



# POLICIES WITH A **PROFITSHARE ACCOUNT**

A guide to how we manage policies with a ProfitShare  
account within the Royal London With Profits Fund

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## Introduction

### About this guide

This guide tells you how we determine regular bonus additions to policies with a ProfitShare account.

**Royal London** is a mutual company which means we don't have any shareholders. All the profits and losses we make remain in our business for the benefit of policyholders and **members** rather than being paid out to shareholders.

Our overall aim is for regular bonus additions to reflect a fair allocation of the profits from **Royal London's** activities each year. As a result of sharing in the profits, they are classified as 'with profits' policies. This is the case even if the policy is fully invested in unit-linked funds.

We use certain terms in this guide that need a more detailed explanation than we can give in the text. We have highlighted these **like this** and included them in a summary of useful terms at the end of this guide.

### Principles and Practices of Financial Management

We cover the detailed management of all with profits policies in a technical document known as the Principles and Practices of Financial Management (PPFM). Much of the detail in the PPFM document relates to 'conventional' and '**unitised**' with profits policies. This guide sets out the relevant points from the PPFM that apply to policies with a ProfitShare account. In the PPFM we refer to policies with a ProfitShare account as 'unit-linked with profits' policies.

We may change the PPFM from time to time to respond to changing circumstances. If we make any changes we will publish them on our website. We will send you an updated copy of this guide if we make any significant changes that affect you.

You can obtain a copy of the current PPFM by visiting our website **royallondon.com**.

### Who should read this guide?

You should read this guide if you have a **Royal London** Policy that includes a ProfitShare account. If you have other with profits investments with **Royal London** then you should read the guide for those benefits. It is possible to have more than one form of with profits within a single policy, in which case you should read all of the relevant guides.

You should read this guide and keep it safe with your other policy documents, which you may find helpful to refer to as you go through it. This guide does not change the terms of your policy; it gives you further information to help you understand it better.

We are happy to provide your documents in alternative formats such as Braille, large print and audio. Just ask us by ringing 03450 502020.

## Our Guiding Principles

We follow some overall Guiding Principles when managing the **Royal London With Profits fund** ('the fund'):

We will manage the fund in a sound and prudent manner and aim to:

- make sure that, at the appropriate time, we can pay all the amounts guaranteed to our policyholders;
- uphold all policy terms and conditions;
- satisfy our **regulator** that we are managing the fund in an appropriate way;
- treat all our policyholders fairly.

We have established a With Profits Committee to provide advice on the way we manage the fund, to help us treat with profits policyholders fairly and to monitor our compliance with the PPFM.

### **1. How do you decide bonuses?**

- 1.1 We decide regular bonuses for policies with a ProfitShare account by considering what profits **Royal London** has made from its **business activities** each year. We also consider the **working capital** of **Royal London** relative to our target capital and we look at current investment conditions and the economic outlook for the future. If we have enough **working capital** we will distribute a proportion of the profits earned from **Royal London's** activities to our with profits policyholders. The proportion of our profits we distribute depends on the level of **working capital**.

In good conditions we would aim to distribute between one-third and one-half of the profits earned.

- 1.2 We describe the **business activities** and **working capital** in more detail below.
- 1.3 A single rate of bonus will apply to all policies with a ProfitShare account for each calendar year. The bonus units will be added on 1 April in the following year, based on the number of units held in each unit-linked fund at that time. No bonus for a calendar year will be awarded to policies that exit prior to 1 April of the following year.
- 1.4 When determining how much bonus to add we aim to be fair to you and to the other policyholders remaining in the fund.
- 1.5 If we feel that announcing a regular bonus would harm the ability of the fund to pay the amounts promised to policyholders when they are due either now or in the future then we may decide not to announce a regular bonus.

### **2. How might your business activities affect the level of bonus?**

- 2.1 The fund undertakes a number of different **business activities**. These are only undertaken once we have taken suitable professional advice and are happy that the proposed business activity fits within the fund's risk guidelines.

