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 - Regulatory environment
 - Social environment
 - Economic environment
- Products
 - What do people want
 - What options are there
- Case studies – products with specific regulations in mind
 - Treating WP customers fairly & Matching adjustment
 - FIA & 13th Cheque

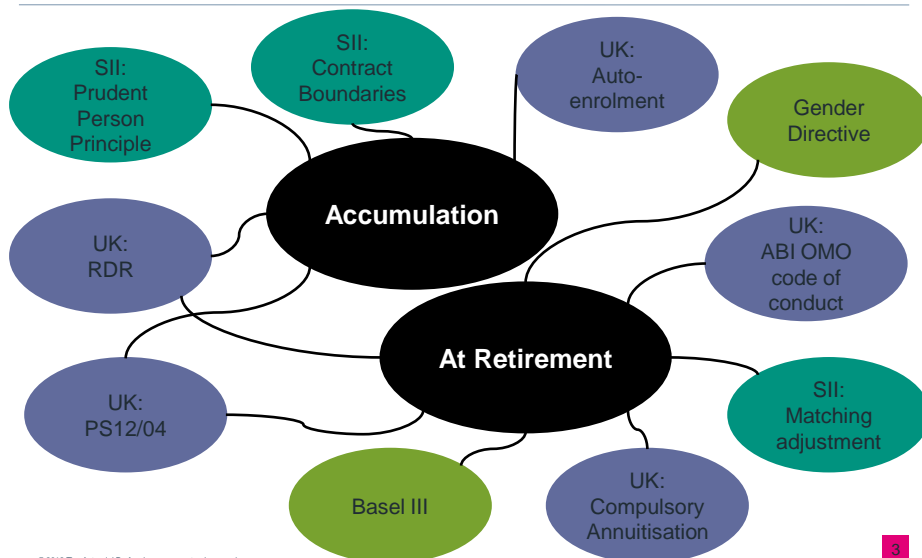
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Regulatory environment



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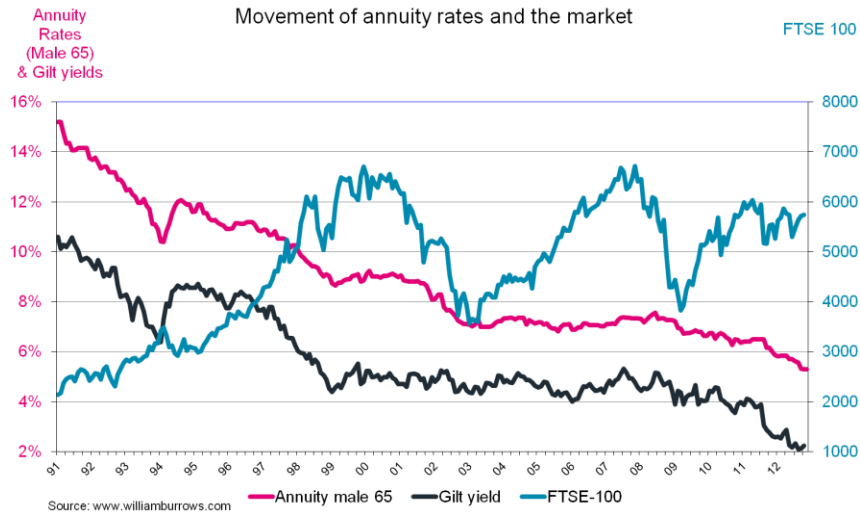
Social environment

- Retirement patterns
- Lifestyle patterns
- Family structure
- Long term care
- Living longer
- Other sources of capital to fund income (e.g. ISA, property)
- Increased media attention

Economic environment

- Turbulence, turbulence and more turbulence
 - Poor experience in accumulation phase
 - Low annuity rates
- Volatile equity and property markets
- Low gilt yields
- Rising inflation
- Tax changes e.g. ISA as alternative tax free saving

