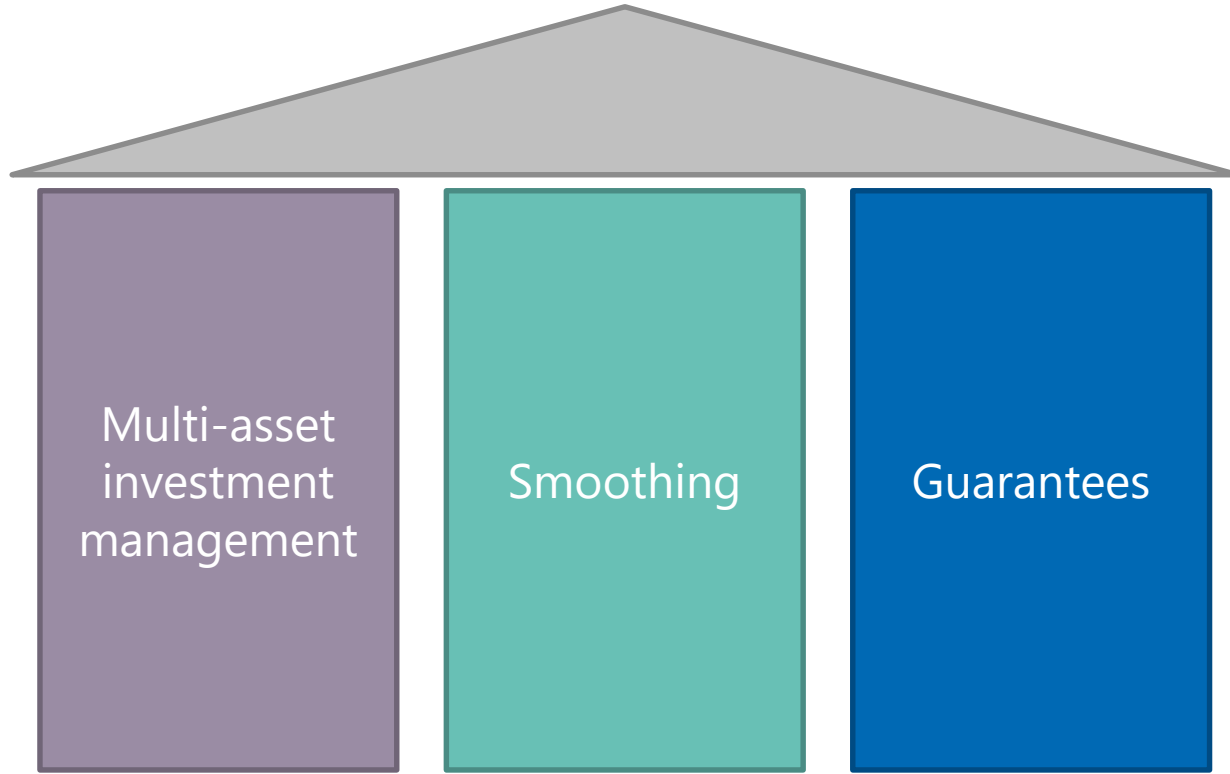




Giving With-Profits Customers What They Want

Daniel Johns
AFM With-Profits Forum
27 November 2019

What Do Customers Want from With-Profits?



Investment management

Barnett Waddingham Investment Survey

- Sixth annual investigation into investment strategies of UK with-profits funds.
- 41 funds from 23 insurers, covering over £50bn of assets.
- We have relied on the data provided, without independent verification.



