

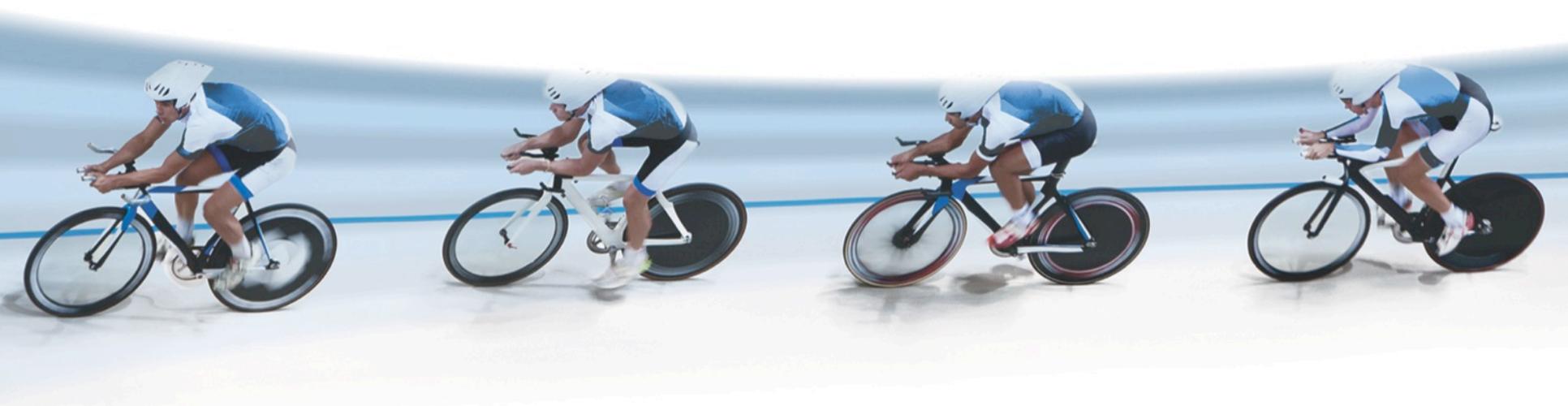


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May 2014

With-profits: impact of FCA's Policy Statement on Mutual Capital

Viv Maclure and Ciara Russell



Agenda

- Background information
- FSA's CP 12/38
- Responses to CP 12/38
- Clarification on proposals
- Who this applies to
- Discussion

FSA's CP12/38 (December 2012)



