



Windsor Life With-Profit Fund
Principles and Practices of Financial Management
REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2014

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Report to Policyholders from the With-Profits Actuary

1. Introduction

- 1.1 ReAssure Limited ("ReAssure" or "the Company") maintains a document known as the Principles and Practices of Financial Management ("the PPFM") for each of its with-profits funds. This sets out the Principles and Practices that guide the management of the with-profits business held in the fund. A PPFM was first published in April 2004.
- 1.2 This report to policyholders examines the management during 2014 of the with-profits business in the Windsor Life With-Profit Fund ("the Fund"). The latter is a ring-fenced sub-fund of ReAssure's long term insurance business fund.
- 1.3 This report sets out, with reasons, how ReAssure complied with the obligations associated with the PPFM for the Windsor Life With-Profit Fund during the course of 2014. These include the requirement to maintain appropriate governance arrangements designed to ensure that the Company complies with, maintains and records a PPFM. The report also describes the way in which ReAssure exercised discretion in the conduct of its with-profits business and how it addressed the conflicting requirements of different groups of policyholders and shareholders.
- 1.4 In preparing this report, ReAssure has taken advice from its With-Profits Actuary. Any terms used in the report have the meaning set out in the PPFM for the Windsor Life With-Profit Fund, a copy of which can be downloaded from ReAssure's website or obtained free of charge by writing to ReAssure at its registered address.

2. Governance arrangements

- 2.1 The ultimate responsibility for the management of ReAssure's with-profits business during 2014 resided with the ReAssure Board ("the Board"). However, a sub-committee of the Board, known as the Fairness Committee, performed a number of functions on behalf of the Board in relation to the Company's with-profits business. This included monitoring compliance with the PPFM, reviewing its contents and approving any proposals to alter it.
- 2.2 The Fairness Committee met quarterly during 2014, and all Fairness Committee members were present at all meetings.
- 2.3 A With-Profits Actuary is appointed to provide advice on the exercise of discretion relating to matters affecting with-profits business. The With-Profits Actuary for ReAssure for 2014 was Mr David Lightwood. During 2014, he was an employee of Admin Re UK Services Limited, a fellow group company to ReAssure. The With-Profits Actuary attended meetings of the Fairness Committee and also, when required, those parts of Board meetings where with-profits issues were discussed. He received copies of papers relating to the Company's with-profits business, such as Bonus declarations, and had an opportunity to comment on them in advance of their wider circulation.
- 2.4 The With-Profits Actuary has prepared a report to the Board on the key aspects of discretion exercised during 2014 by the Company that affected the with-profits business in the Fund. A separate report from him to policyholders is annexed to this report.

3. Exercise of discretion

BONUS RATES

- 3.1 Regular Bonus rates for 2013 for conventional with-profits ("CWP") policies were approved by the Board in March 2014, having previously been reviewed and commented on by the Fairness Committee. In general, Bonus rates were increased, reflecting the relatively strong investment returns during 2013, including the contribution from the Estate (see paragraph 3.17) to Asset Shares.
- 3.2 Regular Bonus rates for unitised with-profits ("UWP") policies were reviewed in March and September 2014, and were generally increased each time, with the exception that the pension policies Regular Bonus rates remained unchanged in September. This was due to targeting a higher proportion of Final Bonus and lower proportion of Regular Bonus in order to reduce the build-up of guarantees in the Fund which was consistent with the recent derisking within the Fund. The action taken on Bonus rates during the year was consistent with the Practices outlined in the PPFM, which were amended to reflect the change to UWP pension policies (this amendment was not considered material enough for policyholders to be directly informed).
- 3.3 Final Bonus rates were set by the Board four times during 2014: in March, June, September and December (where in general they respectively decreased, increased, increased and remained unchanged). The rates being recommended were reviewed and commented on beforehand by the Fairness Committee. Payouts were set by reference to Asset Shares of the with-profits policies, allowing for the investment return emerging during the year on the Fund. The approach followed when setting Final Bonus rates during the year, including the items charged to Asset Shares, the grouping of policies and the use of smoothing, was consistent with the Practices outlined in the PPFM.

