



# Windsor Life Assurance Company Limited

## 2009 Annual Report to With-Profits Policyholders in the Windsor Life With Profit Fund

WINDSOR HOUSE  
June 2010



**Windsor Life With-Profit Fund**  
**Principles and Practices of Financial Management**  
**Report to Policyholders on Compliance during 2009**

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Report to Policyholders from the With-Profits Actuary



## **1. Introduction**

- 1.1 Windsor Life Assurance Company Limited ("Windsor Life" or "the Company") maintains a document known as the Principles and Practices of Financial Management ("the PPFM") for each of its with-profit funds. This sets out the Principles and Practices that guide the management of the with-profit business held in the fund. A PPFM was first published in April 2004.
- 1.2 This report to policyholders examines the management during 2009 of the with-profit business in the Windsor Life With-Profit Fund ("the Fund"). The latter is a ring-fenced sub-fund of Windsor Life's long term insurance business fund.
- 1.3 This report sets out, with reasons, how Windsor Life complied with the obligations associated with the PPFM for the Windsor Life With-Profit Fund during the course of 2009. These include the requirement to maintain appropriate governance arrangements designed to ensure that the Company complies with, maintains and records a PPFM. The report also describes the way in which Windsor Life exercised discretion in the conduct of its with-profit business and how it addressed the conflicting requirements of different groups of policyholders and shareholders.
- 1.4 In preparing this report, Windsor Life has taken advice from its With-Profits Actuary. Any terms used in the report have the meaning set out in the PPFM for the Windsor Life With-Profit Fund, a copy of which can be downloaded from Windsor Life's website or obtained free of charge by writing to Windsor Life at its registered address.

## **2. Governance arrangements**

- 2.1 The ultimate responsibility for the management of Windsor Life's with-profit business during 2009 resided with the Windsor Life Board ("the Board"). However, a sub-committee of the Board, known as the Fairness Committee ("the Committee"), performed a number of functions on behalf of the Board in relation to the Company's with-profit business. This included monitoring compliance with the PPFM, reviewing its contents and approving any proposals to alter it.
- 2.2 The Committee met at least quarterly during 2009. The three members independent of Windsor Life (or any of its fellow group companies) were present at the first three quarterly meetings in 2009. During the fourth quarter of 2009 two of the independent members also became independent Non Executive Directors of regulated companies in the Admin Re Group as permitted by the revised Fairness Committee Terms of Reference. The three independent members of the Fairness Committee attended the Fairness Committee meeting in the fourth quarter 2009.
- 2.3 A With-Profits Actuary is appointed to provide advice on the exercise of discretion relating to matters affecting with-profit business. The With-Profits Actuary for Windsor Life throughout 2009 was Mr Paul Downey, an employee of Admin Re UK Limited, a fellow group company. He attended meetings of the Fairness Committee and also those parts of Board meetings where with-profit issues were discussed. He received copies of papers relating to the Company's with-profit business, such as bonus declarations, and had an opportunity to comment on them in advance of their wider circulation.



- 2.4 The With-Profits Actuary has prepared a report to the Board on the key aspects of discretion exercised during 2009 by the Company that affected the with-profit business in the Windsor Life With-Profit Fund. A separate report from him to policyholders is annexed to this report.

### **3. Exercise of discretion**

#### **Bonus rates**

- 3.1 Annual bonus rates for 2008 were approved by the Board in March 2009, having previously been reviewed and commented on by the Fairness Committee. In general, declared rates were lower than for 2007.
- 3.2 Annual bonus rates for unitised policies were reviewed again in September 2009, but left unchanged. The action taken on bonus rates during the year was compatible with the Practices outlined in the PPFM.
- 3.3 Final bonus rates were reviewed in March and monitored quarterly for the remainder of the year. The monitoring led to further reviews being conducted in June and December. Again, the rates being recommended were reviewed and commented on beforehand by the Fairness Committee. Pay-outs were reduced in March and June (due to the adverse investment conditions experienced) and increased in December, following the market recovery in the second half of the year. The approach followed was consistent with the Practices outlined in the PPFM. At the December Board meeting it was agreed to remove the quarterly monitoring process and instead carry out a Final bonus review on a quarterly basis.

