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Management of Par Business

What can we learn from the recent regulatory changes in Malaysia?

SAS Life Insurance Conference 2016

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Introduction

Introduction – new par regulations in Malaysia

Management of Participating Life Business

Policy Objective

Requirements for the effective management of participating life business to promote the sustainability of the business and the protection of policy owners' interests

Concept Paper	Policy document	Effective 1 July 2016
– 7 November 2014	– 15 July 2015	– Now in force – Will affect next bonus announcements

Par business in Malaysia – Pre-AS / Post-AS

- Circular issued in 2005 changed the way that participating policies would be managed for business sold after 30 June 2015
- Has led to split of policies into those sold before 1 July 2005 (pre-AS) and those sold after 1 July 2005 (post-AS)

Pre-AS	Post-AS
– Bonus scales set at outset – "Sticky" bonuses – don't change frequently – Surrender values based on factors defined at outset	– Pay-outs must be at least equal to asset shares – TBs more fluid to ensure payouts at least equal to AS – Surrender values based on higher of AS and g'teed SV – Different interpretations

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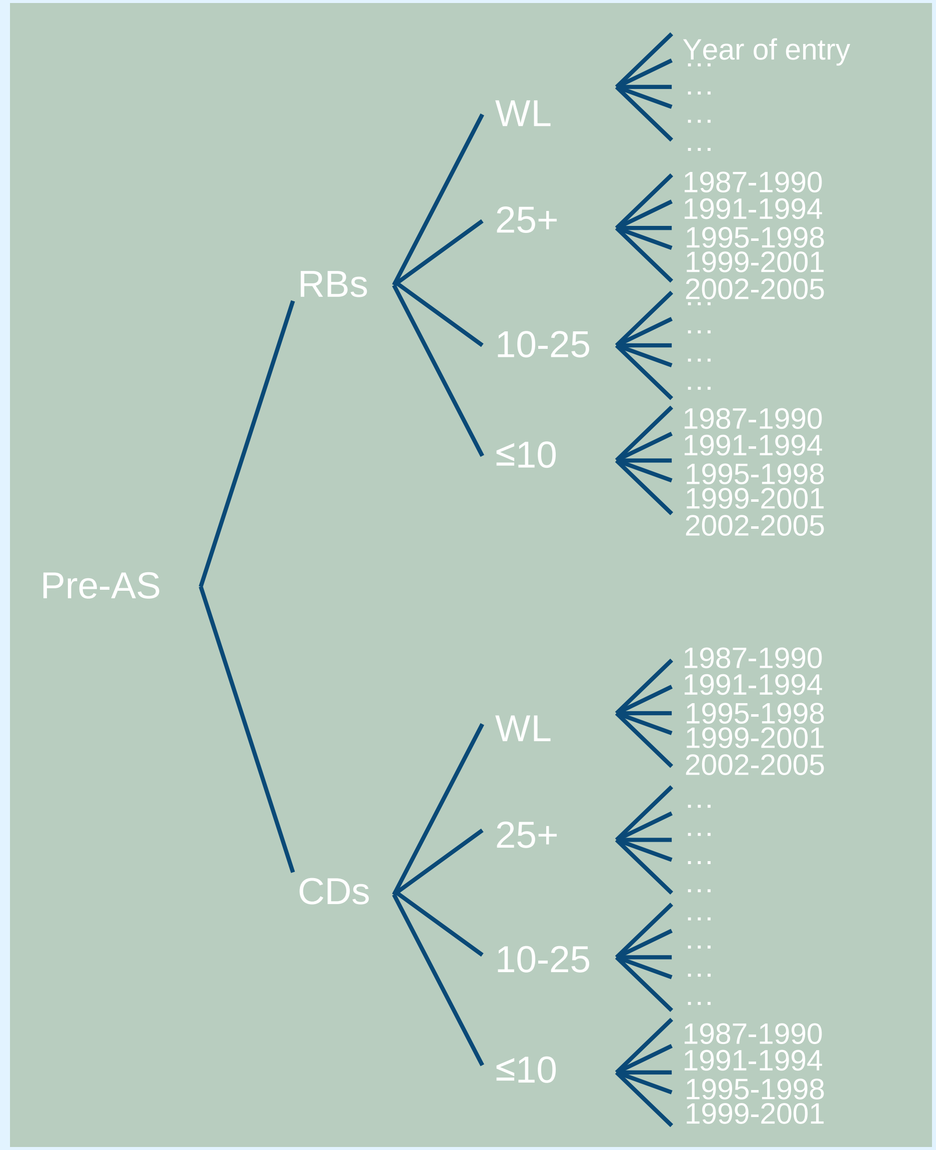
The New MPB regulations

Key changes in the new MPB regulations

- Increased governance
- Cohorts used to manage business
- Benefits payable / bonus management
- Estate
- New business and fund closure

Cohorting

- Changes mainly affect pre-AS business
- At a minimum, should be based on inception period and product features
- Grouping of policies of a few successive inception years allowed for risk pooling
- Product features should include type and structure of bonuses, as well as policy duration

