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Life Conference 2022

23-25 November, ACC Liverpool

#LifeConf22





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Management of closed with-profits funds

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25 November 2022

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Working party objective and approach

Key Objective

To improve customer outcomes for those who have policies in closed with-profits funds.

Approach

- Desk based research
- Industry survey

Output

- Working party report
- Life Conference 2022

Foresters
Financial

Forester Life Limited – Directors' Annual Report to With Profit Fund Planholders – 2019

Introduction

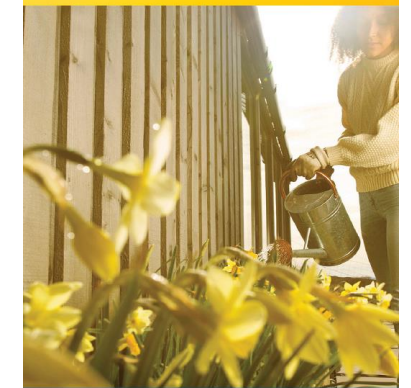
This annual report explains how we managed the With Profit Fund in 2019. In particular, it considers:

Principles and Practices
of Financial Management
(PPFM)



Solvency II
Solvency and Financial Condition Report

Your guide to
the SLOC With-Profits Fund



Life's brighter under the sun

Sun Life Financial
of Canada

Section 1: Guarantees and Capital

1.1. Guarantees	Fund 1	Fund 2	Fund 3	Comments
Does the fund include products that confer valuable guarantees such as Guaranteed Annuity Rates (GARs) or Guaranteed Investment Returns (GIRs)?				
5 GARs (Guaranteed Annuity Rates)				
6 Other GARs (Guaranteed Annuity Options)				
7 GIRs (Guaranteed Investment Returns) above 0%				
8 GIRs (Guaranteed Investment Returns) at 0%				
9 Other Guarantee (please specify)				
Comments on Q5-Q9				
1.2. Capital Support	Fund 1	Fund 2	Fund 3	Comments



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Working party report

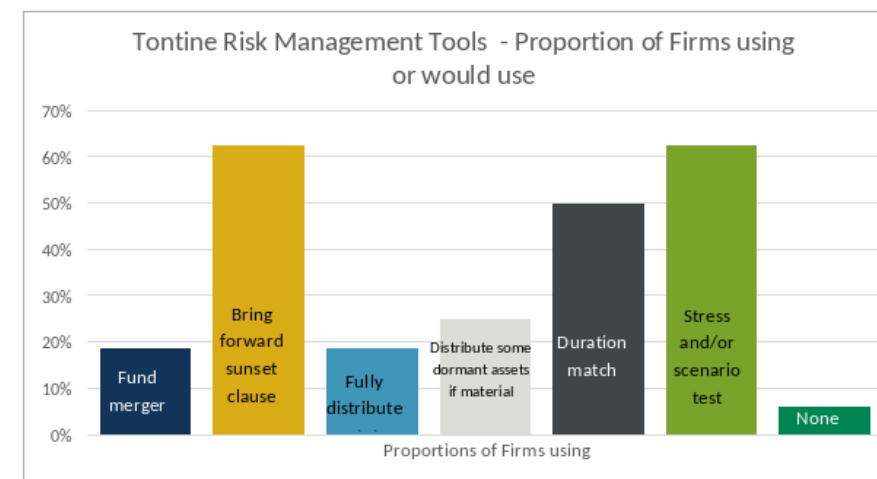
Report published and available here:

www.actuaries.org.uk/practice-areas/life/research-working-parties/management-closed-profit-funds

(Or search “closed with-profits” on the IFoA website)

8 recommendations across 8 topics:

- Risk management
- Goneaways
- Sunset clauses
- Guarantees
- Capital support
- Investment strategy
- Non-investment expenses
- Run-off plans





