Introduction and summary

1. The FSA’s Issues Paper sets out to “consider whether the annual regulatory returns to the FSA can be improved to give more effective and transparent disclosure about the financial condition of companies and their with-profits funds”. It sets out some limitations of the current disclosure regime and offers options for improving that regime. It also touches on some costs and other difficulties associated with some of the possible improvements. However, there is no clear message in this paper of a problem seeking a solution. We believe FSA should clarify whether they are looking for improved reporting to assist in their role as prudential supervisor or whether they seek improved and simpler reporting that current and potential policyholders and their advisers can access as an aid to investment decision-making. Different solutions may be appropriate depending on the issue to be addressed.

2. The ABI is supportive of the need for greater clarity and openness, and welcomes this paper as an important contribution to the evolution of regulatory reporting. However, we do believe that the purpose of any disclosure needs to be clear, for example reporting of profits to shareholders is very different from reporting on the ability of a company to meet the guaranteed benefits it has promised to policyholders. We believe that there needs to be greater clarity of the purpose of regulatory reporting and would like to discuss this further with the FSA to ensure that any final suggestions meet the required purpose.

3. This subject is clearly linked to the forthcoming Issues Papers on Discretion and Governance, as well as to the recently-issued paper on disclosure to policyholders, and is a theme we will develop in our response to those papers.

4. ABI is supportive of the principle of improving the information that is supplied to the regulator. It is right that insurers should provide more information (via the regulator in some cases) on how with-profits funds operate. However, we are concerned that not all insurance companies are currently able to provide the summary information suggested in Option C – our preferred option of those suggested. While most companies will have the information available, in some cases considerable costs could be incurred in effecting the changes necessary to produce this information in
the format required. While these costs can be identified, it is not immediately clear that the benefits either to consumers or to the regulator justify those costs. We are sure this will be addressed in the FSA’s cost benefit analysis, which will accompany future proposals for change, and recommend that the costs considered should include any implicit cost (detriment) to policyholders of reduced discretion.

5. This response continues by making some general points about other types of financial reporting, discussions of our preferred option (Option C), on asset share methodologies and consideration of some possible alternative approaches, before concluding with answers to the 13 questions asked in the paper. We use the words “realistic” and “prudent/prudential” in their technical sense as understood by the current regulatory reporting rules. We also refer to Policyholders’ Reasonable Expectations, or PRE, recognising that the statutory basis for this term fell away at N2. However, we believe it still conveys the sense of continuing to treat customers fairly in endeavouring to ensure that their investments provide what they could reasonably have expected.

Other Developments in Regulatory and Financial Reporting

6. It is important that there should be an alignment of changes to regulatory reporting and other changes currently in hand for financial reporting generally. There is also the need for a significant lead-in time for any changes, which must be at least 12 months from the date of finalisation as set out in CP97 in order to achieve implementation of the Integrated Prudential Sourcebook from 1 January 2004.

7. The approach adopted in this Issues Paper seems to be sensible and workable, particularly in respect of the debate on reserving for terminal bonuses. CP97 also includes requirements for reserving practices in this area. The CP97 proposals could lead to overly prudential reserving for final bonuses and a consequent possibility of reduced returns for policyholders because of the investment constraints this would impose. Although we support the disclosure of information on terminal bonuses on a realistic basis, we do not support prudent reserving as these are discretionary benefits. However, it is important to be clear about the purpose of identifying terminal bonus amounts – whether it is primarily for the benefit of the regulator or for policyholders and their advisers. For the regulator it is not necessarily the value of the terminal bonus that is the key issue but the determination of aggregate liabilities to meet PRE. Whatever the outcome of this debate, at no stage should a realistic estimate of terminal bonus value be added to a prudent estimate of other values in order to determine an estimate of total liabilities.
We assume that the relevant provisions in the Integrated Prudential Sourcebook will be based on the conclusions of the With-Profits Review, since that Review will be completed before FSA issues its feedback statement on CP97. It is important that proposals about with-profits reporting arising from CP97 and the with-profits review are consistent and should be implemented at the same time. It is also important that the proposals should be considered in line with proposals in respect of fair value accounting, which are being consulted on by the International Accounting Standards Board.

