ReAssure

Guardian Assurance With-Profits Fund

Principles and Practices of Financial Management

REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2019

Contents

ReAssure

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 2004.

1.2 This report to policyholders examines the management during 2019 of the with-profits business in the Guardian Assurance With-Profits Fund ("the Fund"), which is a ring-fenced fund within ReAssure.

1.3 This report sets out, with reasons, how ReAssure complied with the obligations associated with the PPFM for the Guardian Assurance With-Profits Fund during the course of 2019. These include the requirement to maintain appropriate governance arrangements, designed to ensure that the Company maintains and complies with the 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 Guardian Assurance With-Profits 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 2019 resided with the ReAssure Board ("the Board"). However, a sub-committee of the Board, known as the Fairness Committee, performed a number of functions 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 2019, with two additional meetings during the year. During 2019 there were four Fairness Committee members (including the Chairman). All members were present at all meetings except one member who was not at the Quarter 2 meeting.

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 during 2019 was Mr John Jenkins, who is a current partner of KPMG LLP. Mrs Catherine Thorn took over as With-Profits Actuary from 13 March 2020, prior to which a full and formal handover process took place. 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. The With-Profits Actuary prepared advice and recommendation papers relating to the Company's with-profits business, such as bonus declarations, and had an opportunity to comment on other relevant papers and matters in advance of their wider circulation and consideration.

2.4 The With-Profits Actuary has prepared a report to the Board and Fairness Committee on the key aspects of discretion exercised during 2019 by the Company that affected the with-profits business in the Fund. A separate report from the current With-Profits Actuary to policyholders is annexed to this report.

3. Exercise of discretion

BONUS RATES

3.1 Regular Bonus rates for 2019 for conventional with-profits ("CWP") policies were approved by the Board in December 2019, having been previously reviewed and commented on by the Fairness Committee. The PPFM sets out that, for other than Deposit Administration, Pension Saver and Group Funding, annual bonus rates were reduced at the 31st December 2004 declaration to such a level that no further reductions were planned. Consistent with this approach, for the relevant classes of with-profits business, the annual bonus rates declared for 2019 were equivalent to the rates for 2018.

The declared yearly bonus rates are given below, with the previous year's rates for comparison.

Yearly bonus declared in arrears	31 December 2019	31 December 2018
Pension Plus	0.5%	0.5%
Versatile Individual Pension Plan	0.5%	0.5%
Buy-Out Plan	0.5%	0.5%
Personal Pension	1.0%	1.0%
Participating Pension	1.0%	1.0%
Chargeable Rates	2.6%	2.6%
Life Assurances	1.0%	1.0%

3.2 Regular Bonus rates for unitised with-profits ("UWP") policies were reviewed in March and December 2019. The rates remained unchanged at each review, consistent with the PPFM.

The declared yearly bonus rates are given below, with the previous year's rates for comparison.

Yearly bonus declared in advance	1 April 2019	1 April 2018
Choices Unitised With-Profits – Basic / Bonus Interest Rate	0.5% / 1.0%	0.5% / 1.0%
Freedom Unitised With-Profits	1.25%	1.25%

The amounts payable under Deposit Administration and Pension Saver are predominantly based on 15 year gilt yields and the amounts payable under Chargeable Rates policies are based on the relevant premium rates and fixed interest yields. For Deposit Administration, Pension Saver and Chargeable Rates this approach has been followed throughout 2019.

3.3 Terminal Bonus rates were set by the Board in April 2019 in line with the PPFM.

3.4 For other classes of with-profits business the calculation of Asset Shares is fundamental to the amount payable. The way in which Asset Shares should be calculated is described in section 4.2 of the PPFM and asset shares were calculated in this way throughout 2019.

3.5 Under the PPFM, Terminal Bonus rates are determined having regard to any excess (for groups of policies) of Asset Shares above the value of the guaranteed benefits including annual bonuses added. Terminal Bonus is reviewed monthly. The PPFM notes that for the majority of deferred annuity business in the Fund, the guaranteed benefits at retirement exceed the Asset Share by a significant amount and hence the Terminal Bonus rate is zero. The PPFM was followed throughout 2019 and terminal bonus rates were amended for different classes of business as follows:

Effective Date	TB changes	Products
1st April 2019	Conventional & Unitised With-Profits, both Life & Pensions	Endowment & Whole of Life, Personal Pension, Participating Pension, Choices & Freedom
1st August 2019	Unitised With-Profits only	Choices & Freedom
1st September 2019	Conventional Pensions only	Personal Pension, Participating Pension

3.6 From February 2019 all benefits from Choices pension policies were treated as one pot with one retirement date, removing complexity and making the customer journey clearer.

3.7 For Life Endowment and Whole of Life business, we agreed a change in 2019 to the way we calculate final bonuses, in recognition that the reduction of the number of policies in the fund was making it increasingly difficult to calculate fair bonuses using the existing methodology. The new method, which will be used from April 2020, calculates final bonuses looking at the relationship between the assets backing these policies and the value of future benefits to be paid, plus the value of future expenses, less the value of future premiums.

