

A CONVERSATION WITH  
**JOHN TINER**  
CHIEF EXECUTIVE OFFICER, RESOLUTION

With Richard Thornton  
Partner, Oliver Wyman



**Richard Thornton:** Looking back on your career at the Financial Services Authority, what are the things you remember most proudly?

**John Tiner:** When I joined the FSA in June 2001, we were mid-way through a huge equity market sell-off. The crisis at Equitable Life had already crystallised, but it needed to be stabilised and managed. I was asked by the Board of the FSA to lead a project to update how insurance companies were regulated. We were making big policy changes while equity market volatility was very high and a number of large with-profits companies were facing potential technical insolvency. I think taking the difficult steps to fundamentally change the regime and to handle the impacts of the equity market sell-offs in the first three months of 2003, and then getting life insurance companies to prepare their balance sheets on a realistic rather than pure actuarial basis, was very important for the British life insurance industry.

By the time all of those big policy changes were implemented, the FSA had changed their approach to regulating insurance companies. It became more about looking at the risks and potential stresses in the business. A number of CEOs told me it was a catalyst for change in the industry, not just in technical solvency terms but in business model terms, which was better for policyholders and ultimately better for shareholders.

Then came the ultimate stress test for life insurance companies – the financial crisis that started in late 2007 – and in this country they withstood that test. I think they have managed themselves reasonably well through that crisis and emerged stronger as a result.

**RT:** What aspects of the role at the FSA required the greatest adjustment from your previous career in the private sector?

**JT:** I had a lot to learn early on about how to navigate the public sector and dealing with the political establishment. I appeared in front of the Treasury Select Committee fifteen or so times, and handling that was a big learning curve. I had one or two coaching sessions early on. Steve Norris, the former Minister of Transport, showed me some films of people who had handled Select Committees well, and ones that hadn't, and it was revealing. I wouldn't say I handled every one in a model way, but it did help me a lot.

The FSA itself was formed from the merger of a number of self or statutory regulatory bodies and needed to be pulled together into one organisation. I felt it was important to combine the public service ethos of the former regulatory bodies with a sharper focus on efficiency, effectiveness and outcomes.

**RT:** Are you sad to see the end of the FSA as a single entity? Do you have any advice for its successors?

**JT:** Sad is not the right term. I was the first CEO of the FSA, and ended up being one of two, and it is a pity that the organisation we put together is being dismantled from the point of view of the employees who have been through a prolonged period of uncertainty during an exceptionally challenging period for regulators of the financial services industry.



More importantly, is the question: is the restructuring of the regulatory architecture the right thing to do? I think there has been too much focus on the pure architecture, on which institution does what work. It is more important to know what the regulations are, what the key policies are, what people are doing the work. That said, one piece of the regulatory apparatus that clearly did not work when the crisis struck was the tripartite system. I think splitting responsibilities and collective decision making in a moment of crisis runs very high risks. Take for example a surgeon in an operating theatre faced with a patient bleeding to death in front of him. He is not going to say "let's go outside and have a meeting to discuss how we are going to save this patient." He has to make decisions there and then. The one bit of the new architecture which is helpful is that there is much more accountability and authority vested in the Bank of England. While this runs the risk of putting major decisions in the hands of one person, or at least one body, I think on balance I would rather have that than a prevarication over major decisions concerning market intervention or support.

**RT:** And what do you think of the emerging international strands of regulation (Basel III, G-SIFIs etc.)? Do you think that is going in the right direction? Will it help to prevent another crisis?

**JT:** In banking, crises are precipitated by liquidity problems. Internationally and domestically, we now have much better liquidity policies. We have a better architecture in Basel III than we had in Basel II, including regulators having the tools to prick asset bubbles as they emerge by applying heavier risk weightings. So pricing developments in different asset classes should not suffer from pro-cyclicality in the way they did in the build up to late 2007. And focussing on the systemically significant global institutions is the right thing. But I worry that not all major markets will adopt Basel III and will instead retreat to forms of localised regulation for systemically significant institutions creating an unlevel playing field for such institutions and perhaps fueling a continuation in regulatory arbitrage. The big question is will the US implement Basel III when they never implemented Basel II?

**RT:** Do you think Solvency II is the right approach post-crisis for insurers, particularly the mark to market aspects which have been the most controversial?

**JT:** I was on the managing board of CEIOPS when I was at the FSA and was heavily involved in the early parts of the design of Solvency II. It was largely designed on the model of how the UK had changed in the early parts of this millennium, and so it became risk based. There was proper consideration of operational risk as well as more technical credit, market, longevity and underwriting risks. Altogether, it took a more risk sensitive approach, which I thought was positive.