#### **Surrender values**

- 3.4 The methods and bases used to calculate surrender values were unchanged throughout 2009, being consistent with the description appearing in the PPFM.
- 3.5 A Market Value Reduction Factor ("MVR") was in force throughout 2009 (having been introduced in 2008) for three series of Preserve & Profit bonds. The level of the MVR was reviewed regularly by the With-Profits Actuary and any changes monitored by the Fairness Committee. The introduction and subsequent operation of the MVR was in accordance with the terms of the PPFM. The MVR on Preserve & Profit Bonds has been set to zero during 2010.

#### **PAY-OUTS**

- 3.6 A target range for maturities and surrenders was set for the with-profit policies in the Fund of between 80% and 120% of the underlying asset share, with the aim that over the longer term these pay-outs should in aggregate equal 100% of asset shares (before the application of any Market Value Reduction Factor). Around 92% of pay-outs in 2009 for those policies examined fell within the target range. The approach used to set final bonus is designed with the aim that pay-outs should over the longer term in aggregate equal 100% of asset shares.

#### **INVESTMENT STRATEGY**

- 3.7 The investment of the Company's assets is overseen by the Investment Committee, a sub-committee of the Board which met monthly during 2009. The elements relating to the with-profit fund were also monitored by the Fairness Committee.



- 3.8 The benchmark mix for the assets backing the Asset Shares of the with-profit policies in the Fund was altered with effect from 30 September 2009, so as to increase the proportion invested in equities and property from 55% to 60%. The permitted deviations from the benchmark remained unchanged throughout 2009.
- 3.9 The assets in excess of those required to cover the non-profit business in the Fund and the Asset Shares of with-profit policies are invested predominantly in fixed-interest securities in order to maximise the resilience of the Fund to a fall in the value of equities. In addition, the Fund has as an asset equal to its share of the embedded value of the non-participating business in the Fund. The “Estate” is the excess of the value of the assets in the Fund over the value of the assets needed to support the current and expected future liabilities of the Fund. During December 2009 the Board approved a mechanism designed to protect the Estate by reducing the level of equity investment but this was not implemented until 2010.
- 3.10 The investment policy of the Fund is subject to a formal solvency constraint, requiring it to be able to withstand a prescribed investment shock.

### **Business risk**

- 3.11 The Fund remained open to new business during 2009, marketing two with-profits products (a with-profit bond and a with-profit annuity) to existing Windsor Life policyholders. The only other new business written in 2009 consisted of increments to existing policies or the exercise of continuation options at maturity. Non-profit annuities under vesting pension policies were secured outside the Fund.
- 3.12 The fair value of annuity guarantees was assessed with respect to market rates in a slightly different manner than specified in the PPFM (using the top rate in the median two quartiles). This was considered to more fairly reflect the intent of the requirement in the light of available market data.
- 3.13 No costs arising from business risks were charged to Asset Shares.

### **Charges and expenses**

- 3.14 The fees charged to the Fund during 2009 for administration and investment services were consistent with those disclosed in the PPFM. The tax charge for 2009 was performed as though the Fund were a stand-alone proprietary life insurance company, again as required by the PPFM.

### **Management of the Estate**

- 3.15 The Estate was managed during 2009 so as to remain within the target range of 10% to 40% of the with-profit liabilities, as set out in the PPFM.
- 3.16 A contribution of 1.5% of Asset Shares was made from the Estate to Asset Shares for 2009. The level of support was reviewed by the Fairness Committee and approved by the Board.

### **Equity amongst policyholders and with shareholders**

- 3.17 The grouping of policies for the purposes of determining pay-outs and the mechanisms used to attribute items of experience to the different groups were unchanged throughout 2009, being consistent with the Principles and Practices set out in the PPFM. The approach to smoothing and to the distribution of the Estate similarly followed established practices, as described in the PPFM.



