

Liverpool Victoria Friendly Society Limited

RNPFN Fund PPFM

Summary of Changes

The RNPFN Fund PPFM was first published on 30th April 2004.

Changes in version 11.1 – 1st July 2018

The following material changes have been made:

Paragraph	Change
Practice 2.2.1	A material change has been made to reflect the current approach to uplift payouts that would otherwise be below target range of asset share that is set for payouts (detailed in Practice 2.2.6) for those types of conventional policy where asset share is not considered to be targeted, except for Guaranteed Moneybuilders (as no Asset Share is set for these policies).
Practice 3.2.3	A material change has been made to simplify how interim bonus rates for conventional policies would be set given they are unlikely to change from the current level of zero.
Practice 9.2.1	A material change has been made to clarify that top-ups to ONE ISA policies made after dates quoted in this practice are not eligible for the distribution of the inherited estate of the RNPFN Fund. This is the case even if the original investment was eligible.

The following other changes have been made:

Paragraph	Change
Introduction 1.4 & 1.7, Schedule	Minor clarifications or improvements in wording have been made to better reflect how changes in the PPFM are communicated to policyholders, and that changes should satisfy relevant requirements of the 2001 and 2008 Schemes of Transfer in respect of the RNPFN business.
Introduction 1.5. Schedule	Minor clarifications have been made to reflect that the scope of the PPFM is only regarding the RNPFN Fund.
Introduction 1.6, Schedule	Minor clarifications in wording have been made to reflect that the RNPFN Supervisory Board provides "independent advice" to the LVFS Board as the With-Profits Committee for the RNPFN Fund, rather than "some independent judgement".
Practice 2.2.1	The description of how sample policies are used has been simplified.
Practice 2.2.10	A clarification has been made to reflect that charges for mortality risks are not relevant for some policy types.
Practice 5.2.2	A clarification has been made to reflect that smoothing for Interest-Bearing policies is performed by limiting the change in payout for the premiums paid in that calendar year.

Paragraph	Change
Practice 8.2.1	Clarifications have been made to reflect that charges are applied to Asset Shares, and that VAT may be added on investment management fees.
Practice 8.2.4	A clarification has been made to note it is only the more material contracts that have fixed terms and provisions regarding termination.
Glossary	Amendments have been made to the definitions of "Final Bonus", "Unitised With-Profits Policy" and "With-Profits Committee".

In addition, there are also a small number of cosmetic changes.

Changes in version 10.1 – 1st August 2017

The following material changes have been made:

Paragraph	Change
Introduction 1.3	An amendment has been made to remove the requirement for the LVFS Board to certify each year to the FCA that the RNPFN with-profits business has been managed in accordance with its PPFM as this is no longer a regulatory requirement.
Principle 6.1.1.2	Investment policy is set subject to the constraint of the RNPFN Fund remaining solvent. An amendment has been made in respect of a new regulatory regime to state that solvent means maintaining a prudent level of free assets in excess of the Solvency Capital Requirement. The previous wording used an old regulatory regime definition of "Minimum Solvency Margin".

The following other changes have been made:

Paragraph	Change
Introduction 1.2 & 1.3	An amendment has been made to clarify the scope of policies covered by this PPFM.
Practice 2.2.1	An amendment has been made to clarify that non-standard policies receive the same final bonus rate as a standard premium-paying policy of the same duration.
Practice 2.2.10	An amendment has been made to clarify that the Society currently does not make a charge for the cost of guarantees and cost of capital in its asset share calculations.
Practice 5.2.4	A minor amendment has been made to clarify the types of policies that market value reductions and surrender and transfer bases apply to.
Practice 6.2.2	An amendment has been made to clarify separate asset pools with different investment strategies are also maintained for the liabilities for annuity policies and unit-linked policies, as well as the inherited estate.
Practice 6.2.3	An amendment has been made to clarify that if LVFS advances the RNPFN Fund a contingent loan, LVFS only receives the investment return on the amount advanced subject to it not giving rise to a deficit.
Practice 6.2.6	A new practice has been added to clarify that there is no hypothecation of assets applied in the asset pool used for asset shares.
Practice 7.2.3	An amendment has been made to clarify that, while profits or losses from business risks are not smoothed before they are used to determine payout amounts, they would then be smoothed in accordance with the normal smoothing mechanism (detailed in paragraph 5.2.2).
Glossary	An amendment has been made to the definition of 'Asset Pool' following the changes made to Practice 6.2.2

