



Phoenix Life Limited  
Britannic Industrial Branch Fund

## ANNUAL REPORT TO WITH-PROFITS POLICYHOLDERS BY THE BOARD OF PHOENIX LIFE LIMITED FOR THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2010

### **Purpose**

We set out how we manage the Phoenix Life Limited with-profits funds in our Principles and Practices of Financial Management (PPFM). In this report we give details of how we have complied with the PPFM for 2010 for our Britannic Industrial Branch Fund ('the fund').

Phoenix Life Limited 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. This report deals with how Phoenix Life Limited has exercised its discretion in these areas.

### **Background**

The Phoenix Life Limited Britannic Industrial Branch Fund consists of former Britannic Assurance Industrial Branch Fund policies.

Phoenix Life Limited has nine with-profits funds including the Britannic Industrial Branch Fund. We manage each with-profits fund in accordance with its own section of our PPFM. The with-profits bonuses, policy returns and payouts for each with-profits fund reflect the financial position of that fund. The performance of each with-profits fund reflects the historic performance of the original with-profits funds and companies up to their respective transfer to Phoenix Life Limited, and then their performance within Phoenix Life Limited since that time.

The Britannic industrial Branch Fund is part of Phoenix Life Limited, along with eight other with-profits funds and a non-profit fund. The Britannic Industrial Branch Fund is run as a separate ring fenced fund within Phoenix Life Limited but with the additional security that comes from being part of a large well capitalised company. In extreme circumstances one fund may have to provide financial assistance to another. However there are internal arrangements to ensure that Phoenix Life Limited holds assets in excess of the requirements of our regulator and, because of this, it is extremely unlikely that a with-profits policy in one fund will be affected by losses from another fund.

We have produced separate reports for our other with-profits funds.

The PPFM is available on our website at [www.phoenixlife.co.uk](http://www.phoenixlife.co.uk), or you can ask us for a copy. We have produced a shorter guide called 'How we manage the Phoenix Life Limited Britannic Industrial Branch Fund' and this can be obtained in the same way.

### **Independent review**

The company formally consulted with, and took into account the opinions of the With-Profits Actuary and the With-Profits Committee (a committee that is independent by virtue of its majority of independent members) regarding all material changes during 2010. This included consultation on the changes to bonus rates, surrender values and the estate.

The funds transfer was subject to independent actuarial review and review by the Financial Services Authority. The funds transfer was approved by the High Court.

### **Summary**

Payouts for with-profits policies depend on the discretion exercised by Phoenix Life Limited. The interests of with-profits policyholders are protected by the PPFM of the company.

Each year the Board will produce a report to you, the with-profits policyholders, summarising compliance with the PPFM and how any discretion has been used over the previous year.

The PPFM guiding principles cover the following areas.

- Legal requirements, that is, Phoenix Life Limited and its with-profits funds are managed in accordance with Phoenix Life Limited's then current understanding of all legal and regulatory requirements.
- Basic fund concept, that is, subject only to the legal requirements guiding principle, the interests of with-profits policyholders extend to, but are also limited to, the assets of the fund to which the policy belongs.
- Fair treatment, that is, Phoenix Life Limited aims to treat its with-profits policyholders fairly.

The guiding principles are presented here at a high level rather than in the full detail of the PPFM. These guiding principles are applied in managing Phoenix Life Limited and all of its with-profits funds. Guiding principles are considered when applying the other fund specific principles and practices set out in the PPFM. In the event of a conflict with other principles these guiding principles take priority.

In the Board's opinion, the guiding principles were applied in accordance with the PPFM.

The principles for the Britannic Industrial Branch Fund cover the following areas.

- Amounts payable under a with-profits policy
- Annual bonus rates
- Final bonus rates
- Smoothing
- Surrender values
- Investment strategy
- Business risks
- Expenses and charges
- Estate management
- New business
- Equity between the fund and shareholders

These are expanded on in the sections below. In addition, there is a commentary on any changes to the PPFM, other significant events and communications to with-profits policyholders during the year.

