Principles & Practices of Financial Management

Version 6

Sheffield Mutual
Est. 1892
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Contents

1. Introduction

1.1 This document (known as the "PPFM") sets out the Principles and Practices of Financial Management by which Sheffield Mutual Friendly Society (the "Society") conducts its with-profits business. It has been approved by the Society's Committee of Management (the "Committee").

1.2 The document has been written to meet the standards required by the Regulator according to the relevant Rules and Guidance as set out in the Conduct of Business sourcebook. Its purpose is to enable a better understanding of the way the Society conducts its with-profits business and, in particular, the Principles and Practices adopted by the Committee in the application of its discretion. This improved understanding is intended to protect the interests of and promote confidence among with-profits policyholders.

1.3 The items under each heading are divided into two groups. Principles are intended to be enduring statements of the standards adopted by the Society and are expected to change infrequently. Practices, on the other hand, describe the Society's current approach and will be subject to more frequent change but within the Principles then applying.

1.4 If the Society decides that changes are required to any of the Principles then this will be achieved by a Resolution of the Committee and with-profits policyholders will be given at least three months prior notice of such change. Notice is not required in certain circumstances, such as when the change is necessary to correct an error or omission, is immaterial, or is to improve the clarity or presentation of the PPFM without materially affecting its substance. Changes to Practices will also be achieved by a Resolution of the Committee, however they do not require prior notice to be given to with-profits policyholders, but must be communicated within a reasonable time period.

1.5 The Society is required to have and has in place governance arrangements to ensure that the conduct of its with-profits business complies with this PPFM document. These include an annual report to with-profits policyholders from the Committee and an independent assessment of compliance.

1.6 The PPFM document is available to all policyholders on request free of charge. It can be downloaded from the Society's website (www.sheffieldmutual.com) or supplied in paper form on request to the Society's registered office. It is also available to non-policyholders, in which case a charge may be made for supplying a paper copy.

2. Over-riding Principles

2.1 The Society has three key financial objectives that can be regarded as overriding the Principles and Practices contained elsewhere in this document if they come into conflict. These are:

(a) To meet the contractual obligations to all policyholders

(b) To meet the tests of solvency and capital adequacy as required by regulatory bodies

(c) To treat policyholders fairly and meet its Policyholders' Reasonable Expectations ("PRE")

2.2 The Society has a single long-term business fund in which all business is transacted. All income and expenses of the long term business are allocated to this fund. The unit-linked business in respect of Child Trust Fund ("CTF") policies is part of the long-term business fund, but is transacted separately in a tracker fund. The surplus arising from the CTF is available to support the long-term business fund.

2.3 The Society is a Mutual organisation owned by its members and, as such, does not have any shareholders. In the event of a dissolution of the Society, the Society's Rules provide that its free assets shall be shared among its members in proportion to their financial interest in the Society, as certified by the Society's Actuary.

2.4 The holders of CTF policies are not entitled to any share in the free assets of the Society.

3. The Amount Payable under a With-Profits Policy

Principles

3.1 In assessing the amounts payable under a with-profits policy, the aims of the methods used are to meet the objectives as set out in 2.1. Importantly, they aim to provide policyholders with a fair return on their policy that reasonably reflects the experience of the fund whilst the policy has been in-force and subject to any smoothing (see 4.17 - 4.23).

3.2 Bonus is generally distributed by means of annual (also known as reversionary) bonus and final (also known as terminal) bonus. The amount payable under a with-profits policy is generally determined by reference to a guaranteed basic benefit, the attaching annual bonuses and any final bonus applicable at the date of claim. The exceptions to this are the with-profits Individual Saving Account ("ISA") policy, including the Junior ISA ("JISA") policy, where the amount of the basic benefit is not guaranteed and the Income Bond, where the final amount payable is based on the accumulated fund at the date of claim (i.e. the initial premium less income withdrawals plus the attaching annual bonuses and any final bonus applicable).

3.3 For a number of years the Society has calculated specimen asset share values to assist in determining the payout due on maturing policies.

3.4 The Society will also conduct investigations and projections to establish whether any final bonus should be paid in order to provide a fair return.

3.5 In applying the methods to determine the amounts payable under with-profits policies there is a need to consider historical experience and, where appropriate, make assumptions about the past. As new information, methods or techniques become available, the Society may change any assumptions used regarding the historical experience. In making any changes the Society will have due regard to the fair treatment of with-profits policyholders and the materiality of any change.

