Introduction

• History
• Simplifications programme
• Moving endowments to prospective
• Questions
History

- Sun Life Group demutualised in 2000
- 3 small funds have converted to non-profit
- SLOC With-Profits Fund:
  - Medium-sized, 100% / 0% fund
  - Whole of life with some GMDB
  - Endowment quickly running off
  - Pension with high guarantees.
Reasons to significantly simplify

Customers benefit
- Reduced cost
- Fairer distribution of assets.

Shareholders benefit
- Reduced monitoring
- Simpler and easier to understand.

Benefits of complexities no longer material

Simplifications of the SLOC With-Profits Fund

- Reduce frequency of WPC reports
- Simplify investments
- De-risk pension liabilities
- Fully distribute inherited estate
- Pension hedging

- Endowment prospective bonus
- Simplified management action plan
- Frequency of WPC and WPMG meetings
- Life fixed interest investment strategy
- Expenses

- Discontinue Life Consumer Guide
- Cease stochastic modelling
- Reduce frequency of risk appetite measure monitoring

2016 2017 2018
Changes to simplifications programme

• Some ideas came to us later
• Changed the order
• Retained frequency of customer outcomes WPC paper
• Retained Segregated Sub-Fund
• Renewed expense cap agreement.

Moving endowments to prospective
The need for change
Endowment bonuses – current asset share approach

- AS calculated for each maturing endowment policy, accruing premiums paid less cost of life cover, commission paid and expenses incurred (net of tax relief), using asset investment returns
- Policies including AS are grouped by duration at maturity, using 5-year groupings
- Terminal bonus rates are set by comparing projected guaranteed benefits to projected AS, by groupings.

Endowment bonuses – the need for change

- Few policies in some groupings
- Hand smoothing of terminal bonus rates required to mitigate volatility between bonus years and policy years
- Led to subjectivity and manual intervention: we used expert judgement to ensure that terminal bonus scales appear reasonable and in order to achieve target of 90% of maturity payouts being in 80% - 120% range of AS
- As endowment business runs off further, problem would worsen for all policies.
Endowment bonuses – the BRV method

Aims
• Fair, smooth, stable, predictable and objective customer payouts
• Remove manual intervention
• Reduce effort required – Whole of life already uses BRV
• Reduce expenditure.
Endowment bonuses – the BRV method

How BRV meets these aims

• Terminal bonuses are solved for such that the present value of future liability cash flows = distributable assets
• Terminal bonuses remain unchanged over time should economic conditions meet expectations.

The BRV method – how it works

Current BRV methodology used for Whole of Life

• TBs are solved for by setting an initial terminal bonus scale and scaling it using a parameter $\lambda$
• $\lambda$ is solved for at each bonus declaration and is the same for all policies.

$$\text{whole of life assets} - \text{current liabilities} - \text{Solvency Capital Requirement} - \text{Risk Margin} = \sum_{i=\text{policy}} \left[ (1 + \lambda) \cdot (1 + TB_i) \cdot (SA_i + RB_i) \cdot \dot{A}_i - (P_i - E_i) \cdot \dot{a}_i \right]$$
The BRV method – *for Endowments*

Considerations:

- Separate calculation to whole of life?
  - Separate assets backing endowment and whole of life business and solving for *two values of $\lambda$*
  - Leads to a *tontine effect*.

- Proposal is to use one calculation for both endowment and whole of life business
  - Single pot of assets and *single $\lambda$*
  - Cross-subsidy between whole of life and endowment.

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Moving endowments to prospective

Bonus scales and design constraints
Design constraints

- Minimise cross-subsidy between whole of life and endowment, and where possible between sub-groups therein
- Minimise number of endowment policies whose benefits are materially impacted by the move from AS to BRV
- Minimise the number of whole of life policies whose benefits are materially impacted by combining the endowment and whole of life policies.
- Terminal bonuses will increase for any one policy from each policy year to the next, unless this would create material cross-subsidy between sub-groups
- Initial total BRV for endowments is set equal to total AS.

Terminal bonus scales
Endowment prospective (BRV) vs AS bonus

Terminal bonus scales in 5 years

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Conclusion

- Simplifications programme
- Moving endowments to prospective
- Benefits
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