

Participating Business: Towards better governance and transparency

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Disclaimer

The views and opinions expressed in this presentation are those of the author and not of the employer he represents.

Agenda

- Recap from 8th and 9th CILA and further developments
- Results of recent survey by Milliman
- Suggested next steps

Recap from 8th and 9th CILA and further developments



Recap from 8th CILA – November 2012

Review of the practices adopted by the industry

- Differing level of internal documentation on financial management aspects
- Level of actuarial oversight on expense allocation varies across companies
- Bonus declarations may be (less common) or may not be (more common) linked to 'asset shares'
- Varying level of external disclosures - especially covering policyholder reasonable expectations (PRE) and what sources of surplus are distributed / otherwise

Discussion on provisions of GN6

- Was a 'draft' under due process then
- Recommended practice

Developments after 8th CILA

- New product regulations by IRDA requiring companies to establish WPC
- Final GN6 issued

Recap from 9th CILA – November 2013

Developments from the UK market (by Nick Dumbreck)

- Historical development of par business – Discretion; downwards movement of interest rates; Equitable Life and related issues
- Requirements for PPFM, TCF
- Potential conflicts for par policyholders against other policyholders (par and non-par), management and shareholders
- With profits committees (WPC) and survey results of WPC chairmen

Governance standards in Asia Pacific and India (by Richard Holloway and Sanket Kawatkar)

- Regulatory requirements around PRE, documentation (Singapore / Malaysia)
- Governance survey results and case studies
- Overview of the applicable governance standard – WPC and requirement to ‘approve asset shares’
- Review of proposed (draft) GN to Independent Actuaries (IA) on WPC
- Review of GN22 (Reserving for guarantees)

Developments after 9th CILA

- A survey was conducted by Milliman to assess the practices adopted in the industry on asset share calculations – and the survey results indicated varying practices and importance of documentation
- GN on IA on WPC is yet to be issued
- One full year completed for existing WPCs

With Profits Committee (WPC)

Is focusing only on asset shares enough?

Scope

- The non-linked product regulations issued in March 2013 require the setting up of a With Profits Committee (“WPC”)
- The role of the WPC is stated to be to approve the asset shares and to produce a report to be appended to the AA’s Report submitted to IRDA
- Asset shares are required to be maintained at a policy level
- Surrender values offered should be consistent with the asset shares
- Two extremes possibilities for the role of the WPC:
 - Restricted to only approval of the asset shares – missed opportunity?
 - Overseeing the management of participating business

**Insurance Regulatory and Development Authority
(Non-Linked Insurance Products) Regulations, 2013**

- c. The detailed working of the asset share, the expenses allowed for, the investment income earned on the fund etc which are represented in the asset share shall be approved by a with profits committee.
- d. With Profits Committee: The With Profits Committee shall be constituted with one independent director of the Board, the CEO, the Appointed Actuary and an independent actuary.
- e. The report of with profits committee shall be appended to the Actuarial Report and Abstract.

