



National Mutual With-Profit Fund

Principles and Practices of Financial Management

REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2019

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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 2019 of the with-profits business in the National Mutual With-Profit Fund ("the Fund"), which is a ring-fenced fund within ReAssure. It contains the business from the National Mutual Life Assurance Society (and subsequent firms), whose business was transferred to ReAssure on 31 December 2007. No new business is being written into the Fund, other than increases to existing policies.
- 1.3 This report sets out, with reasons, how ReAssure complied with the obligations associated with the PPFM for the National Mutual With-Profit 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 National Mutual 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 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, following a full and formal handover process. 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.

- 2.5 The operation of the National Mutual With-Profit Fund was governed by a scheme of transfer ("the Scheme"), a legal document entered into by ReAssure in 2007. The Scheme includes a set of "Principles of Financial Management" which guide the financial management of the Fund and circumscribe the contents of the PPFM.

3. Exercise of discretion

BONUS RATES

- 3.1 Regular Bonus rates for 2019 were approved by the Board in February 2019, having previously been reviewed and commented on by the Fairness Committee. Regular Bonus Rates for Conventional With-Profits and Unitised With-Profits policies were left unchanged at historically low levels, with the exception of 'new series' conventional pension single premium policies and unitised with-profit pension policies, where regular bonuses were reduced from 2.00% to 1.75%. As noted in the PPFM the Final Bonus rates act as the principal mechanism to achieve equity. Reducing some regular bonuses was intended to mitigate the risk of an excessive accumulation of policy guarantees impacting the investment freedom of the Fund. The action taken on bonus rates during the year was consistent with the the PPFM.
- 3.2 Final Bonus rates were set by the Board four times during 2019 - in February, June, September and December. In general, final bonus rates decreased during Q1, increased during Q2 with some rates subject to a 5% cap, increased slightly in Q3, decreased for conventional with-profits and increased for unitised with-profits in Q4, reflecting the fluctuation in investment performances (good in general) throughout 2019.
- 3.3 Payouts were set by reference to the 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 PPFM.

SURRENDER VALUES

- 3.4 The methods and bases used to calculate surrender values were unchanged throughout 2019, being consistent with the description appearing in the PPFM.
- 3.5 No Market Value Reduction Factor ("MVR") was in force at any time in 2019.

PAYOUTS

- 3.6 A target payout 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 shares (before the application of any Market Value Reduction Factor). This target range is considered to be realistically achievable and fair given the cross-subsidies inherent in with-profits business. Around 91% of payouts in 2019 fell within the target range, with the majority of outliers due to policies being made paid-up early in their terms. This generally leads to small payouts and asset shares, so small differences between the two can be greater than 20% of the asset share. 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 shares.

INVESTMENT STRATEGY

- 3.7 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.
- 3.8 The benchmark mix for the assets backing the asset shares of the with-profits policies moved during 2019 to a benchmark of 42.75% in fixed-interest securities, 20.61% in UK equities, 16.60% in overseas equities, 4.01% in emerging market equities and 16.03% in property. The corresponding overall investment return over 2019 was 12.6% before any allowance for tax.
- 3.9 The asset allocation of the mix of assets backing asset shares was reviewed on a monthly basis and updates, when necessary, were implemented in 2019.
- 3.10 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 Estate assets are invested predominantly in fixed-interest securities in order to protect the value of the Estate whilst still earning a reasonable return on the Estate.
- 3.11 The investment policy of the Fund is subject to a formal solvency constraint, requiring it to be able to withstand a prescribed investment shock. This constraint did not bite or have any actual effect throughout 2019.

BUSINESS RISK

- 3.12 No additional business risks were introduced into the Fund during 2019. The Fund remained closed to new business (apart from increases to existing policies). No assets were acquired outside the Fund's normal investments and the Fund was not called on to provide financial assistance elsewhere. All annuities under vesting pension policies were secured outside the Fund in accordance with the terms of the Scheme.
- 3.13 During 2019, the vast majority of the annuities set up under vesting pension policies were purchased from a panel of external providers. When an annuity is set up outside ReAssure, on terms guaranteed in the policy document, the fair cost is taken to be the actual cost paid by ReAssure to the external provider. Otherwise, the basis used to determine the fair cost is currently set by reference to annuity rates available on the open market. Using the external panel gives policyholders increased choice of annuity providers and enables funds from different pension providers to be combined into one annuity. As in previous years, the Company received an "introducer's fee" for annuities that were 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.
- 3.14 The items set out in the PPFM as being charged to the Estate, such as the cost of annuity guarantees, continued so to be charged throughout the year. No new charges or costs arising from business risks were made to the asset shares underlying with-profits policies during 2019.

CHARGES AND EXPENSES

- 3.15 The fees charged to the Fund during 2019 for administration and investment services were as set out in the Scheme, as was the amount charged in respect of tax. The costs allocated in addition to the regular fees were all as permitted by the Scheme.
- 3.16 There were no exceptional costs charged to the NMWPF in 2019, in line with past practice.
- 3.17 The translation of these amounts to individual policies followed the Principles and Practices set out in the PPFM, these being consistent with the requirements of the Scheme.
- 3.18 The fair values of annuity guarantees were charged to the fund in accordance with the methodology agreed by the Fairness Committee and noted earlier.

MANAGEMENT AND DISTRIBUTION OF THE ESTATE

- 3.19 With the Fund closed to new business, the Estate is being distributed in its entirety over time to Eligible Policies. This is achieved through an enhancement to Asset Shares and thus to payouts.
- 3.20 Throughout 2019, bonus rates were calculated assuming the level of enhancement to Asset Shares from the Estate in respect of 2019 was 1.85%. Following review of the Run-Off Plan in December 2019, this was reduced to 1.35%, which was first used in the bonus calculations carried out in the first quarter of 2020. The level of enhancement in future years will depend on emerging experience within the Fund, noting that financial conditions in recent years have been relatively volatile. The approach adopted and the action taken was consistent with the description in the PPFM. The enhancement was approved by the Fairness Committee.

EQUITY AMONGST POLICYHOLDERS AND WITH SHAREHOLDERS

- 3.21 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 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.
- 3.22 The Fund was ring-fenced from the other business in ReAssure. All the surplus emerging in it was available for distribution over time to policyholders. None of the policyholders in the Fund had any interest in any surplus arising elsewhere in the Company. The items that were allowed to be allocated to the Fund, such as the fees for administration and investment services and the amount charged for tax, were all prescribed by the Scheme.

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 No changes were made to the PPFM during 2019.

5. Policyholder communications

- 5.1 Following the 2018 bonus declaration, holders of with-profit policies were mailed a statement in 2019 setting out the details of the Regular Bonus added to their policy. Information on regular bonus rates and a summary of the investment mix was published on the website in 2019.
- 5.2 A copy of the Consumer-Friendly PPFM (called "A guide to how the National Mutual 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 2019. 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 National Mutual With-Profit 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

National Mutual With-Profit Fund

Report to Policyholders from the With-Profits Actuary

FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019

The National Mutual 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.

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 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.

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 National Mutual With-Profit 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 regarding compliance with the PPFM for the National Mutual 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 National Mutual 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 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