



The Actuarial Profession

making financial sense of the future

Bridging the Divide – 'Long-term guarantees in a short-term world'

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Operations, Governance & Infrastructure

Industry Trends and Case Study

17 September 2010

Agenda

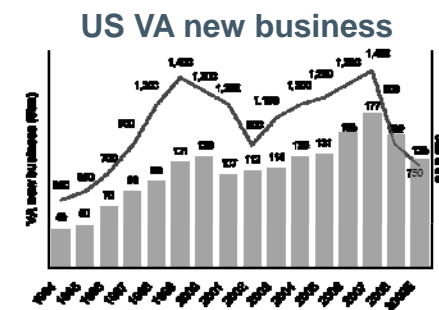
- Foundations of a strong platform for VA roll-out
- MetLife Unit Linked Design Case Study
- Key learnings

Insights from past experience

What has gone wrong?

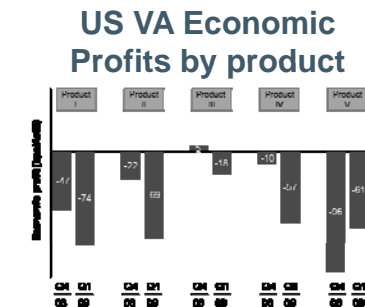
Top-line drop

- 50% in new business, -25% in AuM in mature markets like the US
- Stalled start of new VAs in Europe esp. due to distributor concerns and weakened marketing



Bottom-line drop

- In 2008/9 most core products unprofitable in economic terms esp. volatility
- Many hedging strategies proved insufficient causing write-offs and capital injections



Crisis counter measures

- Some players abandoned business or at least int'l roll-out (esp. Hartford in Europe)
- Some players closed single products (e.g. AXA Twinstar Invest in Germany)
- Some new launches now underway but slow

Crisis counter measures examples

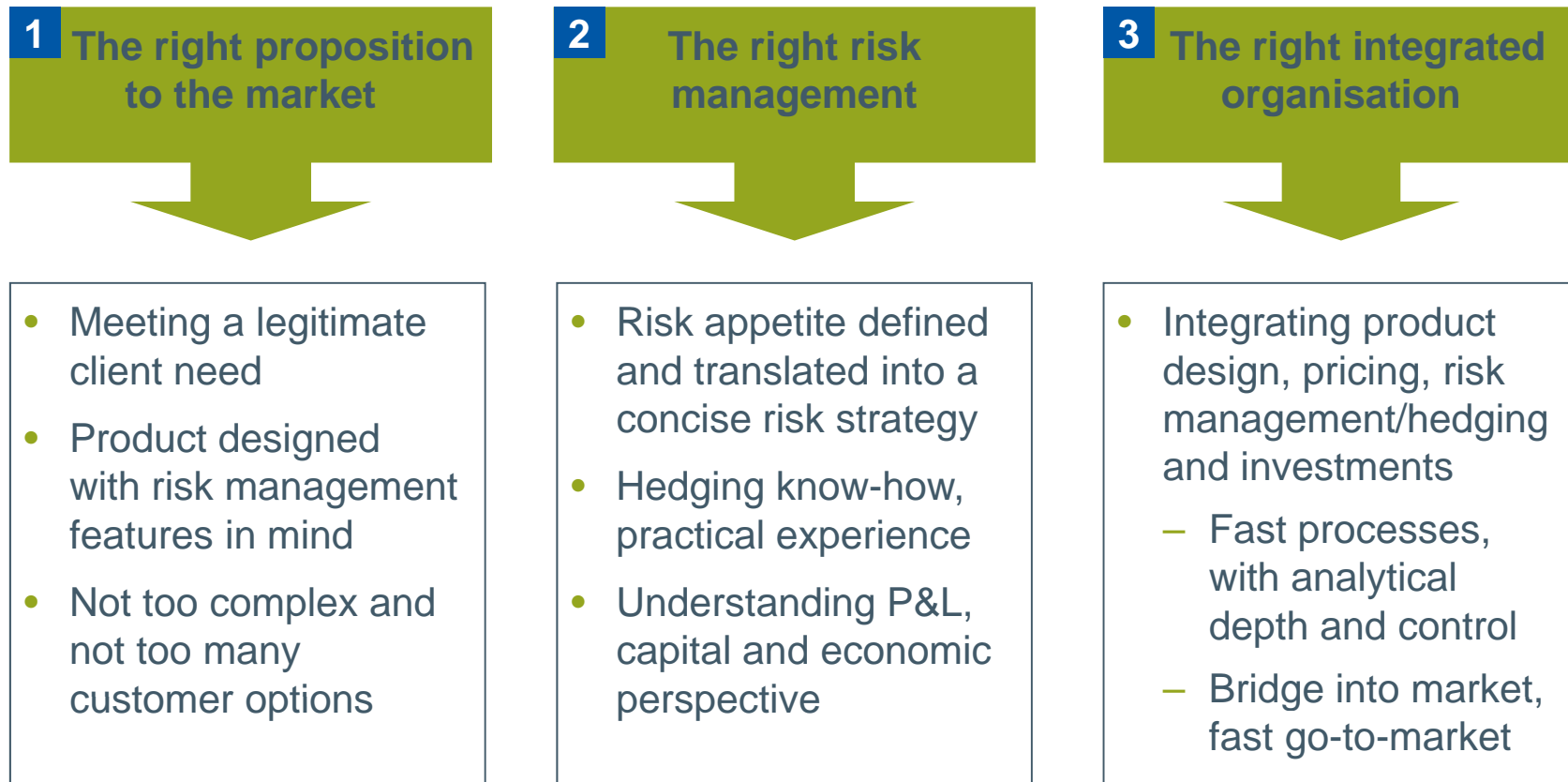
Type of response: Recent examples (illustrative selection)	
Market exits	<ul style="list-style-type: none"> AXA has decided to discontinue sale of its variable annuity "Twinstar" products in Germany AXA has stopped selling single products "Twinstar" variable annuity products in Japan in August Hartford has suspended sale of its VA, part of its Japan, most insurance plans in Japan Windsor has decided to discontinue sale of its VA in Japan
Product re-design	<ul style="list-style-type: none"> In the UK, several companies have decided to discontinue the sale of their variable annuity products Some have decided to discontinue the sale of their variable annuity products in Germany Some have decided to discontinue the sale of their variable annuity products in Japan Some have decided to discontinue the sale of their variable annuity products in the US
Hedging and capital management	<ul style="list-style-type: none"> Many companies have decided to discontinue the sale of their variable annuity products in Germany Some have decided to discontinue the sale of their variable annuity products in Japan Some have decided to discontinue the sale of their variable annuity products in the US

