

Institute and Faculty of Actuaries

Solvency II for With-Profit Funds


Catherine Thorn: Prudential
Trevor Fannin: Towers Watson

30 April 2015

A lot of recent regulatory consultation on Solvency II and with-profits

Consultation	Final
PRA CP15/14: Transposition of Solvency II: Part 3 (August 2014) (Chapter 10: Surplus Funds)	PRA PS2/15: Solvency II: a new regime for insurers (March 2015)
PRA CP22/14: The PRA's approach to with-profits insurance business (October 2014)	PRA PS2/15: Solvency II: a new regime for insurers (March 2015)
FCA FS14/11: Feedback statement on FSA CP12/13 Solvency II – COBS rule changes (October 2014)	FCA: PS15/8: Solvency II (March 2015)
EIOPA Level 3 Guidance on Ring Fenced Funds (June 2014)	EIOPA Level 3 Guidance on Ring Fenced Funds (November 2014)


Several aspects impacting companies differently



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Summary of regulatory changes

Solvency II change	Reference
Definition of with-profits fund	PS12/5 Annex A
Ring-fenced funds	EIOPA guidelines
Surplus funds in a with-profits fund	PS12/5 Chapter 10
Implications of ring-fencing – allowing for surplus funds	EIOPA guidelines
Support arrangements	PS12/5 Chapter 13
Annual distributions	PS15/8 Chapter 3
National Specific Templates	PS12/5 Chapter 12
Assets in a with-profits fund	PS12/5 Chapter 13
Other definitions relevant to with-profits	PS12/5 Annex A



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Definition of a with-profits fund

- Old definition "policyholders eligible to participate in any established surplus"
- SII definition of 'with-profits fund' more lengthy
 - Includes eligibility to participate through discretionary distributions
 - Includes detail on how the fund would be defined currently – build up of premiums less outgoings
- Existing sub-funds – determine whether a separate with-profits fund

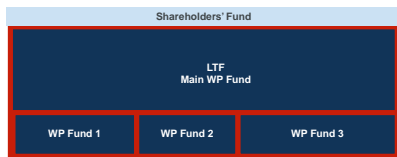
Regulator is not intending you to change the definition of your with-profits funds



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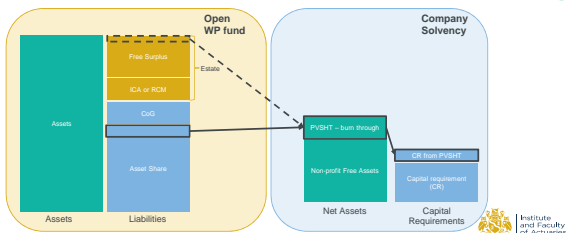
Assessing whether a with-profits fund is a ring-fenced fund (RFF)



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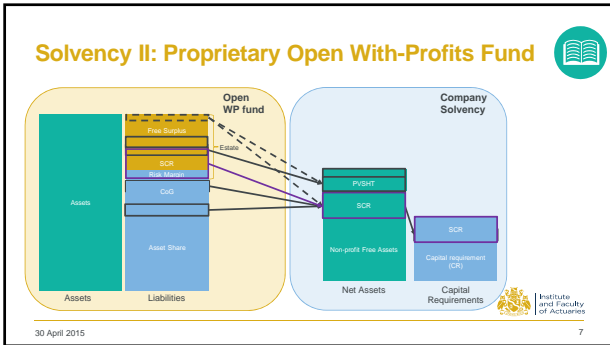
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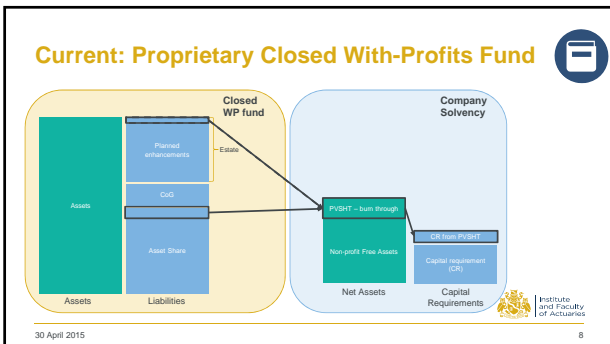
Current: Proprietary Open With-Profits Fund

