



## WITH-PROFITS GUIDE A GUIDE TO YOUR WHOLE LIFE ASSURANCE POLICY

<b>CONTENTS</b>	<b>Page</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 What is this guide for?</b>	<b>2</b>
<b>3 What is a with-profits policy?</b>	<b>2</b>
<b>4 What are the guarantees?</b>	<b>2</b>
<b>5 What are the investments in the fund?</b>	<b>3</b>
<b>6 What affects the bonuses that may be added to my policy?</b>	<b>3</b>
<b>7 What types of bonuses may be added to my policy?</b>	<b>4</b>
<b>8 How do we decide what the bonuses should be?</b>	<b>4</b>
<b>9 What are the risks associated with investing in the fund?</b>	<b>5</b>
<b>10 What is the working capital of the fund and what it is used for?</b>	<b>6</b>
<b>11 What if i decide to cash-in my policy?</b>	<b>6</b>
<b>How to contact us</b>	<b>6</b>

### 1. Introduction

On 31 July 2013 Royal London completed the acquisition of Co-operative Insurance Society Limited from Co-operative Banking Group Limited. Following the acquisition Co-operative Insurance Society Limited was renamed Royal London (CIS) Limited.

On 30 December 2014 the policies of Royal London (CIS) Limited were transferred into a separate sub-fund of the Royal London Long Term Fund called the Royal London (CIS) Sub-Fund. At the same time, the Royal London (CIS) Sub-Fund was closed to new policies.

The Royal London Long Term Fund consists of the Royal London Main Fund, which is open to new business, and sub-funds which are all closed to new policies.

We will manage the Royal London (CIS) Sub-Fund in accordance with the Transfer Scheme; this is one of the legal documents that transferred the business of Royal London (CIS) Limited to Royal London. The Transfer Scheme states that Royal London will manage the Royal London (CIS) Sub-Fund as if it was a stand-alone fund, operating within the constraints of its own capital.

The Royal London (CIS) Sub-Fund itself consists of three funds:

- the RLCIS OB & IB Fund;
- the RLCIS With-Profits Stakeholder Fund; and
- the RLCIS With-Profits Pension Fund.

This guide covers with-profits whole life assurance policies in the RLCIS OB & IB Fund.

In this guide we call the RLCIS OB & IB Fund, 'the fund'.

## **2. What is this guide for?**

### **This guide tells you how we manage the fund.**

It should answer most of the questions you might have. If you have any further questions then please contact us – our contact details are shown at the end of this guide.

The guide explains the main aspects of how we currently manage the fund for customers who have with-profits whole life assurance policies. It covers the key points from the detailed technical guide called the Principles and Practices of Financial Management (PPFM) document, but is not a replacement for it. Please see the PPFM for a fuller description of how we manage the fund. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

You can download all of our guides, including the PPFM documents, from our website, [www.royallondon.com](http://www.royallondon.com) or instead you can contact us for a copy.

If we make a significant change to our approach to managing our with-profits fund in the future, we'll write to tell you.

## **3. What is a with-profits policy?**

**A with-profits policy is a type of insurance policy that lets you share in the profits and losses of the fund's long-term insurance business, which includes life assurance and pensions business.**

Your money, together with other policyholders' money, is invested in the fund. By investing in a range of assets (types of investments), we aim to make profits for the fund, which we will then share with with-profits policyholders by adding bonuses to their policies. The fund also has policies which do not share in the profits or losses of the fund, known as non-profit policies.

Your with-profits policy benefits from a special feature known as smoothing. Smoothing is designed to protect with-profits policyholders from the direct impact of some of the sudden movements in the stockmarket, but it cannot get rid of the strong link between the underlying market investment returns, and with-profits returns.

For policies such as yours, in deciding what the bonuses should be, we smooth (or average) the investment profits or losses over a number of years. This means that we hold back some of the profit made when investment returns are good, so that we can increase returns if investment returns are lower. We do this so that your investment should provide a steadier return from day to day than if you invest in a fund which fully reflects the rise and fall in stock markets, such as a unit trust.

Smoothing does not protect against prolonged falls in the stock market, because the profits held back from periods of good returns may not provide sufficient protection against investment losses. Also, unlike simpler stock market investments, your policy contains a guarantee about the amount of money we will pay in the event of a death claim.

## **4. What are the guarantees?**

**Your policy benefits from valuable guarantees. If you pay all your premiums on time, we guarantee to pay, on the death of the life assured (the person covered by the policy), the basic sum assured plus any annual bonuses we have added to your policy at that time.**

Some types of policy also have other guarantees, which are shown in policy documents.