**Option C**

9. The option that ABI supports is a development of Option C.

10. Option C will, as it stands, help to indicate the office's capacity to meet discretionary benefits that are on average equal to asset shares, but would not, without additional disclosure, indicate how asset shares are calculated or how individual policies are affected by smoothing. The results would be more informative if they were accompanied by a description of the office's approach to calculating asset shares, and by an overall comparison of current payouts with asset shares (as has been proposed by the ABI for disclosure in annual statements).

11. Without full disclosure of the basis used to calculate asset shares and any augmentation to asset share needed to meet PRE, the balance sheet in option C is capable of mis-interpretation. There is a difficult balance to be struck between disclosing sufficient information for public use, without disclosing information that creates unsustainable expectations or reveals information that would be of significant benefit to competitors. In the short-term we would favour providing the data in option C on a confidential basis so that both the FSA and companies can develop a better understanding of how these forms could be developed.

12. Option C differs from the prudent reserving for guarantees used in a solvency valuation. Option C is based on a realistic approach to reporting, and as such it should incorporate realistic assumptions for future experience, including such matters as mortality and option take up rates. Keeping solvency and PRE-based information separate provides more detail for the regulator and interested parties than using a single prudent reserve including an allowance for terminal bonus.

**Asset share methodologies**

13. The concept of asset share has been around for only the last 20 years of nearly two centuries of the history of with-profits policies. It superseded earlier methods used for determining bonuses and policy benefits that had
been satisfactory in their time. It may in turn be superseded by different methods for the calculation of bonuses, in response to further changes in economic conditions or policy designs, or because of legal constraints. However, it is currently recognised as being a reasonable system for ensuring customers are treated fairly and in line with stated methods of operating a company’s with-profits fund.

14. Asset share figures were originally derived to achieve a measure of fairness among the bonus distributions, which fits well with the FSA principle of fair treatment of customers. They are determined for a wide range of policy types taken out at different times, with premiums paid at different dates, and held over periods of fluctuating financial markets. They therefore tend to reflect the types of policy for which they are being used.

15. There are significant difficulties in introducing standardisation of asset share calculations. Variations between companies in their asset share calculations reflect the different bonus philosophies, participation rights and practices of different companies, and therefore reflect the different expectations of their policyholders. In some cases these are enshrined in legal schemes, sometimes resulting from demutualisations. It would not therefore be possible for offices to change asset share methodologies used to determine bonuses without in some way changing their policyholders’ reasonable expectations. However, details of the aggregate ratio of payouts to asset shares for recent years could be disclosed in the proposed regulatory reporting tables (see our answer to question 4). By providing this data on a time-lagged basis, this would solve the problem of confidentiality of information, and potential selection by policyholders.

16. With-profits funds work on the basis of many investors, and differing cohorts of investors, sharing in the fortunes of the fund’s investments and profits. Investors are pooling their investment funds to share and smooth the risks of stock market volatility. The insurers managing the fund are responsible for the collective good of all the investors sharing in the pool, rather than for the good of individual members or cohorts. This is the underlying principle of with-profits investment. It is important that those who leave the pool should not, by doing so, be able significantly to disadvantage those who remain, and it is part of the insurer’s job to ensure that they may not do so.

17. In summary, we would not support standardised asset share methodology. Rather we would be interested in exploring further with FSA some form of standardised disclosure of asset share methodologies in order to aid comparability and to identify and explain any inconsistency.

Alternative approaches.
18. At present methodologies used by Standard & Poor’s and Moody's to obtain a financial strength rating are not standard, although they are based on the same basic principles and take the same factors into account. The reporting in Option C could be developed to provide a consistent methodology that could be used by rating agencies to provide financial strength ratings.

