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With Profits Funds: consideration of current events including the thematic review

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Agenda

Market Context

FCA Thematic

Areas of focus

Panel and questions





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Market context

22 November 2019

Key Market Stats

	Total 2018 (SFCR ¹)	Total 2017 (TR19/3 ²)
WP BEL*	£258bn	£274bn
WP Premiums**	£14.5bn	£16bn
WP Claims***	£24bn	£23bn

At 2017
With Profits were
approximately
25% of the Unit
Linked Market
(£1,147bn)²

92 funds
37 firms

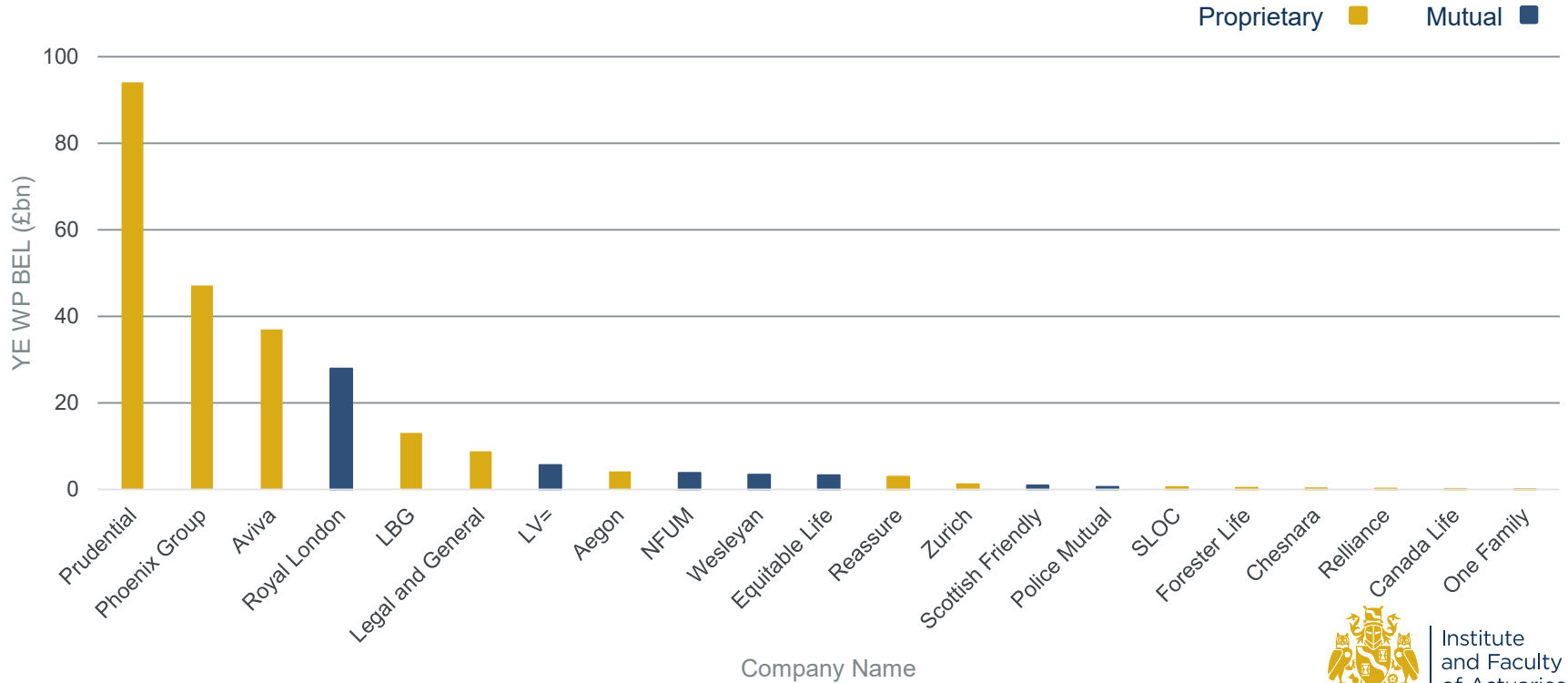
2018 splits	Proprietaries	Mutual/Friendly
WP BEL	£210bn (82%)	£48bn (18%)
WP Premiums	£13.1bn (90%)	£1.4bn (10%)
WP Claims	£20.8bn (86%)	£3.2bn (14%)
Funds	55	37
Firms	14	23