## **5. What are the investments in the fund?**

**The fund is invested in a wide range of carefully selected assets with the aim of achieving growth. A wide range of assets is held to help reduce the risk to the value of the fund that would arise if most or all of the assets were invested in a single category of assets.**

Investments include:

- UK and overseas shares
- government bonds (loans to the government)
- company bonds (loans to companies)
- property (which may also include our business premises)
- subsidiary companies owned by the fund
- cash deposits
- more complex types of assets that are used to help reduce investment risk such as derivatives.

**Our Responsible Shareholding programme is an important part of how we manage the investments in the fund.**

We aim to influence the companies in which the fund invests on a range of social, ethical and environmental issues. This means that we will engage with companies on a broad and challenging ethical agenda, reflecting the issues that our customers would expect the businesses in which we invest to address. We consider such influence to be for the benefit of the companies in which the fund invests and therefore for the benefit of the fund itself.

In the 1980s and 1990s, when stockmarket investment returns were relatively high, a high proportion of the assets of the fund was invested in shares and property with the aim of achieving above-average investment returns. Although shares and property investments are riskier than other types of investments, such as bonds and cash deposits, over the longer term they tend to produce higher investment returns (although this is not guaranteed).

As a result of the generally much lower investment performance of the world stock markets since the year 2000 and following a general decline in interest rates, a lower proportion of shares and property assets has been held in the fund in recent years. Also, since 2004 the assets of the fund have been allocated in different ways to different groups of policies. We do this to take account of a number of factors such as the value and nature of policy guarantees. As a result, different groups of policies might be invested in a different mix of assets.

For with-profits whole life assurance policies, we currently aim to hold between 40% and 60% of the assets obtained by investing your premiums in shares and property, with investments in property normally representing no more than 40% of the total invested in shares and property. We hold the rest of the assets in less risky assets such as bonds, cash deposits and suitable derivatives.

The current mix of assets held for your type of policy is usually shown with your statement and is also available on request.

## **6. What affects the bonuses that may be added to my policy?**

**The bonuses are affected by the investment returns achieved by the fund, the level of policy guarantees, the charges that we make, how we smooth payouts and any distributions from the fund's working capital. (See section 10.)**

The bonuses added to your policy represent your share of the profits and losses of the fund.

The main factor that affects the level of bonuses that we may add to different groups of with-profits policies is the investment profits or losses of the assets held in respect of those policies.

Other important factors are:

- the charges we make
- the effect of the guarantees we offer to you and to other policyholders.

Other factors, such as the profits (or losses) that result from other types of business in the fund and any difference between the amount we have paid to investors moving out of the fund and the fair share (see section 8) of the total fund value for those plans at the time, may also give rise to profits or losses within the fund (see section 9.)

The charges which we make allow for, amongst other things:

- our costs of acquiring and administering policies
- tax
- the costs of helping to meet policy guarantees, and
- the cost of life cover.

Before 1 August 2013 the costs of acquiring and administering policies arose from the direct management of the fund. Since 1 August 2013 such costs have been based on fees and charges levied by the Royal London Main Fund as part of the terms of Royal London's purchase of CIS.

We are currently charging policies taken out before 1 January 2003 an amount to help meet the cost of the policy guarantees provided. This charge is allowed for when we set bonuses for such policies by reducing the investment return achieved on the assets backing the policies by 0.5% each year.

We regularly monitor the effect of this charge and we may vary it in the future, for example, to reflect changes in the level of working capital. (See section 10).

We use all the profits of the life assurance and pensions business in the fund for the benefit of the fund's life assurance and pensions policyholders only.

This includes adding to reserves to strengthen the fund for its life assurance and pensions policyholders.

Similarly, any losses incurred within the fund are met by the policyholders, either through a reduction in the working capital (see section 10) of the fund or through a reduction in their benefits.

## [7. What types of bonuses may be added to my policy?](#)

**There are generally three types of bonuses:**

- **Annual bonuses**, which we may add to policies each year and which increase the guaranteed minimum amount that we will pay out
- **Interim bonuses**, which we may add when a claim is made, to cover the period since any annual bonuses were previously added
- **Final bonuses**, which we may add when a claim is made.

Unless any special conditions apply as described in documents provided to you or except when a policy is cashed in or lapsed, the benefits payable are the basic sum assured plus any annual bonuses already added to the policy, plus any interim and final bonuses.

## [8. How do we decide what the bonuses should be?](#)

**Bonuses are set so that payouts represent a fair share of the fund, allowing for smoothing. In setting annual bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to policyholders at any time and has enough working capital. (See section 10)**

### [Annual and interim bonuses](#)

**We set annual bonuses on 1 April each year. These bonuses pay out part of the profits of the fund, increasing a policy's guaranteed benefits.**

We set annual bonus rates with the aim of holding back part of the policy's share of the profits of the fund to be paid as final bonus. When we set annual bonuses, we take account of factors such as our long-term view of future investment conditions, the level of guarantees applying to policies and the level of working capital in the fund. Annual bonuses increase the level of guarantees applying to policies such as yours. In order to ensure that the fund can afford to pay such guarantees, it may be necessary to limit future annual bonuses or to set annual bonuses to zero.

