

KEY CHANGES TO THE PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM) OF THE ROYAL LIVER SUB-FUND

On 7 February 2019 policies in the Royal Liver Sub-Fund that were originally sold in Ireland were transferred from Royal London Mutual Society Limited (Royal London) to Royal London DAC. These policies are held in Royal London DAC's Liver Ireland Sub-Fund. Immediately following the transfer these policies were reinsured back into the Royal Liver Sub-Fund. We refer to these policies as the 'reinsured policies' in this document.

To reflect this transfer and the associated reinsurance, we have amended some of the Principles and Practices of the Royal Liver PPFM. We notified all policyholders with policies in the Royal Liver Sub-Fund of these amendments when we notified them about the transfer. This document summarises these changes. The changes are intended to make sure that the Royal Liver PPFM properly takes account of the reinsured policies, as well as the other changes that have been caused by the transfer.

The changes made to the Royal Liver PPFM are summarised as follows:

Guiding Principles (Section 1.0)

An additional guiding principle has been added that requires Royal London to manage the Royal Liver Sub-Fund in compliance with the provisions of the Royal London DAC Scheme and the Liver Reinsurance Agreement, whilst the Liver Reinsurance Agreement remains in place. The Royal London DAC Scheme and Liver Reinsurance Agreement are defined in the Royal Liver PPFM.

Change Control Principle (Section 1.1.3)

An additional statement has been added that requires any changes to the methods used to determine payouts to be approved by the Royal London DAC Board, as well as the Royal London Board whilst the Liver Reinsurance Agreement remains in place

Charges and Expenses Principle (Section 1.7) and Practice (Section 2.7)

These have been amended to make it clear that Royal London DAC will provide administration services and apply the associated charges for the reinsured policies.

New Principle: Interaction with *Royal London DAC* (Section 1.10)

The aim of this principle is to ensure that the Royal Liver Sub-Fund and the Liver Ireland Sub-Fund are managed consistently whilst the Liver Reinsurance Agreement remains in place. It requires the Boards of Royal London and Royal London DAC to consult, in good faith and in a reasonable manner, on material decisions impacting the Royal Liver Sub-Fund. If agreement cannot be reached, such matters will be referred to an independent expert and their decision will be binding.

New Principle: Termination of the *Liver Reinsurance Agreement* (Section 1.11)

The aim of this principle is to ensure that a fair proportion of the inherited estate (as defined in the Royal Liver PPFM) is allocated to eligible policyholders of the Royal Liver Sub-Fund and the Liver Ireland Sub-Fund (the reinsured policies) on termination of the Liver Reinsurance Agreement. It defines how the inherited estate should be calculated and specifies the governance around determining the fair proportion. This includes requirements that the Royal London Board must:

- consider the advice of the Chief Actuary of Royal London, the With-Profits Actuary of Royal London, With-Profits Committee and Liver Supervisory Committee
- agree the amount with the Royal London DAC Board; and

- obtain certification from an independent actuary that the proposal is fair to all policyholders. This certificate must be provided to the Regulators.

This Principle also clarifies that following payment of the fair proportion of the inherited estate, and the termination of the Liver Reinsurance Agreement eligible Liver Ireland Sub-Fund policies (reinsured policies) would have no further interest in the inherited estate and the Principles and Practices in the Royal Liver PPFM would no longer apply to them.

Ceasing to Maintain the Sub-Fund (Section 1.12)

This has been amended so parts of the principle that are no longer relevant will not apply to the reinsured policies.