

A guide to how we manage conventional with profits policies

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1. About this guide

This guide tells you:

- how we manage the fund
- how our with profits policies work, and
- what benefits policyholders can expect from them.

The guide sets out our current approach. We might change the approach from time to time to respond to changing circumstances.

This guide is appropriate if you have a conventional with profits policy that was administered by Royal Liver Assurance Limited prior to 1 July 2011. This includes conventional with profits policies written by Royal Liver and Friends Provident.

Your policy is invested in the Royal London Main Fund, referred to as 'the fund' throughout the rest of this document.

This guide covers the key points of the detailed technical document called the Principles and Practices of Financial Management (PPFM), but is not a replacement for it. The PPFM gives a fuller description of how we manage the fund. You can read the PPFM on our website royallondon.com or you can ask us for a copy. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

If we make a significant change to our approach to managing the fund, we will write to tell you and send you an updated copy of this guide.

This guide should answer most of the questions you might have. If you have any further questions, please contact us. You will find our contact details under question 12.

2. What is a 'conventional with profits' policy?

A conventional with profits policy will give you a guaranteed minimum return on your investment, as long as you pay the premiums that you agreed when you started it. For example:

- for savings policies, you will receive a guaranteed minimum return at the end of the period you agreed to save for (the term) or on the earlier death of the life assured
- for retirement policies, you will be guaranteed a minimum pension at your chosen retirement date.

As an absolute minimum, we will pay you the guaranteed return on your policy. Any guarantee will be set out in your policy document. We also aim to increase the guaranteed return on your policy by adding bonuses. However, if you cash in your policy early, we may reduce the guarantee on your policy. The guarantees provided by conventional with profits policies can be a valuable benefit.

Conventional with profits policies include:

- endowment assurances
- whole life assurances, and
- retirement annuities.

This guide covers conventional with profits policies started with Royal Liver, including policies it sold under the Caledonian Life brand, and conventional with profits policies transferred to Royal Liver from:

- Caledonian Insurance on 31 December 2000
- Friends Provident Life Office on 31 March 2001, and
- Irish Life Assurance plc on 28 February 2002.

3. How do you decide the return on my policy?

We aim to make sure that every policyholder receives a fair return. We will calculate the return allowing for:

- the premiums paid into your policy
- the deductions we've needed to make to cover our expenses, the cost of providing benefits and tax, and
- the investment returns from the assets we hold to back your policy.

Normally investment returns have the most significant impact on the return on your policy.

We aim to increase the return on your policy by adding bonuses. We explain this under question 6. If we pay out when your policy reaches the end of its term (the period you agreed when you started the policy), we aim to pay an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. We outline this range in the PPFM. We explain smoothing under question 5.

4. What investments do you hold to back my policy?

We aim to achieve growth by investing in a wide range of assets, subject to the requirement that the fund should always be able to pay policyholders' guaranteed benefits when they are due. Holding a wide range of assets helps to reduce the risk to the fund that would arise if we invested all or most of the assets in a single category of assets.

Investments include:

- shares in UK and overseas companies (also known as equities)
- property (which may include our business premises)
- government bonds (loans to the government)
- company bonds (loans to companies)
- subsidiary companies
- cash deposits, and
- more complex types of assets that we use to help reduce investment risk or increase the diversity of the asset mix.

We may allocate the assets of the fund to different types of policies in different ways. We do this to take account of a number of factors, such as the value and nature of policy guarantees. As a result, different types of policies might be invested in a different mix of assets.

Each year we intend to publish on our website royallondon.com the investment mix at 31 December.

5. How do you cushion my policy from the ups and downs of the stock market?

As we've explained under question 4, the fund invests in a wide range of assets, including company shares, property and government and company bonds. Company shares are bought and sold on stock markets throughout the world. Although the investment returns from company shares and property are potentially higher than from government and company bonds, they are also less stable, with values fluctuating up or down over short periods. World events may cause the values of company shares to fall sharply.

We aim to cushion your policy as far as possible from day-to-day fluctuations in investments, by 'smoothing' out the effects of some of the ups and downs. We do this in two ways. Firstly, we invest in a wide range of assets and, within these, limit the amount we invest in any one specific investment. Secondly, instead of adding large bonuses to your policy in good years and no bonuses in bad years, we hold back some of the investment profit made in good years and add it in the bad years.

This means you receive a more 'smoothed' return on your policy. So if, for example, your policy ended on a day when the stock market fell substantially, the smoothing of returns might help to protect it from a sudden drop in value. Policyholders in funds that don't smooth investment returns could see the value of their policies rise or fall faster than those in a smoothed fund.

6. What affects my policy's bonuses?

The bonuses we may add to your policy are affected by:

- the investment returns achieved by the assets backing your policy
- the level of policy guarantees
- the charges that we make, and
- how we smooth the return on your policy (we explain smoothing under question 5).