19. Other approaches to provide the FSA with more information on the financial condition of an insurance fund include:

- providing FSA with confidential copies of the company’s annual financial condition reports (FCR), and a report on the actuary’s understanding of PRE, including any problem areas and actions being taken to remedy them. FSA have access to these during an inspection visit and some of the FCR is disclosed to rating agencies, although, as the information is confidential, it should not be disclosed publicly. While the information contained is not in a standard form, it is subject to guidance from the actuarial profession and would be of use to the FSA, including in assessing an office’s financial strength.

- a modification of Option C, where the balance sheet does not show the amounts in excess of asset shares needed to meet PRE, but instead includes the effect of past under or over-payment of benefits against asset shares. This could be based on the model proposed in the Institute and Faculty of Actuaries paper – *Transparent With-Profits Freedom with Publicity*. As well as the asset shares and accumulated smoothing account, this would also show the amounts set aside for guarantees as a separate item, and would show the working capital in the business. This balance sheet could also be accompanied by a statement from the Appointed Actuary about the amount of working capital he believes is needed within the fund to operate the company’s smoothing policy (probably expressed as a desired or target working capital ratio).

20. Both these suggestions would need considerable development work and we are aware of drawbacks that have already been identified, particularly with the second point. We would be keen to work with FSA further if these points are of interest.

**QUESTIONS**

Q1 – Are there any other current sources of information, besides those listed in paragraphs 4 to 8 that you feel are useful regarding the financial condition of companies with with-profits life insurance business?
Other sources of public information include rating agency reports (e.g., Standard and Poors and Moody's), magazine surveys (particularly Money Management and Planned Savings1), specialist surveys, and (for proprietary companies) stockbroker reports. These ‘other’ sources of information generally include, or are based on, information contained in regulatory returns and published accounts.

The Issues Paper notes that companies produce with-profits guides. In practice however, these are rarely asked for and infrequently read by consumers. They are usually requested by informed users such as analysts and IFAs.

To provide policyholders with better information, the Raising Standards initiative has introduced a With-Profits Summary document given to consumers at point of sale. The objective of this document is to improve customers’ understanding of the way insurers manage their with-profit business. It is a short document in plain English, that details (among other things) how the with-profits bonus system works, how payouts are managed, the investment policy and smoothing and how payouts on maturity and surrender are decided. A more detailed version of the with-profits summary is available on request, which covers the same ground but in more depth. Raising Standards also provides for yearly statements. ABI has already suggested in our submission to FSA in response to their with-profits scope paper that there should in future be annual disclosure of the performance of the fund, together with the current Standard and Poor (or similar) rating.

Q2 – Do you agree with the description in paragraphs 9 to 25 of the issues arising over the financial information on with-profits funds currently provided?

It is not necessary, or indeed appropriate, for the summary financial information to be reconciled with the Companies Act accounts, nor to be audited (see further discussion on auditing in answer to question 9). This is because the documents address different interests. The annual accounts are prepared for shareholder or members of the company, while the regulatory returns are prepared so that the regulator can ensure that policyholders’ interests are protected. In mutual companies, the annual accounts and regulatory returns are concerned with broadly the same interests, but it would be inappropriate to have different standards for the different types of companies.

While we are supportive of the aim to make more financial information easily available to consumers and their advisers, potential customers and their advisers do not base their decisions on balance sheet information alone. Although such detail may be important in assessing a company’s financial strength, other factors and information also contribute. These include the quality and robustness

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1 In particular regular Money Management surveys: on Life Office Financial Strength (October each year), annual bonus rate survey (usually published in April each year), the six-monthly with-profits endowments surveys. Also Money Marketing’s regular ‘Focus’ surveys comparing with-profits and unit-linked business.
of investment management, service standards, expense levels and contract flexibility. Financial strength rating agencies take these other factors into account in conducting their analysis to provide a rating. Raising Standards accreditation will, we believe, also become a factor in future.