Economic environment: impact on annuity rates



Market dynamics



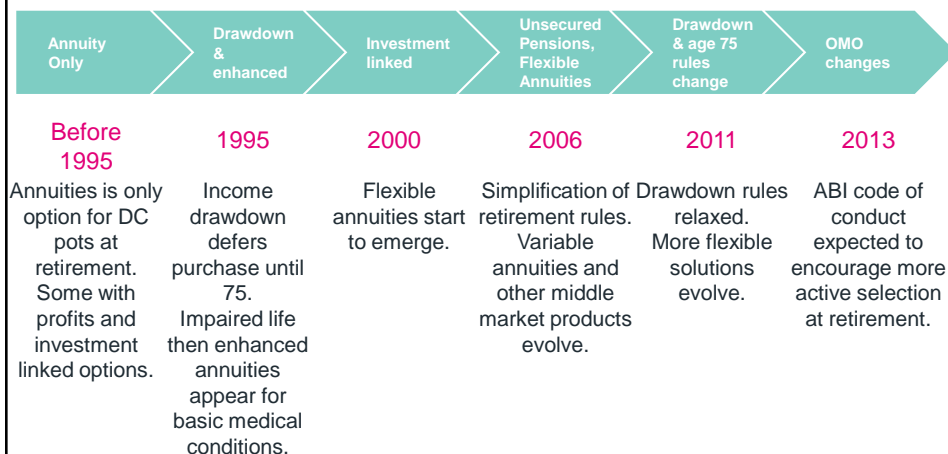
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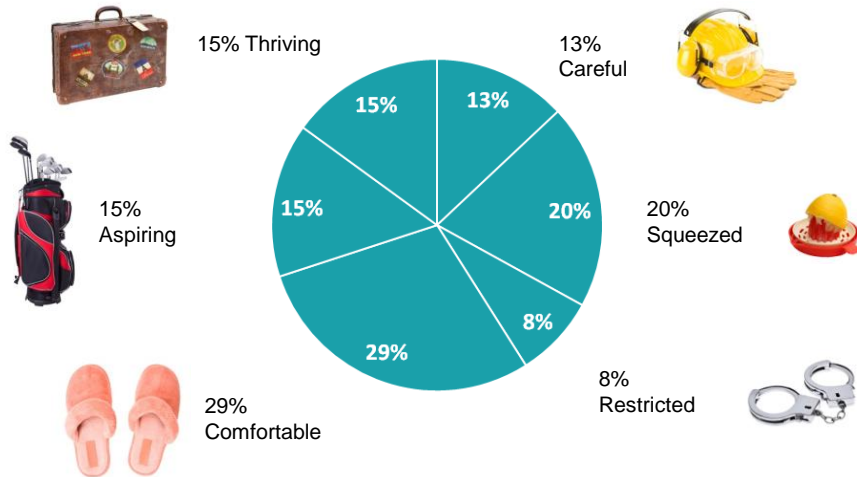
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Evolution of retirement solutions



Personality types



Source: Our Retirement Nation, MGM Advantage, Nov 11

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Retirement solutions associated with personality types



Full drawdown
Investment-linked or with-
profits annuity
Enhanced annuity



Enhanced annuity



Fixed term annuity,
Investment-linked or with-
profits annuity
Enhanced annuity



Conventional annuity
Enhanced annuity



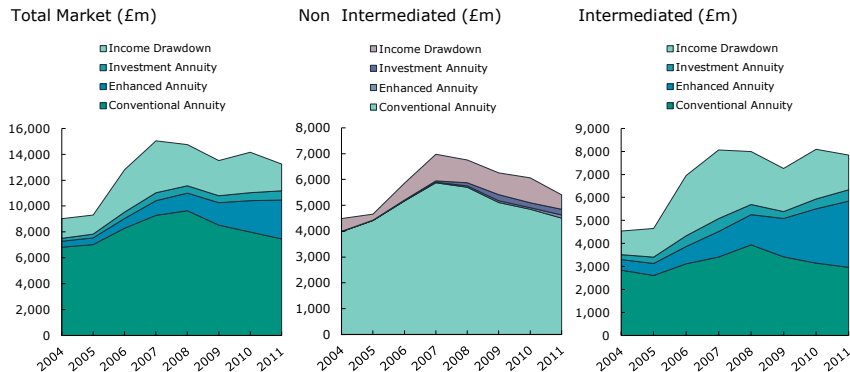
Investment-linked or with-
profits annuity
Conventional annuity
Enhanced annuity



