


Institute  
and Faculty  
of Actuaries

## Best Practice in Managing Participating Business

Aiza Yasmin Benyamin



30 April 2018

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### Agenda for today

- Share the nuances of Thailand's participating insurance market
- Explain the concept of TCF & PRE
- Suggest improvements that insurers in Thailand can make in managing their par business 'fairly' with reference to global best practice.
- *CAVEAT: Opinions expressed here are presenter's own and may not reflect the view of her employer or the Institute of Actuaries*

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## 1) Develop an understanding of the Thai participating insurance market & contrast that against the practice in other markets



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artise  
ponsorship  
Thought leadership  
Thought progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

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## Thailand's current regulations

1. Participating Life Policy Regulation Framework
2. OIC Premium Regulation
3. OIC Cash Value (CV) Regulation
4. RBC Framework



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## Key Features of Thailand's Participating Insurance Market

Small Bonus Loading

Wide Variation in  
Participating Feature

Dividends can be Formula  
Based or Discretionary

Par Fund is not  
segregated



## Definition of Participating Business

Thailand	United States (U.S)	United Kingdom (U.K)
any product paying benefits more than the guaranteed amount stated in its policy contract where the guaranteed amount is defined based as	policy that pays dividends to the policyholder as if he was a shareholder. Dividends are paid as a portion of the insurance company's profits.	long-term insurance contract which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the firm's business or from a particular part of the firm's business.
<ol style="list-style-type: none"> <li>1. Based on reference index or other investment variables, but not based on company's performance.</li> <li>2. Based on company's performance or investment return and other company indicators, divided into paying benefit by cash and increasing sum assured.</li> </ol>	<p>The amount of dividend declared is calculated based on a formula that takes into consideration the investment performance of the fund, mortality and lapse experience as well as the expenses incurred.</p>	<p>There exists 2 types of participating policy in the U.K. namely,</p> <ol style="list-style-type: none"> <li>1. Conventional/traditional with-profits</li> <li>2. Unutilized/Accumulating with-profits</li> </ol> <p>The amount of bonus for all participating policy is at the discretion of the insurer.</p>

### U.K. Practice

- Principles and practices of Financial Management ("PPFM")
- Establishment of a **with-profits committee** which report directly to the Board.
- A **with-profits actuary** is also required by regulation to advice on all discretionary aspects of the with-profits issues, including bonus rates.
- **10:90** rule on bonus distribution
- **Segregated** Insurance Fund




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### Malaysia Practice

- Management of Participating Business Policy ("MPB")
- Bonuses determined by Appointed Actuary subject to future sustainability and guided by asset share. Strict regulatory rules apply.
- 10:90 rule on bonus distribution
- Segregated Insurance Fund




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### U.S. Practice

- Require sign off by an actuary before product launch
- An **illustration actuary** must test that the current dividend scale being used in a sales illustration is sustainable.
- Marketing materials are reviewed by state insurance departments
- No separation of funds required unless "demutualized"




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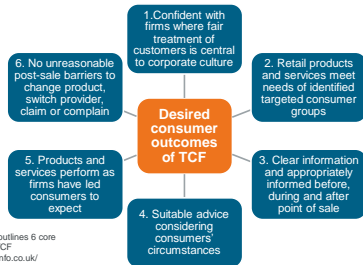
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## 2) What does it mean.. Treating Customers Fairly?

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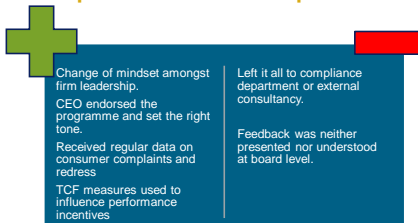
### Treat Customers Fairly (TCF) in UK



Source: FCA outlines 6 core outcomes of TCF  
<http://www.tcfinfo.co.uk/>



### The UK Experience on initial implementation



## Treating Customers Fairly Applies to the Entire Life Cycle




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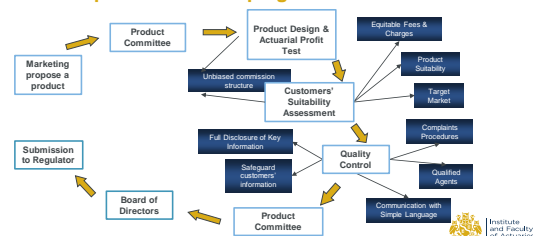
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## Treating Customers Fairly An Example when Developing Insurance Products




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## Asset share & bonus payout

In Malaysia & UK, meeting TCF implies paying out asset share to par policy owners. Below is a simplified example of an asset share formula.



Actual payout normally target a range of the cohort's asset share – implying payouts are smoothed. Further, there may be charges for guarantees and use of capital.

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3) What about Customers Expectation?

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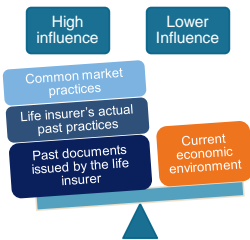
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Policy Owners' Reasonable Expectations (PRE)



PRE concerns the policy owners' expectations on how the non-guaranteed benefits of par policies are managed and paid.



