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# With profits restructuring – from feasibility to implementation

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# Agenda

- Background to UK with profits market
- Options for restructuring with profits funds
- Case studies
- Looking forward





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# Background to UK with profits market

advertise  
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  
Support

# Background to the UK with profits market

Where are we now?

## *Where are we now?*

- Declining with profits books
- Poor public/consumer understanding and perception of with profits

## *Drivers of current fund structures*

- Schemes of demutualisation
- Historic acquisitions

## *More recent developments*

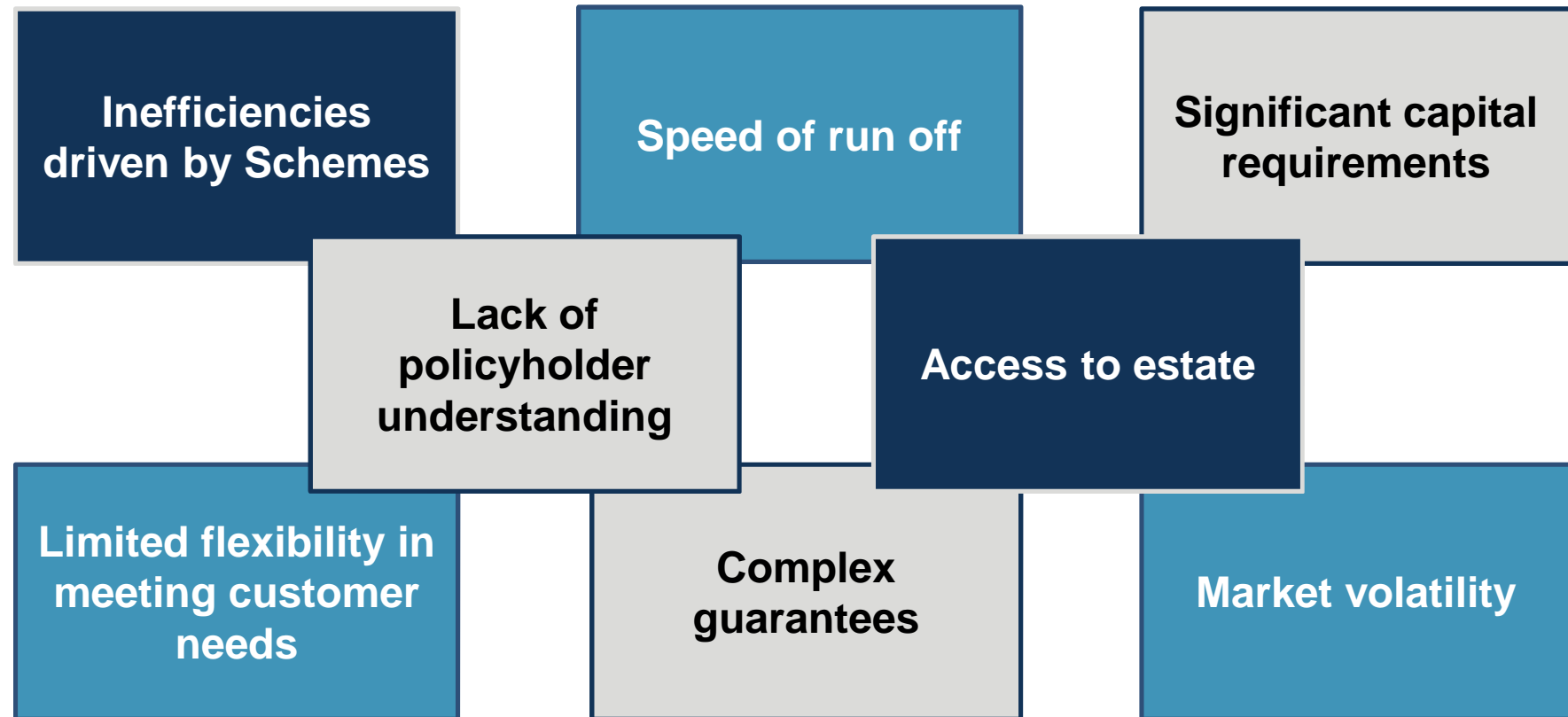
- Regulatory focus on policyholder protection
- Low return environment
- Changing capital regime



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# Background to the UK with profits market

Pressures on with profits business



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# Background to the UK with profits market

