



**National Mutual With-Profit Fund**  
**Principles and Practices of Financial Management**  
**REPORT TO POLICYHOLDERS ON COMPLIANCE DURING 2022**

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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 2022 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 2022. 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 2022 resided with the ReAssure Board ("the Board"). However, a sub-committee of the Board, the With-Profits Committee, performed a number of functions in relation to the Company's with-profits business. The duties of this Committee included monitoring compliance with the PPFM, reviewing its contents and approving any proposals to alter it.
- 2.2 The With-Profits Committee met ten times during 2022 and consisted of six members at the start of the year. During the year one member stepped down from the committee and another member joined. Two members were each unable to attend two meetings, with all members present at the remaining six 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 was Mrs Catherine Thorn. The With-Profits Actuary attended meetings of the With-Profits Committee and has the right to attend those parts of Board meetings where with-profits issues are 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 With-Profits Committee on the key aspects of discretion exercised during 2022 by the Company that affected the with-profits business in the Fund. A separate report from the 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 2022 were approved by the Board in February 2022, having previously been reviewed and commented on by the With-Profits Committee. Regular Bonus Rates for Conventional With-Profits policies were left unchanged at their long-standing relatively low levels. Regular bonuses for Unitised With-Profits policies and 'new series' conventional pension single premium policies remained unchanged, considering the need to limit the build-up of cash guarantees, impacting the investment freedom of the Fund. As noted in the PPFM, the Final Bonus rates act as the principal mechanism to achieve equity. The action taken on bonus rates during the year was consistent with the PPFM.
- 3.2 Final Bonus rates were set by the Board four times during 2022 - in March, June, September, and December. In general, final bonus rates increased in March and decreased in June, September, and December, reflecting market movements in 2022. Some rates were subject to a 5% cap, limiting the changes at any one declaration in line with smoothing, as described in the PPFM.
- 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 2022, being consistent with the description appearing in the PPFM.
- 3.5 No Market Value Reduction Factor ("MVR") was in force at any time in 2022.

#### *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. This target range is considered to be realistically achievable and fair given the cross-subsidies inherent in with-profits business. Around 90% of payouts in 2022 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 We review our investment strategy regularly, taking account of a variety of considerations, including our approach to responsible investment. Responsible investment is the practice of incorporating environmental, social and governance considerations into investment decisions. You can find out more about the social and environmental impact our investments may have in our Fund Climate Report. You can read our report at [www.reassure.co.uk/sustainability](http://www.reassure.co.uk/sustainability)
- 3.8 The operation of the investment of the Fund's assets was overseen for the first part of 2022 by the Investment Management Committee, which was replaced by the Enterprise Asset Management Committee from November 2022. These Committees met monthly during 2022. In addition, a sub-committee of the Board reviewed investment strategy and performance and met quarterly during 2022. Relevant investment information relating to the Fund was also provided quarterly to the With-Profits Committee. Through these processes compliance with the investment related requirements of the PPFM was achieved.
- 3.9 The benchmark mix for the assets backing the asset shares of the with-profits policies moved during 2022 to a benchmark of 42.7% in fixed-interest securities, 21.2% in UK equities, 21.2% in overseas equities, 2.9% in emerging market equities, 1.1% in emerging market debt and 10.9% in property. The corresponding overall investment return over 2022 was -10.1% before any allowance for tax.
- 3.10 The asset allocation of the mix of assets backing asset shares was reviewed on a monthly basis and updates, when necessary, were implemented in 2022.
- 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 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.
- 3.12 Environmental, Social and Governance ('ESG') considerations are taken into account as part of investment decisions, to promote responsible investment where possible and appropriate, in line with the Phoenix Group's approach to Responsible Investment.

### *Business risk*

- 3.13 No additional business risks were introduced into the Fund during 2022. 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.
- 3.14 During 2022, 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.
- 3.15 The items set out in the PPFM as being charged to the Estate, such as the cost of annuity guarantees, continued 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 2022.



### *Charges and expenses*

- 3.16 The fees charged to the Fund during 2022 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.
- 3.17 There were no exceptional costs charged to the NMWPF in 2022, in line with the requirements of the Scheme.
- 3.18 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.
- 3.19 The fair values of annuity guarantees were charged to the fund in accordance with the methodology agreed by the With-Profits Committee and noted earlier.

### *Management and Distribution of the Estate*

- 3.20 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.
- 3.21 Throughout 2022, bonus rates were calculated assuming the level of enhancement to Asset Shares from the Estate was 1.85%, following review of the run-off of the fund in November 2021 and refreshed projections reviewed by the With-Profits Committee in March 2023. 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 With-Profits Committee.

### *Equity amongst policyholders and with shareholders*

- 3.22 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 2022, 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.
- 3.23 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 With-Profits Committee were responsible during 2022 for approving any proposed changes to the PPFM.
- 4.2 No changes were made to the Principles during 2022.



- 4.3 A change was made to the PPFM in February 2022 to update the investment wording to reflect the Group's approach to Responsible Investment. It was agreed that this change was not significant enough to require a special mailing to policyholders.

## **5. Policyholder communications**

- 5.1 Following the 2021 bonus declaration, holders of with-profit policies were mailed a statement in 2022 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 2022.
- 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. Even though the guide is no longer a regulatory requirement, it 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 With-Profits Committee, the Company complied with the material obligations associated with the PPFM for the National Mutual With-Profit Fund during the course of 2022. 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.

3 May 2023



## Annex

### **National Mutual With-Profit Fund**

#### **Report to Policyholders from the With-Profits Actuary**

#### **FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2022**

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.

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 2022.

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 With-Profits 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 2022.

In doing this I have also considered the data in reports submitted to the With-Profits Committee during 2022 and also a report regarding compliance with the PPFM for the National Mutual With-Profit Fund submitted to the With-Profits Committee in May 2023.

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 2022 in the conduct of its with-profits business;
- the Company complied with the material obligations of the PPFM during 2022; and
- any significant discretion exercised by the Company during 2022 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 to comply with this requirement.



Catherine Thorn  
Fellow of the Institute and Faculty of Actuaries  
Chief With-Profits Actuary  
3 May 2023