

The Actuarial Profession
making financial sense of the future

Life conference and exhibition 2010
Paul Shallis, KPMG



Issues in unit linked fund governance

7-9 November 2010

© 2010 The Actuarial Profession - www.actuaries.org.uk

Unit-linked fund governance

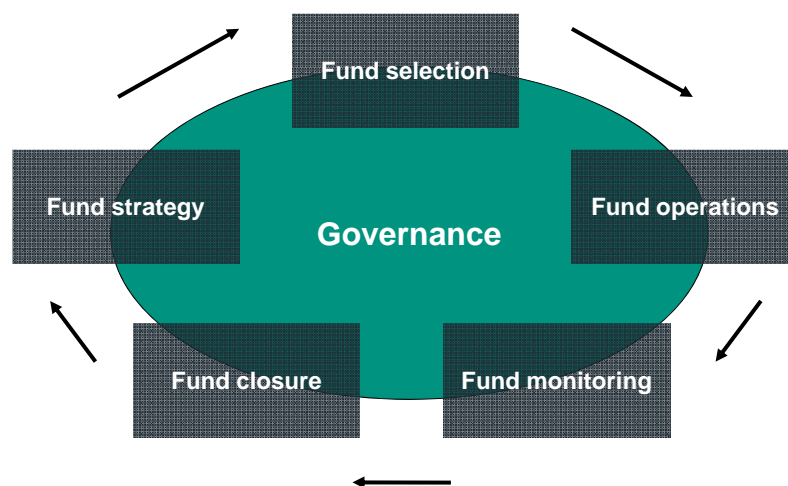
- What is fund governance?
- What does good fund governance look like?
- What are the problems to look out for?

- The focus is on the governance of external/third-party linked funds. Many of the same issues apply to internal funds.

KPMG Linked Business Survey

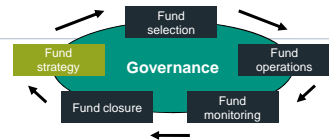
- Insight into best practice and issues that impact upon insurers writing linked business
- Looked at how linked fund providers
 - Carry out their investment selection and governance
 - Deal with new regulation and product development challenges
 - Tackle issues relating to unit pricing systems and risks
- A small sample, but demonstrated significant differences in approach
- Full survey results available from www.kpmg.co.uk or from paul.shallis@kpmg.co.uk

The fund governance process



Fund strategy

- Outputs of fund strategy
 - How many funds?
 - Accessibility vs. added value
 - For example, “open architecture”/500+ funds or limited range of 50 of the best funds
- Clarity of implementation of strategy
 - Consistency of communications
 - Consistency in fund selection
 - Sticking to the strategy, e.g. avoiding “fund creep”

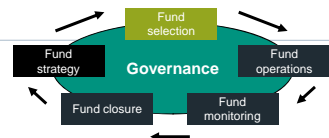


© 2010 The Actuarial Profession • www.actuaries.org.uk

4

Fund selection

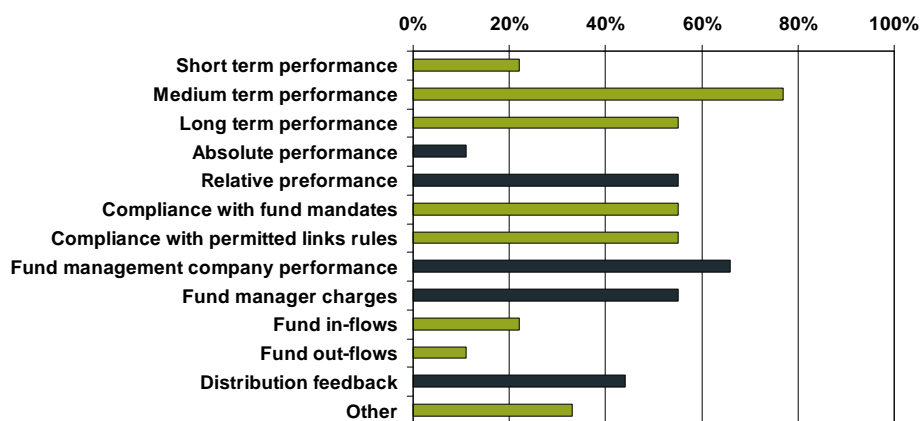
- Clear criteria for selecting funds
 - Performance (multiple criteria), charges, in-flows/out-flows, distribution preferences



