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## Current Issues in With-Profits

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### Recent industry developments

- **(Temporary) deferral of Solvency II** - allowed firms and regulators to explore options to improve outcomes for policyholders
- **Change of emphasis from the regulator** - FCA/PRA now working more collaboratively with firms
- **Focus on fund specific issues** – reflecting individual fund's evolution through the fund life cycle, financial strength and ownership structure
- **Wide range of opinions** – reflecting differing perspectives and subjective nature of TCF and PRE



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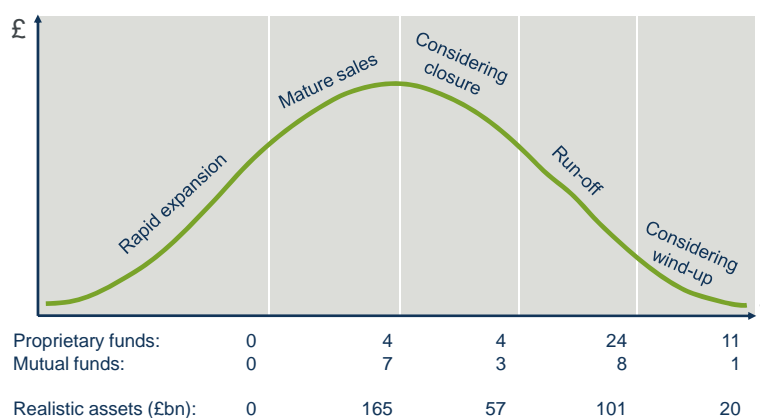
## Emerging issues and opinions

- *Fund evolution and strategy*
- *Financial strength and solvency metrics*
- *New business and Project Chrysalis*
- *Closure, run-off and consolidation*
- *Investment strategy, expense management and bonus setting*



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## Fund strategy throughout the life-cycle



Source: Form 19, Annual Returns 2012 plus author's assessment



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## Solvency of the with-profits industry

	£million	Normalised
Number of funds	62	62
Regulatory assets	331,314	1,360
PVFP non profit	10,547	43
Other asset adjustments	1,356	6
<b>TOTAL assets</b>	<b>343,217</b>	<b>1,409</b>
WPBR	243,650	1,000
Past enhancements	2,321	10
Planned enhancements	10,770	44
Planned deductions	(8,420)	(35)
Future costs (GARs, GTDs)	33,053	136
Other liability adjustments	45,317	186
<b>TOTAL liabilities</b>	<b>326,691</b>	<b>1,341</b>
RCM	3,500	14
<b>Excess capital</b>	<b>13,025</b>	<b>53</b>
Additional support assets	24,054	99

Normalised  
to WPBR



Source: Form 19, Annual Returns 2012 plus author's assessment

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## Solvency – proprietary vs. mutual funds

	Proprietary 43	Mutual 19
Number of funds		
Regulatory assets	1,344	1,453
PVFP non profit	36	84
Other asset adjustments	6	5
<b>TOTAL assets</b>	<b>1,386</b>	<b>1,542</b>
WPBR	1,000	1,000
Past enhancements	9	14
Planned enhancements	43	54
Planned deductions	(35)	(34)
Future costs (GARs, GTDs)	132	156
Other liability adjustments	184	196
<b>TOTAL liabilities</b>	<b>1,333</b>	<b>1,385</b>
RCM	14	17
<b>Excess capital</b>	<b>39</b>	<b>140</b>
Additional support assets	114	7

- Perception: Mutuals are stronger, but have higher guarantee costs
- Mutuals have more assets within the fund available for distribution
- Proprietaries strength supplemented by access to additional capital



Source: Form 19, Annual Returns 2012 plus author's assessment

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## Solvency – open vs. closed funds

