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SCOTTISH WIDOWS
official pensions and investment provider

Dear Sir

Scottish Widows' response to FRC/FSA consultation CP12/10 'Statutory Money Purchase Illustrations'

Scottish Widows, which is part of Lloyds Banking Group, welcomes the opportunity to provide input into this consultation. When combined with the heritage brands of Clerical Medical and Halifax Life we are the UK's largest investment, pensions and savings provider.

We welcome and fully support the proposal to align the assumptions used in Statutory Money Purchase Illustrations (SMPIs) with those in COBS 13 of the FSA Handbook. We agree that by having a consistent approach this will help consumers to compare different projections and make it simpler for providers. However, we do have some concerns regarding the impact the change will have and the timeline for implementation.

If you have any questions or would like us to expand on any aspect, please do not hesitate to contact us.

D. Lascelles

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<u>Responses to consultation questions</u>

Q1. Do you agree that the assumptions in AS TM1 should be consistent as far as possible with those specified in COBS 12 Annex 2 of the FSA Handbook?

Yes it is important to maintain consistency in order for consumers to be given a consistent message across all projections received throughout the lifecycle of their product.

Q2.

(a) Should AS TM1 continue to specify a maximum accumulation rate?

(b) If AS TM1 continues to specify a maximum accumulation rate, should it be the same as the FSA's intermediate projection rate?

(c) If your answer to (b) is 'No', what rate should be specified in AS TM1?

(a) Yes. In applying TM1 to SMPI, firms should be coming from a starting point of using projection rates that reflect the investment potential of the underlying assets, rather than defaulting to the maximum rate. This is also the position that the proposed change of emphasis to COBS 13 Annex 2 R2.3 and R2.4, as proposed in Chapter 4 of CP 12/10, seeks to achieve for FSA projections. The maximum rate serves to maintain a degree of regulatory control over projections by preventing over-optimistic assessments of future returns.

(b) Yes. It is important that customers receive a consistent message throughout the lifecycle of their policy, especially when comparing an SMPI with an ad-hoc existing business projection.

(c) N/A

Q3. Should the wording for the mortality assumption in AS TM1 be changed along the lines of the wording in Chapter 2?

Yes. A mortality basis that leaves room for interpretation as to when to apply mortality improvements and blending is unhelpful.

Q4. Given the proposed nature of the changes to AS TM1, do respondents envisage any difficulties with a four-week consultation period for an exposed draft of a revised version of AS TM1?

We do not envisage an issue with the implementation of the mortality assumption proposal and therefore a four-week consultation period would create no difficulty. However, FSA do not indicate in Chapter 4 of CP 12/10, when they will be responding regarding their proposals to reduce intermediate projection rate, on which the TM1 maximum accumulation rate is based, or provide a clear implementation date. The results of this consultation will affect the required action that we will need to take regarding TM1 illustrations and our feedback to the proposed consultation (see our response to next question).

Q5. Do you agree with our proposals for the timing of any changes?

As mentioned in our response to Q4, we have no issue regarding the timing for implementation of change to the mortality assumptions.

But if, following the consultation, the FSA maximum intermediate rate is reduced as per the proposals, along with the change in wording in COBS 13 Annex 2 R2.4, this will lead to the need for a comprehensive review of all fund-specific projection assumptions, leading to potential changes for a wide-range of projections and outputs. In addition, these changes are being proposed at a time when firms are implementing an extremely high volume of regulatory change including RDR and Solvency II

Therefore, we would be looking for implementation of the FSA proposals at tax year-end 2014. Change at any other point in the year would involve extra cost for no obvious benefit. This impacts the timeline for the proposals you have made we would strongly recommend that your timeline for implementation is aligned to that for FSA projections.

Q6. Do you have any comment on the impact assessment for our proposals?

As mentioned in our response to Q5, a reduction in the FSA maximum intermediate rate to the level proposed, would lead to potential changes for a wide-range of projections and outputs. Whilst a number of the changes, especially regarding projections, will be relatively easy to implement, other changes, to outputs and across numerous legacy systems, will have a significant impact regarding both resources and cost. As highlighted in our response to Q5, the timing of the FSA changes will also impact the cost.

Therefore, we do not fully agree with your impact assessment, although the full impact will not be known until FSA publish their Policy Statement regarding the changes to COBS 13 Annex 2.