The Companies Act stipulates some detailed requirements that are applied to ensure consistency in the annual accounts. These details would not be appropriate when assessing the adequacy of the assets to meet policyholders’ reasonable expectations, as this concept will vary from company to company, depending on their legal and actuarial approach to managing their with-profits funds. This is fundamental to the information contained in the regulatory returns. Hence, a detailed reconciliation would only serve to obscure the regulatory reporting summary, and add significant extra cost for no benefit to customers, regulators or shareholders.

An Appointed Actuary, who is subject to detailed professional guidance, currently signs off Schedule 4 of the regulatory returns. The introduction of a peer review of an Appointed Actuary (which the ABI supports) will provide the protection needed for customers. An audit in addition would incur additional costs but would add little in value to the protection offered.

Use of indicators of performance

Where a with-profits fund also has non-profits business in it, there may well be a substantial asset in the form of embedded value of that business available to support benefits to policyholders as these values emerge, particularly where profits from miscellaneous sources are included in the final payout. In these circumstances, we believe this value should be treated as part of the assets available to support the realistic liabilities. To view this as an artificial inflation of assets is to ignore a real asset available to meet future liabilities.

Lack of information on financial condition in summary form

The idea of publishing some key financial ratios, suggested in paragraph 21, is superficially attractive, but these ratios are all likely to suffer from many of the problems identified in the discussion of free asset ratios in paragraph 18 of the Issues Paper.

Some companies currently quote the return on assets in their with-profits guides as a measure of the financial performance of the fund. We believe this would be a useful improvement to reporting.

The concept of reporting the condition of individual with-profits funds poses difficulties, unless there is legal ring-fencing. The issues paper (and CP97) is written as if the with-profits liabilities, and the assets to support them, are part of a ring-fenced fund. However this is rarely the case, as ring-fencing generally
exists only following some demutualisations and for with-profits funds used as investment vehicles for stakeholder pensions.

**Q3 – Are there any other issues arising besides those mentioned in paragraph 9 to 25?**

The Actuary must ensure he has properly allowed for guarantees and options and for any asset/liability mismatches in his reserving. The tighter reserving requirements are currently tending to lead offices to introduce new products with lower and fewer guarantees. It is debatable whether this is in the policyholders’ interests, as the availability of guarantees is said to be one of the attractions of the with-profits product. But guarantees have a cost, which may take the form of a charge on the with-profits business or of a restriction in its investment freedom. Lower guarantees allow greater investment freedom and consequently potentially higher investment returns. Requirements for the provision of additional information need to be designed so that they do not increase the constructive liabilities of companies because of the consequent restriction in investment choice, and its resultant risk of reducing returns to policyholders.

**Q4 – What features, besides those already listed in paragraphs 21 and 23 do you think would be desirable in a summary of financial information?**

It might be useful to have a measure showing total payouts in relation to total asset shares. This would show whether inherited estates were being created from current policyholder contributions and whether the estate is being eroded by excessive benefit payments. This was proposed in ABI’s submission to FSA’s original with-profits scope paper, suggesting that the previous three years’ average ratio should be disclosed, so as to give a broad indication of whether collective equity had been achieved.

**Q5 – Would you find it useful to have the regulatory returns available on the FSA website?**

Copies of regulatory returns are currently available electronically from Companies House. Individuals (and companies) may subscribe to access the Companies House website from which it is possible to download scanned copies of FSA Returns. Copies of returns for the previous four years are kept on the system. Archived copies may be obtained by contacting Companies House, a list of which is available from the microfiche, as mentioned in the paper.

