

ISSUED
October 2010

COMPANY PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

Reliance Mutual

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts in assessing the relative strengths of UK long term insurers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading provider companies in the market, which participate in the production of the reports. For each remaining provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's returns to the FSA, its report & accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies, the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk

About AKG

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

Assistance to Provider Companies

AKG assists providers in:

- Financial strength analysis, ratings and presentation
- Data and information provision
- Actuarial consultancy
- Distribution consultancy

Assistance to Financial Intermediaries

AKG assists intermediaries in:

- Financial strength analysis
- Best advice panel services
- Data and information provision
- Actuarial and technical support

Information Products

AKG also provides other regularly updated information products to assist providers and intermediaries, including:

AKG's Offshore Profile & Financial Strength Reports

Available free of charge to IFAs registering online at www.akg.co.uk

AKG's UK Life Office With Profits Report

Designed to provide further depth in the assessment of with profits funds.

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Many of the financial statistics in this report are derived from companies' annual returns to the FSA. AKG gratefully acknowledges the permission of Standard & Poor's to extract data from their SynThesys Life database system.

Index

Main Life Company	Page	General Information	Page
Reliance Mutual Insurance Society Ltd	2	Distribution	6
		Products	6
		Service	7
		Investment	7
		Annual Review	7

Group Overview

Reliance Mutual is a small mutual insurance group that in recent years has established a reputation at the smaller end of the consolidator market.

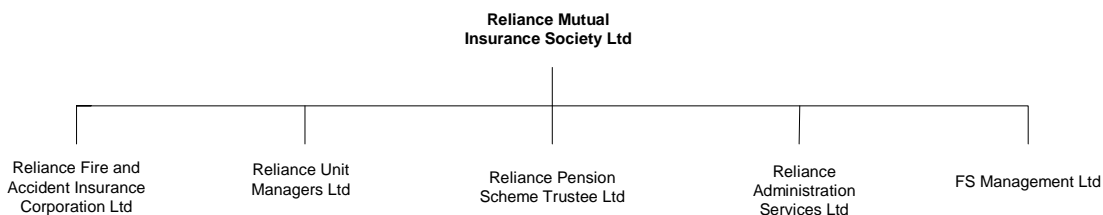
The group consists of a number of companies: Reliance Fire and Accident Insurance Corporation Ltd - a general insurer in run off since the 1970's; Reliance Unit Managers Ltd - a unit trust manager managing the British Life Unit Trust; Reliance Pension Scheme Trustees Ltd - trustee for the staff pension scheme; Reliance Administration Services Ltd - the intermediary for personal lines business sold in the past by the sales force; FS Management Ltd - a Third Party Administration company acquired as part of the Hearts of Oak acquisition. The British Life Office, previously part of the group but effectively a shell company since its business was transferred into Reliance Mutual, was sold in September 2009.

Recent years have seen the group focus on rebuilding solvency allied to a policy of reducing unit costs. At the same time it has pursued a strategy of acquiring small closed books of business, with assets of between £10m and £500m. It has also looked to develop niche new business areas, most notably the launch of its smoker annuity product in September 2001, initially through its then subsidiary British Life Office Ltd.

Business acquired by Reliance Mutual in recent years include:

Criterion Life Assurance Ltd (Oct 2003 - part of which was sold on in Jan 2005), with profits business of Family Assurance Friendly Society Ltd - mainly business written by Time Assurance and Templeton Life (Sep 2004), life business of Eurolife Assurance Company Ltd (Jul 2005), SEB Trygg Life (UK) Ltd (Sep 2006), University Life Assurance Society (Jun 2007), Hearts of Oak Friendly Society (Aug 2007) and the tax exempt business of Time Assurance (Jul 2008).

