



Agenda

- ☐ History of Reliance Mutual
- ☐ Position at 2010
- ☐ Proposed Solution
- ☐ Developing the Solution
- ☐ The Final Scheme
- ☐ Member Reaction
- ☐ Where we are Today
- ☐ Lessons for other Mutuels

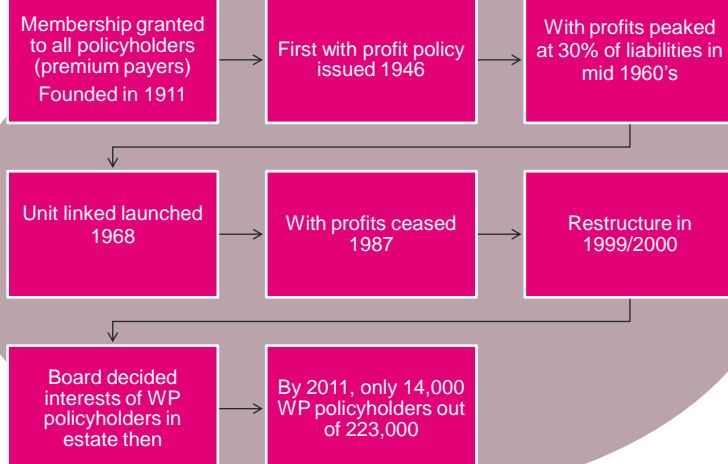
History of Reliance Mutual

- Started life in 1911 as the Farringdon Reliance Friendly Collecting Society
- 1951 converted to a mutual and 1958 moved to Tunbridge Wells
- Until 1999 sold products to CD socio-economic classes through direct sales force and tied agents
- Since 2000 established itself as a consolidator and offered enhanced annuities to smokers
- Assets in excess of £1.6bn and administers over 290,000 policies

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History of Reliance Mutual



Restructure in 2000

Facts

- With profits business had a much shorter tail
 - by 2010, 65% of with profits liabilities would have disappeared
 - By 2020, 94%
- Non – profits business had a much longer tail
- Board was responsible for all members
- Net realistic surplus of £46.2m

Solution

- Notionally split the surplus
 - £16.2m to support non-profit business
 - £30.0m to be distributed to with profits business
- Distribute surplus as a percentage of asset shares

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Development During the Noughties

- Twin strategy of new business and acquisitions
- Enhancement to with profits business through expense savings and new business profits

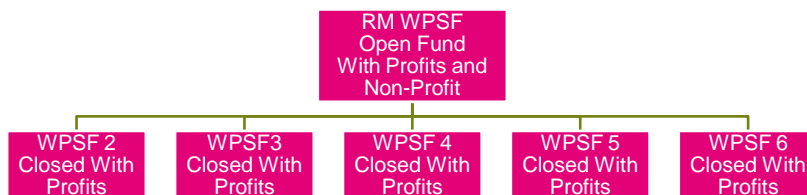
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Development During the Noughties

Twin strategy of new business and acquisitions

Enhancement to with profits business through expense savings and new business profits



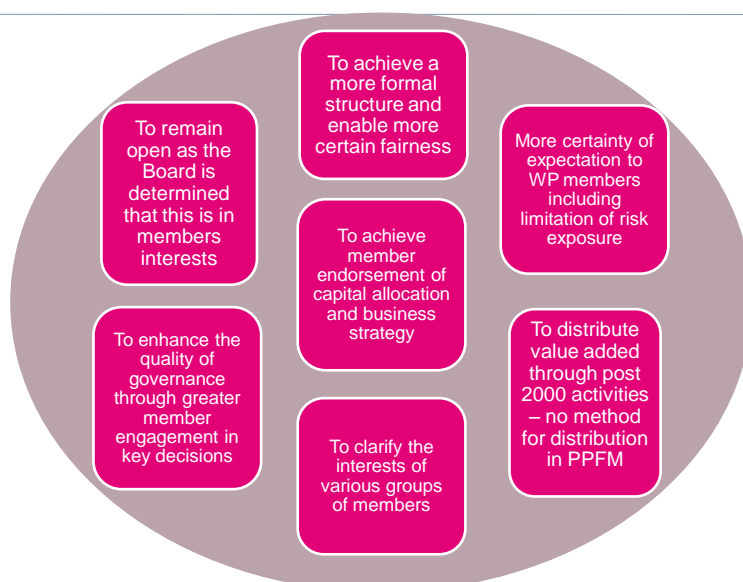
With profits members in RM WPSF saw estate distribution increase over the decade from expense savings BUT

