

# POIS With-Profits Fund

## Annual report for 2010 to with-profits policyholders on compliance with the Principles and Practices of Financial Management

### Introduction

1. If you hold a POIS with-profits policy, the benefits under your policy are determined by the way in which Family Assurance Friendly Society (“Family”) manage the POIS Fund
2. Under rules and guidance introduced by the Financial Services Authority (“FSA”), Family is required to maintain governance arrangements designed to ensure that in managing your policy it complies with, maintains, and records any applicable principles and practices of financial management (“PPFM”).
3. We, the Committee of Management of Family, are required to report to you each year on Family’s compliance with these obligations. This report fulfils that purpose. It covers the year 2010.
4. As required by the FSA the report addresses all significant relevant issues, including the way in which Family has:
  - exercised, or failed to exercise, any discretion that it has in the conduct of its with-profits business; and
  - addressed any competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders).
5. Family’s with-profits actuary is also required to make a written report stating whether, in his opinion, this report and the discretion exercised by Family in 2010 may be regarded as taking the interests of Family’s with-profits policyholders into account in a reasonable and proportionate manner. The with-profits actuary’s report is attached to this report.

### Governance arrangements

6. Family has overall responsibility for the financial management of the POIS Fund.
7. Any material issues are notified to the Risk & Audit Committee of Family, who take on the role of a with-profits committee in providing independent judgement. The members of the Risk & Audit Committee are appointed from amongst the non-executive Committee of Management members.
8. Family is advised by its with-profits actuary, an external consultant with Towers Watson Limited. He provides advice on bonus policy, investment strategy, and other aspects of the financial management of the POIS Fund and on maintaining and recording the PPFM.
9. Day to day monitoring of the financial management of the POIS Fund is carried out by Family.

### Exercise of discretion

10. The main areas in which discretion is exercised in the operation of the POIS Fund are:
  - Setting bonus rates
  - Investment policy
  - Surrender values
  - Expenses
  - Changes to PPFM

- Communications with policyholders.

### **Setting bonus rates**

11. Reversionary and terminal bonus rates for regular premium policies are declared following the annual valuation. The rates declared following the 31 December 2008 valuation applied in the year to 30 April 2010. The rates declared following the 31 December 2009 valuation applied in the remainder of 2010.

### **Investment policy**

12. No material changes were made to the investment policy during 2010.
13. The POIS Fund was invested predominantly in fixed interest assets throughout the year. The average equity exposure in 2010 was approximately 7% of the assets of the POIS Fund.
14. The equity exposure in the POIS Fund in 2010 was above the target of 5% set out in the PPFM but remained below the maximum exposure level of 7.5% set out in the PPFM. We are satisfied the investment policy was consistent with the principle of sound financial management.

### **Surrender values**

15. POIS calculates surrender values using a formula approach. The surrender value basis has been reviewed for consistency with the PPFM annually since 2006.

### **Expenses**

16. The expenses that can be taken from the POIS Fund are set out in the transfer agreement of 2 April 2002 ("the transfer agreement"). The expenses deducted from the POIS Fund in 2010 were the maximum permitted by this agreement.
17. The POIS Fund has certain tax losses that could not have been utilised had it remained on a stand alone basis, but, can be utilised by Family. Under the terms of the transfer agreement any such tax benefits are credited to the POIS Fund. This has been allowed for in determining the tax to be deducted from the POIS Fund in 2010.

### **Changes to the PPFM**

18. No changes were made to the PPFM in 2010.

### **Policyholder communications**

19. You are sent an annual statement showing the bonus added to your policy.
20. A "consumer friendly" version of the PPFM (and the PPFM) is on Family's website.

### **Compliance with the PPFM**

21. In our opinion, Family has complied with the POIS PPFM during 2010.
22. Our reasons for reaching this conclusion are set out below:
  - A report from the with-profits actuary presented to us in February 2009 provided evidence that the bonus recommendations covering the year to 30 April 2010 followed the approach set out in the PPFM
  - A report from the with-profits actuary presented to us in February 2010 provided evidence that the bonus recommendations covering the remainder of 2010 followed the approach set out in the PPFM
  - A report from the with-profits actuary on investment strategy for Family's non-linked funds is presented to us each year. The report covers the POIS Fund. The reports presented to

us in 2009 and 2010 indicated that the investment policy of the POIS Fund as set out in the PPFM is appropriate

- Family conducts checks on a regular basis that the investments of the POIS Fund are consistent with the investment policy set out in the PPFM
- The approach used to calculate surrender values and expense deductions, described above, is as set out in the PPFM
- The surrender value reviews referred to above indicated that surrender values paid in 2010 were consistent with the PPFM in terms of their relationship to asset share.
- Family conducts checks on a regular basis that the expenses deducted from the POIS Fund are consistent with those permitted by the expense agreement.

