Aviva Response to

CP12/10: Statutory Money Purchase Illustrations

Aviva welcomes the opportunity to comment on the Chapter 5 of the joint FSA/FRC consultation paper CP12/10. Our comments are as follows:

Chapter 5 – FRC consultation

Q1: Do you agree that the assumptions in AS TM1 should be consistent as far as possible with those specified in COBS 13 Annex 2 of the FSA Handbook?

Yes, it makes sense to have a consistent approach to illustration assumptions starting with the new business quote stage and continuing throughout the term of the contract. A key reason for this is to avoid confusing customers who would not understand the reason for inconsistencies.

Q2: a) Should AS TM1 continue to specify a maximum accumulation rate?

Following on from Q1 above, if a cap is to be required by COBS it would be inconsistent not to continue to set a maximum accumulation rate, so we believe a maximum rate should still be specified.

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

Yes, for consistency we think it should 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?

Not applicable.

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

It does make sense for the assumption to be consistent as it avoids the need to have to maintain and update multiple assumptions. Whilst it's not a major issue, it's a little disappointing to have to make a further change so soon after the change to mortality assumptions made in April this year. However, having said that, it's not a major change and not difficult to achieve. The existing wording was unclear and open to interpretation and may well have led to disparity between providers.

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

We don't foresee any problems with a four week period for reviewing and responding to the consultation on the exposure draft of AS TM1.

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

We note the intention to publish a revised AS TM1 by the end of this year following on from the four week consultation period. An implementation date of 6 April 2013 is extremely tight in terms of building, testing and implementing any change even if this timetable is adhered to. We really need certainty of the details of the changes by the end of the year at the latest, but preferably we would want at least 6 months to implement any change. Any slippage at all would put implementation by 6 April 2013 at great risk, bearing in mind all the other mandatory change providers are having to deal with. We therefore believe a transitional period should be allowed where it proves impractical for a 6 April 2013 deadline to be met.

Q6: Do you have any comments on the impact assessment for our proposals?

It’s important to put any change into context in terms of the overall amount of change being dealt with by providers with finite resources. For any provider with multiple systems and legacy portfolios there is a significant cost in building, testing and implementing any changes.

Additionally, providers will need to consider what messages will need to be provided to customers to explain the reason for the reduction in the maximum accumulation rate to avoid any undue concern. Unless handled sensitively, the change has the potential to generate a considerable volume of enquiries.

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