

UTMOST LIFE AND PENSIONS LIMITED

Directors' Report to With-Profit Policyholders

1st January 2019 to 31st December 2019



Introduction

This is the report of the Directors of Utmost Life and Pensions Limited (the 'Directors') to the with-profits policyholders of Utmost Life and Pensions Limited (the 'Company') on the management of the with-profits business during the 2019 calendar year.

The Company sets out the way it manages its with-profits business in a document known as the Principles and Practices of Financial Management (the 'PPFM'). The PPFM is available directly from the Company or from the web-site at <https://www.utmost.co.uk/about-us/with-profits/>.

This report does not consider the with-profits business of Equitable Life Assurance Society, a wholly-owned subsidiary of the Company. A separate report from the Directors of Equitable Life is published on their website for this business.

The Company's with-profits business is principally held in four with-profits sub-funds. In addition, the Company's non-profit fund contains some policies written on a unitised basis that can invest in with-profits units. The with-profits units in these policies are reinsured to WPSF6.

- With-profits sub-fund 1 (WPSF1) comprises all the with-profits business written by Reliance Mutual Insurance Society, and the with-profits business, principally in the industrial branch, that was originally written by other companies acquired by Reliance Mutual Insurance Society prior to 1972.
- With-profits sub-fund 2 (WPSF2) comprises the former Criterion Life Assurance with-profits business.
- With-profits sub-fund 4 (WPSF4) comprises the former Time Assurance Retirement Annuity with-profits fund.
- With-profits sub-fund 6 (WPSF6) comprises the former Hearts of Oak Friendly Society with-profits business.

Each of the with-profits sub-funds operates on a standalone basis with all the surplus in each sub-fund being allocated to the with-profits policies in that sub-fund. The with-profits sub-funds are closed to new business with new policies only arising from the exercise of options by existing policyholders. None of the with-profits sub-funds provide capital support to other sub-funds.

Governance Arrangements

The Board of Utmost Life and Pensions Limited (the 'Board') is responsible for the management of its with-profits business. The Board has established a sub-committee, the With-Profits Committee (the 'WPC'), with the role of providing an independent view and advising Board to ensure that all with-profits policyholders are treated fairly when management decisions are made. In 2019 the Committee comprised three non-executive Directors, one former non-executive Director of Reliance Mutual Insurance Society, and the Chief Executive. Meetings of the Committee were held with the With-Profits Actuary and the Chief Actuary in attendance. The

Terms of Reference of the WPC are available directly from the Company or from the Company's website <https://www.utmost.co.uk/about-us/our-committees/>.

The Company has appointed a With-Profits Actuary (the 'WPA') who advises the Board and the WPC about the exercise of discretion in the management of the with-profits funds. The WPA also makes an independent report to the with-profits policyholders, which is appended to this report. Their report should state whether, in their opinion, this report and the discretion exercised during 2019 may be regarded as having taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

The Board is satisfied that the arrangements in place for the governance of its with-profits business are appropriate, and meet current regulatory requirements.

Exercise of Discretion

The management of with-profits business involves the use of discretion. Areas where discretion was exercised by Board during 2019 are described below.

Determining Policy Payouts

The way policy payouts are determined is described in the PPFM and the methodology aims to distribute all the surplus in each sub-fund equitably amongst the policies in that sub-fund. This methodology was used during 2019 and was considered by the WPA, the WPC and Board to be fair to with-profits policyholders. Details of discretionary decisions taken in 2019 are:

Annual Bonus Rates

In March 2019, Board declared new reversionary bonus rates, for those policies where regular bonuses may be added, to take effect from 1st April 2019. Reversionary bonus rates were unchanged from the previous declaration in March 2018. The bonus declaration took into account the considerations described in the PPFM regarding annual bonuses and were considered to be fair to policyholders by the WPA, the WPC and Board.

Special Bonus

In March 2019, Board declared a special bonus which increased guaranteed benefits in WPSF1 by 25%. This decision was made in recognition of the relatively small proportion of policyholder benefits that are guaranteed, and the decision taken in January 2019 to reduce the levels of investment risk in the fund. Fairness between policyholders was maintained by appropriate adjustments to the final bonus scale.

Final Bonus

For some types of policy, final payouts are enhanced by the payment of a final bonus. The final bonus scales were reviewed for all the with-profits sub-funds twice in 2019, with changes taking effect on 1 April and 1 October.

Discretion has been exercised in the continued use of the shape of historic bonus scales to apportion surplus between different groups of policyholder. Such scales reflect differences in the source of the business, the tax status of different policies and the different terms on which various tranches of policies were written. All the final bonus rates set were considered to be fair to policyholders by the WPA, the WPC and Board. The impact on each of the with-profits sub-funds is:

WPSF1

Policy payouts increased in April 2019 by between 7% and 15% for different classes of policy, and the adjusted bonus scales took account of the addition of the Special Bonus described above. Policy payouts increased further in October 2019 by an average of 5.5% for Industrial Branch business and 7.2% for Ordinary Branch business.