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
Reliance Mutual Insurance Society Ltd	B	★★★	★★★	★★★	★★★	★★★	★★★

Corporate Data

Ownership	Mutual
Open to New Business?	Yes
Year Established	1911
Head Office	Reliance House 6 Vale Avenue Tunbridge Wells Kent TN1 1RG
Tel:	01892 510033
Fax:	01892 510676

Administration Office As above

Website - Consumer www.RelianceMutual.co.uk
Website - IFA www.RelianceMutual.co.uk

Key Personnel

Chairman	S Creedon
Chief Executive	M Goodale
Chief Actuary	
& Actuarial Function Holder	C Mills
Head of Strategy Implementation	P G Bowden
Head of Operations	C J Lerpiniere
Investment Manager	R E Cuming
Head of Risk and Corporate Governance	R C Eastwood
Financial Controller	C A Whatford
With Profits Actuary	R J Houlston

Company Background

Reliance Mutual started in 1911 as the Farringdon Reliance Friendly Collecting Society, an offspring of the Reliance Fire and Accident Insurance Corporation. In 1951, Farringdon Reliance converted to mutual status, as the Farringdon Reliance Mutual Insurance Society Ltd. It changed its name to Reliance Mutual Life Insurance Society in 1952 and to Reliance Mutual Insurance Society Ltd in 1959. Previously marketing its products through a direct salesforce and a network of tied agents, the company closed its main distribution channels to new business in 1999, downsizing and carrying out a significant restructure. This followed a strategic review that concluded an industry move towards lower charges was inconsistent with the then distribution strategy, whilst at the same time the costs of the Pensions Review were continuing to mount. As a result, solvency had come under some pressure. Following its significant downsizing in 1999 the company has followed a strategy of acquiring small closed blocks of business. All acquired business has now been consolidated into the Society.

Overall Financial Strength

B

Capital resources reduced during 2008 with the rescue of the distressed Hearts of Oak business seeing the Society having to inject £3.6m into the fund. This loan was repaid in 2009 and capital resources, along with free assets and accompanying ratios increased, but not to the levels of 2007. Whilst the Society sees the need for further acquisitions as central to its longer term independence, there is competition at the smaller end of the market and some hardening of prices. There is also increased competition in the impaired annuity market. The need to conserve and manage capital is central to this and the Society cannot afford the financial pressure of another Hearts of Oak situation. Indeed the Society restricted new business volumes and sold some equities in 2009 in order to protect its capital position.

Reinsurance

Approach

The Society paid reinsurance premiums totalling £16.8m [2008: £14.9m] and reinsured reserves of £29.9m [2008: £28.4m] in 2009.

There are three main reinsurance arrangements in place. Smoker annuity business is now reinsured 37.5% quota share to Trans Re Zurich, a subsidiary of Transatlantic Holdings, Inc. and 37.5% quota share to London Life Insurance Company, a Canadian based subsidiary of Great-West Lifeco Inc. Premiums totalled £16.2m [2008: £13.8m] and reserves ceded totalled £15.8m [2008: £12.8m] in 2009. Credit Life business written in Germany is reinsured 50% with DbV Winterthur, with reserves ceded of £0.8m [2008: £1.4m] which were deposited back with the company. There is also an 85% quota share arrangement with Hannover Re in respect of former Hearts of Oak non profit pension annuity business. Under this arrangement reserves of £11.3m [2008: £10.3m] are ceded of which £10m [2008: £9.4m] are deposited back with the Society.

The Society does not have any reinsurance financing arrangements.

Analysis of Reserves	2007	2008	2009
	£000's	£000's	£000's
Gross reserves	1,546,412	1,356,410	1,477,193
Reinsurance ceded - external	35,006	28,442	29,855
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	1,511,406	1,327,968	1,447,338

Non Profit Business

General

New non profit business is written in the main with profits sub fund (RMWPSF), where the majority of non profit business already sits. Reserves comprise primarily pension annuity business, of which £324.2m represents net reserves for the smoker annuity (a further £15.8m is reinsured). Annuity reserves represent around 37% of total net reserves and were strengthened in 2007 and 2008. Overseas business is credit life, which continued to reduce.

