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Treating With-Profits Policyholders Fairly

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Treating With-Profits Policyholders Fairly

Session aims

- Briefly review FSA proposals
- Comment on (some of) the issues
- Provide a forum for discussion

Focus is on treating customers fairly. Related aspects of the consultation such as CFPPFM and reattribution of inherited estates are not covered but comments welcome

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Background and implementation

Background

- June 2003 **PS167** - PPFMs (end March 2004)
Governance (end March 2004)
- Dec 2003 **CP207** - Asset shares
Ranges and targets
Surrender values (and MVAs)
Excess capital
Closure
- Aug 2004 **CP04/14** - Update to CP207
- Jan 2005 **PS05/1** - Update to CP04/14

Implementation

31 December 2005	Target ranges, CFPPFM
30 June 2005	Everything else

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Use of asset shares

6.12.22R - COB 6.12.17R does not apply to a maturity payment that cannot reasonably be compared with a calculated asset share

- For traditional paid-up policies and alterations firms generally apply in-force bonus scales
- Bonus reserve assessment for liability purposes

⇒ Expect that this will be maintained but what investigations are required to confirm TCF?

⇒ Update PPFM to take such business outside the application of targets and ranges

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Deductions from surrender values

- Virtually all offices have removed penalties approaching maturity
- In earlier years 90% asset share targets common but not explicit

⇒ Expect a move to 100% asset share target

⇒ In total surrenders/lapses will result in losses

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Charging for guarantees

- Only a few firms have explicit charges
- Original timing of PPFM put introduction of charges in the "too difficult" category for most offices, particularly for existing business
- PS05/1 implementation is a major business change

⇒ Last chance to introduce charges for existing business?

⇒ Likely to continue to be a source of loss

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Miscellaneous profits and losses

6.12.24 - a firm must calculate *unsmoothed asset shares* by:
(c) ...adding or subtracting an amount that reflects the experience...

- May mean changes for firms that have tried to maintain discretion

Losses

Surrenders/lapses
Guarantees
Expense overruns
(Compensation costs)

Profits

(Non-profit business)
(Estate)

⇒ Should we still use the term "with-profits"?

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