

Aviva Life & Pensions UK Limited

FLC With-Profits Sub-Fund



Summary of changes to the Principles and Practices of Financial Management (PPFM)

Introduction and Background

This document summarises changes made to the FLC With-Profits Sub-Fund PPFM in recent years.

The PPFM was originally published as the PPFM of AXA Sun Life in April 2004 and it has subsequently been amended on a number of occasions. The Aviva website now displays the latest version of the PPFM.

1. Changes effective from 1 July 2022

The PPFM has been amended from 1 July 2022 to reflect the merger of the FLC New With-Profits Sub-Fund with the FLC Old With-Profits Sub-Fund to create the FLC With-Profits Sub-Fund (Merged Fund).

(a) General changes

As a result of the merger we have made some general changes throughout the document to reflect that:

- the newly established fund is called the FLC With-Profits Sub-Fund and is referred to as the “Sub-Fund”.
- references to the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund are replaced with the FLC With-Profits Sub-Fund and references to the Funds to Fund.
- all principles and practices that previously specifically related to the FLC Old With-Profits Sub-Fund are removed as the Merged Fund can be managed with common principles and practices.
- the Sub-Fund’s principles and practices are based on the previous FLC New With-Profits Sub-Fund’s, with any amendments described below.
- there are also changes in the numbering of paragraphs as some new paragraphs are added and some existing paragraphs removed.

(b) Targeting Payouts section

We removed text in **principles 2.1** and **practices 2.3** stating how payouts are set for Policyholders in the FLC Old With-Profits Sub-Fund, as payouts can now be set using the same methodology as used by the former FLC New With-Profits Sub-Fund. Any further capacity in the former FLC Old With-Profits Sub-Fund to fund additional bonuses (previously in the form of Special Scheme Bonuses) will be reflected in any Alignment Bonus.

(c) Bonus policy and Smoothing section

We removed the following text from **principles 3.1**:

- “the intention, as far as possible, to maintain the same bonus rates on equivalent policies allocated to the former policyholders in the FLC Old With-Profits Sub-Fund and FLC New With-Profits Sub-Fund”, as policyholders are now in a single fund.
- “Special Scheme Bonus”, as no further Special Scheme Bonus is payable following the merger. (**Practices 3.10** explains that any remaining Inherited Estate at 1 July 2022 will be allowed for when determining the Alignment Bonus.)

We amended text in **principles 3.1** and **practices 3.8** relating to Reorganisation Bonus to reflect:

- that the last Reorganisation Bonus addition will be on 1 January 2023 and the Account funding this Bonus for policyholders in the former FLC New With-Profits Sub-Fund will then have been fully distributed.
- that Reorganisation Bonus for former FLC Old With-Profits Sub-Fund policyholders will also cease (as they are set on the same basis of entitlement and at equivalent rates as those in the former FLC New With-Profits Sub-Fund).

We amended text in **practices 3.11** relating to equity between policyholders and shareholders as tax on shareholder transfers for the Sub-Fund is now borne by the Non-Profit Sub-Fund (previously tax on shareholder transfers for the former FLC Old With-Profits Sub-Fund was paid by that fund’s estate).

We added **practices 3.9** that explains that Alignment Bonus may be added to policies previously in either the FLC Old With-Profits Sub-Fund or the FLC New With-Profits Sub-Fund (but not both) to help ensure the merger of the two funds is fair.

(d) Investment Strategy section

We removed the following text from **principles 5.1** and **practices 5.2** as it is redundant following merger:

- separate asset pools being generally maintained for the former FLC With-Profits Sub-Funds.
- the goal of achieving the same investment returns for equivalent policies in each of the former FLC With-Profits Sub-Funds.
- notionally allocating investment returns and taxation in any combined asset pool to the former FLC With-Profits Sub-Funds.

(e) Charges, expenses and taxation section

We removed from:

- **principles 7.1** the term “proprietary” in relation to taxation as it could be mis-interpreted; this change is not related to merger.
- **practices 7.2.2** text relating to splitting fees for developments that cannot be charged to Asset Shares between the former FLC With-Profits Sub-Funds, as all such fees are now charged to the Non-Profit Sub-Fund.

