Milliman Presentation for actuview

UK With-Profits Management

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With-Profits Management – Topics

Dealing with goneaway cases

- How do firms end up with goneaway cases?
- How can you find them?
- What should you do with the remaining cases?

Efficiency and simplification

- What are the problems with-profits funds face?
- What steps can be taken to simplify?

These topics are not only relevant to UK with-profits management, but are relevant also to the management of with-profits and participating business globally.

How do with-profits funds end up with goneaways?

Address unknown / uncontactable

- IB business – paper records or no address ever recorded
- Historical business transfers
- Inadequate data management
- No / minimal customer contact points, e.g. whole of life after ‘fully paid’ date
- Policyholder changing address and not notifying the insurer

Incurred but not claimed – maturities

- Customers contactable / addresses known but do not take their funds
- Child Trust Funds

Incurred but not claimed – deaths

- Very advanced policyholder ages, e.g. a high proportion over age 100
- Low levels of death claims compared with industry tables

Tackling the goneaway problem – tracing policyholders

- **Multiple options available for tracing**
  - Advertising campaigns to re-engage policyholders
  - Existing policy administrator
  - DWP – tracing and pre-paid letter forwarding
  - Banks – direct debits
  - Specialist companies in the market
- **Determining and allocating the costs of tracing**
  - Who should cover the costs?
    - With-profits fund, shareholder, the ‘main’ fund, the policy itself?
  - De minimis limit on which policies will have tracing attempted
  - Negotiating fee structures, e.g. some specialist companies willing to work on success fee basis if not “lost cause" (e.g. IB business)
- **Tracing may not be 100% successful (or even close!)**

experian

LexisNexis

VESTIGIUM SERVICES

sharefound

accurate data services

itm Solution delivered...

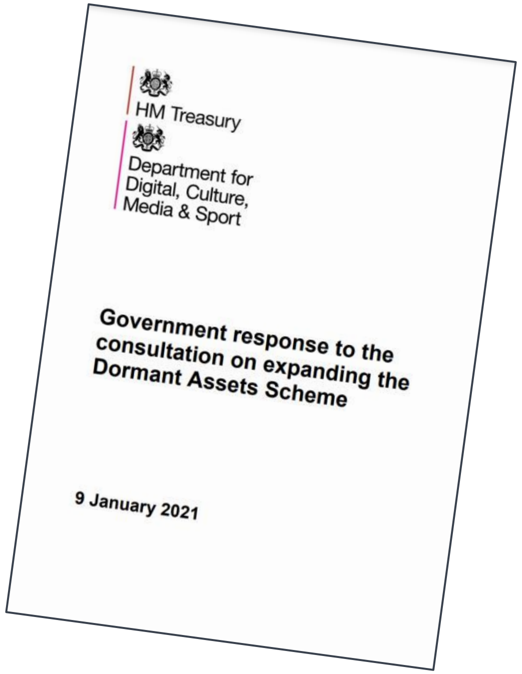
The Tracing Group

Tackling the goneaway problem – reuniting customers with their funds

- Once address found, then need to convince policyholder to take funds:
  - Forwarding address isn’t provided so reliant on the ‘lost’ policyholder re-establishing contact
  - Policyholders can be wary of scams
  - For deaths, estates dealt with so small additional funds more of a hassle

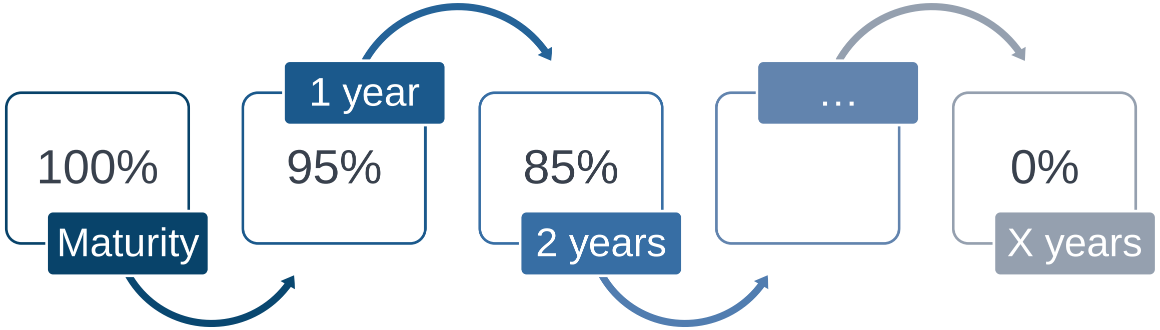
- The Dormant Assets Scheme:
  - Strives to reunite people with their financial assets
  - Where that is not possible, this money supports important social and environmental initiatives across the UK
- After 10 years of operation, in 2016 work began on the design of its expansion but response to consultation in January 2021 confirms:

With-profits funds will be excluded at this time



Considering the remaining unclaimed assets

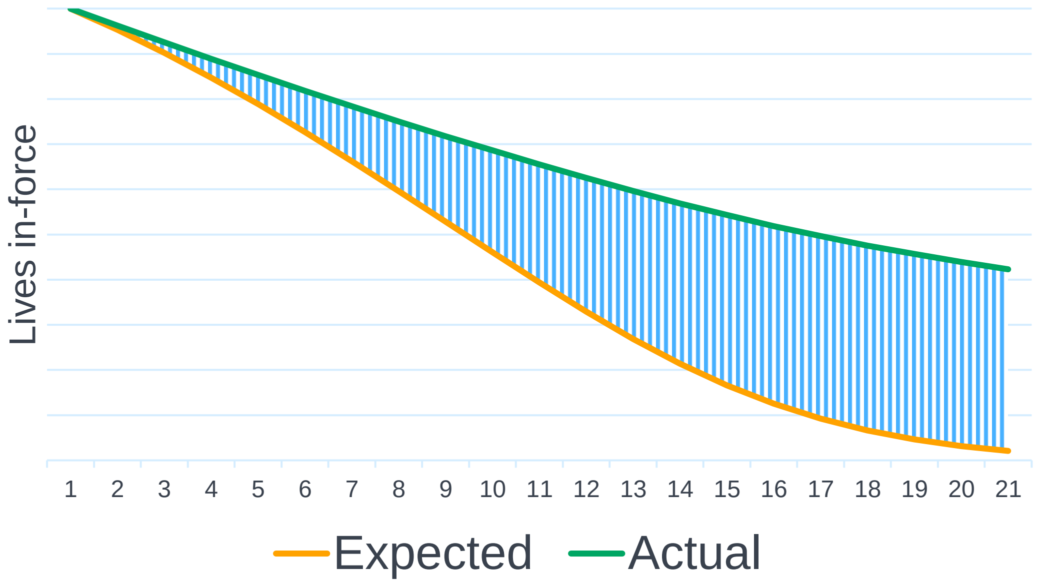
Incurred but not claimed – maturities



- Reducing unclaimed value held over time:
  - Linearly
  - In line with experience data

Incurred but not claimed – deaths

- Write off after suitably high attained age
- Proportionate write-offs over time:
  - Age based
  - Expected vs actuals



Tackling the goneaway problem – time to take action

- Many insurers are getting on and doing this
  - BAU tracing exercises
  - Assumptions / methods for writing off goneaway policies embedded
- If you haven't started, now is the time to make progress
  - The problem isn't going to go away on its own
  - Once over the line for distributing, becomes another assumption to review each year with emerging experience
  - If find yourself doing a Scheme of Arrangement or similar, not having started can substantially disrupt the timeline

Trace customers → Reunite customers with their funds → Start recycling goneaway funds → Set best estimate assumptions → Review on a regular basis

Efficiency and simplification – a common problem

Declining with-profits fund/book

Expense tariff with non-profit fund means reducing expense allowances in £ terms

But still running the same with-profits approaches/processes (e.g. asset shares)