Syntheses and Insight also provide purchasable databases of statutory returns data, and Schedule 4 information is also available (again at a cost). As well as the advantage of being able to access the majority of the FSA Returns data, they hold data going back over many years, in some cases going back to 1984.
It would be useful if the FSA website made the Returns available. Consumers and their advisers would find this service more accessible than via subscription from Companies House. It would be of further value if the information were to be set out in an easy downloadable format. We also suggest that it would be useful to provide other with-profits information on the website, such as information from with-profits guides, and possibly links to with-profit summaries on companies’ web sites.

It would also be useful if the FSA would enable companies to submit their FSA Returns electronically via the website, without also requiring the submission of paper returns. This is currently in practice in Australia. Companies are able to submit regulatory returns electronically to the regulator’s website (Australian Prudential Regulatory Authority – www.apra.gov.au) and returns may also be purchased from the site by interested parties.

The ABI would welcome working with FSA to agree a workable electronic format for the submission of regulatory returns applicable to all offices.

**Q6 – Would you favour moving away from the current practice to one or more of the options in paragraph 26?**

Subject to concerns mentioned earlier, ABI welcomes improvements to the information in the FSA Returns that will provide more effective and transparent disclosure about the financial condition of companies and their with-profits funds. Care will be needed to avoid creating “constructive” liabilities, as well as leaving companies an adequate degree of discretion.

**Q7 – If so which options would you favour, and why?**

*Option A: Seek to make changes to the Companies Act accounts*

The Issues Paper is right to conclude that changes to insurers’ statutory accounts are unlikely to be the answer. Such changes will not help policyholders to understand their policies’ performance and prospects as this option addresses the wrong audience. Company accounts are currently under substantial review by the International Accounting Standards Board and we believe the FSA is better to consider changes to reporting requirements over which it has sole control.

*Option B: Extend current changes to the regulatory returns*

The information proposed in Option B could be implemented relatively quickly but would only marginally add to information already available through the FSA Returns.
Option C: Seek to introduce a new form of summary financial information

We believe that something similar to option C would be most beneficial for consumers and such information would demonstrate that with-profits business is being managed fairly. It would provide a best-estimate indication of the position as far as policyholders’ reasonable expectations are concerned. However, difficulties in implementation should not be under-estimated and we would welcome the opportunity for detailed discussions with FSA to develop further exactly how this Option might operate in practice.

We therefore favour further development of option C, bearing in mind that:

- there needs to be full involvement of the life insurance offices and the actuarial profession in the refining of details of what is reported in the regulatory returns;

- time should be permitted to offices before implementation because many offices will not currently be able to provide the data without major changes to their accounting and their IT systems;

- disclosure requirements will need to be aligned with those to apply to policyholder disclosure. We have not yet had time to study the details of the proposals on this subject in Issues Paper 3, just published, and would wish to ensure that there is synergy in these two different areas;

- a full cost benefit analysis will be needed to ensure that the proposals address current shortcomings and provide worthwhile benefits; and

- further consideration will need to be given to the impact on, and benefit to consumers of new requirements applying to, closed funds, including consideration of whether size or age of closure to new business might be relevant (another matter to consider in conjunction with disclosure to policyholders and referred to in Issues Paper 3, just published).

Q8 – Would you find the information in Annexes B and C useful in analysing the financial condition of companies and their with-profits funds? If not, what information would you find useful?

Annex B

Annex B is a useful tool for ranking insurers on the basis of their statutory liabilities. Its weakness is that those liabilities are prudent, rather than realistic. Therefore Annex B measures only relative and not absolute strength, and so would be of little help in the analysis of the financial condition of companies.
Additionally, Annex B makes no provision for any of the Implicit Items. The table addresses only some of the problems identified with the free asset ratio as a common indicator of financial strength.

**Annex C**

Conducting a practical ‘dry run’ of the new information over a couple of years, would allow the FSA and companies to address any issues of interpretation that arise from the new forms. It should then be possible to develop an informed users’ guide to help the wider community understand the contents of the forms and interpret them in terms of the financial strength of the with-profits funds. Meanwhile, it is difficult to see how Annex C could be developed to show a prudent solvency position, unless a "capital adequacy reserve" were to be included, in addition to the liabilities (as used with Australian GAAP).