No distribution from acquisition profits or from new business

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The Board objectives in its strategic review



Process followed

Grouped policyholders with similar interests – a fairness issue



Acquired policyholders in ringfenced subfunds
Non profit policyholders in open subfund
With profits policyholders in open subfund

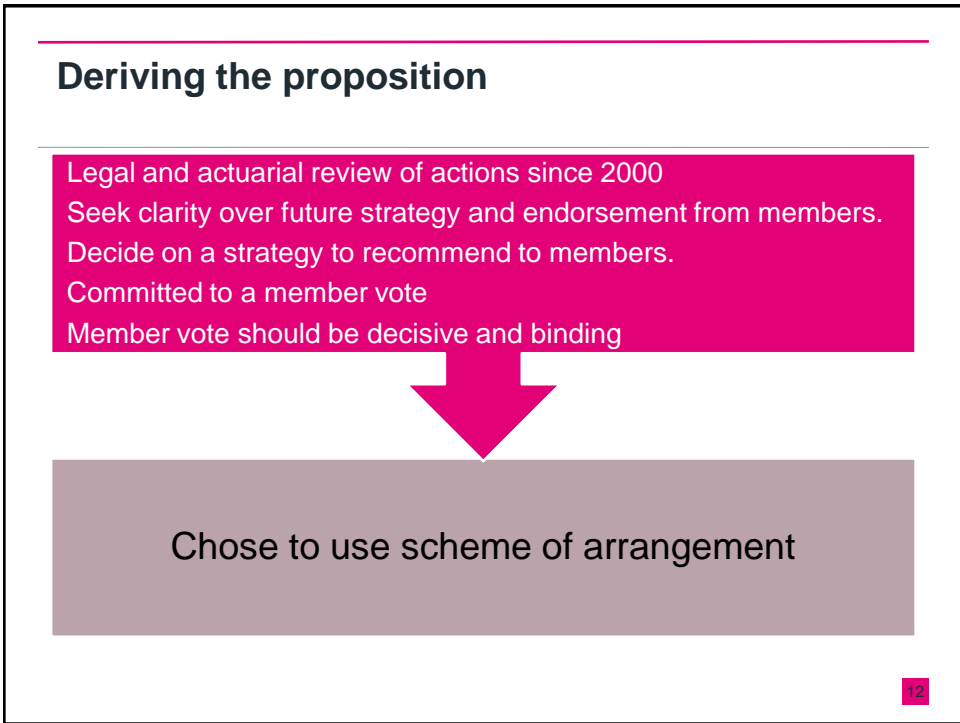
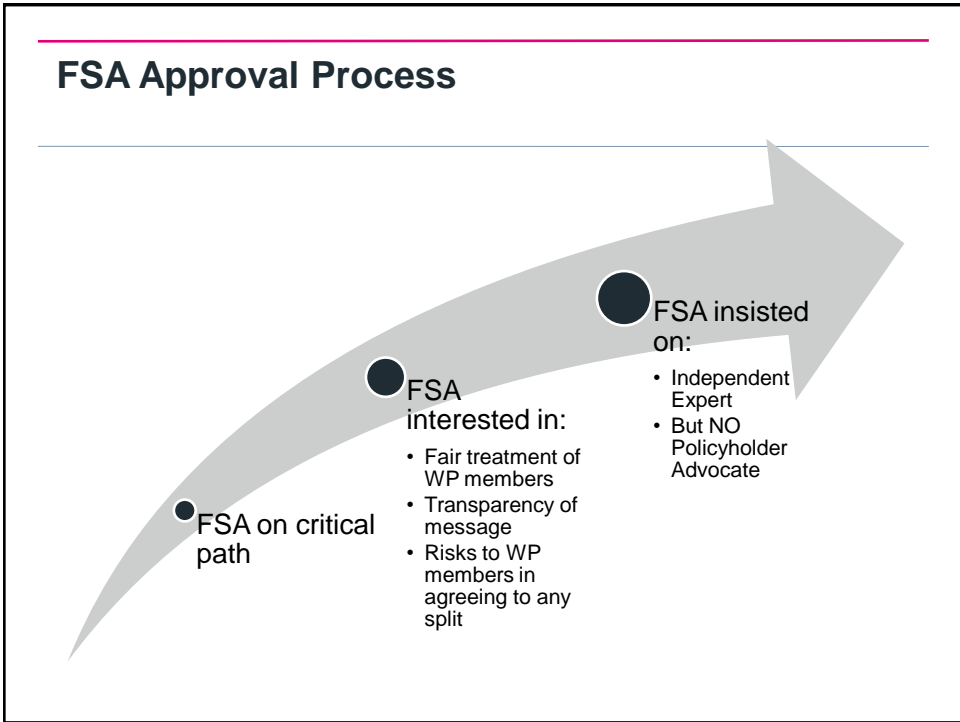
Policyholder tracing, adverts to get register as up to date as possible (*Note – large back book of IB business*)
External assistance to make policyholder communications as straightforward as possible