### **Amounts payable under a with-profits policy**

We aim to pay all policyholders their fair share of the profits that the fund has earned over the time they have held their policy. We pay the share of profits in the form of annual and final bonuses. When deciding what is a fair share we consider the underlying value of policies (sometimes called the 'asset share') as a guide. The underlying value of policies reflects the premiums paid and the investment performance of the fund over the lifetime of the policies, after allowing for factors such as our costs, the tax we have to pay, the shareholders' share of profits, charges for death benefits and other profits and losses. This was the approach we used over 2010.

The outcomes we describe below relating to bonus rates, smoothing, surrender values and investment strategy are all measured by reference to representative specimen policies rather than to each actual policy.

In the Board's opinion, the methodology used to calculate the underlying value of policies has been in line with the PPFM. Further, in the Board's opinion, the discretion applied to the methods used to determine payouts on all policies during 2010 has been in line with the PPFM.

### **Annual bonus rates**

We declared annual bonus rates for 2009 in March 2010 as part of the 2009 year end valuation. We maintained the same rates (based on duration) as those for 2008.

We reviewed annual bonus rates for 2010 in December 2010. We subsequently declared these annual bonus rates in March 2011 as part of 2010 year end valuation. We maintained the same rates (based on duration) as those for 2009. The annual bonus rates for 2010 were at rates increasing from 0.25% to 1.70% of the sum assured, according to policy duration.

We declared interim annual bonus rates for 2010 and 2011 at the same rates as the 2009 and 2010 annual bonus rates respectively.

The Board is satisfied that the approach taken in determining annual bonuses during the year was in line with the PPFM.

### **Final bonus rates**

Final bonuses are normally reviewed twice a year with new rates applying from 1 January and 1 July.

We changed final bonus rates on 1 January 2010 and 1 July 2010. We also reviewed final bonus rates to apply from 1 January 2011.

The Board is satisfied that the changes to final bonus rates resulted in changes to payouts that were consistent with the PPFM and were consistent with treating customers fairly.

### **Smoothing**

We generally limit the changes in final bonuses to restrict differences in total maturity payouts (sum assured, annual bonus and final bonus) on similar maturing policies to 7.5% at each half yearly final bonus review and to 15% from one year to the next.

However, due to the improved investment conditions, for the January 2010 final bonus changes, we allowed an additional 5% increase in total maturity payouts before smoothing applied. This meant that we generally limited increases in total maturity payouts to 12.5% compared to similar maturity payouts in July 2009.

We also allowed an additional 5% increase in total maturity payouts for the 1 July 2010 final bonus changes. This generally limited increases in total maturity payouts to 12.5% compared to similar maturity payouts in January 2010.

We do not smooth changes in final bonuses due to the changes in the level of estate distribution. These changes are in addition to the normal changes in final bonus rates due to investment returns which are smoothed.

The Board is satisfied that these movements in final bonuses and maturity payouts in 2010, were necessary to keep payouts reasonably in line with the underlying value of policies, to ensure fairness between groups of policyholders and to protect the financial position of the fund, and were in line with the PPFM.

## Surrender values

During 2010, we broadly set surrender values with the aim of paying 100% of the underlying value less a 4% adjustment which gradually reduces to nil over the last 10 years to maturity. The adjustment is to protect the interests of continuing policyholders from bearing an increased share of the risks in the fund. Where the value of the guaranteed benefits was significantly higher than the underlying values, some allowance was made for the value of these guarantees. We reviewed the way we calculate surrender values at the end of 2010 with revised surrender values applying from 1 January 2011. Surrender values include an allowance for final bonus and these final bonus allowances were revised from 1 January 2010, 1 July 2010 and 1 January 2011 in line with changes in final bonus rates.

In the Board's opinion, the methodology used to determine surrender values has been in line with the PPFM.

