

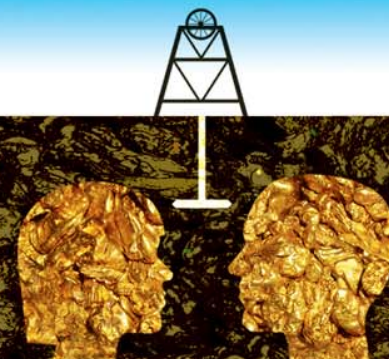
Biennial Convention 2009

Go for Gold

19–22 April 2009 • Sydney



Institute of Actuaries of Australia



Product Rationalisation

Rob Desoisa

**Convener of the Product
Rationalisation Task Force**



Context

- Since the 1980s there has been a significant increase in the number of legacy products closed to new clients
- It is estimated that there are approximately 6,000 financial products offered by the wealth management and protection industries. Of these over 1/3 are legacy products
- Legacy products cost \$500 million each year to manage
- There is a case for legislation to simplify the rationalisation process
- Increased powers for providers should be balanced with adequate consumer safeguards including a “no disadvantage test”



Contents

How have we got here?

What's the big deal?

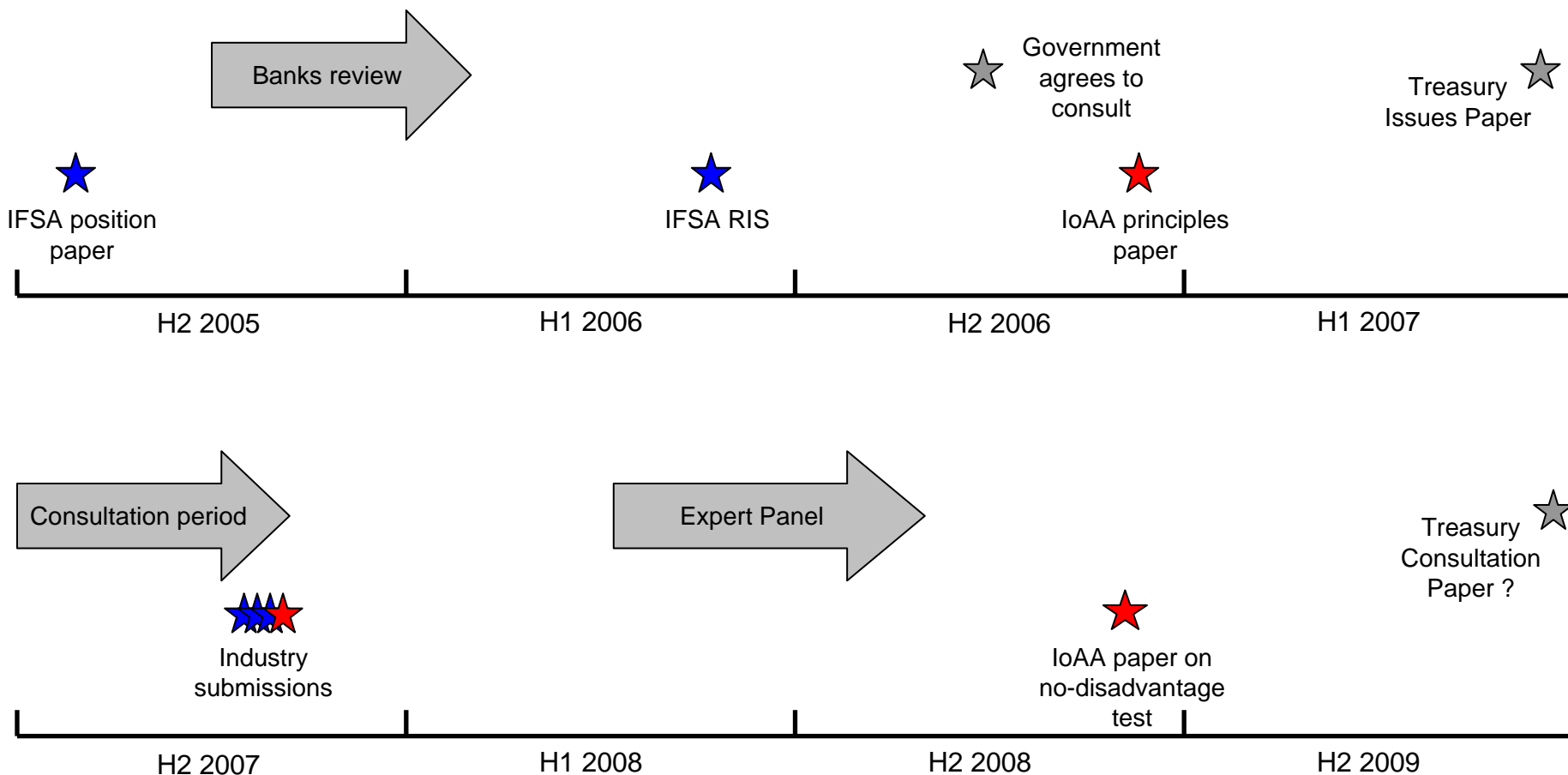
Where are we going?

