



**PRINCIPLES AND PRACTICES OF  
FINANCIAL MANAGEMENT**

**THE PLAL WITH-PROFITS SUB-FUND**

**REPORT TO WITH PROFITS  
POLICYHOLDERS**

**ON COMPLIANCE FOR 2016**

**JUNE 2017**

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## **1. INTRODUCTION**

On 1 August 2008, The Royal London Mutual Insurance Society Limited ('Royal London') acquired Phoenix Life Assurance Limited ('PLAL'). On 29 December 2008 all PLAL's business, including the with profits business, was transferred to Royal London. The PLAL With Profits Sub-fund ('the fund') became a ring-fenced with profits sub fund in Royal London and the Principles and Practices of Financial Management ('PPFM') for the fund was published. The most recent version was published in December 2016 reflecting the changes that permit more freedom to invest in new asset types.

The Directors must provide a report each year to with profits policyholders giving information on compliance with the PPFM. The Directors have reviewed the operation of the fund for 2016 and in their opinion the PPFM has been complied with in full. It is also their opinion that the exercise of discretion over the period was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

In coming to this view the Directors have taken account of internal and external professional advice provided during the year, including advice from the With Profits Actuary, the With Profits Committee and the Chief Actuary. This report sets out the main reasons for the Directors' opinion and the following sections consider, in turn, governance, the exercise of discretion, competing and conflicting issues, and compliance with the PPFM.

## **2. GOVERNANCE**

Appropriate governance arrangements to monitor compliance with the PPFM have operated throughout the period in question.

The Directors seek opinions as appropriate from the With Profits Actuary, from the Chief Actuary and from the With Profits Committee which was established by the Directors to provide independent advice on the way the fund is managed, to provide an independent view when the Directors are considering the interests of with profits policyholders and to monitor compliance with the PPFM.

A short report to policyholders from the With Profits Actuary confirming his view is attached.

## **3. EXERCISE OF DISCRETION**

The main areas in which discretion is exercised in the operation of with profits business are setting bonus rates, investment strategy, setting surrender values, allocation of expenses and the management of the estate.

## *SETTING BONUS RATES*

For all contracts, we carried out a process, in line with the PPFM, to set annual and final bonus rates for 2016. These were implemented on 1 January 2016 and were not changed during the year.

In making these declarations, the Directors took account of advice from the With Profits Actuary, the Chief Actuary and followed the requirements of the PPFM. The Directors also took account of advice from the With Profits Committee.

## *INVESTMENT STRATEGY*

The aim of the investment strategy remains to maximise the long term return on investments for with profits policyholders whilst recognising the need for the fund to meet its guaranteed liabilities and commitments to policyholders and maintaining the estate at or close to the target size.

A common statistic used to categorise the level of investment risk within a fund is the proportion of the fund's assets that are invested in equity and property. This proportion remained around 40% throughout 2016.

## *SETTING OF SURRENDER VALUES*

The normal monthly reviews of market value reduction (MVR) factors were carried out over the course of 2016 although no changes were required to these factors over the year.

## *ALLOCATION OF EXPENSES*

Over the course of 2016 the expenses allocated to with profits policies were maintained in line with the original transfer agreement between Royal London and PLAL. Throughout 2016 the allocation of expenses to policies has been in line with the PPFM.

## *MANAGEMENT OF THE ESTATE*

There were no material changes to the methods of monitoring and managing the estate during 2016 as they continue to operate effectively.

## *MANAGEMENT OF RISK*

Royal London continuously seeks to obtain independent assurance that its systems of risk management and internal control are operating effectively. In addition we obtain independent opinions on the effectiveness of the key systems and controls throughout the organisation. This includes evaluating the effectiveness of, and the adequacy of, the risk management processes and ensuring compliance with policies and procedure. The effectiveness of internal control and the risk management infrastructure is also specifically considered by our external auditors in the context of their review of our financial statements.