¹ QRTs: S.12.01.02 C0220/R0030, S.05.01.02 C0220/R1510 & R1610

² <https://www.fca.org.uk/publication/thematic-reviews/tr19-03.pdf>



YE 18 With Profits BEL (21 firms/ 76 funds)



Run-off

Source: <https://www.fca.org.uk/publication/thematic-reviews/tr19-03.pdf>

Run-off of with-profits funds



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Market activity

Consolidation

- Sale of Standard Life's insurance company, including a sizeable with-profits book (c£26bn) to Phoenix Group in 2018.
- Canada Life to sell £2.7bn closed book to Scottish Friendly.
- Proposed purchase of L&Gs c£9.1bn with-profits business by ReAssure.

Fund restructuring

- Royal London compromise Guaranteed Annuity Rates (GAR) for two-thirds of Scottish Life with-profits policyholders, each receiving on average a 60% uplift to policy values, £466m in total.
- Equitable Life is proposing to convert guarantees on its with-profits business (c£3.3bn at 31st December 2018) in exchange for an uplift, before converting to unit linked and transferring the business to Utmost.
- LV= is looking to split itself into a with-profits fund and separate Mutual Capital Fund.





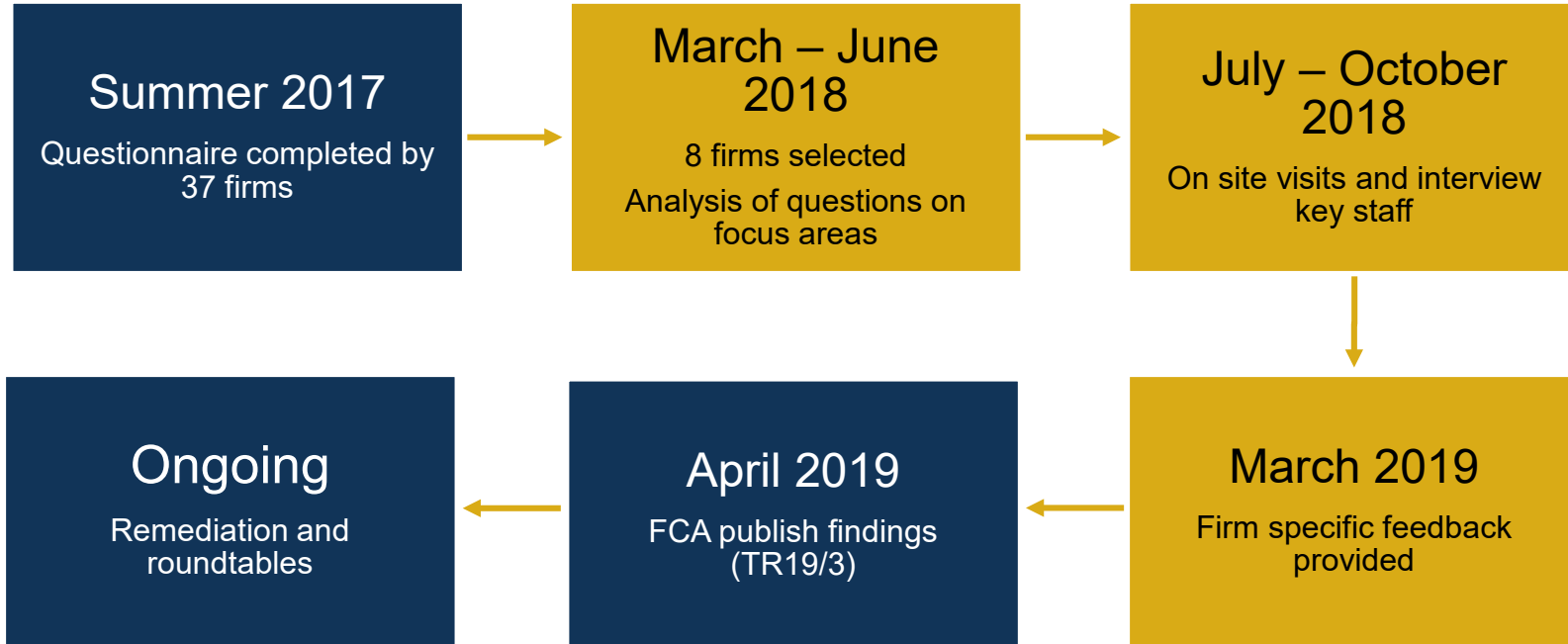
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FCA thematic

