



The Actuarial Profession

making financial sense of the future

CILA II seminar
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The future for mutual insurers

1 September 2010

The future for insurers - As FD, what do my little grey cells focus on?

Threats

- Markets & the economy
- Solvency II
- RDR
- Longevity
- Expenses
- Staff Pension Scheme
- IFRS II
- Capital - access
- Scale - Critical Mass
- With Profits - Sales

Opportunities

- Markets & the economy
- Competitive advantage
- Driving up value for the owners
- Customer Focus
- Consolidation
- Capital – long term view
- Scale - Niche Products
- With Profits – risk sharing

But specifically as a mutual - what do my little grey cells focus on?

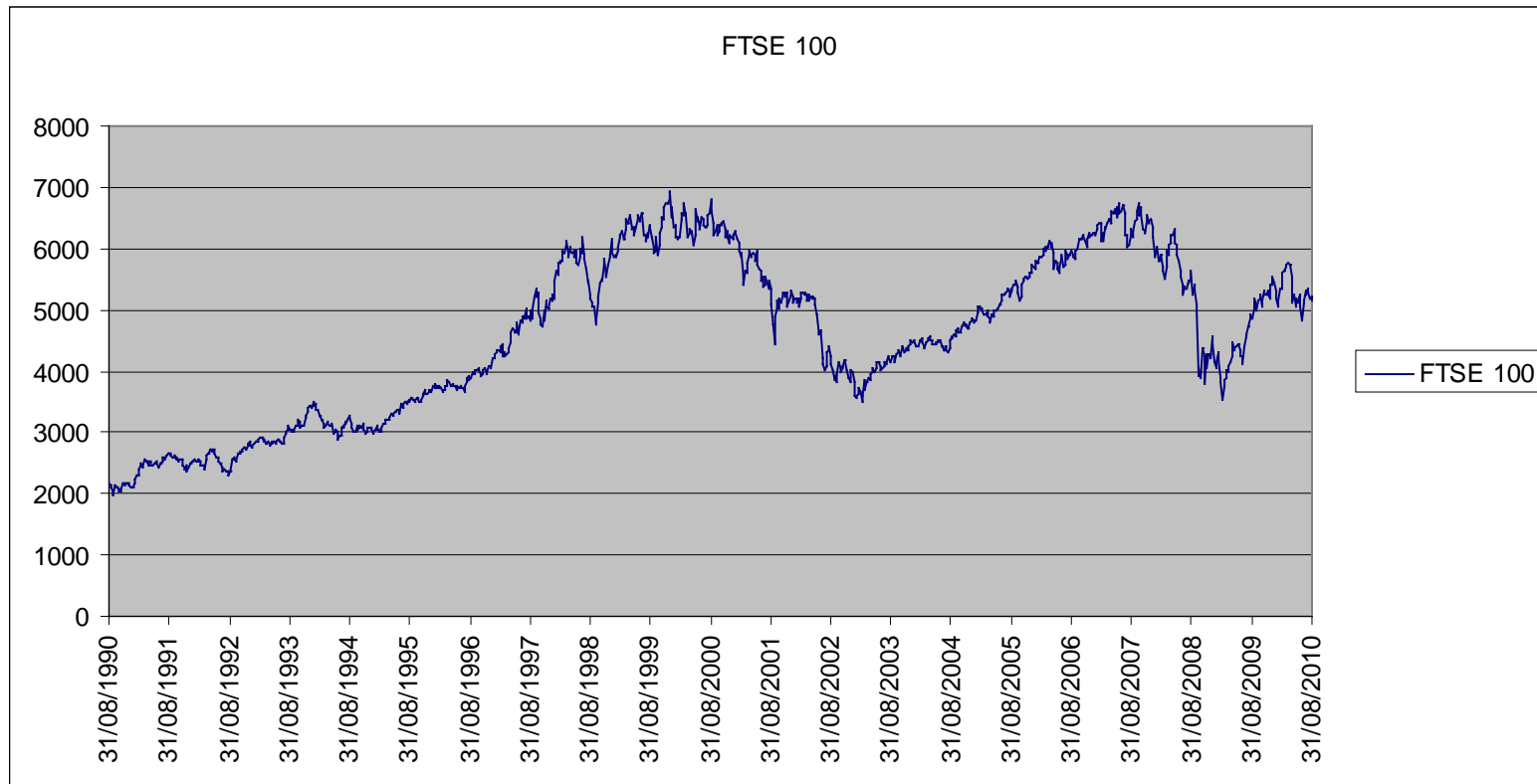
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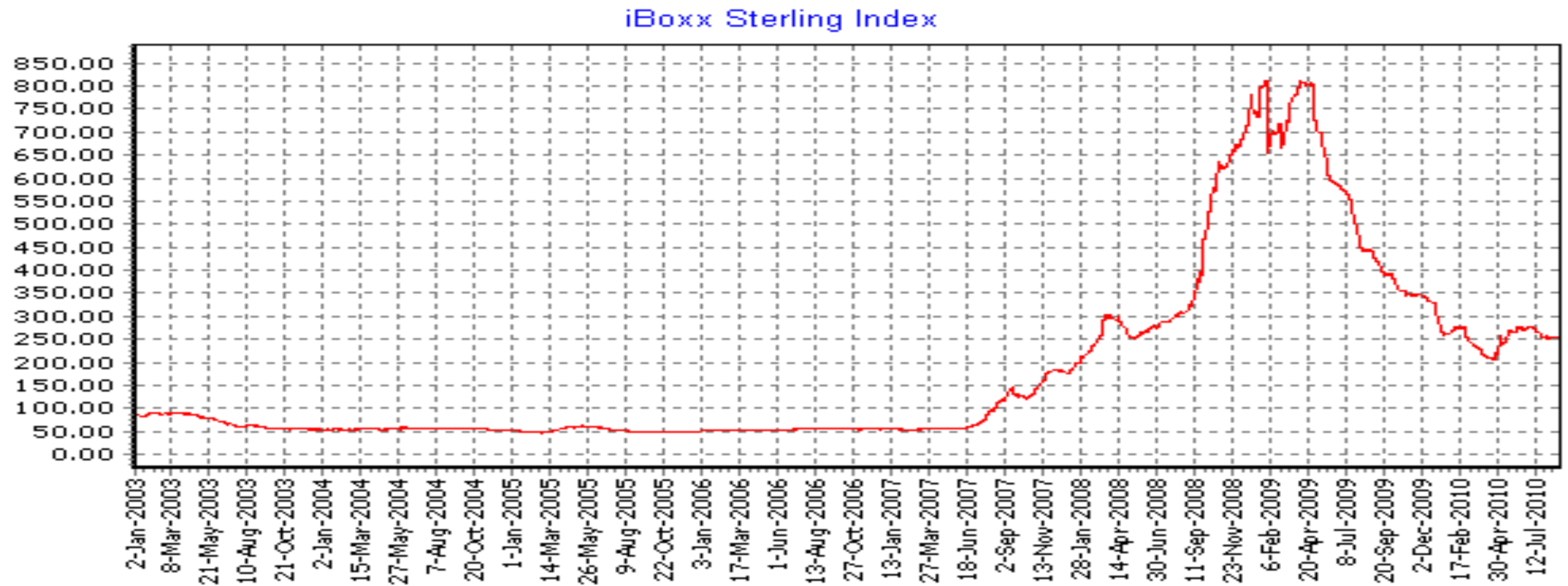
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Capital - long term view