Practices

General

3.6 The amount payable under a with-profits policy is generally determined by reference to a guaranteed basic benefit, the attaching annual bonuses and any final bonus applicable at the date of claim. For the with-profits ISA/JISA contract and Income Bond, the amount of basic benefit is not guaranteed.

Asset Share Calculation

3.7 Bonus rates have, historically, been set without detailed consideration of the asset share of individual policies. Accurate data relating to investment returns and expenses from the point of sale onwards is not always available. Consequently, only specimen asset share calculations have been undertaken.

3.8 The asset share for a specimen policy is calculated by taking into account the premiums paid, deducting the expenses incurred under the policy and rolling this amount up at the rate of return earned on the assets, less tax where appropriate. At present these calculations are undertaken for a standard size of policy.

3.9 The expenses deducted in the calculation represent the allowance in the premium basis for expenses. It is, at present, assumed that any excess of actual expenses over those assumed in the premium basis is funded by the Society's investment return and other sources of surplus (e.g. CTF management fee).

3.10 No specific allowance is made for mortality as the majority of the Society's annual premium contracts are Pure Endowments, and the single premium contracts have a minimal death benefit.

3.11 No specific credit is given for profits arising from surrenders or other miscellaneous sources.

3.12 No specific allocation of surplus arising from the investment return on the funds backing non-profit business is specifically made to with-profits policyholders. However, with-profits policyholders have benefited from this surplus both in the level of annual bonuses declared, which until recently exceeded their entitlement based on asset shares, and in meeting the difference between the actual expenses of the Society and the amounts charged to asset share. The surplus arising from the CTF business is also allocated to enhance asset shares and as a contribution towards meeting the Society's expenses. Conversely, any loss arising from the CTF business could be charged to asset shares.

Payouts on maturity

3.13 Our ultimate target is to pay an amount which is 100% of the asset share. However, with the effect of smoothing, asset shares may fluctuate from year to year and, therefore, on maturity the Society aims to pay an amount which is between 80% and 120% of asset share based on the relevant specimen policy calculations.

Payouts on surrender

3.14 Our ultimate target is to pay an amount which is 100% of the asset share. However, with the effect of smoothing, and should the financial condition of the fund so dictate, asset shares may fluctuate from year to year and, therefore, on surrender the Society aims to pay an amount which is between 75% and 125% of asset share based on the relevant specimen policy calculations.

3.15 The surrender value for policies which have been in force for at least two years is calculated on a formula basis. This has been tested against calculated asset shares and the Society is satisfied that the relevant formulas provide fair value.

3.16 If a regular premium policy is surrendered within two years of its start date the Society will refund without interest the premiums paid, less a deduction of six months premiums as a contribution towards initial expenses.

3.17 The volume of surrenders is at present not sufficient to justify the costs that would be incurred in changing the current system.

3.18 If a Single Premium Bond policy is surrendered within five years of its start date then a surrender penalty will be applied to recover some of the Society's initial expenses and it is possible that the surrender value will be lower than the premium paid.

3.19 If a Single Premium Bond policy is surrendered at a time when market values are depressed then a Market Value Reduction ("MVR") may be imposed to ensure fair treatment of policyholders remaining in the fund. The MVR will be applied to the sum assured and annual bonus, and may reduce the payout to less than the face value of the policy. An MVR imposed after the 5th policy anniversary will not reduce the payout to less than any guaranteed sum assured. For Income Bonds, which have no sum assured, the MVR would be applied to the accumulated fund and an MVR imposed after the 5th policy anniversary will not reduce the payout to less than the capital balance (the initial premium less income and partial withdrawals).

3.20 If an ISA/JISA policy is surrendered or transferred to another provider at a time when market values are depressed then an MVR may be imposed to ensure fair treatment of policyholders remaining in the fund. The MVR will be applied to the accumulated fund and may reduce the payout to less than the face value of the ISA/JISA. This will happen if the market value of the assets in which the ISA/JISA is notionally invested has fallen below the face value of the ISA/JISA.

3.21 Where an MVR is imposed on a JISA policy, the Society guarantees that any premiums invested for more than five years will be returned in full on a claim relating to death, terminal illness or maturity.

3.22 Major costs arising that threaten the solvency of the Society may need to be reflected in any MVR applied, which would mean that the amount payable on surrender is less than 100% of asset share.

3.23 The Society may, in the future, offer a type of guaranteed ISA policy, the terms of which would be set out in the relevant brochure and Key Features (or equivalent document).