Participants

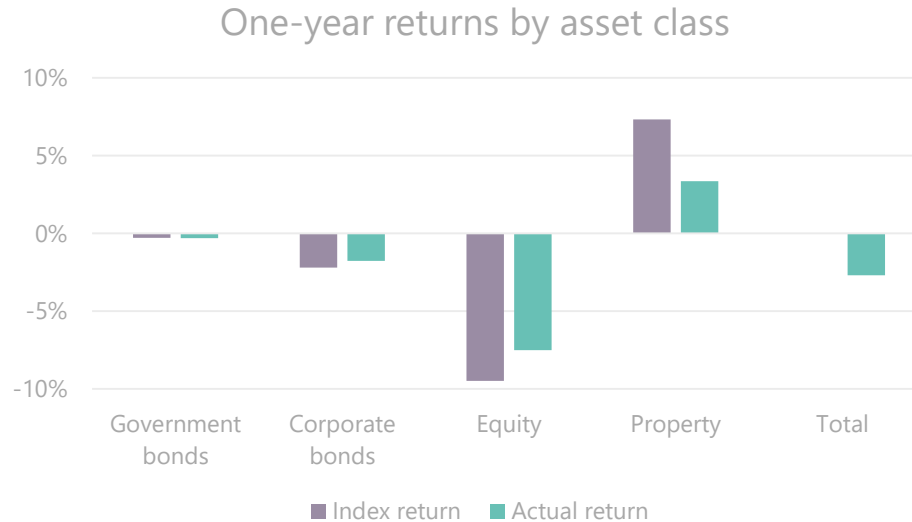
- AEGON
- Cirencester
- Dentists' Provident
- DG Mutual
- Foresters Financial
- Foresters Friendly
- Healthy Investment
- Holloway Friendly
- Kingston Unity
- Legal & General
- Lloyds Banking Group
- LV=
- Metfriendly
- NFU Mutual
- Police Mutual
- Scottish Friendly
- Sheffield Mutual
- Shepherds Friendly
- Standard Life
- The Exeter
- The Oddfellows
- Utmost
- Wesleyan

AFM Members

Others

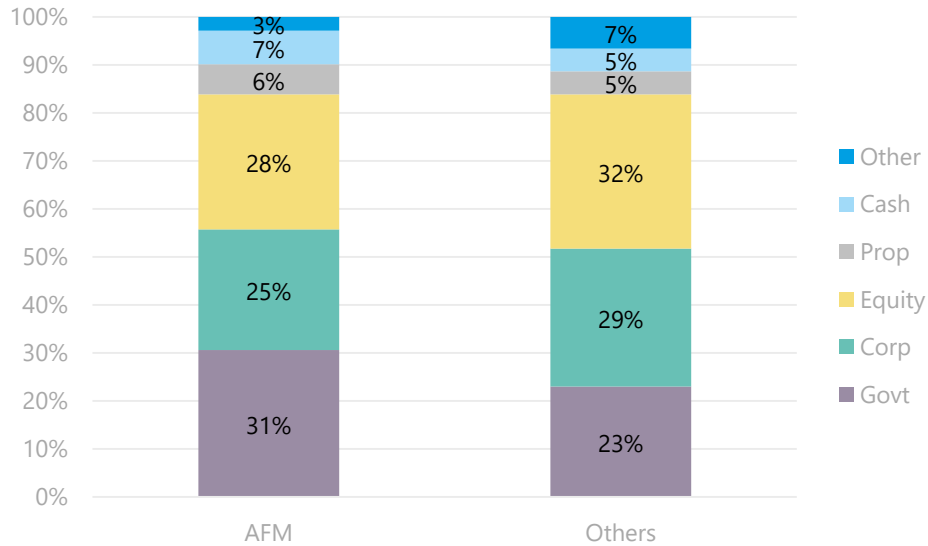
2018 Investment Returns

- The first poor year for equities for a number of years.



