Actuarial Report on Scheme Transfer

Aioi Nissay Dowa Insurance Company Ltd (AIOI) and Aioi Nissay Dowa Insurance Company Australia Pty Ltd (ADICA)

23 March 2023

Document classification: Client use

ACN 087 047 809
ABN 29 087 047 809
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23 March 2023

Dean Cullen
Chief Executive Officer and Managing Director
Aioi Nissay Dowa Insurance Company Australia Pty Ltd
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Dear Dean,

Actuarial Report on Scheme Transfer

I am pleased to provide my actuarial report relating to the transfer of insurance liabilities from Aioi Nissay Dowa Insurance Company Ltd (**AIOI**) to Aioi Nissay Dowa Insurance Company Australia Pty Ltd (**ADICA**).

On the basis of observations made in Section 7, in my opinion, the proposed transfer of the run-off portfolio from AIOI to ADICA is not expected to have any material consequences for the policyholders of AIOI or ADICA.

Please let me know if you have any questions.

Yours sincerely,

Don Johnstone

Don Johnstone
Fellow of the Institute of Actuaries of Australia

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1 Executive summary

The report titled *Run-off Plan for Aioi Nissay Dowa Insurance Co., Ltd (Australia Branch) 1 April 2021 to 31 March 2024,* dated 23 June 2021 (**Run-off plan**) submitted to the Australian Prudential Regulation Authority (**APRA**) foreshadowed a portfolio transfer of the remaining assets and liabilities of the Aioi Nissay Dowa Insurance Company Ltd (**AIOI**) to Aioi Nissay Dowa Insurance Company Australia Pty Ltd (**ADICA**). The plan outlined an objective to close the run-off entity and transfer any existing or latent claims to ADICA during 2021, however this is now expected to take place during 2023. AIOI intends to seek the necessary Federal Court of Australia (**Court**) approval for the transfer of the insurance business to ADICA with a view to the cancellation of its run-off authorisation once the transfer is completed.

This report has been commissioned by Ms Andrea Gardiner, Chief Risk Officer and General Counsel, ADICA, as part of the application to APRA and the Court for the proposed transfer. The primary objective of this report is to consider whether the proposed transfer will materially affect AIOI and ADICA policyholders. This will include, but is not limited to, consideration of the financial condition of the transferee.

This report has been prepared by Don Johnstone of Taylor Fry. Don has been a qualified actuary for more than 20 years. This report has been peer reviewed by Kevin Gomes of Taylor Fry.

Our analysis concludes that AIOI's net insurance liability as at 31 December 2022 is projected to be **$0.080 million**.

On the basis of observations made in Section 7, in my opinion, the proposed transfer of the run-off portfolio from AIOI to ADICA is not expected to have any material consequences for the policyholders of AIOI, ADICA or their parent company Aioi Nissay Dowa Insurance Company Ltd (**ADI**).

2 Background and scope

2.1 Background and scope

The report titled *Run-off Plan for Aioi Nissay Dowa Insurance Co., Ltd (Australia Branch) 1 April 2021 to 31 March 2024,* dated 23 June 2021 (**Run-off plan**) submitted to the Australian Prudential Regulation Authority (**APRA**) foreshadowed a portfolio transfer of the remaining assets and liabilities of the Aioi Nissay Dowa Insurance Company Ltd (**AIOI**) to Aioi Nissay Dowa Insurance Company Australia Pty Ltd (**ADICA**). The plan outlined an objective to close the run-off entity and transfer any existing or latent claims to ADICA during 2021, however this is now expected to take place during 2023. AIOI intends to seek the necessary Court approval for the transfer of the insurance business to ADICA with a view to the cancellation of its run-off authorisation once the transfer is completed.

AIOI is branch of the Japan based Aioi Nissay Dowa Insurance Company Ltd (**ADI**). ADICA is a fully owned subsidiary of ADI and is incorporated in Australia.

This report has been commissioned by Ms Andrea Gardiner, Chief Risk Officer and General Counsel, ADICA, as part of the application to APRA and the Federal Court of Australia for the proposed transfer. The primary objective of this report is to consider whether the proposed transfer will materially affect AIOI and ADICA policyholders. This will include, but is not limited to, consideration of the financial condition of the transferee.

This report has been based primarily on data provided to 30 September 2021, which was used in our actuarial modelling to determine claim liabilities as at 30 September 2021. These liabilities were then rolled forward to produce liabilities as at 31 December 2022. We were provided with a list of open claims as at 1 February 2023 which has been incorporated into the liability calculations. The report has been prepared by Don Johnstone of Taylor Fry. Don has been a qualified actuary for more than 20 years. This report has been peer reviewed by Kevin Gomes of Taylor Fry.

