Best Practice in Managing Participating Business
Aiza Yasmin Benyamin

30 April 2018

Feedback
- Overall, too many words.
- Also, the flows need to be improved as it does not link from one section to another.
- 37 slides for an hour presentation.
- More diagrams in some of the sections may help in the presentation.
- The conclusion needs to provide reader with the consequences and/or benefits.

Agenda for today
- Share the nuances of Thailand’s participating insurance market
- Explain the concept of TCF & PRE
- Suggest improvements that insurers in Thailand can make in managing their par business ‘fairly’ with reference to global best practice.

CAVEAT: Opinions expressed here are presenter’s own and may not reflect the view of her employer or the Institute of Actuaries

1) Develop an understanding of the Thai participating insurance market & contrast that against the practice in other markets
Thailand’s current regulations

1. Participating Life Policy Regulation Framework
2. OIC Premium Regulation
3. OIC Cash Value (CV) Regulation
4. RBC Framework

Key Features of Thailand’s Participating Insurance Market

- Small Bonus Loading
- Wide Variation in Participating Feature
- Dividends can be Formula Based or Discretionary
- Par Fund is not segregated

Definition of Participating Business

<table>
<thead>
<tr>
<th>Thailand</th>
<th>United States (U.S)</th>
<th>United Kingdom (U.K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any product paying benefits more than the guaranteed amount stated in its policy contract where the guaranteed amount is defined based on: 1. Based on reference index or other investment variables, but not based on company’s performance. 2. Based on company’s performance or investment return and other company indicators, divided into paying benefit by cash and increasing sum assured.</td>
<td>Policy that pays dividends to the policyholder as if he was a shareholder. Dividends are paid as a portion of the insurance company’s profits. The amount of dividend declared is calculated based on a formula that takes into consideration the investment performance of the fund, mortality and lapse experience as well as the expenses incurred.</td>
<td>Long-term insurance contract which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the firm’s business or from a particular part of the firm’s business. There exists 2 types of participating policy in this context: 1. Conventional/traditional with profit. 2. Unitized/Accumulating with profit. The amount of bonus for all participating policy is at the discretion of the insurer.</td>
</tr>
</tbody>
</table>
U.K. Practice

- Principles and practices of Financial Management ("PPFM")
- Establishment of a with-profits committee which report directly to the Board.
- A with-profits actuary is also required by regulation to advice on all discretionary aspects of the with-profits issues, including bonus rates.
- 10:90 rule on bonus distribution
- Segregated Insurance Fund

Malaysia Practice

- Management of Participating Business Policy ("MPB")
- Bonuses determined by Appointed Actuary subject to future sustainability and guided by asset share. Strict regulatory rules apply.
- 10:90 rule on bonus distribution
- Segregated Insurance Fund

U.S. Practice

- Require sign off by an actuary before product launch
- An illustration actuary must test that the current dividend scale being used in a sales illustration is sustainable.
- Marketing materials are reviewed by state insurance departments
- No separation of funds required unless "demutualized"
2) What does it mean.. Treating Customers Fairly?

Treat Customers Fairly (TCF) in UK

Desired consumer outcomes of TCF

1. Confident with firms where fair treatment of customers is central to corporate culture
2. Retail products and services meet needs of identified targeted consumer groups
3. Clear information and appropriately informed before, during and after point of sale
4. Suitable advice considering consumers’ circumstances
5. Products and services perform as firms have led consumers to expect
6. No unreasonable post-sale barriers to change product, switch provider, claim or complain

Source: FCA outlines 6 core outcomes of TCF
http://www.tcfinfo.co.uk

The UK Experience on initial implementation

Change of mindset amongst firm leadership.
CEO endorsed the programme and set the right tone.
Received regular data on consumer complaints and redress.
TCF measures used to influence performance incentives

Left it all to compliance department or external consultancy.
Feedback was neither presented nor understood at board level.
Treating Customers Fairly
Applies to the Entire Life Cycle

Primary colour palette
G69  B72
G163  B42
0 G132  B82
G179  B162
G156  B200
G179  B225
G118  B207
G70  B147
G69  B140
G30  B69
G116  29
R63  G69  B72

Secondary colour palette
G52  B88
G171  B22
G150  B184

Bonus declaration of Par products and Policy Owners' Reasonable Expectations (PRE)
After sales service, complaints & claims

Treating Customers Fairly
An Example when Developing Insurance Products

Marketing propose a product
Product Committee
Product Design & Actuarial Profit Test
Full Disclosure of Key Information
Communication with Simple Language
Full Disclosure of Key Information
Communication with Simple Language
Equitable Fees & Charges
Product Suitability
Target Market
Complaints Procedures
Qualified Agents
Safeguard customers' information

Marketing propose a product
Product Committee

Product Design & Actuarial Profit Test
Full Disclosure of Key Information
Communication with Simple Language
Equitable Fees & Charges
Product Suitability
Target Market
Complaints Procedures
Qualified Agents
Safeguard customers' information

Asset share & bonus payout

In Malaysia & UK, meeting TCF implies paying out asset share to par policy owners. Below is a simplified example of an asset share formula.

