Fair treatment of with-profits customers

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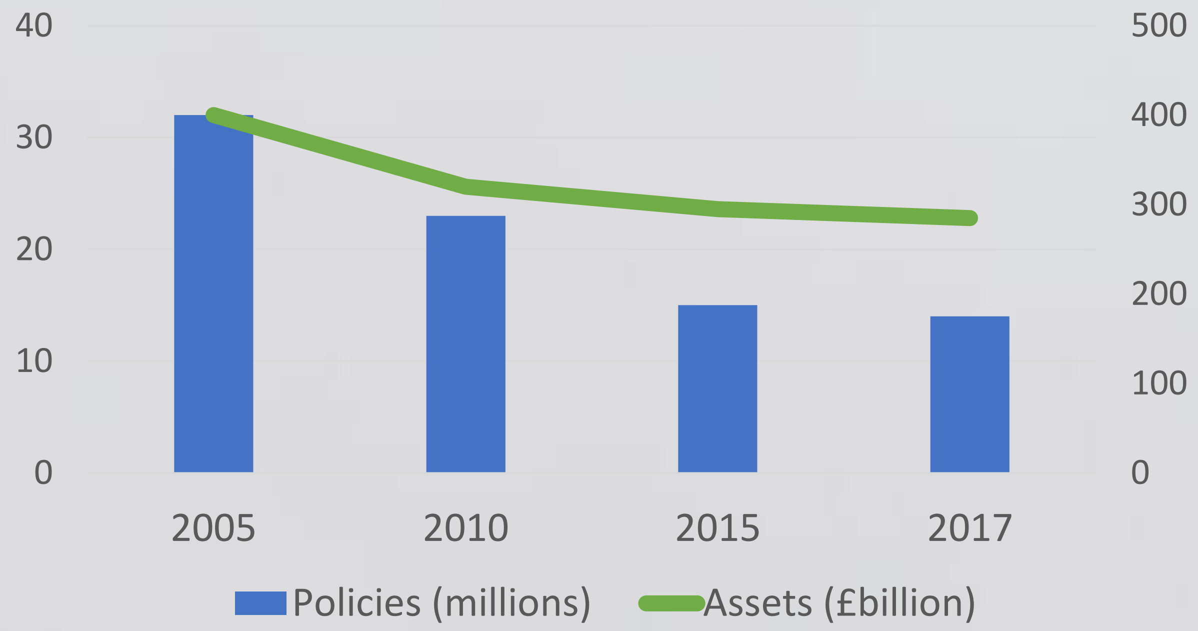
Thematic Review TR19/3, April 2019

"This reviews intends to help firms continue to evaluate their own with-profits fund management practices to ensure that they are complying with FCA rules and treating their with-profits customers fairly. It details our key findings and gives examples of good and poor practice that we observed."



Declining importance of with-profits

- With-profits remains significant, with £274 billion invested in 2017, but this compares to £426 billion in 2001.
- Most policies now sit in funds in run-off.

Risk of harm may be increasing

Causes of risk

- Decreasing consumer demand
- Less important to providers
- Nature of product is challenging to manage
- Solvency 2 complications to way funds are managed

Scope of review

- Investment strategy and management
- Capital management- balancing interests of different generations of customers
- Capital management- allocation of rewards
- Governance

Findings from review
based on 80% market coverage (8 firms)