Under section 17C of Part III Division 3A of the Insurance Act 1973 and APRA's Prudential Standard GPS410 a transfer of insurance business can only occur under a scheme confirmed by the Court. Furthermore, an application for confirmation of a scheme may not be made unless a copy of an actuarial report on which the scheme is based has been given to APRA. As no specific guidance on the content of such actuarial reports is provided, I believe it is appropriate for the actuarial report to opine on whether any policyholder interests are materially adversely affected by the proposed scheme. These interests include financial security, benefit entitlements and contractual rights.

This report addresses these issues and discusses other matters, which in my opinion, are relevant to the proposed transfer.

I have considered the following policyholders in this report:

- AIOI policyholders – the policyholders proposed to transfer from AIOI to ADICA
- existing ADICA policyholders
- policyholders of the parent company ADI

2.2 Federal Court of Australia's Expert Evidence Practice Note

I acknowledge that I have read and complied with the Federal Court of Australia's Expert Evidence Practice Note (GNP-EXPT) and agree to be bound by it. I also acknowledge that my opinions are based wholly or substantially on specialised knowledge arising from my training, study and experience.

Further, I declare that I have made all the inquiries which I believe are desirable and appropriate (save for any matters identified explicitly in the report), and that no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Court.

2.3 Information received

A list of the information considered is provided in Appendix A.

3 Background on parties to the transaction

3.1 Overview

AIOI operates in Australia as a branch office of its parent organisation, ADI. Prior to the merger of Aioi with Nissay Dowa, the Australian business operated as a branch of Aioi Insurance Co., Ltd. of Japan (**Aioi Japan**) and was referred to as Aioi Australia.

Until July 2006, Aioi Australia did not actively market its services to unrelated parties in Australia, but provided insurance services to clients that have links with Japan. This business is referred to as Japanese Interests Abroad or "JIA" business. Since that date, Aioi Australia embarked on an initiative to develop a significant book of motor related business through Toyota dealers.

From July 2006, Aioi Australia started writing domestic motor, consumer credit, gap cover and extended warranty through Toyota motor dealers. This business is referred to as Toyota Insurance (**TID**). This program grew strongly and soon dominated AIOI's business.

From 1 October 2010 Aioi Japan merged with Nissay Dowa Insurance Company Limited although both companies had already become members of MS&AD Insurance Group Holdings Inc. through a share exchange on 1 April 2010. The merged entity, Aioi Nissay Dowa Insurance Company Limited (**ADI**) did not change the structure of the Australian branch and, as such, the impact of the merger was in name only. The Australian branch was subsequently referred to via the acronym AIOI.

From 1 January 2014 AIOI ceased writing and renewing business and all subsequent business has been underwritten by ADICA

The change in operating entity has had minimal effect on the operations of AIOI, since the underlying business is still being written and managed by the same people as those who are managing the run-off.

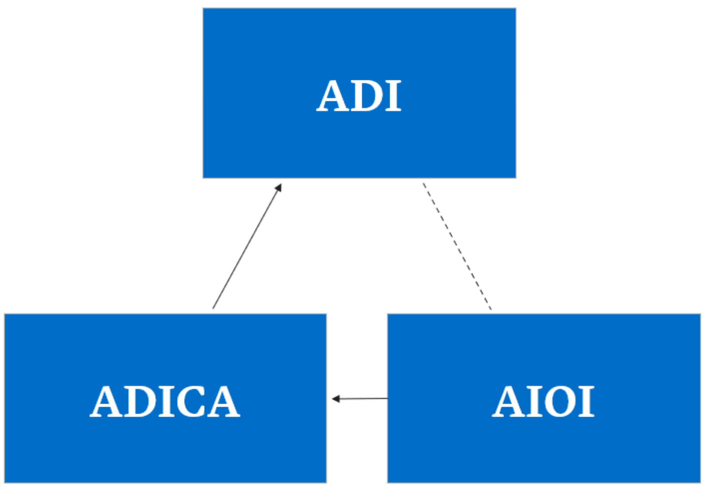
AIOI's financial year ends on 31 March each year.

ADI is based in Japan and as at 2 February 2023 is rated "A1" by Moody's, "A+" by AM Best "A+" by S&P. ADI had net assets of approximately $7.2 billion as at 30 September 2022.

3.2 Proposed group structure

Figure 3.1 sets out the proposed group structure. AIOI is currently a branch of ADI, and ADICA is a fully owned subsidiary of ADI. The objective is to transfer any existing claims liability to ADICA, which remains a fully owned subsidiary of ADI. Once completed, AIOI will seek de-authorisation from APRA.

Figure 3.1 – Proposed group structure



4 Claim liabilities

Until 31 December 2013, AIOI had historically written insurance products as set out in Table 4.1.

Table 4.1 – Products written by AIOI

Australian underwritten business (Japanese interest abroad ("JIA"))	Toyota insurance business ("TID")
Householders	Domestic motor vehicle
Commercial motor	Consumer credit
Fire & ISR	Gap
Other accident	Extended warranty
Marine	
Public & product liability (PPL)	

From 1 January 2014 AIOI ceased writing and renewing business and entered into run-off. With a majority of policies being one year in duration (particularly for Domestic motor which contributed around 63% of earned premium at the time), there was limited exposure for claims being incurred beyond 31 December 2014.

