

UTMOST LIFE AND PENSIONS LIMITED

Directors' Report to With-Profit Policyholders

1st January 2020 to 31st December 2020



Introduction

This is the report of the Directors of Utmost Life and Pensions Limited (the 'Directors') to the with-profits policyholders of Utmost Life and Pensions Limited (the 'Company') on the management of the with-profits business during the 2020 calendar year.

The Company sets out the way it manages its with-profits business in a document known as the Principles and Practices of Financial Management (the 'PPFM'). The PPFM is available directly from the Company or from the web-site at <https://www.utmost.co.uk/about-us/with-profits/>.

This report does not consider the with-profits business of Equitable Life Assurance Society, a wholly-owned subsidiary of the Company. A separate report from the Directors of Equitable Life is published on their website for this business.

None of the with-profits business in the Company originated from Equitable Life. All policies that were previously Equitable Life with-profits policies which transferred to the Company were converted to unit-linked contracts immediately prior to being transferred.

The Company's with-profits business is principally held in four with-profits sub-funds. In addition, the Company's non-profit fund contains some policies written on a unit-linked basis that can invest in with-profits units. The investment risk of these with-profits units is transferred to WPSF6 through an inter-fund agreement.

- With-profits sub-fund 1 (WPSF1) comprises all the with-profits business written by Reliance Mutual Insurance Society, and the with-profits business, principally in the industrial branch, that was originally written by other companies acquired by Reliance Mutual Insurance Society prior to 1972.
- With-profits sub-fund 2 (WPSF2) comprises the former Criterion Life Assurance with-profits business.
- 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 business.

Each of the with-profits sub-funds operates on a standalone basis with all the surplus in each sub-fund being allocated to the with-profits policies in that sub-fund. The with-profits sub-funds are closed to new business with new policies only arising from the exercise of options by existing policyholders. None of the with-profits sub-funds provide capital support to other sub-funds.

Governance Arrangements

The Board of Utmost Life and Pensions Limited (the 'Board') is responsible for the management of its with-profits business. The Board has established 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 with-profits policyholders are treated fairly when management decisions are made. In 2020 the Committee comprised five members, with one member retiring during the year being replaced by a new member. The Committee now comprises three independent members, two of whom are former non-executive Directors of Reliance Mutual Insurance Society, one non-executive Director, and the Chief Executive. 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 Company or from the Company's website <https://www.utmost.co.uk/about-us/our-committees/>.

The Company 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 funds. The WPA also makes an independent report to the with-profits policyholders, which is appended to this report. Their report states that, in their opinion, this report and the discretion exercised during 2020 took the interests of the 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.

Exercise of Discretion

The management of with-profits business involves the use of discretion. Areas where discretion was exercised by the Board during 2020 are described below.

Determining Policy Payouts

The way policy payouts are determined is described in the PPFM and the methodology aims to distribute all the surplus in each sub-fund equitably amongst the policies in that sub-fund. This methodology was used during 2020 and was considered by the WPA, the WPC and the Board to be fair to with-profits policyholders. Details of discretionary decisions taken in 2020 are:

Annual Bonus Rates

In March 2020, the Board declared new annual bonus rates, for those policies where regular bonuses may be added, to take effect from 1st April 2020. Annual bonus rates were unchanged from the previous declaration in March 2019. The bonus declaration took into account the considerations described in the PPFM regarding annual bonuses, and the desire to maintain stability of these bonuses. The rates set were considered to be fair to policyholders by the WPA, the WPC and the Board.

Final Bonus

For some types of policy, final payouts are enhanced by the payment of a final bonus. The final bonus scales were reviewed for all the with-profits sub-funds twice in 2020, with changes taking effect on 1 April and 1 October.

Discretion has been exercised in the continued use of the shape of historic bonus scales to apportion surplus between different groups of policyholder. Such scales reflect differences in the source of the business, the tax status of different policies and the different terms on which various tranches of policies were written.

