

Aviva Life & Pensions UK Limited

Old and New With-Profits

Sub-Funds



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

Introduction and Background

This document summarises changes made to the Old and New With-Profits Sub-Funds PPFM in recent years.

The PPFM was first published on 1 October 2009 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 1/1/2019

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Where possible we have standardised wording and removed any Practices that are no longer applicable.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

2. Changes effective from 1/1/2018

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

(b) Practices 2.4 & 3.2

We have clarified the description of investment pools as separate investment pools exist for business denominated in different currencies. The investment strategy for non-sterling denominated business follows that of the sterling denominated business.

(c) Practices 6.3

We have amended the risk appetite framework, including the requirements for mandatory distributions from the estate of the Old WPSF and conditions that permit a release from the Reattributed Inherited Estate External Support Account (RIEESA), to simplify our process and to better achieve our Principles.

3. 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-Funds 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 Old With-Profits Sub-Fund and New With-Profits Sub-Fund names.

- The transfer was made through a Court scheme, and unless historic reference to the existing Scheme (known as the Reattribution Scheme) is needed, we now refer in the PPFM to the new Scheme under which the Sub-Funds are managed, 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 2.3

We have added a Principle that if the method for calculating asset shares is to be changed for policies transferred under the Reattribution Scheme, this change must be approved by the With-Profits Committee.

A similar Principle has also been introduced in respect of any changes to the way we manage our business which are expected to have shareholder benefit, but would not have done had the Reattribution Scheme not been implemented. The consent of the With-Profits Committee will be required for any such change.

(d) Practices 2.4

We now note that where an error is found in the asset shares as at 1 October 2009 and these are materially too low, the cost of the correction will be met by the external support account for the New With-Profits Sub-Fund and the estate in the Old With-Profits Sub-Fund for that Sub-Fund. This has always been the case and the wording was previously included in the Court Scheme but has now been brought into the PPFM instead.

(e) Practices 2.6

We have added an additional sentence to state that the Sub-Fund will not be managed solely to avoid the need for or the repayment of any capital support. This has always been the case and the wording was previously included in the Court Scheme but has now been brought into the PPFM instead.

(f) Practices 3.2

In describing the investment strategy, we now note that short term tactical decisions may also be made, having taken account of appropriate actuarial advice and having regard to fairness to policyholders. This has always been our practice and the wording was previously included in the Court Scheme but has now been brought into the PPFM instead.

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-Funds. This would always be subject to a number of controls including obtaining security from each borrower.

There was an existing requirement that investments sufficient to cover what was known as the Core Assets Account must be of certain types, known as core eligible assets. We have replaced this by a requirement that core eligible assets must be at least as large as the Aggregate Asset Shares, and have added wording to explain how this would be achieved if it wasn't the case.

(g) 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.

We have removed some wording that states that non-profit annuity business has been mainly written by Aviva Annuity UK Limited, since with effect from 1 January 2017, the business of Aviva Annuity UK Limited has been transferred into Aviva Life & Pensions UK Limited.

(h) Practices 5.2

The previous wording stated that fees for defined benefit pension schemes and for developments would be charged at cost plus a margin; reference to the margin has now been removed.

Wording has been added to clarify how the costs for the With-Profits Committee are split between the with-profits sub-funds. Costs specifically relating to the previous Reattribution Scheme will normally be allocated to the New With-Profits Sub-Fund, with a proportion to the Old With-Profits Sub-Fund if this is deemed appropriate.

(i) Introduction 6.1

Additional wording was added to state that the Board will use the Company's risk appetite framework to manage the level of the inherited estates having regard to the fair treatment of policyholders, and maintaining the estates at adequate but not excessive levels.

(j) Principles 6.2

In describing the process for managing the Old With-Profits Sub-Fund's inherited estate, where it falls within the preferred range, we now describe the likelihood of a distribution as 'possible' rather than 'unlikely'.

(k) Practices 6.3

An additional paragraph has been added to explain that when the value of the assets attributable to with-profits policies in the Old With-Profits Sub-Fund become sufficiently small, below £100m, we may increase the asset shares of policies in the Old With-Profits Sub-Fund to use up any surplus proportion in the Old With-Profits Sub-Fund in excess of that in the New With-Profits Sub-Fund, and then merge the two Sub-Funds.

Similarly, if the assets of the Old With-Profits Sub-Fund and New With-Profits Sub-Fund together, or the combined Sub-Fund if they have merged, fall below £250m we may take certain actions to protect the interests of the remaining policyholders. These are to 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.

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.

(l) Practices 7.2

We changed the Practices that describe how we assess the maximum level of new business that the Sub-Funds will write. We have also removed an outdated paragraph governing changes that could be made prior to 31 December 2013.

(m) Glossary

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

(n) 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 Old With-Profits Sub-Fund and New With-Profits 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.

4. Changes effective from 1/1/2016

The PPFM was amended 1/1/2016. One practice was 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) Section 3.2

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

(b) Glossary

We have standardised the wording of some of the definitions to improve clarity and removed any definitions which are no longer relevant.

(c) Appendix C

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.

5. Changes effective from 1/1/2015

The PPFM was amended 1/1/2015. Three practices were amended as a result of an internal review.

(a) Section 2.6

The additional wording summarises the form of any distribution made from the estate of the Old WPSF.

(b) Section 3.2

The changes reflect the new with-profit investment strategy and also remove duplication regarding property investment. In addition the wording regarding the permitted uses for derivatives has been amended to reflect the investment management agreement.

(c) Section 6.2

The PPFM was written with key tests to be carried out as set out in the Scheme. The Old WPSF Bonus Amount test has been carried out with no impact on the funds. The paragraph referring to this test is no longer required and has been removed.

(d) Glossary

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

(e) Appendix C

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.

6. Changes effective from 1/1/2014

The PPFM was amended 1/1/2014. A number of practices were amended as a result of an internal review and there was a minor amendment to the wording of one principle. As this was a correction of a principle rather than an actual change as to how we manage the business, we are not required by our regulator to notify policyholders in advance.

(a) Section 1, Section 2 & Glossary

The Financial Services Authority was replaced by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Financial Services Act 2013. There are a number of references to the FSA within the PPFM and these have been changed to reflect the change to our regulator. We have included definitions of the FCA, PRA and COBS.

(b) Section 2.4

We have clarified the position for certain types of investment to reflect that they are on a net of charges basis.

(c) Section 2.8

We have removed some of the wording which related to the initial introduction of market value reductions. Once market value reductions have been removed, should they need to be re-introduced we would do so following the trigger process outlined in the PPFM.

(d) Section 3

There is no requirement to provide credit ratings for corporate bonds so the wording in the PPFM referring to this has been removed and the information sheets have been updated.

(e) Section 3.1 & 3.2 Principle & Practice

The PPFM makes reference to the Group derivative policy which no longer exists. The wording has therefore been corrected to reflect this. In addition, the position regarding the governance for the approval of the use of derivatives has been clarified.

(f) Section 3.2

We have amended the wording around determining the equity backing ratio for overseas business in order to better achieve the Principle.

(g) Section 5.2

We have clarified the position concerning charging arrangements between the with-profit funds and the service companies.