

**Principles and Practices of  
Financial Management**

**The PLAL With-Profits Sub-fund**

**Report to with profits policyholders  
on compliance for 2009**

**June 2010**

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## 1. Introduction

Phoenix Life Assurance Limited ('PLAL') was acquired by Royal London on 1 August 2008. On 29 December 2008 all PLAL's business, including the with profits business, was transferred to Royal London. The PLAL with profits sub-fund became a ring-fenced with profits sub fund in Royal London and the Principles and Practices of Financial Management ('PPFM') for the PLAL With-Profits Sub-fund was published. An updated version was published on 31 December 2009.

This report gives information on how the PPFM was complied with during 2009.

The directors must provide a report each year to with profits policyholders giving information on how they have complied with the PPFM. The directors have reviewed the operation of the fund for the period 1 January 2009 to 31 December 2009 and in their opinion the management of the with profits business in the fund over this period has complied with the PPFMs in all material respects. It is also their opinion that the exercise of discretion over the period was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

In coming to this view the directors have taken account of internal and external professional advice provided during the year, including advice from the With Profits Actuary, the Independent Person and the Actuarial Function Holder. This report sets out the main reasons for the directors' opinion and the following sections consider, in turn, governance, the exercise of discretion, competing and conflicting issues, and compliance with the PPFM.

## 2. Governance

Appropriate governance arrangements to monitor compliance with the PPFM have operated throughout the period in question. This includes input as appropriate from the With Profits Actuary, from the Actuarial Function Holder and from the Independent Person who was appointed by the directors to provide an external independent assessment on compliance with the PPFM, to provide advice on the way the fund is managed and to provide an independent view when the directors are considering any issues which involve competing or conflicting rights and interests of policyholders.

Opinion from the external auditors has also been obtained where required, as part of their annual audit.

The With Profits Actuary and the Independent Person have each provided reports to directors which confirmed, following appropriate investigations, that, over the period under consideration, in their opinion the with profits business has been managed in line with the PPFM in all material respects.

A short report to policyholders from the current With Profits Actuary confirming his view is attached.

## 3. Exercise of discretion

The main areas in which discretion is exercised in the operation of with profits business are setting bonus rates, investment strategy, setting surrender values and the management of the estate.

#### *Setting bonus rates*

For all contracts, bonus rate changes in the period took place as a result of declarations of final bonus rates in January 2009, July 2009 and October 2009.

The directors took into account advice from the With Profits Actuary and the Actuarial Function Holder in making these changes to final bonus rates.

The directors also took into account advice from the With Profits Actuary and the Independent Person when again declaring a nil annual bonus rate for 2010.

#### *Investment strategy*

There were no significant changes in the investment strategy although the 'fund protection assets' were rebalanced during the year.

#### *Setting of surrender values*

The normal monthly reviews of market value reduction (MVR) factors were carried out and changes to these factors were made as appropriate in accordance with the PPFM.

The directors took into account advice from the With Profits Actuary and the Actuarial Function Holder in making these changes to MVRs.

#### *Changes to PPFM*

No changes to the Principles or Practices were made during the year. A minor change to the introductory wording in the PPFM was made and the revised version was published on 31 December 2009. This change to the PPFM was approved by the directors.

#### 4. Competing or conflicting rights, interests and expectations

In any with profits fund, different groups of policyholders could have competing or conflicting interests. For example, holders of

- policies of different types (such as life or pension policies or regular or single premium)
- policies of different sizes or different policy terms
- policies which started in different years or mature in different years

or policyholders

- of different ages
- claiming for different reasons (for example maturity, death, surrender)
- exercising different policy options

could receive different benefits relative to each other depending on how discretion is exercised.

The main areas in which judgement and discretion are exercised in balancing the interests of the various groups of policyholders are in the smoothing of policy benefits, the grouping of policies for calculating asset shares and hence setting bonus rates and surrender values and with respect to the practices for distributing the estate.

Any conflicts which have arisen have been appropriately and fairly resolved, in the directors' opinion, after taking expert advice, where necessary.

## 5. Compliance with PPFM

### *Management of the estate*

The directors were provided during 2009 with information and actuarial reports regarding the current and projected financial position of the fund.

### *Investment strategy*

During 2009 the fund was invested in a mix of assets such as equities, fixed interest investments and cash deposits. There was no direct investment in property. The policy of protecting the fund against increases in the cost of guarantees as a result of falls in the market value of assets was maintained. The “fund protection assets” which provide this safeguard were reorganised in October 2009 and kept under close review during the year

The performance of the investment manager was monitored by the Capital Management Committee and the directors. Changes to benchmarks were approved by the directors.

### *Policy benefits payable*

Bonus reports presented to the directors provided evidence that the methodology used to set bonuses and policy benefits followed the approach set out in the PPFM.

The final bonus rates declared differed between product types and classes. The bonus report made specific reference to compliance with the relevant scheme of transfer.

Actuarial reports on reviews of, or proposed changes to, surrender and transfer value bases, including changes to market value reduction factors (MVRs) had regard to the PPFM and commented where appropriate on fairness of treatment and how any conflicting interests had been taken into account.

An exercise to review compliance with the target ranges for maturity and surrender payouts published in the PPFM was carried out. This demonstrated that the target ranges had been complied with during 2009.

## 6. Conclusion

In the opinion of the directors the management of the with profits business in the fund over this period has complied with the PPFM in all material respects, that the exercise of discretion over the period was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

M J Yardley

Group Chief Executive

1 June 2010

## Report from the With Profits Actuary

To with profits policyholders in the PLAL With-Profits Sub-fund.

In my opinion the discretion exercised by the directors in respect of the period covered by their report have taken policyholders' interests into account in a reasonable and proportionate manner. It is also my opinion that the directors have complied with the requirements of the Principles and Practices of Financial Management (PPFM) of the PLAL With-Profits Sub-fund.

I have based these opinions on the information and explanations provided to me by the directors and management of Royal London and on my own knowledge and investigations. In doing so I have taken into account the relevant rules and guidance of the Financial Services Authority, of the Board for Actuarial Standards and of the Actuarial Profession regarding the management of with profits business.

Separate reports confirm compliance in respect of the Royal London Long Term Fund excluding the Scottish Life Closed Fund and the PLAL With-Profits Sub-fund and in respect of the Scottish Life Closed Fund.

S Wilson BSc FIA  
With Profits Actuary  
1 June 2010