





Current Topics 2008

Our Changing Future & Faculty of Actuaries Students' Society

Life Insurance



Audit.Tax.Consulting.Corporate Finance.

Introduction

2007 at a glance

Discussion Papers

Retail Distribution Review

Discussion Paper issued by the FSA in June 2007

Treating Customers Fairly

Four Papers issued by the FSA in July 2007

Solvency II

Framework Directive Published in July 2007

IFRS for Insurance Contracts

Discussion Paper issued in May 2007

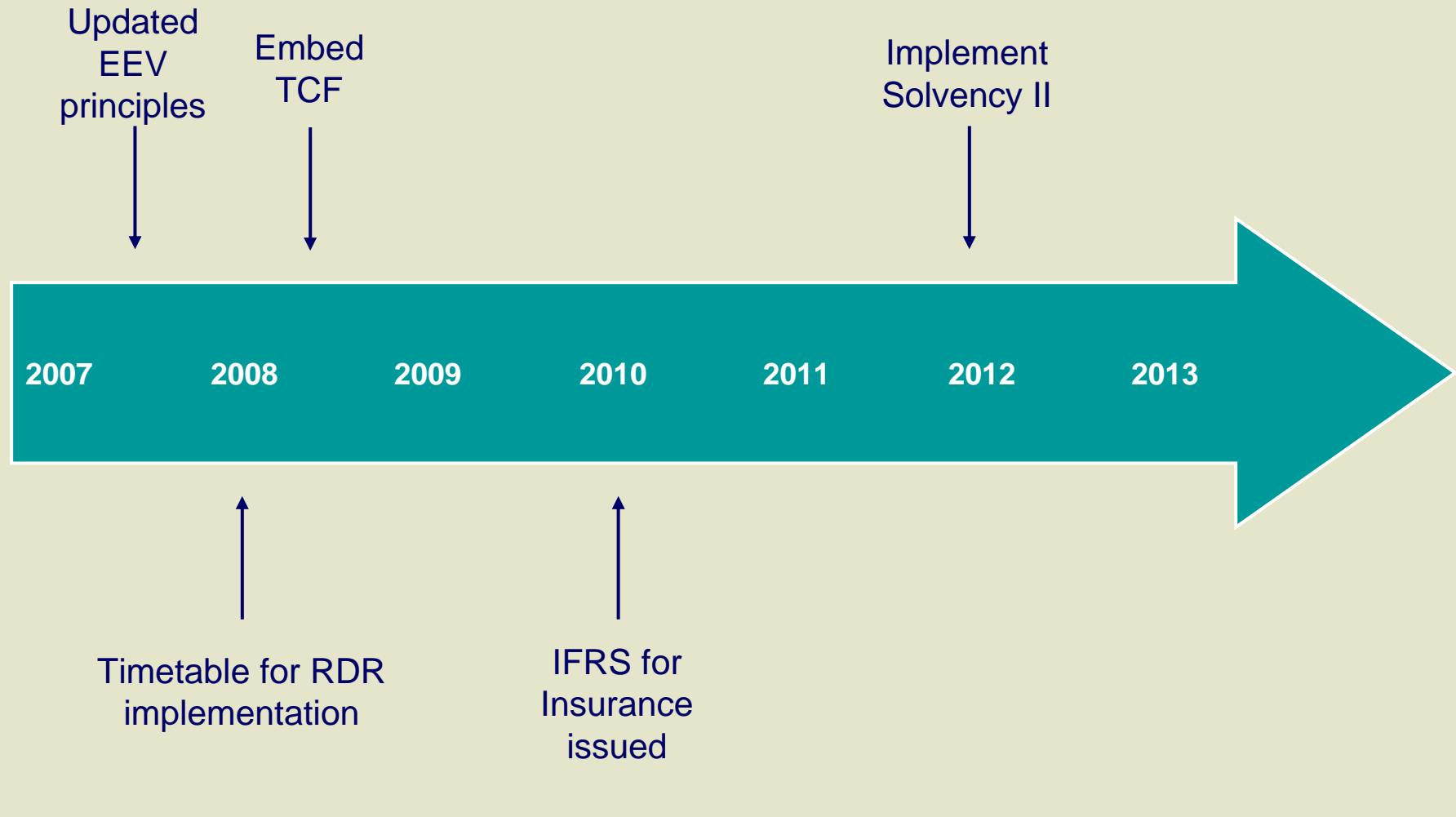
BAS Conceptual Framework

Discussion Paper issued in Apr 2007
Exposure Draft issued in March 2008

Introduction

Where are we going?