There were, however, a number of multi-year products written (Consumer credit, Gap and Extended Warranty) where policy duration was usually 3 to 5 years and in some cases up to 7 years. These products have been considered when estimating AIOI's claim cliabilities as at 31 December 2022.

Public & product liability was the only class of business underwritten by AIOI that is considered to be long-tailed, where claims can be notified many years after an event and can take many more years to be finalised. As part of the valuation of AIOI's claim liabilities as at 31 December 2022 we have also considered liabilities relating to this class.

We have also conducted analysis on the Domestic motor vehicle and Commercial motor products as these both had open/active claims as at 30 September 2021.

Table 4.2 summarises the products which had potential liabilties beyond 30 September 2021 which were a focus in determining the claim liabilities as at 31 December 2022.

Table 4.2 – Products with potential claim liabilities beyond 30 September 2021

Australian underwritten business (Japanese interest abroad ("JIA"))	Toyota insurance business ("TID")
Public & product liability (PPL)	Domestic motor vehicle
Commercial motor	Consumer credit
	Gap
	Extended warranty

No other products received a claim or had any payments in the 5 years to 30 September 2021, nor did they have any open claims at that date. Further, there were no active policies – i.e. policies with the potential for future events to lead to a claim. We have assumed $0 liability for those products at both 30 September 2021 and 31 December 2022.

Where appropriate we have rolled forward our liabilities as at 30 September 2021 to 31 December 2022. In some cases we have adjusted the liabilities to reflet recent claims experience.

The following sections focus on the individual products listed in Table 4.2.

4.1 Domestic Motor

The Domestic motor product dominated AIOI's insurance portfolio since the TID business was introduced in 2006, often contributing over 60% of AIOI's annual gross earned premium and 50%-60% of the gross insurance liabilities.

Policy duration did not exceed one year, so when writing ceased on 1 January 2014, it meant there was no exposure for claims incurred post 31 December 2014. A small number of claims have been reported for incidents that occurred in 2017 and 2018, but these have been denied since they occurred outside the active policy period.

There were six claims reported in the 2018/19 year, four in 2019/20, one in 2020/21 and one in the 6 months to 30 September 2021. The 2020/21 claim was from a 2013 incident for which the insured did not have funds for the excess at the time and so delayed reporting the claim. The most recent claim was for windscreen damage that was only noticed in 2021 but attributed to an incident in 2010. A high proportion of Domestic motor claims are usually reported withing five days of the date of loss, so reports such as these are very rare. Given it was almost seven years since the exposure period finished and there had been so few claims reported in the two years to 30 September 2021, we did not make any allowance for claims to be reported post that date.

In the 30 Spetember 2021 data there was one open claim with an estimate of $5,500. This claim related to an incident in 2012 for which repairs were carried out in 2013. The claim was reopened as a result of rectification works being required on the initial repairs and was subsequently paid and closed during October 2021 (as shown in the 10 February data update)

There were $252,000 of gross payments made in the March 2021 payment quarter alone which were mostly remediation payments. Excluding this quarter, gross payments since the 2019/20 year averaged $28,000 per quarter. Recoveries over this same period averaged $20,000 per quarter. The majority of payments from 1 April 2021 to 31 December 2021 related to follow-up claims on original repairs under the lifetime guarantee, with smaller amounts relating to remediation payments and administration fees on recoveries. These, along with recoveries, were expected to continue in the short term with levels gradually reducing until all are resolved within 4 years. We note that the remediation program has since been completed and is now closed.

We estimated the net outstanding claims liability as at 30 September 2021 to be **$0.079 million** and projected net liabilities as at 31 December 2022 of **$0.036 million**.

There are no unearned premiums relating to this product and therefore there are no premium liabilities.

4.2 Consumer credit

Consumer credit is a multi-year product which covers an insured's finance contract repayments should they have been made involuntarily unemployed or been unable to work due to injury or illness (for more than 14 days) during the policy period. The policy also pays out the finance contract (up to a maximum) should the insured encounter accidental death. Around 90% of policies written consist of a duration of either four, five or seven (being the maximum term) years. As such, exposure on Consumer credit policies expired by the end of 2020.

In early 2021, it was discovered that Toyota Finance Australia (**TFA**) had incorrectly cancelled Consumer credit policies of some customers. Letters were sent to these customers in early 2021 advising that their policies would be reopened and adjusted to match their finance contract. We refer to this as the 'CC remediation project'. TFA have advised that a number of measures have been made to ensure an incident of this nature will not occur again. In particular, hardship varaiations are now treated administratively on the system as variations as opposed to refinances (which was the process previously). Refincances would trigger cancellations, whereas now a variation will retain the same account number and not result in a cancellation.

