



Par Guidance Notes and Life Committee Update

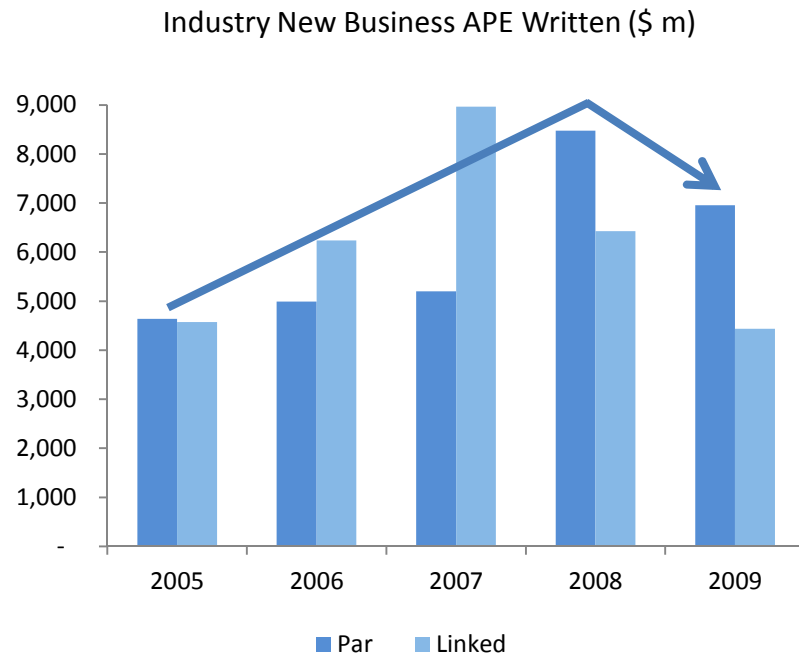
Alistair Chamberlain

Singapore Appointed Actuaries Symposium, 4 Nov 2010



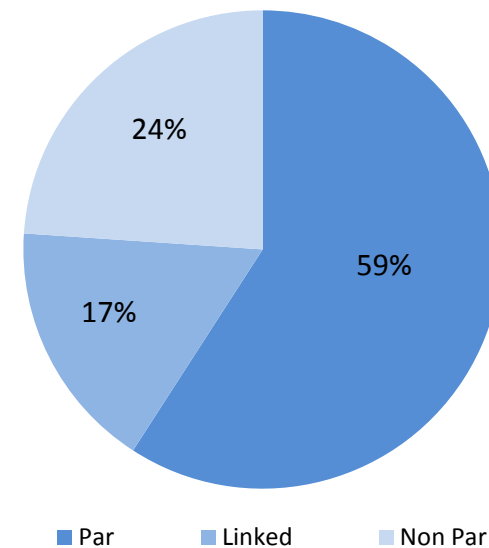
Participating Business in Singapore

Participating business experienced a surge in popularity (at the expense of UL business) through the GFC and remains a core part of the insurance business in Singapore today.



Source : LIA Statistics (2005-2009)

Industry Individual In Force Business Breakdown
as at June 2010
(Total Annual Premium \$8.2 billion)



Source : LIA Statistics (June 2010)



Management of Par Business (1)

Management of par business is complicated with embedded guarantees even though it may appear simple to the consumer.

Constant public attention ...

- Straits Times Forum (Oct 27, 2010) “**Why insurers, agents may turn a deaf ear to SM Goh's appeal**” – high costs of whole-of-life policies
- Straits Times (Aug 23, 2010) “**Better bonuses for some insurance policyholders**” / Business Times (Aug 25, 2010) “**Bumper year for many insurers**” – increased bonus payouts on economic rebound
- ST Online Forum (May 18, 2010) “**Review insurer's bonus cuts**” – cut bonuses though market is recovering

... with industry & regulator responding

- **MAS Notice 320** - Internal Governance Policy, point-of-sale disclosure, post-sales documents
- **LIA revised disclosure guidelines** – relating to benefit illustration
- **LIA-MAS dialogue** - Internal Governance Policy, point-of-sale disclosure, post-sales documents, allocation of expenses

... and this is not unique to Singapore

- **FSA published review** – with-profits regime review report

The above points highlight the major concerns of Par policyholders – expected vs actual declared bonuses and disclosure.



