

**Report for Policyholders  
on compliance with the  
Principles and Practices  
of Financial Management (PPFM)  
for the period  
1 January – 31 December 2010**

## **Report for Policyholders on compliance with the Principles and Practices of Financial Management (PPFM) for the period 1 January – 31 December 2010**

### **1. Purpose**

- 1.1. All companies are required to report to their with-profits policyholders on their compliance with their PPFM and this report is in respect of this requirement. It covers compliance over the period from 1 January - 31 December 2010.

### **2. Summary**

- 2.1. In the opinion of the Managing Board, Police Mutual has complied with the obligations relating to the PPFM in all respects during the period 1 January 2010 – 31 December 2010. The reasons for this opinion are outlined in this report.
- 2.2. Appended to this report is the opinion of the With-Profits Actuary (WPA) on the discretion exercised by Police Mutual during the period covered as required by the Financial Services Authority. The WPA concurs with the opinion above.

### **3. Background**

- 3.1. Police Mutual first published its Principles and Practices of Financial Management (PPFM) on 30 April 2004. The latest version came into effect on 1 April 2011. The PPFM explains how the Managing Board manages the financial aspects of the Society's with-profits business.
- 3.2. The PPFM is available to policyholders on request and on the Society's website. The Society's contact details are shown at the end of this report.
- 3.3. The obligations a company is required to meet with reference to its PPFM are:
  - To maintain governance arrangements designed to ensure that in the conduct of with-profits business it complies with, maintains and records any applicable PPFM.
  - To make sure the governance arrangements involve independent judgement on compliance with PPFM.
  - To address the exercise of discretion in the conduct of its with-profits business and any competing interests between classes of policyholders in the report mentioned in 1.1.
  - To take the advice of an actuary in preparing the report to policyholders.This report covers these points.
- 3.4. The report also summarises the changes made to the PPFM in the period covered.

### **4. Governance Of The Fund In Accordance With The PPFM**

- 4.1. Police Mutual has set up a With-Profits Committee (WPC). One of its functions is to enable independent judgement on compliance with the PPFM. For the period of this report the WPC consisted of three non-executive directors of the Society and, from October 2010, the Finance Director.
- 4.2. The WPC believes that this report from the Managing Board sufficiently covers its compliance with its PPFM and the way in which any conflicting rights and interests of policyholders have been addressed. Therefore, the WPC does not wish to make a separate report to the policyholders on Police Mutual's compliance with PPFM for this period but should they do so in future this will be facilitated.
- 4.3. Police Mutual also has an externally appointed With-Profits Actuary (WPA) who reports to the Managing Board and to the WPC regarding the PPFM. For the period of this report the WPA was David Murray, from the consultancy firm Deloitte. His report to the with-profits policyholders covers the whole period and is annexed below.

- 4.4. Reports made to the Managing Board during 2010 included comment on the appropriate issues related to the PPFM, where relevant.
- 4.5. In the opinion of the Managing Board, Police Mutual has complied with the governance arrangements required by the PPFM.
- 4.6. Throughout the period covered, the governance arrangements have ensured that in the conduct of with-profits business Police Mutual has materially complied with, maintained and recorded any changes to the PPFM.

## **5. Exercise of discretion**

- 5.1. The PPFM covers the use of discretion in the management of with-profits business where this is applicable.
- 5.2. There were a number of areas during 2010 where Police Mutual exercised discretion. The significant areas were regarding bonuses, surrender values, charges and expenses, investment strategy and management of the inherited estate.
- 5.3. Police Mutual made bonus declarations with effect from 1 January 2010 and 1 May 2010. Surrender values were also changed on 1 January 2010 and 1 May 2010. These issues involved the use of discretion with regard to smoothing and assumptions about future fund performance.
- 5.4. Regular, routine reviews of the investment strategy were carried out in 2010 with changes made to reflect the economic climate at the time. This included reviewing and revising the triggers used for changing asset allocations based on the level of the FTSE 100 Index. During the year, the equity backing ratio (EBR) increased from 40% to 55%. This is within the normal range set out in the PPFM. Discretion was exercised with respect to the types of investment held and the proportions of the Society's assets held in each asset type.
- 5.5. Police Mutual carried out a full review of its investment strategy during 2010. In principle decisions were taken to focus on maintaining the EBR at the higher end of the target range, permit investment in commodities and sub-investment grade bonds and to restrict non-sterling denominated investments. These will not be enacted until 2011 so will be detailed in next year's PPFM compliance report.
- 5.6. The guarantee charge was reviewed at regular intervals throughout 2010. From 1 July 2010, the guarantee charge for the Platinum Bond, Guaranteed Investment Bond and Top Up Pension Plan was increased from 0.5% each year to 0.75%. The changes brought the charges closer in line with expected guarantee costs for these products which differed from those for other with-profits policyholders.
- 5.7. Discretion was used in using the inherited estate to meet a small excess of costs over charges for business other than the conventional with-profits business. In line with the PPFM, the Managing Board also agreed that the estate should be used to meet some exceptional costs incurred in 2010.
- 5.8. Advice was sought from the WPA on the above issues as they involve the use of discretion. The WPA was satisfied that the resulting decisions were in compliance with PPFM in all material respects.
- 5.9. The above decisions were reviewed fully by the WPA and the WPC. The Managing Board is satisfied that discretion was exercised in compliance with PPFM during 2010.