Non Profit Reserves	2007	2008	2009
	£000's	£000's	£000's
UK Life	52,642	53,422	50,656
UK Pensions	372,645	414,566	467,554
Overseas	5,273	4,725	2,726
Total net NP reserves	430,560	472,713	520,936

Non Profit Financial Strength

★★★

Non profit business is primarily held in the main with profits fund and as such directly benefits from the support of that fund. Non profit business financial strength is good.

Unit Linked Business

Approach

The Society maintains a range of 12 life and 7 pension unit linked funds, which represent the consolidation of a larger range of funds emanating from the transfer in of various closed blocks of business. Funds range in size from £0.2m in the Assured Lifestyle Fund, to £451.1m in the Pension Managed Fund. There are a number of cross holdings within funds.

The £236m (as at 30 June 2010) British Life Unit Trust (BLUT), one of the oldest unit trusts on the market, is the only vehicle that invests directly into equities. The Life and Pensions unit linked equity funds invest exclusively in BLUT units.

The performance of the larger funds is mixed. As at 31 December 2009, it was generally 2nd or 3rd quartile over 1, 3, 5 and 10 years, but there are appearances in all 4 quartiles. The largest fund, the Pension Managed Fund was 1st quartile over 1 year, but 3rd quartile over the other 3 time spans.

The Society does not actively market unit linked business. Business that is written comprises incremental pensions business and DWP rebates.

The Society has a guide to how it manages its unit linked funds on its website.

Linked Reserves	2007 £000's	2008 £000's	2009 £000's
UK Life	234,115	181,535	190,335
UK Pensions	587,687	423,166	501,243
Overseas	0	0	0
Total net linked reserves	821,802	604,701	691,578

Unit Linked Financial Strength

★★★

Unit linked funds comprise slightly less than 50% of the company's reserves and have the support of the free assets and the with profits fund. Unit linked financial strength is reasonable.

With Profits Business

Approach

The main with profits fund is the Reliance Mutual With Profits Sub fund (RMWPSF), into which all new business is written (non profit only - the company no longer writes with profits business). The company maintains five other subfunds, all of which result from the various transfers the company has taken in. These include ex-Criterion (WPSF2), ex-Family Life (WPSF3), ex-Family Pension (WPSF4), ex-University Life (WPSF5) and ex-Hearts of Oak (WPSF6). Only the latter includes unitised business.

With Profit Reserves	2007 £000's	2008 £000's	2009 £000's
UK Life	49,645	44,889	39,419
UK Pensions	209,399	205,665	195,405
Overseas	0	0	0
Total net WP reserves	259,044	250,554	234,824

Profit Sharing Philosophy

As a mutual office, all profits belong ultimately to the various groups of policyholders i.e. all funds are 100:0. WPSF2 to WPSF6 are being managed in order to distribute all assets by the time the last policy terminates. For the RMWPSF, where there is non profit business that will outlast the with profits business, there is a need to retain some capital to support this business. The RMWPSF provides capital as required for acquisitions.

Asset Allocation

The funds vary in size and liability profile and the asset allocations reflect this. The exposure to equities in the RMWPSF was reduced in 2009. Equities are held through BLUT. Guaranteed benefits are matched by gilts and debentures. WPSF6 holds some properties, which are being sold, but does not hold equities due to its condition.

Distribution of Surplus	2007 £000's	2008 £000's	2009 £000's
To Policyholders	11,741	11,864	7,897
Other Transfers	0	0	0

Realistic Balance Sheet

Due to the small size of its with profits funds the company does not publish a Realistic Balance Sheet.

With Profits Financial Strength

★★★

The RMWPSF has "excess assets" of just under 4%. Two of the other funds also have excess assets: WPSF2 = 50%; WPSF3 = 36%. The other funds have deficits as follows; WPSF4 (impacted by its resilience reserve) = 0.5%; WPSF5 (impacted by reinvestment rates due to the short term nature of its assets) = 13%; WPSF6 (the ex-Hearts of Oak portfolio) = 3%. In 2009, the WPSF6 repaid the support it received from the RMWPSF of £3.6m to maintain positive capital resources in 2008. [Note that the percentages quoted above relate to the whole subfund in question, rather than the with profits portion of the fund.]