Other matters

3.24 The Actuary documents the methods, parameters and assumptions used to determine the amount payable to policyholders and key aspects are contained in reports presented to the Committee. Changes can be initiated by either party and introduced subject to justification and approval by the Committee.

4. Annual and Final Bonuses and Smoothing

Principles - annual bonuses

4.1 Annual bonuses increase the guaranteed benefits under policies and, once added, cannot be taken away. However, the value may be reduced by the application of an MVR (see Section 3 above).

4.2 The Society may declare separate annual bonus series for different classes and generations of contract.

4.3 The Committee aims to set annual bonus rates that do not fluctuate widely from declaration to declaration on a year to year basis, and to give policyholders a reasonable expectation that similar bonuses can be declared in future years. However, the bonus rates will change if the Committee's view of the future long term experience changes, with due regard to PRE and recent bonus levels. Bonuses will only be declared if there is a surplus in the fund.

Practices - annual bonuses

4.4 Annual bonus rates are declared at the discretion of the Committee. Current practice is to set rates for conventional contracts annually in arrears. In the normal course of events the Committee would not expect to re-set annual bonus rates between declarations. However, in the event of a significant change in economic circumstances that could adversely affect the surplus expected to be available for distribution, the Committee can use its discretion to alter annual bonus rates at any time. This includes the power to reduce annual bonuses to zero.

4.5 Policies which commence during the year receive a proportionate annual bonus from the first day of the month in which they enter. Policies which terminate during the year also receive a proportionate annual bonus based on the number of completed months in the year of leaving.

4.6 When a new premium series is introduced for a particular class of contract the Society would expect to establish a separate bonus series in order to maintain fairness.

4.7 At present the annual bonuses declared by the Society are "simple" bonuses based on the sum assured. There are two exceptions to this:

4.7.1 The Society offers a Single Premium Bond with the option of an income. For this contract the bonus is applied to the accumulated fund (capital balance at the year-end plus any previous bonus) allowing for any income payments that have been made.

4.7.2 The Society also has a with-profits ISA/JISA contract. This operates on a compound bonus system and the bonus is declared as a percentage of the accumulated fund. The ISA/JISA has no "sum assured" and the fund is the accumulation of premiums to date less withdrawals, plus bonus at the declared "headline" rate net of the fund management charge.

4.8 For the ISA/JISA contract the "headline" rate of bonus is effectively reduced by the annual management charge, which is currently 1.5% of the value of the policy fund and is normally deducted from the accumulated fund before the bonus is calculated. However, should the rate of bonus be less than the management charge, the policy fund would be reduced. In addition the ISA/JISA bonus changes at the start of the tax year (6 April) rather than the calendar year.

4.9 The Society operates its own pension scheme for its staff, invested in the Society's fund. The pension scheme is a money purchase arrangement and scheme members receive the same bonus rate as the ISA contract, but without the expense deduction. The bonus rate for the scheme applies for the calendar year, not the tax year. No MVR will be applied to the Staff Pension Scheme.

4.10 With-profits policies which become claims by death or maturity or which are surrendered prior to the bonus declaration for the year are entitled to an interim annual bonus at the relevant interim bonus rate as set by the Committee at the previous declaration date. In the case of surrenders only a proportionate bonus will be allowed in respect of the policy year current on such date unless all instalments of premiums for the policy year have been paid before the date of surrender.

Principles - final bonus

4.11 In determining the total payout on a policy becoming a claim the Society may add a final bonus aimed at increasing the benefits guaranteed under a policy to the underlying value of that policy as assessed by the experience throughout its lifetime within the fund.

4.12 The Society may declare separate final bonus series for different classes and generations of contract.

Practices - final bonus

4.13 Final bonus rates are declared at the discretion of the Committee on the advice of the Actuary. The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes in investment markets dictate. At present final bonuses declared by the Society are based on the sum assured and annual bonuses received. For the Income Bond final bonuses are based on the accumulated fund and for the ISA/JISA contracts they are based on either the accumulated fund or premiums received in specific tax years, depending on the type of ISA/JISA (withdrawals made prior to a claim are recognised as 'last-in first-out').

4.14 In stable market conditions the Committee would not expect to re-set final bonus rates between declarations. However, in the event of a significant change in economic circumstances or extreme market volatility that could adversely affect the surplus expected to be available for distribution, the Committee can use its discretion to alter final bonus rates at any time. This includes the power to reduce final bonuses to zero.

