

# Aviva Life & Pensions UK Limited

## FPLAL With-Profits Sub-Fund



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

#### Introduction and Background

This summary describes changes made to the FPLAL With-Profits Sub-Fund PPFM in recent years.

The PPFM was originally published as the PPFM of Friends Provident Life Assurance Limited in March 2004 and 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 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

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

##### (c) Practices 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 8.2 and Glossary

We have introduced a Risk Appetite Framework which supports the decision making in relation to the with-profits sub-funds. It aims to manage the Sub-Fund so that the working capital is within a preferred range.

#### 2. 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Where possible we have standardised wording and removed any Practices that are no longer applicable.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 2.2 & 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 5.3 & 5.5

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 target payouts ("return assets"), and assets backing other liabilities ("non-return assets").

##### (d) Practices 5.6

We have clarified how derivatives may be used.

##### (e) Practices 5.8

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

### 3. Changes effective from 1 January 2018

The PPFM was amended 1 January 2018. One practice was 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 5.3

We have clarified the investment strategy of the estate so that it is now the same as that for liabilities arising from guarantees.

### 4. Changes effective from 1 October 2017

The PPFM was amended with effect from 1 October 2017. Most of the changes were as a result of the transfer of the policies of the FPLAL With Profits Fund into a newly established fund in Aviva Life & Pensions UK Limited called the FPLAL With-Profits Sub-Fund.

#### (a) General changes

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

- The newly established fund is called the FPLAL With-Profits Sub-Fund
- 'Fund' was changed to 'sub-fund' in line with the new name, which is consistent with other fund names within Aviva Life & Pensions UK Limited.
- The transfer was made through a Court scheme, and reference in the PPFM is now to the new Scheme under which the sub-fund 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') where the FPLAL With Profits Fund is currently held 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 Management Services Limited to Aviva Management Services UK 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.

#### (c) Practices 6.1

In the past there was a requirement for the With-Profits Actuary and the Friends Life Limited Board to certify annually that the investment policy was in accordance with the objectives set out in the PPFM. This specific requirement was removed, since investment policy is already included within the annual exercise to report on compliance with the PPFM.

#### (d) Principles 7.2

The Practices previously noted a risk that Friends Life and Pensions Limited ('FLP'), to which some of FLL's policies were reinsured, could fail to meet its liabilities, resulting in losses to FLL. This risk does not exist after 1 October 2017 as the business of FLP will be transferred to Aviva Life and Pensions UK Limited at the same time as that of FLL. Mention of it will therefore be deleted.

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.

#### (e) Principles 9.1

We have 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 will apply 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 currently applies to the key parts of the FLL Capital Policy.

## **(f) Practices 9.2**

These Practices contained a paragraph to explain that when the number of policies in the FPLAL With-Profits Sub-Fund becomes sufficiently small, below 5000, we may declare additional bonuses or benefit increases to use up the surplus in the sub-fund, determine to add no further bonuses, and move the policies to the Non-Profit Sub-Fund. This Practice was changed so that instead of applying when 5000 policies remain, it applies when the assets of the sub-fund (excluding those backing non-profit policies) fall below £80m, as we believed that this was a more appropriate measure.

The Practices also contained a clause such that when the number of policies fell below 500, action must be taken. We removed this requirement, since it could have caused the sub-fund to be closed at a time, such as a period of investment turmoil, which was disadvantageous for policyholders.

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.

## **(g) Glossary**

The glossary was updated to reflect the changes described above.

## **(h) 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 FPLAL With-Profits Sub-Fund. We also updated the appendix of original issuing companies to include those associated with all the with-profits sub-funds in Aviva Life & Pensions UK Limited.

# **5. 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').

## **(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 4.4**

The smoothing policy has been changed slightly to bring it into line with the other with-profits funds of Friends Life Limited.

## **(d) Principles 6.7**

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.

# **6. Changes effective from 1 January 2016**

## **(a) General changes**

- Some minor updates were made in terminology as a result of new regulations which came into force from 1 January 2016.
- We have noted that the With Profits Committee now comprises at least five members.

## **(b) Practices 3.3**

We made changes to allow more flexibility in setting the margin taken into account before determining whether asset shares should be enhanced from the estate, given that the existing margin was based on values calculated under regulations which no longer apply.

## **(c) Practices 6.9**

Changes were made to the internal governance of investment matters and the investment managers for the fund.

## 7. Changes effective from 1 July 2015

### (a) General changes

- Changes were made to reflect the fact that Friends Life Limited is now owned by Aviva Life Holdings UK Limited, which in turn is ultimately owned by Aviva plc.
- We have noted that the majority of the With Profits Committee must be independent of Aviva plc and Friends life Limited.

## 8. Changes effective from 31 December 2014

### (a) General changes

Some minor changes were made to improve clarity.

### (b) Practices 8.2

This section was updated to reflect a change to our investment managers.