Key Financial Data (for y/e: 31/12/09)

Capital Resources	2007	2008	2009
	£000's	£000's	£000's
Core tier one capital	122,664	81,216	91,368
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-7,508	-11,217	-7,763
Total tier one capital	115,156	69,999	83,605
Tier two capital	0	0	0
Adjustments and deductions	-7,351	-6,933	-4,688
Total Capital Resources	107,805	63,066	78,917
CR outside the fund	0	0	0

Capital resources which were significantly impacted by the market turbulence in 2008, recovered somewhat in 2009.

Long Term Business Admissible Assets	2007	2008	2009
	£000's	£000's	£000's
Fixed Interest	660,762	662,544	728,647
Equities	91,509	58,440	45,793
Property	17,353	10,163	8,537
Linked	803,529	576,124	677,439
Other	100,033	117,077	102,297
Total Assets	1,673,186	1,424,348	1,562,713

The table above shows how the asset pool has changed during 2009 with a higher proportion of fixed interest and declining equities. Whilst direct property holdings are being run off, the Society purchased an office property as its new head office and relocated to it in August 2010. Linked assets increased on the back of improved investment markets in 2009.

Free Assets	2007	2008	2009
	£000's	£000's	£000's
Free Assets (Exc Fin Eng)	65,930	19,339	31,513
Financial Engineering	0	0	0
Free Assets (Published)	65,930	19,339	31,513

Free Asset Ratios	2007	2008	2009
	%	%	%
FAR (Exc Fin Eng)	3.9	1.4	2.0
FAR (Published)	3.9	1.4	2.0

CRR Coverage Ratios	2007	2008	2009
	%	%	%
CRRCR (Exc Fin Eng)	257.4	144.2	166.5
CRRCR (Published)	257.4	144.2	166.5

An increase in free assets in 2009, partly reversed the sharp decline over 2008. This led to improved free asset ratio and Capital Resources Requirement coverage, although not to the levels of 2007.

Long Term Business Liabilities & Margins	2007	2008	2009
	£000's	£000's	£000's
Non Linked Non Profit	430,560	472,713	520,936
Non Linked With Profits	245,295	236,905	222,092
Accum'lg With Profits	15,068	14,790	13,705
Linked	821,802	604,701	691,578
Surplus c/f	3,046	2,981	2,993
Other liabilities	54,914	34,864	38,796
Investment Reserves	102,496	57,397	72,612
Total Liabilities/Margins	1,673,186	1,424,348	1,562,713

The table shows with profits continuing to decline, but unit linked business increasing in 2009 due to market rises. Having strengthened its annuity valuation basis in 2007 it was unchanged in 2008. However, changes to the credit default assumptions increased liabilities by £16.7m in 2008. Changes in the valuation basis and improved investment reserves were generally positive in 2009. The company holds GAO reserves totalling £26.4m.

Key Revenue Items	2007	2008	2009
	£000's	£000's	£000's
INCOME			
Premiums	69,588	86,422	51,527
Investment Income	63,869	65,339	65,652
Investment Increase	19,430	-230,327	131,834
EXPENDITURE			
Commissions	6,079	4,006	2,198
Policy claims	116,624	121,713	106,740
Expenses	11,777	6,444	6,995
BUSINESS TRANSFERS			
TRANSFER to P&L	0	0	0
INCREASE in fund	410,021	-183,687	119,216

The 2007 revenue account was somewhat distorted by the transfers in during that year. The business transfer in 2008 is the Time Assurance tax exempt business transferred in from Family. Premium income, which had been increasing, reduced in 2009 on the back of restricted new business volumes. Claims reduced due to lower maturities and surrenders.

