
Total Remaining ILAL Policies	36.4	22.6

The progress for the transition of each portfolio of the Remaining ILAL Policies and policy liabilities has been addressed in Section 2.14 above.

In summary the lapsation of all Five + policies and the implementation of the arrangements discussed in Section 2.14 above is expected to result in all of the policy liabilities for the Remaining ILAL Policies being extinguished within 3 months of the effective date of the proposed Part 9 Transfer.

ILAL expects to have sufficient assets to transfer under these arrangements as well as the assets required to transfer under the proposed Part 9 Transfer, including meeting the anticipated costs associated with the Part 9 to be incurred from June 2024 onwards of \$4.0m.

A risk to obtaining this expected outcome is failing to reach a final agreement with a receiving insurer or reaching an agreement with terms less favourable than is currently expected. At this stage, ILAL believes suitable terms can be agreed but this cannot be taken for granted.

9.2 Conclusion on Remaining ILAL Policy Owners

On the basis of the above discussion and analysis, I concluded that:

- In relation to contractual benefits and rights, the proposed Part 9 Transfer does not impact the contractual benefits and rights of the Remaining ILAL Policy Owners.
- Barring unexpected adverse developments, after the proposed Part 9 Transfer has occurred and the arrangements for transferring the Remaining ILAL Policies are implemented, the Remaining ILAL Policy Owners have their benefits secured by a life insurer that meets regulatory capital requirements.
- ILAL has limited assets. If the Part 9 is not confirmed, it is very unlikely that ILAL will be able to successfully undertake a transfer of the Remaining ILAL Policies and policy liabilities on or within 3 months of 1 March 2025. This is because:
 1. The only available alternative mechanism for transferring the Remaining ILAL Policies and the Transferring ILAL Policies would require two or more FSTRA transfers, as no insurer is prepared to accept an assignment of the whole of the remaining liabilities under s.27A of the Life Act.
 2. Given the additional costs involved in facilitating two or more FSTRA transfers, the current planned transfer of ILAL's Remaining ILAL Policies to another insurer would not be able to be accommodated from the existing assets of ILAL without further jeopardising the capacity of ILAL to meet the policy liabilities of the Transferring ILAL Policies as they become due. For this reason, APRA is most unlikely to approve such a transfer.
 3. As noted in Section 2.10 assets available are also impacted if there are delays in the transfers or if expenses and claims are more than expected. If ILAL's financial position is weaker than expected, there would be less assets available to fund any proposed transfers of business under FSTRA.

Absent a Part 9 and any viable alternative arrangements for the transfer of the Transferring ILAL Policies and the Remaining ILAL Policies, there is an increased likelihood that each of APRA and ILAL may form the view that ILAL's remaining liabilities cannot be extinguished as and when they become due. Consideration will need to be given to other options, including seeking a winding up of ILAL. This is because ILAL's current costs of operating the business are not covered by revenue as noted in Section 2.12, and that without a Part 9 ILAL is expected to exhaust its capacity to meet policy owner benefits in full by February 2028.

10. Summary of Conclusions

10.1 Summary of Conclusions

My overall conclusion is that the proposed Part 9 Transfer is in the interests of ILAL policy owners as a whole. Without a Part 9 Transfer ILAL policy owners are expected to otherwise lose cover by February 2028 and ILAL's capacity to meet policy owner benefits in full will be exhausted by this time. Also, 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.

The only viable approach to the Part 9 Transfer is to amend ILAL's policies to the terms and conditions of AIAA's products (except for the Ex-QBE CCI products), and to apply AIAA's premium rates.

In terms of the changes to Transferring ILAL Policy Owners' premium rates, ILAL and AIAA have agreed an approach to provide temporary assistance for certain Transferring ILAL Policy Owners. This includes providing a one-off ex-gratia payment to certain Transferring ILAL Policy Owners based upon the extent to which the AIAA premium rate exceeds the current ILAL premium rate increased by 60%.

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. 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.

Transferring ILAL Policy Owners who are able to, (that is, policy owners who if they applied at another insurer for the same cover, could expect to be provided a similar level of cover without additional exclusions and/or a higher underwriting loading) have the option to check if they can find another life company with more suitable terms and conditions than those under the AIAA product. They are also free to take out an alternative product with AIAA to the one they are transferred to under the proposed Part 9 Transfer.

Under the Communication Plan described above Transferring ILAL Policy Owners and their advisers will be notified of the premium changes at least 30 days prior to the premium change coming into effect but less than 60 days before the Transfer Date. They will be notified approximately two and a half months before the Transfer date of the Scheme and be provided access to the Scheme Document which contains the product mapping.

This is a relatively short amount of time to identify and obtain alternative cover. Policy owners who are unable to organise cover by the Transfer Date will have their benefits based on the cover provided by the AIAA policy from the Transfer Date until cover with the policy from an alternative insurer is organised.

All Transferring ILAL Policy Owners, i.e. policy owners who are able to find alternative cover and those unable to find alternative cover, have the option to reduce the level of benefits under the AIAA product to manage the impact of premium rate increases.