What have we said?





Recent history





Contents

How have we got here?

What's the big deal?

Where are we going?

What have we said?





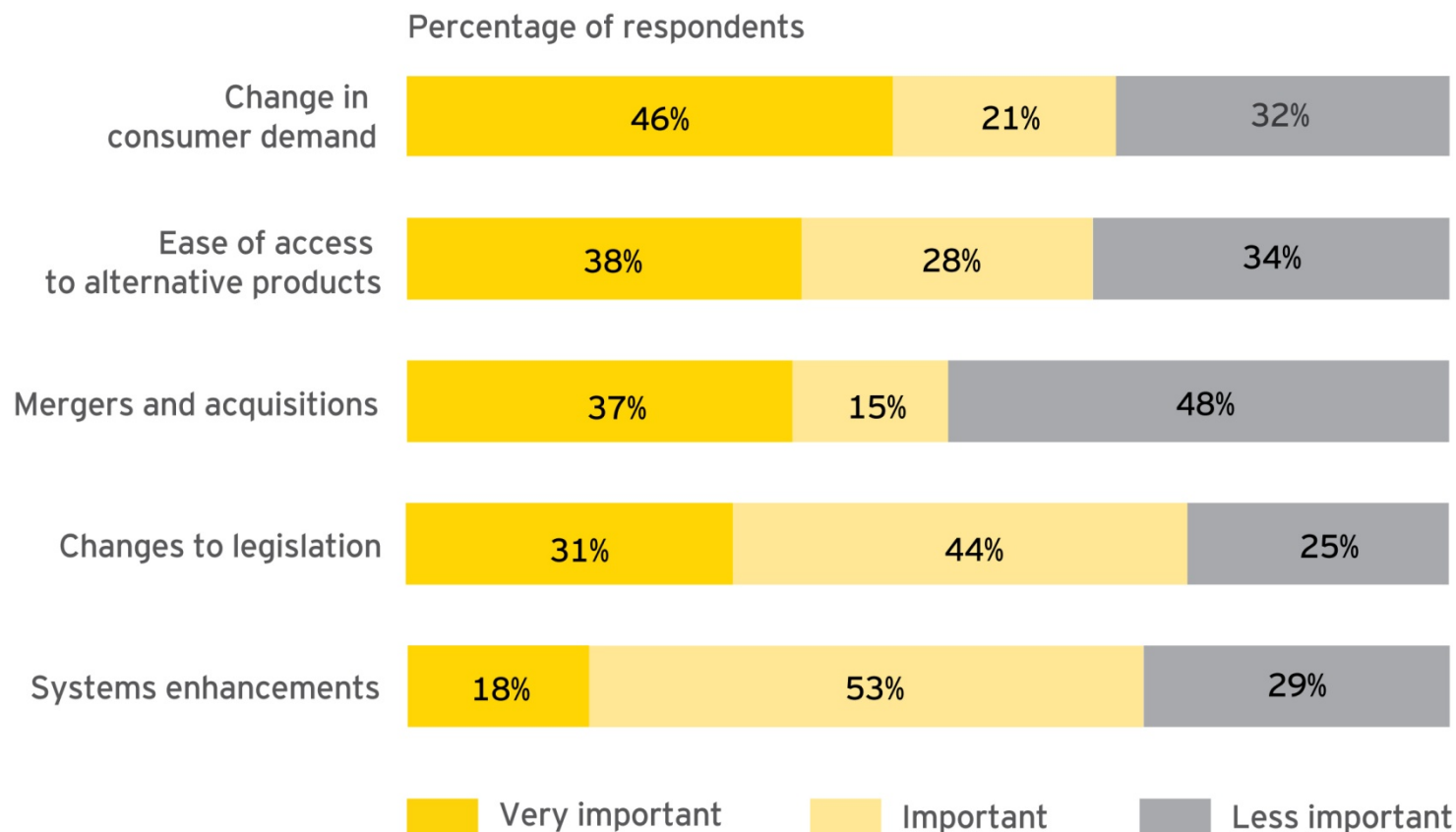
Legacy products are a burden

- Legacy products cost \$500 million each year to manage