- 3.18 The Guiding Principles in the PPFM set out the shareholder commitment to the Fund. Both shareholders and policyholders have a vested interest in its prudent financial management, including a controlled distribution of profits and allocation of bonuses. Shareholders are entitled to 10% of the profits from the Fund (by way of a transfer to the Non-Profit Fund). The profit is calculated as part of the statutory returns and approved by the Board.

#### **4. Maintenance of the PPFM**

- 4.1 The Fairness Committee was responsible during 2009 for reviewing the contents of the PPFM and approving any changes proposed to it.
- 4.2 The PPFM was amended with effect from 1 July 2009 to reflect changes approved by the Fairness Committee in December 2008 and which were included in the report on compliance with the PPFM for 2008. Policyholders will be formally notified of these by mail during 2010. The change of Practice described in 3.3 above will be communicated to policyholders in 2010. There were no changes to Principles in 2009.

#### **5. Policyholder communications**

- 5.1 Following the 2008 bonus declaration, holders of conventional with-profit policies were mailed a statement in 2009 setting out the details of the bonuses added to their policy. Holders of unitised with-profit policies were sent details with the annual unit statement due on their next policy anniversary.
- 5.2 A copy of the CFPPFM (called "How the Windsor Life With-Profit Fund is managed") was held on the Company's website during the year and reference made to it in statements issued to policyholders.

#### **6. Conclusion**

- 6.1 In the opinion of both the Windsor Life Board and the Fairness Committee, the Company complied with the material obligations associated with the PPFM for the Windsor Life With-Profit Fund during the course of 2009. In particular, throughout the year, it:
- maintained appropriate governance arrangements designed to ensure that it complied with, maintained and recorded a PPFM;
  - exercised discretion appropriately in the conduct of its with-profit business; and
  - addressed appropriately any competing or conflicting rights, interests or expectations of its with-profit policyholders (or groups of policyholders) and shareholders.

28 June 2010



Annex

**Windsor Life With-Profit Fund**

**Report to Policyholders from the With-Profits Actuary  
For the Financial Year ended on 31 December 2009**

The Windsor Life With-Profit Fund Principles and Practices of Financial Management ("PPFM") is a detailed document which sets out how the Company manages its with-profits business.

The Company has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the Company's with-profits policyholders is to give my opinion, as required by the rules of the Financial Services Authority, as to whether the Company has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2009.

The report is provided for the purpose set out above and should not be used as the basis to make any decisions regarding contracts with the Company, (including whether to enter into them, to continue them or to terminate them), for which decisions fuller information and qualified financial advice should be sought.

I was appointed With-Profits Actuary to Windsor Life Assurance Company Limited ("the Company") with effect from 12 April 2010. In that capacity, I advise the Board of the Company (including authorised sub-committees) on key aspects of the discretion exercised by it in respect of its with-profits business.

I have considered the Company's report ("the Report") on compliance with the PPFM for the Windsor Life With-Profit Fund, to which this report is annexed, and I have reviewed the discretion exercised by the Company during 2009.

In doing this I have also considered the data in reports submitted to the Fairness Committee during 2009 and also a report regarding compliance with the PPFM for the Windsor Life With-Profit Fund submitted to the Fairness Committee in March 2010 by my predecessor.

Based on the information and explanations provided to me by the Company, I am satisfied that:

- the Report fairly summarises the principal areas in which the Company exercised discretion during 2009 in the conduct of its with-profit business;
- the Company complied with the material obligations of the PPFM during 2009; and
- any significant discretion exercised by the Company during 2009 took the interests of the with-profit policyholders in the Windsor Life With-Profit Fund into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Services Authority's COBS 20 (With-profits). I have also consulted with Mr Paul Downey, who was the With-Profits Actuary for the Company throughout 2009 and on whose advice I have relied.



The Board for Actuarial Standards has issued a standard (TAS R version 2, effective from 1 April 2010) which applies to reports produced by actuaries. This report complies with that standard.

David Lightwood  
Fellow of the Institute of Actuaries  
With-Profits Actuary

28 June 2010