Asset Mix

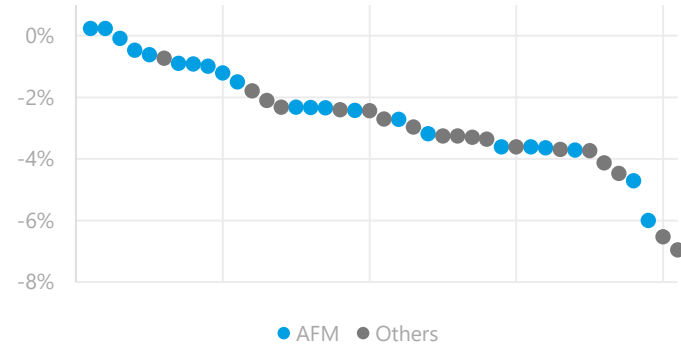
- AFM funds have lower exposure to equities and corporate bonds



2018 Investment Returns by Fund

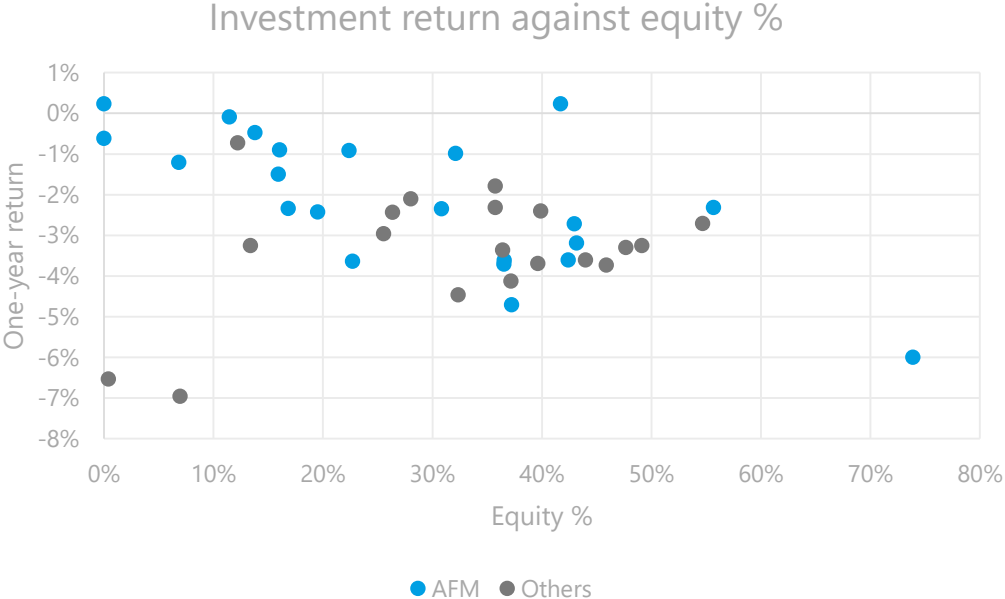
- AFM funds generally performed better than other funds in the survey in 2018.
- Average return around 1% higher.
- Top 5 all AFM.
- 10 of the top 11 AFM.

One-year returns by fund



2018 Investment Returns by Equity Holding

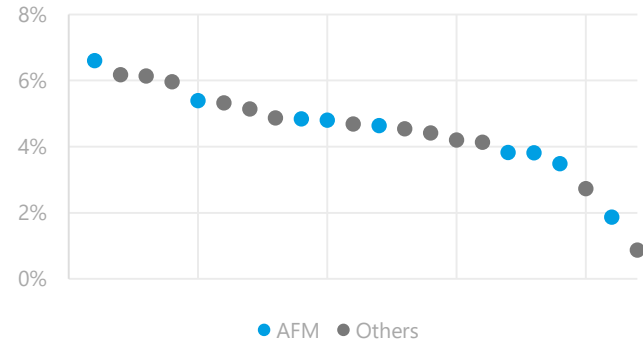
- Funds with lower equity holdings generally fared better but with wide variation.