## Investment strategy

During 2010, we invested the fund in a mix of assets such as company shares (equities), property, fixed interest stocks (bonds, types of loan usually issued by the Government or companies) and cash deposits. We had the following asset mix for with-profits policies on 31 December 2010.

Asset type	
Company shares (equities)	29%
Fixed interest stocks - issued by the UK government (gilts)	24%
Fixed interest stocks - other (including corporate bonds)	42%
Property	4%
Cash	1%
Other	0%

The mix of assets is broadly the same as that on 31 December 2009, although the proportion for company shares (equities) has decreased slightly.

The yearly newsletter that we send to with-profits policyholders includes information about the mix of assets for with-profits policies.

The fund also contains investments which back the non-profit business, the cost of guarantees, the cost of smoothing and the estate.

The Board is satisfied that the approach taken in following the investment strategy during the year was broadly in line with the PPFM.

## **Business risks**

There was an annual review by the Board of existing business risk exposure. In the opinion of the Board, appropriate measures were taken to limit the with-profits business exposure to risk to amounts which are fair.

The Board is satisfied that it has managed its business in line with the PPFM, that is, in a prudent manner, having regard to both the risks and rewards of which it is aware.

## **Allocation of expenses**

During 2010, we charged a fair share of our expenses to the fund and we made an appropriate allocation to the underlying value of with-profits policies in the fund. The main expenses we charged to the fund in 2010 were due to the following.

- Management services

During 2010, Pearl Group Management Services provided all the services required to operate the fund apart from investment management services. The charges are mainly expressed as an annual amount per policy which increases each year linked to the increase in the Retail Prices Index.

Pearl Group Management Services made additional charges for certain one-off activities and developments and we generally apportioned such costs in a fair and reasonable manner, taking into account the beneficiaries of the activity.

- Investment management services

During 2010, investment management services for the fund were provided by Ignis Asset Management. The charges made by Ignis Asset Management in respect of the fund's investments were attributed to the fund.

- Direct and other costs

The Board is satisfied that we apportioned a fair share of the direct and other costs we incurred to the fund and that these were in line with the PPFM.

## **Allocation of taxation**

We allocated a share of the provisional amount of tax we incurred to the fund, in line with the PPFM. We calculated this by treating the fund as though it was our only fund. Once we have agreed our tax charge with HM Revenue & Customs (HMRC), we will review the amount of tax we have allocated to the fund to ensure it is fair.

We made an appropriate allocation of tax to the underlying value of with-profits policies in the fund.

## **Estate management**

The fund's estate provides working capital for the fund and supports the running of the fund. The estate is the excess assets that are not needed to support the fund's current and future liabilities. Profits and losses arising from policies in the fund affect the estate, including the cost of providing the guarantees and the cost of smoothing.

As the fund is closed, we aim to ensure a fair and orderly distribution of all the fund's assets including the estate, over the remaining lifetime of the policies in force. While making sure that we have enough working capital to cover the risks in the fund, we expect the estate to run down to zero over time, broadly in line with the remaining lifetime of the policies in the fund.

We have previously made distributions of the excess estate to the underlying value of policies and these have been covered in previous reports. Final bonuses will continue to be enhanced as a result of the distributions to the underlying value of policies. We were not able to make any additional temporary distribution of the estate in the January 2010 final bonuses. All of the estate was being used to cover the risks in the fund and it was not appropriate to include any further distribution at that time. However, for the July 2010 final bonus review, we were able to include a temporary distribution of the estate of 0.8% of the underlying value of policies. For the January 2011 final bonus review, we were able to increase the temporary distribution of the estate to 5.6% of the underlying value of policies.

The level of working capital required by the Britannic Industrial Branch Fund and the Britannic With-Profits Fund was such that for the July 2010 final bonus review, we were able to introduce a temporary distribution of 1.5% of the underlying value of policies from the Buffer Reserve. However, we were not able to continue this temporary distribution when we set the January 2011 final bonus rates.

We reviewed the level of the estate distribution following each half yearly valuation.

