

# UTMOST LIFE AND PENSIONS LIMITED

## Directors' Report to With-Profit Policyholders

*1st January 2023 to 31st December 2023*



## Introduction

This is the report of the Directors of Utmost Life and Pensions Limited (the 'Directors') to the with-profits policyholders of Utmost Life and Pensions Limited (the 'Company') on the management of the with-profits business during the 2023 calendar year.

The Company sets out the way it manages its with-profits business in a document known as the Principles and Practices of Financial Management (the 'PPFM'). The PPFM is available directly from the Company or from the web-site at <https://www.utmost.co.uk/about-us/with-profits/>.

This report does not consider the with-profits business of Equitable Life Assurance Society, a wholly-owned subsidiary of the Company. A separate report from the Directors of Equitable Life is published on their website for this business.

None of the with-profits business in the Company originated from Equitable Life. All policies that were previously Equitable Life with-profits policies which transferred to the Company were converted to unit-linked contracts immediately prior to being transferred.

The Company's with-profits business is principally held in four with-profits sub-funds. In addition, the Company's non-profit fund contains some policies written on a unit-linked basis that can invest in with-profits units. The investment risk of these with-profits units is transferred to WPSF6 through an inter-fund agreement.

- With-profits sub-fund 1 (WPSF1) comprises all the with-profits business written by Reliance Mutual Insurance Society, and the with-profits business, principally in the industrial branch, that was originally written by other companies acquired by Reliance Mutual Insurance Society prior to 1972.
- With-profits sub-fund 2 (WPSF2) comprises the former Criterion Life Assurance with-profits business.
- With-profits sub-fund 4 (WPSF4) comprises the former Time Assurance Retirement Annuity with-profits fund.
- With-profits sub-fund 6 (WPSF6) comprises the former Hearts of Oak Friendly Society with-profits business.

Each of the with-profits sub-funds operates on a standalone basis with all the surplus in each sub-fund being allocated to the with-profits policies in that sub-fund. The with-profits sub-funds are closed to new business with new policies only arising from the exercise of options by existing policyholders. None of the with-profits sub-funds provide capital support to other sub-funds.

## Governance Arrangements

The Board of Utmost Life and Pensions Limited (the 'Board') is responsible for the management of its with-profits business. The Board has established a sub-committee, the With-Profits

Committee (the 'WPC'), with the role of providing an independent view and advising the Board to ensure that all with-profits policyholders are treated fairly when management decisions are made. In 2023 the Committee comprised five members. Due to the sad death of one of the independent members, a new independent member was appointed during 2023. The Committee now comprises three independent members, one of whom is a former non-executive Director of Reliance Mutual Insurance Society, one non-executive Director, and the Chief Executive. Meetings of the Committee were held with the With-Profits Actuary and the Chief Actuary in attendance. The Terms of Reference of the WPC are available directly from the Company or from the Company's website <https://www.utmost.co.uk/about-us/our-committees/>.

The Company has appointed a With-Profits Actuary (the 'WPA') who advises the Board and the WPC about the exercise of discretion in the management of the with-profits funds. The WPA also makes an independent report to the with-profits policyholders, which is appended to this report. Their report states that, in their opinion, this report and the discretion exercised during 2023 took the interests of the with-profits policyholders into account in a reasonable and proportionate manner. The same person held the post of WPA throughout 2023.

The Board is satisfied that the arrangements in place for the governance of its with-profits business are appropriate, and meet current regulatory requirements.

## Exercise of Discretion

The management of with-profits business involves the use of discretion. Areas where discretion was exercised by the Board during 2023 are described below.

### Determining Policy Payouts

The way policy payouts are determined is described in the PPFM and the methodology aims to distribute all the surplus in each sub-fund equitably amongst the policies in that sub-fund. This methodology was used during 2023 and was considered by the WPA, the WPC and the Board to be fair to with-profits policyholders. Details of discretionary decisions taken in 2023 are:

#### Annual Bonus Rates

In March 2023, the Board declared new annual bonus rates, for those policies where regular bonuses may be added, to take effect from 1<sup>st</sup> April 2023. Annual bonus rates were unchanged from the previous declaration in March 2022. The bonus declaration took into account the considerations described in the PPFM regarding annual bonuses, and the desire to maintain stability of these bonuses. The rates set were considered to be fair to policyholders by the WPA, the WPC and the Board.

#### Final Bonus

For some types of policy, final payouts are enhanced by the payment of a final bonus. The final bonus scales were reviewed for all the with-profits sub-funds twice in 2023, with changes taking effect on 1 April and 1 October.