SURRENDER VALUES

3.8 There were no material changes to the surrender value methodology in place during 2019.

3.9 The application of a Market Level Adjustment ("MLA") is assessed on a policy-by-policy basis and the practices detail the circumstances under which a MLA will be applied with respect to unitised with-profits business. No MLA was applied in 2019.

PAYOUTS

3.10 A target payout range for Maturities and Surrenders was set for the with-profits policies in the Fund of between 70% and 130% of the underlying Asset Share, with the aim that over the longer term these payouts should in aggregate equal 100% of Asset Share. The actual payout ratios are monitored monthly and more than 90% of with-profits claims during 2019 for each of the major classes of business fell within the desired range, with the small number of payouts outside of the target payout range reviewed in detail. The approach used to set Terminal Bonus is designed with the aim that payouts should over the longer term in aggregate equal 100% of Asset Share. The approaches for determining Maturity and Surrender values are subject to ongoing review in order to seek to continue to achieve the desired level in future years.

3.11 The Company chose the target range as being realistically achievable and fair given the cross subsidies inherent in with-profits business. Policies outside their target payout range were investigated and the most common reason for this related to life policies with very small premiums and sums assured where they typically received in excess of 130% of asset share.

INVESTMENT STRATEGY

3.12 The operation of the investment of the Fund's assets was overseen by the Policyholder Investment Committee, which met monthly during 2019. In addition, the Board Investment Committee (a sub-committee of the Board) reviewed investment strategy and performance and met quarterly during 2019. Relevant investment information relating to the Fund was also provided quarterly to the Fairness Committee. Through these processes compliance with the investment related requirements of the PPFM was achieved.

3.13 The investment policy is set out in the PPFM. The investment mix of each with-profits policy differs depending on the maturity of the business and the proportion of the final payout which is guaranteed. The Fund adopts a close matching policy such that any guaranteed payouts, including basic sums assured, annual bonuses and annuities in payment are matched in terms of size and timing by the projected cash flows from the fixed interest assets held.

3.14 Benefits that are not guaranteed, such as accrued terminal bonus, are generally backed by UK equities. The current equity investment objective is to track the performance of an index that represents the 350 largest companies on the London Stock Exchange and actual investment performance is monitored against this benchmark on a monthly basis. In accordance with the PPFM, Equity derivatives may also be used as appropriate, e.g. to provide protection against adverse market movements. A series of equity derivatives was purchased by the Fund in 2014 to provide some protection for conventional with profit endowment maturities until 2019.

3.15 The investment strategy adopted during the year has been consistent with that set out in the PPFM and the equity backing ratios, which vary from class to class and also by duration, have been in the range set out in the PPFM as demonstrated in the table below.

Equity Backing Ratio	December 2018	December 2019
Deferred Annuities	8%	11%
Section 226 Personal Pensions	17%	20%
Conventional Life	63%	62%
UWP Life	59%	63%
UWP Pensions – Long Term	74%	79%
UWP Pensions – Short Term	1%	1%

3.16 The gross investment returns achieved over the 12-month period to 31 December 2019 were used directly in the calculation of the Asset Shares during 2019 based on the assumed asset mix of the relevant Asset Share. The earned investment returns in 2019 were 16.9% for the UWP Long Term Pension policies, 1.7% for the UWP Short Term Pension policies, 13.8% for the UWP Life policies and 13.7% for the Conventional Life policies.

3.17 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. The Estate is invested in a mixture of UK fixed interest securities and UK equities in line with the PPFM.

BUSINESS RISK

3.18 The Fund is closed to new business and non-profit annuities under vesting pension policies were secured outside the Fund during 2019.

3.19 In accordance with the established approach within the Company for defined contribution type benefits, the majority of such annuities in 2019 were purchased using a panel of external providers rather than the Non-Profit Fund of ReAssure. This enabled an increased choice of annuity providers for policyholders and enabled funds from different pension providers to be combined into one annuity. The Company received an “introducer’s fee” for annuities that are taken out through the external panel. This fee is retained by the Company in order to contribute to the administrative effort expended by the Company. For defined benefit policies (where guarantees are applicable), the majority of such annuities are written in the Non-Profit Fund of ReAssure.

3.20 No costs arising from business risks were charged to Asset Shares during 2019.

CHARGES AND EXPENSES

3.21 The fees charged to the Fund during 2019 for administration and investment services were consistent with those described in the PPFM. The PPFM notes that all normal management and administration expenses are met by the shareholder through a shareholder-owned service company. The Fund pays the shareholder an agreed level of expense based on an agreed amount per policy. The amount varies by type of policy and increases each year at a rate equal to the increase in the retail price index plus 1%.

3.22 There were no exceptional costs charged to the GAWPF in 2019, and there have been none charged since the inception of the expense agreement in 1999.