	Open	Closed
Number of funds	18	44
Regulatory assets	1,292	1,503
PVFP non profit	48	33
Other asset adjustments	7	3
<b>TOTAL assets</b>	<b>1,347</b>	<b>1,539</b>
WPBR	1,000	1,000
Past enhancements	3	23
Planned enhancements	9	119
Planned deductions	(39)	(26)
Future costs (GARs, GTDs)	118	173
Other liability adjustments	156	248
<b>TOTAL liabilities</b>	<b>1,247</b>	<b>1,538</b>
RCM	21	1
<b>Excess capital</b>	<b>79</b>	<b>0</b>
Additional support assets	31	241

- Perception: Closed (zombie) funds are weak with high guarantees
- Closed funds appear weak due to requirement to distribute
- Open funds have fewer 'surplus' assets to meet losses
  - and less support

Source: Form 19, Annual Returns 2012 plus author's assessment

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## Developing new business

- c.10 funds actively seeking to write new business
- Focus on traditional products & struggling to maintain fund growth
- Some finding success with new product innovations
  - Retain: balanced investment funds with reduced volatility and downside protection
  - Remove: lack of transparency and reliance on discretion
- Concern that the regulator does not support the with-profit product offering



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## Project Chrysalis

- c.9 sizeable mutuals seeking to secure a long-term future – even without new with-profits sales
- Mutuals actively considering waivers but awaiting policy statement
- Perception that CP12/38 dilutes the regulatory stance that the estate belongs to with-profits policyholders
- Perception that regulator is now strengthening its stance
- Some exploring alternative solutions such as a “*re-attribution*” or “*member accounts*”



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## Closure and run-off plans

- Transition to run off as sales volumes drop – is writing new business in low volumes fair to new policyholders?
- Complications with estate distribution



- Increased (but unknown) capital requirements under Solvency II
- Divergent views as to how the estate should be distributed
- Conflicting pressure from FCA to distribute surplus and PRA to maintain solvency



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## Exposure to non profit business

Number of funds	All 62 funds	Top 10 funds
Regulatory assets	1,360	1,357
PVFP non profit	43	145
Other asset adjustments	6	25
<b>TOTAL assets</b>	<b>1,409</b>	<b>1,528</b>
WPBR	1,000	1,000
Past enhancements	10	8
Planned enhancements	44	36
Planned deductions	(35)	(10)
Future costs (GARs, GTDs)	136	140
Other liability adjustments	186	209
<b>TOTAL liabilities</b>	<b>1,341</b>	<b>1,383</b>
RCM	14	22
<b>Excess capital</b>	<b>53</b>	<b>123</b>
Additional support assets	99	103

- Very large non-profit exposures in some funds

- Can create capital, volatility and liquidity issues

- Many funds seeking to remove exposure to:

- Non-profit annuities
- Pension scheme obligations
- Unit-linked



Source: Form 19, Annual Returns 2012 plus author's assessment

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## Exposure to high guarantees and options

Number of funds	All 62 funds	Top 10 funds
Regulatory assets	1,360	1,732
PVFP non profit	43	21
Other asset adjustments	6	0
<b>TOTAL assets</b>	<b>1,409</b>	<b>1,753</b>
WPBR	1,000	1,000
Past enhancements	10	0
Planned enhancements	44	93
Planned deductions	(35)	(39)
Future costs (GARs, GTDs)	136	417
Other liability adjustments	186	282
<b>TOTAL liabilities</b>	<b>1,341</b>	<b>1,752</b>
RCM	14	5
<b>Excess capital</b>	<b>53</b>	<b>(5)</b>
Additional support assets	99	352

- High guarantee funds have retained significant assets

- and tied up significantly more assets as capital support



Source: Form 19, Annual Returns 2012 plus author's assessment

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## Other

- Hedging and hypothecation
- FCA thematic review? and reformed management actions committee
- New rules for projection rate
- With-profits Governance – triggered by recent fine
- Cost control and service company fees



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## Key messages and next steps

- With profits funds must be managed fairly, but
  - A wide range of issues need to be addressed
  - These issues evolve as fund evolves
  - Potential solutions are complex and vary by fund
  - A wide range of views as to what solution is appropriate
- How does the actuarial profession ensure that it retains knowledge and expertise in managing this business?



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**Questions**

**Comments**

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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