Upcoming changes



Industry update

Sales

Net written premiums, 1996-2006

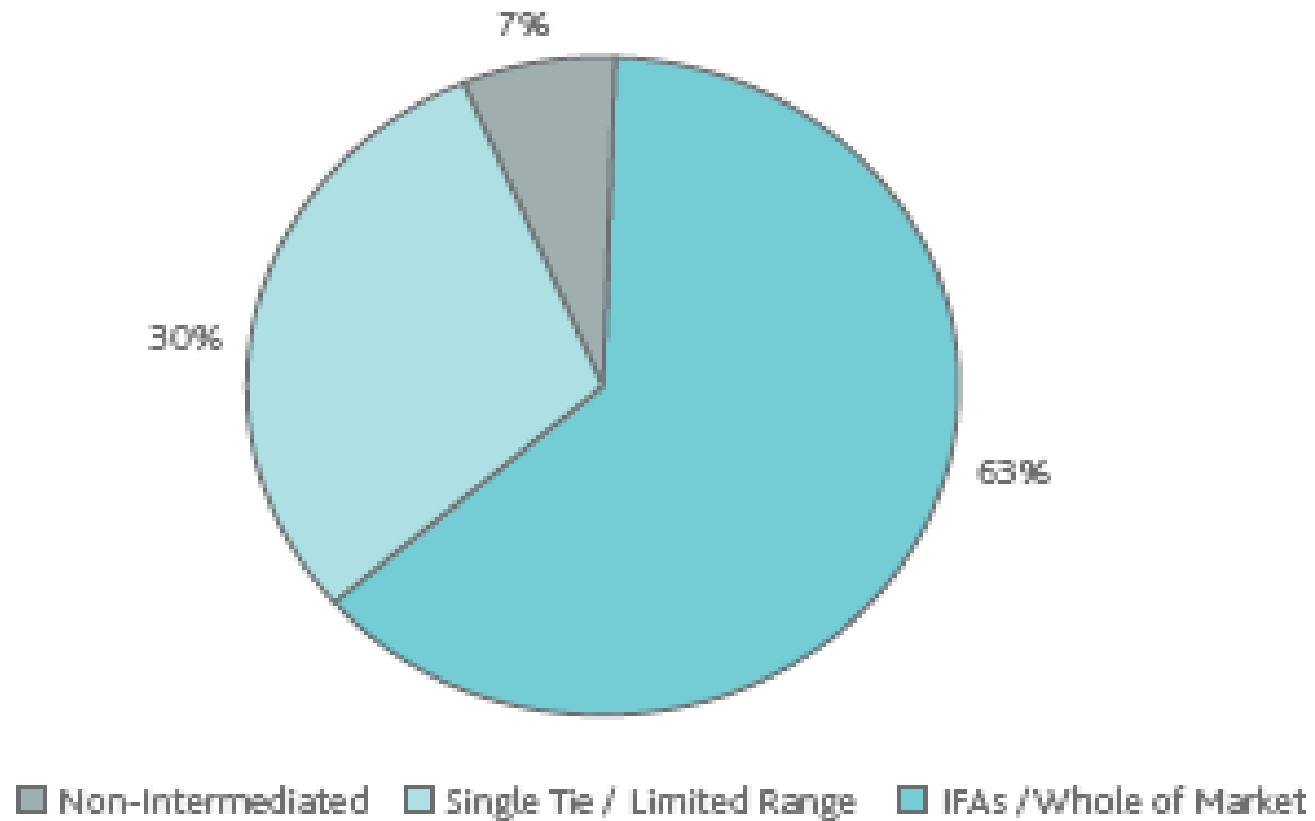


Source: ABI

Industry Update

Distribution

Long Term Insurance Sales, 2006



Source: ABI

Industry update

Retail Distribution Review

- Remuneration structures should be transparent, understandable and should not conflict with acting in the best interests of consumers.
- Current market for providing advice should be divided into four tiers;
 - o Professional Financial Planners,
 - o General Financial Advisers,
 - o Primary Advisers and
 - o Generic Financial Advice.

Corporate Activity Resolution

Purchases

UK Life operations of Royal Sun Alliance, £850m (65% of EV), September 2004

Swiss Life UK, £205m (76% of EV), April 2005

Merger of Resolution Life Group Limited and Britannic Group plc (at 88% of EV), September 2005

Abbey's UK Life businesses, £3.6bn (97% of EV), June 2006

Resolution exits the closed fund sector after a £5bn takeover from Pearl & Royal London

Corporate Activity

Annuity Transfers

- Standard Life reinsured £6.7bn annuity liabilities to Canada Life International Re
- Equitable Life transferred £4.6bn of annuities to Canada Life International Re
- Equitable Life transferred £1.8bn of with-profits annuities to the Prudential.
- Lucida, a recent start-up, completed a deal to reinsure €100m of annuities from the Bank of Ireland and then took out a contract with JP Morgan to hedge the longevity risk based on the “LifeMetrics” Index.
- Zurich transferred £3.9bn of annuities to Swiss Re.

Corporate Activity

Reattributions

Aviva have:

- accumulated £5 billion surplus in the with profits fund at the end of 2006
- appointed Clare Spottiswode as Policyholder Advocate
- distributed more than £2bn of this in the form of a special bonus.

