

**The Actuarial Profession**  
making financial sense of the future

With-profits - coping with change - 23 January  
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## With-profits - coping with change

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## With Profits Business - Coping with Change

### Agenda for today:

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- Solvency II and CP12/13,
  - With-Profits Review and issues from PS12/4,
  - mutual firms issues and CP12/38, and
  - the transition to two new regulators, the PRA and the FCA.

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Solvency II - CP12/13 and its policy statement

- implementation of the directive seems certain to be deferred,
- less pressure for production of a feedback statement, not least with Levels 2 and 3 text still in a state of flux,
- now scheduled for H2 2013.

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Solvency II - CP12/13 and its policy statement

We are discussing various issues internally:

- the definition of the with-profits fund and with-profits policy,
- support assets
- excess surplus, and
- ring fenced funds.

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With-profits review and PS12/4

- little feedback from most firms subsequent to issue of PS12/4 in Spring 2012,
- clarification of new business rule,
- firms that closed prior to current COBS rules on closed funds being introduced and who have not already got run-off plans should have submitted them to the FSA by last December...,
- level of detail should be proportionate to status of fund.

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With-profits review and PS12/4

- a number of areas reserved for future review:-
  - whether to make with-profits committees mandatory and on what terms,
  - charges for with-profits funds,
  - treatment of taxation, and
  - customer communications;
- but the top unresolved issue involved with-profits mutuals.

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### Mutuals and CP12/38

- CP issued 19 December following lengthy discussions,
- outlines a new way that mutual firms may be able to continue without writing new with-profits business without total closure,
- designed to allow firms with viable business plans for selling (mostly or totally) non-profit business to continue to do so beyond the with-profits run-off.

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### Mutuals and CP12/38

- in detail, we outline a method that with-profits mutuals may wish to use to identify that part of their fund that relates to with-profits policyholders and therefore the balance that represents the 'mutual members' fund',
- firms that have declining with-profits books but who have viable business plans for selling non-profit business will be able to use this mutual members' fund to support their business plans, and will not find themselves forced into closure and run-off by a lack of new with-profits sales.

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Progress with abolition of the FSA and establishing new regulatory bodies:

- internal split of the FSA from 1 April 2012,
- PRA staff moving to 20 Moorgate, their new offices, in January and February,
- legal split effective 1 April 2013 confirmed by Financial Services Act, and
- various Memoranda of Understanding being prepared between the FCA and PRA and other bodies.

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Split of the FSA - FCA outcomes:

- increased focus by FCA on conduct issues affecting consumers in line with its new statutory objectives with three broad outcomes we want to achieve:
  - consumers get financial services and products that meet their needs, from firms they can trust;
  - markets and financial systems are sound, stable and resilient, with transparent pricing information; and
  - firms compete effectively, with the interests of their customers and the integrity of the market at the heart of how they run their business.

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Split of the FSA - PRA objectives:

- their general objective is to promote the safety and soundness of PRA authorised persons,
- this is to be achieved by:
  - seeking to ensure that the business of PRA authorised firms is carried on in a way that avoids any adverse effect on the stability of the UK financial system, and
  - seeking to minimise the adverse effect that the failure of a PRA authorised person could be expected to have on the stability of the UK financial system.

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Split of the FSA - PRA objectives:

- the PRA also has a specific objective for insurance companies - to contribute to the securing of an appropriate degree of protection for those who are, or may become, policyholders.

This means that the PRA will be concerned with ongoing viability of a firm and its business plans, and with the affordability of planned bonus distributions.

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Split of the FSA - day to day working

- both at a policy and at a supervisory level staff in both parts of the organisation continue to work with each other to achieve desirable outcomes for consumers,
- most data will only need to be supplied once to both regulators, with a FCA-run combined data platform, but
- insurance returns may need to be sent to an e-mail address at the bank (probably [insurancereturns@bankofengland.co.uk](mailto:insurancereturns@bankofengland.co.uk))

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Split of the FSA - Memoranda of Understanding

- the draft MoU on with-profits has been published,
- actuarial profession have commented,
- will continue to supervise to the Handbook, not the MoU,
- MoU helps in establishing effective working relationships between PRA and FCA,
- supervisors will still be talking to each other, so little opportunity for arbitrage.

The PRA and FCA approach documents provide more information.

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### Other issues

- CP12/24 - transfers of insurance business. Consultation has closed with few responses on this chapter and none of policy substance. Policy statement expected in March.

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## Questions or comments?

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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.

