

# **Annual report for 2007 from the Board of Liverpool Victoria Life Company Limited (“LVLC”) to its with-profits policyholders in the RNPFN Fund**

## **1. Introduction**

On 31<sup>st</sup> March 2004 we published the LVLC RNPFN Principles and Practices of Financial Management (“PPFM”) which describes how we manage our with-profits business within the RNPFN Fund. The PPFM was subsequently amended at 31<sup>st</sup> December 2005, mainly to reflect the introduction of “target ranges”, with further minor amendments at 31<sup>st</sup> March 2007.

We have reviewed the operation of the RNPFN Fund with-profits business during 2007.

It is our opinion that:

- LVLC has complied with its obligations relating to the LVLC RNPFN PPFM in force during 2007;
- the manner in which discretion was exercised over the period was appropriate; and
- competing rights, interests or expectations of with-profits policyholders or groups of with-profits policyholders have been addressed appropriately.

Our opinion takes account of the way that payouts have been made and how with-profits assets have been managed. It has regard to the requirements of the Scheme of Transfer giving effect to the transfer of the RNPFN business to LVLC, the Scheme taking precedence over the PPFM. This report sets out the reasons for our opinion by reference to the key areas of discretion set out in the LVLC RNPFN PPFM.

Our With Profits Actuary advised on the operation of our with-profits business throughout the period while the With Profits Committee provided independent judgement to the exercise of discretion.

In preparing the report we have taken advice from our With Profits Actuary. A separate report from our With Profits Actuary addressed to the with-profits policyholders is annexed to this report.

## **2. Key areas of discretion in the LVLC RNPFN PPFM**

The key areas of discretion in the LVLC RNPFN PPFM are discussed in the following sections of this report as follows - Management of Policy Payouts (Section 3), Management of Assets in the With-Profits Fund (Section 4), Asset Share Charges (Section 5), Changes to the LVLC RNPFN PPFM (Section 6), Policyholder Communication (Section 7) and Other Aspects of the LVLC RNPFN PPFM (Section 8)

### **3. Management of Policy Payouts**

We determine the level of payouts after taking into account the current and projected financial position of the RNPFN Fund.

With-profits policies typically contain guarantees, usually in the form of a minimum guaranteed amount to be paid on maturity, retirement or death and made up of a guaranteed amount plus the addition of annual bonuses. In addition, for most policies, a final bonus payment may be made.

#### **3.1 Annual and Interim Bonuses**

Investment markets produced before tax investment returns, in respect of assets backing asset shares, in the RNPFN Fund of 5.0% in 2006 and 6.1% in 2007. However, for some policies, the guaranteed benefits already provided generally remained high compared to the underlying investment values, particularly on single premium pension policies. As we expect investment returns in the future to be at lower levels than we saw over the 1980s and 1990s, we continued to apply a zero rate of annual and interim bonus for most business at the declaration in April 2007. The reasons for a zero rate of bonus having been previously communicated to policyholders with their bonus notices.

These zero rates of bonus mean that we continue to lower the guaranteed proportion of future payouts and limit overpayment where the guaranteed amount already exceeds the underlying investment value. The zero rates also increase the scope for final bonus payments to be made in future. We believe this is necessary in order to maintain fairness between different generations of with-profits policyholders and provide us with greater flexibility in the way the RNPFN Fund is managed.

#### **3.2 Final Bonus Rates and Payouts at Maturity**

We determine final bonus rates using specimen current and projected Asset Shares for sample policies as a guide, also allowing for the smoothing of investment returns and payouts consistent with the practice stated in the LVLC RNPFN PPFM. Specimen Asset Shares are calculated as the accumulation of the plan's investments in the RNPFN Fund at the rate of growth achieved by that part of the Fund backing Asset Shares, allowing for factors such as expenses, the cost of death benefits, the impact of taxation and any enhancement to reflect the distribution of the entire surplus assets in the RNPFN Fund.

We reviewed final bonus rates, in April 2007, at which time rates were generally increased. The Board did not consider it necessary to review final bonus rates again during 2007.

No changes were made to the historical assumptions or parameters used in Asset Share calculations or other methods used during 2007.