Review of the fair treatment of with-profits
customers

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FCA Thematic - Timeline



Key themes

Outcome 1
Investment
Strategy

Outcome 2 & 3
Capital
Management

Outcome 4
Governance
Framework

Value for
money

Run-off plans

Trigger points
for termination

Avoiding tontine
effect

TCF not always
met by historic
court schemes

WPC sufficient
time to
influence
decisions

Sufficient
resource,
especially
multiple fund
organisations



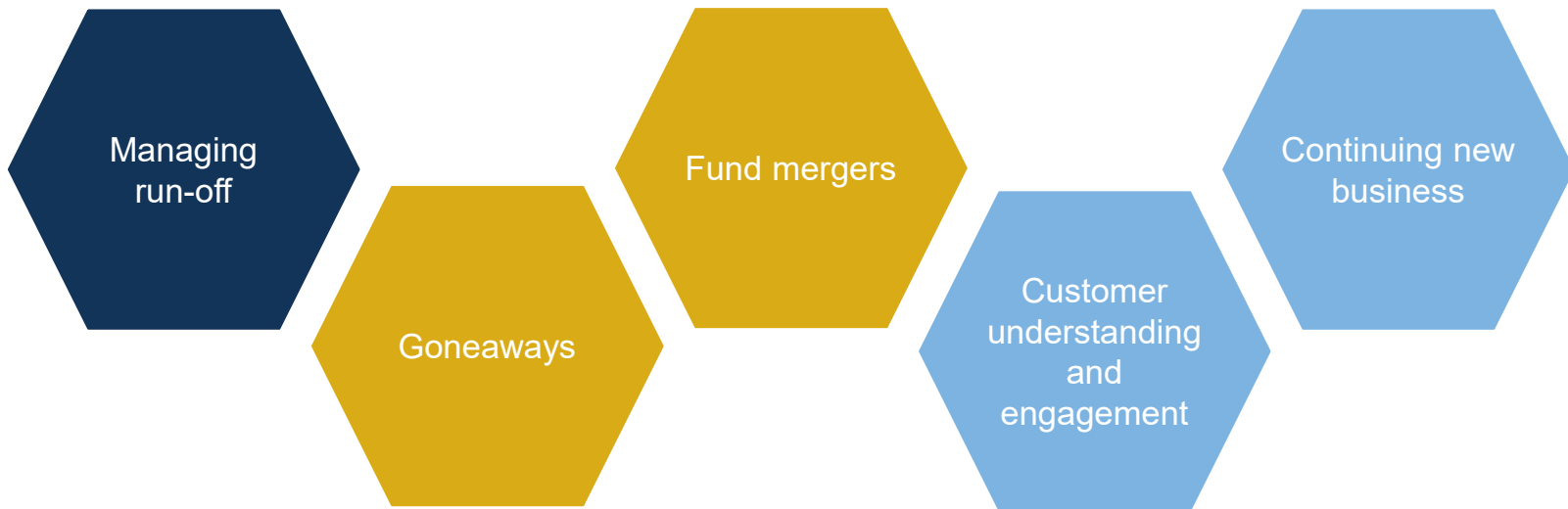
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Areas of focus

