SOCIETY OF ACTUARIES

Article from:

International Section News

October 2001 – Issue No. 26

U.K. Life Assurance Market

by Alan V. Twigg

Over the last twelve months, three topics have dominated the thoughts of most U.K. life insurance executives; the continuing activity in the mergers and acquisitions area, including demutualizations, the Equitable case and the introduction of so-called 'stakeholder' pensions. The common theme of these topics is the growing pressure on free capital of companies.

M&A/Demutualizations

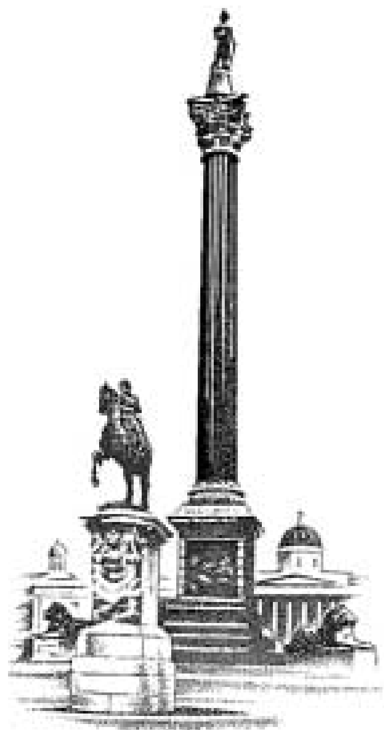
The past few months have seen an acceleration of the trend for mutual insurers to give up their current status. Friends Provident are following the earlier example of Norwich Union by demutualizing and raising fresh capital in the process. Others which consider themselves too small to seek a stock market listing, Scottish Provident, Scottish Life and National Mutual, are giving up their independence and being acquired by larger organizations. In nearly all cases, the relatively weak capital position, which threatens to prevent the organization attracting sufficient volumes of new business, is the prime motivation for the change of status.

Following the demise of Equitable (see below), the only significant remaining mutuals are the United Kingdom's largest, Standard Life, who won a vote from their policyholders last year to retain their mutual status, and Royal London.

'Big is beautiful' seems to be the trend in the U.K. life market so far in the 21st century.

The Equitable case

The Equitable, the oldest life insurer in the world and one of the largest U.K. companies, closed to new business in December 2000. This unhappy outcome was a direct result of the company's losing its legal battle with a group of its policyholders. The issue which was decided by the House of Lords, centered on whether the company has the right to grant differential dividend levels between those policyholders who hold a guaranteed annuity option at retirement and the majority who do not. While the company still considers itself solvent, the cost of recompensing those policyholders who hold the option is such that the company felt it had no choice but to close. Since closure, the company has sold some of its subsidiary undertakings with a view to improving its capital position.



Trafalgar Square, London

This case has aroused enormous interest not the least from the U.K. regulator. There are also professional issues arising and at the time of writing, the results of an inquiry by the Institute and Faculty of Actuaries are awaited.

Stakeholder pensions

From April 2001, a new type of defined contribution pension provision is being introduced by the British government, known as stakeholder. A key feature of this product is the control of charges, which are limited to a management charge on the accumulating fund of 1% p.a. with no other permitted entry or exit charges.

The government expects that a significant proportion of the business will be written without involvement of either a tied or independent agent with consequent saving in commission. Nevertheless, it is estimated the product will be highly capital intensive, with little or no profit expected until the second decade on a policy.

A knock-on effect is also developing in the pricing of other pension provisions. It is expected these capital effects will continue the consolidation of the U.K. life assurance market.

Alan V. Twigg, ASA, is a consulting actuary with KPMG Actuarial Services in London, England. He can be reached at alan.twigg@kpmg.co.uk.