**Interim bonuses are usually set at the same time and at the same rates as annual bonuses.**

However, interim bonus rates could be changed more often than annual bonus rates, or set at different rates.

### Final bonuses

These represent a fair share of the profits and losses arising over the lifetime of policies which we haven't already distributed as annual or interim bonuses.

**In setting final bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to policyholders at any time and has enough working capital. We normally set final bonuses on 1 April each year, but we also review final bonus rates at least once more during the year, and may change them if necessary.**

There are a number of different factors that contribute to the fund's profits and losses and we have to decide how to share these profits or losses when we set the bonuses. We do this by calculating a 'fair share' of the assets of the fund for typical policies and using the results to fix a scale of final bonuses to apply to all similar policies. The fair share depends on the profits earned by policies such as yours over the period of the investment. In calculating the fair share, we smooth the investment return earned by averaging the annual return over a period of years.

We also look at the total fair share for different groups of investors and use the results to decide the level of bonuses we pay to each group.

Some final bonuses might be zero, for example when the guaranteed benefits are greater than the fair share.

### 9. What are the risks associated with investing in the fund?

**The fund is exposed to a number of risks, for example:**

- risks relating to how well our investments might do
- risks relating to how much our costs might be
- the cost of meeting guarantees that apply to most of the fund's with-profits policies (such as basic sums assured and basic annuities together with any attaching annual bonuses); guaranteed annuity rates that apply to the majority of the fund's with-profits pension
- business and guarantees that apply when certain with-profits bonds are cashed in
- the risk that we might have to pay compensation to certain policyholders and meet any other costs arising from operational errors (except where any such costs are met by the Royal London Main Fund)
- risks associated with operating subsidiary companies owned by the fund, and
- in exceptional circumstances, risks arising in other funds of Royal London.

Since 1 August 2013 the risks relating to the level of our costs have been reduced by the nature of the fee arrangement with the Royal London Main Fund. Losses from certain risks, such as the cost of paying guaranteed annuity rates, certain compensation costs and any that arise from the subsidiary companies owned by the fund, are currently covered by the working capital of the fund. Such risks do not usually affect what you get back. But if the working capital is not enough to meet some or all of these losses, we may have to reduce bonuses and cash-in values. Similarly, if the level of working capital is more than we require, we may share out additional profits.

**We actively monitor the risks and take preventative action when necessary.**

We regularly monitor the level of business risks within the fund as part of our standard risk management procedures, and where we think it is necessary we act to reduce risk exposure.

### **10. What is the working capital of the fund and what is it used for?**

**The working capital of the fund is the excess of the value of the fund's assets over the amount needed to meet its liabilities.**

We use the working capital for a variety of purposes, for example to ensure as far as possible that the fund is large enough to cover all our liabilities to policyholders at any time and to support smoothing of payouts. As the fund is closed to new policies, we need to balance the requirement to hold a sufficient level of working capital with the need to distribute it over the lifetime of eligible with-profits policies. The way we will distribute the working capital will be decided by our Board from time to time with the overall aim of being fair.

The overriding principle is that the fund is to be managed, so far as it is possible, within the limits of its own working capital. If we are unable to do this, capital from the Royal London Main Fund, if available, would be used to help support the fund until we could take any available actions to address the situation.

A charge would be made to the fund in relation to such support on terms specified in the Transfer Scheme.

### **11. What if I decide to cash in my policy?**

**Your policy is designed to provide a lump sum on death and it may not be in your best interest to cash in your policy. You should consider seeking financial advice when deciding whether to cash in your policy.**

If you do decide to cash in your policy, we will adjust your benefits to pay you an amount which takes into account factors such as our costs and investment returns over the time that the policy was held and allowing for smoothing. In exceptional circumstances we may also make a deduction to protect the interests of policyholders continuing in the fund.

### **How to contact us**

**If you need more information, contact our Customer Contact Centre 0345 605 7777.**

Monday to Friday 8am to 8pm and Saturday and Bank Holidays 8am to 5pm.

Or write to:

Royal London  
Churchgate House  
56 Oxford Road  
Manchester  
M1 6EU





**Please call 0345 605 7777 if you would like to receive this information in an alternative format such as large print or Braille.**



Royal London  
Royal London House, Alderley Road, Wilmslow, SK9 1PF  
[royallondon.com](http://royallondon.com)

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in England and Wales number 99064. Registered office: 55 Gracechurch Street, London EC3V 0RL.