Looking across the market, there are many reasons for VAs having a difficult start in Europe ...



Internal factors External factors

Three pillars to build a strong internal platform for successful roll-out of variable annuities



A strong VA business starts with the governance of product design

MetLife Unit Linked Design Case Study

Guarantee Developments in 2009

Market Background

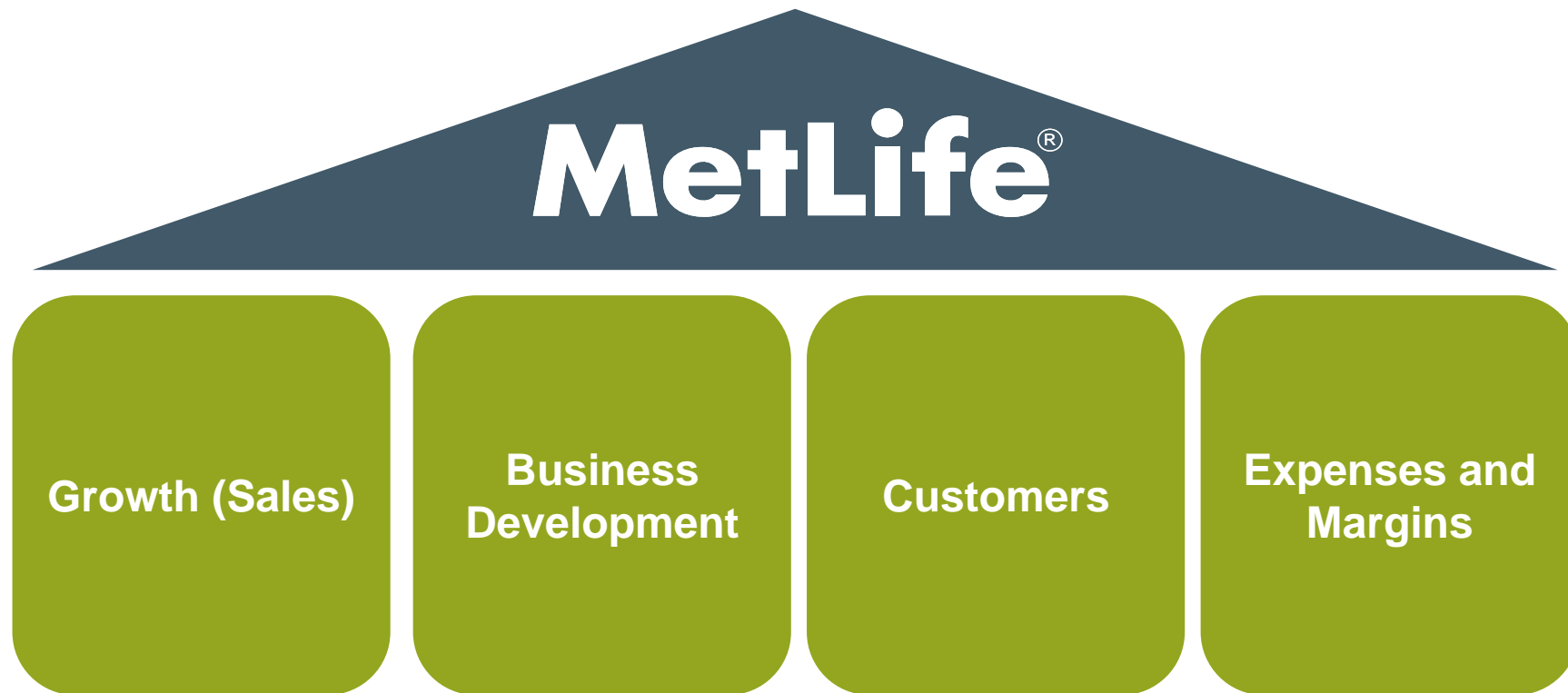
- Unit linked guarantee market still relatively new in the UK
- Weak distributor knowledge and understanding of the product
- Distributors focused on provider financial health
- MetLife not well known in the UK
- Economic factors driving up cost of providing guarantees

