

Current Developments in Life Insurance

22 March 2002

The United Kingdom

Peter Clark

President - Institute of Actuaries

3 Themes

% Change

% Challenge

% Communication

Change

The Equitable!

History of The Equitable

- 1752 - Foundation of the company
- 1956 - Introduction of Guarantees
- 1988 - Withdrawn from new business
- 1989 - Ranson/Headdon paper -
“With Profits without Mystery”

Events of the 1990s

- Lower interest rates
- Longer life expectancy
- Guarantee bites!

Equitable Response (1)

- Differential Bonuses
- Fair shares

Policyholder Response

- Court Case
- Appeal Court
- House of Lords

House of Lords' Judgement

- No differential bonus
- No ring fencing
- Therefore cost must be shared by non-GAR policyholders!

Equitable Response (2)

For Sale!!

December 2000

- Prudential pulls out
- Equitable closes to new business
- Criticism escalates

Criticism - The Firing Squad

- Equitable
- Regulator (FSA)
- Actuarial Profession

Criticism

“Trust me, I’m an actuary” doesn’t have any more resonance with me than Dr Harold Shipman saying “Trust me, I’m a doctor”

**Dame Sheila McKechnie
- Consumers’ Association**

Equitable Response (3)

- New Board
- New Chief Executive
- New Appointed Actuary

Equitable Response (3)

- | | |
|-------------------------|----------|
| ■ New Board | EXTERNAL |
| ■ New Chief Executive | EXTERNAL |
| ■ New Appointed Actuary | EXTERNAL |

Equitable Response (4)

- Investigation of legal issues
- Investigation of legal liability
- Financial Condition Review
- Compromise Agreement

Other Responses

% Corley Inquiry

% FSA Inquiry

% ICAEW Inquiry

% Parliamentary Select Committee Inquiry

Issues

- Role of the Appointed Actuary
- Future of With Profits Business
- Disciplinary Process

Response - Actuarial Profession

- **September 2001: Corley Report published**
- **Recommendations on professional guidance and role of Appointed Actuary**
- **Remit “not ... to reach conclusions about the conduct, performance or competence of [those at Equitable]”**

Response - Actuarial Profession

- **Presidents' welcome to Corley Report:**
“We are committed to the rapid implementation of the Corley Committee's recommendations ...”
- **External Review of Appointed Actuaries**
- **Mandatory Financial Condition Reports**

Response - FSA

- October 2001: Publication of FSA review of its regulation of Equitable Life (“Baird report”)
- % “The Appointed Actuary system has worked well for a long time.”

Response - FSA

- October 2001: Publication of FSA review of its regulation of Equitable Life (“Baird report”)
- % “The Appointed Actuary system has worked well for a long time. **However, the reliance on one individual with no external, detailed check on his work inevitably poses risks”**

Reviews (Round 2)

% Penrose Enquiry

% Parliamentary Ombudsman Enquiry

% FSA With Profits Review

% FSA Insurance Regulation Review

Change - Profession's Response

% Compliance Review Feb. 2000

% Transparent With Profits Feb. 2001

% Financial Condition Assessment Mar. 2001

Change

% "All firms - whether or not regulated - need to ask themselves what can go wrong and **take adequate steps to prepare for the possible consequences.**"

Sir Howard Davies

Change - Profession's Response

% Compliance Review Feb. 2000

% Transparent With Profits Feb. 2001

% Financial Condition Assessment Mar. 2001

% Corley Report Sept. 2001

% Compliance Review (Life) Oct. 2001

% Actuarial Governance Feb. 2002

% PRE Feb. 2002

3 Themes

%Change

%Challenge

%Communication

Challenge

% “The Appointed Actuary system has worked well for a long time. However, the reliance on one individual with no external, detailed check on his work inevitably poses risks. **We recommend that appointed actuaries should be subject to independent external review.**”

(Baird - September 2001)

Challenge

% “The *actuarial profession* should make an external peer review of the work of the appointed actuary a requirement.”

(Corley - September 2001)

Challenge

% "The relationship between firms' appointed actuaries and management boards, and with the body of policy holders, is in need of review, in the light of The Equitable life affair."

Parliamentary Select Committee

Challenge

% External peer review

% Board Committee

Challenge - Requirements for an Appointed Actuary

% Technically and Managerially Competent

% Commercially Sensitive

% Insightful Problem Solver

% Good Clear Communicator

% Objectively Independent

% Resilient

Tom Karp

Challenge

% “However, a strong Appointed Actuary system only functions if there are strong Appointed Actuaries.”

PNSC September 2000

3 Themes

% Change

% Challenge

% Communication

Communication

% " If the with profits concept is indeed in the public interest - and I clearly believe it is - then we must explain why and demonstrate this both to the Government and the general public."

PNSC September 2000

THANK YOU FOR NOT
ASKING HOW OUR
WITH PROFITS POLICY
IS CALCULATED AS
A REFUSAL OFTEN
OFFENDS



BANX

Communication

% "The advantages of giving policyholders a share in the profits were considered by the Committee in some detail. A suggestion that profit sharing might confer a right to interfere in the management of the office was confirmed by our solicitor: in his opinion, without suitable safeguards "policyholders would have a right to insist upon inspecting the office books to ascertain that they really got what was promised them." " (Sun Life 1831)

Communication

% Fair value accounting

Communication

% "It has become the fashion to excuse an extravagant rate of expenditure by an ingenious jugglery with figures, and we are occasionally treated to the interesting spectacle of seeing the most economically conducted offices placed in the position of the most extravagant."

Communication

% Fair value accounting

% Risk based capital

% Asset Liability Management

% FRS 17

% Pensions savings gap

Dialogue

%FSA

%ABI

%Consumers Association

%Accountants

%European Commission

To every complex problem
there is a simple solution

To every complex problem
there is a simple solution
and it is wrong!

George Bernard Shaw

To every complex problem
there is a simple solution
and it is wrong!

George Bernard Shaw
(or was it HL Mencken?)