Enhanced annuity
No private solution

Retirement Market – Growing retirement income segment

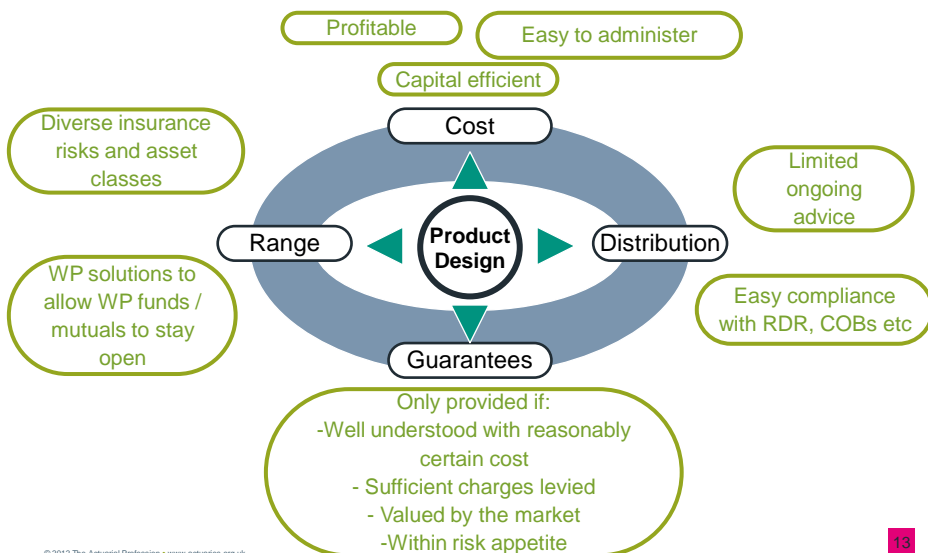
- Robust growth of retirement income in 5 yrs, (£9bn 2004, £13bn 2011)
- Intermediated segment grown to 59% with associated increase in alternative retirement products such as enhanced annuities.



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What do people want? - Product design

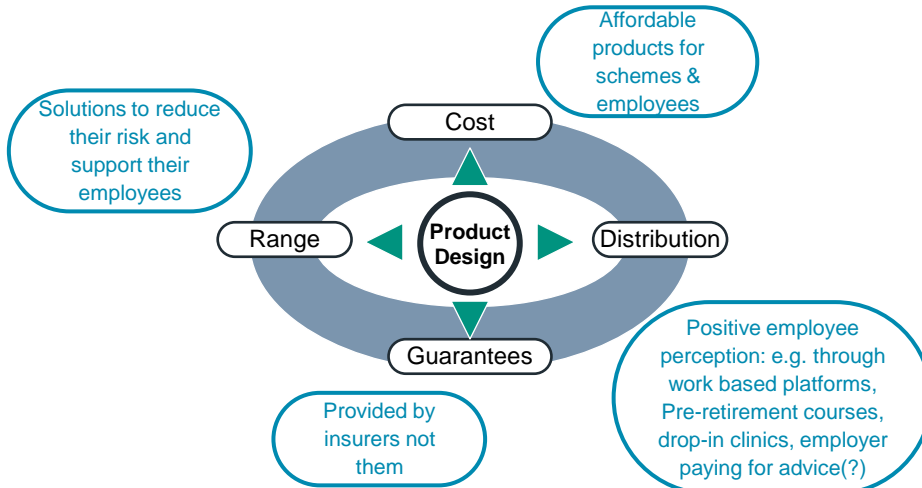
Insurers: Profitable,
competitive, popular products



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What do people want? - Product design

Employers: Well regarded offerings provided by others for DC & affordable DB protection.

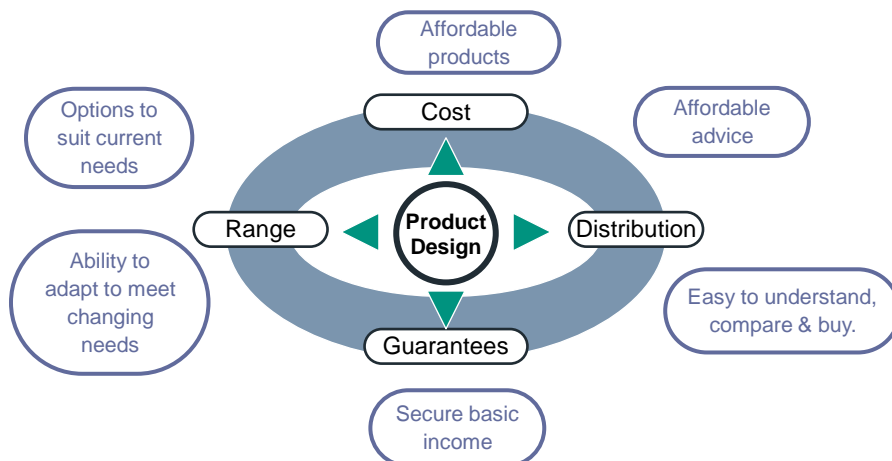


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What do people want? - Product design