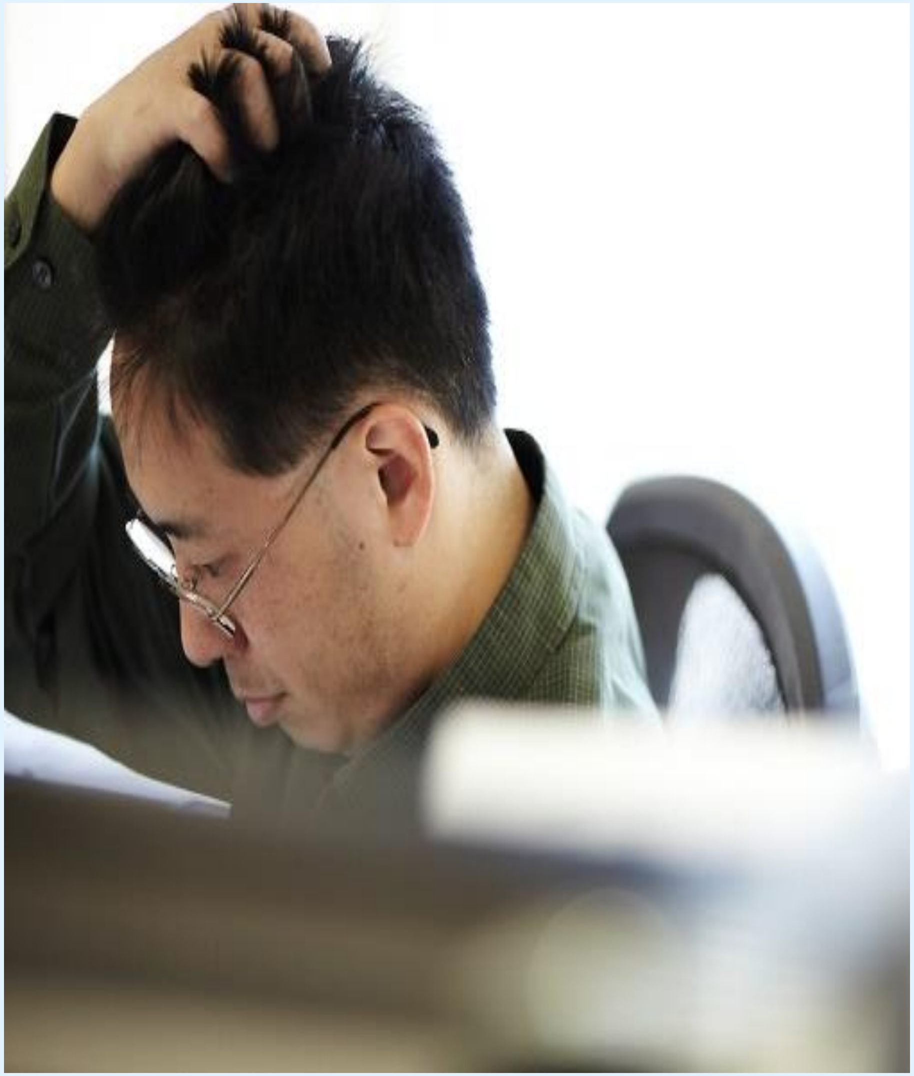


Bonus management

- Post-AS policies still need to pay 100% AS
- New rules for pre-AS: pay-outs must be 90%-110% of AS at cohort level
- Manage bonuses so that AS:BRV is in 90%-110% range for each cohort
- Still need to consider PRE
- Lots of ongoing discussion between BNM and insurers on whether bonus cut as highlighted in example is acceptable

Cohort	A	B	Total
AS	700	400	1,100
BRV	600	500	1,100
AS:BRV	117%	80%	100%
Bonus action	n/a	n/a	No change

Cohort	A	B	Total
AS	700	400	1,100
BRV	600	500	1,100
AS:BRV	117%	80%	100%
Bonus action	Increase	Cut?	n/a



Some of the challenges faced by the industry

- Increased analysis and management
- Historical asset shares
- Bonus changes for old policies
- PRE
- Consistency

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Lessons for the Singapore industry?

Improved governance

- Clearer processes and more consistent decisions
- Makes decision process easier for providers
- Auditability / justification of decisions and increased transparency
- Allowing for management actions in models
- Forces better education of par business to Board

Cohorts and asset shares

- More granular analysis of asset shares by cohort
- Dynamic bonuses to reflect actual experience more closely
- Treat each policyholder fairly
- Transparency

Need to consider the overall concept of par

Participating policies *participate* in the fortunes of the fund, sharing the overall experience and supporting each other.

Cross-subsidies are perfectly acceptable! It is the very nature of insurance.

But must be "*fair*". This is the most important point. At the point of sale each policy should have the same expectations in terms of likely support from the fund.

Smoothing of returns is a standard feature that policyholders would expect from a par product

Pooling of risks including investment risks

Policyholders' reasonable expectations

- Need to consider impact of regulation changes in terms of PRE
- Is impact of regulation changes consistent with PRE
- Is there a need to smooth in impacts of changes on existing policies?
- Should changes only apply to new business

Involvement in consultation process

- Test impacts of proposed changes
- Flag-up concerns and possible adverse effects
- Be proactive – avoid the “wait and hope” attitude

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Questions?

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Thank you

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