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Risk Management

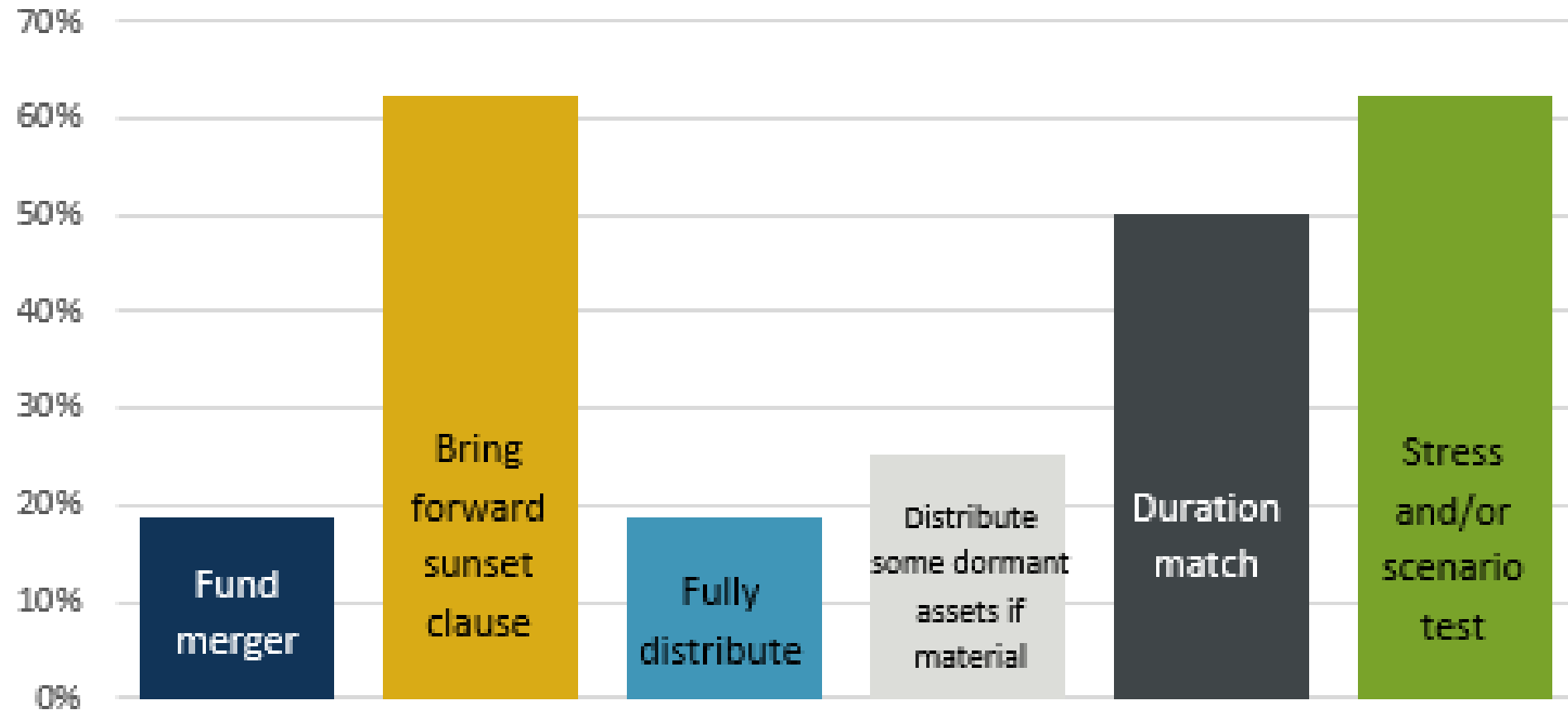
For closed with-profits funds

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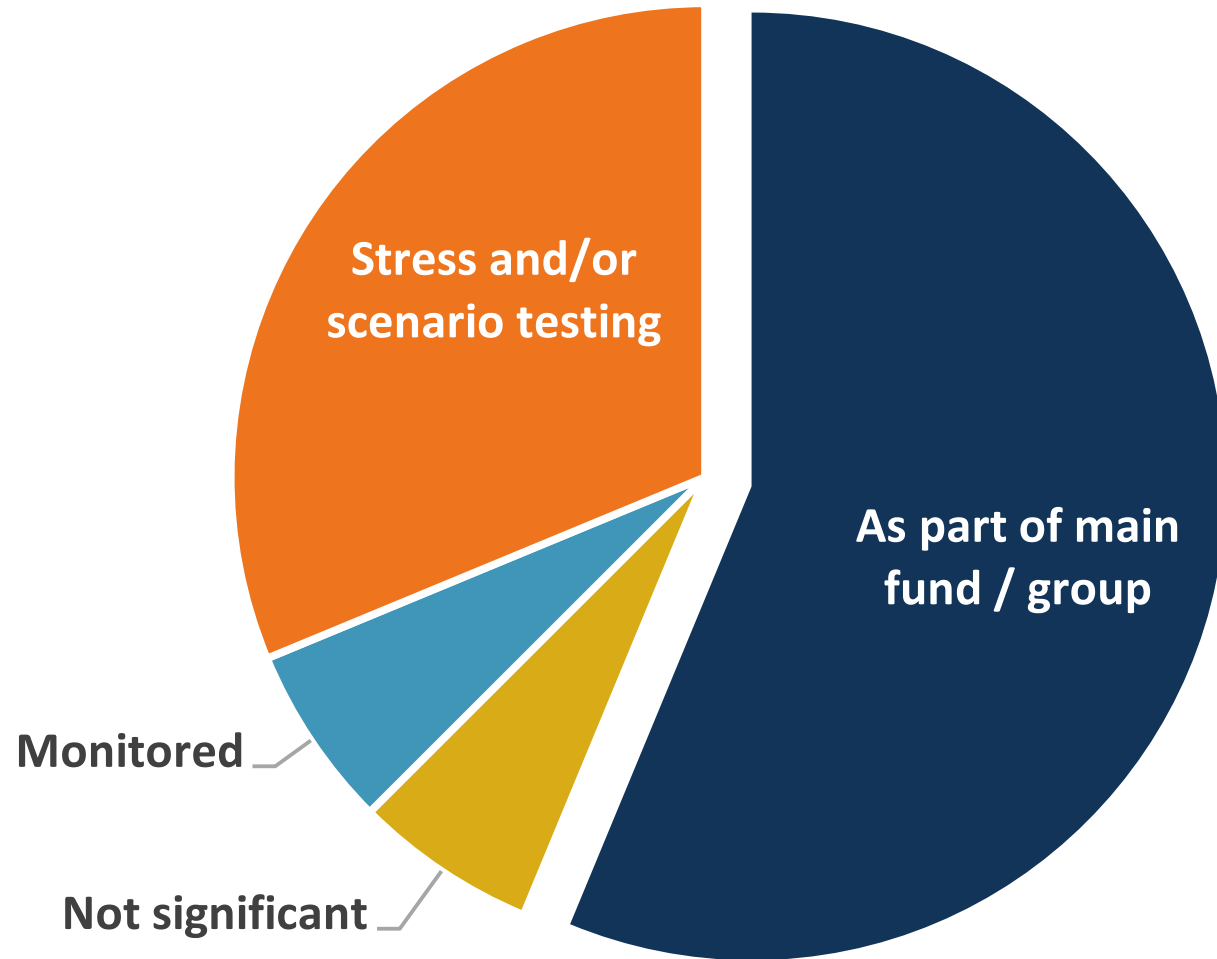




Tontine risk



Operational risk



Risk examples:

- Key person
- Counterparty risks with third-party providers
- Reputational
- Legal and regulatory risks

Risk Management examples:

- Succession planning
- Expense agreements
- Conversion or sale
- Outsourcing
- Technology & automation