Determining the basis for capital allocation

Mem and Arts gives WP policyholders 100% interest in surplus on winding up but silent on going concern
Value of capital varies according to assumptions about the future
Board regularly reviews whether going concern or closed fund/transfer of engagement better for members



Important to also establish who has an interest in the remaining capital – we determined all members would have an interest in this



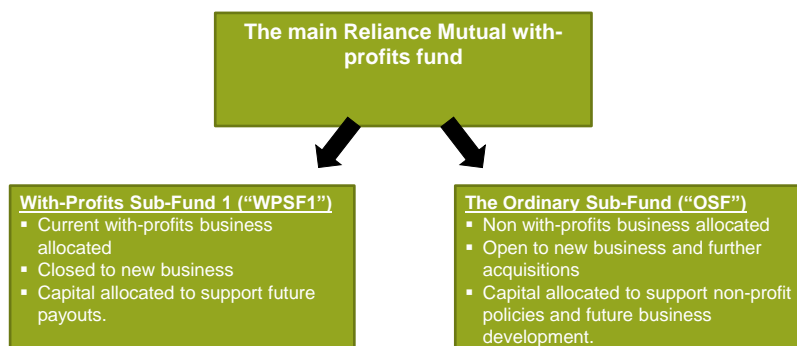
Developing the proposal

- The strategy needs to meet the Board's objectives of:
 - Distributing the value that has built up to members equitably and over a suitable timeframe.
 - Obtaining an endorsement of strategy.
 - Remaining open to new business.
 - Controlling unit costs.
 - Maintain or enhance benefit security for members.
 - Maintain or enhance benefit expectations for members.
- Also need to be able to recommend to policyholders as 'better' than the alternative.
- Therefore we need to establish:
 - What is the alternative?
 - What is the definition of better?
 - How do we show it is better?

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The Board's proposition



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The Board's proposition

- Divide the capital currently in the WPSF between with-profits policyholders and the rest.
- Decision as to whether to remain open or close to new business.
- The trade-off becomes one of capital vs expenses and future profits.
- Other advantages of remaining open to new business:
 - Greater certainty of fairness/payouts.
 - Possible to manage towards greater financial strength.
 - Maintain higher quality customer service standards.

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Developing the proposition – the alternative scenario

What is the alternative scenario against which the Board's proposition will be tested?