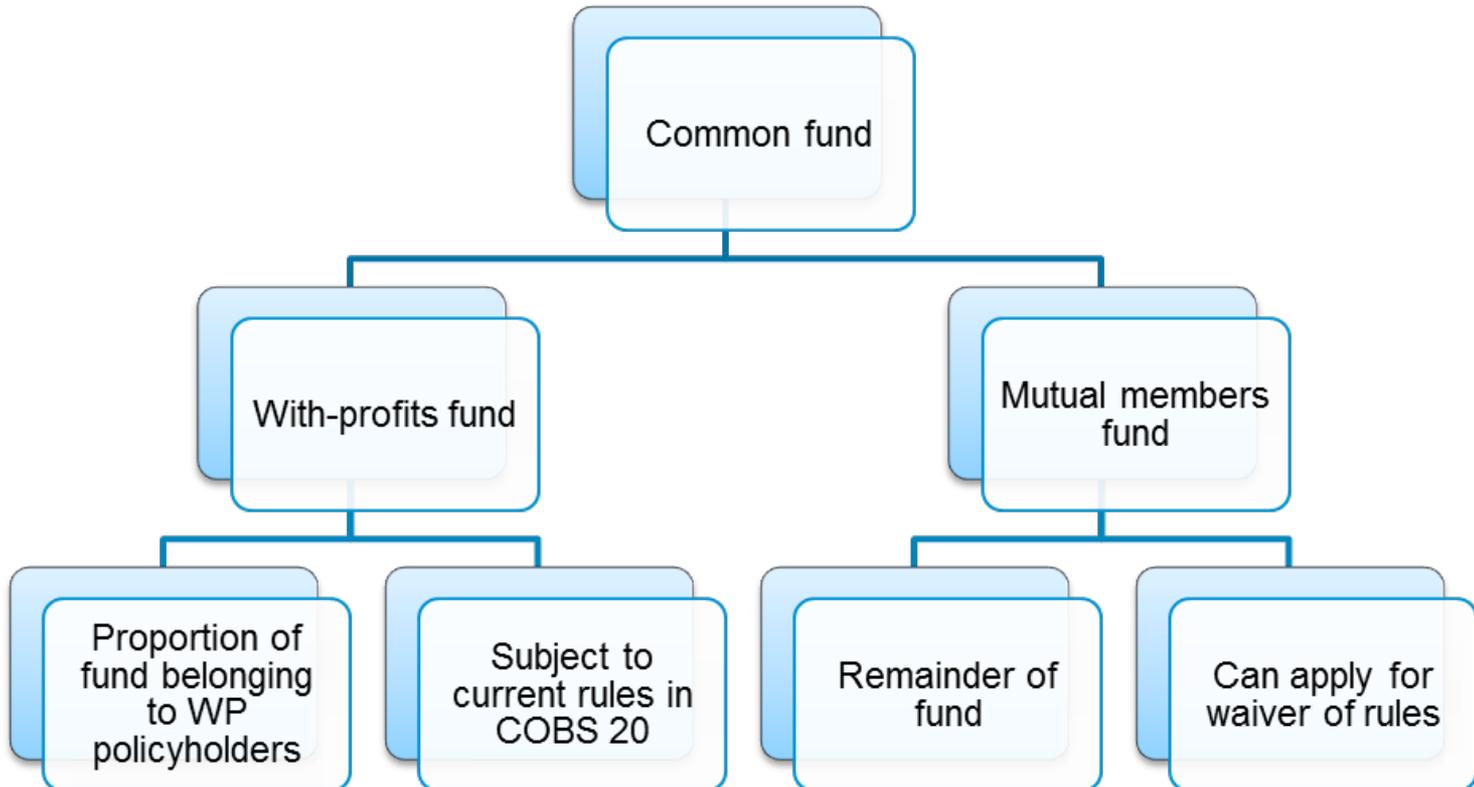
Concerns

- Rules were too prescriptive
- Lack of options forcing mutuals to close

CP12/38 Mutuality and with-profits: a way forward

- Proposal for rule modification
- Welcomed by mutual sector – more flexibility

FSA's CP12/38 (December 2012)



FSA's CP12/38 (December 2012)

Identify funds

- Identify relevant interests in the common fund
- Historic practice of distributing/retaining

Independent assessment

- Consider legal position
- Engage with policyholders (no policyholder vote)
- Consider policyholder interests

Apply to regulators

- Apply for modification to rules from FCA and PRA
- Meet key principles

FSA's CP12/38 (December 2012)

Principles to meet

1. Robust business plan

2. Proposals meet TCF obligations

3. Independent Expert has assessed proposals

4. Result for with-profits policyholders is equivalent to if they were in a proprietary firm

5. Appropriate engagement with policyholders and members

6. Safety and soundness issues have been addressed

7. Statutory tests have been met

- i) Complying with the current rules are burdensome or not fit for purpose
- ii) Making this change would not adversely affect the advancement of the regulator's objectives.

Responses to CP12/38

- In March 2014 the regulators released:
 - FCA's Policy statement PS14/5
 - PRA's Supervisory Statement SS1/14
- Statements are framed by the comments
 - Provide additional clarity; and/or
 - Respond to issues raised

Responses to CP12/38

- Statements confirm proposals in CP12/38
- Additional recommendation:
 - Independent expert should seek legal advice
- Additional clarity and detail:
 - Independent expert – role and expectations
 - Principles to be met
 - Application for modification
 - Interaction with Solvency II

Clarification: Independent expert

Comments	Responses
General support of requirement	
Clarity on the fund separation not depending on a 'particular legal view'	Independent expert should seek legal advice
Creating a mutual fund vs reattribution	Independent expert to consider if proposals amount to a reattribution
General agreement to removing policyholder vote	Appropriate engagement with policyholders is important
Underestimate of cost	Fees commensurate with firm size
Suitability of independent expert	Actuary or similarly qualified
Different process for smaller mutuals	Policyholders of smaller firms are entitled to the same degree of protection

Clarification: Principles to meet

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Comparison with proprietary is difficult and the FCA will discuss with firms on case by case basis.

FCA will focus on:

- Inherited estate would not leave policyholders worse off than if their policies had been written in a proprietary.
- Compensation or redress, or any other cost, is being proposed to be paid from the with-profits fund where it would have fallen to shareholder funds in a proprietary.

