



Licensing Issues



Capability of the Company

- Investment expertise to run funds (unless external)
- Administrative ability for complex contracts.
 - Computer Systems
 - Accounting
 - Controls (need to know at any time how many units bought, sold and allocated)
 - Matching
- Sales expertise – can it manage the sales process to avoid abuse



Assets to be used for linking

- Investments need to be
 - Ready realisable
 - Liquid
 - Easily valued
 - Not too speculative
 - Need to have a reasonable spread
- Must avoid conflicts of interest between company and policyholders
- No purchase or sale of assets with connected people or companies
- External mutual funds would generally be OK



Assets to be used for linking

- Property funds very difficult as
 - illiquid,
 - valuation is subjective
 - difficult to get a spread unless the fund is very large
 - need a cash cushion to cover any withdrawals



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Projections

- Limit to rates of growth that can be used in projections



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Literature/Advertising

- Clients need to understand
 - The impact of charges if the plan is cashed early
 - They could receive substantially less than they have paid even if investments have gone up
 - That investment values can fall.
 - The plan is intended to be held for a long period



Regular statements

Client should be sent statements not less than yearly showing

- Premiums paid
- Charges deducted
- Units purchased
- Plan value



Policy documentation

Should set out

- What all the administration charges are
- If they are fixed or can be changed and any limits
- How charges for insurance are calculated
- If these can change
- Terms on which external units are bought



Policy documentation - internal funds

Should set out

- Method by which unit funds are run.
- Prices to be used to value units (Bid/ Offer/ Mid market)
- How unit prices are calculated
- What expenses may be charged to the fund



Sales force

- Can give unreasonable expectations to client
- Can be pressure sold by agents hungry for high commissions
- Can sell plans for short term savings
- Need to monitor persistency rates by sales method, agent, branch
- Need good training



Contract Terms

- Maturity guarantees?
- Impact of inflation on costs
- Limits on variable fees
- Options in the contract - could they cause problems
 - Any increase in insured benefit levels
 - Partial encashment increasing amount at risk.
 - Any partial encashment or reduction of the premiums may bring future fees (direct and hidden) below costs.
 - It may be necessary to impose a back end charge in these circumstances (or not permit such changes)



Contract Terms (cont)

- Similarly if there is a reduction in the sum insured future margins in the mortality charges may be reduced.
- Might cash values be in excess of reserves





Matching

- Need to ensure the company matches units allocated to policies with actual units