There were six claims reported in the 9 months to 30 September 2021, all of which related to the CC remediation project. Prior to these, AIOI had not received a consumer credit claims since the June 2019 quarter. We had not made allowance for any future claims to be reported after 30 September 2021.

Case estimates as at 30 September 2021 were $495 and there was just $5,805 paid from 1 April 2020 to 30 September 2021, all of which related to the CC remediation project. We note that the remediation program has since been completed and is now closed.

We estimated the net outstanding claims liability as at 30 September 2021 to be **$0.015 million**, which related mostly to three open claims ($3,500 - the average claim size for consumer credit – per claim).

There were six claims reported in the 15 months to 31 December 2022 which all related to the CC remediation project. Three of these were closed with no payment, and two were closed with combined payments of $4,622. One claim remains open and there's some likelihood that this claim will incur costs. We've allowed for a 25% chance of payment of the maximum estimate ($11,000 in March 2014 dollars), which equates to $3,322 in 31 December 2022 dollars and have allowed for this payment to be made within the next year. We have been advised by AIOI that further remediation claims are unlikely, however we have included an IBNR allowance of a further $3,322 to allow for potential claims. Our estimate of the outstanding claims liability relating to the Consumer credit product as at 31 December 2022 is **$0.011 million**.

There are no unearned premiums relating to this product and therefore there are no premium liabilities.

4.3 Gap

The Gap product provides an insured with payment of their outstanding loan balance (up to the level of cover chosen) should their vehicle be declared a total loss while under finance. Around 85% of policies written consist of a duration of either four, five or seven years with the rest being somewhere in between. There was one policy written during 2010 which had a duration of 12 years. As at 30 September 2021 this was the only remaining active Gap policy. This policy expired on 6 August 2022.

Similar to Consumer credit, in early 2021, it was discovered that TFA had incorrectly cancelled Gap policies of some customers. Letters were sent to these customers in early 2021 advising that their policies would be reopened and adjusted to match their finance contract. We refer to this as the 'Gap remediation project'.

There were three claims reported in the 2019/20 year, three in 2020/21 (two of which related to the remediation project) and none in the 6 months to 30 September 2021. There have been no claims reported in the 15 months to 31 December 2022. We have not made allowance for any IBNR claims to be reported. There was just one claim open as at 30 September 2021 (one of the remediation claims) with an estimate of $2,700 and this claim was settled in January 2022. There are currently no open claims as at 31 December 2022. We note that the remediation program has since been completed and is now closed.

Payments from 1 July 2020 to 30 September 2021 totalled just $4,405 and all related to the two remediation claims.

We estimated the outstanding claims liability as at 30 September 2021 to be **$0.004 million**. Given AIOI has since finalised the only open claim, we estimate there to be no outstanding claims liability relating to the Gap product as at 31 December 2022.

There are no unearned premiums relating to this product and therefore there are no premium liabilities.

4.4 Extended warranty

Extended warranty covers a policyholder should components under warranty fail during the period of cover. AIOI offered warranty insurance, extended dealer warranty and extended factory warranty over a range of policy durations, typically one, two or three years and the majority of policies sold follow on from the Toyota new vehicle warranty.

In the last quarter of 2019, it was discovered that some customers had paid an excess to AIOI for domestic motor claims, while they had extended warranty policies that should have covered those excesses. AIOI refunded these excesses as warranty claims. At the same time, it was also discovered that AIOI should have refunded some excesses that were paid to them before they realised that the claim was a not at fault claim. We refer to these two processes combined throughout this report as the “excess reimbursements”.

The excess reimbursements triggered over 1,000 claims in the final quarter of 2019, followed by a furter 13 claims in the next 9 months to 30 September 2020. There were no warranty claims in the 12 months to 30 September 2021 (or any further claims to 31 December 2022). We have not made allowance for any future reported claims.

In the 6 months to 30 September 2021 there were $4,572 in payments made relating to the settlement of seven claims and $640 paid between 30 September 2021 and 10 February 2022 which were the last payments made. There are currently no active claims and therefore no case estimates relating to the extended warranty product.

We estimated that there was no outstanding claims liability as at 30 September 2021 and our estimated outstanding claims liabiltiy as at 31 December 2022 is also $0.

There were nine active warranty policies as at 30 September 2021, all of which expired prior to 31 December 2021. So while we estimate the premium liability as at 30 September 2021 to be just **$729**, there are no unearned premiums relating to this product as at 31 December 2022 and therefore no premium liabilities at that date. In October 2022, AIOI provided evidence that all nine policies had expired or surrendered.