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Operational risk

Conclusions

- Not managing risk is risky!
- Some risks are specific to WPFs
- Run-off reduces scale
- Not always aligned to Main Fund or S/H

Recommendations

- Fully explore operational risks specific to each closed with-profits fund
- Consider plausible scenarios and risk responses
- Know your time horizon





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Managing Goneaways

For closed with-profits funds

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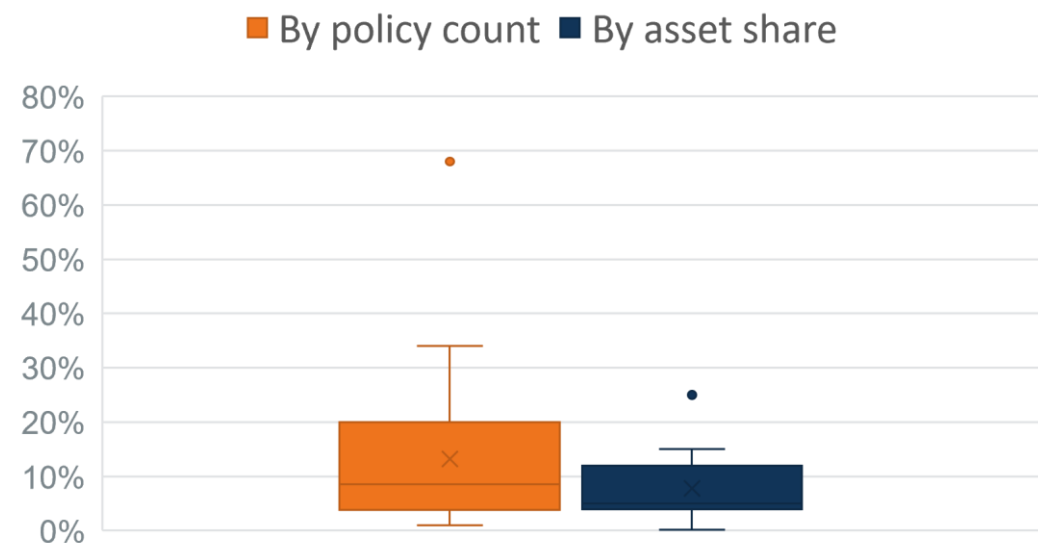