#### **3.3 Surrender Values for Conventional Business**

With effect from 23rd July 2007 the surrender basis for Endowment contracts with duration in force less than 10 years was amended to ensure 90% of surrender payouts are

within the target range for individual products. Surrender value bases for other conventional with-profits policies were not reviewed during the year.

### **3.4 Surrender Values for Unitised Business**

Where policy conditions permit, we apply Market Value Reduction factors (MVRs) to some or all unitised with-profits policies to reduce the face value if economic conditions show this is necessary in order to treat all with-profits policyholders fairly. No MVRs were applied during 2007.

### **3.5 Target Ranges**

The LVLC RNPFN PPFM states that we aim to make payouts on maturing policies that are between 80% and 130% of Asset Share and for surrendering and transferring policies between 70% and 130%, with at least 90% of payouts being between these levels. We can confirm that the payouts made during 2007 satisfied these requirements.

## **4. Management of Assets in the RNPFN Fund**

We determine the investment strategy for the RNPFN Fund after taking into account the current and projected financial position of the Fund.

We instruct our investment managers to carry out the strategy and challenge them to deliver returns in excess of an appropriate benchmark.

During 2007 the return achieved in respect of assets backing Asset Shares was 6.1% and we have credited this return to Asset Shares.

We delegate investment decisions to our investment managers, Liverpool Victoria Asset Management, who operate within limits that we prescribe..

	<b>Assets backing Asset Shares as at -</b>	
	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>Equities</b>	<b>31%</b>	<b>27%</b>
<b>Fixed Interest and Other</b>	<b>65%</b>	<b>67%</b>
<b>Property</b>	<b>4%</b>	<b>6%</b>

The RNPFN Fund also holds other assets backing non-profit liabilities written within the Fund. We made no change to the general nature of these assets, which are designed to match the liabilities.

The fixed interest assets held within the RNPFN Fund during 2007 were managed within the credit rating limits detailed in the LVLC RNPFN PPFM.

The RNPFN Fund also holds a contingent loan facility between itself and Liverpool Victoria Friendly Society Limited. The out-turn from the investment return on any contingent loan amount in the RNPFN Fund does not directly impact the amounts payable under with-profits policies but its availability is taken into account in setting investment

strategy which will impact on the amount payable. There were no significant changes to these assets during the year.

The RNPFN Fund has the resources to meet fully the benefit expectations of all our with-profits policyholders and has working capital to enable it to withstand adverse events.

## **5. Asset Share Charges**

During 2007, the Company did not make a charge for the cost of guarantees or for the use of capital in its Asset Share calculations other than the costs implicit in the charges on unitised with-profits policies. The charges applied to unitised with-profits policies were not varied during 2007.

## **6. Changes to the LVLC RNPFN PPFM**

The PPFM was updated from 31<sup>st</sup> March 2007 with two minor amendments.

Details of all changes to the PPFM can be found at [www.lv.com/rnpfn/ppfm](http://www.lv.com/rnpfn/ppfm)

## **7. Policyholder Communication**

All communications are sent to the last recorded known address of our policyholders.

### **7.1 Bonus Notices**

All with-profits policyholders receive an annual bonus notice giving details of any bonus added to their policy and other important information relating to their policy and the management of the RNPFN Fund.

### **7.2 Consumer Friendly PPFM**

On 31<sup>st</sup> December 2005 we published a Consumer Friendly explanation of the LVLC RNPFN PPFM called “Your Guide to how we manage the RNPFN Fund for With-Profits Business”, this is a less technical guide to help with-profits policyholders understand how the RNPFN Fund is managed. This is available at [www.lv.com/rnpfn/ppfm](http://www.lv.com/rnpfn/ppfm) and was mailed to with-profits policyholders during 2006 with their bonus notice. If we make a material change to this document in the future then we will distribute an updated version with a future bonus notice.

### **7.3 Other Communications**

With-profits policyholders in the RNPFN Fund have access to individual quotations and projections on request through our customer helpline on 0800 77 66 77

## **8. Other aspects of the PPFM**

### **8.1 Exposure to business risk**

No new business risk was undertaken during 2007 other than in respect of new, additional or replacement policies being issued in accordance with the Scheme of Transfer.

