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Board for Actuarial Standards  
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Dear Sir

**Consultation Paper: TM1 Statutory Illustrations of Money Purchase Benefits March 2010**

The consultation paper sets out a number of questions relating to a review of TM1 in preparation for publication of an exposure draft. The following sets out Royal London's response to questions 21 and 25.

***Question 21***

*Is the approach for with-profits funds set out in section 6.7 of TM1 appropriate? (paragraph 6.39 to 6.40)*

We consider the current approach which allows providers to reflect relevant aspects of their bonus policy to be appropriate. As indicated, it is important that providers ensure the resulting illustrations are not misleading but this is a requirement placed upon all with profit communications, including SMPIs, under the principles and regulations of the FSA.

It is suggested that anything other than an unsmoothed asset share is potentially misleading and situations in which this would be true are clearly possible. However, we believe it is equally possible to envisage situations in which the use of an unsmoothed asset share would itself be misleading and that it would be undesirable to force insurers to use unsmoothed asset shares in all circumstances.

If, for any reason, current payouts are significantly above or below asset share and the insurer's smoothing practice suggests this will be the case for a period as payouts are brought back in line, it would seem appropriate to make some allowance for this in the illustrations for policyholders likely to be affected. Otherwise, SMPIs will not achieve their purpose of providing illustrations which enable them to understand their likely pension in retirement and assist them to assess the extent to which they need to make further provision.

It is unclear whether the suggestion is the use of asset shares calculated on an individual policy basis. As indicated by target ranges shown within PPFMs, it is possible for an asset share on an individual basis to be significantly different from that the eventual payout on that policy. Therefore even where current payouts are close to 100% of asset share it seems reasonable to allow insurers the facility to make an appropriate allowance for this range of payouts and **not** require the use of individually calculated asset shares.

## *Question 25*

*Would the timetable outlined in section 9 allow providers sufficient time to make changes from statements with effective dates on or after 6 April 2011? What benefits, if any, would there be if changes were to be effective a year later?*

The paper mentions that statements will normally be issued some time after their effective date. We agree that this is the case for a portion of our product range and would allow more time to complete any changes to the documentation itself. However, the systems and processes in place mean that the relevant calculations are carried out at the effective date and any changes to these would need to be completed by 6 April 2011.

In addition, the remainder of our product range produces statements on the policy anniversary and are issued on a daily basis throughout the year. Clearly any changes to both calculations and documents would need to be in place for 6 April 2011 for these statements.

Due to existing requirements for changes to illustration, (and other), systems and procedures during 2010, it would be extremely difficult to find sufficient suitably qualified resource to implement these changes before 6 April 2011, particularly given the efforts most offices are devoting to Solvency II currently. Consequently, we would strongly favour the changes to be effective from 6 April 2012, rather than 2011.

A later effective date would have the benefit of allowing providers more time to implement the changes within their systems. This would reduce the risk of changes being incorrect or not available on time. However, this will only be the case if clarity on the new requirements is still achieved relatively quickly. Although some extension to the consultation period for the exposure draft may be appropriate it would still be desirable for the final version of the requirements to be available before the end of 2010.

Yours faithfully



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With Profits Actuary