

Reliance Mutual Insurance Society Limited

How we manage our with profits business

– a guide for policyholders

Reliance Mutual With Profits Sub Fund

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1 Introduction

- 1.1 This document is a guide as to how we manage our with profit business, in particular the Reliance Mutual With Profits Sub Fund. It is designed to help policyholders understand how a with profits policy works. This is an important document and you should keep it with your other insurance papers.
- 1.2 If we have sent you this guide it is because your policy is in the Reliance Mutual With Profits Sub Fund (RM WPSF). If you have obtained this guide from the internet, there is a section “How Reliance Mutual’s With Profits Business has built up” that you can use to check that you have the correct guide for your policy, or you can contact us using one of the methods at the end of this guide.
- 1.3 The Society’s business is divided into four sub funds, which were created following the transfer of various other companies’ business to the Society in 2004. RM WPSF contains all the with profits business originally sold by Reliance Mutual. It also contains with profits business that was originally sold by other companies that were acquired before 1972. RM WPSF also contains other policies that are not ‘with profits’.
- 1.4 Our approach to managing the fund may change and we will give you a new copy of this guide if any material changes are made to it. At the end of this guide there is a section that tells you how you can get further information at any time.
- 1.5 We do not currently sell new with profits policies. We do still sell other new policies in RM WPSF, but not in any of our other sub funds. We have also acquired business from other companies, which has been transferred into RM WPSF, and expect to make further acquisitions in future.
- 1.6 We carry out a detailed assessment of possible risks whenever we are considering acquiring business from other companies and when other new sales opportunities are being developed.
- 1.7 Reliance Mutual is a mutual insurance company. There are no shareholders and all profits available for distribution are shared among the with profit policyholders.
- 1.8 We have some main aims that influence the way we manage our business. These are:
 - To give policyholders the promised minimum benefits in all reasonably foreseeable circumstances;
 - To treat policyholders fairly;
 - To meet the tests of solvency and capital adequacy required by regulatory bodies.

2 What is a With Profits policy?

- 2.1 A with profits policy is designed to provide a benefit at some future time. This might be at the end of a fixed period – for example 25 years after the policy started. It might provide the benefit when you reach a certain age – perhaps 60 or 65. It might only provide the benefit when the life assured dies.
- 2.2 Most policies provide a lump sum in cash, but some provide the benefit in the form of a regular pension. If you would like to know exactly what benefit your policy provides, use one of the methods at the end of this guide to contact us.
- 2.3 In order to pay for the benefit, you pay us premiums. Most policies have regular premiums paid every month, but some have other ways of paying premiums. Some policies originally had regular premiums, which have now ceased.
- 2.4 In exchange for paying the premiums the policy promises a minimum guaranteed benefit – often called the ‘sum assured’. The unique feature of a ‘*with profits*’ policy is that bonuses are added to this minimum guarantee as the policy progresses. The next section tells more about how we calculate bonuses.

How we invest your premiums

- 2.5 We invest your premiums along with those from other RM WPSF policyholders in a single fund. All policyholders share in the fortunes of the fund.
- 2.6 We invest the fund in shares in UK and overseas companies, property, fixed interest investments (such as government bonds) and cash deposits. Having a mix of investments helps spread risk as it means that the whole fund is not dependent on the performance of a single investment or type of investment.
- 2.7 Some types of investment are more risky than others. Shares in companies go up and down in value much more than government stocks. When we decide how much of the fund to place in different types of investment, we take into account the guaranteed benefits we have already promised. We ensure that there is enough money invested in less risky investments – such as fixed interest stocks – so that we can be sure of paying the promised minimum benefits. This is one of our main aims set out in the previous section.

Smoothing

- 2.8 Smoothing is an important feature of with profits policies. We aim to reduce the effect of short term ups and downs in the stock market by setting bonuses that smooth out the peaks and troughs. This means that we pay out more than the unsmoothed result when markets are low, but less than the unsmoothed results when markets are high.

- 2.9 Smoothing reduces the risk of you receiving a low payout if stock markets are low when your benefit is due to be paid. In exchange you won't receive the full benefit if markets are high.

Profits from other business

- 2.10 In section 1, we mentioned that the fund also contains other policies that are not 'with profits'. This other business is designed to make profits, which are added to the returns earned on the investment of your premiums. This means that additional profits from these other policies are paid out to with profits policyholders, such as yourself.
- 2.11 Policies that are not 'with profits' might give rise to losses. Any losses would be deducted when we determine how much can be paid as bonuses on our with profits policies. At present there are very large profits arising from these other policies, which enable significant increases in bonuses to be paid.