The proposed Part 9 Transfer does not impact the contractual benefits and rights of the Remaining ILAL Policy Owners.

Based on ILAL's analysis and provided that claims and expenses are as anticipated, ILAL expects to have sufficient assets after the proposed Part 9 Transfer takes effect to facilitate the transfer of the Remaining ILAL Policies to the other life companies, provided these transfers are completed within a reasonable timeframe after the Transfer Date of the proposed Part 9 Transfer.

Under this expected outcome the Remaining ILAL Policy Owners have their benefits secured by a life insurer that meets regulatory capital requirements. This improves the financial security of Remaining ILAL Policy Owners because ILAL has limited assets and if the Part 9 is not confirmed, it is very unlikely that ILAL will be able to successfully undertake a transfer of the Remaining ILAL Policies and policy liabilities on or within 3 months of 1 March 2025.

A risk to obtaining this expected outcome is failing to reach a final agreement with a receiving insurer or reaching an agreement with terms less favourable than is currently expected. At this stage, ILAL believes suitable terms can be agreed but this cannot be taken for granted. Absent a Part 9 and any viable alternative arrangements for the transfer of the Transferring ILAL Policies and the Remaining ILAL Policies, there is an increased likelihood that each of APRA and ILAL may form the view that ILAL's remaining liabilities cannot be extinguished as and when they become due. Consideration will need to be given to other options, including seeking a winding up of ILAL. This is because ILAL's current costs of operating the business are not covered by revenue as noted in Section 2.12, and that without a Part 9 ILAL is expected to exhaust its capacity to meet policy owner benefits in full by February 2028.

My overall conclusion is that the proposed Part 9 Transfer is not considered adverse to ILAL policy owners as a whole and, if it proceeds, will increase the likelihood of ILAL being able to complete an early solvent run-off of its insurance business and so avoid the risk of not meeting policy owner benefits in full.



10.2 Practice Note Declarations

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

A handwritten signature in blue ink that reads 'Michael Dermody'.

Michael Dermody, BEc (Hons), FIAA

Fellow of the Institute of Actuaries of Australia

Authorised Representative – KPMG Financial Services Consulting Pty Ltd

A Data Received

Reference	Section	Data
2.1	Integrity Life Australia Limited	ILAL Financial Condition Report, 30 June 2023
2.2	Statutory Funds & Shareholders' Fund	ILAL Financial Condition Report, 30 June 2023
2.3	Nature of Business & Major Products	ILAL Financial Condition Report, 30 June 2023
2.4	Overview of Guarantees	ILAL Financial Condition Report, 30 June 2023
2.5	Operations & Administration	ILAL Financial Condition Report, 30 June 2023
2.6	Expense Allocation Basis	ILAL Financial Condition Report, 30 June 2023
2.7	Tax Status and Basis	ILAL Financial Condition Report, 30 June 2023
2.8	Investment Strategy	ILAL Financial Condition Report, 30 June 2023
2.9	Reinsurance Strategy	ILAL Financial Condition Report, 30 June 2023
2.10	Financial Position	ILAL Financial Condition Report, 30 June 2023
		ILAL Board Meeting Boardpack, 22 May 2024
2.11	Risk Management	ILAL CRO Report, 31 March 2024
		ILAL Board Meeting Boardpack, 22 May 2024
2.12	Impact for Policy Owners if Proposed Part 9 Transfer Does Not Proceed	ILAL Retail Contingency Plan
2.13	Remediations and Class Actions	ILAL Incident Register, 9 July 2024
2.15	Events Subsequent to 31 May 2024	
3.1	AIA Australia Limited	AIAA Financial Condition Report, 31 December 2023
		AIAA Part 9 Report
3.2	Statutory Funds & Shareholders' Fund	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.3	Nature of Business & Major Products	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.4	Overview of Guarantees	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.5	Product and Pricing Strategy	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.6	Underwriting	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.7	Claims Management	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.8	Operations & Administration	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.9	Expense Allocation Basis	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.10	Tax Status and Basis	AIAA Financial Condition Report, 31 December 2023
		AIAA Part 9 Report

Reference	Section	Data
3.11	Investment Strategy	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.12	Reinsurance Arrangements	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.13	Capital & Risk Management	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.14	AIAA's Current Financial Position	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.15	Class Actions and Remediations	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
3.16	Events Subsequent to 31 December 2023	AIAA Financial Condition Report, 31 December 2023 AIAA Part 9 Report
4.2	Policies Being Transferred	ILAL 31 May 2024 Financial Report
4.4	Transfer Process – Policy Owner Contracts	AIAA ILAL Proposed Cut-off Rules Report
6.2	Product Mapping Principles and Results	ILAL Product and Pricing Principles Paper ILAL Product Mapping Table
6.3	Product Comparison Results	ILAL Product Comparison Analysis
7.3	Policy Administration and Systems	ILAL and AIAA Billing and Lapse Process Comparison
7.4	Product and Pricing Strategy	ILAL and AIAA Premium Comparison
7.6	Claims Management	ILAL and AIAA Claims Management Comparison AIAA Caseload Statistics as at June 2024 ILAL Caseload Statistics as at August 2024
7.7	Underwriting of Sum Insured Increases	ILAL and AIAA Underwriting Management Comparison
7.8	Investment Management	
8.2	Position Pre-Transfer	ILAL Financial Condition Report, 30 June 2023 AIAA Financial Condition Report, 31 December 2023
8.4	Appropriateness of Fit within AIAA SF1	ILAL Financial Condition Report, 30 June 2023 AIAA Financial Condition Report, 31 December 2023
9.1	Overview	ILAL Financial Condition Report, 30 June 2023 AIAA Financial Condition Report, 31 December 2023
9.2	Conclusion on Remaining ILAL Policy Owners	ILAL Financial Condition Report, 30 June 2023 AIAA Financial Condition Report, 31 December 2023

