

Aviva Life & Pensions UK Limited

FLAS 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 FLAS With-Profits Sub-Fund PPFM in recent years.

The PPFM was originally published as the PPFM of Sun Life Assurance Society 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 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

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-Fund.

(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 8.4 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 estate is within a preferred range.

2. Changes effective from 1 January 2019

The PPFM was amended 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Where possible we have standardised wording and removed any Practices that are no longer applicable.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 & 8.4

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.

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 5.2

We have updated the practices for the change in the investment strategy of the estate so that it is now the same as that for asset shares.

4. 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 FLAS With Profits Fund into a newly established fund in Aviva Life & Pensions UK Limited called the FLAS 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 FLAS 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 is 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 were replaced by ones to Aviva Life & Pensions UK Limited, which is generally referred to as 'the Company'.
- In recognition of changes in the names of several Friends Life companies, including the company which provides administration services which changed 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.

(c) Principles 3.1

A change was made that is not related to the transfer, but was a change in the way the sub-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 sub-fund early is now the same as for policies that stay until their maturity date.

(d) Practices 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 was transferred to Aviva Life & Pensions UK Limited at the same time as that of FLL. Mention of it was therefore 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.

The PPFM now notes that there is an internal arrangement so that the Non-Profit Sub-Fund will absorb losses arising from the default of external reinsurers of unit-linked business in the FLAS With-Profits Sub-Fund.

(e) 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 FLAS Support Account was required to be available within FLL to support the sub-fund. The Support Account continues to be available and the Principles reflect this, and were updated to reflect some changes in the operation of the Support Account.

(f) Practices 9.2

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-fund will be managed on the basis that the FLAS Support Account is available to support the sub-fund and includes the amount of the account. Changes were also made to the Practices on how and when a transfer from the FLAS Support Account may be made and repaid.

(g) Practices 9.5

An additional paragraph was added to explain that when the value of the assets attributable to with-profits policies in the FLAS With-Profits Sub-Fund become sufficiently small, below £250m, we may declare a one-off bonus or a series of fixed future bonuses 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 is very similar to a power we already possessed but did not previously describe 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.

(h) Glossary

The glossary was updated to reflect the changes described above.

(i) 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 FLAS 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

There were no changes to the Principles.

(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 6.7

Asset Share shorting helps protect the Fund against the increased costs of providing guaranteed policy benefits in adverse market conditions. We have now adopted this technique for the FLAS With Profits Fund and a new Practice, 6.7, has been added to describe this.

(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.

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 6.8 – investment controls

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

(c) Principles 8.1 – management of the estate

We deleted the sentence "There has been no attribution of the estate, and there are no formal constraints on our freedom to deal with the estate", since our present approach of distributing the estate through regular and final bonuses is expected to continue.

(d) Practices 8.2

Reference to directly charged expenses was removed as these are now included in the per-policy fees.

(e) Principles 9.1 and Practices 9.2

We have made changes to Principles and Practices to reflect changes made to the capital support arrangements for the Fund under the 2013 Scheme (the court scheme which governs various aspects of how we manage Friends Life Limited). These changes were possible because we completed a programme of reducing the risk to which policies in the Fund were exposed.

We've included a fuller description of capital policy and support arrangements that Friends Life Limited provides for the fund. These arrangements give investment flexibility and improve the security of policy benefits generally and have been updated to reflect changes resulting from the new financial reporting regulations which came into force on 1 January 2016.

7. Changes effective from 1 July 2015

These changes included some changes to Principles, and as required by our regulator, advanced notice of these changes has been provided to policyholders as part of the annual bonus mailings.

(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.

(b) Principles 3.1 and Practices 3.2 – changes to uplifts

The Principles have been updated as previously notified to policyholders. When working out final bonus rates and surrender values, we take into account extra amounts known as 'uplifts' in addition to asset shares in order to distribute any surplus assets within the fund. Previously these extra amounts were largely targeted on policies at or close to the end of their term. As the fund runs off, we changed the way we distributed the surplus assets and now take uplifts fully into account for all policies that have been in force for fifteen years or more. For policies which end after a shorter period, we will take into account a proportion of the full uplift.

(c) Practices 3.2 and 3.5 – target payouts for maturities and surrenders

A change to how we express the target payout for maturities and surrenders, which we now describe as being 100% of uplifted asset share. We aim not to deviate from this target by more than 20%.

(d) Principles 4.1 – regular bonus setting

When setting regular bonus rates we aim to maintain a large enough margin over the expected value of the fund's guaranteed benefits, from which to pay a final bonus, on most policies.

8. Changes effective from 31 December 2014

(a) General changes

Following some previous changes to the way we set regular bonuses, we have taken the opportunity to re-write the PPFM into a more logical order. As part of this we have clarified the wording, and where relevant, have adopted wording that is consistent with the PPFM for the other with-profits funds within the Friends Life group. These changes are to the wording and layout do not change the way we manage the fund.

(b) Practices 3.2

We have updated our wording on interim bonus rates to make it clear that the interim rate is not necessarily our expectation of the next regular bonus rate to be declared. Rather, the interim bonus rates will normally be set equal to the last declared regular bonus rate.

(c) Practices 4.2

Changes were made:

- so that we would be able to implement a change to asset share methodology, if this was considered to be fairer; and
- to the wording for recycling profit and loss from surrenders and mortality into the asset share of policies of the same type.

(d) Practices 7.2 and Section 2.9

Changes have been made to reflect the fact that there are no longer a large number of immediate annuities within the fund.