... and are currently considering the Policyholder Advocate's reply to their third offer, with the intention of finally putting an offer to policyholders in 2008.

Prudential are considering a reattribution.

Regulatory Developments

TCF

The Papers issued in 2007 covered:

- Responsibilities of providers and distributors;
- Good and poor practice in relation to product design;
- Culture in firms; and
- Management information (“MI”).

Regulatory Developments

TCF

Culture Framework:

- leadership
- strategy
- decision making
- controls
- recruitment, training and competence
- reward

Regulatory Developments

Solvency II

Framework directive:

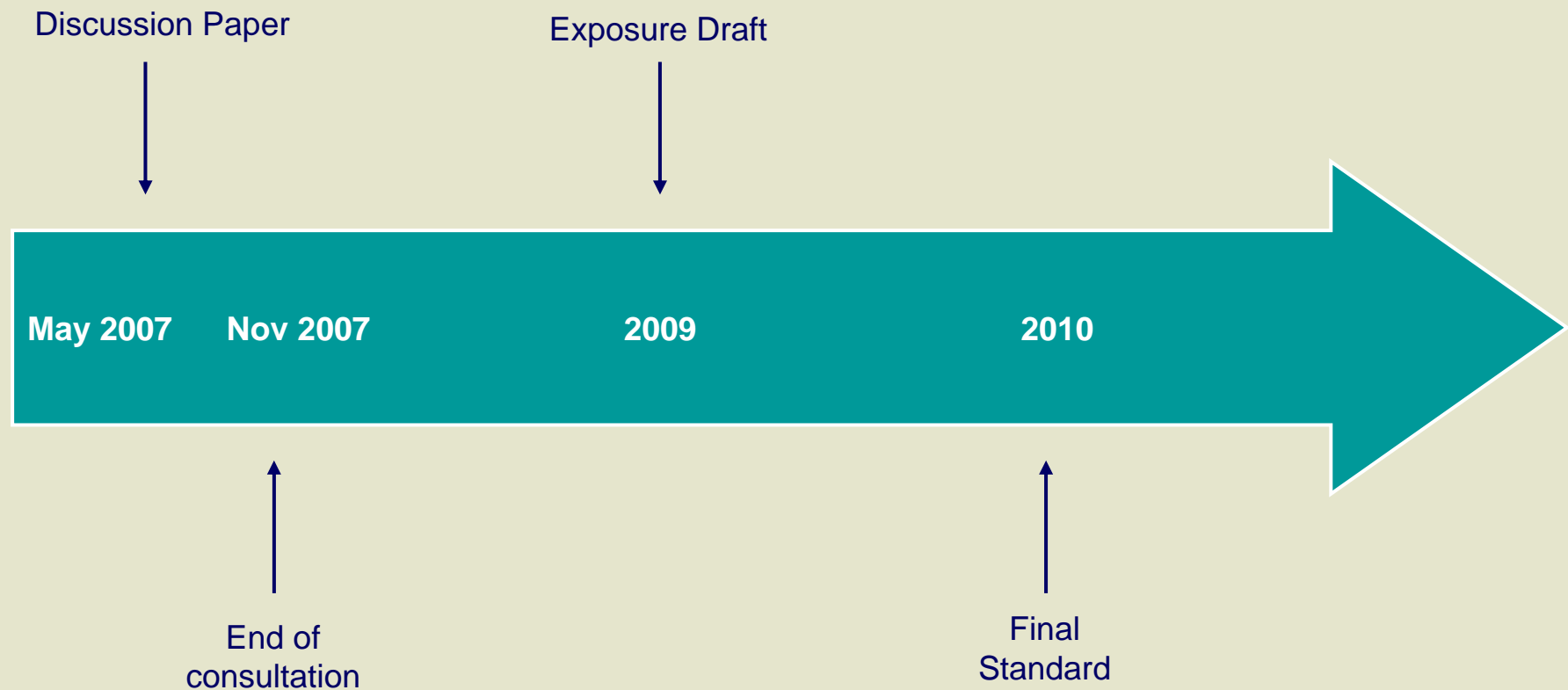
- Pillar 1 - quantitative requirements;
- Pillar 2 - requirements for the governance and risk management of insurers and effective supervision of insurers
- Pillar 3 - supervisory reporting and transparency requirements.

QIS3:

- UK Industry is measuring up well
- More work is need on the MCR
- Lapse catastrophe risk calibration needs to be re-considered
- Actions of Life companies' management need to be better taken into account

Financial Reporting IFRS

Timetable



Financial Reporting

IFRS

Current Exit Value (“CEV”) using the following three building blocks:

- Current estimates: explicit, unbiased, market-consistent, probability weighted and current estimates of the contractual cash flows;
- Time value of money: current market discount rates that adjust the estimated future cash flows for the time value of money; and
- Margins: an explicit and unbiased estimate of the margin that market participants require for bearing risk (risk margin) and for providing other services, if any (service margin).

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