Some comments / questions being raised

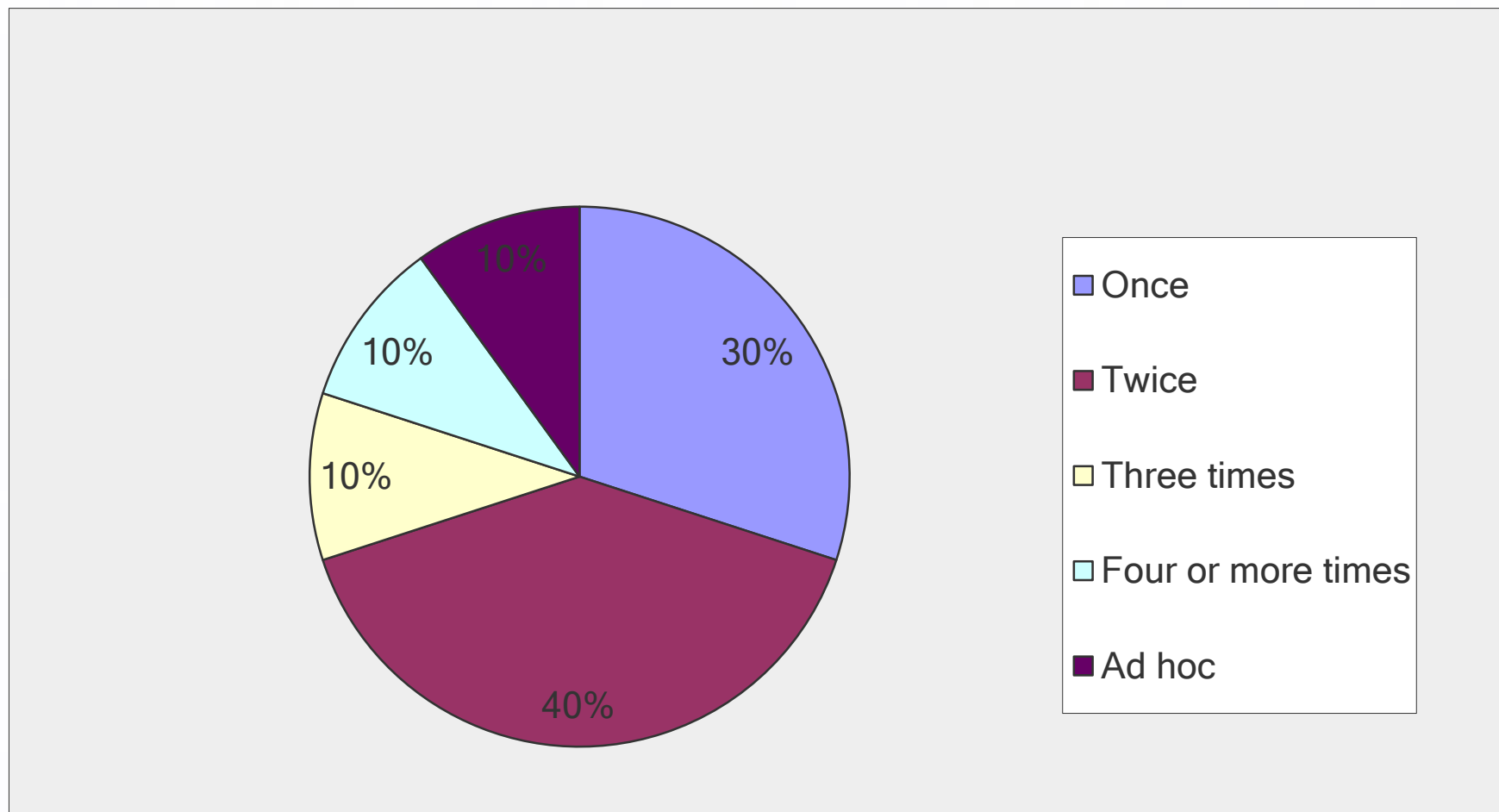
Some comments / views from the industry

- “If other companies aren’t publishing anything, why should we do”?
- “We have only recently started our participating business. Asset share aren’t really relevant as of now, given that the fund is dependent on shareholders’ capital support for bonus payment”
- “Calculating asset shares at policy by policy is very difficult”
- “Gathering historical experience at granular level is very difficult”
- “It is challenging to manage the change from current approach (of not using asset shares) to the proposed approach (of using asset shares) to set bonuses”
- “With all other priorities, documentation always take a backseat”
- “Compliance with GN6 is only a recommended practice”

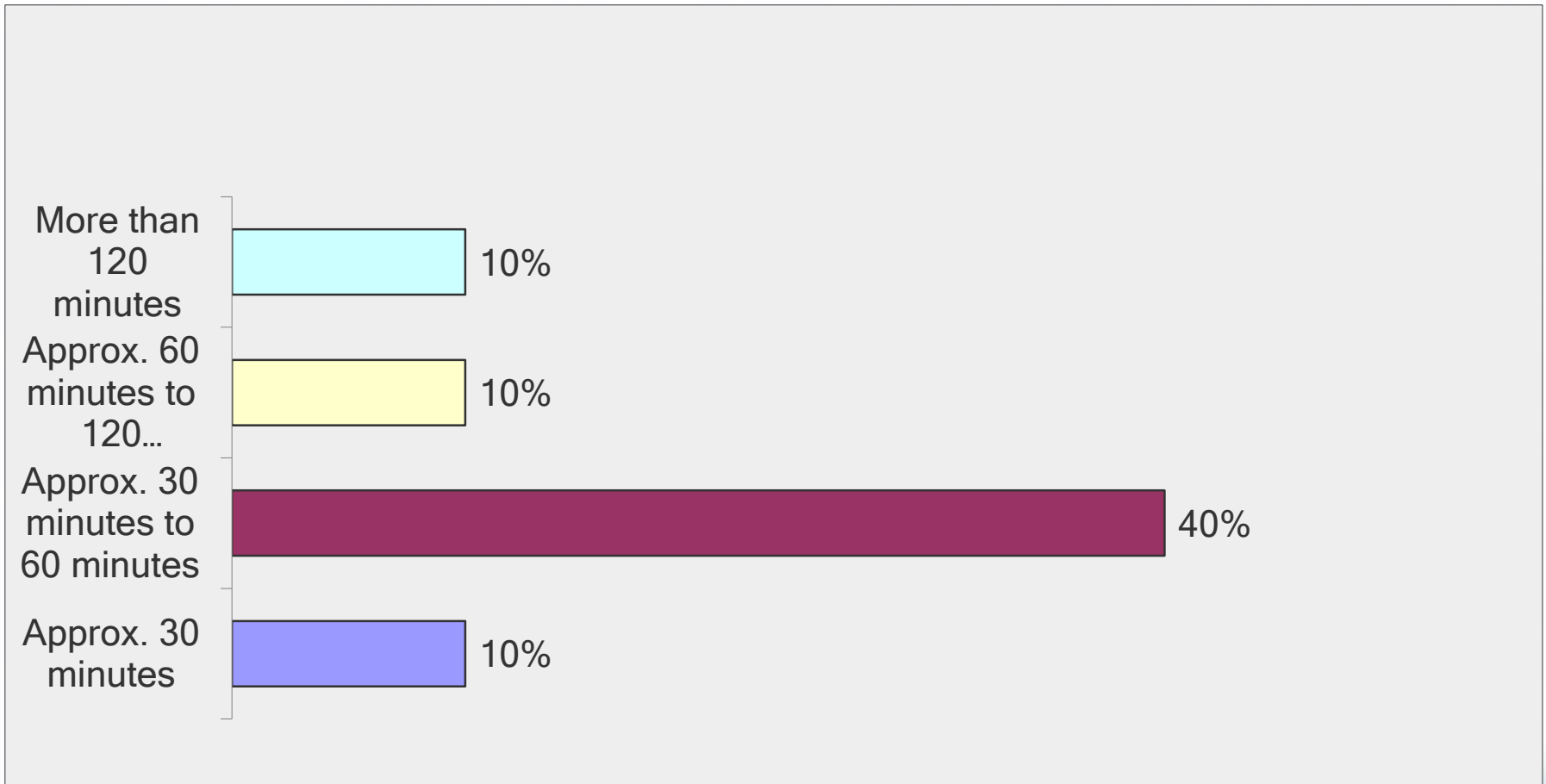
Results of recent survey by Milliman



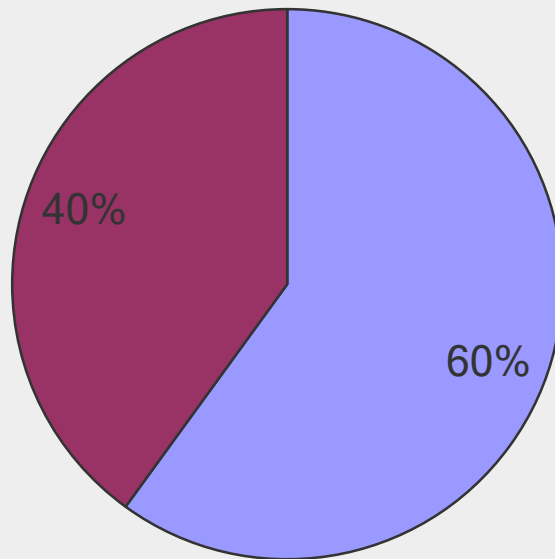
Q1. Please indicate the frequency of meetings of your With-profits Committee (WPC) in each financial year. [Select only 1]



