

The Actuarial Profession

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WITH PROFITS ACTUARY

A Necessary Role?

John Lister

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With Profit Actuary - a necessary role?

Agenda

- **PS167 Requirements**
- How can the responsibilities be fulfilled?
 - Separate WPA role
 - Combined role with AFH
 - Independent of the company
- Interaction with
 - Board
 - Independent Reviewer/With Profit Committee
- Personal Reflections and challenges

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Aims of PS167

- Discretion in WP: increase consistency and predictability
- Transparency: improve
- WP governance: strengthen
- Actuarial expertise: ensure available to advise Board

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PS167:Main Requirements

Firms carrying out WP business will have to:

- define and publish Principles and Practices of Financial Management (PPFM) for with-profit funds;
- ensure governance arrangements offer assurance that PPFM have been adhered to;
- produce reports for policyholders and FSA on how PPFM have been complied with

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PS167:Implications for Actuaries

- No Appointed Actuary role when Integrated Prudential Sourcebook comes into effect
- Replaced by :
 - Actuarial Function Holder
 - With-Profits Actuaryfrom 1 January 2005
- Both "controlled functions" with whistle-blowing responsibilities

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PS167:Implications for Actuaries

Actuarial Function Holder responsibilities:

- advise Board on financial condition of company
- advising on and monitoring risks
- advise board on reserving methods and assumptions
- set mathematical reserves using Board prescribed methods and assumptions

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PS167: Implications for Actuaries

With Profits Actuary's responsibilities:

- advise board on the exercise of discretion under with-profits policies
- report annually to Board on key aspects of discretion exercised during the year
- report to policyholders on firm's "Compliance with PPFM Report"

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With Profits Actuary Responsibilities

- Review PPFM annually and propose any changes
- Review and approve changes to parameters or assumptions used in asset share calculations
- Review Regular and Final Bonus rates
- Review surrender and transfer values
- Agree the use of any "strategic" investments and the terms of any intra-group loans
- Approve whether, and on what terms, new business is to be written or reinsured into the fund and impose any limits on volumes accepted in order to avoid concentrations of risk.
- Agree expense and tax charges made to with-profit funds.
- Agree uses of estate and investment strategy.

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With Profit Actuary
How can the responsibilities be fulfilled?

Combined with Actuarial Function Holder

- Lot of overlap
- OK if you are not a director
- Are you always sure who your principal is?
- Are the directors always sure who your principal is?
- Is there external perception of independence?

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With Profit Actuary
How can the responsibilities be fulfilled?

Separate With Profit Actuary

- Lot of overlap
- OK if you are not a director
- Very clear on your principal!
- Directors are clear on your principal!
- Rest of company know your role!
- Is there external perception of independence?

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With Profit Actuary
How can the responsibilities be fulfilled?

Independent With Profit Actuary

- Lot of overlap
- Very clear on your principal!
- Directors and rest of company are clear on your principal!
- Clearly seen to be independent.
- Is it practical and cost effective?

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With Profit Actuary: Interactions

Board Responsibilities

- Certify annually to the FSA that With-Profits Funds have been managed in accordance with the PPFM
- Produce an annual "Compliance with PPFM report" for FSA. Report also needs to be made available to policyholders
- Ensure company manages with-profits funds in line with the PPFM
- Approve any proposed changes to Principles and inform FSA of any changes made

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With Profit Actuary: Interactions

Board Responsibilities

- Determine the appropriate level and timing of distributions to policyholders i.e. bonus decisions
- Review of investment strategy, the setting of asset allocations and the approval of any changes to Strategic Investment Policy.
- Decide whether compensation costs from business risks are borne by estate, shareholders or asset shares.
- Manage the Inherited Estate in order to maintain it at its current level increased by investment return on the estate.
- On permanent closure to new business, consider the terms for sharing any excess estate.

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With Profit Actuary: Interactions

Board

- Director reporting line is important.
- Clear need for good working relationship and confidence of Board.
- Communication skills vital. They need to understand as they are responsible!

With Profit Actuary: Interactions

Independent Reviewer /With Profit Committee

- Annual independent assessment of Company's compliance with PPFM
- Independent review of any major changes in payout assumptions or methodology
- Close open working relationship required.

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- **Personal Reflections and challenges**

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Personal Reflections

- Splitting the AA role doesn't make a lot of sense. Making the Board clearly responsible does.
- WPA is clearly the policyholder champion. Were all AA's seen to be?
- Greater focus on with profits and compliance with PPFM's.
- Independent review is a positive governance addition and helps concentrate the mind.

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Personal Reflections

Lot of challenges

- Demonstrating compliance with payouts.
- Treatment of Pensions Scheme deficit.
- Equity between different policyholders.
- Introduction of charges for guarantees and investment policy.
- Allocation of expenses
- Treating Customers Fairly!

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Personal Reflections

- PPFM's are a good thing (in terms of operation and reserving) but don't improve transparency to policyholders. CF PPFM's won't help either.
- Costs are much higher than before reflecting greater governance and the need to have a small independent team to challenge, review and report.
- It will be many years, if ever, before with profit volumes recover to reasonable levels despite the undoubted qualities of the product.

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QUESTIONS

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