Powertrain warranty

Further to these nine policies, there is some potential for AIOI to still be on risk for a small number of extended warranty policies (**Powertrain**) that relate to drive line components for Mitsubishi vehicles. Mitsubishi offered a five year extension to the manufacturer warranty, until 1 October 2012, provided the vehicles are still with the original owner. To 30 September 2021 there had been just 4 claims reported from an estimated 441 eligible policies (a frequency of less than 1%) with an average claim size of $2,571.

As at 31 December 2022, there were only six active policies with exposure to driveline claims, the last of these ceasing on 2 June 2024. Adopting a frequency of 1% and an average claim size of $2,500 leads to an expected cost per policy of $25 and therefore an estimated future cost of driveline claims of $150 (given the 6 active policies). We have been advised that ADI will indemnify ADICA for these policies under clause 12.1.3 of the Business Transfer Agreement and therefore we have not included this amount in our estimated premium liabilitiy for Warranty as at 31 December 2022.

4.5 Public and product liability

The nature of public and product liability claims means that it is possible (if not likely) for claims to be notified several years after an incident occurrs. There can also be developments in claim costs over time with the extent of liability and likelihood of claim success often being difficult to determine at the early stages of a claim.

AIOI received one claim per year in each of the four years from 2016/17 to 2019/20, the most recent being in the December 2019 report quarter which was the last reported liability claim. There was one open claim in our initial review as at 30 September 2021 which had an estimate of $12,500. This claim remains open as at 31 December 2022 with an estimate of $12,000. There was a further claim reported in April 2022 however this was settled for just $308. We have not made allowance for any IBNR claims, but have allowed for some development on the one open claim.

We estimated the outstanding claims liability as at 30 September 2021 to be **$0.039 million**. This was based on the one open claim with the estimate of $12,500 assumed to develop to $25,000 (with expenses and risk margins added). We have assumed an equal probability of the claim settling in each of the four quarters of 2023 (assigning the future payments equally over that time) and estimate the outstanding claims liability as at 31 December 2022 to be **$0.034 million**.

There are no unearned premiums relating to this product and therefore there are no premium liabilities.

4.6 Commercial motor

There was one Commercial motor claim reported during the September 2021 quarter. This was the first claim received in over six years, however it was generated for administrative purposes to facilitate a recovery from Mitsui (who were the co-insurer) on a claim that was lodged and settled in 2012. The last 'real' claim reported was over six years ago.

At the time of our initial review there were around $2,000 - $3,000 in recoveries being made on Commercial motor claims each quarter which related to five claims from loss periods from 2011 to 2013. The expected future recoveries from these claims totalled $38,400. There was a also a master claim for old Innovation group claims that have been administered since 2013. Recoveries, although small ($350 in the year to 30 September 2021), continued to be made. We anticipated future recoveries for this claim to total $4,500 as at 30 September 2021. With no future gross payments expected (only recoveries to be made), after allowing for inflation and discounting, claims handling expenses and risk margins, we estimated the outstanding claims liability as at 30 September 2021 to be -**$0.017 million**. As at 31 December 2022, only the master claim for old Innovation group claim remains open and in receipt of recoveries. We have allowed for ongoing recoveries of $100 per quarter which is in line with recent history and have projected these until 2034. We estimate the outstanding claims liability as at 31 December 2022 to be -$**0.001 million**.

There are no unearned premiums relating to this product and therefore there are no premium liabilities.

4.7 Summary

Table 4.3 summarises the claims liabilities outlined above. The amounts include allowances for expenses and risk margins.

Table 4.3 Insurance liability as at 30 September 2021 and 31 December 2022

Product	Liability as at 30 September 2021		Liability as at 31 December 2022	
	Gross	Net	Gross	Net
Oustanding Claims	$	$	$	$
Domestic motor vehicle	113,423	78,513	40,792	36,091
Consumer credit	16,144	15,098	12,286	11,490
Gap	4,143	3,875	-	-
Extended warranty	-	-	-	-
Public & product liability	41,293	38,797	35,663	33,507
Commercial motor	5,310	-16,868	762	-1,372
Total outstanding claims	**180,313**	**119,414**	**89,503**	**79,715**
Premium Liability	$	$	$	$
Domestic motor vehicle	-	-	-	-
Consumer credit	-	-	-	-
Gap	-	-	-	-
Extended warranty	784	729	-	-
Public & product liability	-	-	-	-
Commercial motor	-	-	-	-
Total premium liabilty	**784**	**729**	**0**	**0**
Total insurance liability	**181,097**	**120,143**	**89,503**	**79,715**

Table 4.3 shows that AIOI's net insurance liability as at 31 December 2022 is **$0.080 million**.

5 Financial conditions of AIOI, ADICA and ADI

In performing my assessment I have considered the current and projected financial position of AIOI and ADICA. Both AIOI and ADICA are in very solid financial condition. Additionally, ADI has demonstrated their commitment to provide capital injections into ADICA. The most recent being a $12 million injection in June 2016. It is considered highly unlikely that ADI would be unable, or unwilling, to continue to provide this support in the future should it be required.

