



Society of Actuaries in Ireland

Reporting Compliance with the new With-Profits Operating Principles

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Types of With-Profits business

- Conventional with-profits
- Unitised with-profits
- Continental style with-profits
- Other



Conventional With-Profits (CWP)

- Also known as Traditional With-Profits
- Guaranteed Sum Assured on death or at maturity
- Typically for RP policies Sum Assured = Sum of Premiums
- Annual reversionary bonus increases guaranteed benefits
- Terminal Bonus (TB) may be added at claim/maturity
- TB set based on Asset Shares; rate varies by policy start year
- Surrender values typically not guaranteed
- Alterations are complex



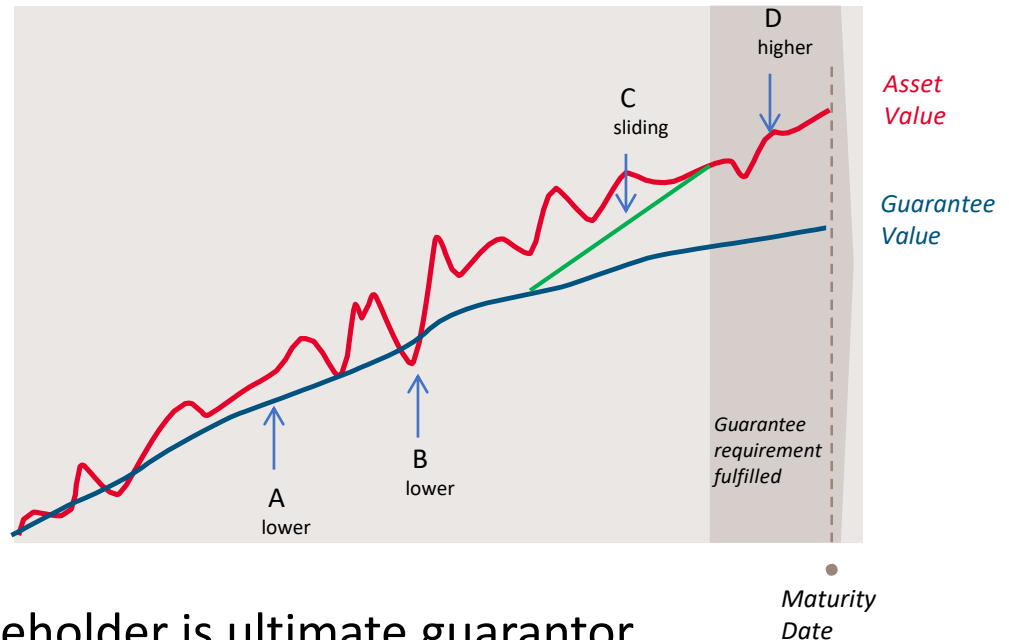
UK style Unitised With-Profits (UWP)

- Each premium paid purchases units in UWP fund
- Fund price increases at declared Regular Bonus (RB) rate
- Fund price cannot reduce, may have minimum RB rate
- Final Bonus (FB) may be added at claim/maturity
- FB set based on Asset Shares; rate varies by year of unit purchase
- Market Value Reduction (MVR) may be applied on surrender where Asset Share less than value of units
- No MVR on Death or Maturity



Continental style UWP

- Each premium paid purchases both Asset Fund (AF) and shadow Guarantee Fund (GF) units in UWP fund
- AF price based on asset value – similar to Unit-Linked
- GF price increases at declared Regular Bonus (RB) rate
- GF price cannot reduce, may have minimum RB rate
- Higher of AF and GF value at/ near maturity (D) or on death
- Lower of AF and GF value on early surrender (A, B)
- Sliding scale from 'lower' to 'higher' when AF exceeds GF (C)
- Fund pays less than Asset Value (A) or more (if GF value exceeds AF value and guarantee requirement is fulfilled), but shareholder is ultimate guarantor





Other With-Profits business

- With-Profits Annuities
- Smoothed performance fund
- Other?