Management of Par Business (2)

- All stakeholders are asking more questions than ever before about Par Management
 - Regulators
 - Shareholders
 - Current and future policyholders

- Actuaries continue to play a central role in managing Par funds.
 - Board of Director may declare bonus only after considering a written report from the Appointed Actuary
 - Valuation of Par policies must be signed off by the Appointed Actuary
 - Illustration rates in accordance with LIA guidelines depending on current bonus rates
 - Product pricing must be signed off by the Appointed Actuary

SAS has set up a workgroup to decide if a further GN would help to guide our members in their responsibilities.

Development to GN L03



The SAS life sub committee has tried to get a cross section of volunteers and a full consultation on topics to be covered and excluded.

- Appeal to full membership for volunteers
 - 9 existing members of Par GN sub committee
 - on voluntary basis and all have ‘day jobs’
 - members: Alistair Chamberlain, Choo Oi San, Lee Wai Yee, Koo Chung Chang, Wong Kwok Swan, Liauw Lee Jiat, Jonathan Yen, Kate Chiew / Ken Ng, Soo Wai Kit
- Brainstorming sessions on what to include
 - eliminated areas covered elsewhere
 - illustration rates
 - communications
- Topics a mixture of ‘motherhood and apple pie’ and topical current pressing points

Outline structure for GN concluded in Summer 2010.



Par GN Topics

- Asset share definition
- Suitable groupings for bonus/other purposes
- Operation of smoothing
- Treatment of over/under distribution
- Treatment of riders
- Assumption setting
- Treatment of old policies and/or small groups of policies
- Surrender values
- PRE / treating customers fairly / fair dealing outcomes
- New business strain
- Fund segregation
- Reinsurance
- Investment
- Shareholders' transfer computation
- Merging of Par Funds
- Report content

GN L03: Outline Content



1. Definition of asset share

- Likely to enshrine Retrospective Earned Asset Share approach
- May make explicit deduction for cost of capital or guarantees
 - But no attempt to build an estate
- Should the GN set out more details on asset share computation (e.g. accuracy of timing of cash flows, other deductions from asset share that are / aren't allowed)?

2. Operation of smoothing

- GN will set out principles to smoothing
 - All assets of the fund (except injection in accordance to Paragraph 22 of Insurance Act) for the benefit of policyholders
 - Should be cost neutral over time
 - But it is appropriate to hold back returns in some years to pay out in others
 - No attempt to build an estate
- Should we set timescales for smoothing?

GN L03: Outline Content (Cont'd)



3. Treatment of over/under distribution

- No attempt to systematically over or under distribute
- Should the GN set max AS / GPV ratios?

4. Treatment of riders

- Benefits (and losses) from riders should be treated consistently
- Pricing of riders should not put undue strain on the fund
- Should there be a requirement for AA to sign off that rider pricing is expected to be at least break even?

5. Treatment for old policies and/or small groups of policies

- 'Motherhood and apple pie' section
- Approximation is fine but should satisfy him/herself a section

GN L03: Outline Content (Cont'd)



6. Assumption setting

- GPV for bonus purposes should be on best estimate basis
 - Allowance for deviations via the AS / GPV ratio, not via margins in the GPV basis

7. Surrender value

- Fair treatment of surrenders and maturities
- Actuary should explicitly consider cross subsidies between early terminations and maturities
- Disclose these considerations to the Board

8. PRE / FDO / TCF

- Fair treatment
- Consistency between point-of-sale and subsequent disclosures, and the current investigation

GN L03: Outline Content (Cont'd)



9. New business strain

- Should reflect the level of asset share for each product or product grouping
- Surpluses from the in-force portfolio may be used to support NB strain, but without unduly prejudicing the interests of the in-force policies
- Alternatively, shareholder may inject an amount equivalent to the estimated NB strain into the participating surplus account to support the strain

10. Fund segregation

- May be segregated into sub funds formally or notionally, either for internal management or due to corporate history
- Where segregation is used there should be a clear allocation of expenses and investment income to each of the sub funds
- Fund segregation should be disclosed in the bonus investigation report to the Board.