© 2010 The Actuarial Profession • www.actuaries.org.uk

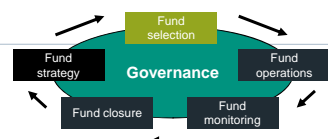
5

Fund selection criteria

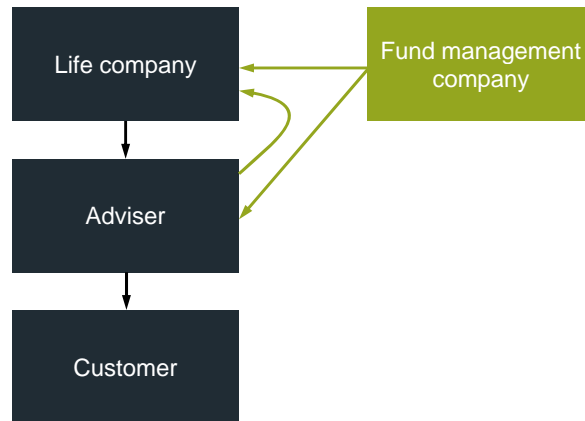


Fund selection

- Clear criteria for selecting funds
 - Performance (multiple criteria), charges, in-flows/out-flows, distribution preferences
- Avoiding bias in fund selection, e.g. non-customer benefits

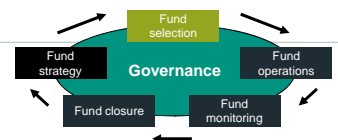


Fund relationships

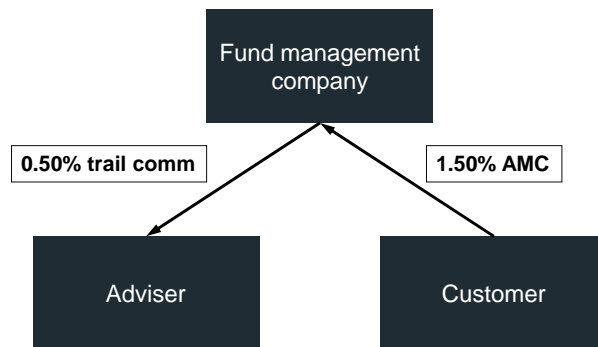


Fund selection

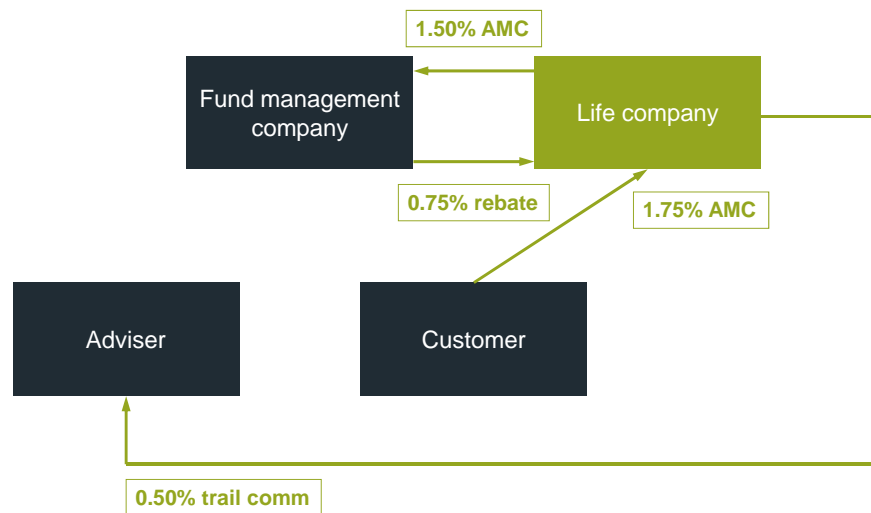
- Clear criteria for selecting funds
 - Performance (multiple criteria), charges, in-flows/out-flows, distribution preferences
- Avoiding bias in fund selection, e.g. non-customer benefits
- Rebate issues and equity



Rebate relationships (pre-RDR)



Rebate relationships (pre-RDR)