- The 'base case' or 'closed scenario'
- Board: clear rejection of the proposition by members will lead to closure and run-off.
- FSA: set out in 'Dear CEO' letter.



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Developing the proposition – the alternative scenario

Not straight-forward:

- Sell all or part of the company.
- Transfer out part of the business
- Out-source part or all of the administration.
- Securitization.

Difficult to set realistic assumptions for hypothetical situations.

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Developing the proposition – comparing strategies

- Security of benefits for all members.
- Returns on with-profits policies:
 - Benefit expectations.
 - Certainty of returns.
 - Fairness.
- Service standards.
- Additional returns on with-profits policies provided by the global augmentation rate.



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Developing the proposition – demonstrating ‘better’

- A given division of capital between the WPSF and the OSF yields an implied return for with-profits policyholders.
- Start with the ‘base scenario’:
 - Set all assumptions.
 - Derive the affordable return for with-profits policyholders.
- Ensure that we have best case base scenario:
 - Run through different ‘base scenario’ models.
 - Test sensitivity by considering distributions of key variables.
 - Try to get the distribution of the result.
- In ‘chosen strategy’ model use the derived affordable return to derive the capital division between OSF and WPSF.

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Developing the proposition – modelling issues

- Base and open scenarios must be consistent.
- Stress and scenario tests may affect the base and open scenarios – so a trade-off.
- Need to avoid a tontine developing.
- Obtaining and using up to date data.
- One augmentation rate at any given point but different at different points in the projection.
- Audit trail.

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Developing the proposition – other issues

- Board questions and challenge.
- Satisfying the other stakeholders:
 - FSA.
 - Independent Expert.
 - With-profits actuary.
- General tendency for this to be viewed as a Part VII transfer
- Communication to policyholders.
- Solvency II.
- Changing rules in the UK.

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Developing the proposition – changing UK rules around with-profits

Solvency II

- Timing of introduction
- Ring-fenced funds

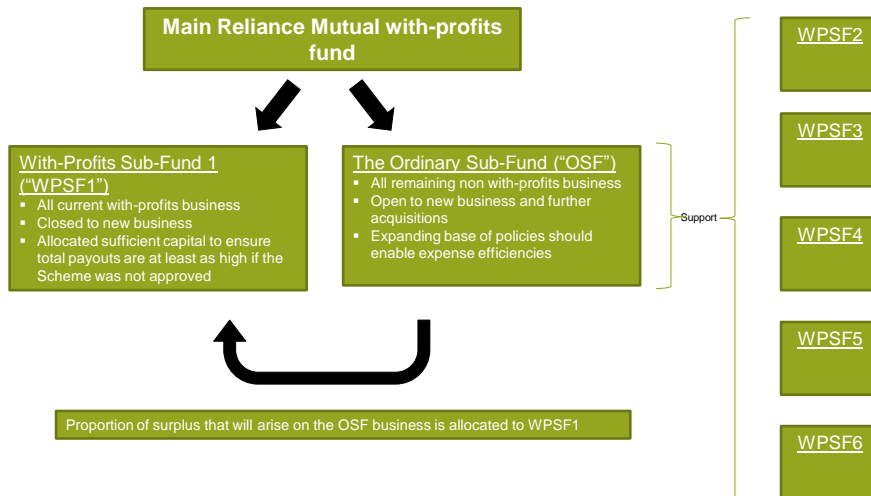
Changing UK rules around with-profits:

- Directions Hearing in March 2012.
- PS12/04 released in March 2012.
- Undertook an exercise to ensure that Society governance was in line with the new rules.
- Potential issue re moving assets to OSF.
- Built in protections to the RMIS governance procedures or into the PPFM.
- Need to ensure that this is no weaker than COBS rules.