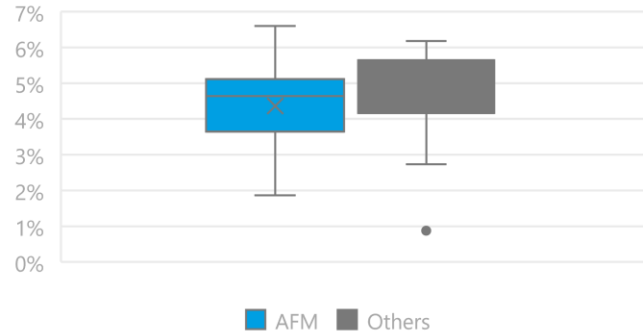
Five-Year Investment Returns

- Data only available for 22 funds.
- All funds have positive returns over five years.
- Average returns similar between AFM and non-AFM.
- The top performing fund is an AFM fund, but only two of the top eight are AFM funds.

Five-year returns by fund

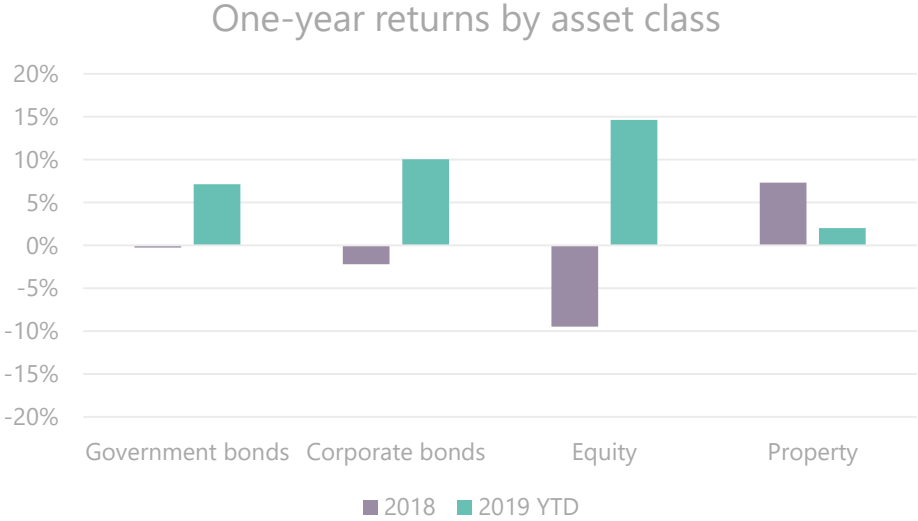


Five-year returns



2019 Investment Returns

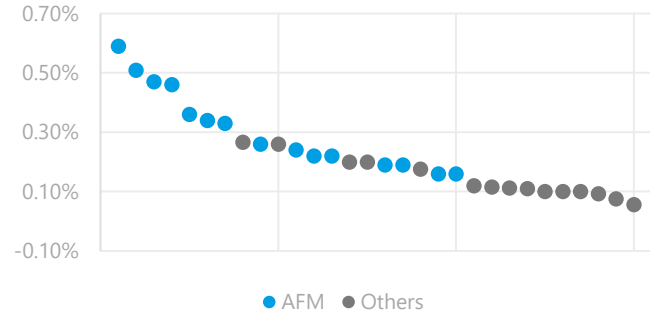
- 2019 looks like being a much better year for with-profits funds (so far!)



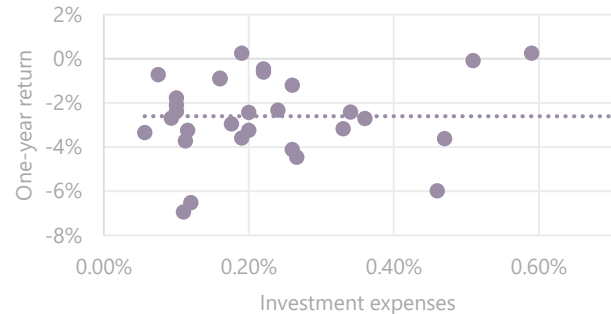
Investment Expenses

- Data only available for 31 funds.
- AFM funds generally pay higher investment expenses as a percentage of funds.
- No clear relationship between investment expenses and performance.