Q2. Please indicate the average length of each meeting of the WPC. [Select only 1]



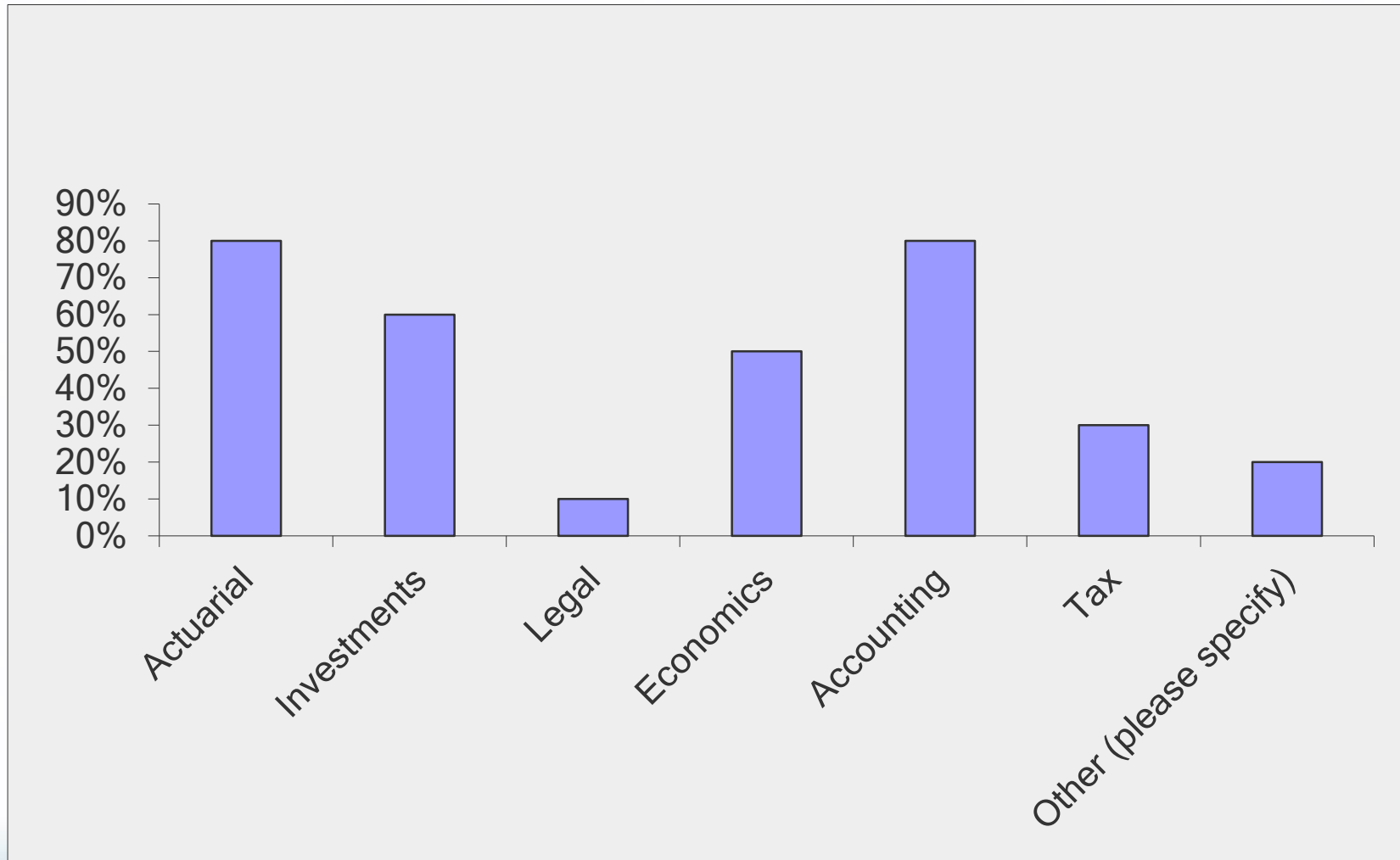
Q3. Has your WPC invited non-members to attend any of the meetings to discuss related matters or provide additional information? [Select only 1]