### **8.2 Scheme Requirements**

The Scheme of Transfer sets out the level of expenses to be charged to the RNPFN Fund and the approach to taxation. Investigations have been carried out to confirm that these Scheme requirements have been adhered to and an annual certificate provided to the Financial Services Authority.

## **9. Conclusion**

It is our opinion that:

- LVLC has complied with its obligations relating to the LVLC RNPFN PPFM;
- the manner in which discretion was exercised over the period was appropriate; and
- competing rights, interests or expectations of with-profits policyholders or groups of with-profit policyholders have been addressed appropriately.

**Rodney Cook**  
**Managing Director**  
**March 2008**

**Mike Rogers**  
**Chairman**

## **ANNEX**

### **Annual Report for 2007 from the With Profits Actuary to the Liverpool Victoria Life Company Limited (“the Company”) with-profits policyholders in the RNPFN Fund**

I have reviewed the Company’s annual report to pre-demutualisation with-profits policyholders. I have also reviewed the discretion exercised by the Company during 2007 so far as this affects the interests of its with-profits policyholders.

This report is made solely for the purpose of section 4.3.16 of the FSA Supervision manual. It is made solely to the Company’s with-profits policyholders, and accordingly, to the fullest extent permitted by law, I do not accept or assume any responsibility to any other person in connection with this report.

### **Respective Responsibilities of the With Profits Actuary and Directors**

The directors are responsible for the establishment of governance arrangements designed to ensure that the Company complies with its LVLC RNPFN Principles and Practices of Financial Management (“PPFM”) and for the exercise of discretion in the management of with-profits business. The directors must prepare annual reports to each class of with-profits policyholder stating whether, throughout the financial year to which the report relates, the Company believes that it has complied with the obligations relating to its PPFM. The report must set out the directors’ reasons for that belief.

As With Profits Actuary my responsibilities are primarily to advise the Company on key aspects of the discretion to be exercised in respect of each class of the Company’s with-profits policyholders. In so advising I am required by statute to cover the implications for the fair treatment of the Company’s with-profits policyholders and to take into account their information needs and the extent to which any communication may be regarded as clear, fair and not misleading. I am required to report to the Company’s governing body once a year on key aspects of the discretion exercised by the Directors during the year affecting the with-profits business of the Company. The scope of that report includes those aspects on which I have already provided advice to the directors. I am further required to make a written report to the Company’s with-profits policyholders, to accompany the Company’s annual report. My responsibilities as With Profits Actuary are set out in statute and in Actuarial Professional Guidance.

### **Basis of opinion**

I have been appointed by LVLC as With Profits Actuary throughout 2007. My appointment covers all classes of with-profits business written by LVLC and by other group companies.

I report to you my opinion as to whether, based on the information and explanations provided to me by LVLC, and taking into account where relevant the rules and guidance in section 20.2 of the FSA Conduct of Business Sourcebook, the LVLC annual report and the discretion exercised by LVLC in 2007 may be regarded as taking, or having taken, the interests of the LVLC RNPFN Fund with-profits policyholders into account in a reasonable and proportionate manner.

During 2007 I have advised LVLC on key aspects of discretion to be exercised in respect of:

- bonus rates to be applied to policies at maturity and on the death of a with-profits policyholder
- annual bonus rates
- investment policy
- communications to with-profits policyholders

I have carried out a review of key aspects of the discretion exercised by LVLC in 2007 affecting each class of with-profits business in the RNPFN Fund. Following this review I have formally reported to the directors that the management of LVLC with-profits business during 2007 has complied with the LVLC RNPFN PPFM and that the exercise of discretion over the period was appropriate and maintained fairness between different categories of policy and between with-profits policyholders and the Company.

I have reviewed the LVLC annual report to its with-profits policyholders in the RNPFN Fund for 2007.

In carrying out my reviews I have sought such information and explanations as I considered necessary in order to provide me with sufficient evidence to give the opinion required.

## **Opinion**

In my opinion the LVLC annual report for 2007 and the discretion exercised by LVLC during 2007 takes, or has taken, the interests of the RNPFN Fund with-profits policyholders into account in a reasonable and proportionate manner.

**Ian Blanchard**  
**With Profits Actuary**  
**Liverpool Victoria Life Company Limited**  
**March 2008**