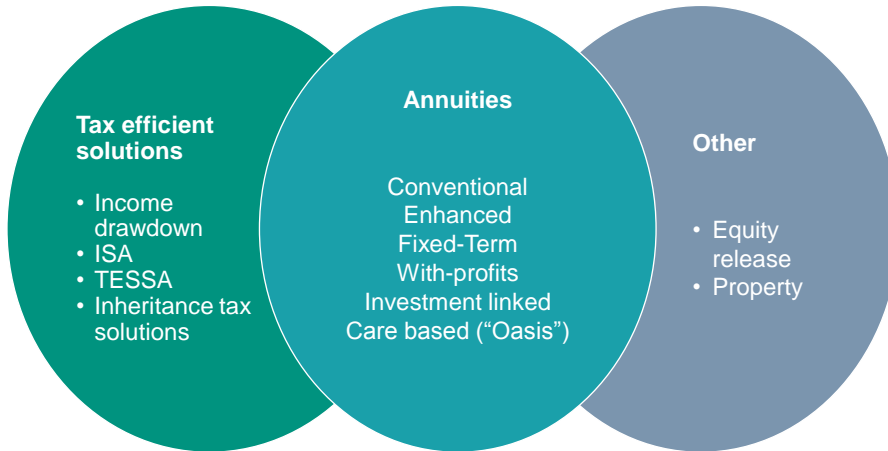
Retirees: Affordable security, good returns and understandable products.



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Market solutions



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Some regulations and why they matter

COBS 20 (WP TCF)

- If insufficient WP sales, fund must be put into run-off.
- All assets and profits distributed to WP policyholders.

Relevance

- Mutuals do not want to close due to insufficient WP sales
- WP designs could be used to avoid some of the issues with matching adjustment
- Long duration of annuities v short run off of WP books

SII Matching adjustment

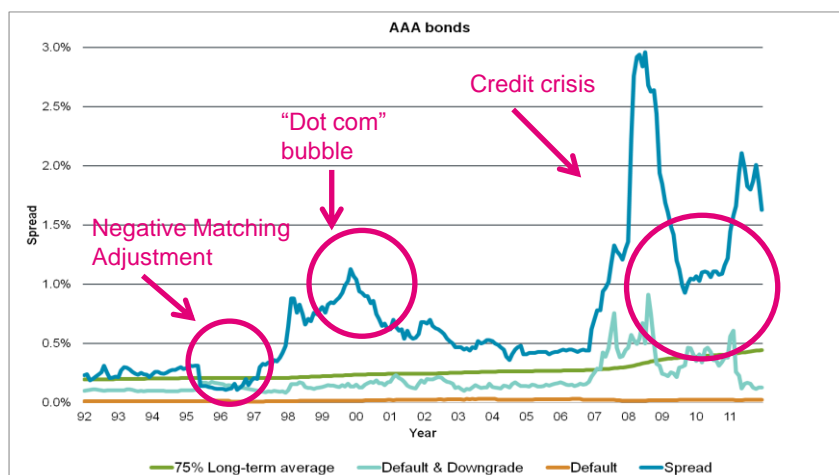
- Represents yields earned in excess of risk (e.g. illiquidity)
- Matching adjustment = Spread – Fundamental Spread (FS)
- FS = max(Default & Downgrade cost, 75% of Long term average)
- Only some assets / liabilities are eligible

Relevance

- Intended for annuities BUT likely to be lower level than liquidity premium assumed currently
- Annuity provision likely to be more expensive.

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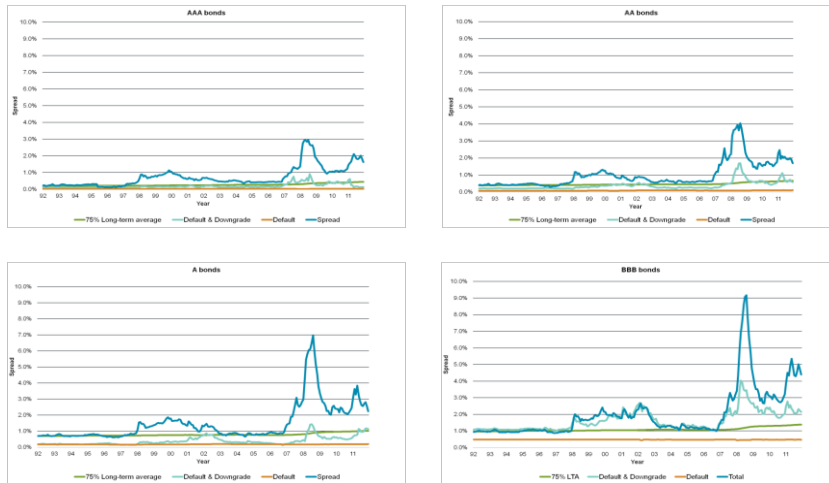
Matching adjustment – historic spreads



