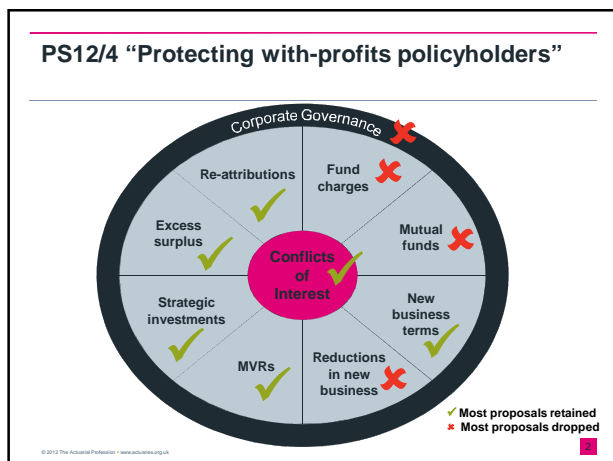


With-Profits: Responding to Change

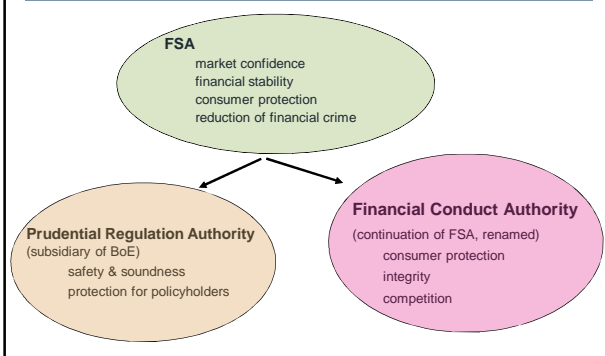
Agenda

- PS12/4 'Protecting with-profits policyholders'
- The move to dual regulation
- CP12/13 'Transposition of Solvency II – Part 2'
- Impact of other regulatory changes
- Where next for with-profits?
- Questions and comments

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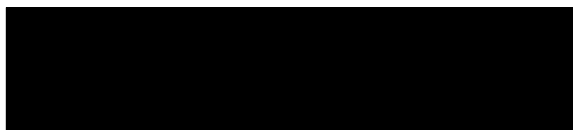
The move to dual regulation



The move to dual regulation

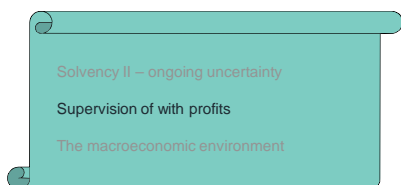
FCA

- 'responsibility to ensure that policyholders are treated fairly'
- 'oversight of ... decisions about bonuses and charges'
- 'Firms will see:
 - a more forward-looking approach, with faster reactions
 - greater intensity of conduct supervision'



'In the case of with-profits policies, additional co-ordination arrangements [between FCA and PRA] will be needed.'

The regulators' priorities



"three of the most pressing challenges faced by the industry and regulator"

*Julian Adams, Director of Insurance, FSA
22 October 2012*

CP12/13 'Transposition of Solvency II – Part 2'

Section 7 - With Profits Business

'consequential, and largely technical, changes to the current rules so that they are consistent with the requirements of the [S2] Directive'

CP12/13 'Transposition of Solvency II – Part 2'

Why does WP business raise special issues?

- Some Conduct protections for policyholders currently in INSPRU
- Conflict between Prudential and Conduct objectives
- Benefit entitlements linked to the performance of a fund
- Ring-fencing of WP funds
- Definition of 'With Profits'
- Definition of 'Surplus'

CP12/13 'Transposition of Solvency II – Part 2'

Conduct protections currently in INSPRU include:

- transfers of assets from WP fund
- use of assets in long term business fund
- paying fines
- changes in policyholder share of distributions
- liabilities of fund covered by assets in fund ?