We have previously developed a number of actions to mitigate the business risks that are run within the fund including exposures to investment, expense, mortality, morbidity and lapse risks.

## *CHANGES TO PPFM*

An updated version of the PPFM was published on 31 December 2016 reflecting the changes that permit more freedom to invest in new asset types. All changes to the PPFM are approved by the Directors.

## **4. COMPETING OR CONFLICTING RIGHTS, INTERESTS AND EXPECTATIONS**

In any with profits fund, different groups of policyholders could have competing or conflicting interests. For example, holders of

- policies of different types (such as life or pension policies or regular or single premium)
- policies of different sizes or different policy terms
- policies which started in different years or mature in different years

or policyholders

- of different ages
- claiming for different reasons (for example maturity, death, surrender)
- exercising different policy options

could receive different benefits relative to each other depending on how discretion is exercised.

Any conflicts which have arisen have been appropriately and fairly resolved, in the Directors' opinion, after taking expert advice, where necessary. This expert advice has been provided by the With Profits Actuary, the Chief Actuary and the With Profits Committee as appropriate.

## **5. COMPLIANCE WITH PPFM**

### *MANAGEMENT OF THE ESTATE*

During 2016, the Directors were provided with information and actuarial reports regarding the current and projected financial position of the fund.

The Directors agreed to enhance asset shares at the end of 2015 and to continue to target payouts above asset share during 2016 in order to distribute part of the estate. This process will be kept under review at subsequent bonus investigations.

## *INVESTMENT STRATEGY*

During 2016 the Capital Management Committee met 20 times. Technical papers on investment strategy were presented during the year and advice from the With Profits Actuary and the Chief Actuary was obtained where appropriate.

The fund was invested in a mix of assets such as equities, fixed interest investments and cash deposits. The policy of protecting the fund against increases in the cost of guarantees as a result of falls in the market value of assets was maintained. The Fund Protection Assets providing this safeguard were maintained throughout.

The performance of the investment manager was monitored by the Capital Management Committee, the Investment Committee and the Directors. Changes to benchmarks were approved by the Directors.

## *POLICY BENEFITS PAYABLE*

The methodology used to set bonuses and policy benefits followed the approach set out in the PPFM and complied with the terms of the Scheme of Transfer. The final bonus rates declared differed between product types and classes.

An exercise to review compliance with the target ranges for maturity and surrender payouts published in the PPFM was carried out. This demonstrated that 100% of policies were within target range during 2016, satisfying requirements for compliance.

## **6. CONCLUSION**

In the opinion of the Directors the management of the with profits business in the fund over this period has complied with the PPFM in full. It is also their opinion that the exercise of discretion over the period was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

**P LONEY**

**GROUP CHIEF EXECUTIVE**

**28 June 2017**

## **REPORT FROM THE WITH PROFITS ACTUARY**

To with profits policyholders in the PLAL With-Profits Sub-fund

In my opinion the discretion exercised by the Directors in respect of the period covered by their report has taken policyholders' interests into account in a reasonable and proportionate manner. It is also my opinion that the Directors have complied with the requirements of the Principles and Practices of Financial Management (PPFM) of the PLAL With-Profits Sub-fund in full.

I have based these opinions on the information and explanations provided to me by the Directors and management of Royal London and on my own knowledge and investigations. In doing so I have taken into account the relevant rules and guidance of the Financial Conduct Authority, of the Prudential Regulation Authority, of the Financial Reporting Council and of the Actuarial Profession regarding the management of with profits business. In particular I can confirm that my report is compliant with the Technical Actuarial Standards (TAS R and TAS I) issued by the Financial Reporting Council.

Separate reports confirm compliance in respect of the Royal London Long Term Fund (excluding the Closed Funds), in respect of the Scottish Life Closed Fund, in respect of the Royal Liver Sub-fund and in respect of the Royal London (CIS) Sub-Fund.

**Brian Murray BSc FFA**

**With Profits Actuary**

**5 June 2017**