The final bonus rates set from April took into account the market disruption seen as a result of the pandemic, with sharp falls in the value of some of the funds' investments. All the final bonus rates set were considered to be fair to policyholders by the WPA, the WPC and the Board. The different nature of the liabilities and assets held in each of the with-profits sub-funds contributed to differing impacts being experienced, for example WPSF4 with limited exposure to equities did not see payout reductions in April.

WPSF1

Policy payouts decreased in April 2020 by between 0% and 15% for different classes of policy. Policy payouts were then increased in October 2020 by 11%.

WPSF2

Policy payouts decreased in April 2020 by between 1.9% and 11.5%, for policies taken out at different times. The review in October left the rates unchanged.

WPSF4

Deferred annuity policy payouts increased in April 2020 by between 1.9% and 2.1%, and increased by a further 2.1% as a result of the October review. Annuities in payment were allocated a 1.9% increase to their annuity amount from 1 July 2020.

WPSF6

Policy payouts reduced in April 2020 by 5.3%. The review in October left the rates unchanged.

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-profits sub-funds. Each of the with-profits sub-funds invests by matching its guaranteed liabilities with fixed interest assets before seeking additional returns from that part of the sub-fund in excess of this amount.

During 2020, there was a review of the level of investment risk taken by each of the funds, and this was realigned with the profile of the policyholders in each fund to take into account their expected appetite for variability in policy payouts. In WPSF1, WPSF2 and WPSF4 this resulted in a reduction in the level of investment risk taken, with these funds no longer holding any equity-type assets. The investment review for WPSF6 resulted in the assets in excess of the level of guaranteed liabilities being invested in a managed fund with a strategic asset allocation to equities of 60%.

The assets of the with-profits sub-funds matching the guaranteed liabilities are invested by Goldman Sachs Asset Management, with additional assets managed by JP Morgan Asset Management. The performance of the investment managers was monitored through the year.

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. The Board reviewed the basis for calculating Surrender Values in 2020 and in doing so balanced the need to be fair to those policyholders withdrawing their benefits with fairness to those who remain. This is as described in the PPFM.

Changes to the PPFM

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

In April 2020 the Practices in the PPFM were updated. The main changes were in relation to the practice of setting final bonus rates for WPSF1 and WPSF2 to better achieve the Principle set out in the PPFM of fairness between different groups of policyholders. These changes mean that reviews of final bonus rates will give identified groups of policyholders the same percentage change in the payout under their policy. In addition updates to reflect the evolving history of Utmost and routine indexing of charges were made. These changes were reviewed by the WPA, the WPC and the Board, who considered them to be fair to with-profits policyholders.

Compliance with the PPFM

The Board managed the with-profits business in accordance with its PPFM in 2020. This was confirmed by a review carried out by the With-Profits Actuary.

Opinion of the Directors of Utmost Life and Pensions Limited

The Directors have reviewed the management of the with-profits sub-funds as summarised in this report.

It is the Directors' opinion that throughout 2020 the funds were managed in accordance with the PPFM, and that the exercise of discretion during 2020 was appropriate, took full account of policyholders' reasonable expectations, and maintained fairness between different categories of policy and policyholder.

Appendix

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

As With-Profits Actuary (“WPA”) of Utmost Life and Pensions Limited (the ‘Company’), it is my responsibility to advise the Board of the Company on the management of the Company’s with-profits business. I am also required to report annually to the with-profits policyholders on the Board’s exercise of discretion in relation to that business. This is my report for the year ended 31 December 2020.

In my opinion:

- the discretion exercised by the Company in 2020 took the interests of with-profits policyholders into account in a reasonable and proportionate manner;
- the Company complied with the Principles and Practices of Financial Management in 2020; and
- the annual report from the Directors to the with-profits policyholders is a fair summary of the key decisions impacting the with-profits policyholders during 2020.

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, TAS 100 and TAS 200.

Louise Eldred
With-Profits Actuary
March 2021

Utmost Life and Pensions Limited is registered in England and Wales, company number 10559664, 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 775704. Its registered office is Walton Street, Aylesbury, Buckinghamshire, HP21 7QW.