The above list excludes a few minor amendments of a largely cosmetic nature.

Changes in version 9.1 – 1st July 2016

The following material changes have been made:

Paragraph	Change
Practice 2.2.2 Practice 2.2.7 Practice 3.2.1	Amendments have been made to these practices to reflect the decision to treat interest-bearing policies as accumulating with-profits ones. Accordingly, Practices 3.2.5 and 3.2.6 have been deleted and minor adjustments also made to Practices 4.2.3, 4.2.4, 5.2.2 and 8.2.2.
Practice 3.2.2	The ability to change annual bonus rates for unitised with-profits policies more frequently than annually has been removed.
Practice 4.2.4	The level of the Terminal Bonus Enhancement is now reviewed quarterly rather than half-yearly.
Practice 6.2.3	Given the introduction of Solvency II, the definition of the deficit used to determine when the contingent loan is advanced to the RNPFN Fund has been changed to be when the RNPFN Fund is not compliant with its Solvency Capital Requirement.
Practice 8.2.1	A new paragraph has been added for the charges levied under accumulating with-profits policies.

The following other changes have been made:

Paragraph	Change
Principle 2.1.2	An amendment has been made to reflect the replacement of the role of the Actuarial Function Holder by the Life Chief Actuary under Solvency II. Similar changes have also been made to Principles 6.1.1 and 6.1.7. A definition of 'Life Chief Actuary' has also been added to the Glossary, replacing that for 'Actuarial Function Holder'.
Principle 2.1.6	A change has been made to delete the reference to the RNPFN Scheme, as it is inconsistent with the corresponding requirement in the Scheme.
Practice 2.2.1 Practice 5.2.2	For clarity, a change has been made to document the existing practice of using tranches of premiums within a policy to set final bonus rates for ISAs. The practice is now also used for accumulating with-profits policies.
Practice 2.2.1	For clarity, conventional with-profits whole-of-life policies have been added to the list of policies whose payouts are not based on their own asset shares. The layout of the paragraph has also been adjusted to improve readability.
Practice 2.2.6	An amendment has been made to clarify that target ranges do not apply when asset shares are not used to set final bonus rates.
Practice 3.2.1	For clarity, past communications to policyholders have been added as one of the items taken into account in setting annual bonus rates.

Paragraph	Change
Practice 4.2.1	The text referring to 'guaranteed benefits plus final bonus' as being the total payout has been removed, as it is not relevant to surrenders and transfers.
Practice 4.2.1	Additional wording has been added to clarify that the Terminal Bonus Enhancement is used to enhance the asset share before setting the result to a minimum of the guaranteed benefits (so could leave the payout unchanged).
Practice 6.2.3	An amendment has been made to clarify that the contingent loan can increase as well as decrease.
Practice 8.2.1	Changes have been made to clarify that maintenance expenses include per-policy administration expenses and investment management fees.
Glossary	A new definition of 'accumulating with-profits policy' replaces the definition of 'interest-bearing policy', with a related change to the definition of 'annual bonus'. A definition of Solvency Capital Requirement has also been added.

The above list excludes a few minor amendments of a largely cosmetic nature.

Changes in version 8.1 – 1st July 2015

The following material changes have been made:

(a) PRACTICE 3.2.1

- The formal link between the level of regular bonus rates and gilt yields or expected future investment returns has been removed so as to make it clear that investment returns are just one of a number of factors taken into account when setting bonus rates. A comment has also been added that annual bonus rates are not expected to change significantly from their current levels.

