

NFU Mutual Summary of changes to PPFM – 1st February 2008

The Principles and Practices of Financial Management (PPFM) is a document that aims to explain how a company manages its *with-profits business*. We introduced a new version of our PPFM on 1st February 2008 and this document summarises the changes from the previous version. Words highlighted in italics in this document are listed in the glossary of the PPFM. A copy of the updated PPFM is located on our website at www.nfumutual.co.uk.

Principles

None of the principles has been changed.

Practices

There have been no material changes to the way we manage our *with-profits business*. The majority of the changes in the document are to clarify existing wording or to make the document easier to understand. We have also changed the layout and style of the document in places.

The changes were proposed by the With-Profits Actuary, approved by the *With-Profits Committee* and then ratified by the Society's Board.

Section 2 – The Amount payable to our with-profits policyholders

Practice 2.1.2

We have clarified:

- That the *With-Profits Committee* and the Board approve any change to assumptions or parameters, after considering advice from the With-Profits Actuary
- That we aim to maximise investment returns, subject to being able to meet our *capital resource requirement*
- That the assets that back the *Capital Access Bond* (CAB) will be mainly held in floating rate notes and cash
- That when we describe expenses being charged directly to *asset shares* this is only for *traditional with-profits business*
- Where profits or losses may arise

We have added wording to state that:

- The Board must approve any changes to the current methods used to calculate the amount payable to with-profits policyholders
- The Actuarial department documents the methods, assumptions and parameters used in determining the amount payable to with-profits policyholders
- That our expenses are reviewed by our external auditors
- The expenses used in *asset share* calculations for unitised with-profits policies are those set out in the policy conditions

We have removed descriptions of:

- *Annual* and *terminal bonus* rates. We believe these are adequately described in sections 2.2 and 2.3 respectively.
- Historical *annual* and *terminal bonus* rates
- How the assets that do not back *asset shares* are invested. This avoids unnecessary duplication.
- Investments that give rise to higher expenses and possibly higher returns

Practice 2.2.2

We have added wording to state that:

- *Annual bonus* rates are recommended by the With-Profits Actuary and require formal approval by the Board

- The *annual bonus* rates are included in our PPFM appendix on our website

We have clarified:

- The description of interim bonus rates
- The description of how we set with-profit annuity *annual bonus* rates

We have removed:

- The list of products that have separate *annual bonus* rates. These are now set out in the PPFM appendix.
- Wording stating that, in recent years, the overriding consideration in setting *annual bonus* rates has been retaining scope for *terminal bonus*

Practice 2.3.2

We have amended the wording:

- To state we will review *terminal bonuses* more regularly than twice a year if the difference between payouts and *asset shares* becomes excessive due to market movements
- To describe the dates when a *market value reduction* (MVR) is guaranteed not to apply rather than the dates when it would apply
- To state we set *terminal bonus* rates for each major product class, rather than list the major product classes

We have added wording to:

- State *terminal bonus* rates are recommended by the With-Profits Actuary and are approved by the Board
- State that we set different *terminal bonus* rates for each *bonus series* and premium frequency
- Describe the practice we follow which reduces the effect of any MVR if a policyholder is within three years of their *selected retirement date* in a unitised with-profits personal pension plan or with-profits pension plan

Practice 2.4.2

We have clarified:

- That, for with-profits annuities, the *annual bonus* is targeted to reflect changes in the retail price index, which may be volatile

We have added:

- Wording to explain that any MVR applying to unitised with-profits personal pension Plans or with-profits pension plans within three year of the *selected retirement date* may be reduced

Section 3 – Investment Strategy

Practice 3.2.1

We have amended wording to:

- Make clear that the Board sets investment limits of authority and what those limits are.

We have added wording to:

- State that the Board delegates responsibility for the investment strategy of the long-term business fund within the agreed risk appetite to the *Group Investment Committee*.
- List the responsibilities of the *Group Investment Committee* and outline areas where the advice of the With-Profits Actuary will be sought

Practice 3.2.2

We have clarified that:

- The investment management team aims to maximise return within the overall investment strategy set by the *Group Investment Committee* and subject to the investment limits of authority
- Investing outside of the existing limits of authority would require initial sanction of the *Group Investment Committee* and approval by the Board

Practice 3.2.3

We have clarified that:

- We back our non-linked *non-profit business* with fixed interest and index linked assets in order to broadly match the liabilities

Practice 3.2.5

We have added wording to state:

- What type of non-traded assets we hold
- That the return on these assets is included in the *asset share* return or allocated to the *inherited estate* and therefore contributes to policyholder payouts
- That investing in non-traded assets does not impose any constraints on our investment freedom

Practice 3.2.6

We have clarified that:

- The additional £500m of “other than long term assets” can be used to back additional capital requirements of the *regulator*

We have replaced:

- The term ‘*capital resource requirement*’ with the term ‘capital requirement of the *regulator*’.

Section 4 – Business Risk

Practice 4.2.1

We have added wording to explain:

- The role of the Group Risk Committee
- What factors the company considers before undertaking a business risk

Practice 4.2.3

We have added wording to:

- State that we regularly review profitability of existing *non-profit business* and assess the adequacy of charges

We have amended wording to:

- State that we broadly match non-linked *non-profit business* with bonds

Practice 4.2.4

We have added wording to state:

- That the profits and losses arising from business risks are included in the *asset share* returns calculation or are allocated to the *inherited estate*
- How the profits and losses arising impact customers’ payouts

Section 5 – Charges and Expenses

Practice 5.2.1

We have amended the wording to:

- Give examples of the type of charge we can apply to unitised with-profits policies
- Refer readers to our PPFM appendix to see the actual level of charges that are applied to a particular type of product

We have added wording to state:

- That any difference between the charges applied to *unitised with-profits business* and the expenses incurred for those policies is charged or credited to the *inherited estate* and in certain circumstances any charge to the *inherited estate* can be recharged to all with-profits policyholders

Practice 5.2.2

We have clarified:

- How we allocate expenses that can not be directly allocated to a type of policy
- That once the expenses have been calculated, they are then used in the calculation of *asset shares*.

We have added wording to state:

- That expenses are reviewed by the With-Profits Actuary and our external auditors

Practice 5.2.3

We have inserted wording:

- That was already contained in section 2 to highlight when we can charge for guarantees and how any charge would be applied

Practice 5.2.4

We added wording to state:

- That any out-sourced services are reviewed regularly

Section 6 – Management of the inherited estate

Practice 6.2

We have added wording to state:

- That the *inherited estate* can be used to provide investment freedom
- That the *inherited estate* can be used to provide working capital for operational projects and business risks
- The Board does not aim for a particular size or scale of *inherited estate*
- What action the Board would take if the *inherited estate* became too small

We have amended wording that:

- Describes what would happen if the *inherited estate* became excessive to make it clear what practices we follow
- Describes the investment strategy for the *inherited estate* to make it clear what practices we follow

Section 7 – Volumes of New Business and arrangements on stopping taking new business

Practice 7.2

We have added wording that:

- States we may set maximum volumes for sales of a specific product or campaign if the product offers significant guarantees or involves other risks
- Explains how we would set maximum limits for sales volumes

We have clarified:

- Wording that describes that the Society is a company limited by guarantee
- Who owns the company

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