Areas of discretion

- Bonus and Smoothing
- MVR and Surrender Value Basis
- Investment strategy
- Expense attribution
- New business
- Inherited estate



Drivers for new requirements

- Requirement for WPOP introduced in CP122

“The Central Bank has developed these requirements to ensure continued protection of fund members and improved risk management of With-Profits funds in light of the expected increase in volume of this business in Ireland.”

- Volume increase driven primarily by Brexit related transfers



CP122 guidance on exemption

- CP122 contained guidance criteria for exemption
- Value of liabilities of fund < €0.5bn
- Number of fund members < 10,000
- Whether fund is closed to new increments or new members.
- These criteria were not included in the final requirements in the Domestic Actuarial Regime (DAR).
- CBI review each application for exemption on a case-by-case basis.



HoAF survey results

- 5 HoAFs responded that the companies they were HoAF of have WP business.
 - o 3 have UK style WP business
 - o 1 has Continental Style WP business
 - o 1 has Unitised With-Profits (UWP) business
- 1 company needs to comply from 1/1/2019
- 3 companies need to comply from 1/1/2020
- 1 company is exempt from the WP requirements of the DAR
- The company that is exempted has received a derogation from the CBI
- 1 company that is not currently exempt intends to apply for a derogation from the CBI



Situation in Ireland

- Broadly three categories:
 - o WP fund managed locally
 - o WP benefits reinsured to a Group company
 - o WP benefits reinsured to an external company



Definitions in the DAR

“With-Profits policy” as referred to in these Requirements relates to a contract of long–term insurance (not reinsurance), which provides benefits through eligibility to participate in discretionary distributions based on profits arising from a (re)insurance undertaking or from a particular part of a (re)insurance undertaking’s business;

“With-Profits Operating Principles (WPOP)” as referred to in these Requirements is a publically available document written and maintained by the (re)insurance undertaking, which details the principles by which the (re)insurance undertaking manages its With-Profits portfolios. The WPOP contains enduring statements of the standards that the (re)insurance undertaking adopts in managing its With-Profits portfolios;

“With-Profits fund member” as referred to in these Requirements relates to any With-Profits policyholder invested in a With-Profits fund.



WPOP contents

- Benefits, including bonus rates and smoothing
- Investment strategy
- Business risk
- Charges and expenses
- Equity between policyholders and shareholders



WPOP compliance reporting requirements

- ARTP must include HoAF opinion on compliance of TPs
- Annual HoAF report to Board
- Annual HoAF recommendation on allocation of profits
- Annual Board report to policyholders



ARTP compliance of TP with WPOP

- Asset share values consistent with corresponding assets
- Investment return credited to asset shares
- Appropriate treatment of revenue items
- Projection to point of claim consistent with bonus setting
- Annual bonus reflects current approach
- Final bonus consistent with AS and smoothing policy
- Surrender values consistent with current policy & MVR
- Modelled investment strategy consistent with actual
- Modelled management actions consistent with plan



HoAF report to the Board

No less frequently than once per year - HoAF's opinion on:

- Ongoing compliance of WP funds with WPOP principles
- Any discretion exercised by the Board re WP funds
- Management of conflicting interests between WP fund members and shareholders
- Any further information that the HoAF deems relevant to WP fund members
- Recommendations on any allocation of profits related to WP fund policyholder rights (can be separate report)



Board report to policyholders

- Annual report to all With-Profits fund members
- Within six months of the end of the financial year
- Available on the website, or in writing if requested
- Annual fund statement to tell WP fund members where to obtain the annual report
- Board's opinion on consistency over previous year of management of WP fund with WPOP principles
- Also refers to HoAF's report and calls out any exceptions mentioned by HoAF



Questions

Please click on the Hands Up icon
to ask a question
and
wait to be unmuted