(b) PRACTICE 6.2.3

- Additional wording has been inserted into the practice to reflect the enhanced disclosure requirements being introduced by the FCA from the beginning of 2016 for capital support arrangements in respect of with-profit funds.

(c) PRACTICE 2.2.1

- Additional wording has been inserted to reflect the decision to pay final bonus on Guaranteed Moneybuilder policies at the same rate as for the corresponding with-profits version of the policy.

(d) PRACTICE 6.2.4

- The practice has been amended to permit greater flexibility around the frequency of formal reviews of the long-term investment strategy for the RNPFN Fund. It is now proposed to conduct these in detail at least every three years, with less detailed reviews expected to be annual.

The following other changes have been made:

(e) PRINCIPLE 2.1.1

- The reference to the schedule of disclaimer has been removed, given that it is mentioned earlier in section 1.9.

- (f) PRACTICE 2.2.1
 - To improve clarity, minor amendments have been made to the descriptions of how eligible policies are enhanced and of how sample policies are set.
- (g) PRACTICE 4.2.3
 - The description of the surrender value basis for conventional with-profit policies has been clarified so as to reflect more closely the current practice of applying the final bonus rate for a maturity of the same duration to reduced guaranteed benefits.
- (h) PRACTICE 5.2.2
 - A minor amendment makes it clear that the limit on changes in payouts at a single final bonus review applies to policies of the same term.
- (i) PRINCIPLE 6.1.2
 - A minor change has been made to use the term 'capital support' when referring to the contingent loan facility provided by LVFS to the RNPFN Fund.
- (j) PRACTICE 6.2.2
 - The wording has been corrected, as the interest rate hedge applies to the guaranteed annuities under Moneybuilder policies as well as to those under pension policies.
- (k) PRACTICE 8.2.5
 - The wording has been amended to reflect the change in name of Threadneedle Asset Management to Columbia Threadneedle Investments.

The above list excludes a few minor amendments of a largely cosmetic nature.

Changes in version 7.1 – 1st July 2014

The following material changes have been made:

(a) PRACTICES paragraphs 2.2.6, 4.2.4, 5.2.2 and 5.2.3

- Paragraph 5.2.2 has been amended to reflect a change in the approach to smoothing the value of with-profit policies. The investment returns for calendar years from 2014 onwards used in the calculation of final bonus rates will no longer be averaged over a rolling two-year period. Instead smoothing will be applied by limiting the change in the payout that can occur at each declaration of final bonus rates, normally to 5%.
- As a result of this change, paragraph 2.2.6 has been amended to reflect that the investment returns for calendar years prior to 2014, averaged over a rolling two year-period, have been consolidated into base asset shares.
- Paragraph 5.2.3 has been deleted, as the 20% upper limit on the change in payouts over a twelve-month period no longer applies under the new smoothing approach. As a consequence paragraphs 5.2.4 to 5.2.6 have been renumbered.
- An amendment has been made to paragraph 4.2.4 to reflect that it is now expected to review final bonus rates four times each year.

(b) PRACTICES 2.2.11

- A new paragraph has been added to make it clear that payments under the subordinated debt raised by the Society in May 2013 rank behind discretionary as well as guaranteed benefits under RNPFN with-profit policies.

The following other changes have been made:

(c) PRACTICES 2.2.1

- The wording has been amended to clarify that payouts under paid-up policies do not target the underlying asset share.

(d) PRACTICES 3.2.2

- The wording has been amended to clarify that only regular bonus rates under unitised with-profit policies can be reset between annual reviews. The description of the trigger for the reset has also been clarified, with a similar change being made to Practice 3.2.4.

(e) PRACTICES 3.2.5 and 3.2.6

- Two new paragraphs have been added describing the approach taken to set interest rate additions under Deposit Administration policies.