The details provided in Annex C would be effective in showing the real financial position of the fund. However, there are a number of practical difficulties to overcome:

- Not all offices will have developed the asset share models and stochastic models needed to complete the forms.
- Getting the information to audit standard would be costly, and the benefit is unclear. We favour instead treating these forms as Schedule 4 information (subject to Appointed Actuary sign-off with peer review).
- Understanding the forms would require disclosure of further information, particularly the "bonus glide path" assumption for Line 8. This would not only be of real use to competitors, but would also be market sensitive for quoted companies. Hence, at least as a short-term measure, we would favour confidential disclosure to the FSA only.

**Q9 – Should summary information, such as that in Annex B and C, be audited?**

The Option B table would seem to fit more naturally into Schedule 1 data while the Option C tables would fit more naturally into Schedule 4. We suggest the audit approach should follow this split, with Schedule 1 data subject to audit and Schedule 4 data not subject to audit but to actuarial peer review. We suggest that Schedule 4 could be analysed on a ‘not unreasonable’ basis, which will bring a more than adequate degree of confidence in that the details are adequately assessed. The results and the underlying methodology to be used in the assessment can be a topic for discussion between the Appointed Actuary and whoever carries out the actuarial peer review.
Q10 – What would be the difficulties with providing information in Annexes B and C?

The key difficulty is that some companies would require a significant investment in systems development before they could complete the proposed new tables. The cost of this ought to be taken into account in any cost benefit analysis and the timing of the implementation of any changes. There would also be a need to co-ordinate any changes with other likely future changes in regulatory reporting.

There should be few difficulties for most offices in supplying the information detailed in Annex B. The difficulties in providing the information in Annex C are detailed as follows:

Annex C

We suggest that the reporting should be on a realistic basis throughout rather than on a prudent basis. By reserving on a realistic basis this is less likely to impact upon discretion and therefore will address the concern (detailed in question 7) that to reveal too much detail re the exercise of discretion (hence smoothing) may have a negative impact on policyholders’ reasonable expectations.

Annex C Table 1

There is a significant level of subjectivity with some of the items in this table, particularly stating a value for non-profit business, goodwill and other intangible items (L4) and asset share figures (L7 and L8).

Providing the basis for calculating a figure for L8 would be to provide information that would be more of interest to competitors than to policyholders.

The level of guarantee provisions and liabilities in L9 would be dependent on the assets held. Using a market cost of hedging would be inappropriate as this would depend on supply and demand factors. In particular, there is no active market in the longer term derivatives that would be required to hedge insurance liabilities, and the price of any derivative does not reflect the pure cost of the risk being hedged. We believe a more appropriate approach is the use of a stochastic model with realistic parameters derived from market data. These provisions should also use realistic assessments of retirement rates, mortality, and take up rates for options.

Annex C Table 2.

This data may not be readily available in an auditable state, but may be provided if the data is not to be audited. There will be offices that have asset share models based on specimen policies which they believe are adequate to ensure
fair bonus distribution policy, but which are less reliable for production of aggregate asset share data. A particular difficulty might be to arrive at a suitable figure for the opening value for the with-profits fund at the start of the year for L1, due to the absence of historical data.

The Total column is not necessarily the sum of the Policy Liability and Working Capital column.

*Annex C Table 3.*

There are consistency problems with Table 3 because the asset allocations will change over the year. We are not sure how much value there is in the detailed breakdown and suggest that it is not included in the regulatory reporting requirements.

**Q11 How could greater standardisation of asset share methodologies be developed, to achieve consistency and comparability between insurers?**

It is as important to have asset share methods that are consistent with the stated bonus practice within any one office as to have consistency between offices for comparison purposes. Variations reflect differing bonus philosophies as well as different participation rights and practices. In some cases the methodology is enshrined in a legal scheme, perhaps emanating from a demutualisation. It is therefore no simple matter to contemplate introduction of a standard methodology.