SURRENDER VALUES

- 3.4 The methods and bases used to calculate Surrender values were unchanged throughout 2014, being consistent with the description appearing in the PPFM.
- 3.5 No Market Value Reduction Factor ("MVR") was in force in 2014.

PAYOUTS

- 3.6 A target range for Maturities and Surrenders was set for the with-profits policies in the Fund of between 80% and 120% of the underlying Asset Share, with the aim that over the longer term these payouts should in aggregate equal 100% of Asset Share (before the application of any Market Value Reduction Factor). Around 98% of payouts in 2014 fell within the target range. The approach used to set Final Bonus is designed with the aim that payouts should over the longer term in aggregate equal 100% of Asset Share.

INVESTMENT STRATEGY

- 3.7 The operation of the investment of the Company's assets was overseen by the Relationship Management Group, which met monthly during 2014. In addition, the Board Investment Committee (a sub-committee of the Board) reviewed investment strategy and performance and met quarterly during 2014. Relevant investment information relating to the Fund was also provided quarterly to the Fairness Committee.

- 3.8 In November a new asset class, Emerging Market Debt (EMD) entered the Fund, following approval by the Board Investment Committee.
- 3.9 Until November, the benchmark mix for the assets backing the asset shares was as follows:
- For annuity products: the relative proportions were; fixed-interest (62%); UK equities (17.5%); overseas equities (7.5%) and property (15%);
 - For other products: the relative proportions were; fixed interest (50%); UK equities (24.5%); overseas equities (10.5%) and property (15%).
- In each case, from November, EMD assets made up 2% of asset shares, with investment in equities correspondingly reducing. The permitted deviations from the benchmark (generally up to 10%) remained unchanged throughout 2014.
- 3.10 The asset allocation of the mix of assets backing asset shares is reviewed on a monthly basis by the ReAssure Asset Allocation Group which reports asset allocation decisions to the Relationship Management Group.
- 3.11 The “Estate” is the excess of the value of the assets in the Fund over the value of the assets needed to support the current and expected future liabilities of the Fund. These assets are invested predominantly in fixed-interest securities. The Estate maintains a negative holding in equities in order to maximise the resilience of the Fund to a fall in the value of equities. For most of 2014 a negative property holding also existed in the Estate, due to the continuing restructuring of the property portfolio.
- 3.12 The investment policy of the Fund is subject to a formal solvency constraint, requiring it to be able to withstand a prescribed investment shock.

BUSINESS RISK

- 3.13 The Fund is closed to new business, and only permits increments to existing policies. Non-profit annuities under vesting pension policies were secured outside the Fund.
- 3.14 No costs arising from business risks were charged to Asset Shares.

CHARGES AND EXPENSES

- 3.15 The fees charged to the Fund during 2014 for administration and investment services were consistent with those disclosed in the PPFM. The tax charge for 2014 was performed as though the Fund were a stand-alone proprietary life insurance company, again as required by the PPFM.
- 3.16 The fair value of annuity guarantees continued to be assessed using a calculation method based on the average of the top 5 market rates.

MANAGEMENT AND DISTRIBUTION OF THE ESTATE

- 3.17 An initial contribution of 2% of Asset Shares for each policy was made from the Estate to Asset Shares for 2014 (in line with the long term expectations of the 2012 run-off plan). At September 2014 this was increased to 5% of Asset Shares for each policy as a result of modelling improvements which led to an increase in the size of the Estate.
- 3.18 On each occasion the level of contribution to Asset Shares was reviewed by the Fairness Committee and approved by the Board.