(f) Solvency Risk Appetite, capital support and management of the estate section

We removed:

- from **principles 8.1** the description of how Special Scheme Bonuses are calculated, as no further such Bonuses will be added.
- all of the **practices 8.2** (FLC Old With-Profits Sub-Fund Special Scheme Bonus) sub-section.
- from **practices 8.5** text related to how the FLC Old With-Profits Sub-Fund manages its estate differently, as there will no longer be separate estates and practices used in the former FLC New With-Profits Sub-Fund can be applied to all with-profits business in the Merged Fund.
- from **practices 8.6** text relating to the merger of the FLC With-Profits Sub-Funds and FLC Old With-Profits Sub-Fund as they are now merged.

We have updated **practices 8.2** (previously **practices 8.3**) text to reflect the reduction in the Support Account over time in line with the schedule specified in the Scheme. The specified Scheme schedule is unchanged.

Introduction, Glossary and Appendix sections

We updated the:

- Introduction and Appendices (e.g. Company structure charts) sections to reflect the merger.
- Introduction section to state the merger did not require Court approval because the Scheme already made provision for such a merger.
- Appendix section on taxation to reflect the changes referred to under (e) above.
- Glossary to reflect the changes above.

2. Changes effective from 1 January 2022

The PPFM has been amended from 1 January 2022. One practice was amended following an internal review.

(a) Practices 3.3

We have reduced the annual management charge on capital units to the same level as other units. The specific reference to capital units has therefore been removed as it is no longer relevant.

3. Changes effective from 1 January 2021

The PPFM has been amended from 1 January 2021. A number of practices were amended following an internal review.

(a) Practices 2.4.2 & 6.2 and Glossary

We have removed references to a previous services company.

(b) Practices 3.4

We have corrected the wording for the change in payouts to be less than or equal to the smoothing limits following final bonus rates changes.

(c) Practices 3.5

When determining final bonus rates, current regular bonus rates rather than proposed are used and the wording has been corrected to reflect this.

(d) Practices 3.6

The approach of using the same final bonus rates for conventional whole of life policies as for maturing endowments is well established. The wording has been corrected to reflect this and references to the prescribed test have been removed.

4. Changes effective from 1 January 2020

The PPFM has been amended from 1 January 2020. A number of practices were amended following an internal review.

(a) General changes

We have made some minor corrections and clarifications to wording. These have not been described here as they make no material change to the PPFM.

(b) Practices 2.3, 8.2 & 8.6

We have made some changes to the description of our approach to estate distributions to make it clearer for customers to understand the main risks and rewards of maintaining a with-profits policy in the Sub-Funds.

(c) Practices 2.4 & 7.2

The PPFM referred to a management services agreement which ceased at the end of 2018. We have amended the wording to reflect the revised Management Services Agreement which took effect from 1 January 2019.

(d) Practices 8.6 and Glossary

We have introduced a Risk Appetite Framework to support the decision making in relation to the with-profits sub-funds. It aims to manage the Sub-Funds so that the estate is within a preferred range.

5. Changes effective from 1 January 2019

The PPFM has been amended from 1 January 2019. A number of practices were amended following an internal review.

(a) General changes

Where possible we have standardised wording and removed any Practices that are no longer applicable. These have not been described here as they make no material change to the PPFM.

(b) Practices 3.4

We have made some changes to the way we apply smoothing of payouts to better achieve the way smoothing is described in the Principles.

(c) Practices 5.2 & 5.4

We have changed our investment approach for the working capital so that the Practices better achieve the Principles.

We have clarified the approach to reviewing investment strategy and how it is described within the PPFM.

We have also clarified our investment approach relating to assets backing asset shares (“return assets”), and assets backing other liabilities (“non-return assets”).

(d) Practices 5.6

We have clarified how derivatives may be used.

(e) Practices 5.9

We have clarified the investment controls that are in place as outlined by the funds own investment mandate.

6. Changes effective from 1 January 2018

(a) General changes

The PPFM has been amended from 1 January 2018. The changes have not been described here as they were minor corrections or clarifications to wording and make no material change to the PPFM.