Investment expenses by fund



Investment return against investment expenses



Smoothing

2019 Bonus Declaration

"Last year will be remembered as a year of **turmoil in investment markets** but it is also a year when our With-Profits Fund continued to deliver competitive returns. Although there were many ups and downs in investments markets last year and many ended the year at a lower level, our diversified approach, strong and prudent financial management and **smoothing policy** have **shielded policyholders** from the worst of the falls."

Prudential UK

This means with-profits has provided short-term **smoothing** against the full impacts of **market volatility**.

Aviva

"Most customers' year on year plan values will have **remained fairly stable** despite **challenging investment market conditions**."

Standard Life

"Despite a **less favourable year** for our investment portfolio, through the process of '**smoothing**' we are able to rely on previous years' excellent returns to maintain competitive annual bonus rates for all policies and terminal bonus rates for qualifying policies."

Sheffield Mutual

"In a year when **investment markets performed badly** – with the UK stockmarket showing a return of -9.5% - we were pleased to provide a 6.6% increase to payouts for our with profits investors after **smoothing**, a key feature of with profits investments."

Wesleyan

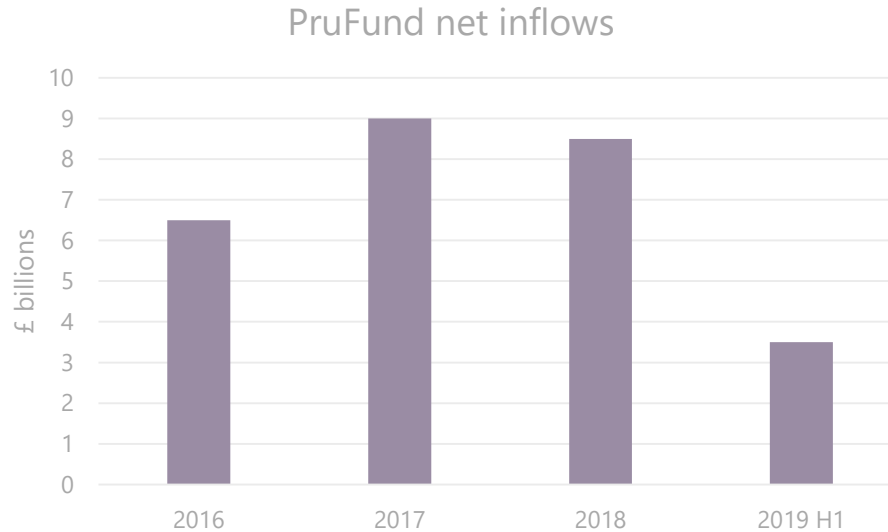
"In **challenging investment markets**, such as those we saw in 2018, customers benefit from **smoothing** which means we've been able to **reduce the impact** of the 2018 investment experience by topping up bonuses using some of the investment returns the With Profits Fund earned in previous years.

"The bonuses we are declaring today show how customers in with-profits benefit from **smoothing** in **challenging investment markets**."

Legal & General

PruFund

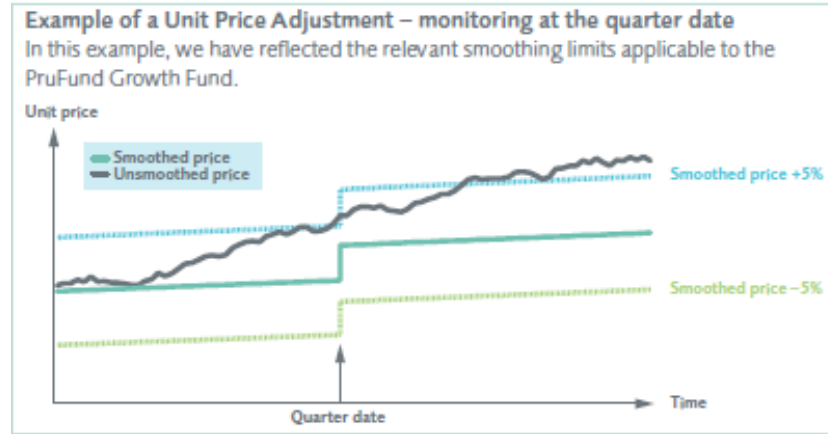
- Launched in 2004, £49.6 billion of assets as at 30 June 2019



