

# Notification of changes to the Principles and Practices of Financial Management of the Scottish Life Closed Fund

The Scottish  
Life Fund

## Introduction

In December 2009 we published an updated version of our Principles and Practices of Financial Management (PPFM). This replaced the PPFM published in December 2008. This leaflet summarises the changes we have made to the PPFM since December 2008. It does not form part of the PPFM but is simply to keep you informed and comply with Financial Services Authority rules. You do not need to do anything. If you would like a copy of the PPFM, you can download it from our website [www.royallondongroup.co.uk](http://www.royallondongroup.co.uk) or you can ask us to send you one by calling us on 08450 502020.

## Changes to the Principles

We have made no changes to the Principles.

## Changes to the Practices

The main changes we have made are in the following sections.

### 2.3 Management of the SL Estate

We have amended this section to permit clarification of how we manage the SL Estate. The revised practices are set out in full below.

Currently the **SL Estate** is meeting or being credited with the differences between

- the expenses of administering with profits, **deposit administration** and **non-participating** policies and the administration charges passed on to such policies
- the cost of risk benefits and the charges for risk benefits passed on to with profits, **deposit administration** and **non-participating** policies
- the cost of guarantees on with profits, **deposit administration** and **non-participating** policies and the charges made for those guarantees
- the cost of smoothing for with profits and **deposit administration** policies and charges made to with profits and **deposit administration** policies for the smoothing

The **SL Estate** is being used to meet the costs of annuity guarantees which are not currently charged to policyholders.

The **SL Estate** is being distributed to holders of qualifying **SL** with profits policies. **Qualifying with profits policies** are those that were in force on 11 September 2000. Policies effected after this date are not entitled to any such distribution. Information describing which policies qualify is set out in **The Royal London Transfer Scheme**. In meeting this requirement the **SL Estate** bears the cost of smoothing and the cost of enhancing **asset shares** by an amount calculated explicitly to effect this distribution. Such enhancements are not permanent additions to the guaranteed benefits and are reviewed on a regular basis.

The **SL Estate** contains strategic investments which are identified in the later section in this document under **Investment Strategy** and therefore the investment strategy of the **SL Estate** will generally be different from that of the rest of the **fund**.

The target level of the **SL Estate** will be reviewed by the **Directors**, normally annually, and may be changed following **Actuarial Advice** to reflect for example changes in economic conditions, changes in regulatory requirements or expectations and changes in the **Directors'** risk appetite.

The target level of the **SL Estate** is determined as the sum of a multiple of the **Individual Capital Assessment (ICA)** and further amounts determined by the **Directors** as appropriate.

If the size of the **SL Estate** is outside the range around the target level, the **Directors** may authorise an increase or a reduction in the level of the **SL Estate** by changing as necessary the investment strategy, bonus strategy, payout strategy or smoothing strategy as described in the later sections in this document. Any action which the **Directors** may decide to take will depend on factors including the reasons for and extent to which the **SL Estate** is above or below the target level, whether the situation is expected to be temporary or longer lasting, and an assessment of the impact of a range of appropriate actions, including changes in the rate of distribution of the **SL Estate** and the introduction of, or increases in, charges to **asset shares** for the cost of guarantees. The **Directors** will obtain **Actuarial Advice** when assessing the range of potential actions. In recent years when the size of the **SL Estate** has been below the target level, reductions in the rate of distribution have been introduced.

Regular reports, normally monthly, are provided to the **Capital Management Committee** and the **Directors** to enable them to monitor the level of the **SL Estate** in relation to the target level, the range around the target and the likelihood of the level of the **SL Estate** moving outside its range.

Other reports provided include estimates of the level of free assets and half yearly results of investigations into the robustness of the **SL Estate** to different economic and investment scenarios.

As a result of the information provided in the regular reports the **Capital Management Committee** makes recommendations to the **Directors**, with the agreement of the Group Chief Executive Officer, on any investment-related action required to steer the level of the **SL Estate** towards the agreed target.

The **SL Estate** is managed in accordance with the principles of financial management in **The Royal London Transfer Scheme**.

The **SL Closed Fund** as a whole may be transferred to the **RL Main Fund** after the assets in the **fund**, excluding assets allocated to **deposit administration** policies, fall below £500m (indexed in line with the retail prices index from 1 July 2001). At the point the **fund** assets, excluding assets allocated to **deposit administration** policies, fall below £50m (indexed in line with the retail prices index from 1 July 2001) the assets and liabilities will be transferred to the **RL Main Fund**. On transfer the residual **SL Estate**, if any, will be allocated to the remaining qualifying with profits policyholders in a manner consistent with the ongoing distribution prior to this point. Paragraph 35 of Part F of **The Royal London Transfer Scheme** gives the relevant details.

On 31 December 2006 the assets and liabilities of the **RA OB Fund** were transferred into the **RL Main Fund** and the **RA OB Fund** ceased to exist. Any shortfall in the **SL Estate** will therefore be covered by the **estate** of the **RL Main Fund** and will be refunded as soon as possible. Similarly any support provided by the **SL Closed Fund** to the **RL Main Fund** will be repaid by the **RL Main Fund** as soon as possible.

### 2.7.1 Policy Benefits Payable

We have added some wording to clarify the position.

We may target payouts above 100% **asset share** in order to distribute the **SL Estate** over the lifetime of the **qualifying with profits policies**.

### 2.7.3 Smoothing

We have updated the tables showing changes in payouts.

### Other changes

We have updated some other sentences throughout the PPFM to aid clarity.

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