Particularly for bonuses and surrender/transfer values

Costs of the with-profits team largely fixed, and maybe inflating

An emerging deficit/diseconomy – problem for shareholder

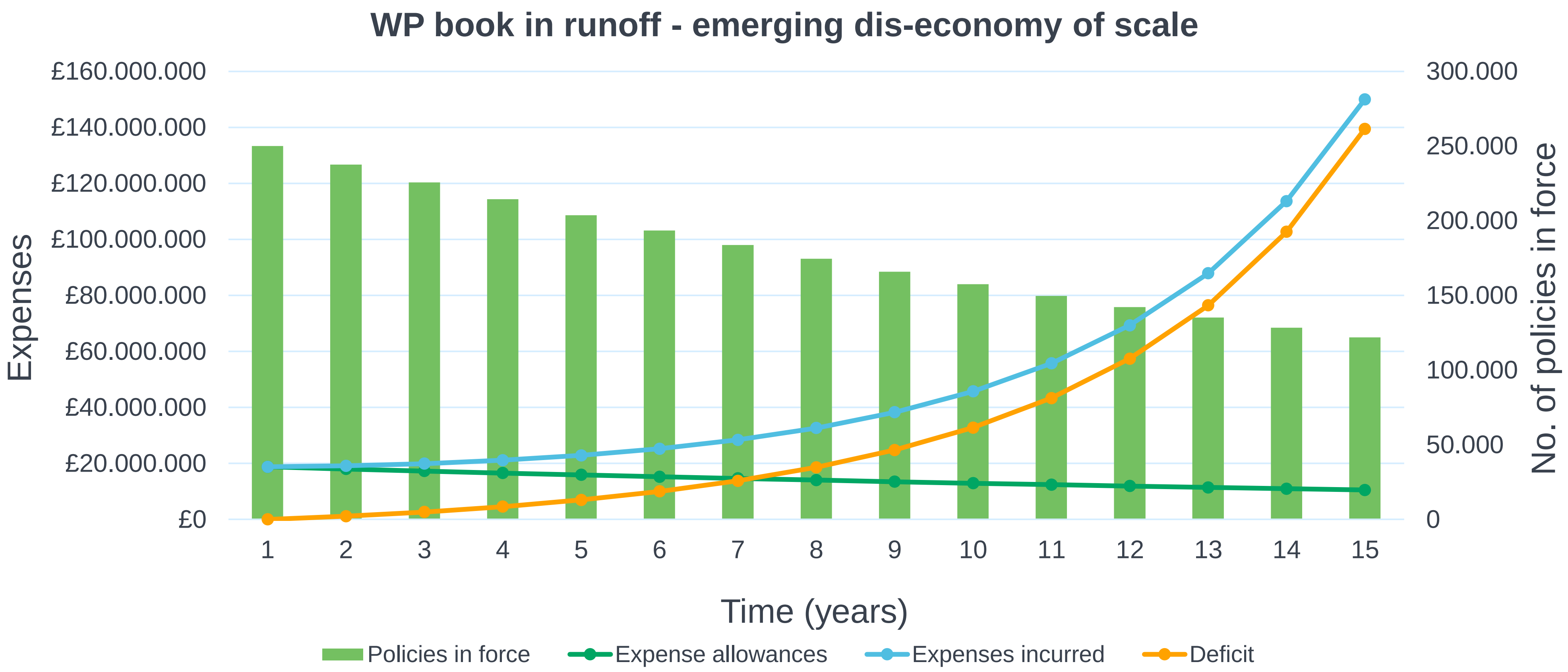
Are the current WP approaches/processes still fair to policyholders as the book declines?

Efficiency and simplification – an illustration

250K policies, reducing at 5%pa

Expense allowance of £75pa per policy, inflating at 1%pa

Expense initially match allowances, but inflate at 2%pa



Efficiency and simplification – policyholder fairness

In addition to the diseconomy of scale problem, policyholder fairness issues can arise:

- Asset shares with fewer cases in the term/duration group can become unstable
  → More hand-smoothing of bonuses
- Fewer cases in certain policy classes can mean methods become arbitrary
- Company initiatives to rationalise admin systems may require methods to be refreshed/updated
- Approaching sunset clauses and/or proposed schemes of arrangement will put existing methods under scrutiny

Can the current methods be simplified?

To help with the diseconomy issue – by allowing some staff to be re-deployed

To ensure unfairness does not begin to emerge

To get the fund in good shape for longer term run-off or transfer/conversion

Possible solutions – simplify, and maintain/improve fairness

Liability Side	Spring clean	Automation	Asset shares to prospective method	Link smaller classes to bigger classes
	Reduce granularity of bonus scales	Take non-profits business out of the fund	Deal with goneaways	Consistency across with-profits funds
Asset side	Rationalise of combine asset pools	Move (partially?) to passive asset management	Make (greater) use of pooled / collective funds	Pool across more than one with-profits fund

Moving to prospectively determined bonuses – the BRV approach

Process:

- Decide on suitable long term terminal bonus scale(s) – normally upwards sloping
- Decide on assets to back the book of business – track these as a sub-fund
- Solve the BRV equation:

$$Distributable\ assets = \sum_{i=policy}^{in-scope\ policies} (1+\alpha)(1+TB_i)(SA_i+RB_i)\times\bar{A}_i - (P_i - E_i)\times\ddot{a}_i$$

- May need phasing when first done
- Surrender values driven by BRV also
- BEL = Value of asset sub-fund (maybe adjusted)

Moving to prospectively determined bonuses – the BRV approach

Now in use in quite a few funds:

- Whole of life
- Sometimes the endowment ‘rump’ as well

Benefits:

- ✓ Can dispense with asset shares
- ✓ Stability and explainability of outcomes
- ✓ Durable
- ✓ Aids future conversion to non-profit

Efficiency and simplification – key takeaways

Keep on top of all of this – deal with issues before they become problems

Have a plan to do this yourself… before someone else forces a plan on you!

Moving to a prospective bonus approach can be a big efficiency gain (and can still be fair, or even fairer)

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