Data Sources:
 Merrill Lynch UC index, Sterling Corporate
 Moody's transition matrix: Average One Year Letter Rating Migration rates
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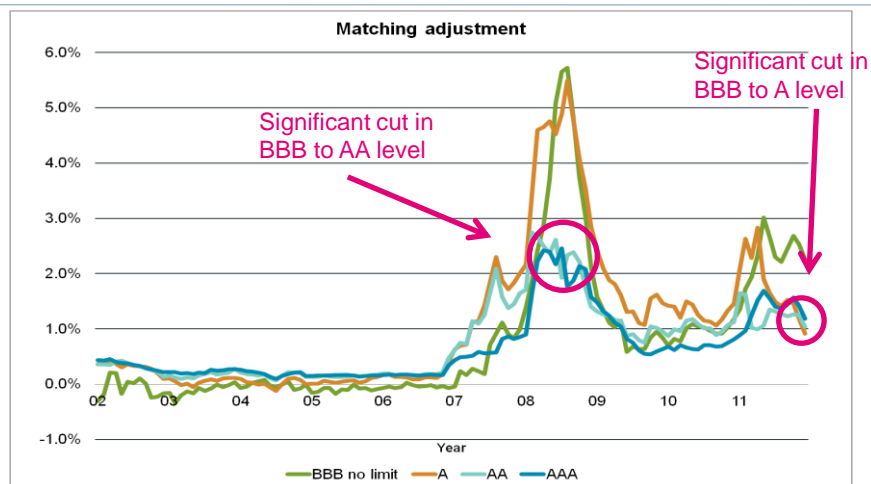
Matching adjustment – historic spreads



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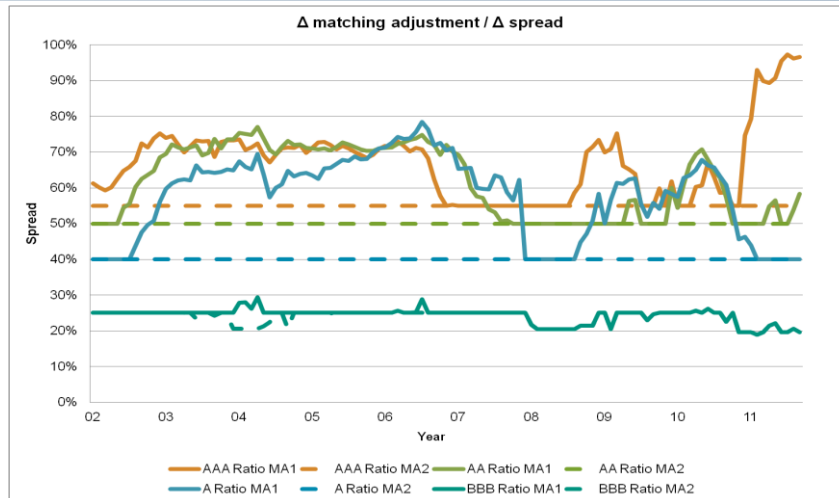
Matching adjustment – historic values



Data Sources:
 Merrill Lynch UC index, Sterling Corporate
 Moody's transition matrix: Average One Year Letter Rating Migration rates
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Matching adjustment – impact of the stress scenario



Notes: Standard formula credit stress applied to spread. Reduced standard formula credit stress (for matching adjustment) applied to default & downgrade probability (MA 1) or Fundamental spread (MA 2)

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Current state of the regulations

- Omnibus II vote postponed to March 2013
- Long Term Guarantees package Impact Assessment expected imminently
- Technical Standards (excluding matching adjustment) for the assessment have been published