### **Competing or conflicting rights, interests and expectation**

23. Any surplus in the POIS Fund that is not distributed immediately is available to meet the required minimum solvency margin for the POIS Fund. If the surplus in the POIS Fund ever fell below the required minimum solvency margin, part of Family's free assets would, in effect, be providing capital support to the POIS Fund. This creates a potential conflict with Family's other policyholders but it is addressed by having a clear practice in the PPFM for the POIS Fund to maintain surplus on a statutory valuation basis that is at least as great as its required minimum solvency margin. This practice would also have applied if POIS was an independent company so it gives rise to no additional constraints on the financial management of the fund.
24. Family has no shareholders, the POIS Fund is ring-fenced from the rest of Family's business, and POIS with-profits policyholders are entitled to all of the surplus emerging from the POIS Fund. Further, most POIS with-profits policyholders have similar types of policy and the expenses that can be deducted from the POIS Fund are set out in the transfer agreement. As a consequence, there are no other material competing or conflicting rights.

**Committee of Management  
Family Assurance Friendly Society**

**16 February 2011**

POIS  
16-17 West Street  
Brighton  
BN1 2RL

Phone: 0800 622417

[www.pois.co.uk](http://www.pois.co.uk)  
[www.family.co.uk](http://www.family.co.uk)

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## Appendix

### Report of the with-profits actuary to POIS with-profits policyholders

1. I have been appointed by Family Assurance Friendly Society (“Family”) to act as with-profits actuary and have held this appointment throughout the year. I am a Fellow of the Institute and Faculty of Actuaries and an employee of Towers Watson Limited (“Towers Watson”), a firm of actuarial consultants. I am not a policyholder of Family.
2. I have been provided with a copy of the 2010 report of the Committee of Management of Family to POIS with-profits policyholders on compliance with the POIS PPFM (“the Committee of Management report”) dated 16 February 2011 for which Family remains responsible. I have also requested from Family such information and explanations as I consider reasonably necessary to enable me to perform my duties as with-profits actuary. In providing this report I have relied on the accuracy and completeness of the Committee of Management report and of the information and explanations provided to me by or on behalf of Family.
3. This report has been prepared for the purpose stated in paragraph 5 of the Committee of Management report.
4. In my opinion, the Committee of Management report and the discretion exercised by Family in 2010 may be regarded as having taken the interests of POIS with-profits policyholders into account in a reasonable and proportionate manner. My opinion is based on the information and explanations provided to me by Family, and taking into account where relevant the rules and guidance of the FSA on treating with-profits policyholders fairly.
5. With regard to the exercise of discretion:
  - POIS with-profits policyholders generally have an expectation that they will be exposed to some equity risk, but, they also have an expectation that the investment strategy will ensure that their guaranteed benefits including declared bonuses will be paid in all circumstances. In my opinion, a low equity backing is not inconsistent with these expectations.
  - The administration of the POIS Fund is carried out by Family. The amount charged to the Fund in 2010 to cover administration expenses was the maximum amount permitted by the instrument of transfer and investment management fees have been levied at a rate consistent with the fees levied on Family by its investment managers. This is in accordance with the practice set out in the POIS PPFM and, in my opinion, is fair.

6. The key aims of the bonus policy are to ensure there is no material under or over distribution of surplus over a period of time and that all maturing with-profits policies are treated fairly. I am satisfied that these aims were achieved in 2010.
  
7. The Board for Actuarial Standards has recently published a number of Technical Actuarial Standards ("TASs"). This report is intended to comply with TAS R (which relates to the reporting of actuarial information) and TAS D (which relates to data), except that, in terms of completeness, I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the Committee of Management report to which my report is annexed.



David Addison BSc FFA  
With-Profits Actuary

**16 February 2011**

Towers Watson Limited  
Watson House  
London Road  
Reigate  
Surrey RH2 9PQ  
UK

T +44 1737 241144  
F +44 1737 241496