CP12/13 'Transposition of Solvency II – Part 2'

Prudential vs Conduct

COBS 20.2.34 G

Where assets from outside a with-profits fund are made available to support that fund (and there is no ambiguity in the criteria governing any repayment obligations to the support provider), a firm should manage the fund ~~disregarding the liability to repay these assets, at least in so far as that is necessary for its policyholders to be treated fairly taking those assets into account solely to the extent the arrangements have been formally approved by a court or, in relation to a friendly society, the FSA.~~

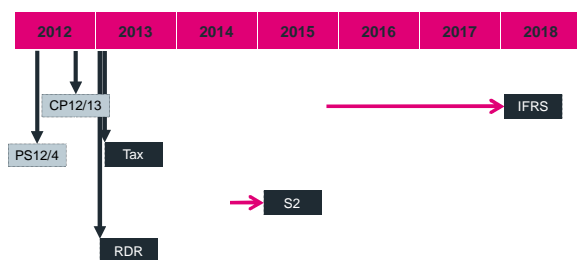
CP12/13 'Transposition of Solvency II – Part 2'

Definition of a with-profits policy

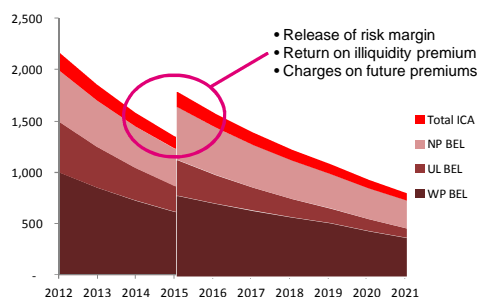
Current:

a contract falling within the class of long term insurance business which is eligible to participate in any part of any established surplus

Impact of other regulatory changes Latest intended timeline*



Impact of other regulatory changes *Solvency II*



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12

Impact of other regulatory changes *IFRS 4 Phase II*

| Current | Proposed | Key issues |
|--|--|---|
| <ul style="list-style-type: none"> IFRS balance sheet includes an Unallocated Divisible Surplus (UDS) which absorbs year-on-year balance sheet volatility IFRS profits broadly align to the emergence of shareholder transfers | <ul style="list-style-type: none"> Draft proposals remove the UDS, which introduces significant volatility Draft proposals include a liability for all discretionary benefits - including those relating to future policyholders | <ul style="list-style-type: none"> How should IFRS profit be defined, and are we happy with the resulting level of volatility? How should we treat the inherited estate and assets likely to be paid to a future generation of policyholders? |

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13

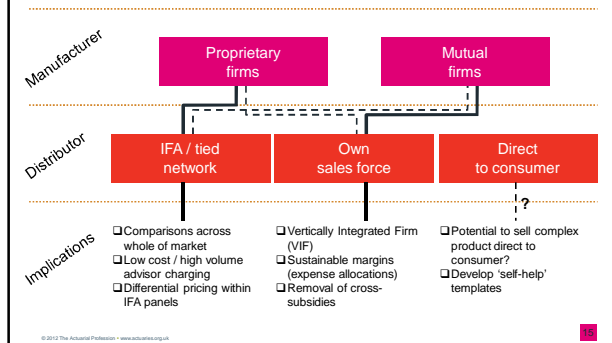
Impact of other regulatory changes *Tax Legislation*

| | |
|--------------------------|---|
| Forthcoming change | Allocation of profits and investment return between BLAGAB and non-BLAGAB to be based on commercial allocation |
| Challenges and risks | <p>Very subjective for some areas, such as investment of surplus assets or the cost of guarantees</p> <p>May result in an onerous tax computation if the impact is not fully assessed</p> |
| Opportunity and enablers | <p>Unique opportunity to ensure that the commercial allocation not only reflects the way the business is managed, but also provides an appropriate structure for the tax computation.</p> <p>Requires Actuarial and Tax teams to work together to ensure that the chosen approach is tax efficient and that HMRC are provided with sufficient justification for the apportionment</p> |

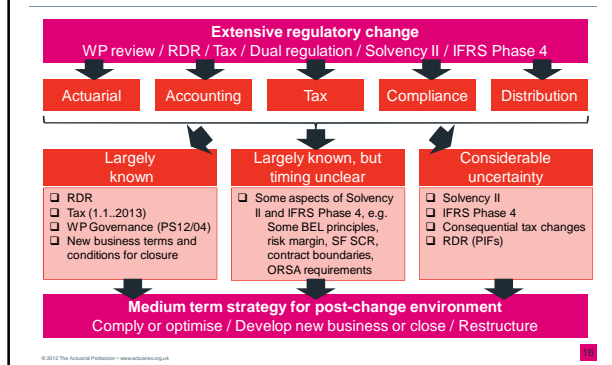
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14

Impact of other regulatory changes RDR



What next for with-profits?



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged. The views expressed in this presentation are those of the presenter.