The bonuses we may add to your policy represent your share of the profits and losses of the fund. The main factor that affects the level of bonuses that we may add to different groups of with profits policies is the investment profits or losses of the assets backing those policies.

Other important factors are the effect of policy guarantees and the charges we make. The charges include:

- the costs of acquiring and administering your policy
- the costs of helping to meet policy guarantees
- the cost of life cover
- tax, and
- any specific terms included as part of the transfers from Caledonian Insurance, Friends Provident Life Office or Irish Life Assurance plc.

Other factors may also give rise to profits or losses within the fund that we may share with you if we consider that the size of the fund is larger or smaller than necessary to meet its aims. Such factors might include:

- the profits or losses from other types of policy in the fund, and
- any differences between the amounts paid to policyholders leaving the fund and the fair share of the total fund value for their policies at the time.

7. What types of bonus might you add to my policy?

There are three types of bonuses.

- **Annual bonus**, which we may add to your policy each year and which increase the guaranteed minimum amount that we will pay out.
- **Interim bonus**, which we may add when your policy ends to cover the period since we added an annual bonus.
- **Final bonus**, which we may add when your policy ends.

Unless your policy documents include any special conditions that apply to your policy or you cash in your policy early or stop paying the premium early, the benefits payable when the policy ends are:

- the basic sum assured, plus
- any annual bonuses already added to the policy, plus
- any interim and final bonuses that we may add.

8. How do you decide bonuses?

We set bonuses so that payouts represent a fair share of the fund, allowing for smoothing. We explain smoothing under question 5.

Annual bonuses pay out part of the profits of the fund, increasing your policy's guaranteed benefits. We set annual bonus rates each year with the aim of holding back part of your policy's share of the profits to pay as final bonus.

When we set annual bonuses, we take account of factors such as our long-term view of future investment returns, the level of policy guarantees and the size of the estate for its long-term objectives. We explain the estate under question 10.

Annual bonuses increase your policy's guaranteed benefits. In order to ensure that the fund can pay such guaranteed benefits, we may limit future annual bonuses or set annual bonuses to zero.

We usually set interim bonuses at the same time and at the same rates as annual bonuses. However, we might change them more often than annual bonus rates, or set them at different rates to annual bonus rates.

Any final bonus that we add is intended to represent your policy's fair share of the profits and losses of the fund over the policy's term (the period that you held the policy for) that we haven't already added as annual or interim bonuses.

In setting final bonuses, we also aim to ensure that the fund is always large enough to pay policyholders' guaranteed benefits when they are due and that the estate is managed at an appropriate level. We normally set final bonuses on 31 December each year but we may review and change them during the year.

We aim to set final bonuses so that, in total, maturity payouts are equal to their fair share of the fund. Some final bonuses might be zero, for example when the guaranteed benefits are greater than the fair share.

9. What risks are there in investing in the fund?

The fund is exposed to a number of risks, for example:

- risks relating to how well our investments do
- risks relating to how much the expenses of the fund might be
- risks that the costs of meeting policy guarantees
- are greater than we expect
- the risk that we might have to pay compensation to certain policyholders, and
- risks associated with operating subsidiary companies owned by the fund.

We monitor the risks as part of our standard risk management procedures, and act to reduce risk exposure where we think it is necessary.

10. What is the estate and what do you use it for?

The estate is the amount by which the assets of the fund are greater than the amounts already promised to policyholders by way of guaranteed benefits.

We use the estate for a variety of purposes, primarily to ensure that the fund is large enough to pay policyholders' guaranteed benefits at any time.

11. How do you decide how much I get if I cash in my policy early?

If you cash in your policy early, we will adjust your benefits to pay you a fair amount taking into account factors such as the level of expenses and investment returns over the period that you held the policy for and allowing for smoothing. We explain smoothing under question 5.

If you cash in your policy early, we aim to pay you an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. We outline this range in the PPFM.

12. How can I find out more?

Policies taken out with Caledonian Insurance Company

Existing Business
Royal London
47-49 St Stephen's Green
DUBLIN 2

Telephone: 01 429 3333
Email: service@royallondon.ie

All other policies

Customer Services
Royal London
Royal London House
Alderley Park
Congleton Rd
Nether Alderley
Macclesfield
SK10 4EL

Telephone:

Ordinary Branch policies

- all retirement annuities, and
- all other policies except Industrial Branch policies.

UK 0345 601 0685
Ireland 1850 246 111

Industrial Branch policies

- policies whose premiums have at some time been paid in cash using a premium receipt book, and
- policies taken out with Friends Provident, London & Manchester or Irish Life.

UK 0345 601 0685
Ireland 1850 201 351
Email: custserv@royallondon.com



Royal London

Royal London House, Alderley Park, Congleton Rd, Nether Alderley, Macclesfield, SK10 4EL
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**We're happy to provide your documents in a different format,
such as braille, large print or audio, just ask us when you get in touch.**

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