ISLE OF MAN
FINANCIAL SERVICES AUTHORITY
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Guidance on post-sale disclosure requirements

This guidance is issued in consideration of the requirements of paragraph 19.1(b) of the Corporate Governance Code of Practice for Regulated Insurance Entities and paragraph 23 of the Insurance (Conduct of Business) (Long Term Business) Code 2018 and sets out Isle of Man Financial Services Authority's ("the Authority") expectations in respect of the considerations that regulated entities should make in considering what information must be provided to policyholders.

The Authority issues guidance for various purposes, including to illustrate best practice, to assist regulated entities to comply with legislation and to provide examples or illustrations. This guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

As a general principle a regulated entity should take account of the fact that the information needs of policyholders differ depending on the type of insurance product, which should influence the frequency and content of information to be provided. Without limitation to this principle, the following guidance is issued by the Authority in respect of classes of long term insurance business.

Class 1 unit linked business

Periodic Reporting

A regulated entity should periodically report appropriate and timely on-going information to existing policyholders, including the investment progress of unit linked policies.

Frequency of reporting

The frequency of reporting may vary in accordance with the nature and complexity of assets to which the benefits payable under a unit linked policy are linked, however, reporting should not be less frequent than on an annual basis.

Where a policyholder requests to receive information on a reasonable, more frequent basis, a regulated entity should comply with such requests.

In general, the Authority considers a reporting frequency of at least every three months to be appropriate where assets to which the benefits of a Class 1 unit linked policy are linked are external to the insurer i.e. portfolio bonds.

Content of reports

Information to be provided on an ongoing basis will vary by type of policy but in most cases should include:

- the name of the firm;

- the name and reference number of the policy;
- premiums paid to date;
- a valuation statement of the linked investments, including details of:
    - each linked investment held and its market value, or fair value if market value is unavailable;
    - the current cash surrender value;
    - where applicable to the product, the cash balance at the beginning and at the end of the reporting period; and
    - the performance of the portfolio during the reporting period;
- details of fees and charges levied during the reporting period (where appropriate to the product, fees should be itemised between total management fees and costs associated with execution, or if not, a statement that a more detailed breakdown will be provided on request);
- details of investment performance during the period covered by the statement and a comparison with the investment performance benchmark (as applicable);
- the total amount of dividends, interest and other payments received during the reporting period; and
- information about other corporate actions giving rights in relation to designated investments held in the portfolio.

Occasional Reporting

Unit linked transactions including switching, withdrawal, part and full surrenders

Where a regulated entity receives instructions from policyholders (or persons appointed to act on behalf of policyholders) to switch or redeem unit linked investments, a regulated entity should report appropriate and timely information to those policyholders to confirm the fulfilment of such requests. Information reported should include:

- the date of execution of the sale and purchase (as applicable) of units / shares;
- the number of units / shares involved;
- the price at which the units / shares were subscribed or redeemed;
- the reference valuation date; and
- the value of any charges, commissions or expenses levied for subscription or redemptions.

Class 2 non-linked with-profit business

Principles and Practice of Financial Management (“PPFM”) – with-profits business

Definitions:

“established surplus” means excess of assets representing the whole or a particular part of the long-term business fund or fund over the liabilities, or a particular part of the liabilities, of the insurer attributable to that business as certified by the appointed actuary.

“inherited estate” means an amount representing the fair market value of the with-profits assets less the realistic value of liabilities of a with-profits fund

“With-profits business” means any business of an authorised insurer that may affect the amount or value of the assets comprising a with-profits fund

“With-profits fund” means a long-term business fund in which policyholders are eligible to participate in any established surplus.

“With-profits policy” means a contract falling within Class 2 of long-term insurance business, pursuant to the Insurance Regulations 1986, which is eligible to participate in any part of any established surplus

“With-profits policyholder” means a policyholder under a with-profits policy

Production of PPFM

1) A regulated entity should:
    a) establish and maintain the PPFM according to which its with-profits business is conducted (or, if appropriate, separate PPFM for each with-profits fund); and
    b) retain a record of each version of its PPFM for five years.
2) A regulated entity's with-profits principles should:
    a) be enduring statements of the standards it adopts in managing with-profits funds; and
    b) describe the business model it uses to meet its duties to with-profits policyholders and to respond to longer-term changes in the business and economic environment.
3) A regulated entity's with-profits practices should:
    a) describe how a regulated entity manages its with-profits funds and how it responds to shorter-term changes in the business and economic environment; and
    b) be sufficiently detailed for a knowledgeable observer to understand the material risks and rewards from effecting or maintaining a with-profits policy with it.