3 How we decide the bonus rates

Types of bonus

- 3.1 There are two types of bonus added to your policy – annual bonus and final bonus.
- 3.2 We work out the annual bonus to be added to each policy in the first three months of each year, based on the results of the previous year. We add this bonus to your policy by increasing the guaranteed benefit that will be paid. These bonus additions are guaranteed, and we cannot reduce or remove them after the rates have been declared.
- 3.3 Final bonuses are an additional sum that we add to the guaranteed benefits when they are paid out. Final bonuses ‘top-up’ the existing guaranteed benefits (these are the original sum assured and the annual bonuses that have been added from year to year) to a fair level. Final bonuses are not guaranteed, and the rates may change at any time. Final bonuses are sometimes also called ‘terminal bonuses’.

How we calculate the bonus rates

- 3.4 We calculate the annual bonuses assuming we invest the part of the fund that covers the guaranteed benefits we have promised in secure investments, such as fixed interest securities. This means that annual bonus rates are based on the investment returns we expect to receive from fixed interest investments.
- 3.5 When we calculate the final bonus we first calculate the ‘asset share’ for each group of policies. The final bonus is based on the asset share less the existing guaranteed benefits.
- 3.6 The asset share is made up from:
- the premiums you have paid
 - plus the investment returns the fund has earned over the period of your policy;
 - less the expenses that we have incurred in administering your policy and the business generally;
 - less an allowance for taxation; and
 - less the cost of paying benefits early to those policyholders who have died before the maturity date of their policy.
- 3.7 We then make an allowance for the profits that we have earned from the policies that are not ‘with profits’ referred to in the section 2.10. These amounts are currently large, and we allow for them by increasing the basic final bonus rates that we calculate from the difference between the asset share and the guaranteed benefits.

- 3.8 The amount we can increase the basic final bonus rates by depends on the level of stock markets. In recent years we have been able to multiply the basic final bonus rates by between 4 and 6.

Smoothing

- 3.9 In order to implement the principles of smoothing discussed in section 2, we restrict the changes in payout on similar policies from one year to the next normally to a maximum of 10%. If there are very large movements in stock markets we may have to increase this figure.
- 3.10 Over the long term, we aim to pay most policyholders 100% of the asset share of their policies, on average, before allowing for the extra payments resulting from the profits from the policies that are not ‘with profits’ in RM WPSF. However, because of the operation of smoothing, we cannot do this all the time.
- 3.11 We expect to achieve this aim most of the time but we may not achieve it all the time. For example if there are unusually large rises or falls in stock markets in a very short period, we may decide not to change bonuses immediately, because often these large changes are reversed within a few days.
- 3.12 We also set our final bonus scales so that they show a smooth progression from one year of policy commencement to the next.

How often do we change bonus rates?

- 3.13 Annual bonus rates do not change often. When there is a need to change rates we introduce changes gradually, so that the change from year to year is small.
- 3.14 We change final bonus rates each year, normally in March. If there are significant movements in the stock market, we change rates during the year.

Surrender Values

- 3.15 If you are unable or do not wish to continue paying premiums to your policy, some, but not all policy types provide for a cash surrender value to be paid.
- 3.16 When we calculate surrender values, we try to make a payment close to the asset share, as we would for a policy reaching the end of its normal term. We make an allowance for the additional profits from policies that are not ‘with profits’ in RM WPSF, as we do for policies at the end of their normal term.

4 Further Information

Principles and Practices of Financial Management

- 4.1 This guide is a brief summary of Reliance Mutual's Principles and Practices of Financial Management (the PPFM). The PPFM is a fuller description of how we manage our with profits business. You can obtain the PPFM by contacting us through one of the methods below. The PPFM is also on our internet site www.reliancemutual.co.uk (click on the "With profits Information" section).

Other Information

- 4.2 We also produce an annual commentary on each year's bonus declaration. This is sent out with annual notifications of bonus, and is also available to download from our internet site.
- 4.3 This guide is also on our internet site www.reliancemutual.co.uk
- 4.4 If you would like any information about the benefits provided by your policy, or the way in which we manage with profits business generally, please contact us:
- You can write to our Actuarial Department at:
Reliance Mutual Insurance Society Limited
Reliance House
6 Vale Avenue
Tunbridge Wells
Kent TN1 1RG
 - You can telephone us on 01892 773389
 - You can e-mail us at actuarial@reliancemutual.co.uk