## **6. Competing or conflicting rights, interests and expectations of policyholders**

- 6.1. Potentially competing or conflicting rights, interests and expectations of with-profits policyholders may come about, for example, between holders of:
- Different products
  - Policies with different terms or sizes
  - Policies with different entry dates or maturity dates
  - Policies undergoing different types of claim (for example maturity or surrender)
  - Or where the policyholders are in different demographic groups.
- 6.2. The main areas where judgement and discretion are exercised in respect of these differing policyholders are the smoothing of policy benefits, the level of guarantee charge and the grouping of policies when attributing such things as investment returns or policy expenses.
- Payouts to maturing policies in 2010 were considered carefully by the Board and were, in aggregate, well within the target payout parameters used to manage the fund and within the smoothing practices stated in the PPFM.
- 6.3. The advice of the WPA was sought with regard to these issues and they were reviewed by the WPC.
- 6.4. In the opinion of the Managing Board, Police Mutual managed these potential competing or conflicting rights, interests and expectations of policyholders in compliance with the PPFM.

## **7. Advice from the With-Profits Actuary**

- 7.1. This was sought and followed in the writing of this report.

## **8. Changes made to the PPFM during 2010**

- 8.1. In January 2010 the Managing Board and With-Profits Actuary approved changes to the PPFM which were effective from 1 February 2010. These changes were to include details of the new Guaranteed ISA product. In April 2010, changes were approved which allowed investment in supranationals as an alternative to gilts. Full details of the changes can be obtained from Police Mutual if required.
- 8.2. All changes were made in line with regulations governing the PPFM.
- 8.3. Policyholders will be notified of these changes in their 2011 yearly statements.

## **9. Contact details**

- 9.1. Call us on: 0845 88 22 999 (Monday – Friday, 8.30 am – 5.30 pm)

Visit our website: [www.pmas.co.uk](http://www.pmas.co.uk)

Write to us at:  
Police Mutual  
Alexandra House  
Queen Street  
Lichfield  
Staffordshire  
WS13 6QS

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## **Report from the With-Profits Actuary to the With-Profits Policyholders**

### **Scope of the With-Profits Actuary's Report**

The Financial Services Authority (the "FSA") requires me, as the With-Profits Actuary, to report each year to the with-profits policyholders of Police Mutual on whether, in my opinion, their interests have been taken into account in a reasonable and proportionate manner.

This is my report and opinion in respect of the calendar year 2010. I was the With-Profits Actuary throughout the year.

This report is for information only. You are not required to take any action.

### **Opinion**

In my opinion, I believe that discretion in managing the with-profits business during 2010 has been exercised in a reasonable and proportionate manner, with due regard to the interests of the Society's with-profits policyholders. My opinion is based on the information and explanations provided to me by Police Mutual.

This opinion is formed taking into consideration the interests of the Society's with-profits policyholders as a body and not the interests of individual policyholders. Consequently, this report does not constitute advice to any individual and no person should rely on it in making any decision with regard to an individual policy or a decision to effect a policy.

To the fullest extent permissible by law, I do not accept responsibility to anyone other than the with-profits policyholders of the Society as a body for my work in respect of this report and its conclusions.

In my opinion, this report is compliant with the required standard governing reports produced by actuaries).

In giving my opinion I have relied on the completeness and accuracy of information and explanations supplied to me by the Society. Although I have considered this information for reasonableness, I have not audited, verified or otherwise substantiated it.

David Murray FIA  
With-Profits Actuary