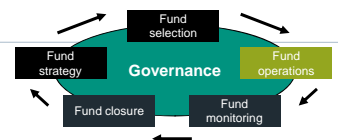


Rebate issues

- Transparency
 - Charge disclosure rules “look through” rebates – the customer must understand what they are paying
 - Existence (or absence) of rebates should not be an issue if the customer understands what they are paying
- Bias
 - If the life company’s approach to reinvesting rebates is not consistent, fund or fund manager bias can be introduced

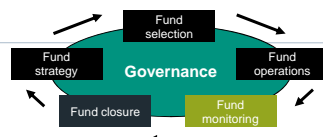
Fund operations

- Dealing with changes:
 - Changes in charges (and rebates)
 - Investment mandate changes
 - Investment manager changes
- Unit pricing errors
- Unit pricing (and liquidity) issues
- Information needs of advisers and customers



Fund monitoring

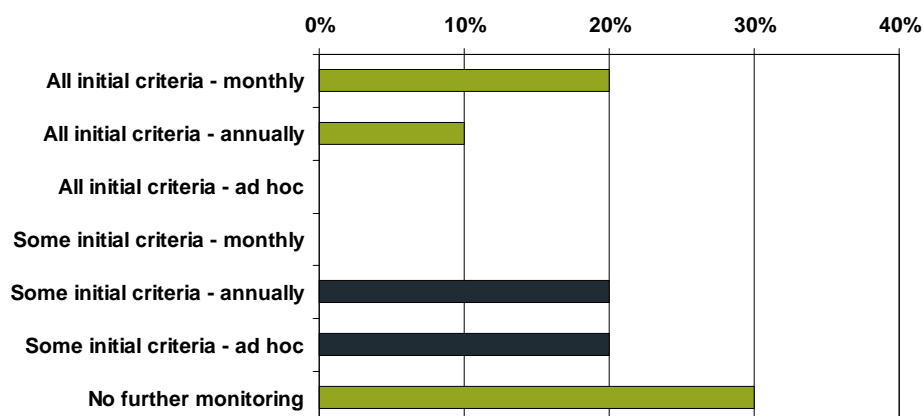
- Critical in ensuring that fund range continues to conform to fund strategy
- So if quality is key to strategy, fund monitoring must ensure that quality is maintained
- Rigour of fund monitoring compared to rigour of initial selection?



© 2010 The Actuarial Profession • www.actuaries.org.uk

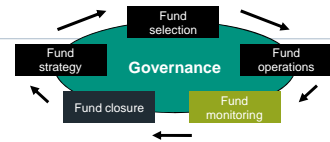
14

Fund monitoring criteria



Fund monitoring

- Critical in ensuring that fund range continues to confirm to fund strategy
- So if quality is key to strategy, fund monitoring must ensure that quality is maintained
- Rigour of fund monitoring compared to rigour of initial selection?
- Actions arising from monitoring might be discussions with fund manager, but ultimate sanction will be fund closure

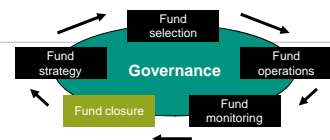


© 2010 The Actuarial Profession • www.actuaries.org.uk

16

Fund closure

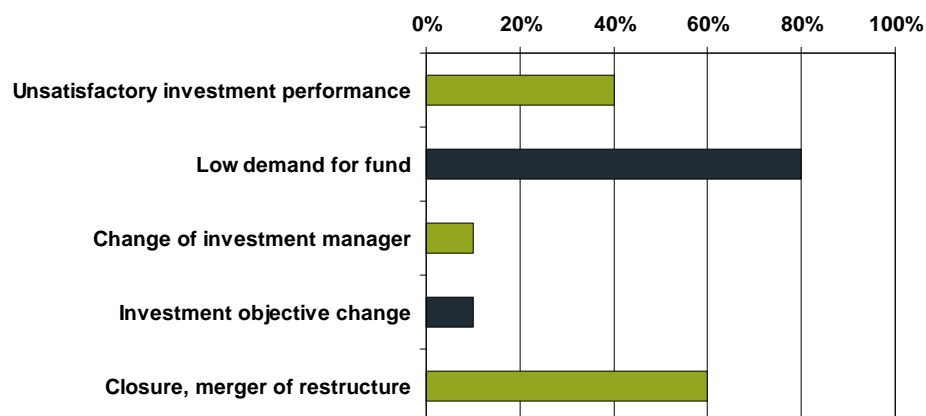
- Also critical in ensuring that fund range continues to confirm to fund strategy
- Can be difficult to achieve, involving significant resource for little tangible benefit



