



WITH PROFITS OPERATING PRINCIPLES

Liver Ireland Sub-Fund

**REPORT TO WITH PROFITS
POLICYHOLDERS
ON COMPLIANCE FOR 2019**

JUNE 2020

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1. INTRODUCTION

On 7 February 2019 all the Irish policies within the Royal Liver Sub-Fund of The Royal London Mutual Insurance Society Limited ('RLMIS') were transferred to the Liver Ireland Sub-Fund ('the Fund') within Royal London Insurance DAC ('Royal London'). The transfer is governed by a Scheme of Transfer and was sanctioned by a UK Court, under Part VII of the UK Financial Services and Markets Act 2000.

Immediately after the transfer, the business was reinsured 100% back into the Royal Liver Sub-Fund of RLMIS ("Royal Liver Sub-Fund"), in order to preserve as much as possible the reasonable expectations of both the UK and Irish policyholders of that fund, in terms of their security of benefits and payouts.

In line with regulatory requirements applicable in Ireland, the With Profits Operating Principles ('WPOP') for the Fund was published in 2019. The WPOP details the principles and standards by which a company manages its with-profits portfolios. The Board of Directors ('Board') is responsible for the content of the WPOP, ensuring that the with-profits fund is operated in accordance with the principles detailed in it and ensuring the fair treatment of all with-profits policyholders.

In addition to the WPOP, Principles and Practices of Financial Management ('PPFM') also exist in relation to the Royal Liver Sub-Fund into which the Fund policies are reinsured. The WPOP and PPFM for each fund are required to be consistent with each other under the terms of the Scheme of Transfer. The PPFM is the UK equivalent of the WPOP and must be published and maintained for each with-profits fund. The Principles are high level statements of the standards followed in the management of the fund while the Practices describe the approach to managing the fund and to responding to shorter term changes in the business, regulatory and economic environment. The PPFM provides a greater level of detail on the management of the funds than the high-level principles included within the WPOPs.

This report provides the opinion of the Board on the consistency of the management of the Fund with the principles detailed in the WPOP, over 2019. The report sets out the main reasons for the Board's opinion.

The compliance section of this report addresses each aspect of the WPOP and also outlines governance, exercise of discretion, competing and conflicting interests for the Fund.

A similar report from the Directors of RLMIS on compliance with the PPFM is also published each year on the Royal London Group website. The RLMIS Directors reviewed the operation of the Royal Liver Sub-Fund for 2019 and in their opinion the PPFM has been complied with in all material aspects.

2. GOVERNANCE

Appropriate governance arrangements to monitor compliance with the WPOP have operated throughout the period in question.

The Board seeks opinions as appropriate from the Head of Actuarial Function, to provide an independent view when the Board is considering the interests of with-profits policyholders and to monitor compliance with the WPOP.

The governance, as agreed within the reinsurance agreement with RLMIS, also includes reviews performed by the RLMIS With-Profits Actuary, the RLMIS Board and the Royal Liver Supervisory Committee ('Supervisory Committee').

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, allocation of expenses, the management of the estate and the treatment of contingent reversionary bonus policies.

BENEFITS - SETTING BONUS RATES

For conventional contracts, a process was carried out in line with the WPOP and the Royal Liver Sub-Fund PPFM, to set annual and final bonus rates for 2019. Final bonus rates for 2019 were implemented at the start of the year and declared formally at the end of March 2019.

The year-end 2018 inherited estate was above the upper capital threshold, so the excess capital was eliminated through a 3.0% asset share enhancement at mid-year 2019. Final bonus rates were reviewed considering the impacts of the uplift and the offsetting impact of lower than expected investment returns at the end of 2018. The overall position had a negligible impact on bonus scales so final bonus rates were not changed at this time.

For unitised contracts, annual bonus rates were reviewed at the end of 2018 with an implementation date of 1 January 2019. Final bonus and market value reduction (MVR) rates are reviewed monthly. Final bonus rates were decreased in January 2019 following an overall negative return but then increased in May 2019 following positive returns. In July 2019 final bonus rates were increased further to reflect both the 3.0% asset share enhancement and positive returns.

In making these declarations the Board took account of advice from the Head of Actuarial Function and followed the requirements of the WPOP.

INVESTMENT STRATEGY

The aim of the investment strategy remains to maximise the long-term return on investments for with-profits policyholders whilst recognising the need for the fund to meet its guaranteed liabilities and commitments to policyholders and maintaining the estate at an appropriate size.

A common statistic used to categorise the level of investment risk within a fund is the proportion of the fund's assets that are invested in equity and property. This proportion was 51% at the end of 2019.

SETTING OF SURRENDER VALUES

No changes were made to the formulae underlying surrender values during 2019.

CHARGES AND EXPENSES

Over the course of 2019 the expenses allocated to with-profits policies were maintained in line with the Scheme of Transfer and with the WPOP.

MANAGEMENT OF THE ESTATE

There were no material changes to the methods of monitoring and managing the estate during 2019 as they continue to operate effectively.

