

Aviva Life & Pensions UK Limited

Provident Mutual Sub-Fund



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

Introduction and Background

This document summarises changes made to the Provident Mutual Sub-Fund PPFM in recent years.

The PPFM was first published on 29 April 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 1/1/2020

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 2.2 & 2.6

We have removed some specific practices relating to flexible endowment assurances as there are no live policies remaining.

(c) Practices 2.6 & 6.2

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.

(d) Practices 3.2 & 6.2 and Glossary

We have updated the wording to reflect the changes in the Risk Appetite Framework. The aim of the Risk Appetite Framework is to manage the Sub-Fund so that the inherited estate is within a preferred range.

(e) Principles 5.1 and Practices 5.2

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. We have amended the principle to reflect the move from a combination of fixed and per policy fee basis to per policy fees as the new Management Services Agreement does not include a fixed fee.

2. Changes effective from 1/1/2019

The PPFM was amended 1/1/2019. 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Where possible we have standardised wording and removed any Practices that are no longer applicable. They have not been described here as they make no material change to the PPFM.

(b) Practices 2.2 & 2.6

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 3.2

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

3. Changes effective from 1/1/2018

The PPFM was amended 1/1/2018. 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 in detail here as they make no material change to the PPFM.

(b) Practices 6.3

We have amended the risk appetite framework to simplify our process and to better achieve our Principles

4. Changes at 1/10/2017

The PPFM was amended with effect from 1/10/2017. Most of the changes were as a result of the transfer of the policies of Friends Life Limited and Friends Life and Pensions Limited into Aviva Life & Pensions UK Limited, known as the Scheme. This gave us an opportunity to consolidate a lot of the information on how we run the Sub-Fund into the PPFM, rather than having it duplicated in the Scheme.

(a) General changes

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

- In a number of places where the PPFM referred to the Scheme and the information is now covered in the PPFM instead, the Scheme reference was removed and appropriate wording added in its place.
- 'Fund' was changed to 'Sub-Fund' in line with the formal Provident Mutual ('PM') Sub-Fund name.
- The transfer was made through a Court scheme, and reference is now made in the PPFM to the new Scheme under which the Sub-Fund is managed rather than to the existing Scheme known as the Reattribution Scheme, and any paragraph references were updated to refer to the relevant section of the new Scheme.

(b) Introduction

The previous introduction in section 1 was replaced by a new introduction 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 2.1

We have added a sentence to make it clear that the Board determine the amount and timing of bonus distributions made to policyholders, having taken appropriate actuarial advice. This was always the case and the wording was previously included in the Court Scheme and partly in the PPFM Practices but has now been brought into the PPFM Principles.

(d) Principles 2.3

The previous wording referred to the Scheme for sources of profit and loss to the Sub-Fund, and the calculation of asset shares. We now refer to the relevant section of the PPFM for this.

(e) Practices 2.6

This section has been updated to reflect new regulations for calculating reserves for insurance companies. In particular 'solvency margin' has been replaced by 'regulatory capital requirements'.

(f) Principles 3.1

This contained references to some outdated items, 'minimum guarantee fund' and 'waivers with respect to the use of implicit items' and these have been removed.

Also, we now explicitly state that in respect of its investment strategy, the Sub-Fund will not be treated unfairly compared to other sub-funds. This wording was previously in the Court Scheme.

(g) Practices 3.2

We have added further explanation of stock lending activity. The section outlines that we may lend some assets to selected financial institutions to generate extra income for the Sub-Fund. This would always be subject to a number of controls including obtaining security from each borrower.

(h) Practices 4.2

Following the transfer, the Company now guarantees the repayment of some loan instruments issued by Friends Life Holdings plc and Aviva plc. The PPFM sets out the actions the Company will take to mitigate this risk.

(i) Practices 5.2

This section describes the various expenses relating to PM Sub-Fund business, and was updated to clarify that these expenses are paid from the PM Sub-Fund. The section now states that other than administration fees, development and investment management expenses, the only other expenses that will normally be charged to the Sub-Fund are an appropriate share of regulatory fees and industry levies. No further expenses will be charged unless the Board considers this to be consistent with policyholders' best interests.

(j) Practices 6.2

This now states that the inherited estate within the Sub-Fund will no longer be used to pay any remaining pensions compensation liabilities.

An additional paragraph has been added to explain that when the value of the assets attributable to with-profits policies in the PM Sub-Fund become sufficiently small, below £50m, we may take certain actions to protect the interests of the remaining policyholders.

These are to declare a scale of guaranteed benefit increases to be added in future years 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 had not previously described in the PPFM.

In addition, we have 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.

(k) Principles 8.1 and Practices 8.2

Consistent with the update in Practices 6.2, we have removed the requirement for the Sub-Fund to pay shareholder transfer in respect of any remaining pensions compensation liabilities, since these will no longer be met by the Sub-Fund.

(l) Glossary

The glossary has been updated to reflect the changes described above.

(m) Appendices

We have 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 Provident Mutual Sub-Fund. We have also added an appendix that shows the original issuing companies for all the with-profits sub-funds in Aviva Life & Pensions UK Limited.

5. Changes effective from 1/1/2016

The PPFM was amended 1/1/2016. Two practices were amended as a result of an internal review. In addition, following changes made by our regulators to the way we reserve for business (commonly known as the Solvency II regime) we have changed the way the PPFM describes this. These regulatory changes have not been described here, as they make no material change to the PPFM.

(a) Sections 2.4 & 3.2

We no longer 'hypothecate' assets. We now separate assets by holding them in separate investment pools. The use of investment pools, rather than hypothecation, provides a more robust way to manage the funds with a similar outcome.

(b) Section 3.2

We have clarified the investment strategy to provide a clearer description of the practice.

(c) Glossary

We have standardised the wording of some of the definitions to improve clarity.

(d) Appendix B

We have updated the structure chart to reflect the new Solvency II regime and removed the dormant companies so as to avoid any potential confusion for customers who may have originally invested in these companies.

6. Changes effective from 1/1/2015

The PPFM was amended 1/1/2015. One practice was amended as a result of an internal review.

(a) Section 3.2

We have removed some duplication regarding property investment. In addition the wording regarding the permitted uses for derivatives has been amended to reflect the investment management agreement.

(b) Glossary

We have updated the definition of the equity backing ratio (EBR).

(c) Appendix B

We have updated the structure chart to include the Irish With-Profits Sub Fund following the transfer of the Irish with-profits business on 1 January 2015.

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