Clarification: Principles to meet

Principles to meet

1. Robust business plan
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It may prove difficult for with-profit mutuals who are continuing to write material volumes of new with-profits business to demonstrate that the current rules are burdensome.

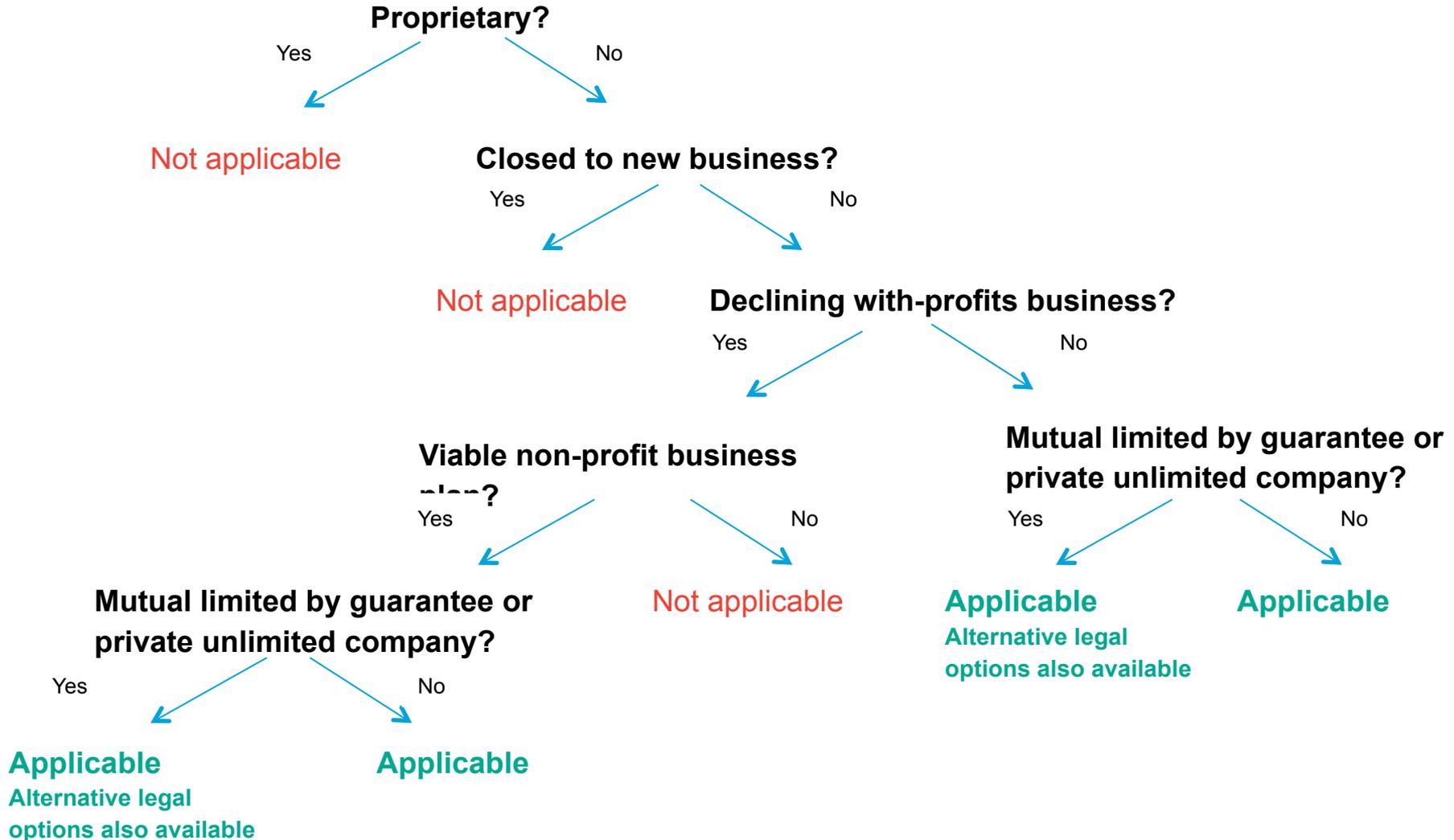
Clarification: Application for modification

Comments	Responses
Applying to PRA and FCA complicates things	Both regulators will be involved in considering the application, led by the FCA, and jointly issue any modification
Concerns over potential for reversal and the need to unwind the mutual members' fund	Applications should be for duration applicable to run-off Duration of modification from FCA and PRA will match
Time to process application	Processed as promptly as possible, dependent on the quality of the submission and the complexity of the case