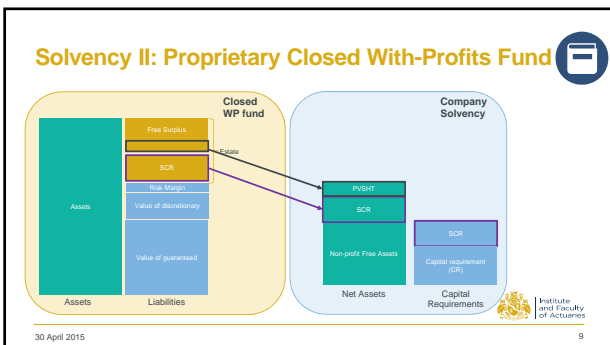


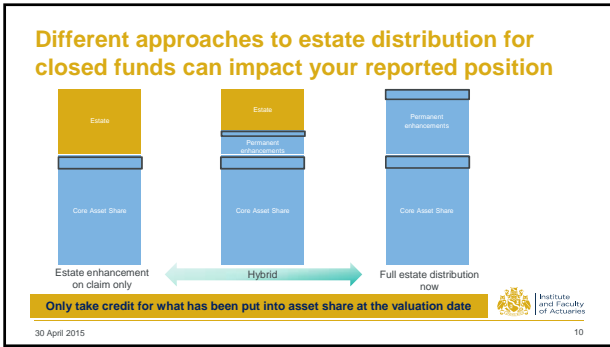
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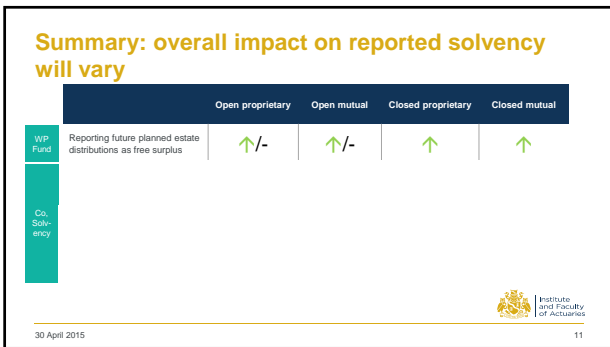
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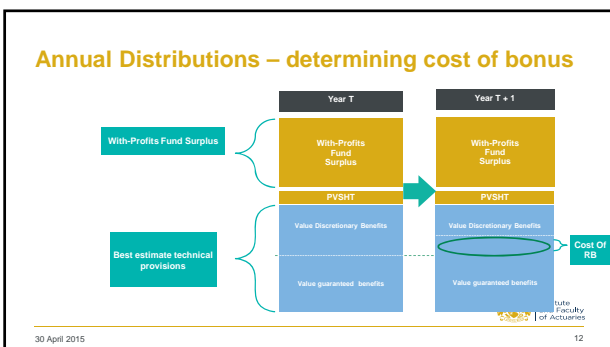












Wider implications and other issues

- Changes to the balance sheet may impact risk appetite

Maintain buffer over ICA with x% probability over T years

Maintain buffer over SCR with y% probability over T years

How should y be related to x given changes in balance sheet?

- Transitional arrangements – fairer for policyholders with/without?
- Impact of SII on innovation in the WP market?
- PPFM/Scheme/literature changes
- ORSA

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Wider implications and other issues

Extent of Modelling of Management Actions

Does your model allow for a projection of the risk appetite metrics and resulting management actions?

Category	Not projected as deemed immaterial	Not projected due to model limitations	Projected using stochastic techniques	Projected using proxy techniques inside the model	Projected using proxy techniques outside of the model
All funds	18%	58%	7%	18%	0%
Open	8%	33%	17%	42%	0%
Closed	21%	67%	8%	9%	0%

Is your modelling consistent with business practice?

Source: Towers Watson 2014 With Profits Survey
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Wider implications and other issues

Extent of Modelling of Management Actions

What analysis has been carried out to ensure management actions are fair?

Analysis Type	Percentage
No analysis carried out	50%
High level qualitative analysis carried out	11%
Deterministic analysis of projected future payouts for regular management actions	9%
Deterministic analysis of projected future payouts for regular and future management actions	11%
Stochastic analysis of projected future payouts for regular management actions	11%
Stochastic analysis of projected future payouts for regular and future management actions	11%

Has sufficient analysis been done to demonstrate fairness?

Source: Towers Watson 2014 With Profits Survey
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Key points

- Ring fenced funds and support arrangements
- Implications on reporting metrics
- Practical and modelling implications
- Risk appetite and management actions



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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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