4.15 Any final bonus is generally only paid on claims where the policy has been in force for a minimum number of years varying by type. A lower final bonus may be paid if the policy is surrendered before its scheduled maturity date.

4.16 With-profits policies which become claims prior to the bonus declaration for the year are entitled to an interim final bonus at the relevant final bonus rate as set by the Committee at the previous declaration date or any subsequent alteration.

Principles - smoothing

4.17 In considering a bonus declaration the Actuary compares the payout on a maturity claim with that for a similar policy maturing in the previous year to ensure it is not inconsistent.

4.18 The smoothing policy of the Society takes due regard to factors such as the bonus policy, level of free assets, the investment mix and the PRE. The General Principles 2.1(b) and (c) are of vital importance in this regard.

4.19 The Society's intention is that the cost of smoothing would be zero over a reasonable period of time.

Practices - smoothing

4.20 No formal smoothing practice exists as of now. The current smoothing methodology does not differentiate between generations and types of with-profits policies.

4.21 The current approach to smoothing is to limit the change in amounts payable under a with-profits policy to 10% from one declaration to the next in normal circumstances. However, as described in the practices governing annual and final bonus rates setting, the Committee can, on the advice of the Actuary, depart from this 10% limit (or make declarations more frequent than annually) should the financial condition of the fund so dictate.

4.22 Where there has been a change in the premium tables the amount paid on two policies of the same term maturing in consecutive years may vary by more than 10%.

4.23 On policy surrenders the surrender value is determined by a formula and no smoothings is applied.

5. Investment Strategy

Principles

5.1 The Society's investment strategy supports the key financial objectives set out in Section 2.

5.2 The strategy is to maintain a balanced investment portfolio, with the aim of obtaining a greater potential investment return for with-profits policyholders subject to an acceptable degree of risk.

5.3 The Society aims to maintain a diverse portfolio by both asset class and individual holding.

5.4 The asset classes that the Society will consider are UK and overseas equities (including infrastructure and property funds), fixed interest investments (such as Gilts and other bonds), commercial property, commercial mortgages and cash.

5.5 In setting investment strategy, the Society has regard to the nature and term of its long-term business liabilities, the extent of any guarantees applying and the need to demonstrate solvency. In theory, guaranteed benefits should be backed by fixed interest assets of the appropriate term and security but investment strategy can vary from this to the extent that free assets allow. Regard is also paid to the expectations of policyholders in relation to the nature of the assets backing their policies.

5.6 In determining the investment strategy and extent of deviation away from the theoretical matched position, the Society can rely upon any long-term business assets, and no distinction is drawn between with-profits and non-profit liabilities.

5.7 There are no constraints that apply with respect to parts of the fund backing the main classes of business either on account of separate policy classes or generations of business.

5.8 The Society follows an ethical investment policy and aims not to invest knowingly or directly in industries relating to armaments, tobacco, gambling or pornography.

Practices

5.9 The Society generally manages its own investments. The Finance and Risk Committee considers possible investments and makes investment decisions through a delegated mandate from the full Committee. The full Committee receives and approves the minutes of the Finance & Risk Committee, which record all such decisions in detail.

5.10 The Society employs a professional investment manager who manages the listed investment portfolio on a discretionary basis. The performance of the stockbroker is reviewed by the Committee at least annually. Recommendations for directly owned property investments come from various commercial estate agents that are aware of the Society's requirements and investment criteria. The Society invests in overseas emerging markets and UK property via professionally managed funds.

5.11 For the purposes of the approach to investment, the long-term business fund, with the exception of the assets backing CTF policies, can currently be considered as a single entity incorporating all the assets and liabilities of the Society.

5.12 The unit-linked assets backing the CTF policies are transacted separately in a tracker fund and are not considered as part of the fund for investment purposes.

5.13 The fund does not currently invest directly in derivatives and would only do so for the purposes of efficient portfolio management.

5.14 Any proposal to invest in a new or novel investment instrument would require approval by the Committee, which in turn would seek advice from the Actuary.

5.15 The Society's only holding of an asset that would not normally be traded is its own Head Office Building. The value of this is less than 2.5% of the invested funds. The scale of this investment is not material in determining claim values and imposes no practical constraint on investment freedom.

5.16 In consultation with the Actuary, the Committee determines the proportion of assets that can be invested within each category at least annually. The Committee also sets counterparty risk limits, in order to avoid a concentration of assets with a single counterparty.

