



Institute
and Faculty
of Actuaries

CP12/38 – Stick or Twist

Donald Macleod, Scottish Friendly
James Hillman, EY



08 November 2013




Institute
and Faculty
of Actuaries

Agenda

- Background on CP12/38 and subsequent guidance
- Case studies
- Ring fencing
- Challenges
- Questions

Enterprise
Sponsorship
Thought leadership
Progress
Community
Seasonal Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support


08 November 2013



Institute
and Faculty
of Actuaries

Background on CP12/38 and subsequent guidance

08 November 2013



Institute
and Faculty
of Actuaries

Challenges facing many mutual insurers

- COBS 20 rules do not recognise the dual purpose of the 'Common Fund' in a mutual
- Dwindling volumes of new WP business
- Requirement for firms to submit run-off plans for closed funds
- A number of mutuals writing negligible volumes of WP business but reasonable volumes of profitable non profit business
- Emerging tontine effect
- Lack of clarity between rights of WP policyholders and the rights of members

08 November 2013



Institute
and Faculty
of Actuaries

CP12/38

- Acknowledgement of failure to recognise the legitimate interests of the members of the mutual and do not put mutuals on a level playing field with proprietary providers
- A new way for mutual firms to continue, without writing significant new WP business and without closure
- Creation of a Mutual Members Fund (MMF), exempt from COBS 20 rules via waiver

08 November 2013



Institute
and Faculty
of Actuaries

- MMF offers some flexibility
- Designed to allow firms with viable business plans to continue to sell (mostly or totally) non-profit business to continue to do so beyond the with-profits run-off
- Makes mutual membership more meaningful.
- No requirement for policyholder vote or court rulings – but Policyholder engagement must be demonstrated

08 November 2013



Institute
and Faculty
of Actuaries

Issues to be considered

- Whether MMF is right approach
- How to split of the inherited estate between the newly formed MMF and WPF
- Support arrangements between the MMF and WPF
- Implications of management actions being largely held within the WPF
- Lack of certainty around length of time for which a waiver is granted
- Treatment under Solvency II
- Communication to members and policyholders

08 November 2013



Institute
and Faculty
of Actuaries

The following are pre-requisite and fundamental to firm's proposals to FCA

- 1 Need convincing and robust business case
- 2 Compatibility with TCF obligations
- 3 Assessment by Independent Expert
- 4 No worse off than proprietary WP policyholders
- 5 Strategy for engagement and information
- 6 Security issues are identified and addressed
- 7 Proposals do not constitute a reattribution

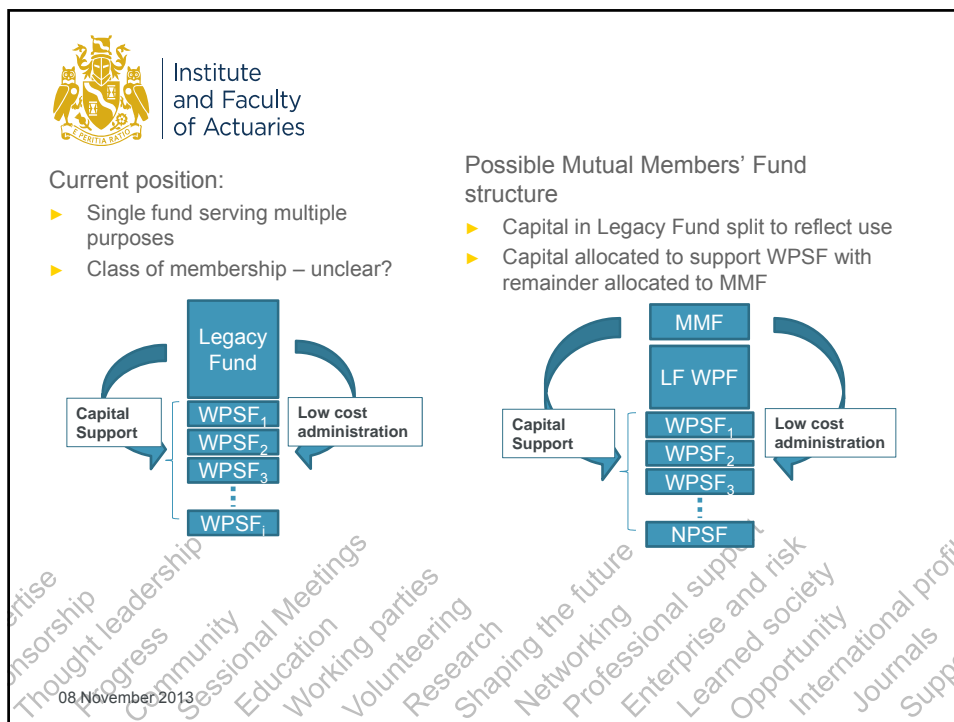
With-Profits fund

- COBS 20 applies
- WP policyholders treated fairly
- External support mechanism clear

Mutual Members Fund

- Not constrained by WP COBS 20 rules
- Complies with Mutual constitution
- Continue writing NP business

08 November 2013





Institute
and Faculty
of Actuaries

Case study 1 – Scheme of Arrangement

- Scheme of Arrangement ('SoA') to separate capital allocated to NP and WP business
- Closure of WP sub fund whilst NPSF remains open to new business.
- Key focuses were (i) improve clarity of capital ownership and associated use of capital (ii) enhance governance and that any decision would be binding.
- The court focus was how homogeneity of various classes of policyholders had been demonstrated.
- Proposals put to members' vote
- Two possible scenarios presented
 - (1) the default case – i.e. close to new business and manage the business in run-off and
 - (2) the proposed Scheme of Arrangement ('SoA') to split the Open fund WP and NP business into separate sub-funds.

08 November 2013



Institute
and Faculty
of Actuaries

Case study 1 – Scheme of Arrangement

- Comparison of
- Security of member's benefits;
- Returns on WP policies;
- Service standards;
- Additional returns on WP policies provided by remaining open vs. base scenario;
- How much capital to allocate.
- Significant challenges to realistically modelling closed state
- Management actions as business matures
- The WPA still has a say on all activities pursued by the mutual to ensure fairness to policyholders.

08 November 2013



This slide contains a list of bullet points and a diagonal watermark. The watermark text, which is repeated diagonally across the bottom half of the slide, includes: 'Enterprise', 'Thought leadership', 'Progress', 'Community', 'Sessional Meetings', 'Education', 'Working parties', 'Volunteering', 'Research', 'Shaping the future', 'Networking', 'Professional support', 'Enterprise and risk', 'Learned society', 'Opportunity', 'International profile', 'Journals', and 'Support'.

- Introduction of PS12/04
- For mutuals, there is more focus on the ring-fencing rules
- When does ring-fencing apply?
- Implications for structure and management of the business
- Implications for policyholders
- Level playing field between proprietary and mutual companies
- Continuing uncertainty

08 November 2013



This slide contains the same header as the previous one, including the Institute and Faculty of Actuaries logo and name. Below the header, there is a bulleted list of five points:

- What opportunities are there for mutuals?
- Action is likely to be required
- Consideration of policyholders
- Other stakeholders
- Options available

A diagonal watermark is visible across the bottom half of the slide, listing various activities: 'Expertise', 'Sponsorship', 'Thought leadership', 'Progress', 'Community', 'Sessional Meetings', 'Education', 'Working parties', 'Volunteering', 'Research', 'Shaping the future', 'Networking', 'Professional support', 'Enterprise and risk', 'Learned society', 'Opportunity', 'International profile', 'Journals', and 'Support'. The date '08 November 2013' is also present in the bottom left corner.

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

