

# Report to UK-Style German With-Profits Policyholders on the management of the fund during 2023

## 1 Introduction

This is the report of the Directors of the Equitable Life Assurance Society (the 'Directors') to policyholders of Equitable Life Assurance Society (the 'Society') on the management of the UK-Style with-profits business (the 'relevant with-profits business') during the 2023 calendar year.

The business of the Society was transformed on 1 January 2020 and ownership of the Society was transferred to Utmost Life and Pensions (the 'Transfer'). Most of the business of the Society ceased to be with-profits as a result of these arrangements, and all policies other than Irish and German policies transferred to Utmost. The Irish and German business remained in the Society and Utmost became the sole member of the mutual, thereby becoming its owner. The only with-profits business that remained in the Society after the Transfer are German with-profits contracts, comprising UK-Style and German-Style policies. These changes were carried out following extensive communication with policyholders, scrutiny by independent experts and regulators, and with the agreement of the High Court.

The Society sets out the way it manages its UK-Style German with-profits business in a document known as the Principles and Practices of Financial Management (the 'PPFM'). The PPFM is available directly from the Society or from the website at <https://www.utmost.co.uk/contact-us/customer-centre-for-german-and-irish-equitable-life-policyholders/>. This report summarises the key decisions taken by the Society in 2023 that affected the relevant with-profits business.

This report covers:

- governance of the relevant with-profits business;
- exercise of discretion in the management of the relevant with-profits business, including how competing or conflicting rights, interests or expectations of policyholders have been addressed; and
- compliance with the PPFM.

This report does not consider the German-Style contracts, which are also in the Society's German With-Profits Fund, but are managed in accordance with the German Business Plan agreed by the German Regulator. It also does not concern the with-profits business of Utmost. A separate report from the Directors of Utmost Life and Pensions is published on their website for this business.

## 2 Governance Arrangements

The Board of the Society (the 'Board') is responsible for the management of its with-profits business. The Board has tasked a sub-committee, the With-Profits Committee (the 'WPC'), with the role of providing an independent view and advising the Board to ensure that all relevant with-profits policyholders are treated fairly when management decisions are made.

This Committee is the With-Profits Committee of Utmost which advises the Equitable Board in addition to the Board of Utmost Life and Pensions.

In 2023 the Committee comprised five members; three independent members, one non-executive Director, and the Chief Executive. Due to the sad death of one of the independent members, a new independent member was appointed during 2023. 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 Society or can be found on the website <https://www.utmost.co.uk/about-us/our-committees/>.

The Society 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 business. The WPA also makes an independent report to the relevant with-profits policyholders, which is appended to this report. Their report states that, in their opinion, this report and the discretion exercised during 2023 took the interests of the relevant 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.

### **3 Exercise of Discretion**

The management of the relevant with-profits business involves the use of discretion. Areas where discretion was exercised by the Board during 2023 are described below.

#### **3.1 Determining Policy Payouts**

The methodology used to determine payouts under UK-Style with-profits contracts is to add final bonus to the Guaranteed Fund so that payouts equal Asset Shares. The Asset Shares are determined from an identified set of assets, the investment returns achieved on these assets, and deductions for specified charges. This is as described in the PPFM. In line with the stated intentions of the Society not to declare any guaranteed bonuses in the foreseeable future, no reversionary bonus has been declared.

This methodology was used during 2023 and the Board considers this to be in line with expectations given to policyholders regarding the Transfer and described in the PPFM. It is even-handed as all policyholders are treated in the same way, and so the WPA, the WPC and the Board consider this to be fair to with-profits policyholders.

A consequence of this method of setting final bonus rates is that there is very limited smoothing of benefits, a fact that was communicated to policyholders as part of the documentation explaining the Transfer. The policy payouts through 2023 reflected the market movements during the course of the year which saw a general increase in asset value. The final bonus rates set throughout the year were considered to be fair to policyholders by the WPA, the WPC and the Board.

### **3.2 Investment Policy**

The assets backing the Asset Shares of the relevant with-profits business have been held as a separately identifiable holding as required by the PPFM. Discretion was exercised in the selection of a pooled vehicle in which this was invested during 2023 so that a diversified portfolio of assets backed the policies, which is described in the PPFM as an efficient method of achieving this aim. In addition a Euro hedge has been held to protect the performance of the fund against currency fluctuations, an option also described in the PPFM. The results of following this investment policy were monitored closely through the year and are set out in the section above.

The assets backing all Asset Shares have been invested in the same way, so all policies have shared in the same investment performance, which the Board considers fair and aligned with the statements made to policyholders.

### **3.3 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. Surrender values paid on relevant with-profits business in 2023 have been equal to Asset Shares, in line with expectations set out in the PPFM. The Board considers this to be fair to both those policyholders withdrawing their benefits and those who remain.

### **3.4 Expenses, Investment Fees and Guarantees**

Charges that can be applied to the relevant with-profits business were agreed as part of the Transfer and are set out in the PPFM:

- The Annual Management Charge is set at 0.75%pa initially, but can alter in clearly defined circumstances. These circumstances have not arisen in 2023, and charges have therefore been deducted at the initial level throughout the year.
- No charges were deducted in 2023 in respect of any cost of investment guarantees, which can be applied in specified circumstances. This is in accordance with the expectations set out in the PPFM given the relative levels of policy guarantees and Asset Shares.

The discretion exercised by the Board in respect of deducting charges from the Asset Shares of the relevant with-profits policies in 2023 has been in line with the PPFM and treated the policyholders fairly.

### **3.5 Compliance with the PPFM**

The PPFM for the relevant with-profits business was introduced following the re-structure of the business on 1 January 2020. It was updated in April 2023.

The Board managed the relevant with-profits business in accordance with its PPFM in 2023. This was confirmed by a review carried out by the With-Profits Actuary.

## **4 Opinion of the Directors of Equitable Life Assurance Society**

The Directors have reviewed the management of its relevant with-profits business as summarised in this report.

It is the Directors' opinion that throughout 2023 the relevant with-profits business was managed in accordance with the PPFM, and that the exercise of discretion during 2023 was appropriate, took full account of policyholders' reasonable expectations, and maintained fairness between different categories of policy and policyholder.

## **Appendix**

### **Report to the relevant with-profits policyholders of The Equitable Life Assurance Society by the With-Profits Actuary**

As With-Profits Actuary to the Society, it is my responsibility to advise the Board on the management of the Society's with-profits business. I am also required to report annually to relevant with-profits policyholders on the exercise of discretion in relation to that business. This is my report for the year to 31 December 2023.

I have carried out a review of the Society's exercise of discretion and its compliance with its PPFM in 2023 and in my opinion:

- the discretion exercised by the Society in 2023 took the interests of the Society's relevant with-profits policyholders into account in a reasonable and proportionate manner;
- the Society complied with its PPFM during 2023; and
- the annual report from the Directors accurately summarises the key decisions that have impacted with-profits policyholders during the year.

In reaching these opinions, I have taken into account the information and explanations provided to me by the Society. In preparing this report, I have also complied with 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 that apply to this work, TAS 100 and TAS 200.

**Tim Bateman**  
**With-Profits Actuary**  
**March 2024**

The Equitable Life Assurance Society is registered in England and Wales, company number 37038, and 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 110340. Its registered office is Walton Street, Aylesbury, Buckinghamshire, HP21 7QW.