EQUITY AMONGST POLICYHOLDERS AND WITH SHAREHOLDERS

- 3.19 The grouping of policies for the purposes of determining payouts and the mechanism used to attribute items of experience to the different groups was unchanged throughout 2014, being consistent with the Principles and Practices set out in the PPFM. The approach to smoothing and to the distribution of the Estate similarly followed established practices, as described in the PPFM.
- 3.20 The Guiding Principles in the PPFM set out the shareholder commitment to the Fund. Both shareholders and policyholders have a vested interest in its prudent financial management, including a controlled distribution of profits and allocation of Bonuses. Shareholders are entitled to 10% of the profits from the Fund (by way of a transfer to the Non-Profit Fund). The profit is calculated as part of the statutory returns and approved by the Board.

4. Maintenance of the PPFM

- 4.1 The Fairness Committee was responsible during 2014 for reviewing the contents of the PPFM and approving any changes proposed to it.
- 4.2 No changes were made to the Principles during 2014.
- 4.3 Practices in the PPFM were amended during 2014 with minor changes to improve consistency with the PPFM for the National Mutual With-Profit Fund and to reflect changes made in 2013 to the cost and investment policy for annuity guarantees. In addition, the change to UWP pension Regular Bonus rates described in paragraph 3.2 was reflected in the PPFM from September 2014.

5. Policyholder communications

- 5.1 Following the 2013 Bonus declaration, holders of CWP policies were mailed a statement in 2014 setting out the details of the Regular Bonuses added to their policy. Holders of UWP policies were sent Bonus information as part of their annual statements.
- 5.2 A copy of the CFPPFM (called "A guide to how the Windsor Life With-Profit Fund is managed") was held on the Company's website during the year and reference made to it in statements issued to policyholders. No changes were made to the CFPPFM during 2014.

6. Conclusion

- 6.1 In the opinion of both the ReAssure Board and the Fairness Committee, the Company complied with the material obligations associated with the PPFM for the Windsor Life With-Profit Fund during the course of 2014. In particular, throughout the year, it:
- maintained appropriate governance arrangements designed to ensure that it complied with, maintained and recorded a PPFM;
 - exercised discretion appropriately in the conduct of its with-profits business; and
 - addressed appropriately any competing or conflicting rights, interests or expectations of its with-profits policyholders (or groups of policyholders) and shareholders.

1 July 2015

Annex

Windsor Life With-Profit Fund

Report to Policyholders from the With-Profits Actuary

FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2014

The Windsor Life With-Profit Fund Principles and Practices of Financial Management ("PPFM") is a detailed document which sets out how ReAssure Limited ("the Company") manages its with-profits business.

The Company has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the Company's with-profits policyholders is to give my opinion, as required by the rules of the Financial Conduct Authority, as to whether the Company has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2014.

The report is provided for the purpose set out above and should not be used as the basis to make any decisions regarding contracts with the Company, (including whether to enter into them, to continue them or to terminate them), for which decisions fuller information and qualified financial advice should be sought.

In my capacity as With-Profits Actuary to the Company, I advise the Board of the Company (including authorised sub-committees) on key aspects of the discretion exercised by it in respect of its with-profits business.

I have considered the Company's report ("the Report") on compliance with the PPFM for the Windsor Life With-Profit Fund, to which this report is annexed, and I have reviewed the discretion exercised by the Company during 2014.

In doing this I have also considered the data in reports submitted to the Fairness Committee during 2014 and also a report regarding compliance with the PPFM for the Windsor Life With-Profit Fund submitted to the Fairness Committee in March 2015.

Based on the information and explanations provided to me by the Company, I am satisfied that:

- the Report fairly summarises the principal areas in which the Company exercised discretion during 2014 in the conduct of its with-profits business;
- the Company complied with the material obligations of the PPFM during 2014; and
- any significant discretion exercised by the Company during 2014 took the interests of the with-profits policyholders in the Windsor Life With-Profit Fund into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Conduct Authority's COBS 20 (With-profits).

The Board for Actuarial Standards has issued standards (Insurance TAS version 1, TAS-R version 2, TAS-D version 1 and TAS-M version 1) which apply to reports produced by actuaries. This report complies with these standards.

David Lightwood
Fellow of the Institute of Actuaries
With-Profits Actuary
1 July 2015