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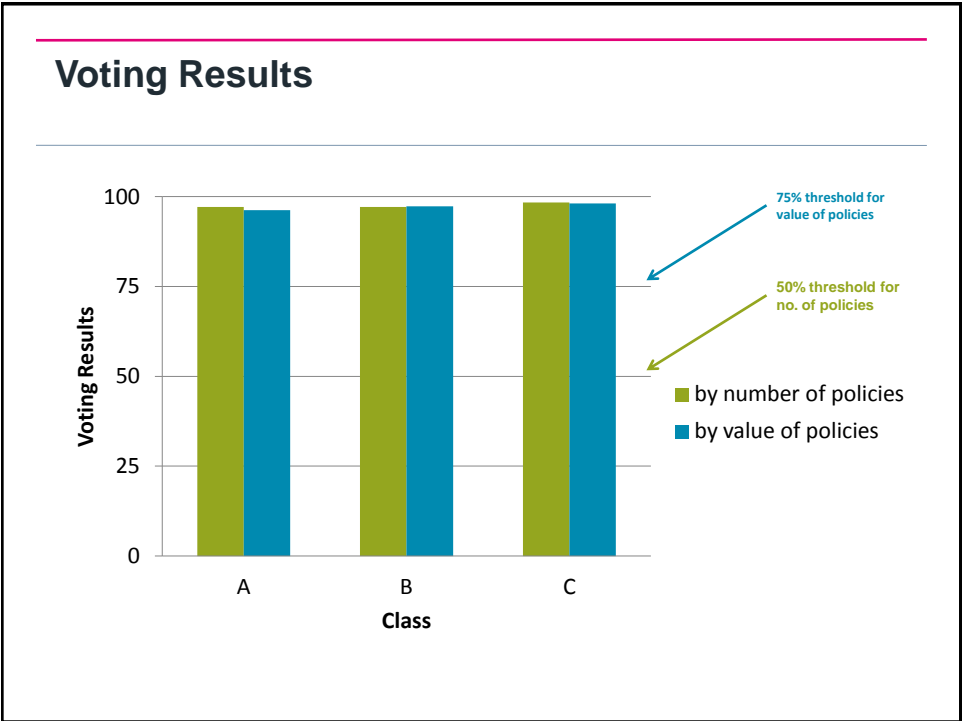
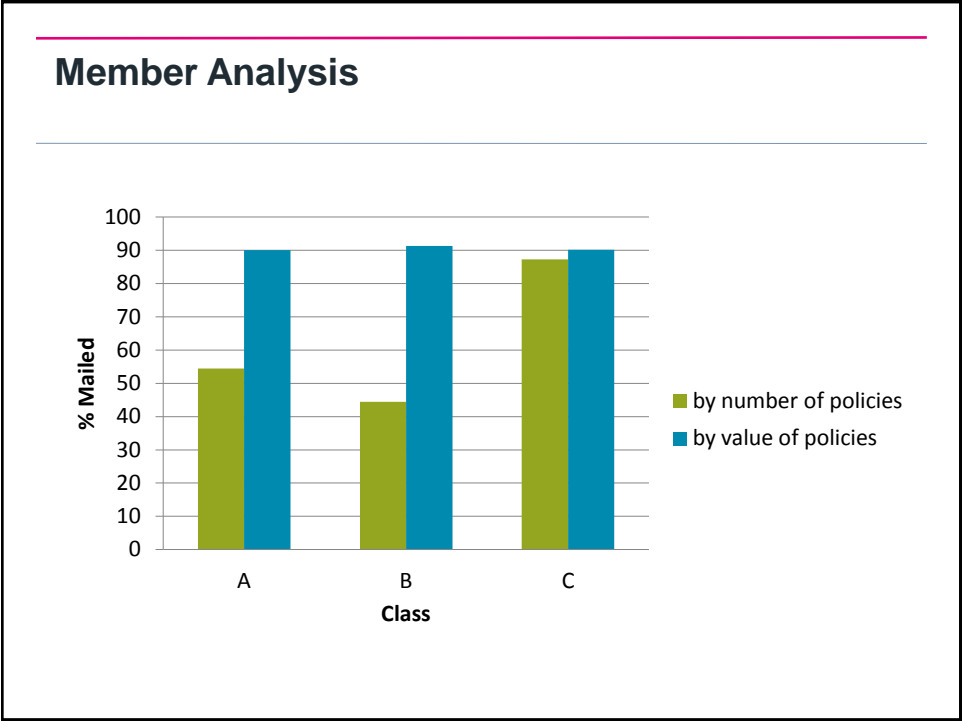
The final scheme



