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Institute of Actuaries of Australia



Product Rationalisation Task Force

For links to relevant papers and more commentary,
view this presentation in Notes format



Agenda

- The journey so far
- The task force's proposal
- Assessing the fairness of a product rationalisation proposal
- Decision making body



What are the current mechanisms?

Product Types	Mechanisms	Approver
Life Insurance	Part IX transfer Unilateral change in product terms	Court Life Co. (legal risk)
Superannuation	Successor fund transfer Category transfer	Trustee Trustee
Managed Investments	Wind up Change scheme	75% of investors 75% of investors



Why are we here?

- July 2005 IFSA Position Paper
- May 2006 IFSA Regulatory Impact Statement
- Sept 2006 IAAust submission to Government
- July 2007 Treasury discussion paper
- Sept 2007 IAAust, IFSA and other responses to Treasury



Task Force's Principles

- Consistency
- Simplicity
- Consumer safeguards
- Practical
- Equity & Fairness
- Transparent
- Tax neutral
- Facilitate rationalisation
- Certainty of outcome



Main ingredients

- Product provider proposal
 - Core proposal
 - Compensation for any disadvantaged investors
- ‘No Detriment’ test
- Assessment by independent experts
- Disclosure to investors
- Investors’ right to object
- Regulators’ right to be heard
- Approval by independent body
- Complaints process



Assessing fairness

Can a proposal make an individual worse off?

Taskforce position:

- Current benefits at least as good as before
- Fair value of future benefits equal or better
- $<1\%$ chance that investors materially worse off as a whole
- $<5\%$ chance that any individual worse off
- No high value disadvantage, however low the probability



What allowance for existing discretions?

Task force position

- only allow for discretions already decided
- implementation date must be decided
- disregard general statements of intent to exercise discretion
- disregard discretions with no specific implementation date



What weight should be given to discretions in new contract?

Task force position

- Protect consumers from unfair exercise of discretion, as far as possible
- Considerations include:
 - Do market forces provide protection?
 - Representations from product provider
 - The greater the improvement to benefits, the more acceptable the risk of wider discretions.



Decision making body

	+	-
Product provider	Easy	Appearance of conflicts
Trustee	Independent	Not seen as really independent
Regulator	Certain	Not their job
Arbiter	Independent, capable	Slower, dearer
Tribunal	Independent, capable	Slower, dearer
Court	Independent, certain	Slowest, dearest



Discussion and questions

- Replication of benefits or equivalent value?
- Can a proposal make an individual worse off?
 - Greater good vs individual rights
- If so what is a “fair” cost to an individual
 - What size of impact?
 - What (low) probability?
- Can company directors approve a product rationalisation?
- Are super fund trustees sufficiently independent?