It is also worth noting that the current magnitude of ADICA's assets, liabilities and capital is much larger than that of AIOI.

5.1 ADICA

5.1.1 Balance sheet position (pre-transfer)

ADICA's unaudited financial results as at 31 December 2022 included details of assets and liabilities. Table 5.1 outlines the position as at that date, and shows that ADICA's total assets comfortably exceeded total liabilities. Note that some columns may not add to totals due to rounding.

Table 5.1 – ADICA's balance sheet as at 31 December 2022 ($m)

Product	As at 31 December 2022
Assets	
Cash & Liquid Assets	10.4
Investments	148.1
TOTAL Investment and Liquid Assets	**158.5**
Investment Income receivable	0.0
Recoveries - other than reinsurance	20.7
Recoveries - reinsurance	15.4
Premiums receivable	69.1
Other assets	42.4
TOTAL Non-Investment Assets	**147.6**
TOTAL – ALL ASSETS	**306.1**
Liabilities	
Outstanding Claims Liabilities	59.8
Premium Liabilities	115.1
TOTAL - Insurance Liabilities	**174.9**
Creditors and Accruals	27.7
Amount due on Reinsurance Contracts	15.2
Other Liabilities	8.1
TOTAL - Non-Insurance Liabilities	**51.0**
TOTAL LIABILITIES	**225.9**
NET ASSETS	**80.2**

5.1.2 Solvency capital position (pre-transfer)

ADICA's unaudited financial results also included details of their solvency position and solvency forecast. Table 5.2 outlines the details of ADICA's capital position. The impact of the transfer is not included in the forecasts, however it is expected to be inconsequential to ADICA. The actual and projected positions are well-above the target solvency of 150%.

Table 5.2 – ADICA's capital position as at 31 December each year

Assets	Actual 2022	Projected 2023	Projected 2024	Projected 2025
Adjusted Net Assets in Australia ($m)	83.5	76.6	90.9	108.3
Prescribed Capital Requirement ($m)	28.5	31.7	39.1	46.1
PCR Coverage	**293%**	**242%**	**233%**	**235%**

5.2 AIOI

5.2.1 Balance sheet position

AIOI's run-off reports as at 31 March 2021 and 31 March 2022 detail their financial position. We have also been provided with AIOI's *Statement of Financial Position* as at 31 December 2022. Table 5.3 shows the assets and liabilities as at 31 December 2022.

Table 5.3 – AIOI's balance sheet as at 31 December 2022 ($m)

Product	**As at 31 December 2022**
Assets	
Cash & Investments	13.2
Other assets	0.2
TOTAL – ALL ASSETS	**13.4**
Liabilities	
Outstanding Claims Liabilities	0.0
Premium Liabilities	0.0
Other Liabilities	0.2
TOTAL LIABILITIES	0.2
NET ASSETS	**13.2**

Table 5.3 shows that as at 31 December 2022, the total assets far exceeded the total liabilities.

5.2.2 Solvency capital position

AIOI's run-off reports also show the solvency position along with forecasts as at 31 March for future years. The recent available actual capital position (as at 31 March 2022) and forecasts are shown in Table 5.4.

Table 5.4 - AIOI's capital position as at 31 December 2022 and projections to 31 March each year

Assets	Actual 2022	Projected 2023*	Projected 2024*	Projected 2025*
Adjusted Net Assets in Australia ($m)	13.1	12.8	12.2	11.5
Prescribed Capital Requirement ($m)	5.0	5.0	5.0	5.0
PCR Coverage	**262%**	**256%**	**243%**	**230%**

* the forecasted solvency position should a portfolio transfer not take place

Table 5.4 shows that, as at 31 December 2022, AIOI comfortably meets its solvency requirements, and this remains the case on a projected basis as at 31 March for the next 3 years. The $5 million minimum PCR applies until APRA approves AIOI's de-authorisation.

5.2.3 Reinsurance

According to the scheme any reinsurance arrangements in respect of AIOI's insurance business will be novated across to ADICA. We are not aware of any outstanding reinsurance recoveries and no recoveries are anticipated on any open or potential future clains. Given no reinsurance recoveries are anticipated from the remaining claim liabilities, I consider that any impact of the reinsurance transferring / not transferring to ADICA to be immaterial.

5.2.4 Non reinsurance recoveries

It is expected that the collection process for non-reinsurance (non-RI) recoveries will not change. As outlined in Section 6.2 below, AIOI's entitlements to recoveries from third parties will be transferred to ADICA. ADICA already administer the recoveries on behalf of AIOI as part of the claims management process under an existing contract with AIOI's collection agency, so the collection of recoveries following the scheme transfer will be able to continue without interruption. Each product with outstanding claim liabilities includes some allowance for non-RI recoveries.Should ADICA not be able to make future non-RI recoveries, the net liability as at 31 December 2022 would increase from $0.064 million (Table 4.3) to **$0.077 million**.