7. Changes effective from 1 October 2017

The PPFM has been amended with effect from 1 October 2017. Most of the changes were as a result of the transfer of the policies of the FLC Old With Profits fund and the FLC New With Profits fund into newly established funds in Aviva Life & Pensions UK Limited called the FLC Old With-Profits Sub-Fund and the FLC New With-Profits Sub-Fund respectively.

(a) General changes

As a result of the transfer, some general changes were made throughout the document, as follows:

- The newly established funds are called the FLC Old With-Profits Sub-Fund and the FLC New With-Profits Sub-Fund
- ‘Fund’ was changed to ‘sub-fund’ in line with the new names, which are consistent with other fund names within Aviva Life & Pensions UK.
- The transfer was made through a Court scheme, and reference in the PPFM is now to the new Scheme under which the sub-funds will be managed rather than to the previous 2013 Scheme, and any references have been updated to refer to the relevant section of the new Scheme.
- References to Friends Life Limited (FLL) were replaced by ones to Aviva Life & Pensions UK Limited, which is generally referred to as ‘the Company’
- To reflect the change in the name of the company which provides administration services from Friends Life Services Limited to Aviva Administration Limited

(b) Introduction and Overview

The previous introduction and overview sections (sections 1 and 2) were replaced by a new introduction (section 1) that is common to all PPFM documents for Aviva Life & Pensions UK Limited. This provides a brief overview of the Company, an explanation of PPFM documents and their governance and some general information on with-profits policies

The previous introduction noted that if changes were proposed to Principles relating to bonus rates, payouts and investment strategy, then the proposal should be accompanied by a certificate from an independent actuary that the changes would not affect the reasonable expectations of policyholders. We removed this requirement since we believe that the current With-Profits Committee consultation and advanced notice to policyholders of changes provide sufficient protection to policyholders. An independent actuary certified that this change was acceptable.

(c) Principles 3.1

A change was made that is not related to the transfer, but was a change in the way the fund was managed. We previously stated that our approach to uplifting asset shares depended on the type of claim, and this was deleted, since the treatment of policies that leave the fund early is now the same as for policies that stay until their maturity date.

(d) Principles 4.1

Again unrelated to the transfer, the statement that the same bonus policy is used to set rates for the FLC Old and New With-Profits Sub-Funds was removed. As stated elsewhere in the PPFM, rates are set based on the position of the New With-Profits Sub-Fund, and then apply equally to the Old With-Profits Sub-Fund, which can then also have periodic Special Scheme Bonuses. We also removed a historic reference to the 2001 Reorganisation Scheme.

(e) Principles 6.1

We removed a statement that capital support outside the sub-fund is an important factor in our ability to have regard to the previous 2001 Reorganisation Scheme requirement to maintain a high proportion of equities and property than our average competitor. This change was made to avoid duplication, as there remained a requirement in Principles 6.1 to have regard when setting the investment strategy to outside capital support and to the previous requirement for a high proportion of equities and property.

In addition we also removed a sentence relating to the With-Profits Committee having regard solely to the interests of with-profits policyholders when giving advice to the Board in determining investment strategy. This statement was considered superfluous and thus was removed, since the With-Profits Committee does not formally give advice, and in line with its terms of reference, would always have regard solely to the interests of with-profits policyholders.

During 2016, we made a change to the Practices to note that the assets for the FLC Old and New With-Profits Sub-Funds would be held in separate portfolios from late 2015. Having given appropriate notice to policyholders, the Principles were also changed to say this.

(f) Principles 7.2

There was a guarantee provided by Friends Life Limited over some loan instruments issued by Friends Life Holdings plc. and Aviva plc. The guarantee is now provided by the Company. The risk that these guarantees will be called upon, and the risk that the Company will be unable to repay its own debt instruments, was previously controlled by the requirement for a repayment plan five years before the end date of the debt and is now mitigated by Aviva's forward planning strategy and by a requirement for the With-Profits Actuary to report annually to the With-Profits Committee on the financial impact of the Company's plans, including those for the repayment of loans, on policyholder security. We amended the PPFM accordingly.