## Potential primary objectives of restructuring

Simplified management and administration

Better meeting policyholder needs

Efficient capital management

Unlocking value from the estate

Wind up provisions included in fund



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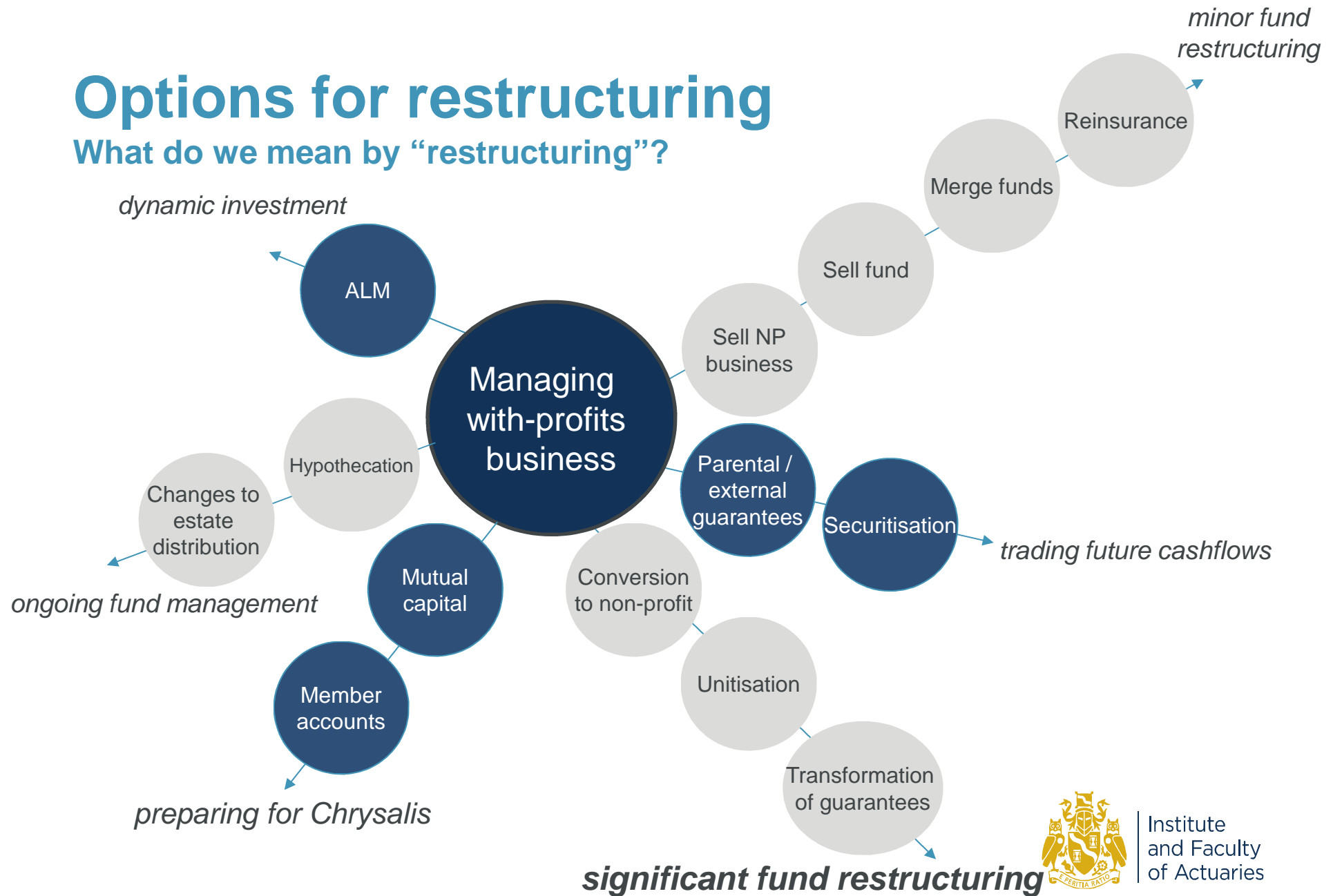
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# Options for restructuring

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# Options for restructuring

What do we mean by “restructuring”?



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# Options for restructuring

## Key constraints

### ***Policyholder:***

- Why should I move my policy?
- Will I be worse off as a result – now or in future?
- Is this an attempt by the company to save money?
- Am I losing any benefits or guarantees?
- Who can advise me on what is best?

### ***Shareholder:***

- Does this adversely impact earnings?
- Could this have an adverse impact on the company's reputation?
- Will we have to inject capital to deliver?
- What are the costs and who pays?

### ***Regulators:***

- Are customers being adversely impacted financially?
- Are customers being treated fairly?
- What are the non-financial benefits?
- How does this integrate into the longer term strategic plan for the fund?

### ***Management:***

- Is this credible?
- What is the potential benefit?
- What new risks does this bring?
- What will the cost be?
- How will this impact the company's capital position?

### ***With profits committee:***

- Does this treat customers fairly?
- How do we assess fairness between different groups of policyholders?
- How does this benefit the fund in the longer term?
- What are the costs and who pays?
- Are other WP funds doing this?



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## Case studies

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# Restructuring Considerations

The following are the steps AEGON has followed to consider our options for managing the With Profits Fund going forwards:

- Define Risk Appetite for WP Fund, Shareholder and customers
- Identify and explore options
- Assess potential options
- Select preferred option and carry out detailed modelling
- Start implementation process



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# Friends Life 2012 Scheme

## Background – Friends Provident Demutualisation (2001)

### *Demutualisation*

75% of voting members (includes non- and with profits policyholders).