5.3 ADI

As at 30 September 2022 ADI's financial statements showed total net assets of ¥673 billion (approximately AUD 7.2 billion) and a solvency margin ratio of 773%, highlighting that ADI is in a very strong financial position.

6 Proposed transfer

The terms of the proposed transfer are set out in the *Scheme for the transfer of the insurance business of Aioi Nissay Dowa Insurance Company Ltd (AIOI) to Aioi Nissay Dowa Insurance Company Australia Pty Ltd (ADICA)*, to be confirmed by the Federal Court. The scheme has been prepared under Part III Division 3A of the *Insurance Act 1973. The Business Transfer Agreement* prepared by DLA Piper sets out the terms of the scheme and commits the transferor and the transferee to the scheme transaction. In this section I set out the most significant aspects of the transfer with respect to policyholder interests.

6.1 Consideration

The Transferee (ADICA) agrees to assume the Liabilities and the Transferor (AIOI) agrees to pay the Transfer Value to the Transferee within 30 days of the Transfer Effective Date. Payment must be in the form of a cash sum in the amount of the Transfer Value by wire transfer in clear and immediately available funds to such bank account as the Transferee has notified in writing to the Transferor or by such other means as the Transferee shall accept for payment of the Transfer Value.

6.2 Transfer of insurance business

In accordance with the terms of the Transfer Agreement, AIOI agrees to transfer and ADICA agrees to accept the transfer of the Business, with effect on and from the Transfer Effective Date.

The Transferee (ADICA) agrees to assume the liabilities of the Transferor (AIOI) as at the Transfer Effective Date. This means "all liabilities whatsoever (whether present or future, certain or contingent) under or by virtue of the Business or any cost, expense (including the fees and expenses of professional advisers), liability under any contracts or arrangements in connection with the Business, and damage or Loss of any kind in connection with the Business", which includes all insurance liabilities. **Policyholders are not required to take any action before or as a result of the Scheme.**

Any stamp duty and other costs and expenses incurred in connection with the Scheme will not be paid by or charged to policyholders, but will be met by AIOI out of shareholder funds. **Therefore policyholders will not incur any costs as a result of the Scheme.**

The Scheme does not affect any claim in respect of any policy issued by AIOI other than that ADICA will become the insurer in place of AIOI. Policyholders will continue to have the same rights and obligations in respect of any claim but with ADICA as the insurer. Any policyholder who has a claim entitlement with AIOI will have the same claim entitlement with ADICA in substitution for his or her claim with AIOI irrespective of when such claim arose. **This ensures that the rights of AIOI policyholders will be preserved under ADICA.**

Subject to confirmation of the Scheme by the Federal Court of Australia, on and from the Transfer Effective Date, all premiums and other amounts payable to or recoverable by AIOI under the Transferring Policies will be payable to and recoverable by ADICA instead of AIOI. Further, ADICA will be entitled to enforce all rights and remedies which but for the Scheme would have been enforceable by AIOI under or in respect of the Transferring Policies (including but not limited to any claims by way of subrogation, contribution, outstanding premium and any other recoveries related directly or indirectly to any Transferring Policies. **Therefore, AIOI's entitlements to recoveries from third parties will be transferred to ADICA**.

There are specific non-policyholder contingent liabilities that are not being transferred from AIOI to ADICA.

6.3 Policy terms and conditions

The Scheme does not change the terms of any Transferring Policies issued by AIOI other than that ADICA will become the insurer in place of AIOI. Policyholders will continue to have the same rights and obligations under any Transferring Policies but with ADICA as the insurer. I have reviewed the scheme and concur with this statement.

6.4 Effective date of transfer

The Business Transfer Agreement states that the Transfer Effective Date "*means the time and date on which the Transferring Policies are transferred to the Transferee pursuant to an order made by the Court pursuant to section 17F of the Insurance Act confirming the Scheme Transfer*". The transfer will occur on such a date as ordered by the Federal Court of Australia.

7 Policyholder impact

7.1 AIOI policyholders

7.1.1 Policies

In my opinion, the transfer of the run-off portfolio from AIOI to ADICA is not expected to have any material consequences for existing and former AIOI policyholders.