Good practice

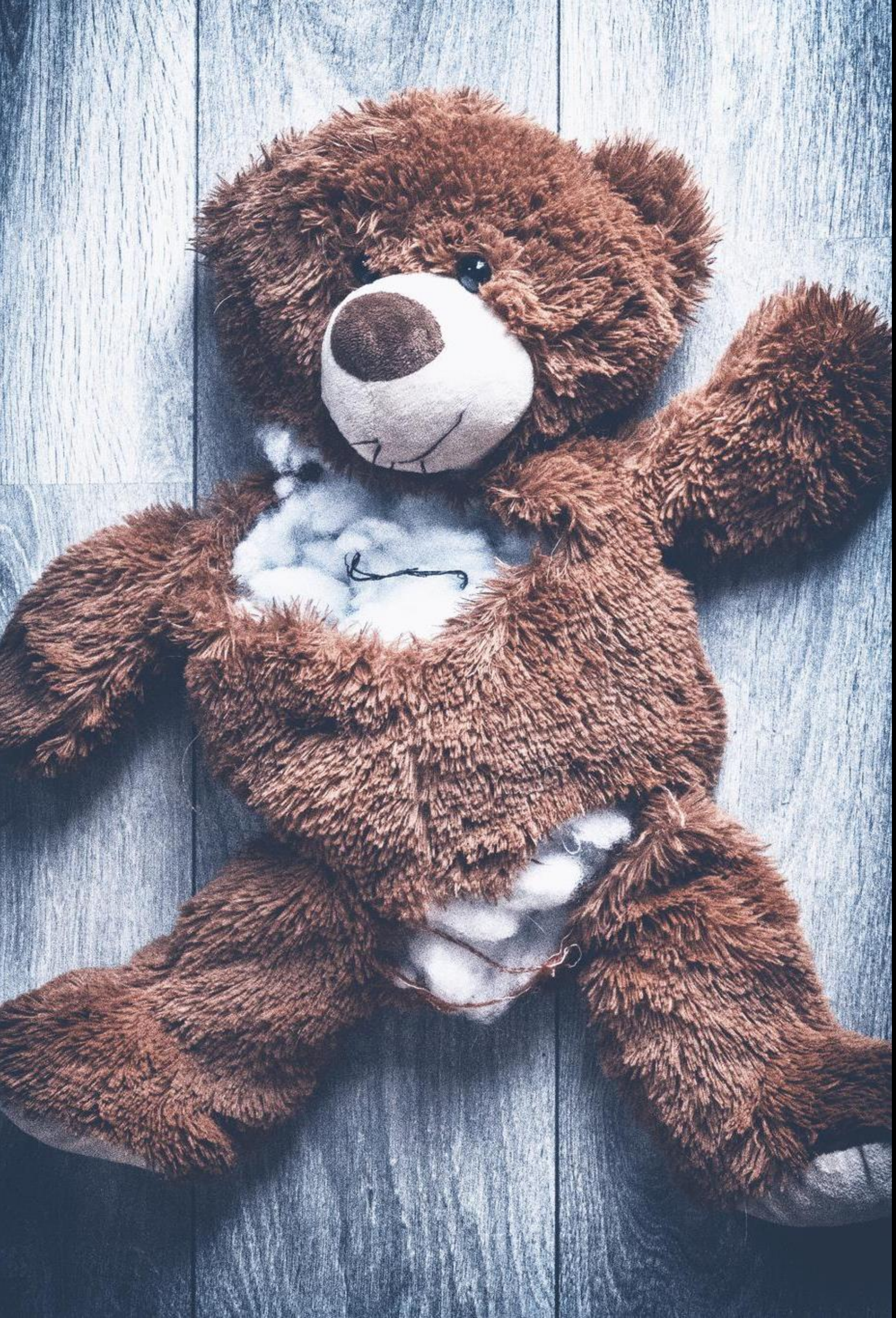
- Most firms taking reasonable care in most areas
- Firms ensuring they meet investment needs of different groups of customers
- Fund level solvency test
- Annual review of run-off plans

Poor practice

- Run-off plans not up to date
- Lack of effective assessment for excess surplus
- Automatically continuing past practice without assessing current fairness
- Capital management approached not robust
- Ineffective board oversight

Next steps for FCA

- Third phase of review, to remediate risks of harm with 8 firms in review
- All firms should assess examples of good and poor practice and act as necessary
- Focused work on use of With-Profits Advisory Arrangements (2019/20)
- Ongoing supervisory review in 2020 and beyond



With-profits governance

COBS 20.5: a firm must appoint

1. A with profits committee; or
2. With-profits advisory arrangement:
   a) an independent person; or
   b) if appropriate, one or more NEDs appointed to provide independent judgment to the governing body

Questions