

## **Report from the Abbey Life Board to the With-Profits Policyholders of the Abbey Life Participating Fund (“ALPF”)**

### **1. Introduction**

This report explains how we have managed the Abbey Life Participating Fund during 2010. This includes practical matters such as setting bonuses and making investment decisions as well as a summary of the steps we have taken to ensure that we continue to treat policyholders fairly. The Financial Services Authority also requires us to state, in this report, whether we believe we have managed our with-profits fund in the way described in our Principles and Practices of Financial Management. This report confirms our conclusion that we have done so. You may also find it helpful to refer to ‘Your guide to with-profits’ (*Your guide*), which summarises how we manage our with-profits fund. We sent you a copy of that guide in 2006. The current version of this document can be found on our website at [www.abbeylife.co.uk](http://www.abbeylife.co.uk).

### **2. Key areas where we apply judgement**

Our aim is to achieve fairness for our with with-profits customers. As explained in *Your guide*, the main part of each plan we have issued is the unit-linked fund into which the premiums you have paid are invested. There are also ‘surplus’ assets (these are explained in *Your guide*). We aim to distribute the ‘surplus assets’, after meeting the obligations of the fund, in full, over time to with-profits policyholders. We aim to ensure that the surplus is distributed fairly between policyholders irrespective of when their policy matures.

Surplus assets are invested in assets such as company shares as these have the potential for higher returns. We followed these principles in 2010.

### **3. Frequently Asked Questions**

The following questions and answers will explain how we applied judgement in 2010, including the bonus rates we set. They show how we have managed the with-profits fund in line with our Principles and Practices of Financial Management. Further helpful information can be found in *Your guide*, which we sent to you in 2006. The current version of this document can be found on our website at [www.abbeylife.co.uk](http://www.abbeylife.co.uk).

#### **Q1. How did you set regular bonuses in 2010?**

Our regular bonus rates were unchanged in 2010. The regular bonus increased the value of plans. In taking this decision to leave the rates unchanged we followed the steps set out in our Principles and Practices of Financial Management (which are summarised in *Your guide*).

In particular we identified that rates of regular bonus are already higher than the dividends and rents we are receiving. So there is no scope to increase regular bonus

rates. However, because there is 'surplus' within the Fund it was not necessary to reduce regular bonuses.

**Q2. How did you set final bonuses at the end of 2010?**

We first identified the amount of the 'surplus' in the Fund. We then considered the risks that the Fund faces, and worked out how much of the 'surplus' might not be available in future to pay final bonuses if unfavourable events happen. For example, dividends the Fund receives in future may be lower than we expect now. In that case some of the 'surplus' would need to be used to cover regular bonuses, and so would no longer be available to pay final bonuses.

The 'surplus' in the Fund, that we are holding back, is at a level that we consider supports an increase over the current rate of final bonus on Planned Investment Endowments, from 40% to 41%.

Final bonus was not increased for Investment Annuity Contracts. This is because the value of payments we have already promised to make, including regular bonus, is already high relative to the past profits and losses allocated. For similar reasons, there is no scope to pay a final bonus on Conventional plans.

We have taken steps to reduce the risks the Fund faces, as explained in our answer to Question 5 below.

**Q3. How have you decided what to pay if plans are cashed-in early?**

The *Your guide* document explains how the amount we pay when plans are cashed-in early is worked out. These amounts depend on the same factors that influence the decisions that we make about regular and final bonus, as explained in our answers to Questions 1 and 2.

**Q4. What types of investment is the 'surplus' invested in?**

At the end of 2010 the 'surplus' was invested in the types of asset shown in the table below, with 2009 figures shown for comparison. The high proportion of investments in company shares gives potential for higher returns, leaving potentially more surplus to be shared between planholders in future.

	2010	2009
UK company shares	41%	44%
Overseas company shares	36%	34%
Fixed interest bonds and cash deposits	22%	20%
Property	1%	2%

This asset mix will change over time.

## **Q5. How do you manage the other investments in the Fund?**

The investments in the unit-linked funds are invested in company shares for Planned Investment Endowment and a mix of company shares and property for Investment Annuity Contracts. This is in line with the plan documents. The value of the assets in the fund can fall as well as rise which will affect what you might get back.

The rest of the investments, except for the 'surplus' (see Question 4 above), are invested to cover additional payments on plans (on top of the value of the units in the unit linked funds). Abbey Life aims to broadly match the expected level of future additional payments out of the fund using fixed interest investments and, for the Planned Investment Endowment, expected future dividend income from the unit linked assets held. The matching of liabilities with these assets is expected to reduce the risks to the total fund which reduces the level of 'surplus' we need to retain within the fund to allow for the risk. Therefore more of the fund can be shared out now by paying higher levels of final bonus.