5.17 The Society's current target asset mix, as approved by the Committee, is as follows:

Fund Allocation (Excl CTF)	Min %	Max %
Equities UK/Unit Trusts/Inv. Trusts†	15	40
Equities overseas	0	10
Fixed Interest/Government Securities	10	30
Property - Loans	0	10**
- Society owned*	30	50**
- Property funds	0	10**
Cash	2	15

†Including alternative assets (e.g. infrastructure and property funds).

*Including the Society's Head Office premises.

**Subject to an overall maximum in loans, society owned property and property funds of 60%.

Exposure to any single holding in a FTSE 100 company will be limited to 4% of the individual stockbroker's equity and fixed interest holding, and 2% for all other companies.

5.18 Asset allocation is also assessed from the viewpoint of the "regulatory capital requirement". This is the amount of capital the Society's regulator requires it to maintain to support prudent management of the business. Consideration is also given as to the likely future development of the financial position under a range of scenarios as part of the Own Risk and Solvency Assessment ("ORSA"). The ORSA is a forward looking assessment of the Society's solvency position taking into account the specific risks to which it is exposed.

5.19 With-profits policies are normally held in the entire asset portfolio of the fund, but the Society may launch a policy series invested in a particular asset pool of the investment fund. This would be set out in the relevant brochure and Key Information Document. The Committee would review and, if appropriate, adjust the overall asset mix based on the volume of such contracts written.

6. Charges and Expenses

Principles

6.1 At present the Society allocates expenses to policies according to the amounts assumed in its premium tables and as set out in the product's Key Information Document and brochure. The balance is funded from the Society's investment return and other sources of surplus (e.g. CTF management fee).

6.2 A change in the basis of expenses allocation might be introduced to reflect new business methods and practices, such as a change in distribution arrangements, or simply to improve the current allocation of expenses in the light of new information.

6.3 For the ISA/JISA and CTF business the allocation is in line with the published deductions for management charges.

Practices

6.4 The Society's expenses are wholly attributable to the management of the long-term business operations. Expenses cover the acquisition of business (including fees and commission) and the maintenance of business that includes administration and investment management as well as other structure costs. Costs are split between acquisition and maintenance, based on an allocation of time, on the number of policies, the size of premium, or some other appropriate measure.

6.5 Any change to the basis of allocating expenses as explained in 6.2 could result in a change to premium tables and the introduction of a new policy series.

6.6 The expenses of administering the CTF business are calculated and monitored separately based on the costs of investment management and the time spent by Society staff.

6.7 For the main premium tables and ISA/JISA business the Society has the freedom to allow for expenses in the setting of its bonus rates.

6.8 For the CTF business the management charge is fixed and the difference between the actual costs of the business and the management charges emerges as a surplus or deficit for the benefit of the Society's membership as a whole.

6.9 There are no current circumstances under which the Society will charge expenses at an amount other than cost.

6.10 The charges for fund management are treated as a first charge against investment income before it is allocated.

6.11 Certain exceptional expenses may be charged to the Society's free assets or mutual capital, rather than to policyholders.

6.12 The Society outsources various services including actuarial, audit, IT and investment management. These arrangements are reviewed at least annually and can be terminated as set out in the written agreements.

7. Business Risk

Principles

7.1 Business risks for the long-term business fund will include the acquisition and maintenance of with-profits and non-profit business. New business arrangements are covered in Section 9.

7.2 Any new venture involving significant resource or risk will be subject to a full cost benefit justification and risk assessment.

7.3 In general, the Society is unlikely to accept any business risks outside the routine risks of effecting and carrying out insurance contracts.

7.4 By virtue of the Society's constitution, any losses or compensation costs from business risk can only be borne by the long-term business fund.

Practices

7.5 The Society does not operate formal limits on the taking on of business risk, but the Society has established and robust procedures, systems and controls covering the management and mitigation of risk.

7.6 Should a risk crystallise with significant financial impact then, to the extent that new practices are required to protect the interests of policyholders, these will be developed to deal appropriately with the particular situation and will be subject to approval by the Committee having taken advice from the Actuary.

7.7 There is currently no exposure to risks from other investments in subsidiary or associated operations.

7.8 The Society transacts its CTF business in a separate unit linked tracker fund. This is not considered to be a significant source of risk. All investment risk is borne by the policyholder, and the income from the permitted management charge is significantly greater than the cost of running the business, and would continue to be so in the event of a substantial fall in the stock market.

