Aviva Life & Pensions UK Limited WL 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 WL With-Profits Sub-Fund PPFM in recent years.

The PPFM was originally published as the PPFM of Winterthur Life UK Limited 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. One principle and 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 3.4 & 3.5

We have clarified the calculations for specific claims practices for some unitised business.

(d) 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.

(e) Principles 5.1, 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 estate is within a preferred range. The principle refers to a risk appetite and this has been rephrased to prevent any confusion with the new Risk appetite Framework. It is not a material change but a clarification to the wording.

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Where possible we have standardised wording and removed any Practices that are no longer applicable.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 2.2 & 3.4

We have made some changes to the way we apply smoothing of payouts for conventional and ex-Colonial unitised policies 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 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 5.7

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

(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.

4. Changes effective from 1 October 2017

The PPFM has been be amended with effect from 1 October 2017. Most of the changes were as a result of the transfer of the policies of the WL With Profits Fund into a newly established fund in Aviva Life & Pensions UK Limited called the WL 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 WL 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') 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.

(c) Practices 2.2

The previous practice was to target 95% of asset share for most surrenders, but the practices have been now updated to state that the target will be 100% of asset shares for both maturities and surrenders.

(d) Principles 3.1

A change was made that is not related to the transfer, but is a change in the way the sub-fund is managed. We previously allowed for the profits on non-profit business in the sub-fund as part of the asset share calculations. Instead this is allowed for in our assessment of the inherited estate each year (as described in section 8.2 of the PPFM).

(e) Practices 3.2

In assessing the size of any inherited estate, we continue to allow for the liabilities for non-profit business in the sub-fund, but no longer allow for the capital requirements for this business, which allows any surplus assets to be distributed sooner.

(f) Practices 7.2

The Practices previously noted a risk that Friends Life and Pensions Limited ('FLP'), to which some of FLL's policies are reinsured, could fail to meet its liabilities, resulting in losses to FLL. This risk will 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 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.

(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 currently applies to the key parts of the FLL Capital Policy.

There was a paragraph describing what will be done when the sub-fund becomes small, below £100m, and we made some changes here. In assessing the size of the sub-fund, we moved to a consistent measure for all sub-funds and so rather than looking at liabilities we look at the assets of the sub-fund excluding those backing non-profit policies.

The Principles also contained a clause such that when the liabilities fell to £10m, action had to 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.

(h) Practices 9.2

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.

(i) 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 WL Support Account is still available to support the sub-fund, and the current amount of the account is included. We removed the constraint on the investment of the Support Account, as this was inconsistent with the Scheme provisions.

(j) Glossary

The glossary was updated to reflect the changes described above.

(k) 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 WL 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 3.3

We estimate the solvency position of the fund to assist in determining whether any of the excess assets of the fund should be added to asset shares, so increasing payouts for policyholders. We have made some changes to section 3.3.2 of the PPFM to describe correctly how we now do this.

(d) Principles 6.1

We have deleted a sentence mistakenly included in 6.1 of the current version which incorrectly states that a particular certificate will be produced in respect of this fund.

(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 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.

(c) Practices 6.3

The anticipated future profits from non-profit business in the fund will no longer be treated as an investment of the fund. Rather any future profits or losses will fall to the estate as they arise.

(d) Practices 6.7
Changes were made to the internal governance of investment matters and the investment managers for the fund.

(e) Principles 9.1 and Practices 9.3
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 2016

(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 4.1
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) Practices 3.2 and Practices 5.2
Changes were made to reflect the fact that over the last three years before a policy matures, we gradually increase the surrender value payout target from 95% of asset share to 100%, in order to smooth the values towards the maturity value.

(b) Practices 6.3
Changes were made to clarify the investment strategy for the estate.