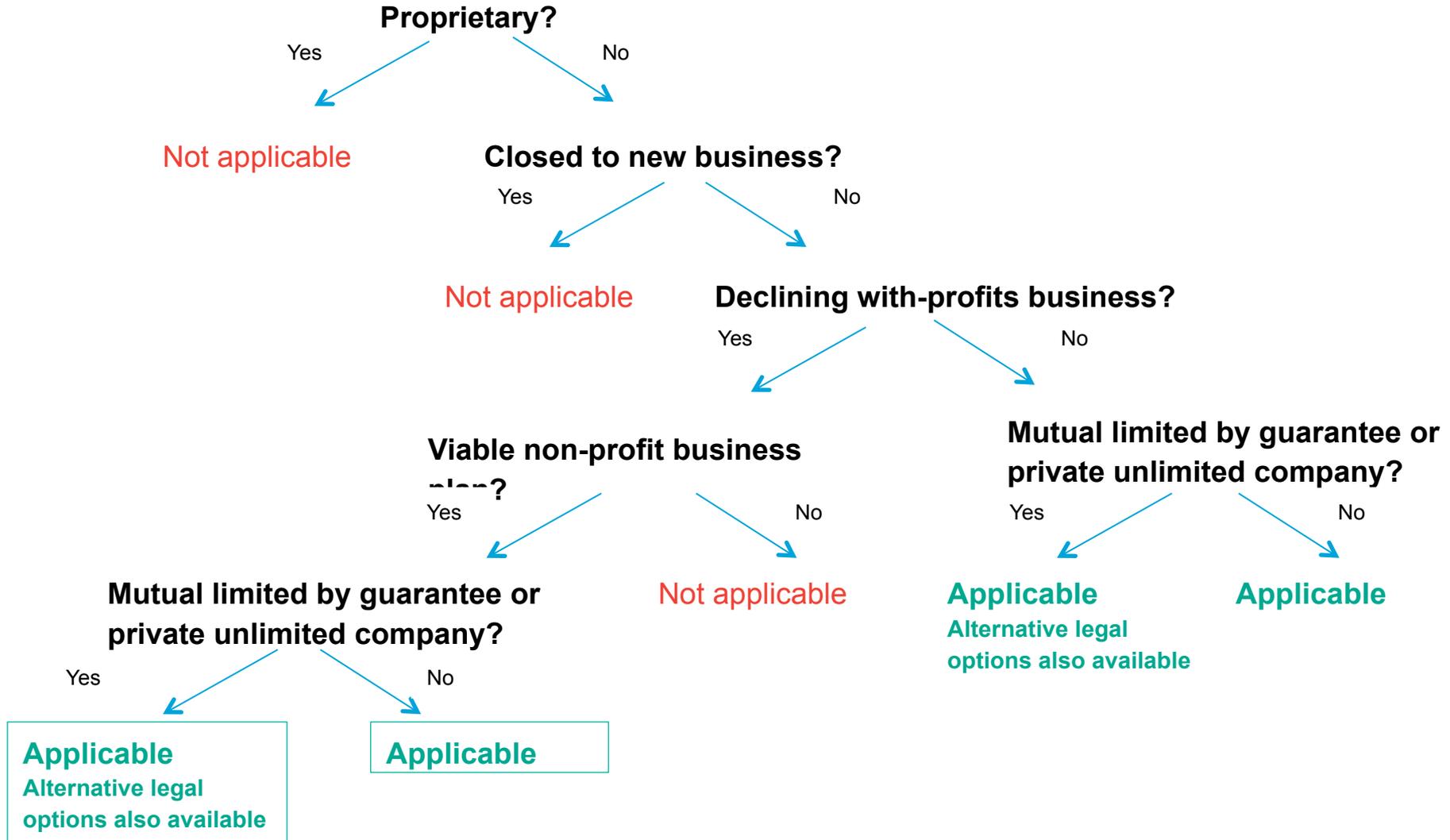
Clarification: Interaction with Solvency II

- Ring- fenced funds regime
 - With-profits fund will be a RFF
 - Classification of Members' fund will be dependent on the restrictions placed on the assets and capital resources held in this fund
- Perhaps there will be more guidance on this?