(f) PRINCIPLES 5.1.1 and 5.1.2

- The order of Principles 5.1.1 and 5.1.2 has been reversed.

(g) SCHEDULE

- The description of the RNPFN Supervisory Board has been updated.

(h) GLOSSARY

- Definitions of "Interest-Bearing Policy", "Interim Bonus" and "Subordinated Debt" have been added.

The above list excludes a few minor amendments of a largely cosmetic nature.

Changes in version 6.1 – 1st July 2013

The following material changes have been made:

- (a) PRACTICES paragraph 2.2.6
 - This change allows the investment strategy of the inherited estate of the RNPFN Fund to differ from that of the asset portfolio backing RNPFN with-profits policy asset shares. Corresponding amendments has been made to Practices 6.2.1 and 6.2.2.
- (b) PRACTICES paragraph 4.2.4
 - The restriction on changing final bonus rates at a mid-year review only if the payout moves by at least 5% has been deleted as it was difficult to interpret in practice.

The following other changes have been made:

- (c) INTRODUCTION
 - Amendments have been made to reflect the replacement of the Financial Services Authority with the Prudential Regulation Authority and the Financial Conduct Authority on 1st April 2013.
 - A statement has been inserted to highlight that the Practices set out in the PPFM may be changed in the future.
- (d) PRACTICES 2.2.2
 - The wording has been clarified to reflect that information on product charges can appear in Key Features and other customer documents, as well as policy conditions. A similar change has been made to Practices 2.2.7 and 8.2.1, and to Principle 8.1.1.
- (e) PRACTICES 2.2.6
 - A statement to clarify the frequency with which investment returns are calculated has been added.
- (f) SCHEDULE
 - A sentence has been added to the Governance Arrangements section to highlight the fact that advice is provided by the With-Profits Actuary.

(g) GLOSSARY

- Definitions of "Asset Pool" and "RNPFN Supervisory Board" have been added.
- The definition of "Conventional With-Profits Policy" has been improved.
- The definition of "Miscellaneous Surplus" has been removed as it is not relevant to the RNPFN Fund.

The above list excludes a few minor clarifications and improvements.

Changes in version 5.1 – 1st July 2012

The design of the document has been enhanced so that each set of Principles is accompanied by the corresponding set of Practices, rather than listing all the Principles followed by all the Practices as in previous versions. As a consequence, the numbering of the paragraphs in the document has changed. The following other changes have been made (using the new numbering):

- (a) PRACTICES paragraph 2.2.1
 - The paragraph has been amended to clarify that policies where regular premiums have ceased are currently subject to the same scale of bonus rates as similar policies where premiums are continuing to be paid.
- (b) PRACTICES paragraphs 2.2.7, 8.2.1 and 8.2.3, PRINCIPLE paragraph 8.1.1
 - The description of the charges levied on policy asset shares has been clarified.
- (c) PRINCIPLES paragraph 5.1.4
 - The qualification that the use of Market Value Reductions to reflect movements in the underlying asset share is subject to meeting statutory solvency requirements has been removed following change in regulation.
- (d) PRACTICES paragraph 8.2.1
 - The detail of the different types of charge under the unitised with-profit ISA policy has been removed.
- (e) PRACTICES paragraph 8.2.4
 - The sentence saying that fixed term outsourcing contracts contain a clause allowing them to be terminated with the payment of compensation to the outsourcer has been deleted as it no longer applicable.

Changes in version 4.6 – 1st April 2012

The following material change has been made.

(a) PRACTICES paragraph 3.1.6

- The section has been updated to reflect that the Society aims to make payouts on maturing, surrendering and transferring policies that are between 80% and 120% of Asset Share.

Changes in version 4.5 – 1st November 2011

The PPFM has been updated to take into account the outsourcing of the investment management of the With-Profits Fund to Threadneedle Asset Management.