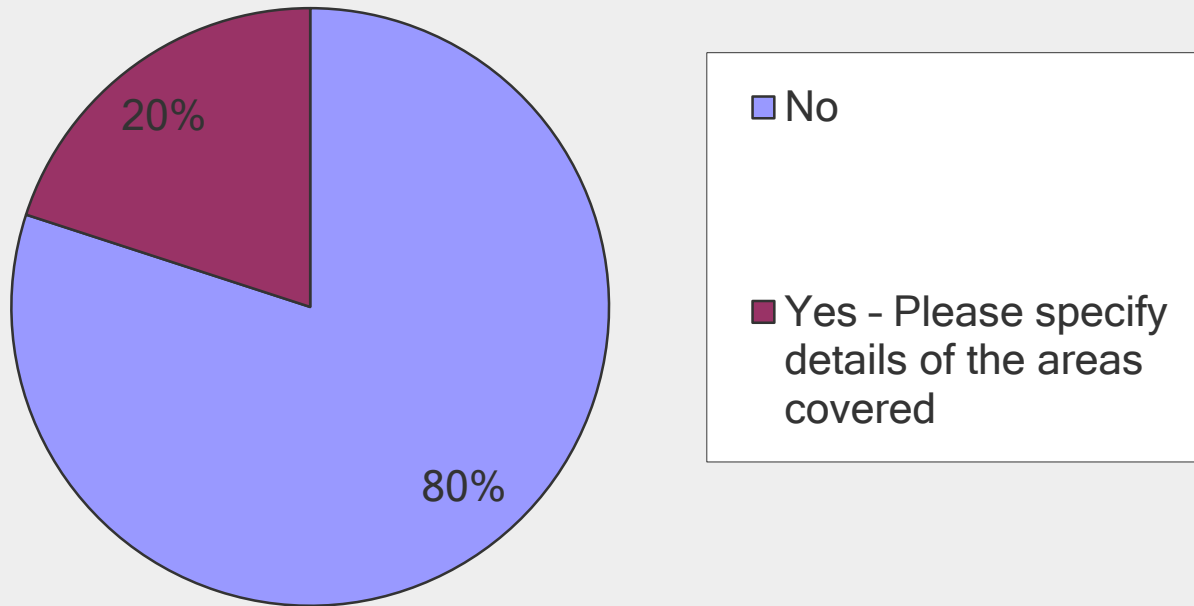
■ No

■ Yes - Please specify which function holders (Distribution / Operations or Customer Care / IT / Legal etc.)

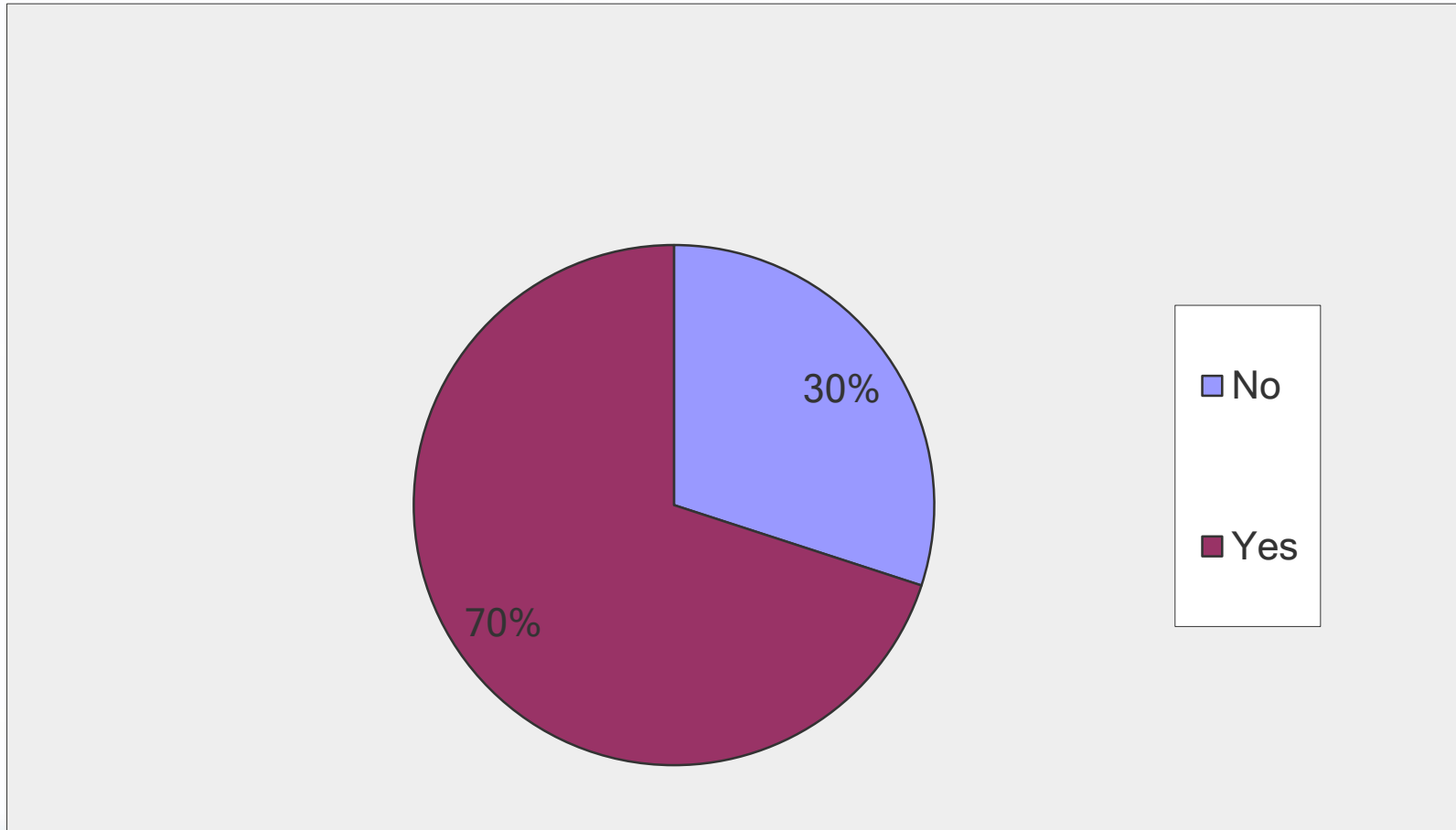
Q4. Which of the following skill sets / expertise already exist amongst the members of your WPC? [Select multiple]