>All received 200 shares, more if with-profits

Transfer to new company

- New bonus series for new with profits business
- Non profit fund established for new non profit business
- 40/60 policyholder/shareholder split of on existing non profit business
- Capital support arrangements and control of transfers from non profit fund to shareholder fund

**Efficient capital management**

**Better meeting policyholder needs**



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# Friends Life 2012 Scheme

## Background – Equity and Law Estate Reattribution (2001)

### For – 87%

- Cheque
- Policies transferred to new with profits fund
- No share in estate

### Against – 13%

- Policies remain in old with profits fund
- Continued share in estate

Reattribution completed by transfer to a new Company (AXA Sun Life)

- Two non profit funds created
- New with profits business written into a new with profits fund (13% re. to Old WPF)
- Capital support arrangements and control of transfers from non profit fund (87% of estate) to shareholder fund (5-yearly reviews)
- 5-yearly special bonus on old with profits fund

**Unlocking value from the estate**



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# Friends Life 2012 Scheme

## Details of the scheme

- Part VII Transfer from AXA Sun Life to Friends Provident (renamed Friends Life Limited)
  - Also brought in Sun Life Assurance Society (SLAS)
  - Separate with profits funds (FP, Old, New, SLAS, +1) and non profit fund
  - Principles of WP management subsumed into PPFM
  - ASL Monitoring Board subsumed in to WP Committee
  - Simplification of capital support arrangements
- 2013 Scheme to integrate Winterthur Life

**Efficient capital management**

**Simplified management and administration**



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# Friends Life Annuity Risk Reduction

**GARs continuing to vest on large annuity books within some with profits funds**

- Run-off slower than that of closed WPFs
- Pay outs becoming increasingly sensitive to annuity losses/profits



**Vesting annuities to n/p fund on firm's standard vesting rates**

- Underpin relative to top three open-market providers

**Existing annuities on terms in a commercial range**

- Assessed externally; reviewed by WPA/ WPC and independent actuary; FCA/PRA non-objection (2012 Scheme)



# Phoenix & London GAR buyout

## Large number of w/p pensions

- High guaranteed returns
- Onerous GARs
- Low EBR investment strategy

## Risks to other w/p policyholders and shareholders

- WPF unable to be Part VII transferred due to contagion risk

- Little prospect of p/h return in excess of guarantee
- Total reserve less than sum of discounted value of guaranteed benefits as  $<100\%$  take-up assumption - straight conversion to non profit not affordable



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# Phoenix & London GAR buyout

- If GAR given up and GAR reserve also added to asset share, reduction in GMV reserve also freed.
  - Sizeable increase in asset share results
  - Projected benefits further increased by EBR increase
- Scheme only for policies with >10 yrs to run
  - Included policyholders may opt-out
  - Only opt-ins may vote
  - Court, regulator and independent actuary approved
- Stochastic illustrations used to show effect of Scheme
  - 10<sup>th</sup>, 50<sup>th</sup> and 90<sup>th</sup> percentiles



# Phoenix & London GAR buyout 4 years on

## 1 January 2010:

c. 50,000 policies maturing in 2020 and beyond were converted,  
5% chose to opt out and have their policy & investment strategy stay the same

## 1 January 2011:

Phoenix & London Assurance policyholders transferred to Phoenix Life

### Unconverted policies:

- Invested in fixed interest
- (even more) valuable GARs, but
- minimal chance of outperforming guaranteed benefits

### Converted policies:

- Up to 100% increase in asset share for giving up GAR
- maturity-dependent EBR up to 70%
- **Under/out**-performed fixed interest in **2011 & 2012** / **2010 & 2013**

### Fund management – need to honour commitments:

Exposure to growth assets for converted policies,  
Other policies to be no worse off from conversion



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# With-Profits Committee Considerations

## ‘Business as usual’ WPC agenda – Fair treatment of policyholders

- Bonuses & Surrender Values
- Investment policy & performance
- Fund & asset share charges
- Policyholder communication
- S/holder & different p/holder groups
- Risk & reward exposures

Is continuing with current structures and approach sufficient?

Does the need to retain capital in a WPF compromise fairness (e.g. of closed fund estate distribution)?

Should alternative options be investigated & how?

How do we judge price charged for laying off risk?

If so, who should pay?

Sufficient incentive for shareholders?  
Which policyholders?

Are radical solutions requiring a policyholder vote practical?

Do policyholders understand what they have sufficiently to  
- know if they value the features of their policies?  
- allow them to lodge an informed vote on choices?



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## Looking forward

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# Looking forward

Questions that are still to be answered

What does fairness look like for estate distribution?

What opportunities can effective restructuring open up for the industry?

How to assess if maintaining the status quo is equitable?



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# Looking forward

Expected developments over the next 12 months

Focus on realising value from non profit annuity books

Increased activity around IB policies

Wider use of hypothecation for high guarantee business

Ongoing regulatory focus on policyholder protection



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# 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 presenters.



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# Thank you

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