3.23 The Fund paid an agreed annual management charge to two external investment managers for investment services. The level of expenses borne by the Fund and similarly the amount of expenses allocated to Asset Shares during 2019 was consistent with these agreements.

3.24 The tax charge to the Fund for 2019 was determined as though the Fund were a stand-alone proprietary life insurance company, as required by the PPFM. The PPFM states that the investment returns allocated to Asset Shares are adjusted for taxation where appropriate. Hence, the investment returns allocated to the life business are reduced for taxation whereas the returns with respect to pension business are not reduced. Any difference between the tax allocated to Asset Shares compared to the overall tax assessment of the Fund emerges as a miscellaneous profit or loss and is allocated to the Estate. Since 30th June 2005, the additional tax resulting from the transfer out of the Fund of the shareholder's share of profits has been met by the Estate, as described in 4.9 of the PPFM, whereas previously it was charged directly to Asset Shares.

MANAGEMENT AND DISTRIBUTION OF THE ESTATE

3.25 The approach to managing the Estate is set out in the PPFM. The intention is to distribute the Estate equitably to eligible with-profits policies (those in force at the time of the Fund's restructure at the end of 1998) by using "Bonus Surplus" to enhance Asset Share returns. Consistent with this intention, a Bonus Surplus of 3% was declared in 2019. It is currently expected that future Bonus Surplus will be 3% per annum.

3.26 Consistent with the PPFM, the Estate was also used during 2019 to provide capital support towards meeting the regulatory solvency requirements, the cost of guarantees, smoothing costs and any compensation or redress in connection with the way business written in the Fund has been marketed or sold.

EQUITY AMONGST POLICYHOLDERS AND WITH SHAREHOLDERS

3.27 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 2019, being consistent with the PPFM. The approach to smoothing and to the distribution of the Estate similarly followed established practices, as described in the PPFM.

3.28 The Guiding Principles in the PPFM set out the shareholder commitment to the Fund. Both shareholders and policyholders have a common 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 regulatory returns and approved by the Board.

4. Maintenance of the PPFM

4.1 The Fairness Committee was responsible during 2019 for reviewing the contents of the PPFM and approving any changes proposed to it.

4.2 In 2019 it was agreed to change the PPFM to reflect the revised method of setting bonuses for conventional life business, as described in 3.7 above. Policyholders affected by this change were notified in December 2019, with the change taking effect in April 2020. Other minor clarifications to the PPFM were made in 2019 in the sections on taxation and business risk.

4.3 All of these changes were presented to (and approved by) the Fairness Committee.

4.4 The relevant Consumer Friendly Principles and Practices of Financial Management (CFPPFM) was also updated to reflect this change. These documents are subject to ongoing review and they were consistent with the PPFM over 2019.

5. Policyholder communications

5.1 Following the 2018 Bonus declaration, holders of conventional life with-profits policies were mailed a statement in 2019 setting out the details of the Regular Bonuses added to their policy. Holders of UWP and conventional pensions policies were provided with annual statements.

5.2 Copies of the CFPPFM documents were maintained on the Company's website during the year. There are four versions covering the different product types: Unitised With-Profits, Conventional Life, Conventional Pensions and Group Pensions. Even though the CFPPFM is no longer a regulatory requirement, currently the CFPPFM is still available on the website as a useful reference document for policyholders.

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 Guardian Assurance With-Profits Fund during the course of 2019. 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 and fairly in the conduct of its with-profits business; and
- addressed appropriately and fairly any competing or conflicting rights, interests or expectations of its with-profits policyholders (or groups of policyholders) and shareholders.

30 June 2020

Annex

Guardian Assurance With-Profits Fund

Report to Policyholders from the With-Profits Actuary

FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019

The Guardian Assurance With-Profits 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 2019.

I took over the role of With-Profits Actuary to the Company from 13 March 2020 following a full professional handover from the previous With-Profits Actuary.

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, and in particular the Fairness Committee) 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 Guardian Assurance With-Profits Fund to which this report is annexed, and I have reviewed the discretion exercised by the Company during 2019.

In doing this I have also considered the data in reports submitted to the Fairness Committee during 2019 and also a report from me regarding compliance with the PPFM for the Guardian Assurance With-Profit Fund submitted to the Fairness Committee in March 2020.

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 2019 in the conduct of its with-profits business;
- the Company complied with the material obligations of the PPFM during 2019; and
- any significant discretion exercised by the Company during 2019 took the interests of the with-profits policyholders in the Guardian Assurance With-Profits 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 Financial Reporting Council has issued standards ("TAS 100: Principles for Technical Actuarial Work", and "TAS 200: Insurance") which apply to reports produced by actuaries. This report complies with these standards as applicable. Actuaries are also required to comply with the requirements of Actuarial Professional Standard X2: Review of Actuarial Work. This document has been reviewed by a suitably qualified actuary employed by ReAssure to comply with this requirement.

Catherine Thorn
Fellow of the Institute and Faculty of Actuaries
With-Profits Actuary
30 June 2020