When I left the FSA I had fought hard for consideration of European groups, so we didn't have excess capital sitting inefficiently in local subsidiaries when it was not needed on a group basis. I'm disappointed that this has been unwound. So, while Solvency II was originally going to result in a more efficient allocation of capital within the insurance industry, some of those things have been rolled back. While the shape of it is fine, I think that it is likely to overcapitalise the insurance industry.



I am also concerned that in some areas we still lack clarity on what the regulations are going to be. Whilst implementation may be deferred by a year to 2014, there is still uncertainty in key areas such as the treatment of the so-called liquidity premium related to bonds backing annuities. I find it difficult to accept that for the type of annuity market we have here in this country, where annuities have no value on death, that the liquidity of a bond should be a factor in determining the level of solvency required to be held. The effect of such a policy would be to reduce pension incomes of retired people, and that is bad for our ageing population.

I also worry about the direction banking and Solvency II regulation are taking, making it more expensive for insurance companies to hold equities and for banks to lend money. Of course, it is necessary that the lessons of the financial crisis are taken on board, but if the risk appetite of financial policy is too constrained then I wonder where the risk capital needed to recreate economic growth is going to come from.

Governments want a re-emergence of risk capital into the economy while regulators want capital to be held back to make institutions as safe as possible. But they do not work together. My feeling is that the regulators need to go back to allowing a bit more risk. That is difficult for them because the political pendulum has swung towards giving the regulator the moral mandate to demand as much capital as they want. But we need to make sure that it is not at the cost of growing our way out of this economic downturn.



**RT:** It seems that life insurance has fallen out of favour with investors over a number of years, especially in mature markets. Do you agree, and if so, what do you think has driven this, and what can the industry do to rectify it?

**JT:** I agree that investors have fallen out of love with the life insurance industry. Life insurers, on a 15 year return basis, have underperformed almost all relevant indices. And the lack of transparency has meant that investors have never fully understood what they have been investing in. They do not know if it is a beta play on asset prices, an alpha play on the volume of new business, or a safe bet because of the cash flows from the back book. Because life insurance companies in one country, let alone cross-border, prepare their financial statements to very different standards, it is an impossible industry to follow.

The industry as a whole has become ex-growth; the level of inforce business today is no bigger than it was 12 years ago. I'm not sure that up until two to three years ago the industry had fully recognised this. They were still paying out huge amounts of commission to secure business, which meant that the payback was very long, the returns were poor and they had to keep writing new business just to cover the costs they were incurring in running the factory.

In the past two or three years more life insurers have started to focus much more on cash generation: real cash, not what I call actuarial cash. I think of cash as being money which can be spent down the pub, and my local publican doesn't take a narrowing bond spread for a pint of beer. Of course, more seriously, real cash can also be used to pay dividends to shareholders. A number of life insurers have increasingly focussed their business on cash generation and I believe this is a key reason why their shares been re-rated over the past couple of years. As we move towards Solvency II, RDR, gender neutral pricing and auto-enrolment, business models are going to emerge in a more strategically clear way. I believe that the life insurance industry is generally beginning to get a grip, and will give investors the level of clarity and return they rightly expect.

Resolution was set up by big UK pension funds and other long only institutions to act as a catalyst for unlocking value from the inertia which seems to have existed in the life insurance industry, and also in certain other financial sectors across western Europe. We continue to see excellent opportunities for Resolution's investors in these areas.

**RT:** You have told investors that you do not anticipate making any more major acquisitions in UK life. Is that because you think the UK life market has now reached a more sustainable equilibrium?

**JT:** We acquired two very large, long term players in the UK life market in Friends Provident and AXA. Friends Provident had been in business for 175 years and AXA, one of the largest global insurers, decided to largely exit the UK life insurance market and to sell the business into our UK consolidation project. So I think we have had a major impact. In June of this year we announced a programme to return £500m in capital to shareholders starting with £250 MM. Our board reached this decision on the basis that while the Company may consider smaller bolt-on deals or transactions that are accretive to shareholder returns that do not require a cash raise, they could not foresee the need for a large cash rights issue to raise money for a new acquisition in the near future.

Looking beyond the next 12 months or so I believe that as investors become more determined to see sustainable businesses across the quoted life insurance sector, and as the strategic challenges to boards and management become greater because of some of the policy and structural developments I mentioned earlier, that there is likely to be another bout of restructuring and M&A. In the meantime, we are heavily focussed on implementing the strategy we announced in February. In the middle of this year Andy Briggs joined Friends Life as CEO, and already he is doing a great job in assembling a top class management team and formulating detailed plans to meet the financial targets we have set for 2013. Of course, the Resolution Operations team continues to oversee the project and to maintain our relationships with senior people in the industry and with our investors in the event that there is appetite for further major M&A in due course. We will just have to wait and see.