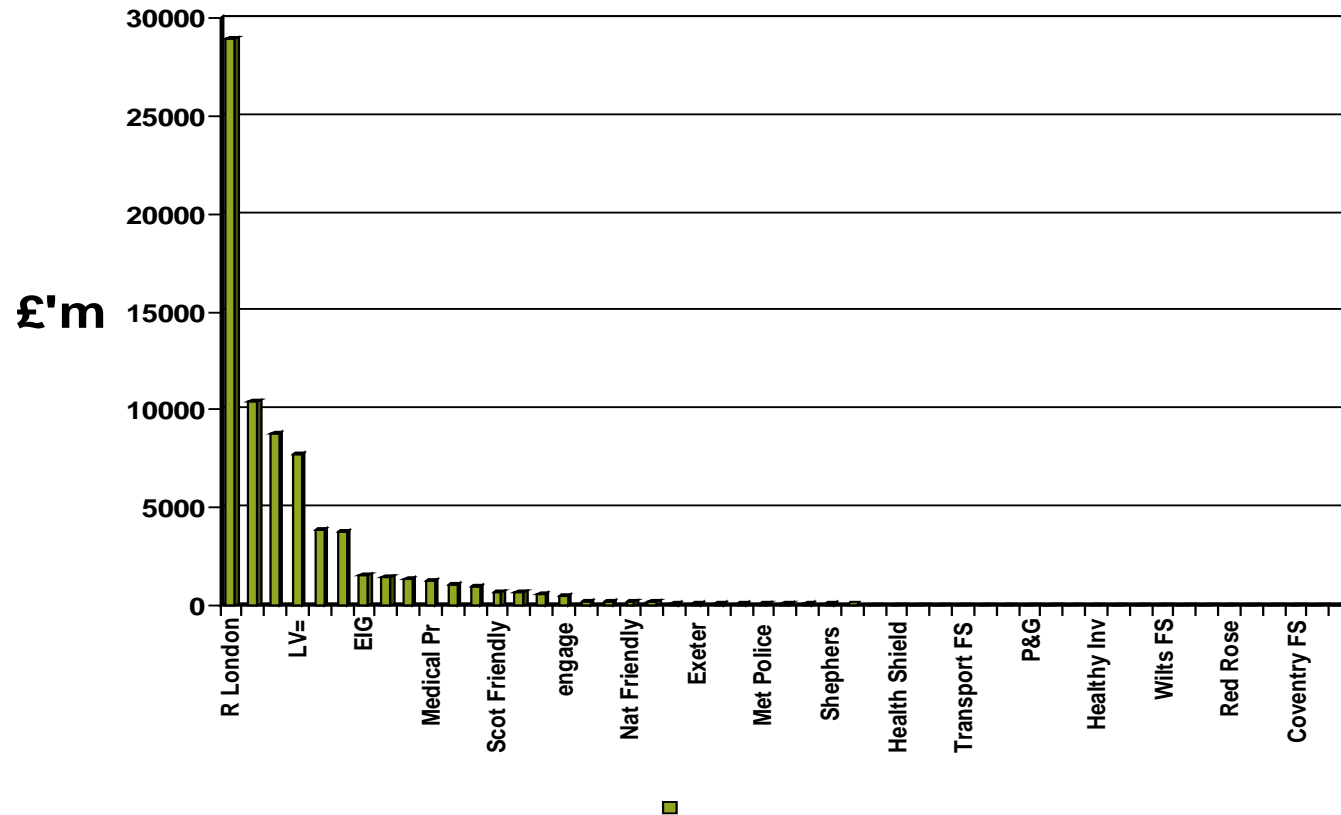
Capital – long term view



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iBoxx 1-5 year A rated spread

Scale – Mutuals are not large!



Source: Association of Financial Mutuals – member assets as at 31 December 2008

Scale – Small can be beautiful

- Financial Services is dominated by global giants – eg HSBC, Barclays, Aviva, Pru, Axa, etc
- Global Giants frequently need to offer “broad water front”

Small scale means the option to:

- focus on areas of competitive advantage which add significant value; and
- ignore areas without competitive advantage or significant value add

With Profits - Dear CEO Letter

The FSA Position could be simplified to

- Ceasing to write new With Profits Business (COBS 20.2.53 – 60 R)
 - ..submit a run-off plan
 - A firm must contact the FSA to discuss whether it has..ceased to effect new contracts of insurance if.....it is no longer effecting a material volume of new with profit policies...
- With Profits New Business (COBS 20.2.28 R)
 - ...unlikely to have a material adverse impact..
- Excess surplus (COBS 20.2.21/22 R)
 - At least once a year ...whether the firm's with profit fund...has an excess surplus.
 - if (it) has an excess surplus...(a) make a distribution or (b) carry out a re-attribution

With Profits - The existential challenge

With Profits Mutuals are either

- Writing material volumes of with profits new business; or
- In run-off

The Objective of a With Profits Mutual could be articulated as:

- to maximise member value for the benefit of members

With Profits

A Potential Opportunity

Annuities pose 2 major challenges for our industry

- Longevity - if the data is not definitive, you can:
 - Charge a prudent amount
 - Charge best estimate and back with capital
 - **Share risk**
- Liquidity Premium – where theory falls short:
 - Charge a prudent amount
 - Charge best estimate and back with capital
 - **Share risk**

Where does With Profits provide competitive advantage?

A With Profits Annuity could provide the ideal solution, eg:

- Backing assets as for non profit annuities
- Guarantees set at a margin over non profit rates, say
 - an extra x% of the credit margin
 - an assumed y% pa improvement in longevity
- an assumed bonus rate to bring back in line with non profit, but
- the risk of serious adverse experience shared with customers
- the benefit of actual experience is distributed
- capital is more efficiently used.

Summary

The future for mutuals can be bright

What makes With Profits Mutuals different?

- Capital
- Scale
- With Profits

All 3 are both threats and opportunities

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.