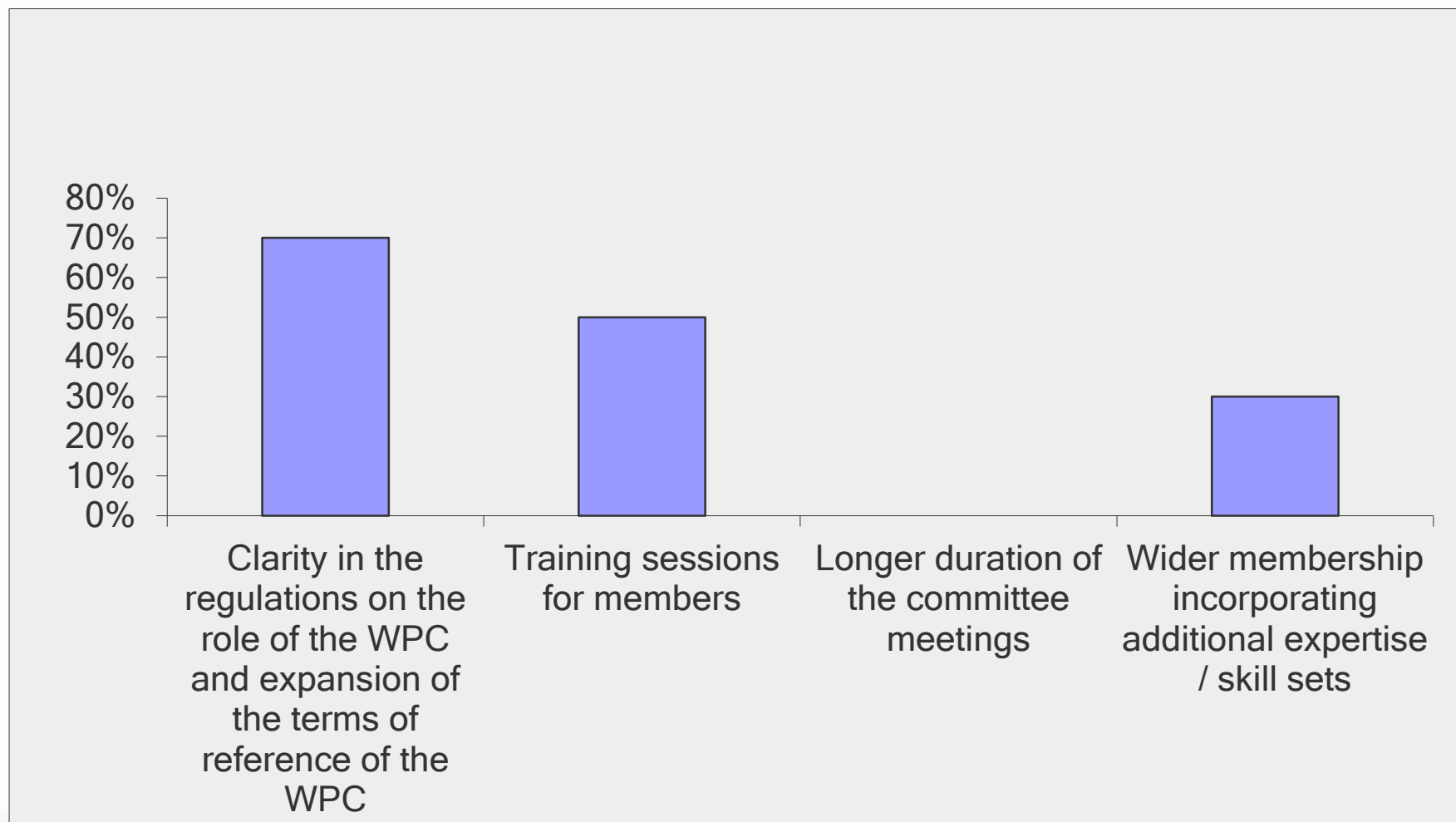
Q5. Have the non-actuarial members of your WPC undergone any formal / informal training to prepare them for their role on the committee? [Select only 1]



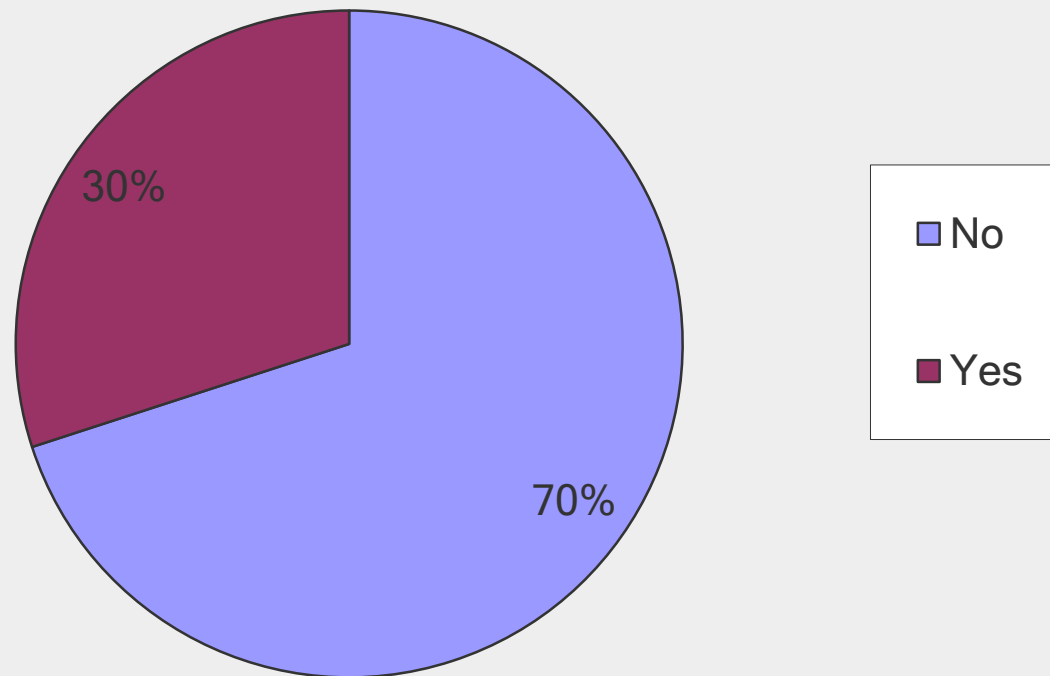
Q6. Do you believe that the WPC has sufficient resources (time, expertise / skill sets, access to company data etc.) to perform its role effectively? [Select only 1]