**RT:** You and the other Resolution Partners have talked about a number of sectors outside of UK Life which could be your next project. Are there ones you believe to be particularly promising?

**JT:** The life insurance sector in various continental European countries needs to release capital. Returns on equity are not high enough. One way to improve returns is to release the heavy weight of the back book into a vehicle which is able to stabilise the cost base, manage persistency, optimise asset allocation and therefore establish a steady stream of cash flows which emerges over decades. Capital markets instruments issued by such a company would seem to be a very attractive asset for pension funds to own as they would provide yield with duration and therefore a strong match of their liabilities to members. We talk to a number of large European insurers about this, as well as regulators and policymakers in the relevant countries. Prudent management and fair treatment of policyholders will be key to the success of such an enterprise.

In the US there has been a closed inforce market for a number of years. However transactions have tended to be relatively small and I think in the next few years there could be the emergence of larger transactions which will require public market investor money as the source of finance. We also see opportunities in European asset management. There are some strong asset management businesses that are wholly or mainly captive to their bank or insurance parents but which don't get any real visibility in the parent company share price. More guided and open architecture is going to challenge those captive distribution models, and some organisations will need to raise capital for Basel III or Solvency II.

**RT:** Has your move from the FSA to Resolution met your expectations?

**JT:** I am very happy about the move to Resolution. Until 2007 I had only had two jobs. I was at Arthur Andersen for 25 years and at the FSA for six and a half. I am not a serial job person. When I retired from the FSA I knew I wanted to do another executive role before perhaps having a small portfolio of interests. Clive Cowdery's mission was to work with public market investors to unlock latent value in financial services through an intervention in the equity market, and that really captured my interest. I believe this catalytic approach can be of great service to public markets. In addition to my regulatory experience, I have worked with financial institutions throughout the world and thought my background could help Clive achieve his objectives. I also like working in a small, entrepreneurial business with a 'can do' approach to life. Resolution clearly punches its weight with all sorts of different stakeholders and I am pleased to have a kind of third leg of my career.

**RT:** Could you ever see yourself moving back to a full time role in the public sector?

**JT:** Unlikely. That's really because I have too much going on which is both demanding and enjoyable. I am on the Board of Credit Suisse and another couple of companies; I've got an intensive job here and I like what I do. I suppose you should never say never, but it is difficult for me looking out to see there ever being capacity in my life to do that. But life is weird, and it turns up all sorts of things.





**JOHN TINER**  
Chief Executive Officer  
Resolution

John Tiner was previously Chief Executive of the Financial Services Authority, a position he held between September 2003 and July 2007 when he retired from the role. He had initially joined the FSA in June 2001 as Managing Director of Consumer, Insurance and Investment Business. At the FSA, he led the review which substantially overhauled regulation of the UK insurance industry and promoted financial capability to become a public policy priority. He was also a

member of the Committee of European Insurance and Occupational Pensions Regulators which steered the development of Solvency II.

Before joining the FSA, John was a Managing Partner at Arthur Andersen responsible for its worldwide financial services practice. He joined Arthur Andersen in 1976, working mainly with banking and capital market clients. He led the Arthur Andersen team appointed by the Bank of England to investigate the collapse of Barings Bank and draw out the lessons to be learned. John is also a non-executive director of Friends Provident Holdings (UK) plc (appointed on 26 August 2009), Credit Suisse Group AG and Lucida plc.



**RICHARD THORNTON**  
Partner  
Oliver Wyman

Richard Thornton is a partner in Oliver Wyman's insurance practice, and has supported a wide range of Life and P&C insurers across Europe, Asia and South Africa. Richard's work focuses on helping insurers to identify and capture profitable growth opportunities and to deliver performance improvement. Specific areas of focus include distribution strategy, bancassurance and tied agent transformation, and in-force value management.

Richard has authored a number of articles and publications on topics including small business insurance, product innovation, and driving profitable bancassurance sales. Prior to joining Oliver Wyman, Richard spent three years working as an economist at the Bank of England.

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For more information please contact the marketing department by email at [info-FS@oliverwyman.com](mailto:info-FS@oliverwyman.com) or by phone at one of the following locations:

**EMEA**

+44 20 7333 8333

**NORTH AMERICA**

+1 212 541 8100

**ASIA PACIFIC**

+65 6510 9700

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