This is fair to customers with plans that will end soon, as it means they will receive a share of the 'surplus'. It is also fair to other customers, as we are holding back enough 'surplus' with the aim of being able to maintain or increase final bonuses in future. We will only need to reduce final bonus in future if unfavourable events lead to more losses than the surplus can absorb.

So, to reduce these risks, where we have promised to pay a fixed amount in future we cover the expected payment by investing in fixed interest bonds issued by the Government or by companies. We also invest in additional units in the unit-linked funds, to cover final bonus payments that we currently expect to make.

This is explained further in *Your guide*, and is in line with our Principles and Practices of Financial Management.

## **Q6. What other reassurances do I have that you have followed your Principles and Practices of Financial Management?**

There are four main controls in place to ensure this:

- Whenever we make important choices that affect the way we manage our with-profits policies, our With-Profits Actuary, who advises the Board of Abbey Life Assurance Company Limited, presents a paper to directors. These reports give the reasons behind the proposals, and explain how these comply with the relevant sections of the Principles and Practices of Financial Management.
- We have appointed an Independent Reviewing Director whose responsibility is to satisfy himself that the operation of the fund complies with the Principles and Practices of Financial Management and to consider items of relevance to with profit policyholders.
- Throughout the year, all the data, work and actions that supported our decisions have been recorded. The With-Profits Actuary has reviewed this evidence, and his report is attached.

- The With-Profits Actuary has reported on this evidence to our Independent Reviewing Director and the Board, covering areas where significant decisions were made, and their compliance with the Principles and Practices of Financial Management.

#### **4. Conclusion**

The Board of Abbey Life Assurance Company Limited met on 30 June 2011 to consider all the issues referred to above, the recommendations of the Independent Reviewing Director and the evidence presented to them by the With-Profits Actuary. They are satisfied that Abbey Life Assurance Company Limited has managed its with-profits business in line with the Principles and Practices of Financial Management.

The Directors of Abbey Life Assurance Company Limited  
30 June 2011

**Report from the With-Profits Actuary to the With-Profits Policyholders of the  
Abbey Life Participating Fund (“ALPF”)**

Abbey Life Assurance Company Limited (“the Company”) has prepared a report (“the Annual Report”, which is set out above) addressed to the with-profits policyholders of the Abbey Life Participating Fund of the Company (“the with-profits policyholders”), stating whether or not the Company believes it has complied with the obligations relating to its Principles and Practices of Financial Management (“PPFM”) during 2010. The Annual Report, the PPFM and the management of the with-profits business so as to comply with the PPFM are each the sole responsibility of the Company. This report from the With-Profits Actuary should be considered in conjunction with the Annual Report. The With-Profits Actuary is engaged by the Company.

The Financial Services Authority (the “FSA”) requires the With-Profits Actuary to confirm to the with-profits policyholders whether, in his opinion and based on the information and explanations provided to him by the Company, and taking into account where relevant the rules and guidance in the FSA’s Conduct of Business Sourcebook 20.2, the Company’s Annual Report and the discretion exercised by the Company may be regarded as having taken their interests into account in a reasonable and proportionate manner. This report is intended to address this requirement. This report complies with the Technical Actuarial Standard on Reporting Actuarial Information as required by the Board of Actuarial Standards.

I have considered the Annual Report prepared by the Company together with those acts of discretion in respect of 2010 of which the Company has made me aware. The With-Profits Actuary advises the Board on the key aspects of discretion that they exercise in managing the with-profits business. I have relied on the completeness and accuracy of information supplied to me by the Company. Although I have considered this information for reasonableness, I have not audited, verified or otherwise substantiated that information.

In my opinion, based on the information and explanations provided to me by the Company and taking into account where relevant the rules and guidance in Conduct of Business Sourcebook 20.2, the Annual Report and the discretion exercised by the Company in 2010, the Company has taken the interests of the with-profits policyholders into account in a manner which is reasonable and proportionate. A similar review was performed in 2009 and that resulted in the same conclusion.

This opinion is formed taking into consideration the interests of the with-profits policyholders as a body and not the interests of individual policyholders. My report is made solely to the with-profits policyholders as a body. Consequently, this report does not constitute advice to any individual and no person should rely on it in making any decision with regard to an individual policy. To the fullest extent permissible by law I do not accept responsibility to anyone other than the with-profits policyholders as a body for my work in respect of this report and its conclusions.

Amish Desai  
With-Profits Actuary  
30 June 2011