Changes in version 4.4 – 1st June 2011

The design of the document has been enhanced and now includes an introductory section and a glossary.

- (a) PRACTICES paragraph 3.1.1 (formerly PRACTICES paragraph 1.1.1)
 - Clarification regarding the definition of asset shares and the use of approximations when asset shares are not appropriate.
- (b) PRACTICES paragraph 3.1.6 (formerly PRACTICES paragraph 1.1.6)
 - Amended regarding the effects of using sample policies. The wording of the paragraph has also been amended so as to improve its clarity.
- (c) PRACTICES paragraph 3.1.7 (formerly PRACTICES paragraph 1.1.7)
 - Wording has been amended to improve clarity.
- (d) PRACTICES paragraph 3.2.1 (formerly PRACTICES paragraph 1.2.1)
 - The description of how annual bonus rates are set for unitised policies has been amended so as to make it clear that the target bonus rate is net of any (fund-based) charges, as well as being net of tax.
- (e) PRACTICES paragraph 3.5.3 (formerly PRACTICES paragraph 1.5.3)
 - Amended to reflect that the Society may seek to match assets and liabilities in the with-profits fund.
- (f) PRACTICES paragraph 3.5.4 (formerly PRACTICES paragraph 1.5.4)
 - Clarification that the contingent loan facility is taken into account when assessing the investment strategy of the RNPFN Fund.
 - References to the credit exposure limits for the fixed-interest portfolio have been removed following the decision to invest part of the portfolio in OEICs managed by LVAM rather than directly in the underlying assets.
- (g) PRACTICES paragraph 3.6.2 (formerly PRACTICES paragraph 1.6.2)
 - The reference to product design being one of the business risks to which the RNPFN Fund is exposed has been deleted, given that the Fund is closed to new business.
- (h) PRACTICES paragraph 3.7.4 (formerly PRACTICES paragraph 1.7.4)
 - In practice, the outsourcing arrangement covering the investment management of the assets is reviewed regularly rather than monthly.

- (i) PRACTICES paragraph 3.7.5 (formerly PRACTICES paragraph 1.7.5)
 - The Practice has been removed to ensure section 3.7 refers solely to the allocation of costs between policyholders and shareholders.

The above list excludes a few minor amendments of a largely cosmetic nature.

Changes in version 4.3 – 1st February 2011

The PPFM was amended in December 2010 to clarify the distribution of the inherited estate.

- (a) PRINCIPLES paragraph 1.3
 - This paragraph has had a minor clarification of wording.
- (b) PRINCIPLES paragraph 1.8
 - Wording has been introduced to clarify that eligible policies will share in the distribution of the inherited estate.
- (c) PRACTICES paragraph 1.1 & PRACTICES paragraph 1.6
 - This paragraph has had a minor clarification of wording.
- (d) PRACTICES paragraph 1.8
 - Additional wording has been included to clarify conditions for the distribution of the inherited estate.

Changes in version 4.2 – 1st June 2010

The PPFM was amended in May 2010 as follows:

- (a) PRACTICES paragraph 1.2(1)
 - Considerations when setting the regular bonus rate for unitised policies have been clarified.
- (b) PRACTICES paragraph 1.3(4)
 - The frequency of final bonus reviews has been changed.
- (c) PRACTICES paragraph 1.6(2)
 - This paragraph has had a minor clarification of wording.

Changes in version 4.1 – 30th June 2009

The PPFM was amended in June 2009 as follows:

- (a) INTRODUCTION & throughout –
 - The PPFM has been updated to take account the Second Scheme of Transfer of RNPFN from LVLC to LVFS. Additional wording clarifying this has been added to the introduction, and references to LVLC, “The Company” or similar have been amended throughout. Similar amendments from “the Actuary” to either With Profits Actuary (WPA), Actuarial Function Holder (AFH) or both (as appropriate) have been made.
 - PRACTICES paragraph 1.3(4)
 - This paragraph was amended to reflect revised permissible credit risk in the Fund.
- (b) PRACTICES paragraph 1.5(3)
 - This paragraph has had a minor clarification of wording.
- (c) PRACTICES paragraph 1.5(4) and paragraph 1.7(3)
 - The web-site address has been updated.
- (d) PRACTICES paragraph 1.8(2)
 - This paragraph has been amended to allow for different investment strategies between the main WP Fund and the Estate.

