Summary of the Appointed Actuary Report

On the Proposed Restructure of Statutory Funds of Westpac Life Insurance Services Limited

18 July 2017

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Background to proposed statutory fund restructure

Westpac Life Insurance Services Limited (**WLISL**) is applying to the Australian Prudential Regulation Authority (**APRA**) to undertake a restructure of its statutory funds as part of a program of work to simplify its life insurance corporate and regulatory structure, and to improve operational efficiency.

The statutory fund restructure will be undertaken in accordance with Part 4 of the *Life Insurance Act 1995* (Cth) (**Act**) and APRA Prudential Standard LPS 600 “Statutory Funds” (**LPS 600**).

Purpose and scope of Appointed Actuary Report

This summary is based on the report prepared by WLISL’s Appointed Actuary, Andrew Katon, dated 5 July 2017, on the proposed restructure to satisfy the requirements of LPS 600 (**Appointed Actuary Report**). In particular, the Appointed Actuary Report included the following statements, as required by paragraph 2 of Schedule 1 to Form 1 of LPS 600:

- a statement setting out the basis on which the nature and value of the assets to be transferred is to be determined,
- a statement as to whether the assets to be transferred are appropriate to the liabilities to be transferred,
- a statement as to whether the restructure will result in unfairness to the owners of the policies referable to any of the funds involved in the restructure, and
- a statement as to whether, immediately after the restructure, a transferring fund and receiving fund will satisfy the requirements of APRA Prudential Standard LPS 110 “Capital Adequacy” (**LPS 110**) and APRA Prudential Standard LPS 112 “Capital Adequacy: Measurement of Capital”(**LPS 112**),

(together the **Required Statements**).

The focus of the Appointed Actuary Report was on the changes that arise as a result of the proposed statutory fund restructure, rather than changes that might arise in the ordinary course of business irrespective of the occurrence of the proposed restructure.

Key aspects of the proposed restructure

WLISL currently operates 10 statutory funds and is proposing to restructure the business into two of WLISL’s existing statutory funds (**Receiving Statutory Funds**, being Statutory Funds 1 and 2).

Subject to approval by APRA, all assets and liabilities of the statutory funds to be transferred (**Transferring Statutory Funds**, being Statutory Funds 3, 4, 6, 8 and 10) will be transferred to the Receiving Statutory Funds with effect at 12.01am (AEST) on 1 July 2017, and all statutory funds (other than the Receiving Statutory Funds) will be terminated post restructure.

The proposal is to restructure WLISL's existing statutory funds as follows (together, the **Proposed Restructure**):

- WLISL non-investment linked policies in Statutory Funds 4 and 6, together with all the assets and liabilities of these funds, are to be transferred into Statutory Fund 1, and
- WLISL investment linked policies in Statutory Funds 3, 8 and 10, together with all the assets and liabilities of these funds, are to be transferred into Statutory Fund 2.

Following the Proposed Restructure:

- the assets and liabilities of Statutory Fund 7, which has no policies, will be transferred into Statutory Fund 2, and
- Statutory Funds 3, 4, 6, 7, 8, and 10, together with Statutory Funds 5 and 9 which have no assets or liabilities, will then be terminated (subject to approval by APRA, under an application to be made subsequently).

The Proposed Restructure will impact all of WLISL's policy owners. There will not be any changes to the policy terms and conditions as a result of the Proposed Restructure, other than the change in the statutory fund to which the transferred policies will then relate.

The Proposed Restructure increases the excess capital levels due to a reduction in regulatory capital requirements and target surplus. WLISL intends to distribute (via a transfer to the WLISL shareholder fund (**Shareholder Fund**) and a dividend from the Shareholder Fund) an amount equivalent to the reduction in regulatory capital and target surplus to maintain a similar level of excess assets over target surplus.

The Appointed Actuary Report examined the impact on a person who currently holds a policy referable to a Transferring Statutory Fund (**Transferring Fund Policy Owner**) and a person who currently holds a policy in a Receiving Statutory Fund (**Receiving Fund Policy Owner**), as well as the financial and risk management impacts of the Proposed Restructure on their prospective benefit security and their reasonable expectations.

Overall conclusion on Proposed Restructure

The principal conclusions of the Appointed Actuary Report on the proposed statutory fund restructure are summarised below.

Subject to APRA's approval of the Proposed Restructure:

- All policies, assets and liabilities currently held in a Transferring Statutory Fund will be transferred to the relevant Receiving Statutory Fund on 1 July 2017, and no policies will be maintained in the Transferring Statutory Funds going forward.
- The assets to be transferred will be valued at market value of physical holdings, including adjustments for the effective exposure of derivatives where applicable, as required by LPS 110.

- The assets to be transferred will be consistent with the assets that currently meet the capital requirements of LPS 110 and LPS 112. These assets are appropriate for the nature and term of the liabilities to be transferred.
- There will be no unfavourable impact on the contractual benefits or rights, or reasonable expectations, of any WLISL policy owner and, as such, there will be no material disadvantage or unfairness to the Transferring Fund Policy Owners and the Receiving Fund Policy Owners when those owners are viewed as a group.
- Each of the Receiving Statutory Funds, and WLISL as a whole, will remain in a sound financial position and will continue to satisfy the requirements of LPS 110 and LPS 112 after the Proposed Restructure. There remains a risk that in extreme scenarios the capital resources of the statutory fund will be depleted. This is highly improbable and capital is held above regulatory minimum requirements. Therefore policy owners' benefit security will remain appropriate after the Proposed Restructure.

The conclusions above represent my opinion on relevant impacts of the proposed statutory fund restructure and address the Required Statements.

Summary not report

Please note that this summary is intended only as a brief overview of my report and it does not cover or mention all of the issues addressed in the report.

Andrew Katon
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Appointed Actuary, WLISL

Summary of report prepared 18 July 2017