7.9 Accumulated surplus from the CTF business is available to support the Society's long-term fund, thereby adding to the free assets of the Society. Conversely, any deficit from the CTF business could be charged to the Society's long-term fund, thereby reducing the free assets of the Society.

8. Management of Mutual Capital

Principles

8.1 The term "mutual capital" is normally used to refer to surplus which has accumulated over the years and is not attributable to the current generation of policyholders.

8.2 The term "free assets" includes the mutual capital, plus any surplus attributable to the current generation of policyholders which will be distributed in the form of bonus at or before the time of exit. It is generally defined as the excess of the realistic value of assets over the realistic value of liabilities determined in line with regulatory rules.

8.3 The free asset ratio is determined by expressing the free assets as a percentage of total assets. The Society does not have an explicit target in terms of the size of its free assets, but the Committee will use its judgement and discretion to ensure that the Society has sufficient free assets to maintain its financial strength and, in particular, to meet any financial shocks that may occur.

8.4 There are no constraints on the Society's freedom to manage the mutual capital.

Practices

8.5 The aim of the Society is for the free asset ratio (including CTF business) to fall in the range of 2% to 10% of total assets, subject to a minimum “solvency ratio” of 125%. The solvency ratio is defined as the free assets expressed as a percentage of the regulatory capital requirement.

8.6 The Society has a significant level of mutual capital as defined in 8.1, arising partly from the release of reserves on its old non-profit business, and the investment return earned on those reserves in excess of that required to support the rate of discount assumed in the valuation basis.

8.7 The Society intends to keep its mutual capital intact to provide investment freedom, and to enable it to display a strong free asset ratio, as this is in the long term interests of all its members.

8.8 In addition, the Society plans in future to hold back some of the emerging surplus to be paid as final bonus when a policy becomes a claim. This will enhance both financial strength and investment freedom, particularly in the context of the stress tests the Society is required to perform for regulatory purposes.

8.9 A free asset ratio of the size indicated above would give the Society freedom to manage its business in the best interests of policyholders and members. For example, it enables the investment strategy as set out in Section 5 to be pursued with the prospect of higher investment returns. It can enable higher levels of new business to be written which can help contain or reduce unit costs. It can enable greater smoothing in terms of payouts and reduce the immediate impact of financial shocks due to economic change or business risk.

8.10 The free assets are not a separately identifiable part of the fund and are available to meet all costs associated with the long-term business operations. No explicit allowance is made for the free assets in determining the amounts payable under with-profits policies.

8.11 The investment strategy for the free assets is the same as the strategy for the rest of the long-term business fund.

8.12 In general the assets backing with profits policies would not be expected to be applied to fund major business risks. Such risks would normally be funded by the free assets and would be subject to robust risk analysis before implementation.

8.13 Where the free asset ratio falls outside the range referred to in 8.5, the aim would be to restore the position to within this range over a maximum 5 year timeframe provided this did not lead to the material unfair treatment of policyholders.

8.14 Whilst not a primary use, the mutual capital has been and is used to support charities and good causes, and to provide various discretionary benefits, such as optical/dental grants, to members. Any such use is reviewed regularly and assessed on affordability and ensuring there is no adverse impact on the interests or fair treatment of with-profits policyholders.

9. Management of New Business

Principles

9.1 The primary consideration in the setting of new business volumes is the level of resource (both in terms of capital and processing capacity) required. The Society consults its Actuary concerning the appropriate target for new business from year to year.

9.2 Consideration is also given to the nature of the products being sold, their potential suitability for customers, the financial and business risks associated with the products and the methods and terms upon which they are sold as compared with the market.

9.3 The Society aims to ensure that policies are financially self-supporting over their duration and the Committee would not, therefore, seek to price new business on a loss-leading basis.

9.4 Should the Society determine that it is not in the interests of with-profits policyholders to remain open to new business, it will develop a closure plan. This will include a strategy for managing the closed book of business and how any mutual capital will be distributed over the expected lifetime of the with-profits policies.

Practices

9.5 There are no specific practices regarding the setting of new business volume limits beyond those implied by the principles set out previously. Currently maximum volumes and business mix are not an issue.

9.6 The Society has set no minimum scale in terms of new business volumes to justify staying open to new business. However, the position is subject to review from time to time according to the Principles set out previously. The likely progression of unit costs and investment freedom under alternative scenarios would be key factors in any decision taken.

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