Institute
and Faculty
of Actuaries

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HM Treasury / Department of Digital, Culture, Media and Sport: Expanding the dormant assets scheme

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the HM Treasury / DCMS consultation. This response reflects the views of members of our Finance and Investment Board, as well as the Life Board and the Life Standards and Consultations Committee. We have responded to those questions where our members have relevant expertise.

Key points

The IFoA supports the general scope and definitions of assets covered in the consultation paper.

Our most detailed comments relate to insurance products, in particular with-profit funds. Our response recommends the status of these funds should be considered carefully, to determine when it is appropriate for assets to be treated as dormant.

We also identify a certain class of whole of life contracts that should be considered for inclusion in the dormancy definition.

If you would like to discuss any of the points raised please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk) in the first instance.

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Question 1: Do you have any comments on the proposed scope of assets in an expanded scheme (subject to ensuring tax neutrality)?

The IFoA supports the proposed scope of assets.

Question 2: Do you have any comments on the proposed definitions of assets? These definitions should be read in the context of the proposed definitions of dormancy and eligible participants (Sections 2.1.6 and 2.1.7).

The asset definitions seem appropriate, subject to our comments on the definition of dormancy (question 7 below).

Question 3: Are there alternative ways of defining the assets?

There are no alternatives we would suggest.

Question 4: Do you have any objections to excluding insurance products that do not crystallise to cash from an expanded scheme at this time?

We believe it makes sense to exclude such products, since including them would require the scheme to assume a liability to match the returns earned on these assets.

We would not support moves that would put pressure on product providers to alter their products to create cash crystallisation events. The omission of these from products enable assets to remain invested for the long term and to continue accruing for the beneficiary. In addition the fact that the monies are likely to be invested in stocks and shares means that these investments are already being put to good effect, albeit not with the same objectives as the scheme.

Some investment arrangements allow the investor to choose to have distributions reinvested. The scheme ought to make it clear that these instructions will be honoured.

Within some with-profit funds there are “orphan assets”. These are assets where their ownership cannot be identified as belonging to the current policyholders of the insurance company. There have been schemes of reattribution to resolve these issues. The orphan assets forming part of with-profit estates are usually used to support the current generation of policyholders in either absorbing costs or providing capital support. The IFoA opposes these assets being included within the scheme being considered by this consultation.

We would also note that some with-profits funds have established practices of writing off policies meeting similar criteria to those proposed for dormant assets, and treating the liabilities released as part of the surplus arising in the fund to be distributed to remaining policyholders. Such assets in with-profits funds are therefore not necessarily lying dormant and being put to no good use.

On the other hand, with-profits funds in run-off may see this as a welcome solution to a difficult dilemma. These funds must aim to distribute their assets fairly to their remaining policyholders as they run off. The inability to pay out on these "dormant" policies presents a risk of the fund being left with a significant amount of assets and very few remaining policyholders to which they can actually pay out. On the other hand, if it writes off the dormant policies and distributes the funds to its remaining policyholders then it has a growing risk of written-off policyholders re-establishing contact and making a claim. The ability to transfer the assets and any residual liability to the dormant assets fund may therefore be a good solution.

Question 5: Do you have any objections to excluding pensions from an expanded scheme at this time?

The consultation document implies (2.1.5 on p10-11) that the Government believes that developments like the pension dashboard will make it harder for people to lose track of their pension savings, and so there is less reason to assume that assets are dormant just because they have not been crystallised to cash. Although the impact of the dashboard cannot be foreseen, given it is a positive step we would agree with excluding pensions from the scheme for the time being.

Question 7: Do you have any comments on the proposed definitions of dormancy?

We believe the definitions are reasonable. However, consideration could be given to including whole of life contracts:

- that are not investment linked
- where the youngest of any lives assured is beyond a reasonable expectation of life (e.g. 120 years of age) and
- where reasonable attempts have been made to locate the beneficiaries.

Question 8: Do you have any comments on the proposed scope of participants in an expanded scheme?

Consideration should be given to including NS&I investments.

Question 11: Do you foresee any barriers to participation in the scheme or have any comments on its operation?

● Please consider the feasibility of including eligible assets that are held within Stocks & Shares ISAs.

While other organisations such as the Investment Association may be better placed to provide a view on this, the IFoA can envisage that splitting out cash assets from other assets could involve a degree of unwelcome complexity that would represent a barrier.