4) A regulated entity should not change its PPFM unless, in the reasonable opinion of its board of directors, that change is justified to:
    a) respond to changes in the business or economic environment; or
    b) protect the interests of policyholders; or
    c) change the regulated entity's with-profits practices better to achieve its with-profits principles.
5) A regulated entity may change its PPFM if that change:
    a) is necessary to correct an error or omission; or
    b) would improve clarity or presentation without materially affecting the PPFM's substance; or
    c) is immaterial.

Scope and content of PPFM

A regulated entity's PPFM should cover any matter that has, or it is reasonably foreseeable may have, a significant impact on the regulated entity's management of with-profits funds, including:

1) any requirements or constraints that apply as a result of previous dealings, including previous transfers of insurance business; and
2) the nature and extent of any shareholder commitment to support the with-profits fund.

A regulated entity's PPFM should cover the issues set out in the following table:

	Subject	Issues		
(1)	**Amount payable under a with-profits policy**	(a)	Methods used to guide determination of the amount that is appropriate to pay individual with-profits policyholders, including:	
			(i)	the aims of the methods and approximations used;
			(ii)	how the current methods, including any relevant historical assumptions used and any systems maintained to deliver results of particular methods, are documented; and
			(iii)	the procedures for changing the current method or any assumptions or parameters relevant to a particular method.
		(b)	Approach to setting bonus rates.	
		(c)	Approach to smoothing maturity payments and surrender payments, including:	
			(i)	the smoothing policy applied to each type of with-profits policy;
			(ii)	the limits (if any) applied to the total cost of, or excess from, smoothing; and
			(iii)	any limits applied to any changes in the level of maturity payments between one period to another.
(2)	**Investment strategy**	Significant aspects of the regulated entity's investment strategy for its with-profits business or, if different, any with-profits fund, including:		
		(a)	the degree of matching to be maintained between assets relevant to with-profits business and liabilities to with-profits policyholders and other creditors;	
		(b)	the regulated entity's approach to assets of different credit or liquidity quality and different volatility of market values;	
		(c)	the presence among the assets relevant to with-profits business of any assets that would not normally be traded because of their importance to the regulated entity, and the justification for holding such assets; and	
		(d)	the regulated entity's controls on using new asset or liability instruments and the nature of any approval required before new instruments are used.	
(3)	**Business risk**	The exposure of the with-profits business to business risks (new and existing), including the regulated entity's:		
		(a)	procedures for deciding if the with-profits business may undertake a particular business risk;	
		(b)	arrangements for reviewing and setting a limit on the scale of such risks; and	
		(c)	procedures for reflecting the profits or losses of such business risks in the amounts payable under with-profits policies.	
(4)	**Charges and expenses**	(a)	The way in which the regulated entity applies charges and apportions expenses to its with-profits business, including, if material, any interaction with connected firms / persons.	
		(b)	The cost apportionment principles that will determine which costs are, or may be, charged to a with-profits fund and which	

		costs are, or may be, charged to the other parts of its business of its shareholders.
(5)	**Management of inherited estate**	Management of any inherited estate and the uses to which the regulated entity may put that inherited estate.
(6)	**Volumes of new business and arrangements on stopping taking new business**	If a regulated entity's with-profits fund is accepting new with-profits business, its practice for review of the limits on the quantity and type of new business and the actions that the regulated entity would take if it ceased to take on new business of any significant amount.
(7)	**Equity between the with-profits fund and any shareholders**	The way in which the interests of with-profits policyholders are, or may be, affected by the interests of any shareholders of the regulated entity.

The following table sets out guidance on how various information relevant to some of the issues covered in a regulated entity's PPFM (as above) might be split between with-profits principles and with-profits practices. This is an example of the matters a regulated entity should address in its with-profits principles and with-profits practices and is not exhaustive. A regulated entity should consider carefully the scope and content of its PPFM as appropriate.

Reference to PPFM issues	With-profits principles	With-profits practices
(1) Amount payable under a with-profits policy	General (a) Circumstances under which any historical assumptions or parameters, relevant to methods used to determine the amount payable, may be changed;	General (e) For each major class of with-profits policy, methods establishing the main assumptions or parameters that decide the output of methods that determine the amount payable; (f) Degree of approximation allowed when assumptions or parameters are applied across generations of with-profits policyholders or across different types or classes of with-profits policies; (g) Formality with which the methods, parameters or assumptions used are documented; (h) Target range, or target ranges, that have been set for maturity payments; (i) Factors likely to be regarded as relevant to address policyholders' interests or security when determining excess surplus; and Investment return, expenses or charges and tax (j) How investment return, expenses or charges and tax are brought into account

