

**UTMOST LIFE AND PENSIONS LIMITED**  
**Directors' Report to With-Profit**  
**Policyholders**

*1st April 2018 to 31st December 2018*



## *Introduction*

This is the report of the Directors of Utmost Life and Pensions Limited to the with-profits policyholders of the company on the management of the with-profits business since the business was transferred into Utmost Life and Pensions Limited on 1 April 2018 and of the management of the with-profits business by Reliance Mutual Insurance Society from 1 January 2018 to 31 March 2018.

## **Background**

The company maintains a set of Principles and Practices of Financial Management (PPFM) that sets out the way in which with-profits business will be managed. The PPFM is available directly from the company or from the web-site at <https://www.utmost.co.uk/about-us/with-profits/>.

As a result of the transfer of business of Reliance Mutual Insurance Society to Utmost Life and Pension Limited on 1<sup>st</sup> April 2018, the company's business is divided across five sub-funds:

- The Non-Profit Sub Fund ("NPF"); and
- With Profits Sub-Funds No. 1, 2, 4 and 6 ("WPSF1, 2, 4 and 6").

Prior to the transfer the Non-Profit Sub-Fund was known as the Ordinary Sub-Fund ("OSF").

The Non-Profit Sub Fund (NPF) contains all the company's unit-linked and non-profit, non-linked business, including that originally written by other companies. In addition, NPF contains some with-profits policies written on a unitised basis, where there are provisions to apply market value adjustment factors. However, 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 with-profits business, principally in the industrial branch, that was originally written by other companies, all of which were acquired prior to 1972.

With Profits Sub Fund 2 (WPSF2) comprises the former Criterion Life Assurance with-profits fund.

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 policies.

Each of the sub-funds is operated on a standalone basis with all the surplus distributed in each of the with-profits sub-funds being allocated to the with-profits policies in that sub-fund. All the with-profits sub-funds are closed to new business and only accepting the exercise of options by existing policyholders. None of the with-profits sub-funds are required to provide capital support to other sub-funds.

Prior to the transfer of business, Reliance Mutual operated the with-profits Sub-Funds in the same manner as described in the current PPFM, with the exception that WPSF1 was previously entitled to receive a proportion of the future surplus on the non-profit business transferred to

OSF on the effective date of the 2012 Scheme of Arrangement or pay to OSF the same proportion of any deficit that arose on this business.

## **Opinion of the Directors of Utmost Life and Pensions Limited**

The Directors have reviewed the management of the with-profits funds. It is the Directors' opinion that throughout 2018 the funds were managed in accordance with the PPFM of Utmost Life and Pensions Limited and of the Reliance Mutual Insurance Society prior to the transfer. It is the Directors' opinion that the exercise of discretion during 2018

- was appropriate
- took full account of policyholders' reasonable expectations and
- maintained fairness between different categories of policy and policyholder.

## **Roles and Responsibilities**

The Board of Utmost Life and Pensions Limited has established a sub-committee, the With Profits Committee (WPC), with the role of making recommendations to the Board to ensure that all with-profits policyholders are treated fairly when financial management decisions are made. The Committee comprises four non-executive directors and the chief executive and meetings are 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.

The With Profits Actuary (WPA) has a statutory duty to advise the Board when it exercises its discretion in the management of the with-profits funds. The WPA must also make an independent report to the with-profits policyholders. His report should state whether, in his opinion, this report and the discretion exercised during 2018 may be regarded as having taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

This report is provided by the Directors of Utmost Life and Pensions Limited on behalf of the Board of Reliance Mutual Insurance Society following the transfer of all business of the Society to Reliance Life Limited on 1<sup>st</sup> April 2018.

## **Exercise of Discretion**

### **Regular Bonuses**

In March 2018, the Board of Reliance Mutual Insurance Society declared new reversionary bonus rates, for those policies where regular bonuses may be added, to take effect from 1<sup>st</sup> April 2018. Reversionary bonus rates were unchanged from the previous declaration in March 2017. The PPFM describes the considerations taken into account when deciding upon reversionary bonus rates.

### **With Profits Payouts**

For some types of policies final payouts are enhanced by the payment of a final bonus. In March 2018 new final bonus scales, which took effect from 1<sup>st</sup> April 2018, for WPSF1, 2, 4 and 6 were

declared based on the financial results at the end of 2017. Final bonus scales were also reviewed in September 2018, with changes taking effect from 1 October 2018.

The reports on bonus rates presented to the Board provided evidence that the bonus methodology was based around the stated aims and followed the approach set out in the PPFM. The bonus rates declared demonstrated clear differentiation between different groups of products in the same fund and that the sub-funds were being managed with the aim of distributing all of the surplus arising in each sub-fund equitably among the with-profits policyholders in that sub-fund, over the remaining term of their policies in accordance with the PPFM.

- For WPSF1 the final bonus rates were reduced in April and October 2018 reflecting the result of the strategic review of the Reliance Mutual Insurance Society in 2017 and the completion of the transfer to Utmost Life and Pensions in 2018. The fall in bonuses were limited to 15% at each review in order to smooth the impact.
- For WPSF2 the final bonus rates declared in April 2018 resulted in an increase in policy payouts on average by about 1.2%, following increases in investment returns in 2017. These were reversed in October 2018 due to the negative returns experienced in the first half of 2018.
- WPSF4 was initially favourably impacted and bonuses were increased in April. However, negative investment returns in the first half of 2018 led to the final bonus rates being reduced in October. Non-guaranteed bonuses for annuities in payment were left unchanged.
- For WPSF6 the changes in final bonus rates led to small increases in policy payouts in April, followed by a small reduction in October. Following a review of the bonus methodology, the Board approved a change in the approach to declaring bonuses on conventional with-profits policies to improve equity between different groups of policyholders.

## 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 Profit Sub-Funds. During 2018, there was a review of the investment strategy of WPSF1 that the exposure to equities was increased to 60% through investment in the Schroder Reliance Life Balanced Fund. The investment strategy for the management of the liabilities for guaranteed annuity options in WPSF6 was also reviewed.

## Changes to the PPFM

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

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

I was appointed to the role of With- Profits Actuary ("WPA") to Utmost Life and Pensions Limited ("the Company") on 20 December 2018 and this report incorporates the views of my predecessor Geoff Ross. It is my responsibility to advise the Board of the Company on the management of the Company's with-profits business. Under the rules of the Financial Conduct Authority, I am also required to report annually to the with-profits policyholders on the Board's exercise of discretion on the Company's with-profits business. This report is for the year ended 31 December 2018.

In my opinion

- The discretion exercised by the Company in 2018 may be regarded as having taken the interests of with-profits policyholders into account in a reasonable and proportionate manner;
- The annual report from the Company's Board to the with-profits policyholders is a fair summary of the key decisions impacting the with-profits policyholders; and
- The Company has materially complied with the Principles and Practices of Financial Management in 2018

In reaching this opinion, I have taken into account the information and explanations provided to me by the Company. 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.

Ravi Dubey, FIA  
With-Profits Actuary  
March 2019

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.