- Survey* responses suggest that rationalisation could reduce annual costs by \$100 million
- Nearly one third of the industry has at least 60% of FUM in legacy products

* Ernst & Young 2008 product rationalisation survey



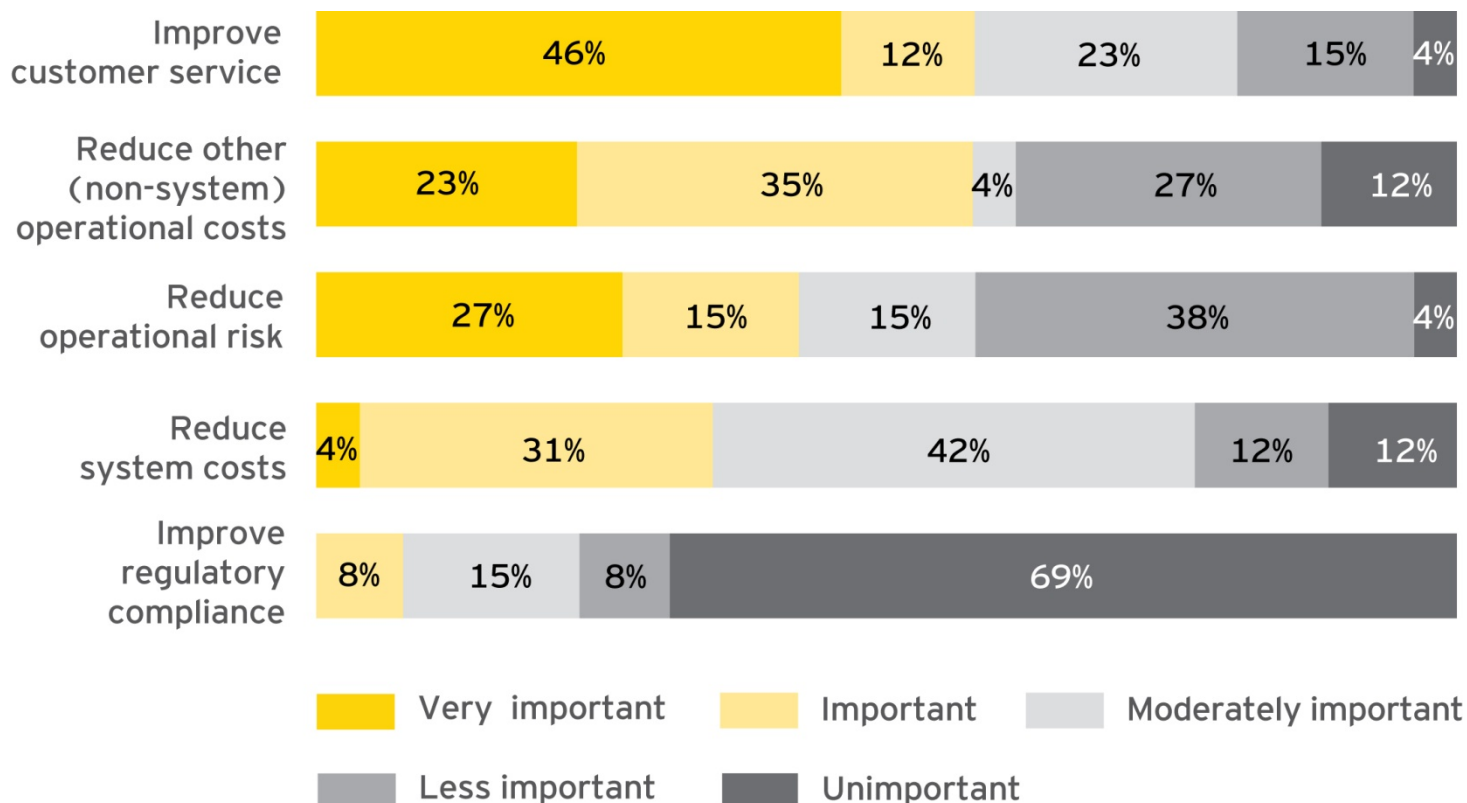
Legacy products caused by change in consumer demand