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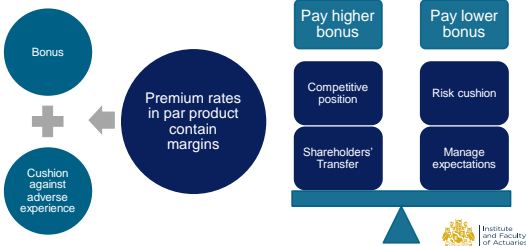
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Bonus Smoothing



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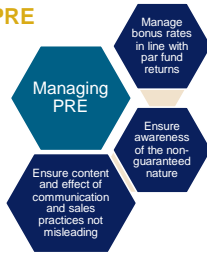
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## Managing PRE




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## Regulations on Communications

U.K.	U.S.	Malaysia
<p>The firm should consider the rules on communicating with clients and ensure it is <b>fair, clear and not misleading</b>.</p> <p>Communication with policyholders may take place at three different stages:</p> <ul style="list-style-type: none"> <li>• Pre-contractual stage</li> <li>• Entering into the contract</li> <li>• During the term of the contract</li> </ul>	<p>An insurer shall provide to a policy owner the <b>current scale of non-guaranteed elements</b> no later than the date of issue, either in the policy, application, illustration of the policy as sold, or a special disclosure document in a manner that will allow an easy comparison to the corresponding guarantees.</p> <p>An insurer shall provide a disclosure document to a policy owner at least 60 days <b>prior to any adverse change</b> in the current scale of non-guaranteed elements.</p>	<p>The insurer must ensure its communication strategies are developed and appropriately tailored to manage specific expectations of different groups of stakeholders.</p> <p>Communication with policyholders may take place at three different stages:</p> <ul style="list-style-type: none"> <li>• Pre-contractual stage</li> <li>• Entering into the contract</li> <li>• During the term of the contract</li> </ul> <p>The regulator also prescribes the <b>format at which sales materials should be presented</b> such that the benefits offered under each policy is comparable between companies.</p>

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## 4) Applying TCF principles for the Thai Market

Moving beyond regulatory compliance to a focus on good customer outcomes

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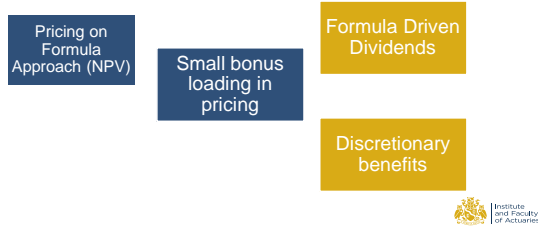
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**Certain product features would require segregation of the par fund**




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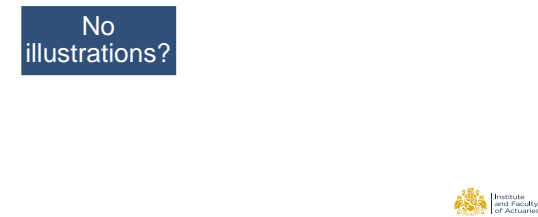
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**Illustrations at point of sale should be encouraged**

No illustrations?




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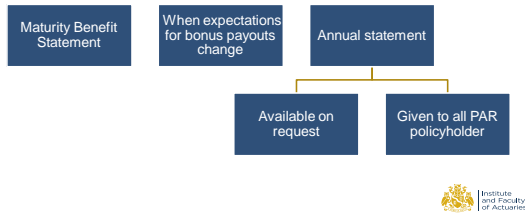
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### Timing of communications with policyholders




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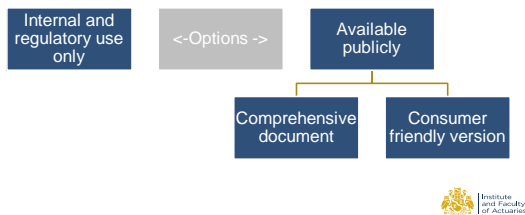
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### Management Participating Fund Policy Disclosure




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### Management of Participating Fund Policy

Aim	• Improving transparency and governance in managing the participating business
Payment methods, bonuses, and smoothing (if any)	• Description of method used to assess the amounts payable to with-profits policies
Investment Strategy	• Description of the investment strategy including matching and risk appetite
Profit-sharing arrangements	• Description of any profit arrangements between shareholders and policyholders. This include the methods used for applying charges and apportioning expenses.



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## Moving beyond regulatory compliance to a focus on good customer outcomes

### How to improve?

- Formalise policy on how the par fund is managed and bonuses are determined
- Improve communications with policyholders
  - On illustrations at point of sale
  - On-going communications to manage PRE
- Case for par fund to be segregated




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## Summary

### • Why improve?

- Ability to demonstrate that in line with global best practice, the participating funds are managed "fairly"

### • Potential consequences of poor practice

- Regulatory intervention
- Being sued by policyholders




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Questions

Comments

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