Source: M&G plc prospectus, 25 September 2019

PruFund

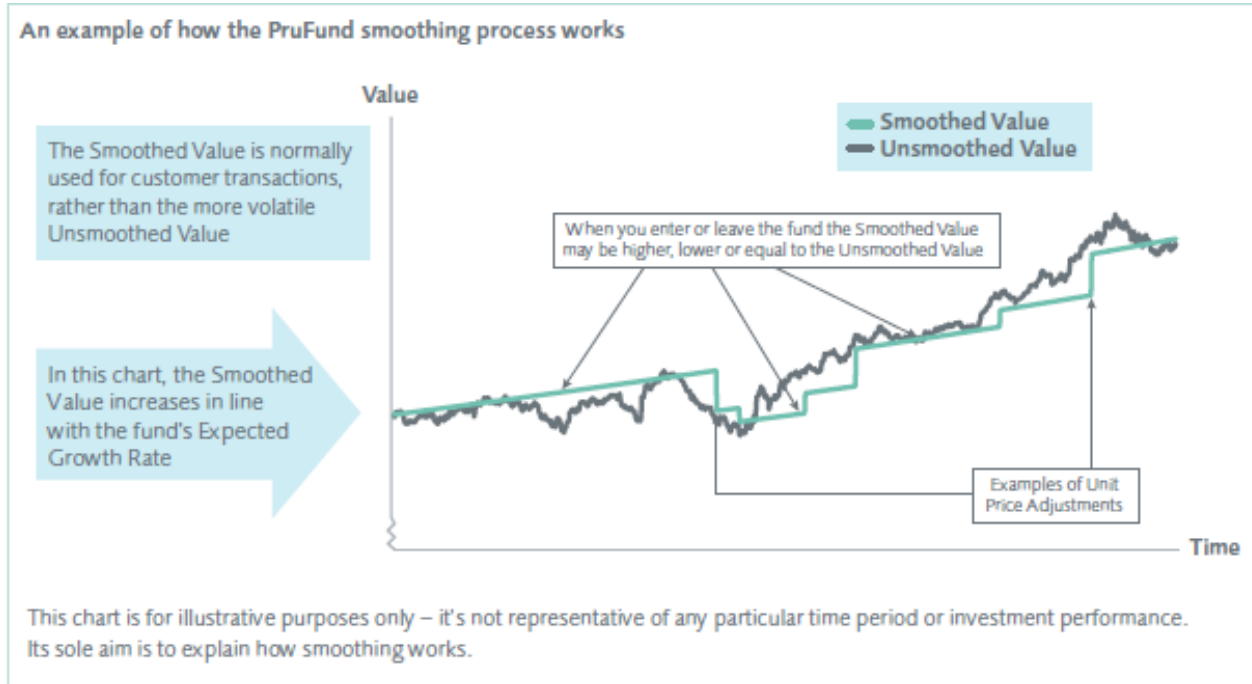
- Unsmoothed price increases with fund return
- Smoothed price increases at declared daily bonus rates
- Adjustment to smoothed price to move halfway to unsmoothed price if outside certain tolerances.