Source: Ernst & Young 2008 product rationalisation survey



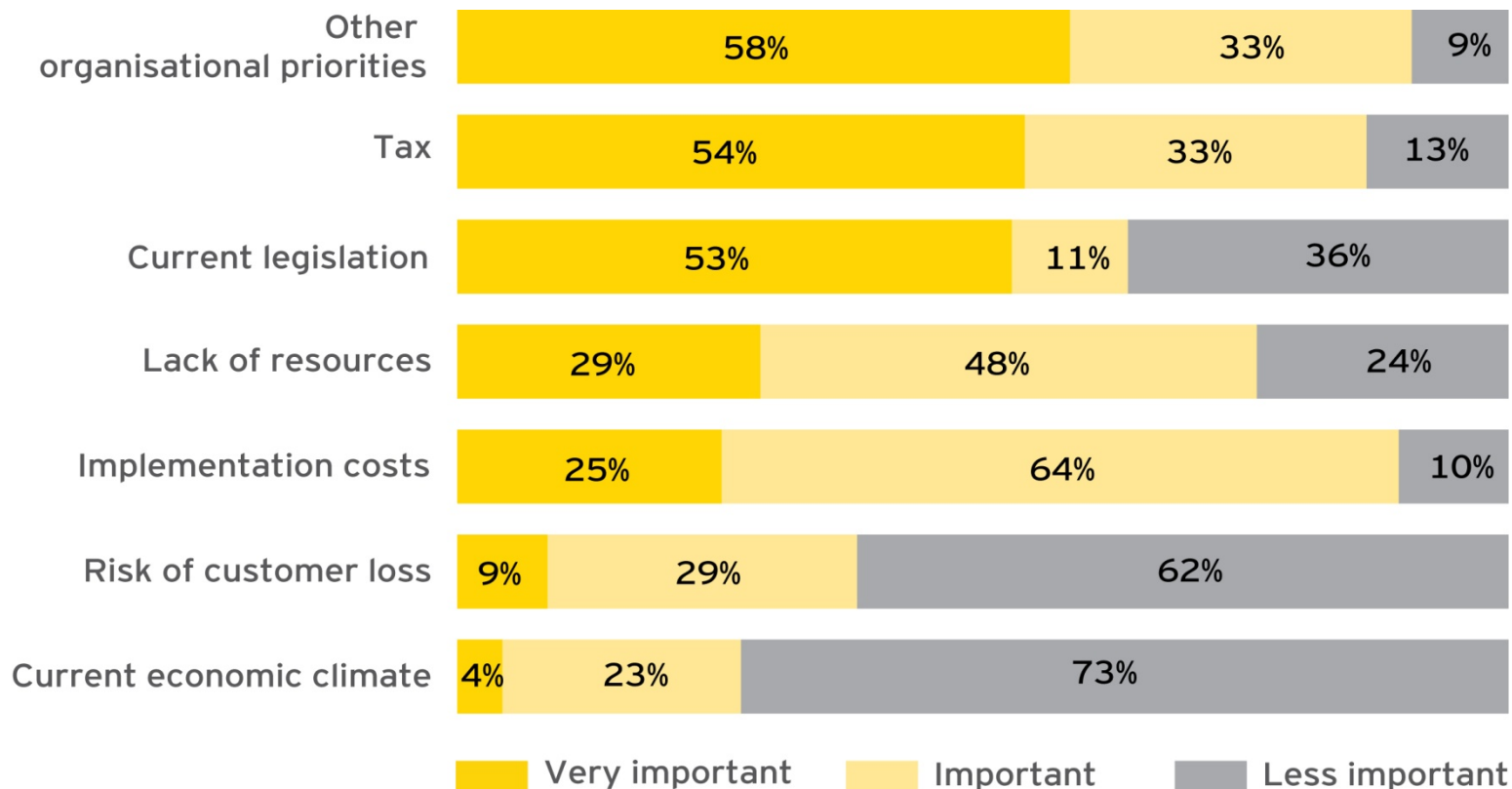
Rationalisation is about improving customer service



