




Financial Conduct Authority 

With-Profits - The view from the FCA
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Agenda for this afternoon

- FCA and with-profits
- PS14/5 – With-Profits Mutuals
- Other With-Profits Areas
 - Solvency II
 - Thematics
 - PRIPS
 - Event Driven Issues
- Questions

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FCA and With-Profits

- FCA Objectives
- With-Profits
- Working with PRA

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FCA Objectives

Our strategic objective is to ensure that the relevant markets function well.

To support this, we have three operational objectives:

- To secure an appropriate degree of protection for consumers.
- To protect and enhance the integrity of the UK financial system.
- To promote effective competition in the interests of consumers.

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With-Profits

Fair Treatment of policyholders (With-Profits and others)

- Changes and relevant actions taken
- Pay-outs
- Operations and Costs
- Conflicts
- Communications

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Working with PRA

Both have major interest in with-profits but from different angles

Continue to supervise by Handbook

Close working relationships in Supervision and Policy

Memorandum of understanding

- Roles and responsibilities
- Resolution of issues
- Information sharing
- Rule making

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PS14/5 – Mutuality and With-Profit Funds

Background
 Consultation Feedback
 Main differences from CP12/38
 General Clarifications
 Modification Process Clarifications
 Next Steps

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Background

- Problem for Mutuals with declining with-profits business
- Project Chrysalis/ Dear CEO Letters
- CP 12/38
- Recognised that not a “one size fits all” option
- Mutual members fund/Modification to rules

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Consultation feedback

Generally well received
 Areas raised included:

- Duration and certainty of a modification;
- Requirement for vote;
- Applicability to firms continuing to write new with-profits;
- Alternative solutions;
- Responsibility and Nature of Independent Expert (IE);
- Clarity on application process, principles and legal position

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Main Differences from CP 12/38

- Clarified position on voting rights – not required if successful application
- Method for dealing with legal uncertainty – provided details on FCA position for IE to consider along with other views
- Formally recognised alternative solutions – use same principles

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What hasn't changed

- Our underlying legal position
- One possible solution
- Guidance - Modification to the rules
- The general principles we will be considering in reviewing

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General Clarifications

- Modification rather than rule – not “one size fits all”
- Duration – dependent on book of business
- Firms writing new business – clarified that okay
- Reattribution – IE to consider - on a case-by-case basis
- Requirements of IE – Independent, appropriately qualified
- Solvency II issues – covered in PRA supervisory statement

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Modification Process Clarifications

- Approval required from both regulators - Apply to FCA
- Decision - independent but coordinated
- Firms to specify rules requiring modification
- Business case should be credible (new business estimates, profitability, products)
- Comparison with proprietary firms – discuss on case by case basis
- Policyholder engagement – notification and ability to object

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Next Steps

- Discussion with firms and trade bodies
- Support applications for modifications
- Feedback on applications

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Other With-Profits Areas

- Solvency II
- Thematics
- PRIPS
- Event Driven Issues

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Solvency II

- Working with PRA
- Feedback on CP12/13

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Thematics – From FCA Business Plan

Fair Treatment of Long-Standing customers in life insurance

- Whether firms are operating historic products in a fair way
 - Commence Q3/ Throughout 2015
- Governance of with-profit funds (Proposed)
- Review implementation following 2012 changes
 - Adequacy of governance for particular aspect of their business
 - Commence Q4/ Throughout 2015

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PRIPS (Packaged Retail Investment Products)

- Political agreement – April 2014
- Q3 2014 – Official publication
- Implementation from Q3 2016
- Key information Document (KID)
- All insurance based investment products (other than pensions)
- Include with-profit policies
- Details of requirements for KID being worked on

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Event Driven Issues

Ongoing supervision of with-profits governance and issues

- Run Off plans
 - Part VII transfers
 - Sales of non profit business
 - Solvent schemes of arrangement
- Generally looking to ensure that all customers are considered appropriately, treated fairly and communicated to effectively.

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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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11 April 2014