In the Board's opinion, the methodology used to calculate the estate has been in line with the PPFM. Furthermore, in the Board's opinion, the distribution of the estate has been in line with the PPFM.

## **New business**

The fund is no longer actively seeking new business. The Board is satisfied that this is in line with the PPFM.

## **Equity between the fund and shareholders**

Our shareholders received a share of the distributed profits equal to one ninth of the value of bonuses we distributed to with-profits policyholders. We charged the fund for any tax arising from the distribution of profits from the fund to the shareholders. The shareholders' share of distributed profits for 2010 was £2.4m.

The Board is satisfied that the shareholders' share of the distributed profits for 2010 is in line with the PPFM.

## **Changes to the PPFM during 2010**

We include a description of the recent changes to the PPFM in the annual newsletter we issue to with-profits policyholders.

## **Home collection of premiums**

Policyholders have now switched from the home collection of premiums to standing order or postal payments. This means the with-profits fund has benefited from lower costs. As a result we are able to pay higher final bonuses than would otherwise have been the case. This does not mean that future final bonuses will be higher than current rates, but it does mean that final bonuses should be higher than they would have been if policyholders had not switched to this more efficient method of premium collection.

## **Funds transfer**

In February 2011 we transferred the policies of our sister company Phoenix & London Assurance Limited to Phoenix Life Limited. The policies were transferred into a new with-profits fund in Phoenix Life Limited. None of the transferring policies were transferred to the Britannic Industrial Branch Fund. This transfer has not changed the way we manage the Britannic Industrial Branch Fund or the with-profits policies in it.

The funds transfer was subject to reports by the Head of Actuarial Function and the With-Profits Actuary. It was also subject to a report by an independent actuary and the Financial Services Authority did not object. The funds transfer was approved by the High Court.

The February 2011 PPFM for Phoenix Life Limited was updated to allow for this transfer. Changes were made to take account of the transfer, related events and to create a consistent style and presentation. Apart from these changes, the February 2011 Phoenix Life Limited PPFM reflected the existing Phoenix Life Limited PPFM and the PPFM of Phoenix & London Assurance Limited.

### **Communications to with-profits policyholders**

During 2010, we provided with-profits policyholders with key information concerning annual bonuses, investment mixes and changes to the PPFM in their annual newsletter.

### **Conclusion**

It is the opinion of the Board that Phoenix Life Limited including the Britannic Industrial Branch Fund was, in all material respects, managed in accordance with the PPFM over 2010.

The With-Profits Committee has reviewed this annual report to with-profits policyholders and does not wish to make any additional or separate reports.

### **The Directors of Phoenix Life Limited**

June 2011

## **Report to with-profits policyholders by the With-Profits Actuary of the Phoenix Life Limited Britannic Industrial Branch Fund for the period 1 January 2010 to 31 December 2010**

### **Purpose**

The Principles and Practices of Financial Management (PPFM) for Phoenix Life Limited ('the company') 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 of the Britannic Industrial Branch Fund 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 these with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2010.

### **Conclusion**

In my opinion, the company has taken the interests of the with-profits policyholders of the Britannic Industrial Branch Fund into account in a reasonable and proportionate manner in exercising this discretion during 2010.

My opinion is based on the information that the company provided to me during the year.

The Board of Actuarial Standards has published a number of Technical Actuarial Standards (TASs). My report, when considered alongside the information in the company's own report to which my report is annexed, together with other information provided to policyholders in relation to 2010, is intended to comply with TAS R (which relates to the reporting of actuarial information), TAS M (which relates to modelling) and TAS D (which relates to data).

Andrew Rendell  
Fellow of the Institute of Actuaries  
With-Profits Actuary  
June 2011

Phoenix Life Limited is authorised and regulated by the Financial Services Authority.  
Phoenix Life Limited is registered in England No. 1016269  
Registered Office: 1 Wythall Green Way, Wythall, Birmingham B47 6WG  
[www.phoenixlife.co.uk](http://www.phoenixlife.co.uk)