Goneaways

Key findings

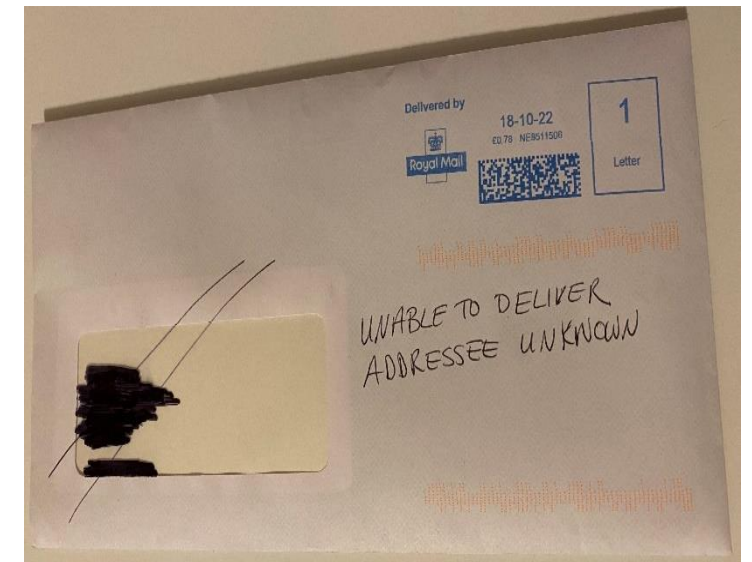
- Dormant assets may represent a material tontine risk
- Goneaway rates not readily available
- Broad range of goneaway rates
- Differing levels of success with tracing exercises

Goneaways by fund (where reported)



Goneaways - actions

- Establish an approach to distribute goneaway assets
- Review approach to tracing
- An industry wide approach is needed
 - Central source of information
 - Raise awareness that insurance firms are trying to reunite customers with their money
 - Seek data protection reforms to support tracing efforts



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Sunset clauses

For closed with-profits funds

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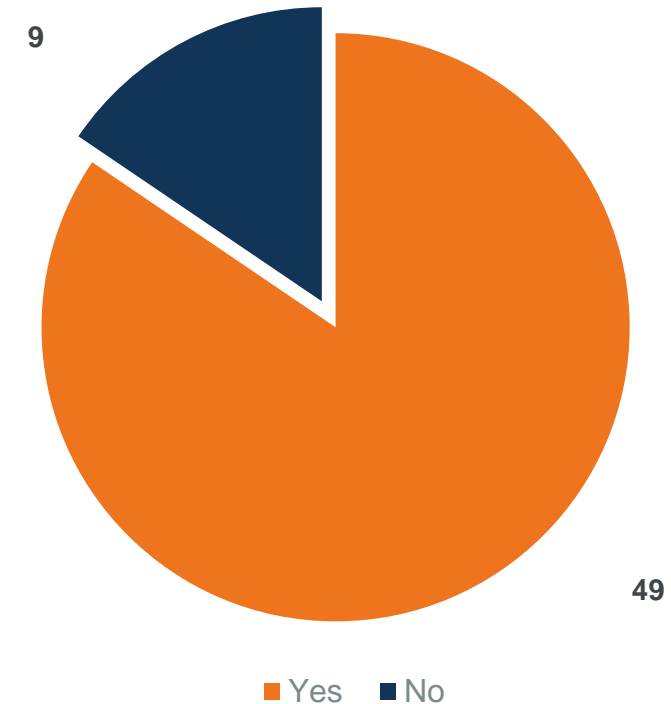


Sunset clauses

A sunset clause defines the trigger point after which the governing body either can, or must, restructure a with-profits fund (for instance through conversion to a non-profit fund).

