

The Dignity and Standards Team
Department of Health
Room 123
Wellington House
133-155 Waterloo Road
London SE1 8UG

20 April 2010

Dear Sir/Madam

DoH Paper: Charging arrangements for social care

I refer to the above paper issued in January and have pleasure in submitting comments on behalf of ILAG in respect of the treatment of single premium investment bonds.

ILAG is a trade body representing members from the Life Assurance and Wealth Management industries. ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

In direct response to the question “**Do you think that these bonds should be taken into account in the financial assessment?**” we believe that it is useful to consider why these bonds are disregarded in the current legislation in the first place.

A reason for life bonds being disregarded is that they provide valuable life cover as well as an investment return and if such a bond is surrendered to meet care costs then there is no longer life cover in place. Moreover, surrendering a policy may result in a loss of capital as the insurer has the right to pass on surrender costs and penalties and may give rise to an unplanned tax charge on behalf of the policyholder.

The proposal suggests that regular premium life bonds, or at least some, would continue to be disregarded whilst single premium bonds would not. The basis for this differentiation is not clear nor is the definition between the two always clear-cut within the marketplace. All life bonds must include life cover in order to qualify as life insurance policies and this should be a sufficient test. Evidence from our member companies that issue Guaranteed Bonds show that more bondholders die than surrender each year.

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If the proposals are adopted there are a number of practical issues that will need to be addressed:

- the rules will need to clarify how investment bonds written with joint lives insured should be treated for this purpose
- Surrender rates for life bonds are low as this is an option within the policy that is not often exercised and so most companies are not geared up to providing surrender value quotations. This change could lead to an increase in insurers' administration costs if the rule change leads to a jump in the volume of surrender value quote requests going forward.
- If the rule change then leads to an increase in surrender rates this could create liquidity problems for insurers. If insurers need to liquidate assets to meet surrender payments, this might then ultimately result in lower surrender values as penalties are charged for early liquidation. In this scenario, the surrender value a customer receives may well be lower than the surrender value quotation.

Finally, of course, there are already safeguards within the 'notional capital rules' that disallow life bonds that are taken out specifically and deliberately to circumvent the charging regulations ('deprivation of capital').

We believe therefore that both on grounds of principle and practicality this proposal ought to be reconsidered.

Yours faithfully

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