

## **RELIANCE MUTUAL INSURANCE SOCIETY LIMITED**

### **Report to with profits policyholders**

During 2010, the Board of Reliance Mutual established a new sub-committee, the Fair Member Benefits Committee. The role of this Committee is to make recommendations to the Board to ensure that all members, both with profit and non profit, are treated fairly when financial management decisions are made. All directors serve on the Committee and meetings are held with the With Profits Actuary and the Actuarial Function Holder in attendance. The Chairman of the Society is the Chairman of the Committee.

Reliance Mutual maintains a set of Principles and Practices of Financial Management (the PPFM) that set out the way in which the with profits business of the Society will be managed. The PPFM was amended with effect from 1 February 2010. There were no significant changes to the Principles.

Changes were made to simplify the Practices in WPSF5 used to calculate the amounts payable under with profits policies. The number of with profits policies has reduced within WPSF5 such that there was little added benefit in continuing with the previous approach and a more simplified approach was justified.

Changes were made to the Practices in WPSF6 relating to the operation of the unitised with profits fund. The PPFM now makes it clear that the Society does not operate a shadow fund to aid in the calculation of any market value reductions.

Reliance Mutual has six separate with profit funds. Five of the funds were set up as a result of transfers of business and the PPFM allows the interests of policyholders in the separate funds to be preserved.

The main Reliance Mutual With Profits Sub Fund (RM WPSF) contains the remainder of the business. Within RM WPSF there are several distinct classes of with profits business. To ensure there is consistent treatment between different classes and generations of policyholders, the PPFM prescribes an asset share approach to set appropriate final bonus rates and thus total policy payouts.

The practices used in setting the bonus rates are set out in the PPFM. These practices were followed during 2010 as follows:

- In February 2010 annual bonus rates were declared for all the funds. These were set at the same rates as in the previous year.
- For RM WPSF final bonus rates were set in February based upon results at the end of 2009 and applied from 1 March 2010. As described in the PPFM, final bonuses are augmented to allow for the distribution of profits from non-profit business and the inherited estate within RM WPSF. The augmentation rate was reduced from 570% to 520% at this time to take account of the cost of derivatives which the Society had purchased in 2009 to protect it from adverse equity movements during 2009. This change, together with the continued impact of poor equity performance in 2009 resulted in overall payouts falling. In September 2010, following the annual review of the

augmentation rate, the rate was increased to 620% reflecting improvements in the financial health of the fund.

- For the with profit sub funds WPSF2, WPSF3, WPSF4 and WPSF5, final bonus rates were set in February based upon results at the end of 2009 and applied to claims from 1 March 2010. These funds all benefited from improvements in equity performance during 2009 and in WPSF2 and WPSF3 bonuses increased but in WPSF4 and WPSF5 the equity gains were offset by increases in liabilities.
- The financial position of the with profit sub fund WPSF6 improved during 2009 allowing the special final bonus to be increased back to its original level for life policies and to 95% of its original level for pensions business from 1<sup>st</sup> March 2010. Following a review of the management of the unitised with profits business in WPSF6 during 2010, it was agreed that the uniform market reduction factor of 5% would be replaced by factors dependent upon the date units were purchased from 1<sup>st</sup> January 2011.
- At the end of August the Society made changes to the approach used to value liabilities in WPSF2, WPSF3, WPSF4, WPSF5 and WPSF6. The impact of this change was to allow terminal bonus rates to be increased in WPSF2, WPSF3, WPSF4 and WPSF5. The impact on WPSF6 was less but was sufficient to allow the special final bonus rate for pensions business to be increased to 100%. The impact of the change in WPSF4 was significant and reversed the decrease which the fund experienced in March 2010. As a result the increase was backdated to 1<sup>st</sup> March 2010.

The Directors are of the opinion that the actions that have been taken on discretionary benefits are in accordance with the PPFM and are appropriate for the circumstances of the Society.

#### **APPENDIX – Report to policyholders**

To all With-Profit Policyholders

I have considered the annual report from Reliance Mutual to with profit policyholders and the actions and decisions relating to with profits policyholders made by the company during 2010.

It is my opinion that:

- the report is a fair statement of the facts.
- the company has exercised its discretion in a reasonable manner over the period.
- the actions of the company have taken into account the appropriate rules and guidance.
- the interests of different classes of with profits policyholders have been fairly taken into account.

R J Houlston F.I.A.

With-Profits Actuary