[FCA para 5.28 TR19/3 Review of the fair treatment of With-Profits customers (April 2019)]

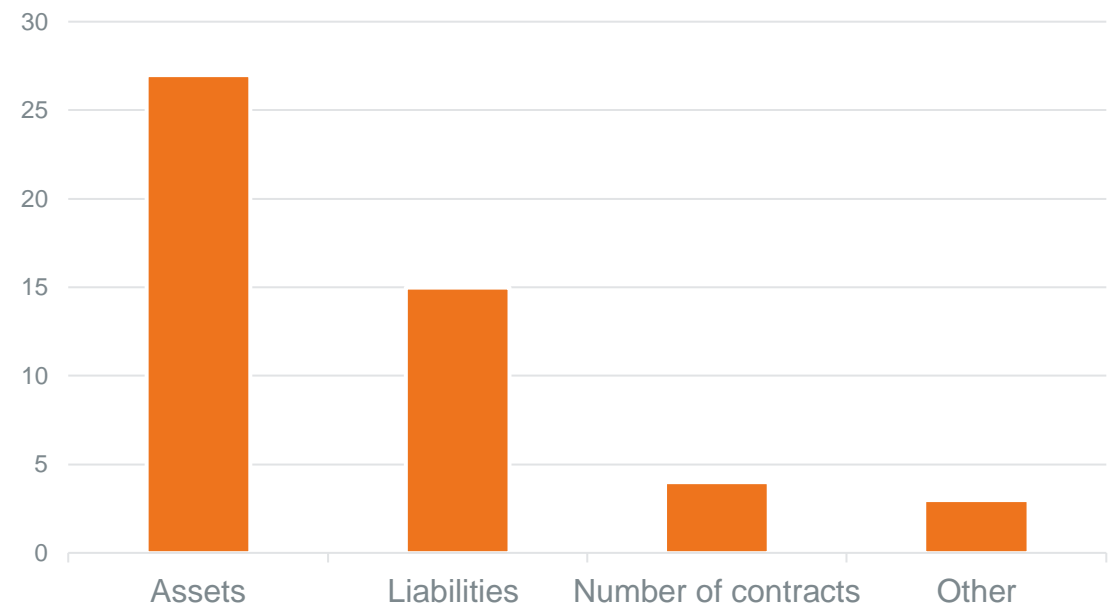
Does your fund have a sunset clause?



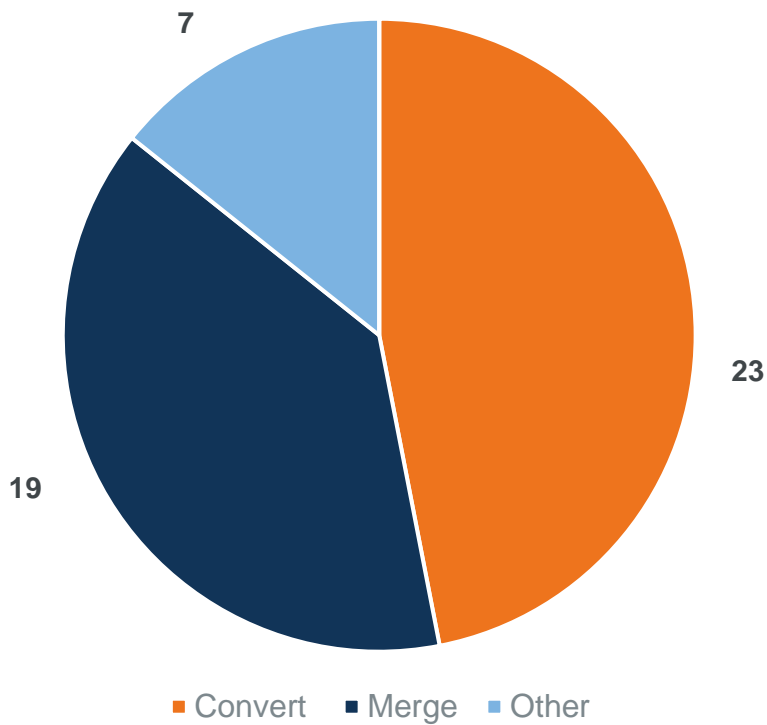
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Form of sunset clause