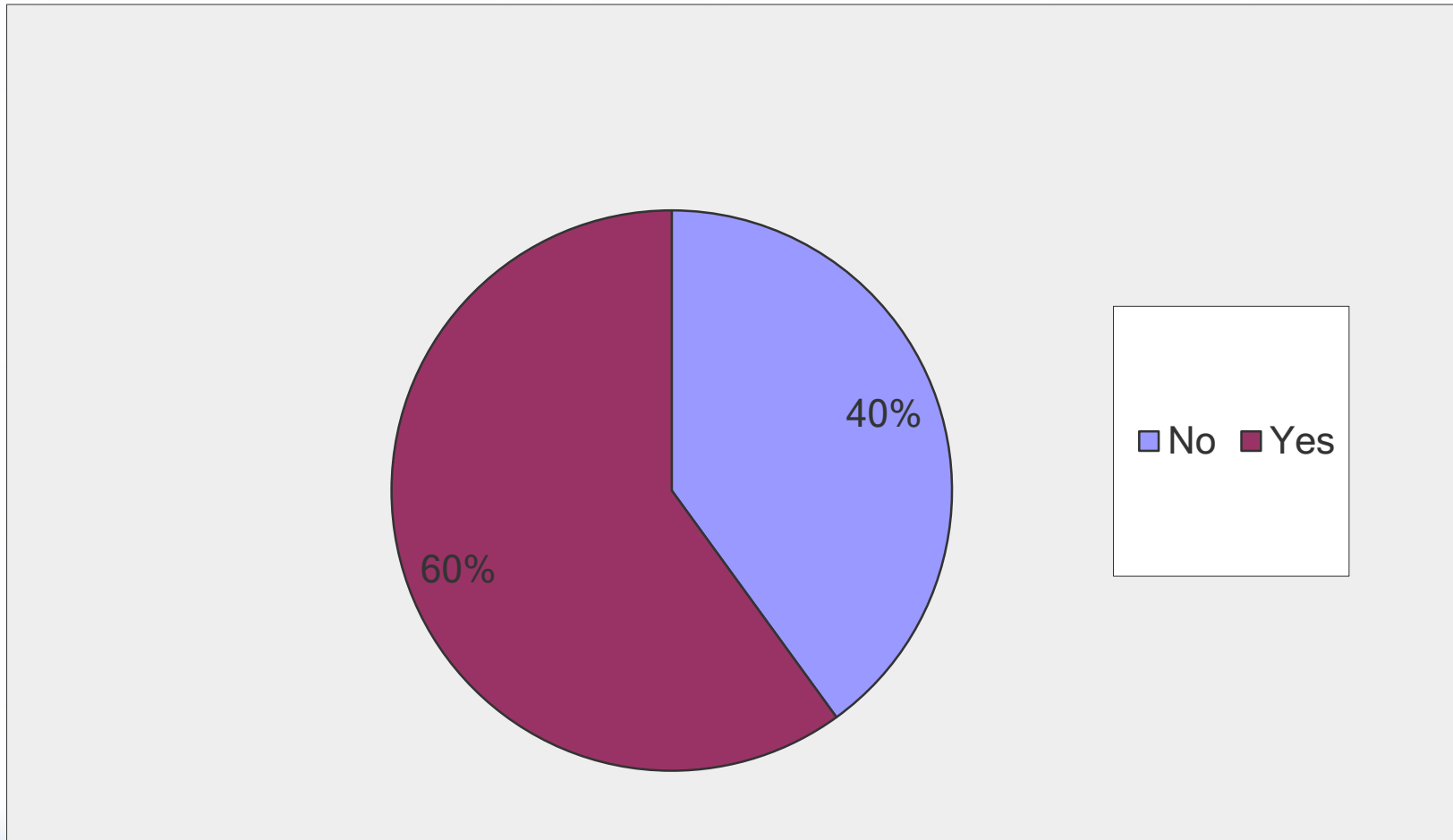
Q7. Which of the following would help improve the effectiveness of the WPC? [Select multiple]



Q8. Do you foresee any potential conflict for the Appointed Actuary to be a signatory to the WPC report? [Select only 1]