7.1.2 Claims handling and policy administration

There will be no change in claims management and policy administration as a result of the transfer – it will continue to be handled by the same staff after the transfer as before the transfer. **Therefore, in my opinion, there is no reason to believe that the transfer will make any difference to AIOI claimants.**

7.1.3 Key management personnel

All key management personnel are already part of ADICA. **As such, in my opinion, there is no reason to believe that the transfer will make any material difference to AIOI policyholder interests in relation to key management personnel.**

7.1.4 Financial

ADICA is currently in a strong financial position, with its current and projected solvency capital position being more than its target. When considering the relative sizes of the balance sheets, AIOI's liability is unlikely to be significant for ADICA. Moreover, ADI, a very highly rated organisation, has already demonstrated its willingness to provide ADICA with a capital injection and it is considered highly unlikely that the parent would be unable or unwilling to continue to provide this support in the future. **Therefore, I am of the view that there is no reason to believe that the transfer will have a materially adverse effect on AIOI policyholders from a financial perspective.**

7.2 ADICA policyholders

ADICA is in a strong financial position, with its current and projected solvency capital position being more than its target. When considering the relative sizes of the balance sheets, including AIOI's liability in ADICA's balance sheet is unlikely to be significant. **I am of the view that there is no reason to believe that the transfer will have materially adverse effects on ADICA's policyholders from a financial perspective.**

7.3 ADI policyholders

ADI is in a very strong financial position, with assets greatly exceeding liabilities. When considering the relative sizes of the organisations and balance sheets, including AIOI in ADICA (and subsequently in ADI) is unlikely to have any material impact. I also note that ADICA is a fully owned subsidiary of ADI, so there is no additional liability for ADI. **I am of the view that there is no reason to believe that the transfer will have materially adverse effects on ADI's policyholders from a financial perspective.**

8 Reliances and limitations

8.1 Reliances

I have relied on the accuracy and completeness of the information (qualitative, quantitative, written and verbal) provided to us by AIOI and ADICA for the purpose of this report. Particular reliance was placed on:

- AIOI's run-off reports as at 31 March 2021 and 31 March 2022
- ADICA's AVR and FCR as at 31 December 2020
- ADICA's AVR and unaudited financial results as at 31 December 2022
- ADICA's ICAAP and business plan as at 31 December 2020
- ADI's consolidated financial statements and solvency as at 31 March 2021 and 31 March 2022
- The scheme document
- AIOI claims data provided
- details of active claims provided by email

I have not independently verified or audited the information provided to us, but I have reviewed it for general reasonableness and consistency.

If it were to be discovered that any of the information provided is inaccurate, incomplete or unreliable, my advice may need to be revised and this report amended accordingly.

8.2 Limitations on use

This report is provided only for use by AIOI in connection with the scope set out in Section 2.1. I understand that AIOI may wish to provide a copy of this report to their lawyers, APRA, the Federal Court and any affected policyholders. Permission is hereby granted to AIOI to distribute a copy of this report to the named parties. No other use of, or reference to, this report may be made without prior written consent from Taylor Fry.

Taylor Fry specifically disclaims any responsibility or liability to any party which might claim to suffer any loss as a direct or indirect consequence of relying on this report for any purpose other than its intended purpose.

This report should be considered as a whole. I am available to answer queries concerning this report, and the reader should seek such advice before drawing conclusions on any issue in doubt.

8.3 Inherent uncertainty

Assessments of future implications for policyholders under the operation of the proposed transfer are inherently uncertain. They depend on the financial condition of the various entities – ADICA and ADI – which contain a range of uncertain elements including but not limited to future premium volume, future claims costs, future operating costs, future actions of competitor organisations, future management of claims and future returns on investments.

In the context of this transfer, I consider the uncertainty to be relatively small and unlikely to be material.

Appendix A Information received

For the prearation of this report, we have received the following information:

- Data files used in the calculation of liabilities
  - Claim file (Qry_DBO Claims File Branch.xls)
  - Transactions file (Transaction File.xls)
  - Open claims file (OUTSTANDING_CLAIMS_092021.xls)
  - Premium information (ANDIA EP_Summary 2109.xls)
  - Unearned premium information (UPR_Dump ADIA 300921.xls)
- Reinsurance contracts

In preparing this report I have placed most reliance on the following documents:

- Draft scheme document with latest update 8 February 2023
- Business transfer agreement, signed and dated 22 March 2023
- Letter to APRA re transfer of liabilities to ADICA dated February 2023
- AIOI Run-off reports dated 23 June 2021 and 22 June 2022
- ADICA's AVR as at 31 December 2020
- ADICA's AVR as at 31 December 2022
- ADICA's FCR as at 31 December 2020
- ADICA's unaudited financial results as at 31 December 2022
- ADICA Business Plan, 1 January 2021 to 31 December 2025 (dated 24 February 2021)
- ADICA's Internal Capital Adequacy Assessment Process Report from 1 January 2021 (dated 24 February 2021)
- ADI's solvency margin ratio as at 31 March 2021, calculated in accordance with the Japanese FSA
- ADI's audited financial statements as at 31 March 2021, 31 March 2022 and 30 September 2022
- Draft affidavit of Toshimi Kobayashi dated 1 December 2022
- A file containing remediation claim details as at 13 September 2022
- Extended warranty policy file as at 3 October 2022 evidencing there are no active policies
- Open claim file as at 1 October 2022 evidencing there are no open Consumer credit claims
- Open claim file as at 1 February 2023

I have relied on information and assurance provided via email, in particular correspondence relating to details of individual claims.

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