Premiums Paid
Reductions: e.g. commisions & expenses, death & survival benefits, transfers, tax
Earned Investment Return
Asset Share

Actual payout normally target a range of the cohort's asset share – implying payouts are smoothed. Further, there may be charges for guarantees and use of capital.
3) What about Customers Expectation?

Policy Owners’ Reasonable Expectations (PRE)

PRE concerns the policy owners’ expectations on how the non-guaranteed benefits of par policies are managed and paid.

Bonus Smoothing

<table>
<thead>
<tr>
<th>Bonus</th>
<th>Pay higher bonus</th>
<th>Pay lower bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Competitive position</td>
<td>Risk cushion</td>
</tr>
<tr>
<td>Cushion against adverse experience</td>
<td>Shareholders transfer</td>
<td>Manage expectations</td>
</tr>
</tbody>
</table>

Premium rates in par product contain margins.
**Regulations on Communications**

<table>
<thead>
<tr>
<th>U.K.</th>
<th>U.S.</th>
<th>Malaysia</th>
</tr>
</thead>
</table>
| The firm should consider the rules on communicating with clients and ensure it is fair, clear and not misleading. Communication with policyholders may take place at three different stages:  
- Pre-contractual stage  
- Entering into the contract  
- During the term of the contract | An insurer shall provide to a policy owner the current scale of non-guaranteed elements no later than the date of issue, either in the policy application, illustration of the policy as sold, or a special disclosure document in a manner that will allow an easy comparison to the corresponding guarantees. An insurer shall provide a disclosure document to a policy owner at least 60 days prior to any adverse change in the current scale of non-guaranteed elements. | The insurer must ensure its communication strategies are developed and appropriately tailored to manage specific expectations of different groups of stakeholders. Communication with policyholders may take place at three different stages:  
- Pre-contractual stage  
- Entering into the contract  
- During the term of the contract |

The regulator also prescribes the format at which sales materials should be presented such that the benefits offered under each policy is comparable between companies.

---

**4) Applying TCF principles for the Thai Market**

Moving beyond regulatory compliance to a focus on good customer outcomes
Certain product features would require segregation of the par fund:

- Pricing on Formula Approach (NPV)
- Small bonus loading in pricing
- Formula Driven Dividends
- Discretionary benefits

Illustrations at point of sale should be encouraged:

Illustrations at point of sale should be encouraged, but in line with other jurisdictions and best practice, should be delegated to a body with appropriate responsibility.

Regulated sales illustrations:

- 2 illustrated rates are required with company discretion

Illustration Actuary (US)?

Determined by Management / CEO?
Timing of communications with policyholders

<table>
<thead>
<tr>
<th>Maturity Benefit Statement</th>
<th>When expectations for bonus payouts change</th>
<th>Annual statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available on request</td>
<td></td>
<td>Given to all PAR policyholder</td>
</tr>
</tbody>
</table>

Management Participating Fund Policy Disclosure

<table>
<thead>
<tr>
<th>Internal and regulatory use only</th>
<th>&lt;Options&gt;</th>
<th>Available publicly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Comprehensive document</td>
</tr>
</tbody>
</table>

Management of Participating Fund Policy

<table>
<thead>
<tr>
<th>Aim</th>
<th>Payment methods, bonuses, and smoothing (if any)</th>
<th>Investment Strategy</th>
<th>Profit-sharing arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Improving transparency and governance in managing the participating business</td>
<td>Description of method used to assess the amounts payable to with-profits policies</td>
<td>Description of the investment strategy including matching and risk appetite</td>
</tr>
</tbody>
</table>
Moving beyond regulatory compliance to a focus on good customer outcomes

How to improve?

• Formalise policy on how the par fund is managed and bonuses are determined
• Improve communications with policyholders
  – On illustrations at point of sale
  – On-going communications to manage PRE
• Case for par fund to be segregated

Summary

• Why improve?
  – Ability to demonstrate that in line with global best practice, the participating funds are managed “fairly”
• Potential consequences of poor practice
  – Regulatory intervention
  – Being sued by policyholders

Questions

• Contact: aiza.benyamin@actuarialpartners.com