

Dear Members

Welcome to the September edition of the VA MIG newsletter. This month we include:

- **Chairman's Comments**, *editorial freedom to the Chairman to provide commentary and views on the market and the MIG*
- **Recent Activity**, *an update on the activities undertaken within the MIG over the last month*
- **Recent Market Activity**, *an update on what has been making the news in the prior month (including a listing of major European VA product launches to date and latest UK sales figures)*
- **Resource Centre**, *an update on website tools and content*
- **Vacancies**, *requests for assistance from the membership*
- **Upcoming Events**, *outline of relevant events*
- **Recent Publications**, *outline of recent publications not included in the Resource Centre*
- **Practice Area Bulletin**

If you have any comments on the newsletter, or contributions you would like to see circulated more widely, please contact our Editor-in-Chief, Jeremy Nurse, at jeremy.nurse@watsonwyatt.com

James Maher
Chairman VA Members Interest Group

Chairman's Comments

The summer is long gone, the children are back at school and the next year-end will soon be rushing towards us too quickly. And as we set out towards another winter, with stockmarkets on the rise (or at least, not plummeting like this time last year!), we can at least feel a little more comfortable than we did a year ago, if not completely complacent just yet!

This month marked the deadline for the second round of consultation under Solvency II, and what a volume of papers to be considered and reflect on over the summer! Digesting it has been something like a python trying to swallow a Morris Minor and leaves one a bit burned out and needing to lie down. The task however has been completed and I hope that all those who participated, whether in their companies, trade associations or professions all recognise the importance and significance of their participation.

An item of particular relevance to us all was the CEIOPS invitation to comment on the selection of historic or implied volatility in the valuation of guarantees and options, under CP39. This is a critical question that is not so much a technical question as a matter of policy choice, in particular whether or not the aim is to deliver market consistent values or alternatively to dampen down the pro-cyclical impacts of market consistent valuations. I guess we will all find out soon enough which direction CEIOPS will jump on the issue, and whatever the outcome it will be welcome in so far as we can at least move to implementation issues.

For those hardy souls who still have some energy and interest left, or those less battle-weary souls who neither wished nor were able to participate in the SII consultation process, we have a wonderful new opportunity! The Financial Regulator (in Ireland) has released its discussion paper on "Capital Requirements for Variable Annuities" and this paper can be found at the FR's website at <http://www.financialregulator.ie/Pages/home.aspx>. The paper is a discussion paper (as opposed to a consultation, and as such is not a position paper, per se) so it outlines a number of avenues or approaches for capital requirements based on existing methodologies based on current implementation in a Solvency I world. FR is seeking to open out the discussion to encompass how the class of business will fair under the principles and requirements of Solvency II. The opportunity to consult widely should be embraced by us all, and in particular the aim will be to develop a framework that is fit for purpose in a prudential regulatory context and to see how it can coexist, or integrate, with the proposed Solvency II agenda. In this regard, key questions are: evaluation of technical provisions and setting of the Standard Capital requirement; whether the current de facto standards of Real World CTE-based valuations remain the most appropriate tool; or whether the market consistent agenda and 1-year horizons of the Standard Framework will work. A principle concern or consideration of the regulator appears to be the credit to be given for "future trading offset" (or in Solvency II parlance, the future management actions) that allow for rebalancing of hedges into the future – in this regard the paper focuses not so much on the theory of the offset but on some of the practical valuation and governance issues.

So now the call to arms – I would like to invite those with an interest and understanding of the issues to make themselves known to me (at jmaher@nexgenfs.com) as we look to assemble a response on behalf of the Members Interest Group. Of particular interest will be those members who can support us with some quantitative capacity as we look to evaluate different approaches.

James Maher, September 2009

Recent MIG and Market Activity

Again, August has been a quiet month for formal MIG activity, and for market activity. So as promised last month, we are publishing a list of the VA products that have so far been launched in Europe below (with thanks to Milliman), which we hope members will find interesting and/or useful – E&OE! If you think anything in this is missing or incorrect, please contact joshua.corrigan@milliman.com in the first instance.

European VA Launches as at August 2009

Source: Milliman

Note: table includes all historic VA product launches, but excludes re-launches due to repricing and/or redesign

Company	Product	Type	Country	Date
Hartford	SafetyNet	WB	UK	Feb-05
AXA	Twinstar	IB	Germany	Mar-06
AXA	Estate Planning Bond	WB / DB	UK	Jun-06
Aegon	5 for Life	WB	UK	Sep-06
MetLife	Trustee Invlt Plan	WB / AB	UK	Dec-06
ING	Generacion F Unico	AB / DB	Spain	Mar-07
AXA	Accumulator Future	AB / WB / DB	Spain	Mar-07
Lincoln	i2Live Retirement Plan	WB / IB	UK	May-07
MetLife	Secure Capital Bond	AB	UK	May-07
AXA	Accumulator	WB	France	May-07
AXA	Accumulator	WB	Italy	May-07
AXA	Crest	AB	Belgium	May-07
ING	Europerspektiva	AB / DB	Hungary	Jun-07
Hartford	Platinum	WB / IB / DB	UK	Aug-07
Generali	Active Risparmio	AB	Italy	Dec-07
ING	Europerspektiva	AB / DB	Poland	Jan-08
AXA	Twinstar	AB	Switzerland	Jan-08
ERGO	Global Top Return	IB / AB	Germany	Feb-08
AXA	Accumulator	AB	Portugal	Apr-08
ING	RVS Guarantee	AB / DB	Netherlands	Mar-08

