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The Impact TCF has had on WP Business

Matthew Lee – Towers Perrin Tillinghast
Mike Collins – Friends Provident



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An Industry Perspective

Matthew Lee – Towers Perrin Tillinghast

The Impact TCF has had on WP Business – an industry perspective

What has TCF targeted?

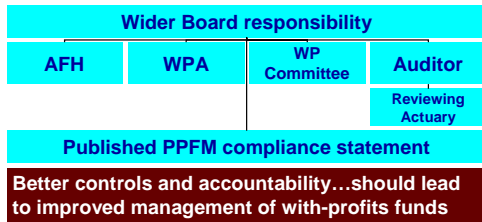
- Corporate Governance
- Communication
- Valuation and payouts
- New business requirements
- Fund closure and distributions



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Corporate governance

TCF has redefined the ownership of key responsibilities



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Policyholder communications

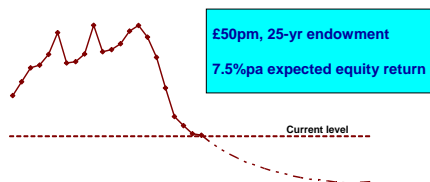
TCF has generated far more, and far clearer, policyholder literature

- PPFM and CFPPFM
- Point of sale documents
- Annual statements & regular reviews
- Key date notifications, e.g. MVR free period

Little evidence that these documents are read or understood, but comfort from knowing they exist

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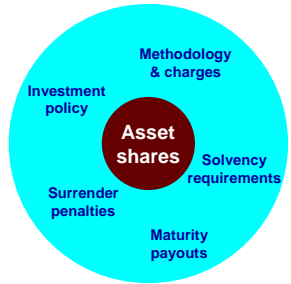
Communications – the big issue?



- Asset shares and payouts have fallen rapidly
- Payouts more aligned with asset shares
- Asset shares expected to continue falling

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Policy valuations and payouts



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Asset share methodology and charges

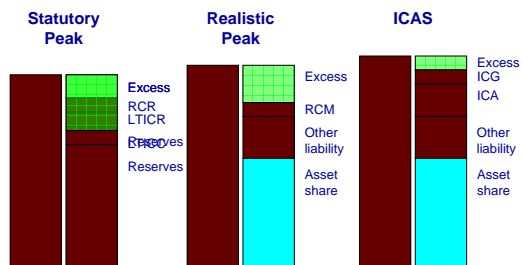
Asset shares suddenly elevated from a tool used to inform payouts to the basis for valuations

- Prospective vs. retrospective charges
- Past and future distributions
- Pressure to reduce surrender profits

**May be genuine problems with asset shares that are now harder to address
In danger of 'unitising the fund'**

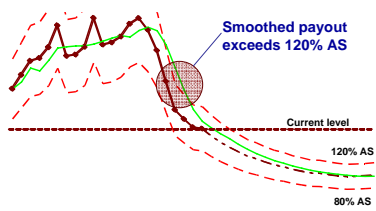
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Solvency requirements



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Focus on maturity payouts



- Smoothing rules led to high payout ratios in the past
- 90% of payouts must now lie within target range

Can lead to conflict...likely to reduce smoothing

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Focus on surrender payouts

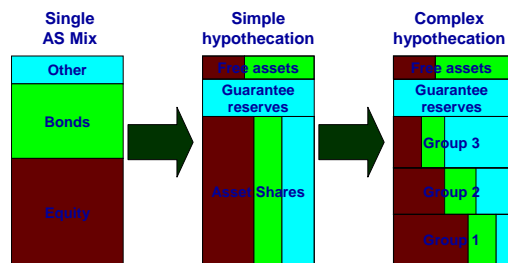
Surrender values

- Past surrender bases - passive for many
- PPFMs and target ranges - increase the need to review bases regularly
- Charges - heavily restricted

**Regular reviews will mean 'fairer' payouts
Increased surrender values where charges have been reduced or removed**

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TCF within investment policies



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New business requirements

Restrictions on new business terms and conditions

- Adequate premium rates and profit margins
- Allowance for acquisition expenses
- Level of guarantees and charges

Terms already addressed many of the problems encountered in the past.
Will prevent policies being written on advantageous terms simply to keep funds open.

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Fund closures and estate distributions

Pressure to close funds not actively writing new business

- Formal definition of closure
- Run-off plans within 3 months
- Annual checks for excess surplus

Much harder to close, so companies may be writing small volumes to stay open.
No industry standard for 'excess capital'


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The Impact TCF has had on WP Business – Conclusions

What has TCF achieved?

Corporate Governance	Stronger and more robust. Less reliance on individuals
Communication	Better & clearer but not much is read
Valuation and payouts	Better alignment Valuations - More discretion & more volatile Payouts - Less discretion & less smoothing
New business requirements	Little evidence of change
Fund closure & distributions	Progress on run-off plans and planned distributions

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Friends Provident Experience

Mike Collins – Friends Provident

Friends Provident Experience


- Introduction
- Changes to Governance
- Changes to Communications
- Changes to Payouts
- Changes to Systems



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Changes to With Profits Governance

- None directly as a result of TWPPF (PS05/01)
- WPA regime already in place
- WPC already in place
- Board already familiar with new regime
- Board familiar with RBS
- Nevertheless, decisions to be made



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With Profits Decisions

- Size of target ranges
- Surrender profits or not
- Homogeneity of bonus divisions
- Size of minimum MVRs
- Detail within asset shares

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Changes to Communications

- Changes to PPFM
- Content of CFPPFM
- Delivery of CFPPFM
- Board Report to Policyholders
- Content of With Profits Actuary Report to Policyholders

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Changes to PPFM

- Changes for TWPPF 30/06/05
- Changes for TWPPF 31/12/05
- Further changes 04/06

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Content of CFPPFM

- Based around existing Raising Standards With Profits Summary
- Additional Section Headings
- Supplementary information page signposted on website
- Six pages
- Six versions

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With Profits Summary Versions

- A FP unitised life plans taken out after 8 July 2001
- B FP unitised pension plans
- C FP unitised life plans taken out before 9 July 2001
- D Friends Provident Life Assurance Ltd conventional life and pension plans
- E FP conventional pension plans taken out by an employer to back their group pension scheme
- F FP conventional life plans FP conventional pension plans except those taken out by an employer to back their group pension scheme

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Delivery of CFPPFM

- Depends on method of delivery of bonus notice
- Glossy print for conventional annual mailing
- Glossy print for some unitised mailings
- Printed within some unitised annual statements

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Board Report to Policyholders

- Available from Web or on request
- Plain document – 6 pages
- Signposted in CFPPFM
- Signposted in annual statements

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With Profits Actuary Report to Policyholders

- Significant debate over format
- Audit Style
- 2 Pages

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Changes to Payouts

- Minimal as a result of TCF
- Some SV targeted as 100% MV target AS%
- Some additional bonus distinctions

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Changes to Systems

- Individual Asset Share available for each policy
- Payout and Asset Share feeds
 - To target range monitoring
 - To bonus smoothing accounts
- Some Asset Share 'refinements'

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The way forward

- Any insights?



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What have we learned for the future?

- Transparent Information is only half the story

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What might be different going forward?

- Less Smoothing when markets moving quickly?
- Continued lower Regular bonus levels even where investment returns improve?
- More Market Comment informed by additional information?
- More refined payout mechanisms?

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What changes might the policyholder see?

- Developments in Board reports to Policyholders?
- Developments in CFPPFMs?

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Any Questions



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