Source: PruFund product literature

PruFund

- Over time policyholder gets a smoothed return without discretion



Source: PruFund product literature

PruFund Risks

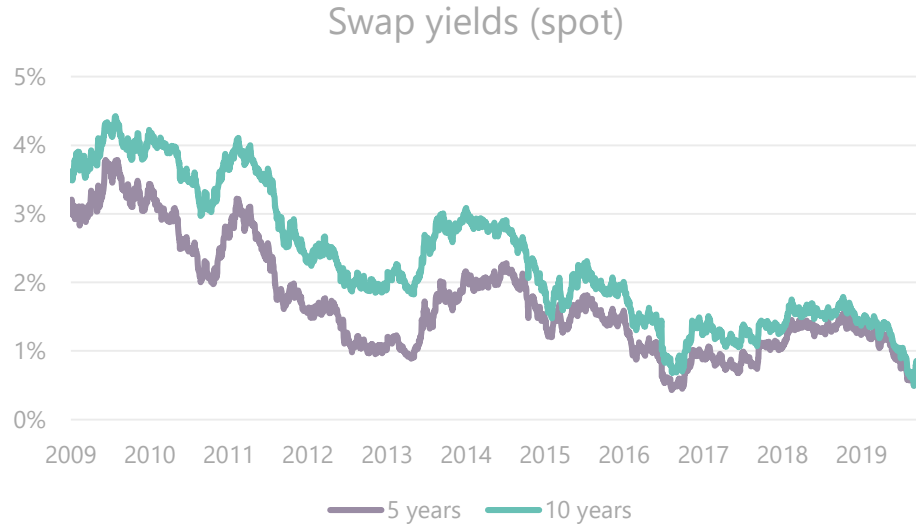
*“In addition, while diversification of the Group’s savings and investments business is ongoing, the Group retains **concentration risk to PruFund**, a transparent and modern way of with-profits investing in the UK, which offers individuals different rates of smoothed return aligned with their tolerance for risk. This makes the business more vulnerable to factors which reduce PruFund’s investment performance and to any **design risk** arising in respect of it (e.g. in relation to the **accumulation of smoothing losses, particularly from lower volatility funds**).”*

Source: M&G plc prospectus, 25 September 2019

Guarantees

Guarantees in a Low Interest Rate Environment

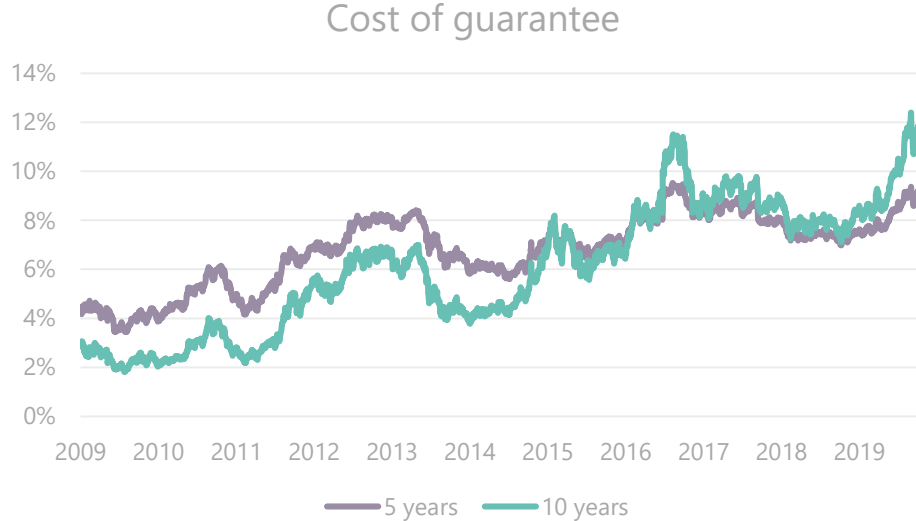
- Risk-free yields have fallen to historically low levels