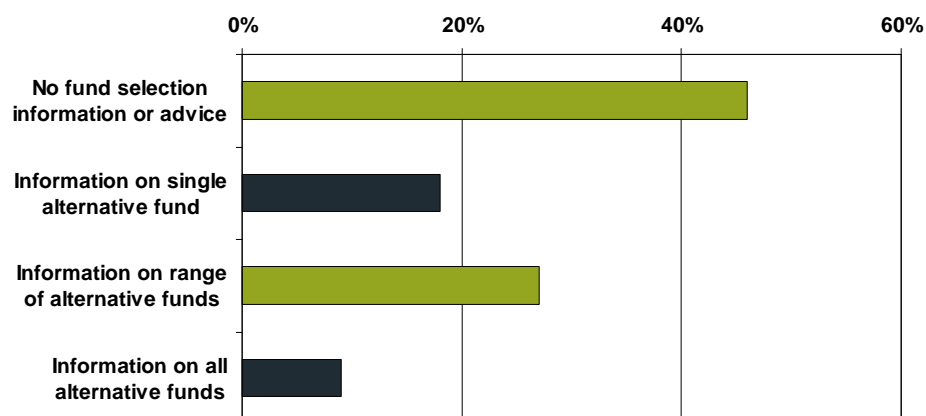
© 2010 The Actuarial Profession • www.actuaries.org.uk

17

Reasons for fund closure

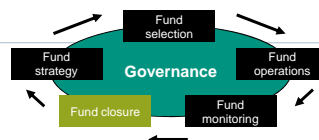


Information given to customers on fund closure



Fund closure

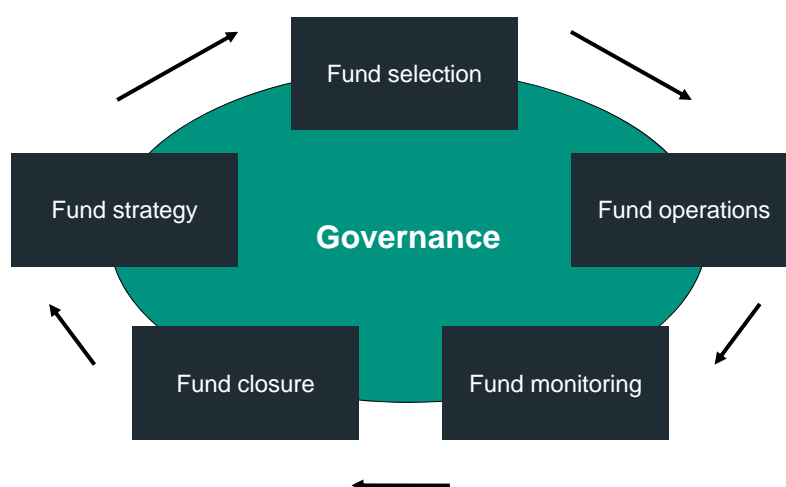
- Also critical in ensuring that fund range continues to confirm to fund strategy
- Can be difficult to achieve, involving significant resource for little tangible benefit
- How do you deal with investors when you close a fund – information and advice, default options etc.



© 2010 The Actuarial Profession • www.actuaries.org.uk

20

The fund governance process



© 2010 The Actuarial Profession • www.actuaries.org.uk

21

Final thoughts

- Fund strategy is key – it drives all stages of the fund governance process
- The other elements of the fund governance process put the strategy into practice – in a clear, consistent way
- Good fund governance ensures that customers get what they expect – it ensures that you treat customers fairly

Discussion points

- Do you have a fund governance process like this?
- Do you have a fund strategy?
- If so, is your fund strategy documented and agreed and is it implemented consistently?
- What governance issues do you face in managing linked business?
- Do you monitor funds as rigorously as you initially select them?
- Do you have a successful approach to closing funds?

The Actuarial Profession
making financial sense of the future

Life conference and exhibition 2010
Paul Shallis, KPMG

Issues in unit linked fund governance

7-9 November 2010

© 2010 The Actuarial Profession - www.actuaries.org.uk