

# Aviva Life & Pensions UK Limited With-Profits Sub-Fund (formerly Norwich Union Life & Pensions)



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

### Introduction and Background

This document summarises changes made to the With-Profits 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 1/1/2019

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Where possible we have standardised wording and removed any Practices that are no longer applicable.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

### 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-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 With-Profits Sub-Fund name.
- The transfer was made through a Court scheme, and unless historic reference to the existing Scheme (known as the Demutualisation Scheme) is needed, we now refer in the PPFM to the new Scheme under which the Sub-Fund is 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 2.1**

We have added a sentence to state that the costs of shareholder transfers and associated tax will not reduce the asset shares for conventional policies in force on 15 June 1997, the date that Norwich Union demutualised, and increments to those policies. This was always the case and the wording was previously included in the Scheme but has now been brought into the PPFM Principles instead.

## **(d) Practices 2.4**

In the section on shareholder transfers, we already stated that the cost of shareholder transfers in respect of conventional with-profits business is not charged to asset shares. The wording has been updated to include incremental tax on those shareholder transfers and to note that this policy will not be changed in future.

## **(e) Principles 3.1**

The investment strategy was stated as aiming to provide the highest long-term returns commensurate with acceptable levels of solvency risk. We now also explicitly state that the returns should be commensurate with the interests of policyholders, although this was our practice anyway.

A sentence has also been added to state that the investment strategy will not be set assuming that any support is available from outside the Sub-Fund unless otherwise determined by the Board. This wording was previously in the Court Scheme.

## **(f) 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.

## **(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 also clarified that no new non-profit business has been written in the Sub-Fund since October 2002.

## **(h) Practices 5.2**

This section describes the various expenses relating to the With-Profits Sub-Fund business, and has been updated to clarify that these expenses are paid by the Company and then charged to the With-Profits Sub-Fund.

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

The section now states that the allocation of investment management fees between the sub-funds will be decided by the Board, having taken appropriate advice and consulted the With-Profits Committee. Similarly, other than expenses explicitly covered by the PPFM, no further expenses will be charged unless agreed by the Board, having taken appropriate advice and consulted the With-Profits Committee.

## **(i) Practices 6.2**

An additional paragraph has been added to explain that when the value of the assets attributable to with-profits policies in the With-Profits Sub-Fund become sufficiently small, 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-Fund, 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.

## **(j) Practices 7.2**

We have changed the Practices that describe how we assess the maximum level of new business that the Sub-Fund will write.

## **(k) Glossary**

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

## **(l) 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 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. 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 and removed any definitions which are no longer relevant.

### (d) 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. One practice was 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 typographical error rather than an actual change to the principle as to how we manage the business, we are not required by our regulator to notify policyholders in advance.

### (a) 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.

### (b) Section 8.1 Principle

We have corrected a typographical error in the wording relating to the approvals process so that it refers to the regulations as intended.

### (c) Glossary

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

### (d) 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 removed the asset share charge due to the improved financial position of the Fund.

### (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 5.2**

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

### **(g) Section 6.2**

The wording on the uses of the inherited estate has been revised. Under the operation of the Risk Appetite Framework distributions from the inherited estate may be made so long as sufficient capital is retained in the fund to provide benefit security. In addition we have improved the governance arrangements on the expenses that can be charged to the estate.