To the extent that there is a variety of acceptable bonus practices, not only within the wider market, but often within one office, we therefore see any attempt at standardisation as difficult. Many offices will have methodologies to calculate asset shares. However, methodologies may not be sufficiently refined to produce precise numbers for minor classes or for altered contracts. For example, the administration systems may not hold all the data on premiums and benefits needed for a detailed calculation. This is particularly the case for altered policies, where the data prior to alteration is not maintained, and for minor classes, where the costs involved do not support the benefits. The desired disclosure may not be possible for all offices immediately, and certainly not to audit standards.

As the Paper recognises, there is no standardised way of calculating asset shares. Offices may use a smoothed or unsmoothed investment return and may or may not include profits from miscellaneous sources. For some smaller classes of business they may not calculate accurate asset shares at all.

Where asset shares are calculated, it will be done either on a policy-by-policy basis or for specimen policies. For the former it is likely to be done on a continuous basis, ie the asset share at the end of a particular month (or year) is
calculated from the asset share at the end of the previous month (or year) allowing for movements in the intervening period. Hence it would be difficult to introduce a more standardised asset share methodology since that could entail a need to recalculate asset shares from the outset of a policy which the office would not necessarily have the information to do.

Another difficulty in standardising asset shares is that in many demutualisations or reconstructions the asset share methodology for business in force at the time is enshrined in the legal scheme in the principles of financial management. To achieve standardisation would require all those companies to return to the courts with amendments to those schemes (and also possibly to ask policyholders and/or shareholders to inject some money into the fund).

We would also anticipate considerable costs if offices were to be obliged to alter existing systems to comply with some approved standards. Current systems were not developed to be at audit standard and for many with-profits policies taken out eg 40 years ago, sufficiently accurate historical records may not exist for audit standard asset shares.

There is concern that greater standardisation will lead towards less product variation and restricted consumer choice. Standardisation could lead to the introduction of standardised, unalterable smoothing policies. It could therefore carry major implications for the viability of the with-profits concept, making it instead a high cost fixed interest investment.

It might be possible to produce a standard list of sources of profit and loss that might enter the asset share calculation, but the items to include will vary from company to company. The industry could identify and agree the items that could be included in the asset share calculation. The Issues Paper touches on this in discussion of disclosure of asset share methodologies, and Raising Standards accredited companies are already including a list of sources of profit and loss in their with-profits summaries. We believe this would be the best way to achieve comparability, as it would be straightforward to establish by a footnote whether a zero entry in a field was coincidental or reflected a permanent absence of that factor for a particular office. Some of our members have already begun developing suitable spreadsheets expanding on elements of the FSA presentation in Appendix C that usefully begin to draw it towards the Institute of Actuaries Transparency Working Party proposals. This more all-embracing disclosure provides a fuller understanding of what is actually happening in the fund.

**Q12 – Should there be a ‘de minimis’ limit where the information in Annexes B and C does not need to be provided, either by size of fund or active writing of new with-profits business?**
We would support the principle that greater disclosure is required for classes of business being actively offered as new business. A simpler regime could be used for funds where there is only a small proportion of with-profits business. Further discussion is needed on requirements for closed funds, as the size of the fund and the time since closure would both be relevant to any cost benefit analysis, together with a link being made to requirements for policyholder disclosure, covered in Issues Paper 3, just issued.

We would also support a de minimis figure where information does not need to be provided.

**Q13 - Are there other options, besides those described in this paper?**

It could be possible, and more informative, to provide greater disclosure of the principles and practices adopted in free format rather than tied to prescribed forms.

A summary form of the (ie less market sensitive) details illustrated in Option C could be provided in a public document such as Schedule 4 or the with-profits guide.

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