- 2.2 We undertake these **business activities** because we expect that the rewards from the activity will outweigh the risks. For example, we issue new policies in the fund in the expectation that the long term profits from issuing these policies will generate benefits for our with profits policyholders. The risk is that the new policies we sell turn out to be less profitable than we expected or to be unprofitable.
- 2.3 Some risks associated with **business activities** are unavoidable and we have to manage them carefully. For example there is the risk that the charges we make to cover our expenses may not be enough to cover our costs.
- 2.4 We may use the **working capital** to invest in subsidiary companies of **Royal London** or other businesses with the aim of generating profits. The risk is that these investments may make lower profits than we expected or make losses.
- 2.5 We manage these activities to produce as high a return as possible whilst keeping track of the risks which may arise and looking for opportunities to improve the profitability of the businesses as a whole. This key responsibility drives much of our regular internal reporting and planning.
- 3. What is working capital and how is it managed?**
- 3.1 So far we have only briefly mentioned the **working capital** of the fund but it plays a very important part in managing with profits business.
- 3.2 As **Royal London** is a mutual company, the **working capital** of the fund is even more important as it represents the main source of capital that we have readily available to us to operate and develop the business to provide benefit to our **members** and other policyholders.
- 3.3 We decide how much **working capital** the fund should have and we use it to help us to manage the fund properly and to support its operation. We use the **working capital** to make sure that we have enough money in the fund to satisfy our **regulators**, develop the business, issue new non-profit and with profits policies.
- 3.4 The **working capital** also gives us more freedom to invest the investments of the fund in company shares and property to provide higher growth over the long term. When the amount of **working capital** held is small we need to invest a higher proportion of the fund in more stable investments such as bonds or cash. Any exceptional costs which we decide should not be charged directly to with profits policyholders will be met from the **working capital**.
- 3.5 We manage the size of the **working capital**. If at any time it is more than we think we need then we may decide to reduce it by distributing more of our profits.
- 3.6 If we think that it is not enough then we may hold back some of our profits and instead announce reduced bonuses.

#### **4. What else is in the PPFM?**

- 4.1 There are a number of additional sections in the PPFM that are not relevant to policies with a ProfitShare account. Policies with a ProfitShare account do not have any guarantees, smoothing or final bonuses applied. The core investments are in unit-linked funds and the concept of asset shares, which are used for conventional and **unitised** with profits policies does not apply.

#### **5. How can I find out more?**

- 5.1 Each June we will report on how we have complied with the PPFM in the previous year and publish this on our website **royallondon.com**. If you need any more information or have any questions on this guide or the PPFM please call us on 03450 502020 between 8.00am and 6.00pm Monday to Friday, except bank holidays.

## **6. Useful terms**

### **Business activities**

Business activities include writing new insurance and investment policies, managing assets and developing or acquiring related companies. These are the activities that we expect to generate profits for the long-term benefit of our customers and **members**.

### **Members**

Members are policyholders who 'own' **Royal London**. They are given rights to attend the annual general meeting and to vote. Some categories of with profits policyholder are not **members**, including policyholders whose policies were formerly with Phoenix Life Assurance, Refuge Assurance, Royal Liver, Scottish Life or United Friendly.

### **Regulator**

The Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) or any other regulatory body as defined in accordance with the provisions of the UK Financial Services and Markets Act 2000 (or any such legislation that supersedes it).

### **RL open fund**

Contains all the policies in the **Royal London With Profits fund**.

## **Royal London**

The Royal London Mutual Insurance Society Limited.

### **Royal London With Profits fund**

The fund that consists of the with profits and non-profit policies of **Royal London** including all transferred policies from Refuge Assurance, Scottish Life and United Friendly and non-profit policies transferred from Phoenix Life Assurance. The with profits policies are held in the **RL open fund**.

The with profits policies transferred from Phoenix Life Assurance, Royal Liver and CIS are in separate funds.

### **Unitised**

The name given to a with profits policy such as yours where premiums have been used to buy units in a with profits fund.

### **Working capital**

The amount by which the investments of the fund are greater than the amounts already promised to policyholders by way of guaranteed amounts and bonuses.



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