B Glossary of Terms

Term	Definition
ABC	Activity Based Costing
AGI	Australian Group Insurance Pty Ltd
AIA Co	AIA Company Limited
AIAA	AIA Australia Limited
AIAA SF1	AIAA Statutory Fund No.1 for non-investment linked business
AIAA SF3	AIAA Statutory Fund No.3 for investment linked ordinary business
Application Submission Date	The date the Transferring ILAL Policy Owner applied for the relevant ILAL policy
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
AV	Agreed Value
CAM	Capital Adequacy Multiple
Capital Base	Capital available, as defined in LPS 110, to meet capital requirements
CCI	Consumer credit insurance
Court	The Federal Court of Australia
CPS 220	Prudential Standard CPS 220 Risk Management
Ex-QBE	The CCI policies issued by QBE Life and the Term Life policies issued by CUNA Mutual
Existing AIAA Policies	AIAA's policies immediately before the Transfer Date
FSTR Act	<i>Financial Sector (Transfer and Restructure) Act 1999</i> (Cth)
GSC	Group Salary Continuance

Term	Definition
HLRA	Hannover Life Reinsurance Australasia Limited
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
IDII	Individual Disability Income Insurance
IGHL	Integrity Group Holdings Limited
IGHS	Integrity Group Holdings Services Pty Ltd
ILAL	Integrity Life Australia Limited ABN 83 089 981 073
ILAL Shareholders' Fund	ILAL's shareholders' fund
ILAL Statutory Fund No.1	ILAL's statutory fund
Integrity Group	IGHL and the group of companies it 100% owns, being IGHS and ILAL.
Integrity Group Capital Base (Net CTV)	Integrity Group assets in excess of Net CTV
IP	Income Protection
KFSCS	KPMG Financial Services Consulting Pty Limited
LAGIC	Life and General Insurance Capital
LICOP	Life Insurance Code of Practice
Life Act	<i>Life Insurance Act 1995</i> (Cth)
LPS 110	APRA Prudential Standard LPS 110 Capital Adequacy
LPS 230	APRA Prudential Standard LPS 230 Reinsurance Management
MLI	Ex-QBE Mortgage Insure / Loan Insure CCI Business
NEOS	NDLI Pty Ltd

Term	Definition
GST	Goods and Services Tax
Part 9 Transfer or Scheme	The transfer of the Transferring ILAL Policies to AIAA by way of a scheme under Part 9 of the Life Act
PCA	Prescribed Capital Amount
PCR	Prudential Capital Requirement
Practice Note	Federal Court of Australia's Expert Evidence Practice Note (GPN-EXPT)
Priority Protection	Main AIAA Life Insurance Product
QBE Life	QBE Life (Australia) Limited (superseded by ILAL)
QBEMS	QBE Management Services Pty Ltd
RBE	Reasonable Benefit Expectations
RCP	Retail Contingency Plan
RCV	Residual Capital Value
Remaining ILAL Policies	ILAL Policies not being transferred under the proposed Part 9 Transfer
Remaining ILAL Policy Owners	ILAL Policy Owners that are not transferring under the proposed Part 9 Transfer

Term	Definition
Net CTV	Current Termination Value, net of reinsurance
RMF	Risk Management Framework
Run-off Plan	ILAL's run-off plan as described in Section B of Executive Summary
S&P	Standard's & Poor's
SAA	Strategic Asset Allocation
Scheme Document	The Scheme Document will contain the transition rules and mapping from the ILAL products to the AIAA products, and will be referenced as part of the Scheme Notice to 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"). Transferring ILAL Policy Owners.
Scheme Notice	A notice from ILAL to Transferring ILAL Policy Owners, consisting of summary information of the proposed Part 9 Transfer, expected to be distributed in mid-December 2024.
TAA	Tactical Asset Allocation
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
TPD	Total Permanent Disablement
Transfer Date	12.01am on the date which is the first day of the calendar month after the calendar month in which the Part 9 Transfer is confirmed by the Court or such other time and date as determined by the Court
Transferring ILAL Policies	ILAL policies being transferred under the proposed Part 9 Transfer, specifically the Retail Advised and Ex-QBE business
Transferring ILAL Policy Owners	ILAL Policy Owners that are transferring under the proposed Part 9 Transfer



Term	Definition
Retail Advised	The retail life policy owners of ILAL who hold cover under its 'Here For You' products.

Term	Definition
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