What triggers the sunset clause

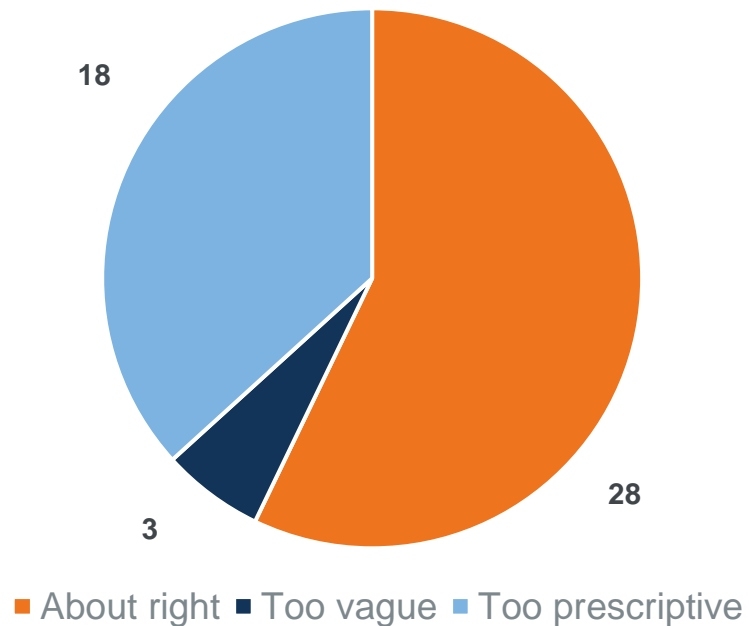


Sunset clause action

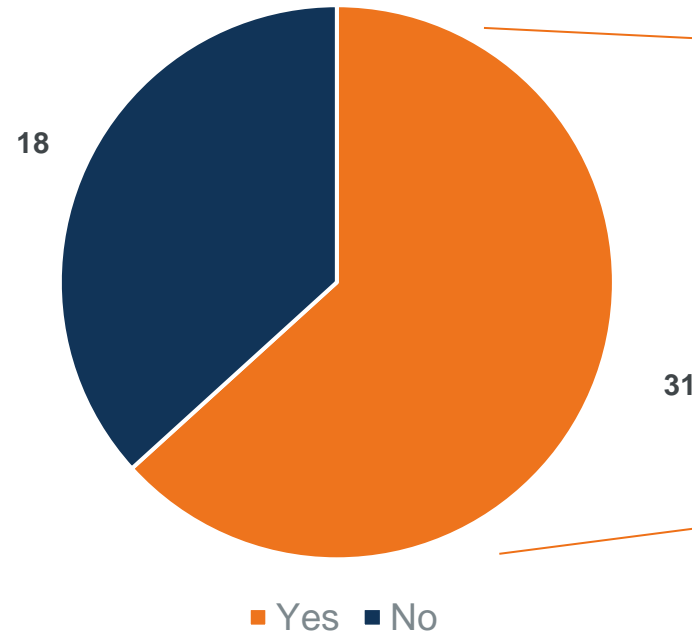


Sunset clause wording

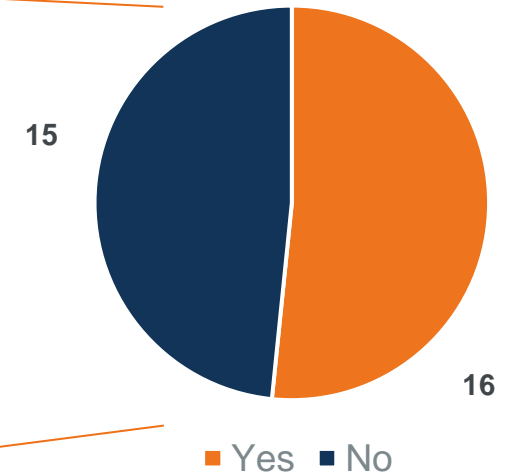
Content with sunset clause wording?



Would like to change the sunset clause wording?