Discretion has been exercised in the continued use of the shape of historic bonus scales to apportion surplus between different groups of policyholder. Such scales reflect differences in the source of the business, the tax status of different policies and the different terms on which various tranches of policies were written. Discretion was also exercised in the smoothing of the rates used for deferred annuities in WPSF4.

All the final bonus rates set were considered to be fair to policyholders by the WPA, the WPC and the Board. The different nature of the liabilities and assets held in each of the with-profits sub-funds contributed to differing impacts being experienced.

#### **WPSF1**

Policy payouts increased in April 2023 by 12.5%. Policy payouts were left unchanged in October 2023.

#### **WPSF2**

Policy payouts were increased in April 2023 by 6.1%. Policy payouts were then increased in October 2023 by 2.7%.

#### **WPSF4**

Annuities in payment were increased from 1 July 2023 by 7.8% of their guaranteed value.

Deferred annuity payouts were increased in April 2023 by 4.8% and increased in October 2023 by 5.6% .

#### **WPSF6**

Conventional With-Profit policy payouts increased in April 2023 by 8.3% and then increase in October 2023 by 4.5%.

Unitised With-Profit policy payouts decreased in April 2023 by 4.7% / 5.4% , and decreased in October 2023 by 1.7% / 1.6% for life and pensions business respectively

### **Investment Strategy**

Section 4 of the PPFM lists the Principles and Practices that are followed by the company in deciding upon the investment strategy for the with-profits sub-funds. Each of the with-profits sub-funds invests by matching its guaranteed liabilities with fixed interest assets before seeking additional returns from that part of the sub-fund in excess of this amount.

During 2020, there was a comprehensive review and restructure of each sub-fund's investments. During 2023 this investment strategy was continued and a review of its effectiveness was presented to the December 2023 WPC, where it was agreed to continue with the strategy.

The assets of the with-profits sub-funds matching the guaranteed liabilities are invested by Goldman Sachs Asset Management, with additional assets managed by JP Morgan Asset Management and/or Goldman Sachs Asset Management. The performance of the investment managers was monitored through the year.

## Policyholder Payments on Surrender

If a claim is made on a policy at a time when contractual benefits are not guaranteed, a surrender value is paid. The Board reviewed and monitored the basis for calculating Surrender Values in 2023 and in doing so balanced the need to be fair to those policyholders withdrawing their benefits with fairness to those who remain. This is as described in the PPFM.

## Changes to the PPFM

There have been no changes made to the Principles in the PPFM since the business was transferred to Utmost Life and Pensions on 1 April 2018.

In April 2023 the Practices in the PPFM were updated. The changes were mostly of a clarificatory nature to reflect the continuing development of the management of the funds. In addition, updates to reflect the evolving history of Utmost and routine indexing of charges were made. These changes were reviewed by the WPA, the WPC and the Board, who considered them to be fair to with-profits policyholders.

## Compliance with the PPFM

The Board managed the with-profits business in accordance with its PPFM in 2023. This was confirmed by a review carried out by the With-Profits Actuary.

## Opinion of the Directors of Utmost Life and Pensions Limited

The Directors have reviewed the management of the with-profits sub-funds as summarised in this report.

It is the Directors' opinion that throughout 2023 the funds were managed in accordance with the PPFM, and that the exercise of discretion during 2023 was appropriate, took full account of policyholders' reasonable expectations, and maintained fairness between different categories of policy and policyholder.

## Appendix

### Report to with-profits policyholders by the With-Profits Actuary

As With-Profits Actuary (“WPA”) of Utmost Life and Pensions Limited (the ‘Company’), it is my responsibility to advise the Board of the Company on the management of the Company’s with-profits business. I am also required to report annually to the with-profits policyholders on the Board’s exercise of discretion in relation to that business. This is my report for the year ended 31 December 2023.

In my opinion:

- the discretion exercised by the Company in 2023 took the interests of with-profits policyholders into account in a reasonable and proportionate manner;
- the Company complied with the Principles and Practices of Financial Management in 2023; and
- the annual report from the Directors to the with-profits policyholders is a fair summary of the key decisions impacting the with-profits policyholders during 2023.

In reaching this opinion, I have taken into account the information and explanations provided to me by the Company. In preparing this report, I have also taken into account the relevant rules and guidance issued by the Prudential Regulation Authority and the Financial Conduct Authority, and the applicable standards issued by the Financial Reporting Council, TAS 100 and TAS 200.

**Tim Bateman**  
**With-Profits Actuary**  
**March 2024**

Utmost Life and Pensions Limited is registered in England and Wales, company number 10559664, and is authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 775704. Its registered office is Walton Street, Aylesbury, Buckinghamshire, HP21 7QW.