Source: Ernst & Young 2008 product rationalisation survey



So, why aren't we able to rationalise today?



Source: Ernst & Young 2008 product rationalisation survey



Consumer protections

Power corrupts, absolute power
corrupts absolutely

Lord Acton 1887



Contents

How have we got here?

What's the big deal?

Where are we going?

What have we said?





Legislation update

- Consultation paper covering:
 - Life Insurance and MIS
 - No-disadvantage test
 - Legacy product test
 - Role of the regulator
 - Tax neutrality for members

- When?



Industry activity

- Only 29% of respondents had started large scale rationalisation
- Uncertainty around legislative reform has led many to hold off on rationalisation
- Rationalisation options have become more conservative
- Planned activity has been reduced



Contents

How have we got here?

What's the big deal?

Where are we going?

What have we said?





Recap of the principles

- Consistency of approach
- Consumer safeguards
- Fairness test
- Simple
- Practical
- Transparent
- Tax neutral
- Facilitate rationalisation
- Adds certainty



Applying the principles

- No disadvantage test
 - Major sub group
 - No need for fact finds
- Replication of benefits not required
- Consumer's right to complain
- Right to compensation if found to have suffered



Fair protection

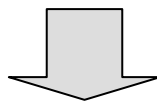
- No individual consumer is adversely affected by the rationalisation in “normal circumstances”
- Include monetary compensation
- Grouping of benefits
- Does not mean everybody shares equally
- Application of judgement



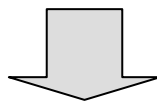


Valuing the benefits

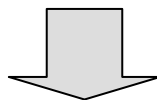
Minimum of accrued value



Accrual of future benefits



Impact of future events



Reasonable benefit expectations



Discretions

- Reasonably foreseeable
- Clear basis for their application
- Documentary evidence required



Offsetting tangible and intangible benefits

Non-
contractual
intangible

Contractual
intangible

Contingent
tangible

Tangible



Materiality

- Reasonable steps should be taken to avoid adverse impacts.
- It is acceptable to have an immaterial adverse impact
- Materiality should not, by itself, be used to avoid the no disadvantage test.

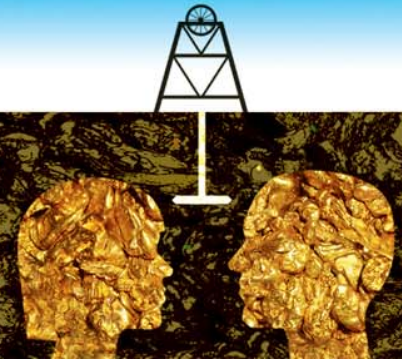
Biennial Convention 2009

Go for Gold

19–22 April 2009 • Sydney



Institute of Actuaries of Australia



Thank you