(g) Principles 9.1

We had a method of determining the amount of capital FLL needed to hold in addition to the regulatory minimum, known as the FLL Capital Policy. There were two parts to this, assessed relative to the risk of FLL not being able to meet its best-estimate liabilities and not being able to meet the regulatory minimum capital requirements. The second part was assessed using what is known as the Solvency Risk Appetite. After 1 October 2017, only the Solvency Risk Appetite applies and the Principles have been amended to reflect this.

Any future changes to the Solvency Risk Appetite which might materially weaken it will require the Company to take account of appropriate actuarial advice, consult the With-Profits Committee and notify its regulators. This is the same protection as previously applied to the key parts of the FLL Capital Policy.

The Principles previously described how the FLC Support Account and an Additional Account are required to be available within FLL to support the fund. The Support Account continues to be available but the Additional Account which was expected to become zero at 31 December 2017 is no longer required. We amended the Principles to reflect this change and other changes in the operation of the Support Account.

(h) Practices 9.3

The existing description of the FLL Capital Policy was replaced by wording reflecting the Solvency Risk Appetite, which as described above, replaced it.

The updated wording still states that the sub-funds will be managed on the basis that the FLC Support Account is available to support the sub-funds. It includes the amount of the account, which now reduces in accordance with a fixed schedule rather than being recalculated every 5 years. Changes have also been made to the Practices on how and when a transfer from the FLC Support Account may be made and repaid.

(i) Practices 9.4

All references to a Provision for Policyholder Benefits ('PPB') test were removed. The PPB test was introduced under a previous regulatory regime, and the current solvency test serves the same purpose, so this outdated test was removed from the Scheme.

(j) Practices 9.6

An additional paragraph was added to explain that when the value of the assets attributable to with-profits policies in the FLC Old With-Profits Sub-Fund become sufficiently small, below £250m, we may declare one or more special bonuses to use up any surplus proportion in the FLC Old With-Profits Sub-Fund in excess of that in the FLC New With-Profits Sub-Fund, and then merge the two sub-funds.

Similarly, if the assets of the FLC Old With-Profits Sub-Fund and FLC New With-Profits Sub-Fund together, or the combined sub-fund if they have merged fall below £250m we may declare a one-off bonus or a series of fixed future bonuses to use up the surplus in the sub-funds, determine to add no further bonuses, and move the policies to the Non-Profit Sub-Fund. This is very similar to a power we already possessed but had not previously described in the PPFM.

In addition, we added the information that, at any time after 1 October 2017, we may merge any with-profits or non-profit sub-funds, subject to certain constraints including taking appropriate actuarial advice and consulting the With-Profits Committee to ensure that the proposal is fair to policyholders. Where such a merger involves the FLC With-Profits Sub-Funds, we will obtain advice from an independent actuary, and will also notify our regulators in advance.

(k) Glossary

The glossary was updated to reflect the changes described above.

(l) Appendices

We added appendices to show the new sub-fund structure within Aviva Life & Pensions UK Limited and to summarise the company history including that of the FLC With-Profits Sub-Funds. We also updated the appendix of original issuing companies to include all those associated with the with-profits sub-funds in Aviva Life & Pensions UK Limited.

8. Changes effective from 1 January 2017

(a) General changes

- References to Friends Provident International Limited ('FPIL') have been removed as it is no longer a subsidiary of Friends Life and Pensions Limited ('FLP').
- An incorrect cross-reference in section 2.8.1 to section 5.1 has been corrected to now refer to section 6.1.

(b) Overview section 2.6

The Capital Policy sets out the level of capital that the company aims to hold in all but the most extreme circumstances. As the previous version of the PPFM foreshadowed, we carried out a review of the policy during 2016 and made some minor changes, which are reflected in the current PPFM.

(c) Practices 6.7

Asset Share shorting helps protect the Funds against the increased costs of providing guaranteed policy benefits in adverse market conditions. We have now adopted this technique for the FLC With Profits Funds.

(d) Practices 6.8

Secured funding and securities lending activities entail receiving a payment from other financial institutions in return for lending assets to them. The wording has been changed as we have widened the range of these activities we may carry out.

(e) Practices 8.2

There have been various changes to reflect that the investment manager is now Aviva Investors.

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Aviva Life & Pensions UK Limited.

Registered in England No. 3253947. Aviva, Wellington Row, York, YO90 1WR.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority
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