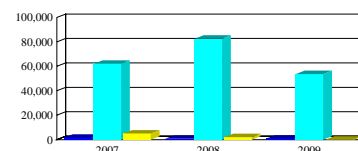
Expense Ratios	2007	2008	2009
New business (% APE)	112.8	60.1	52.9
Renewal (% reg premiums)	68.0	35.0	46.4
Renewal (% p.a. of mean fund)	0.76	0.38	0.44

The tight control of unit costs is central to the Reliance Mutual business model. Whilst expenses peaked in 2007, impacted by the Hearts of Oak transfer, they returned to more normal levels in 2008. In 2009, the renewal ratios increased although there was a one off reduction of £859k in non-recurring management expenses in 2008. The new business expense ratio benefited as acquisition expenses reduced by more than the associated new business volumes.

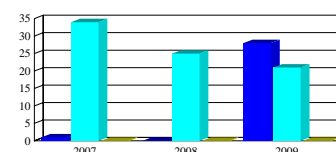
New Business Data (for y/e: 31/12/09)

		Single £000's	Regular £000's
Investment			
Bonds	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	22	0
Endowment	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Guaranteed Bonds		0	0
ISA / tax exempt		0	0
Annuities		543	0
Miscellaneous		0	0
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	0
	Unit Linked	0	0
Term	Ordinary	0	0
	Pension	0	0
IP	Individual	0	0
Critical Illness		0	0
Long Term Care		0	0
Miscellaneous		0	0
Pensions			
Individual	With Profits	35	0
	Unitised WP	17	0
	Unit Linked	6,800	21
CPA		46,822	0
Bulk Transfer Annuities		0	0
Miscellaneous		0	0
Group Business			
Pension		0	0
Life		294	28
IP		0	0
Critical Illness		0	0
Miscellaneous		0	0
TOTAL DIRECT BUSINESS		54,533	49
Overseas Direct (inc above)		0	0
External Reins (exc above)		0	0
Intra-Group Reins (exc above)		0	0
Industrial Branch (inc above)		0	0

New Single Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	1,596	709	859
UK Pensions	62,154	82,637	53,674
Overseas	5,041	2,076	0
Total (Direct + External Reins)	68,791	85,422	54,533
Growth Rate	6.2%	24.2%	-36.2%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2007 £000's	2008 £000's	2009 £000's
UK Life	1	0	28
UK Pensions	34	25	21
Overseas	0	0	0
Total (Direct + External Reins)	35	25	49
Growth Rate	-25.5%	-28.6%	96.0%
Reins Accepted (Intra-Group)	0	0	0



New business continued to be dominated by sales of annuities, which in turn comprised mainly smoker annuities (£30m). Sales of smoker annuities were down from the record level of the previous year [£56m], however, as the Society restricted new business sales in order to protect its capital position. The Society reports similar sales of such business in 2010.

DWP rebates totalled £6.7m [2008: £7.5m].

Life new business was primarily purchased life annuities as the credit life continued to decline, leading to no overseas sales in 2009.

New regular premium pension business continues to decline, and is mainly incremental business.

Distribution

Method

In 1999, Reliance Mutual closed its two sales channels (direct sales and tied agents) and ceased to seek new business from new clients, although it continued to write incremental business for existing clients.

In 2001, it started marketing niche products via IFAs with its smoker annuity product and made these products available via real-time quotes on The Exchange in 2009.

Whilst it has also been selling credit life business since 2003, this is a market that has seen a marked decline in the UK following the OFT review.

The Society aims for a steady flow of new business. It aims to maintain a presence and reputation in the IFA market. Its strategy is also to look to develop relationships with partners who can provide distribution, with a focus on those with a complementary mutuality ethos e.g. building societies, charities and similar organisations.

Distribution Split	Regular Premium %	Single Premium %
IFAs	0.0	50.0
Existing policyholders	100.0	50.0

Image and Strategy



The Society's mission is to offer fair value life insurance and investment products to individuals, and to provide fair treatment, security and cost effective services to all policyholders, including those acquired from other companies.

To advance achievement of this, Reliance Mutual has a clear two pronged approach to its strategy.

Its product strategy is to concentrate on individual life products in niche markets where margins are good. This includes protection products, annuities and credit life business. However, it will only write business to volumes within the constraints of its capital position, controlling volumes through price and an appropriate level of marketing activity, as evidenced in 2009. Currently, most sales come from annuities, with limited sales of credit life.