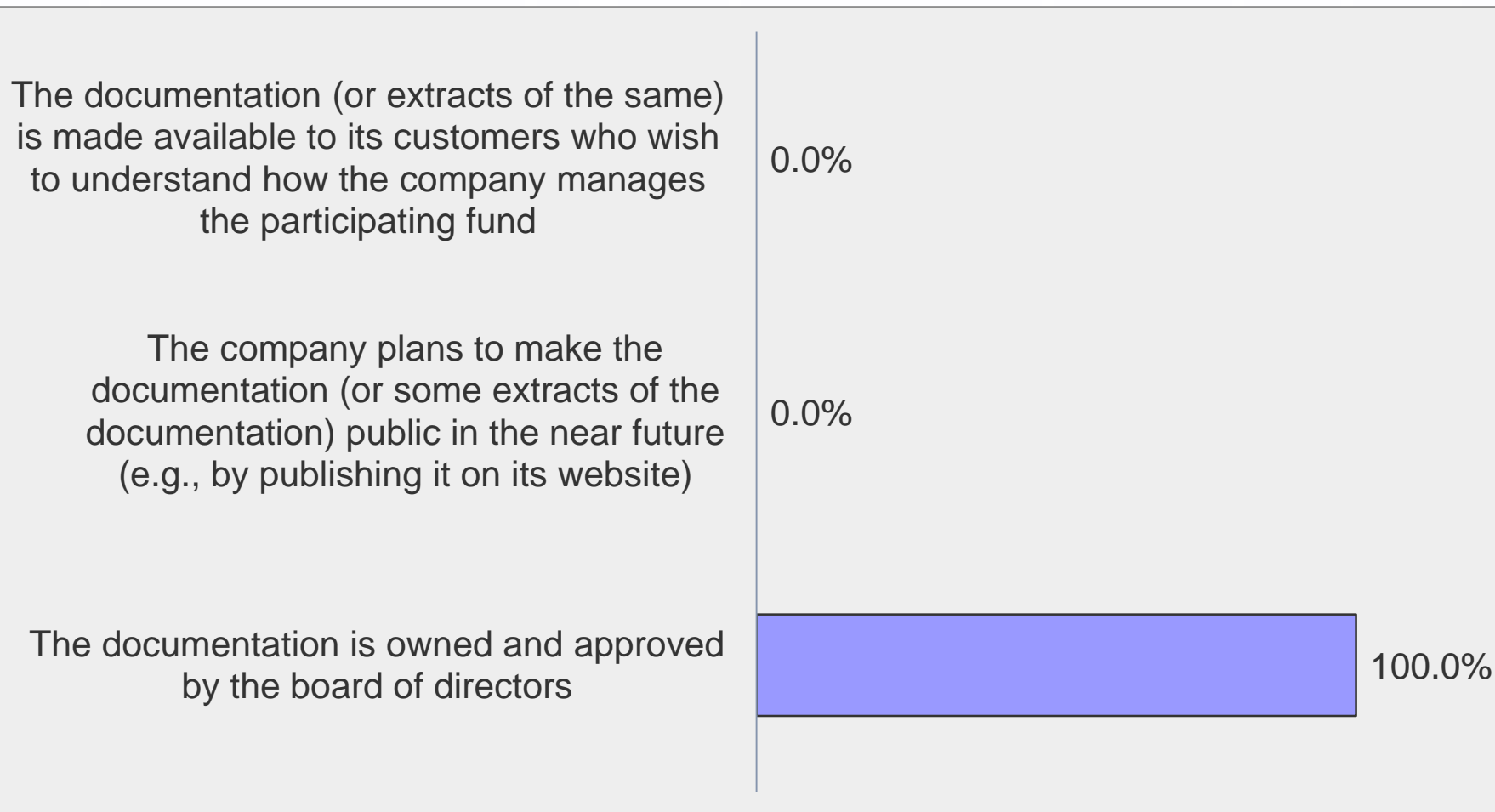
Q9. Has your company developed detailed documentation specifying how participating business will be managed? [Select only 1]



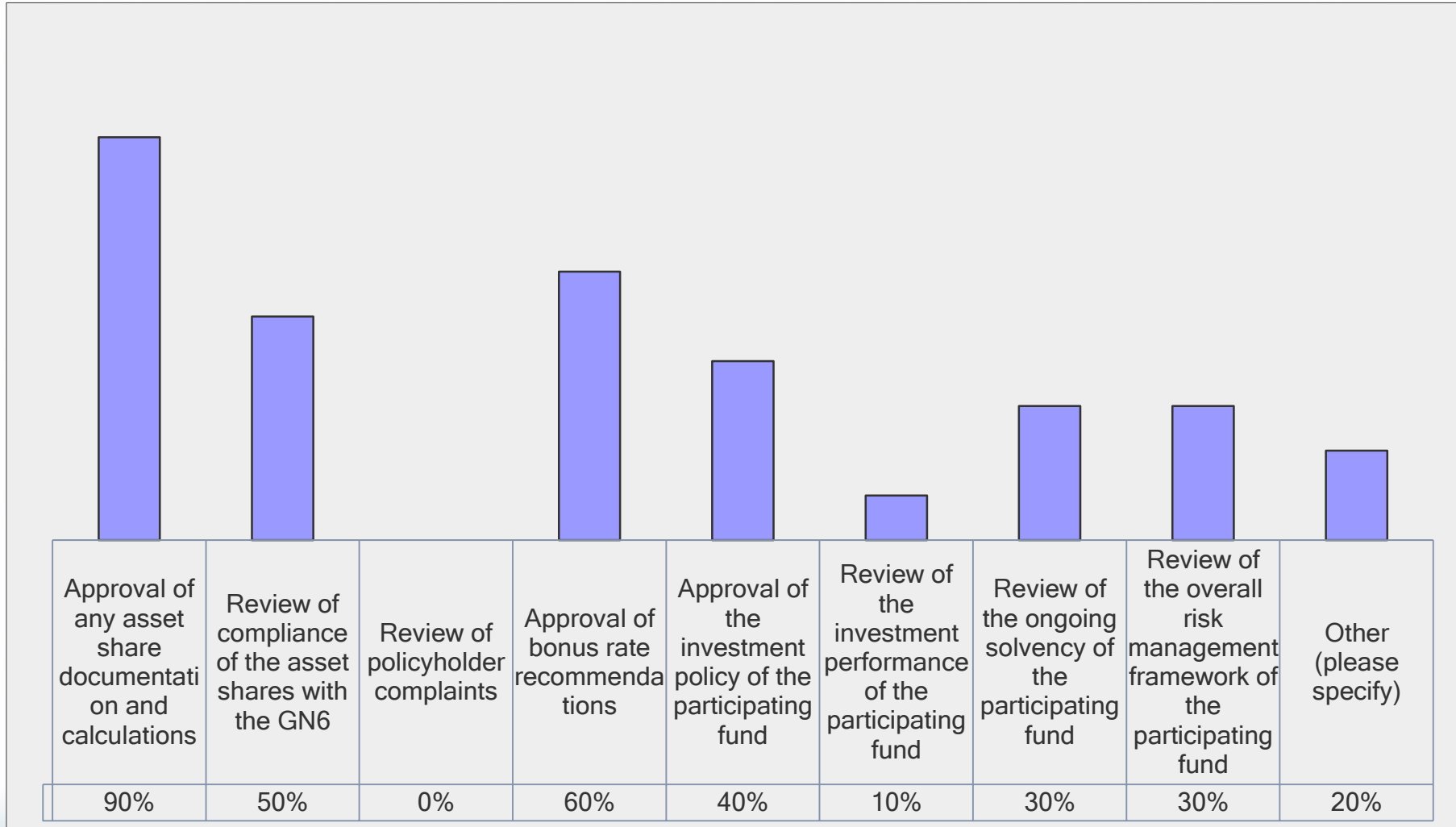
Q10. Does the documentation on management of participating business cover the following items? [Select multiple]