No changes were made to the guarantee charges in 2019.

CONTINGENT REVERSIONARY BONUS POLICIES

Under the WPOP a final bonus will only be applied to these policies if a discretionary allocation from the estate is made. A special distribution of surplus was made and on 1st July 2019 an additional 3.0% special distribution of surplus was made.

MANAGEMENT OF RISK

Royal London continuously seeks to obtain independent assurance that its systems of risk management and internal control are operating effectively. This includes evaluating the effectiveness of, and the adequacy of, the risk management processes and ensuring compliance with policies and procedure. The effectiveness of internal control and the risk management infrastructure is also specifically considered by our external auditors in the context of their review of our financial statements.

Actions and processes are in place to mitigate the risks that are run within the fund, including exposures to investment, expense, mortality, morbidity and lapse risks.

CHANGES TO WPOP

The WPOP, first published on 6 February 2019, was effective throughout 2019 and subsequently updated in January 2020, to reflect some small changes to improve clarity.

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.

Any conflicts which have arisen have been appropriately and fairly resolved, in the Board's opinion, after taking expert advice, where necessary. This expert advice has been provided by the Head of Actuarial Function to the Board as appropriate.

5. COMPLIANCE WITH WPOP

MANAGEMENT OF THE ESTATE

During 2019, the Board was provided with information and actuarial reports on a regular basis regarding the current and projected financial position of the Fund and of the Royal Liver Sub-Fund, into which the business is reinsured.

In particular, the Board considered information on the financial strength of the Royal Liver Sub-Fund as at the end of 2018. At this point the estate was above the upper capital threshold. The surplus was distributed to policyholders through an asset share uplift of 3.0% to with-profits policies and a 3.0% contingent bonus to contingent reversionary bonus policies.

INVESTMENT STRATEGY

Since the business is reinsured to RLMIS, assets are held within the Royal Liver Sub-Fund and the main governance on investments is exercised within RLMIS, with appropriate oversight from Royal London. The investment strategy is consistent with the WPOP and with the PPFM and the investment performance is monitored regularly. Technical papers on investment strategy and performance against benchmarks were presented during the year and advice from the Head of Actuarial Function was obtained where appropriate. There have been no changes to the investment strategy of the with-profits funds.

POLICY BENEFITS PAYABLE

The methodology used to set bonuses and policy benefits followed the approach set out in the WPOP and complied with the Scheme of Transfer. The bonus rates declared differed between product types and classes. Final bonuses are set so that, in total, maturity payouts are just and each policy is allocated a fair share of the Royal Liver Sub-Fund.

BUSINESS RISKS

Risks are managed in line with the Royal London Risk Management Framework. Royal London maintains oversight of the risks that are reinsured to RLMIS.

CHARGES AND EXPENSES

The Scheme of Transfer clearly defines expenses that can be charged to policies in the Fund and this was adhered to throughout 2019.

EQUITY BETWEEN POLICYHOLDERS AND SHAREHOLDERS

The Fund's business is 100% reinsured into the Royal Liver Sub-Fund, which is fully owned by policyholders. Furthermore, Royal London is a wholly owned subsidiary of RLMIS, which is itself a mutual insurance company and thus does not have any shareholders. Under the Scheme of Transfer and the reinsurance agreement, there is a strong process in place for the management of conflicting interests should these arise. However, the legal agreements are designed to ensure such conflicts are avoided as much as possible through the 'undertakings' that must be legally performed in order to minimise conflicts arising.

HEAD OF ACTUARIAL FUNCTION'S REPORT

The Head of Actuarial Function reported to the Board on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP. The report included the following:

- Opinion on compliance with the WPOP;
- Opinion on any discretion exercised by the Board in relation to the Fund;
- Opinion on the management of competing or conflicting interests or expectations between Fund members and shareholders;
- Any further information deemed relevant to the with-profits Fund members.

The main conclusions reported by the Head of Actuarial Function were:

- Royal London complied with the WPOP of the Fund in all material respects over 2019;
- In relation to the discretion exercised by the Board in relation to the Fund, this discretion has been exercised in a manner that is consistent with the WPOP and in line with the Scheme of Transfer, the reinsurance agreement and the relevant and associated PPFM referred to under such scheme and agreement;
- In relation to the management of competing or conflicting interests or expectations, there is a strong process in place for the management of conflicting interests should these arise. However, the legal agreements are designed to ensure such conflicts are avoided as much as possible through the 'undertakings' that must be legally performed by both Royal London and its reinsurer, RLMIS, in order to minimise conflicts arising.

No exceptions were noted in the Head of Actuarial Function's report.

6. CONCLUSION

In the opinion of the Board, the management of the with-profits business in the Fund over 2019 has complied with the WPOP 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 Board have taken account of internal and external professional advice provided during the year, including the report of the Head of Actuarial Function in providing their opinion on the ongoing compliance of the Fund with the WPOP.



NOEL FREELEY

CHIEF EXECUTIVE OFFICER

June 2020