Corporate Background

- Low tolerance for market risk
 - Reduction in basis risk
- Requirement to either increase prices and/or reduce benefits to achieve margins consistent with corporate return requirements
- Desire to simplify the offering

The Retirement and Savings four pillars

MetLife Europe Limited Mandate



Product Design Governance

The Product Development Process



Ensuring appropriate processes across all stages

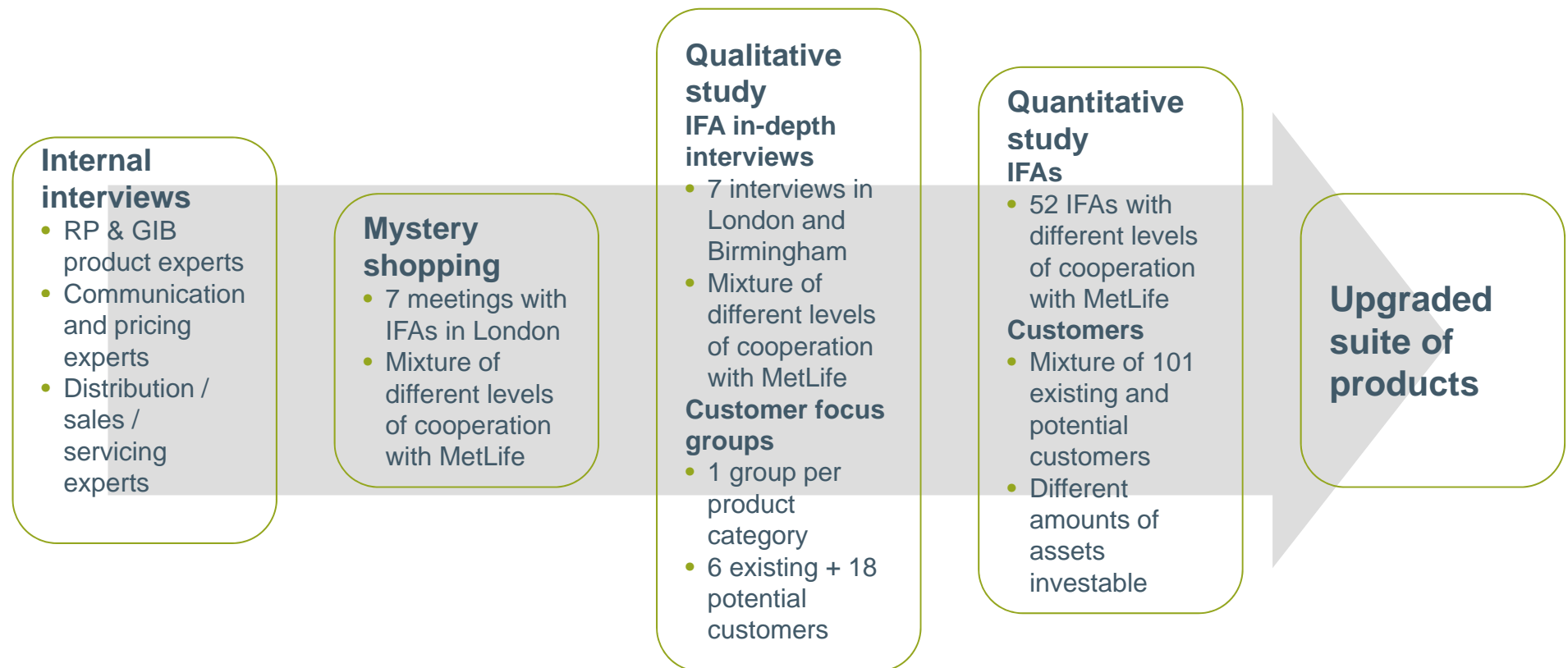
- Cross pollination of ideas
- Forum to share new product development ideas
- Documentation & roles and responsibilities (RAPID)
- Meeting customer needs
 - Customer Value
 - Customer led research