		and how the impact of those items is determined on the amount payable. In particular: (i) any distinctions made in recognising the investment return from a subset of the total assets of a with-profits fund; (ii) whether expenses are apportioned between all the policies in a with-profits fund or apportioned in some other way; (iii) the relationship between the liability to tax attributed to a with-profits fund and the tax that the regulated entity imputes to determine the amount payable; (iv) impact on the amount payable of any attributed liability to tax of a with-profits fund as a result of the regulated entity making a transfer to shareholders; and (v) how any other items are brought into account.
	<u>Bonus rates</u> (b) General aims in setting bonus rates and the constraints to which the regulated entity may be subject in changing economic circumstances; (c) How the range of with-profits policies or generations of with-profits policies over which the regulated entity believes a single bonus rate would be appropriate is determined and the circumstances under which it believes a new bonus series would be necessary; and	<u>Bonus rates</u> (k) Current approach to setting bonus rates, including the weight given to recent economic experience. For final bonus rates, the description should include any distinctions made between with-profits policies that remain in force until contractual dates, or dates on which no market value reduction applies (for example, maturity or retirement dates) and policies that are surrendered or transferred at other dates; (l) Frequency at which bonus rates are re-set or expected to be re-set and the circumstances under which changes in the economic environment would cause the time between re-setting to change; (m) Maximum amount by which annual bonuses would alter if annual bonus rates were reset; (n) Approach to setting any interim bonus rates before the next declaration of annual bonus rates; (o) Relationship or interaction between final bonus rates and any market value reductions, if both can apply at the same time; (p) How final bonus rates influence the value of with-profits policies that have formulaic surrender or transfer bases (for

		example, older conventional policies rather than unitised policies); and
	Smoothing (d) Statement as to whether smoothing is intended to be neutral over time.	Smoothing (q) Any differences in approach for: (i) the various types of with-profits policy; (ii) different categories of pay-out, such as between surrendered policies and maturing policies; and (iii) different generations of with-profits policyholders.
(2) Investment strategy	(a) How the types, classes or mix of assets are determined; and (b) Strategy in respect of derivatives and other instruments.	(c) Whether and to what extent there is hypothecation of assets; (d) Period between formal reviews of investment strategy; (e) Approach to investment in different asset classes, and assets of different credit or liquidity quality, including assets not normally traded; and (f) Details of any external support available to the with-profits fund and how this affects the investment strategy.
(3) Business risk	(a) Where a regulated entity explicitly excludes business risk from a class of with-profits policies but there are residual risks, clarification where these risks such as guarantee and smoothing costs are borne; and (b) Define where compensation costs from a business risk would be borne.	(c) Current limits which apply to the taking on of business risk; and (d) Whether and to what extent particular generations of with-profits policyholders or classes of with-profits policies bear or might bear particular business risks, including for example, crystallised or contingent guarantees to other classes of policyholders or whether the out-turn from all business risk is pooled across all with-profits policies.
(4) Charges and expenses	(a) Factors that would drive any change to the basis on which the regulated entity applies charges to or apportions its actual expenses amongst with-profits policies, or exercises any discretion to apply charges to particular with-profits policies.	(b) Charges currently applied and the expenses currently apportioned to major classes of with-profits policies; (c) Relationship between the regulated entity's actual charges and expenses, as applied to determine the amounts payable under with-profits policies, and the charges and expenses borne by the with-profits fund; (d) Circumstances under which expenses will be charged to the with-profits fund at an amount other than cost, and the reasons why; and (e) Interval for reviewing any arrangements for out-sourced services, including those

		provided by connected parties, giving a broad indication of the terms for termination.
(5) Management of inherited estate	(a) Preferred size or scale of inherited estate and implications for the values of the-with profits policies; and (b) Any existing division of the inherited estate between with-profits funds; and (c) Any constraints on the freedom to deal with the inherited estate as a result of previous dealings.	(d) How the inherited estate is used, for example, in meeting costs; (e) Whether the investment strategy for the inherited estate differs from the rest of the with-profits fund; and (f) Any current guidelines in place as to the size or scale of the inherited estate or as to how and over what time period the inherited estate would be managed, if it becomes too large or too small.
(6) Equity between the with-profits fund and any shareholders	(a) Arrangements for, and any changes to, profit sharing between shareholders and with-profits policyholders.	(b) Current basis on which profit between with-profits policyholders and shareholders is divided; and (c) Whether the pricing of any policies being written, and particular policies open to new business, appear to be significantly and systematically reducing the inherited estate if the shareholder transfer is taken into account.