WPSF2

Policy payouts decreased in April 2019 by between 1.4% and 2.3%, due to falls in the value of the fund's investments. They then increased in the October review by between 3.0% and 5.2% as a result of an increase in the value of investments.

WPSF4

Deferred annuity policy payouts increased in April 2019 by between 8.3% and 9.4%, and did not change as a result of the October review. In a departure from previous treatment, annuities in payment were allocated an 8.4% increase to their annuity amount from 1 July 2019 as a result of the addition of final bonus. This decision was taken by Board, on the advice of the WPA and WPC, in order to allocate surplus fairly between different policies.

WPSF6

Policy payouts reduced in April 2019 by between 4.2% and 4.7%, due to falls in the value of the fund's investments and adverse experience. They then increased by between 4.7% and 4.9% in October as a result of an increase in the value of investments.

Investment Strategy

Section 4 of the PPFM lists the Principles and Practices that are followed by the company in deciding upon the investment strategy for the with-profits sub-funds. Each of the with-profits sub-funds invests by matching its guaranteed liabilities with fixed interest assets before seeking additional returns from that part of the sub-fund in excess of this amount.

During 2019, there was a review of the level of investment risk in WPSF1 and the exposure to equities was reduced to c30%. This reduction was to limit the potential volatility of payouts to policyholders that could arise from a larger holding of risk assets. The investment strategy for the management of assets to back the liabilities for guaranteed annuity options in WPSF6 was also reviewed.

The Company has appointed JP Morgan Asset Management as its investment partner, who now manage most of the non-fixed-interest investments of the with-profits sub-funds which were previously managed by Schroders. The change in investment manager was made based on the relative charges and performance of the funds with similar characteristics under consideration.

Policyholder Payments on Surrender

If a claim is made on a policy at a time when contractual benefits are not guaranteed, a surrender value is paid. Board reviewed the basis for calculating Surrender Values in 2019 and in doing so balanced the need to be fair to those policyholders withdrawing their benefits with fairness to those who remain. This is as described in the PPFM.

Changes to the PPFM

There have been no changes made to the Principles in the PPFM since the business was transferred to Utmost Life and Pensions on 1 April 2018.

In April 2019 the Practices in the PPFM were updated to reflect the addition of final bonus to annuities in payment in WPSF4 and WPSF6, and the way final bonuses were allocated in WPSF6. These changes were reviewed by the WPA, the WPC and Board, who considered them to be fair to with-profits policyholders.

Compliance with the PPFM

The Board managed the with-profits business in accordance with its PPFM in 2019. This was confirmed by a review carried out by the With-Profits Actuary.

Opinion of the Directors of Utmost Life and Pensions Limited

The Directors have reviewed the management of the with-profits sub-funds as summarised in this report.

It is the Directors' opinion that throughout 2019 the funds were managed in accordance with the PPFM, and that the exercise of discretion during 2019 was appropriate, took full account of policyholders' reasonable expectations, and maintained fairness between different categories of policy and policyholder.

Report to with-profits policyholders by the With-Profits Actuary

I was appointed to the role of With-Profits Actuary (“WPA”) of Utmost Life and Pensions Limited (the ‘Company’) on 1 January 2020. It is my responsibility to advise the Board of the Company on the management of the Company’s with-profits business. I am also required to report annually to the with-profits policyholders on the Board’s exercise of discretion in relation to that business. This is my report for the year ended 31 December 2019.

In my opinion:

- the discretion exercised by the Company in 2019 may be regarded as having taken the interests of with-profits policyholders into account in a reasonable and proportionate manner;
- the Company has materially complied with the Principles and Practices of Financial Management in 2019 ; and
- the annual report from the Directors to the with-profits policyholders is a fair summary of the key decisions impacting the with-profits policyholders during 2019.

In reaching this opinion, I have taken into account the information and explanations provided to me by the Company, and relied upon information from and views of Ravi Dubey who held the role of WPA throughout 2019. In preparing this report, I have also taken into account the relevant rules and guidance issued by the Prudential Regulation Authority and the Financial Conduct Authority, and the applicable standards issued by the Financial Reporting Council, TAS 100 and TAS 200.

Louise Eldred
With-Profits Actuary
March 2020

Utmost Life and Pensions Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 775704. Registered in England and Wales number 10559664. Utmost Life and Pensions Services Limited is registered in England and Wales number 10559966. Both have their registered office at: Utmost House, 6 Vale Avenue, Tunbridge Wells, TN1 1RG.