GN L03: Outline Content (Cont'd)



11. Investment

- Asset allocation
- Investment in company occupied property

12. Shareholders' transfer computation

- Both retrospective and prospective methods are fine
- But should be consistent from year to year
- Extra care required when there is a change in method, to ensure no over distribution to shareholders

GN L03: Outline Content (Cont'd)



13. Report content

- Cover bonus investigation report
- Comments specifically required on compliance with this GN
- Likely to require specific comment on how some issues dealt with by GN3 have been addressed (surrender values, fund segregation, new business strain)

14. Merging of Par fund

- Consistent bonus outlook
- Consistent security of benefits for policyholders
- Reasonable changes to IGPs



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- Merging of Par Funds
- Report content

GN L03: What will it give SAS members



- More clarity on what is acceptable industry standard
- Guidance in some areas
- Improved governance by explicit technical disclosure to the Board on new areas

- New members to workgroup welcome!
- Please send in comments to workgroup members
- Please support your colleagues in making time to attend!



GN L03: Next Steps

- Each proposed section of the GN is with an ‘owner’ for drafting
 - Asset share definition → Lee Wai Yee
 - Suitable grouping for bonus/other purposes → Liauw Lee Jiat
 - Operation of smoothing → Koo Chung Chang
 - Treatment of over/under distribution → Koo Chung Chang
 - Treatment of riders → Liauw Lee Jiat
 - Assumption setting → Wong Kwok Swan
 - Treatment of old and/or small groups → Koo Chung Chang
 - Surrender values → Alistair Chamberlain
 - PRE → Jonathan Yen
 - New business strain → Choo Oi San
 - Fund segregation → Choo Oi San
 - Reinsurance → Kate Chew
 - Investment → Kate Chew
 - Shareholders’ transfer computation → Lee Wai Yee
 - Report content → Jonathan Yen
 - Merging of Par fund → Wong Kwok Swan



GN L03: Next Steps (Cont'd)

- Workgroup will consider drafts and develop into a public draft
- Consult the full SAS membership
- Aim to approve at AGM in 2011
- Enactment date to be confirmed

- New members to workgroup welcome!
- Please send in comments to workgroup members
- Please support your colleagues in making time to attend!



Par – Other Issues

- GN does not cover:
 - Benefit illustrations
 - Communication to policyholders
 - Expense allocations to par funds

Benefit Illustrations

- Currently being consulted on by LIA Actuarial Sub Committee
- Covering all BIs, not just Par
- Not consensual on maximum illustration rate or general approach to Par
 - Use current bonus rates?
 - Use standard rates?
 - Use standard rates by asset class?
- Somewhat political!
- Are today's BIs disclosing bonus rates or determining bonus rates?



Par – Other Issues (Cont'd)

Policyholder Communication

- Is Par much loved but misunderstood?
- LIA/SAS workgroup is looking at some aspects
- Volunteers needed
 - Not just actuaries but also marketing, product, compliance staff

Expense allocations to Par funds

- Possible issue for future inclusion?
- Keep In View for now

- Make sure you know your company's rep on these issues
- Have your say and help with the drafting



SAS Life Sub Committee

- Life sub committee has 12 members
 - Alistair Chamberlain, Lau Sok Hoon, Choo Oi San, Lee Wai Yee, Frank McInerney, Koo Chung Chang, Colin Startup, Ken Ng / Kate Chiew, Lim Siang Thnia, Joe Lam, Richard Holloway, Soo Wai Kit
- Meets every 1-2 month
- 6 work groups in progress
 - Mortality, led by Frank McInerney
 - Internal model, led by Choo Oi San
 - Par GN, led by Alistair Chamberlain
 - Par Communication (in conjunction with LIA)
 - AA Symposium today!
 - GN1 and GN2 consult / refresh
- Mortality workgroup newly finalised (hopefully)
- Other workgroups are happy to have new members!
- Please let me know if you would like to be invited.



Any Questions?