Answer Options	Response Percent
How expenses of the company are allocated to different funds	80%
Investment policy of the participating fund	80%
Company's accepted definition and interpretation of 'Policyholders' Reasonable Expectations' (PRE)	100%
How asset shares are developed - The level of expenses that are allocated, how investment income is credited and the treatment of lapse profits	100%
How asset shares are developed - Consideration for cost of capital charge, consideration for cost of guarantee charge and consideration for a charge for shareholder transfers and tax	100%
How asset shares are used for the purpose of calculation of bonus rates, the determination of policyholder payouts (maturity and surrender) and reserving	100%

Q11. With regard to the documentation of management of participating business, please specify which of the following statements reflect the company's practice [Please select multiple]



Q12. What is covered in the terms of reference (ToR) of the WPC out of the following items? [Please select multiple]



Q13. Please specify the proportion of time spent (high / medium / low) discussing the following items at WPC meetings. Leave blank, if any item is not discussed at WPC meetings.

Answer Options	High	Medium	Low	Response Count
Expenses – allocation to the participating fund	2	5	2	9
Expenses – allocation to asset shares	5	2	2	9
Investments – policy, performance and allocation to asset shares	1	3	4	8
Reinsurance – policy and impact on the participating fund	0	2	6	8
Risk management and solvency of the participating fund	0	2	5	7
Policyholder protection and PRE	5	2	2	9
Usage of asset shares (policyholder benefit payout, determination of bonus rates, reserving)	3	4	2	9
answered				9
skipped				1

Suggested next steps

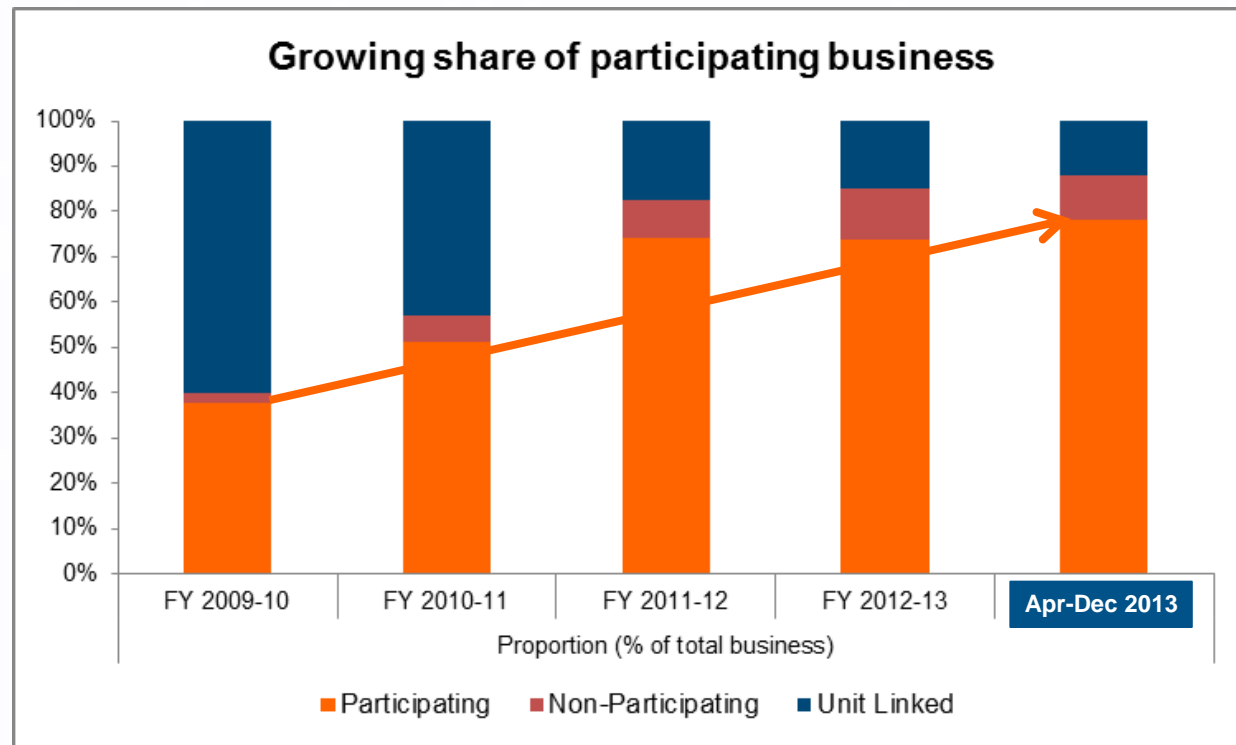


Overview

Par business is here to stay!

- Continued upwards movement of participating business

Source: IRDA's
monthly journal



Suggested steps to strengthen governance

Documentation

- Internal documentation – similar to PPFM
- External disclosures?

Regulations

- Clarifications / amendments / enhancement of the ToRs of the WPC

WPC

- Structure / membership
- Voluntary enhancement of the scope – bonus management; policyholder complaints; investments; solvency and risk management etc.

Training / workshop

- On the financial management aspects of participating business
- Especially for the non-actuarial members

Periodic review

- Scope / functioning of the WPC
- Compliance against GN6 – convert to recommended practice?

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