

Markets and Covid-19: a panel discussion, 13 May 2020

With River and Mercantile (chair), OAC, LGT Vestra and Eversheds Sutherland

Key themes for financial mutuals

With the recent period of heightened market volatility, River and Mercantile – the specialist insurance solutions provider - hosted a webinar panel discussion on the key themes facing financial mutuals. This examined three areas given the discussions they are having with their clients today, namely investment, liquidity as well as implications for solvency levels and society business plans.

Investments

Portfolios will have been impacted by the sharp movements in markets over the course of 2020, both with the falls in FTSE as well as the collapse in the yield on government bonds. This will have particularly affected those societies with With Profit Funds impacting both their surplus positions but also the cost of providing accrued guarantees. In times like this, profit smoothing can help however the panel discussed how resilient some mutuals may be to further market falls. The panel also highlighted the importance of looking forward from here, understanding the risks in your portfolio as well as opportunities to generate returns. For some mutuals, it will be important to review the investment guidelines given to your investment managers to ensure they have the necessary flexibility from here.

Liquidity and cashflows

The panel discussed the challenges for mutuals in managing their liquidity needs in the current environment. On the one hand, investment income is likely to be lower. This is not just as a result of dividend income on equity portfolios being cut or rental income falls in property. It also flags the significance for some mutuals of the lower income that they will earn from management fees on their unit-linked products as a result of reduced asset values .

In addition, it is important to assess the expected cash outflows from here. The panel noted that there may be an increased lapse experience as the effects of the lockdown feed through to policyholder behavior. With the FCA consultation on premium deferral and value of policy, this may also place elevated strain on mutuals' balance sheet. If management teams are taking action, this needs to be well documented to ensure there is a clear governance record for decisions made. Ultimately, it will be useful to consider stress testing the overall balance sheet for different scenarios over the next 12-24 months.

Solvency and business plans

The panel noted that mutuals' solvency position will have deteriorated with recent events. Whilst this is to be expected and solvency cover ratios have been historically strong, the key focus going forward is to revisit business plans and growth trajectories from here. This should also include forecasting bonus levels and managing policyholder expectation. Looking forward, as we emerge from lockdown the panel felt that there was a bright future for mutuals with more people staying in their local community. This should drive a new wave of product development and new initiatives to meet the savings and protection needs of members.

If you would like to learn more about any of the topics covered, you can get in touch directly with River and Mercantile on insurance@riverandmercantile.com