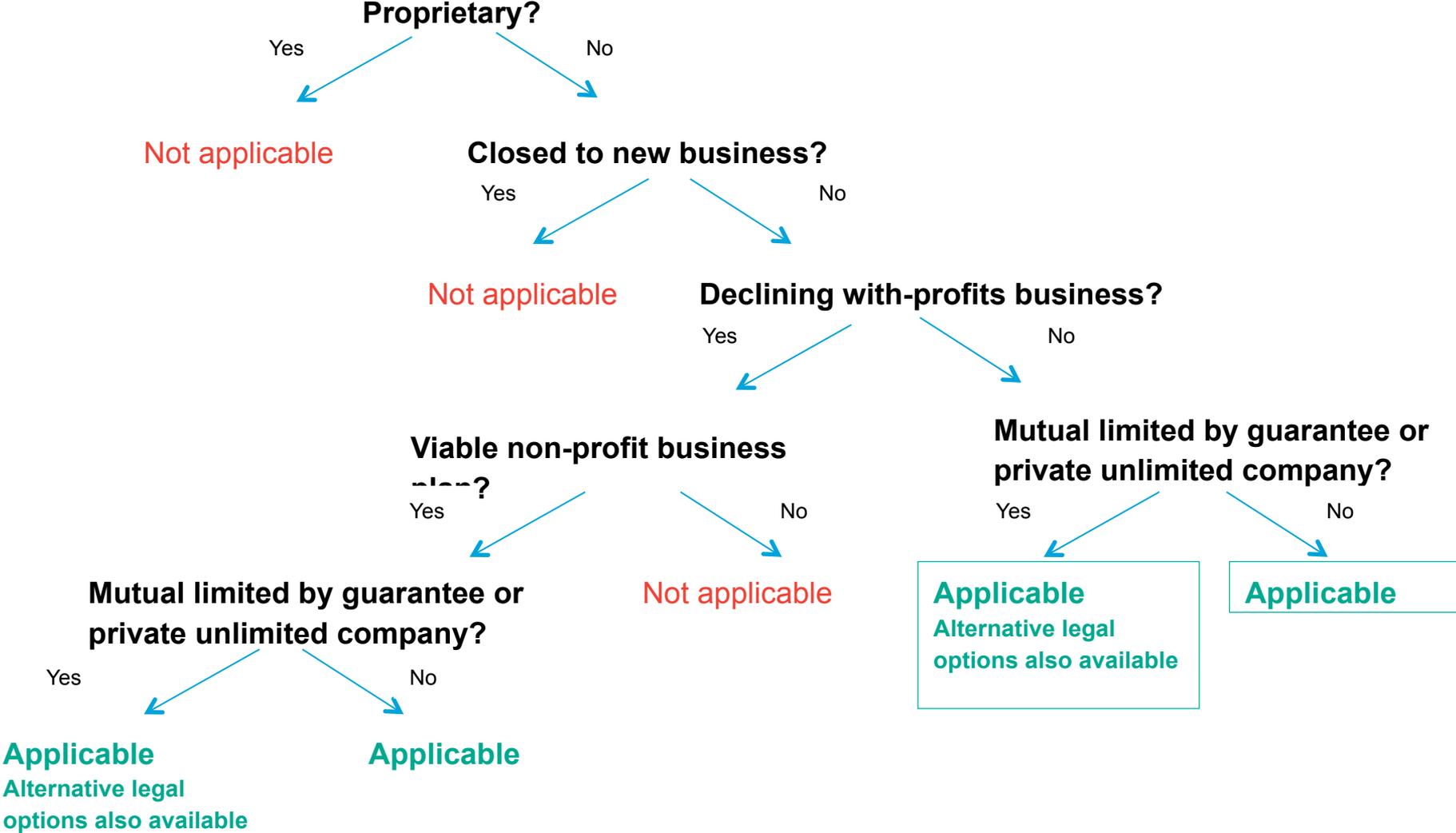
Firms the proposals apply to



Firms the proposals apply to



Firms the proposals apply to



Discussion

Mutuality and with-profits funds: a way forward

Discussion

Mutuality and with-profits funds: a way forward

Is it?

Discussion

Ongoing management

- Treatment of existing non-profit business
- Transfers from the with-profit fund to mutual members' fund
- What happens in the end?

Practicalities

- Meeting principle relating to position in a proprietary firm
- Viability of proposals overall
- Timescales

Solvency II RFF Regime

- Implications

Costs

- Could these be minimised?
- Will the benefit to policyholders outweigh the costs?

Regulatory Information

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