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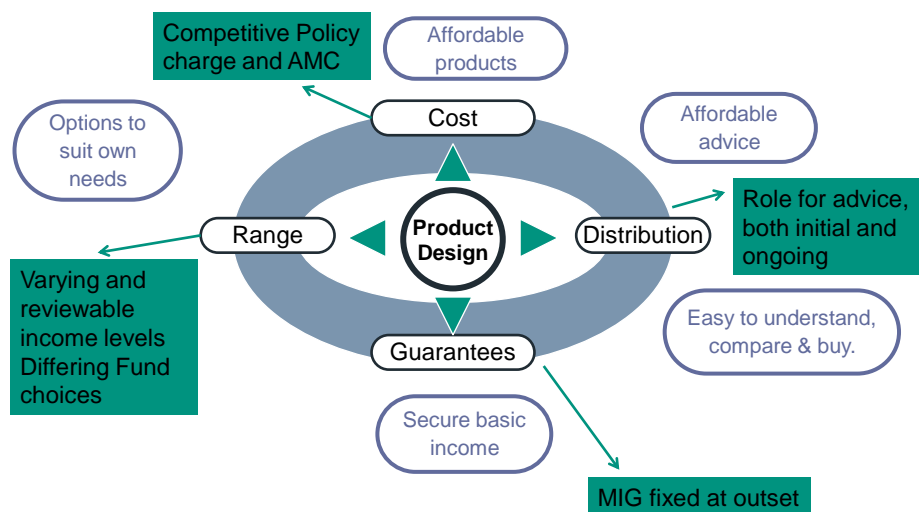
Flexible Income Annuity

- Written as with-profits:
 - Exposure to Society's miscellaneous profits and losses, as well as explicit bonus charge and longevity pooling.
- Best thought of as a unit-linked policy:
 - With triennial reviews to determine minimum and maximum income levels
 - Varying investment funds
 - Underpin of a Minimum Investment Guarantee (MIG)
- Interaction with regulations:
 - Sufficient with-profits sales avoids need to formally close
 - Duration is consistent with duration of non-profit annuities
 - Majority of technical provision is based on the unit-fund so less impact from MA

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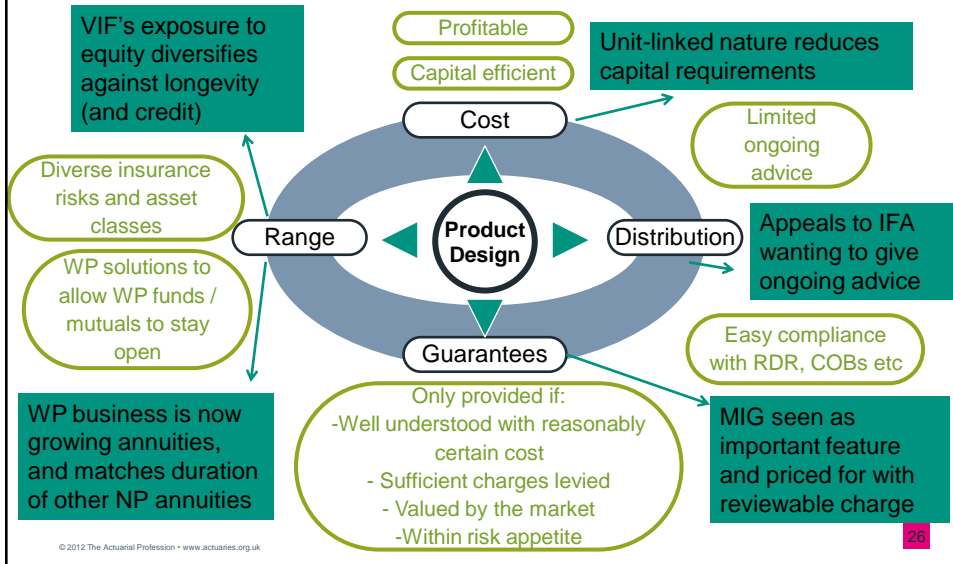
What do customers want? - FIA



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What do insurers want? - FIA



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13th cheque annuity case study

- Everybody needs some extra money in December...

Design	Valuation
Guaranteed benefit priced with no liquidity premium	Same basis as pricing and therefore no strain.
"13 th cheque" in December - rebate of realised liquidity premium	On valuation assumptions, no liquidity premium therefore no expected bonus in BEL.

- Advantages:
 - Capital costs reduced
 - Policyholder potentially gets more
 - Asset matching restrictions avoided and active management can be employed.
- However, base amount may not be competitive, bonus not guaranteed.

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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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