Changes in version 4.0 – 30th June 2008

The PPFM was amended in June 2008 as follows:

- (a) PRINCIPLES paragraph 1.8(2) & PRACTICE paragraph 1.8(1)
 - This paragraph was amended to improve clarity - previous sub-points (a), (c) and (e) have been combined into (a).
- (b) PRACTICES paragraph 1.1(6)
 - This paragraph was amended to allow for alternative methods of comparing payouts against target ranges.
- (c) PRACTICES paragraph 1.1(7)
 - This paragraph was amended to improve clarity regarding how we allow for maintenance expenses and/or charges in determining Asset Shares for the two unitised with profits products.
- (d) PRACTICES paragraph 1.2(1)
 - This paragraph was amended to improve clarity regarding how tax and charges are taken into account in setting bonus rates.
- (e) PRACTICES paragraph 1.5(2)
 - This paragraph was amended to improve clarity around benchmarks rather than strategy being reviewed annually.
- (f) SCHEDULE
 - The Schedule has been added to explain the firm's Governance Arrangements.

Changes in version 3.0 – 31st March 2007

The PPFM was amended in March 2007 as follows:

- (a) PRACTICES paragraph 1.1(1)
 - This paragraph was amended to clarify which policies sample policies represent.

- (b) PRACTICES paragraph 1.5(4)
 - This paragraph was amended to remove the table of investment guidelines and to highlight their availability on the web-site (or directly from Liverpool Victoria) and to amend the credit rating exposures.

Changes in version 2.0 – 31st December 2005

The PPFM was amended in December 2005 mainly to reflect the introduction of "target ranges" and some clarifying changes.

- (a) PRACTICES paragraph 1.1(1)
 - This paragraph was amended to:
 - (i) note that the surplus assets described in Section 1.8 are affected by the business risks described in Section 1.6,
 - (ii) note the frequency of Asset Share Calculations.
- (b) PRACTICES paragraph 1.1(6)
 - This paragraph was amended to incorporate the "target ranges" used to determine payouts.
- (c) PRACTICES paragraph 1.1(7)
 - This paragraph was amended to note the swaptions matching guaranteed annuity options do not affect the return allocated to Asset Shares.
- (d) PRACTICES paragraph 1.1(10)
 - This paragraph was amended to note that no charge for the cost of guarantees would be made.
- (e) PRACTICES paragraph 1.2(1)
 - This paragraph was amended to note that zero bonus rates only apply to conventional with-profits policies.
- (f) PRACTICES paragraph 1.3(1)
 - This paragraph was amended to remove the reference to transfers and surrenders as this is now covered by (b) above.
- (g) PRACTICES paragraph 1.4(2)
 - This paragraph was amended to note that any costs or excesses are charged to the inherited estate.
- (h) PRACTICES paragraph 1.4(3)
 - This paragraph was amended to note that other than investment returns other aspects of experience are not smoothed.

- (i) PRACTICES paragraph 1.4(4)
 - This paragraph was clarified to make it clear that it only applies to conventional with-profits policies and that the maximum change in payouts from year to year was 20% (previously 40%).
- (j) PRACTICES paragraph 1.5(4)
 - This paragraph was amended to reflect revised investment guidelines.
- (k) PRACTICES paragraph 1.6(1)
 - This paragraph was amended to clarify that new business risks may arise on policies effected as a result of a right or option being exercised.
- (l) PRACTICES paragraph 1.8(2)
 - This paragraph was amended to reflect part of the inherited estate being invested in swaptions.