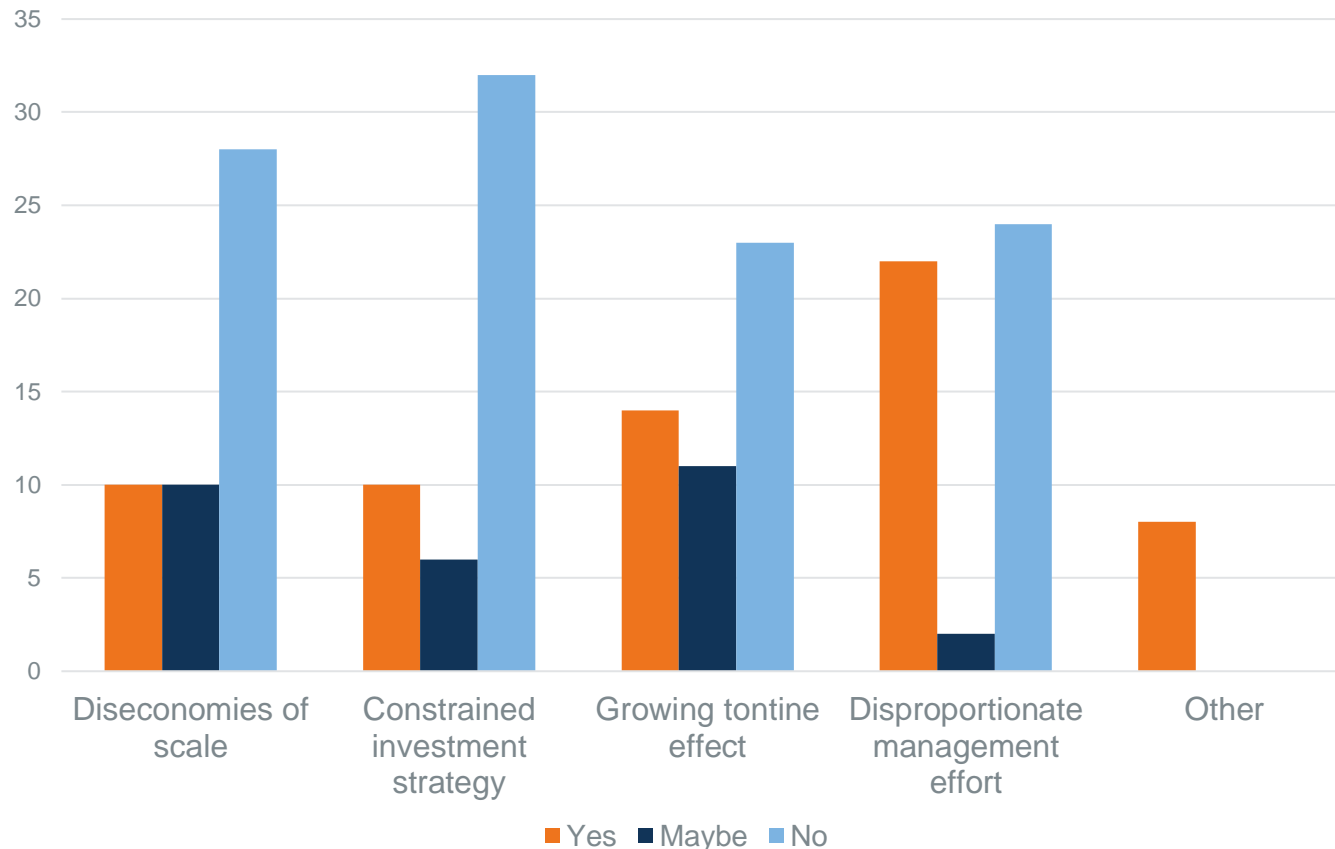
Expect to have to go to court to change the sunset clause?



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Advancing the sunset clause – c.60% considering

What would you consider when considering to advance sunset clause?



Other considerations

- Historic v modern view
- Goneaways
- Business mix
- Tontine, equity and fairness



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Sunset clauses: Conclusions & recommendations

Conclusions

- No standard sunset clause
- Interpretation risk
- May require complex risk sharing
- Time for effective implementation

Recommendations

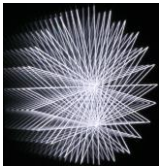
- Start early - don't wait!
- Understand when likely to be triggered
- Consider response to sunset clause trigger
- Deal with unclaimed assets & goneaways
- Engage key stakeholders



Key takeaways



1. Don't wait



2. Read across (open funds, multiple closed funds)



3. Identify operational risks unique to the fund



4. Manage Goneaways



5. Engage stakeholders (Board, WPC, policyholders, regulators)



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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 presenter.



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Thank you

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