The second strand to the strategy is the acquisition of appropriate blocks of business, concentrating on the smaller end of the market, very much under the radar of the larger consolidator operations. This helps to maintain critical mass to the organisation and is a vital component in maintaining and reducing unit costs. Indeed the company believes that the maintenance of low unit costs gives it a clear competitive advantage. The company has established a good reputation for acquiring small blocks of business and continues to consider further blocks of the appropriate size as they become available.

Products

Overall Product Philosophy

In 2001, Reliance Mutual launched a smokers' annuity product and it has plans to develop this further. It started to write other business including credit life from 2003. There has also been growth in sales of annuities to maturing policyholders.

The Society is working towards the launch of an enhanced annuity product.

In addition to the current lines of business, there is a wide range of closed lines in force, including various blocks of with profits business.

Products Currently Marketed

Investment Products

- Annuities (PLA)
- Single Premium Bonds

Protection Products

- Credit Life

Pension Products

- Compulsory Purchase Annuities
- Smoker annuities (CPA)

Service



Approach

Reliance Mutual prides itself on a friendly and professional service built up over many years of experience.

In recent years the balance, between expense curtailment (in part a response to past difficulties and a business shape with significant run off) and investment for process improvement and enhanced service experience, has shifted a reasonable distance. Thus there has been increased activity and investment in core administration functions, most notably the introduction of imaging and developments towards workflow.

Staff retention is very good and the company appears to be making better use of management information to formalise knowledge flow, in what is a close knit professional environment.

e-Business

The company introduced a new website in 2009, which now better represents it externally and provides key information; albeit only really bringing it into line with intermediary and policyholder service expectations. This has been a clear improvement for Reliance Mutual.

Real-time quotations are available to intermediaries on The Exchange.

Service Standards & Awards

The company has a relatively small footprint in the IFA market and consequently does not normally feature highly, if at all, in industry awards.

However, the company has recently introduced a telephone based customer satisfaction survey. The survey of over 700 customers indicates a high level of satisfaction.

Also against its internal service standards the company deals with 95% of post within 10 days and 90% of telephone calls are "one and done".

Outsourcing

The company does not outsource any mainstream functions. The philosophy being to do as much internally as possible. Some IT support is outsourced, including website maintenance.

Investment

Overall Approach

Investment management is carried out in house. Reliance Unit Managers manages a single UK equity unit trust, the British Life Unit Trust (BLUT), which the Society uses for all its UK equity investments.

The company maintains six sub funds, including five set up specifically to receive the transfers of business. Internal linked funds or unit trusts are held in respect of the unit linked business and fixed interest holdings are held for non profit business, e.g. annuities. With profits business is backed by a combination of fixed interest (backing guarantees and some future bonuses), and equities, mainly in the form of holdings in collective investment schemes.

Funds Under Management

At 31 December 2009, total group funds stood at around £1.5bn [2008: £1.5bn].

Annual Review



2009 was another testing year for the Society.

Whilst its solvency increased in 2009, as opposed to a significant fall in 2008, it felt the need to reduce its exposure to equities in its main fund and also to limit the amount of new smoker annuity business written to protect and strengthen its capital position. The latter action was the major factor in a fall of 36% in APE terms of new business volumes. £3.6m was also repaid to the RMWPSF from WPSF6.

Improved investment performance was the main factor in an increase of £132.4m in the total assets of the Group.

The Society continued to develop its systems and controls.

In the light of the FSA asking all mutual insurers and friendly societies to review the treatment of policyholders in with profits funds, the Society is satisfied that it has not been unfair to members holding with profits policies but that further development is necessary to ensure continuing fairness to all members in future.

2009 saw the Society appoint a new chief actuary. It also purchased new premises which it relocated to in August 2010.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Report.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

The logo for AKG, consisting of the letters 'AKG' in a bold, black, sans-serif font. The background of the page features large, overlapping, semi-transparent circles in shades of light orange and light blue.

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry

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