Governing the implementation

- Understanding the delivery
 - Business drivers
- Future proof systems in light of further developments
- Consider risk management requirements
- Understand customer behaviour and risk
- Simplify the offering

Comprehensive Market Research

Qualitative and Quantitative research for IFAs and customers



Key Product Research Findings

Product features preferred

- Higher guaranteed minimum income
- Index funds tolerance
- More frequent step-up
- Guaranteed death benefits
- 100% guarantees
- Price Tolerance up to 300bps

Grow the market by educating and training IFAs

- *“I am not up to date with the most recent changes”*
- *“my customers can achieve the same result by investing with DFM”*
- ULG masterclass, press releases
- Simplify the product set (consistency not functionality)

Assessing Customer Value

No Single measure or approach is perfect

- Must be in relation to specific alternatives
- Must consider tax impacts
- Measure both expected returns and range of possible returns
- Always step back

Challenges

- Backtesting may be appropriate
- Stochastic testing requires parameterisation
 - Interest rates, volatility, alternatives

Product Implementation Learning

- Treating customers fairly
 - Ability to change charges
 - Product research
- Understand the full extent of the risks being taken on
 - Approvals and input from all departments
 - Complete Stress testing
 - Only provide the pricing parameters as late as possible
- Future proof system delivery
 - Allowing for future reprice cheaply
 - Minimise “buy while stocks last” mentality
 - Considering the impact on all systems (illustrations and e-enablement)
 - Product monitoring processes
- Test the system elements
 - Hedge programme considerations

Product Monitoring

Management Information and governance

Post Launch Review

- Lessons learned (with log captured)
- Outstanding actions
- Actual spend vs. projected

In-force product monitoring

- Business mix relative to pricing
- Lapse assumptions
- Target customer suitability and keeping clients informed
- Complaints log & breach reporting
- TCF Policy and Governance

Profitability Monitoring

Hedge Effectiveness

- Focus on non-hedgeable assumptions at least annually
 - Monitoring behavior
 - Feeding back in product design
- comparing actual hedge asset movements to expected
 - Performance attribution reports
- Ensure accountability for performance is clear
 - Single Investment team with specified guidelines
 - Auditable system deliveries

Actual versus expected pricing of new business

- Triggers for pricing review points
 - Allowing for time it takes to review pricing
- Economic indicators (interest rates and volatility)

Key Learning

- Focus on customer during design phase
- Connect up all areas of the development
 - Approvals
 - Metrics
- Build systems allowing for future expected changes
 - More frequent reprices
- Manage change considering impacts on hedging
- Monitoring non-hedgeable risks
- Solvency II impacts

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.