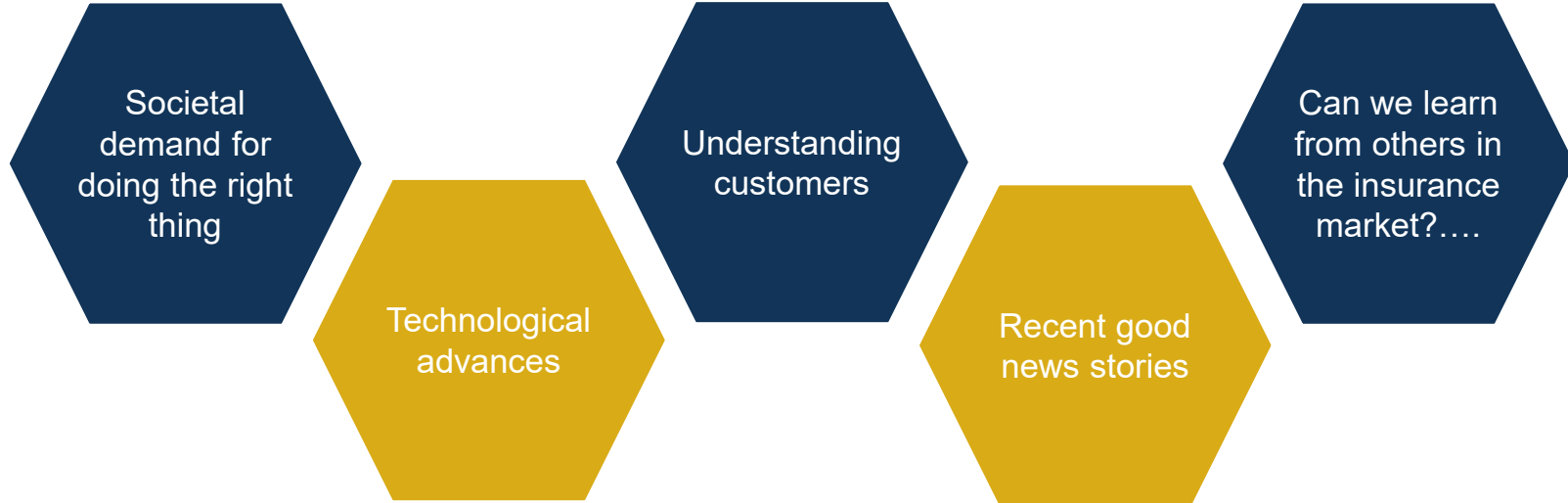
Challenges



- PwC 2019 with-profits survey: 14 firms, 60 funds, £240bn WP BEL.



Opportunities



Lemonade: Who can make this successful in UK life?



01 Background

Lemonade is a US insurance company launched in 2015. Offer contents insurance. Profits are used to fund local charities and initiatives making it a public benefit corporation.

02 Conflicts of interest

By removing the motivation of the insurer to minimise claims the conflict of interest is broken between claimants and the insurer. Using profits to fund common good causes helps to create a community and trust.

03 Transparency

A flat fee is taken from all policies for management, with the rest used as a pool to pay claims. This is clearly explained, along with the operation of the business such as the practice of using Reinsurance.

04 Technology

Artificial Intelligence is used to price policies using robots and algorithms. This allows quick transactions when setting up a policy and claiming. This helps minimise management costs and keeps the process paperless. Particularly popular with the younger generations.

05 Simplicity

The approach leads to a simple and slick customer experience, meaning only a few questions are required to get the cover required and to make a claim. This is all done using smart phones.



Wesleyan areas of focus

Top focus areas

- Product design
- Closed fund run off
- Enhanced modelling capabilities

	Total 2018 (SFCR)
WP BEL	£3.4bn
WP Premiums	£256m
WP Claims	£232m
Funds	2
Open funds	1



Phoenix areas of focus

Top focus areas

- Customers
- Customers
- Customers

	Total 2018 (SFCR)
WP BEL	£47.1bn
WP Premiums	£1.3bn
WP Claims	£5.2bn
Funds	17
Open funds	2



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Panel discussion

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Panel and questions

What changes are you making as a result of the thematic review?

What are your views on the potential for the future of products that have with-profits type features (e.g. smoothing, guarantees)?



Comments

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