	Perspective			
Aegon	Income for Life	WB / IB	UK	May-08
MetLife	Retirement Portfolio	WB / AB	UK	Jun-08
Allianz	Invest4Life	WB	Germany	Jul-08
R+V	PremiumGarantieRente	IB	Germany	Aug-08
MetLife	Citi VA Orchidea	WB	Poland	Sep-08
Swiss Life	Champion	IB	Germany	Oct-08
Baloise Life	RentaSafe	WB	Switzerland	Oct-08
Allianz	Invest4Life	WB	France	Oct-08
AXA	Twinstar	WB	Switzerland	Nov-08
MetLife	Citi VA Investment Bond	WB	UK	Jan-09
Aegon / La mondiale	Terre d'Avenir	WB / DB	France	Jan-09
MetLife	Citi VA Auvida	WB	Greece	Feb-09
Allianz	Invest4Life	WB	Italy	Feb-09
ING	Lifelong Income	WB	Belgium	Feb-09
	Guarantie Investment			
Canada Life	Rente	WB	Germany	Mar-09
Swiss Life	Exclusive Invest DWS	AB	Germany	Apr-09
MetLife	Citi VA Auvida	WB	Spain	May-09
MetLife	Citi VA	WB	Belgium	May-09
AXA	AXA pensiones privilege	AB / DB	Spain	Jun-09
ERGO	Versorge Invest Plus	AB	Germany	Jun-09

Members will be aware that Lincoln in the UK has recently been bought by Sun Life Financial, a Canadian insurer, and hot off the press is the “news” (or should that still be “speculation” at this stage?) that LV= may be launching a VA product soon, in addition to the recently reported “news” that it is also developing a fixed-term annuity, similar to that marketed by Living Time. So clearly there is activity “bubbling under” and we all are looking forward to seeing the next moves/launches and how they will be addressing customer needs.

Market statistics are not readily available from most countries, but the aggregate Q2 2009 data for the UK market was recently published (with thanks to Watson Wyatt). Sales of variable annuities fell by only seven per cent in the second quarter of 2009 in spite of a challenging environment (including, for instance, the closure of Hartford Life to new sales). Second quarter VA sales in the UK were £343.7 million compared to the first quarter total of £370.2 million. Second quarter sales in 2009 however matched those achieved in the last quarter of 2008. So it is looking likely that total sales in 2009 will again exceed £1 billion. For further information about this, please contact jeremy.nurse@watsonwyatt.com in the first instance.

Resource Centre – Discussion Forum and Wiki User Guide

As a reminder, the discussion forum/wiki is managed under the Knowledge Area Network which is a separate secure site to the Actuarial Profession's website, and can be found at:

<http://kan.actuaries.org.uk/Wiki%20Pages/Home.aspx>

There is a link to the site under the popular links section of the main website. When you get to the site you will not automatically see the Variable Annuities forum, as you need to sign in - the sign-in icon is at the top right of the page. Once you sign in, if you click on the "Life" area in the top banner a link to our forum will appear on the left hand side of your screen.

For those looking for a more detailed exposition, please refer to the user's guide included in the June newsletter.

Vacancies – Operations and Events Manager

Another reminder - the Management Committee would still like to appoint a member to take on the role of organising and co-ordinating relevant VA meetings and events. The person will provide a pivotal link and liaison between the MIG, the profession and other host societies where we look to hold networking and sessional meetings. We are open to volunteers whether from the general membership or from the existing management committee, and the successful candidate will become a member of the Management Committee and its operating sub committee.

We are always happy to hear from others who are willing to contribute towards our ongoing efforts, so please feel free to contact Rachel Smith at rachel.smith@actuaries.org.uk if you would like to get involved with the MIG in any other way.

Upcoming Events

Members will be pleased to know that the MIG has secured a "Hot Topics" slot at the forthcoming Life Convention in Edinburgh next November, as well as there being a number of other scheduled sessions being run that will be of interest. If you have anything you would like others in the MIG to be aware of, please contact pedro.ortiz@alico.com or jeremy.nurse@watsonwyatt.com.

Recent Publications

Due for publication in October, "Variable Annuities: A Global Perspective" appears to be a tour de force on the VA topic and is being sold on line at http://riskbooks.com/Insurance/variable_annuities.php.

The publication has been edited by Tigran Kalberer (KPMG) and Kannoo Ravindran (Annuity Systems) which includes contributions from the frontline practitioners in the Industry. I will do my best to twist Ravi's arm into providing a complimentary copy or two and will look to organise a quiz or competition off the back of this in the next month or so.

In terms of what else is of interest out there, can I put in a plug for the Morgan Stanley weekly research piece "Fat Tail Friday", issued by the Research Team in London headed by Jon Hocking. The weekly notes are always insightful and on topic and just the thing to start off Friday mornings. A recent edition (4th September) included an interesting analysis of the return opportunities for shareholders providing with profits products in a proprietary company setting. In particular the report looks at the regional variations in the efficiencies for both the policyholders and the shareholders, and illustrates some interesting outcomes. It also posits that perhaps non profit guarantees may be a better way of delivering value to all stakeholders, so well worth a read if you can get your hands on it. For those with Bloomberg you should be able to pick it up handily enough, for those without access to Bloomberg I am sure other direct or indirect approaches can be used.

If you have also read anything of interest recently that may be usefully disseminated to the rest of the MIG then please feel free to contact James Maher with details at jmaher@nexgenfs.com.

Practice Area Bulletin

Nothing further to add at this stage, but watch out for forthcoming input from the Product, Pricing and Opportunity practice area!