SUMMARY OF CHANGES TO THE PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM) 1 MAY 2019

NFU Mutual
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SUMMARY OF CHANGES TO PPFM

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 1 May 2019 and this document summarises the changes. The changes were proposed by the **With-Profits Actuary**, approved by the **With-Profits Committee** and then ratified by the Society's Board.

Words highlighted in **bold** in this document are listed in the glossary of the PPFM. A copy of the updated PPFM is located on our website at nfumutual.co.uk.

Previously it was the Society's practice to calculate payouts for with-profits whole of life business using the same **terminal bonus** rates as used for with-profits endowments. We have now revised our approach to setting payouts for with-profits whole of life policies. Payouts for these policies are now set by reference to their own set of terminal bonus rates.

We have also amended the approach to calculating payouts on death for with-profits endowment policies.

The following amendments have been made to the PPFM to reflect these changes.

SECTION 2.1.2 – THE AMOUNTS PAYABLE TO OUR WITH-PROFITS POLICYHOLDERS

Policy Benefits – All policy types other than Capital Access Bond (CAB)

The ninth paragraph has been removed due to the changes in the endowment and whole of life payout methodologies. The removed paragraph read:

The amount paid on death under traditional with-profits endowment policies and whole of life policies is determined by a **terminal bonus** scale identical to that used on maturity.

SECTION 2.3.2 – PRACTICES

All contract types other than CAB and With-Profits Annuities

The fourth, fifth, sixth and seventh paragraphs in this section have been altered to detail the new approach to setting payouts for with-profits whole of life policies, including how we group policies to set the rates and our method for determining the payouts on paid up policies. We have also removed wording that is no longer applicable due to the revised approach. The previous wording was:

It is current practice that policies that have been made paid up or altered in some way are awarded the same **terminal bonus** rates as those that continue in full force. For these policies, payouts may diverge from **asset shares**.

The amount paid on death under traditional endowment assurances and whole life policies is determined by a **terminal bonus** scale identical to that used on maturity. For traditional whole life policies, the surrender values are calculated to a formula that has regard to the death benefit payable and hence payouts can diverge from **asset share**.

It is current practice to declare separate **terminal bonus** scales for major classes of business. Within those classes, we set different rates for each term for **traditional with-profits business** and for each entry year for **unitised with-profits business**. We also set different **terminal bonus** rates for each **bonus series**, premium frequency and for policies with different escalation rates applying to regular premiums.

Other types of policies will receive the most appropriate **terminal bonus** for their policy class. In particular, whole of life policies will be awarded the same **terminal bonus** rate as endowment assurances where there exists an appropriate set of endowment assurance **terminal bonus** rates. Where no appropriate set of endowment assurance **terminal bonus** rates exist separate **terminal bonus** rates will be calculated for whole of life policies.

The new wording for these paragraphs is shown below:

It is current practice that policies that have been made paid up or altered in some way are awarded the same **terminal bonus** rates as those that continue in full force. For these policies, payouts may diverge from **asset shares**. For traditional with-profits whole of life business that has been made paid up our practice is to ensure that **terminal bonus** does not result in a payout above 125% of the underlying **asset share**. If this were to occur, **terminal bonus** would be reduced to a level such that the payout equals 125% of the **asset share**, unless a guarantee was applying. Conversely for these policies we ensure that payouts are not below 75% of the **asset share**, by increasing **terminal bonus**, if such a situation were to arise, to a level that the payout equals 75% of **asset share**.

For traditional whole life policies, the surrender values are calculated to a formula that has regard to the death benefit payable and hence payouts can diverge from **asset share**.

It is current practice to declare separate **terminal bonus** scales for major classes of business. Within those classes, we set different rates for each entry year and entry age for whole of life policies, for each term for other **traditional with-profits business** and for each entry year for **unitised with-profits business**. We also set different **terminal bonus** rates for each **bonus series**, premium frequency, premium term for whole of life policies and for policies with different escalation rates applying to regular premiums.

Other types of policies will receive the most appropriate **terminal bonus** for their policy class.

SECTION 2.4.2 – PRACTICES

The first bullet point in this section has been amended to include more detail on how whole of life policies are grouped for **terminal bonus** setting. The previous wording was:

- Policies are grouped by entry year or term in force for the purposes of setting **terminal bonus** rates.

The new wording is:

- Policies are grouped by entry year or term in force, and by age at entry for whole of life policies, for the purposes of setting **terminal bonus** rates.

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