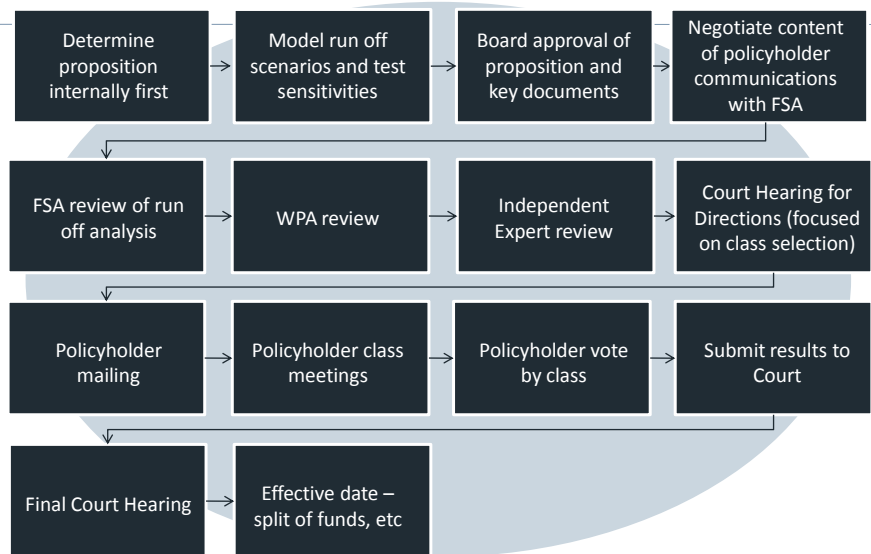
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The final scheme

- Capital divided between WPSF1 and OSF.
- Proportion of surplus that will arise on the business initially allocated to the OSF will be allocated to WPSF1.
- Mechanism set up to transfer this to WPSF1 as surplus arises.
- Support arrangements formalised for existing with-profits funds as well as OSF and WPSF1.
- With-profits policies remain but a 'non-profit mutual' going forward.
- Mandate provided by the members for Board strategy.
- OSF used for business development subject to a system of controls, checks and balances.



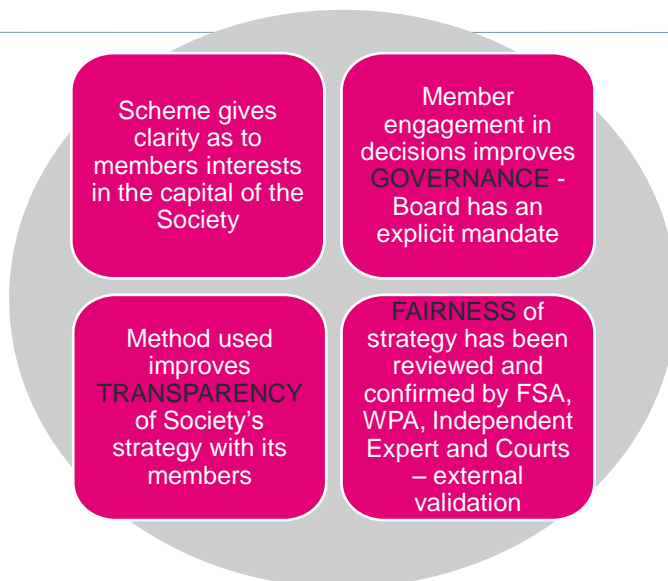
Approval Process



Where are we today

- In the midst of implementation
- Do not underestimate the challenge of implementation
- Developing strategy for Reliance Mutual
- Clarity of capital ownership makes life so much easier
- We have found more of our members
- We are closer to many of our members
- Now a non-profit mutual

Summary



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.

