

# 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-Funds 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 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Where possible we have standardised wording and removed any Practices that are no longer applicable.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.

#### 2. 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.

#### 3. 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.

# **4. 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.

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

## **(a) General changes**

- Following the changes to the way we set regular bonuses from 1 July 2016, 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 of both Principles and Practices but do not change the way we actually manage the fund.
- 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) Practices 8.2**

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

#### **(d) Principles 9.1 and Practices 9.2**

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.

### **6. 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.

#### **(b) Principles 3.1 – regular bonus rates**

Previously regular bonus rates for unitised with-profits policies were based on the expected investment returns on the fund, with certain margins deducted. We now 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. The margin we aim for is an amount which reflects the investments and risks within the fund.

#### **(c) Principles 4.1 and Practices 4.2 – 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.

#### **(d) Practices 3.2 – target payouts**

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%.

### **7. Changes effective from 31 December 2014**

#### **(a) Practices 3.2**

Changes have been made to the PPFM to update 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.

#### **(b) Practices 4.2**

Changes have been made to our 'target ranges'. These are the ranges in which we expect policy payouts to fall, and we have increased the ranges to reflect our expectations of future surplus distribution. The precise changes are:

	Old Range	New Range
Maturities	95% to 160%	97.5% to 162.5%
Surrenders	85% to 140%	87.5% to 142.5%

### **8. Changes effective from 30 October 2014**

#### **(a) General changes**

Some changes were made to the introductory sections to reflect the fact that Lombard International Assurance SA has been sold by the Friends Life group.

### **9. Changes effective from 9 May 2014**

#### **(a) General changes**

A number of changes were made to reflect that Resolution Limited was renamed Friends Life Group Limited and Friends Life Group plc (FLG) was renamed Friends Life Holdings plc (FLH).