Source: Bank of England

Guarantees in a Low Interest Rate Environment

- Guarantees have become correspondingly more expensive



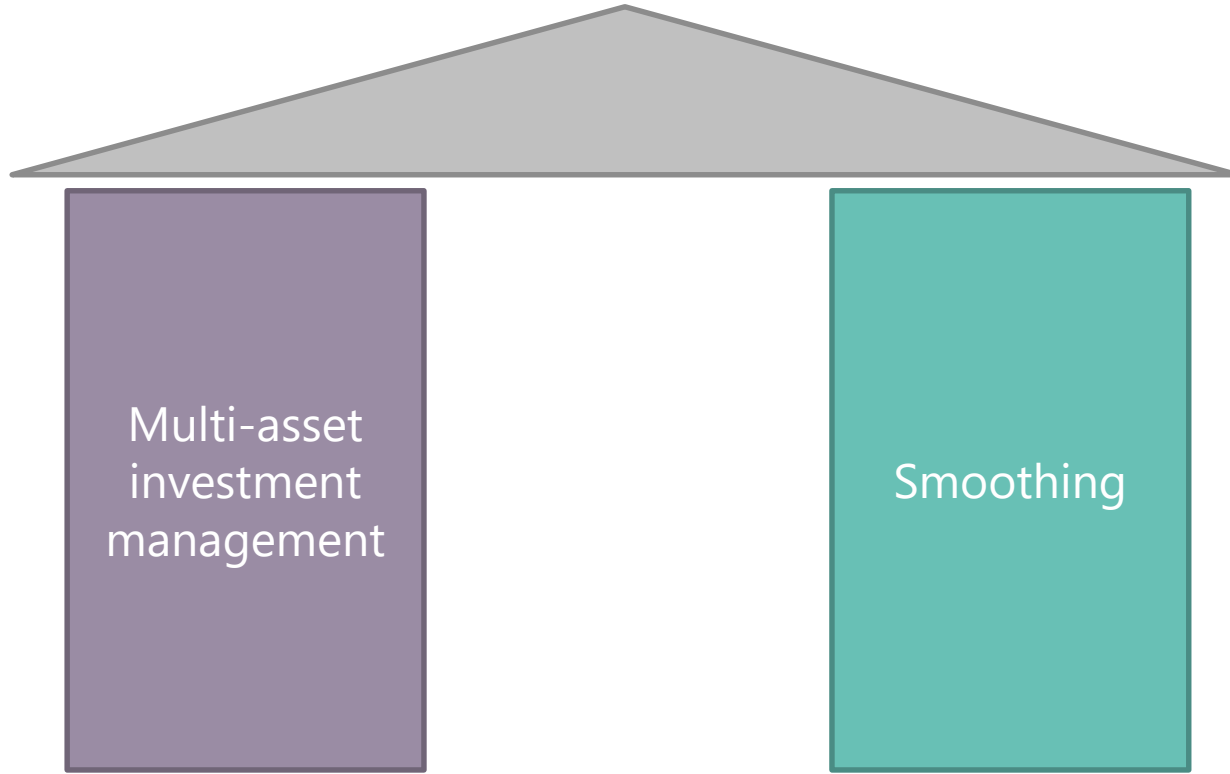
Based on return of single premium before charges after 5 or 10 years
Assets invested 60% in "equity" assets with 20% p.a. volatility and 40% in risk-free assets
Guarantee costs calculated using Black-Scholes option pricing formula

Affordable Guarantees

- Substantial reductions in EBR or guarantee level would be required



What Do Customers Value in With-Profits?



Questions

Barnett Waddingham



Scott Eason



Kim Durniat



Daniel Johns

Roles held

- Chief Actuary of with-profits firms
- With-Profits Actuary
- CRO for with-profits firm
- Reviewing Actuary for with-profits firms
- Peer Reviewer to CA of with-profits firm
- Appropriate Actuary for with-profits firm
- With-Profits Valuation Actuary

Services

- Bonus setting
- Investment strategy
- PPFM COBS 20 compliance reviews
- Review of calculations of TPs and SCR
 - Cost of guarantees
 - Use of management actions
- Run-off plans
- Transfers of business
- Actuarial and Risk Function support