Liver Ireland Sub-Fund With-Profits Operating Principles (WPOP)

1 January 2025

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1 About this WPOP

This WPOP sets out the principles we use to manage the with-profits policies in the Liver Ireland Sub-Fund, "the Fund". Policies in the Fund were transferred from The Royal London Mutual Insurance Society Limited ("Royal London") to Royal London Insurance DAC ("Royal London Ireland") on 7 February 2019. References in this WPOP to "we" and "us" are to Royal London Ireland.

On transfer, policies in the Fund were reinsured back to Royal London's Royal Liver Sub-Fund (the "Royal Liver Sub-Fund"), the fund they were in before the transfer. Following the consolidation of the assets and liabilities of the Royal Liver Sub-Fund into Royal London's Main Fund (the "Royal London Main Fund"), the policies in the Fund are reinsured back into the Royal London Main Fund. This means that although Royal London Ireland is the insurer, Royal London is ultimately responsible for funding payments in relation to claims made on policies in the Fund.

The reinsurance arrangement means that the management of the Fund is linked with the management of the Royal London Main Fund. The way the Royal London Main Fund is managed is described in its Principles and Practices of Financial Management ("Royal London PPFM") document. This is a technical document that describes in detail how the Royal London Main Fund is managed.

The content of the Royal London PPFM should be read as also applying, indirectly, to policies in the Fund. The principles in this WPOP cover the key points of the Royal London PPFM but if you require more detail you can refer to the Royal London PPFM directly. You can read the Royal London PPFM on our website www.royallondon.ie or you can ask us for a copy.

If we make significant changes to our approach to managing the Fund or Royal London makes significant changes to its approach to managing the Royal London Main Fund, we will tell you and provide an updated copy of this WPOP and the Royal London PPFM.

This WPOP should answer most of the questions you might have on the management of the Fund. If you have any further questions, please contact us. You will find our contact details under question 13.

2 What is a 'with-profits' policy?

There are two types of with-profits policies, conventional and unitised with-profits policies. This WPOP covers with-profits policies in the Fund that started with Royal Liver, including policies it sold under the Caledonian Life brand, and those with-profits policies transferred to Royal Liver from:

- Caledonian Insurance on 31 December 2000 and
- Irish Life Assurance plc on 28 February 2002.

Conventional with-profits policies

A conventional with-profits policy will give you a guaranteed minimum return on your investment, as long as you pay the premiums that you agreed when you started it. For example:

- for savings policies, you will receive a guaranteed minimum return at the end of the period you agreed to save for (the term) or on the earlier death of the life assured
- for retirement policies, you will be guaranteed a minimum pension (or pension fund) at your chosen retirement date.

As an absolute minimum, we will pay you the guaranteed return on your policy. Any guarantee will be set out in your policy document. We also aim to increase the guaranteed return on your policy by adding bonuses. However, if you cash in your policy early, we may reduce the guarantee on your policy. The guarantees provided by conventional with-profit policies can be a valuable benefit.

Conventional with-profits policies include:

- endowment assurances
- whole life assurances, and
- retirement annuities.

Unitised with-profits policies

A unitised with-profits policy is one in which we:

- use your premiums or contributions to buy units in a with-profits fund, and
- take units away to pay for our charges.

We aim to increase the return on your policy by adding bonuses. When your policy ends we will pay the value of the units you hold in the with-profits fund at that time. However, if you cash in your policy early, we may reduce the amount we pay. We explain this under question 12.

3 How do you decide the return on my policy?

We aim to make sure that every policyholder receives a fair return. We will calculate the return allowing for:

- the premiums paid into your policy
- the deductions we've needed to make to cover our expenses, the cost of providing benefits and tax, and
- the investment returns from the assets Royal London hold to back your policy.

Normally investment returns have the most significant impact on the return you get on your policy. We aim to increase the return on your policy by adding bonuses. We explain this under question 6. If we pay out when your policy reaches the end of its term (the period you agreed when you started the policy), we aim to pay an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. This range is outlined in the Royal London PPFM. We explain smoothing under question 5.

4 What investments do you hold to back my policy?

The reinsurance arrangement means that the investments to back your policy are held by Royal London rather than Royal London Ireland. Royal London aims to achieve growth by investing in a wide range of assets, subject to the requirement that the Royal London Main Fund should always be able to pay policyholders' guaranteed benefits when they are due (including those policyholders who have policies reinsured to the Royal London Main Fund). Holding a wide range of assets helps to reduce the risk to the Royal London Main Fund and consequentially, the Fund, that would otherwise arise if all or most of the assets were of a single category. Investments may include:

- shares in UK and overseas companies (also known as equities)
- property
- government bonds (loans to the government)
- company bonds (loans to companies)
- subsidiary companies
- cash deposits, and
- more complex types of assets that are used to help reduce investment risk or increase the diversity of the asset mix.

The assets of the Royal London Main Fund may be allocated to different types of policies in different ways. This is done to take account of a number of factors, such as the value and nature of policy guarantees. As a result, different types of policies might be invested in a different mix of assets.

Each year Royal London intends to publish on its website www.royallondon.com the investment mix at 31 December. This will also be published on our www.royallondon.ie

5 How do you cushion my policy from the ups and downs of the stock market?

As we've explained under question 4, the Royal London Main Fund invests in a wide range of assets, including company shares, property and government and company bonds. Company shares are bought and sold on stock markets throughout the world. Although the investment returns from company shares and property are potentially higher than from government and company bonds, they are also less stable, with values fluctuating up or down over short periods. World events may cause the values of company shares to fall sharply.

We aim to cushion your policy as far as possible from short term fluctuations in investments by 'smoothing' out the effects of some of the ups and downs. We do this in two ways. Firstly, Royal London invests in a wide range of assets and, within these, limits the amount invested in any one specific investment. Secondly, instead of adding large bonuses to your policy in good years and no bonuses in bad years, we hold back some of the investment profit made in good years and add it in the bad years.

This means you receive a more 'smoothed' return on your policy. So if, for example, your policy ended at a time when the stock market fell substantially, the smoothing of returns might help to protect it from a sudden drop in value. Policyholders in funds that don't smooth investment returns could see the value of their policies rise or fall faster than those in a smoothed fund.

6 What affects my policy's bonuses?

The bonuses we may add to your policy are affected by:

- the investment returns achieved by the assets backing your policy
- the level of policy guarantees
- the charges that we make, and
- how we smooth the return on your policy (we explain smoothing under question 5).

The bonuses we may add to your policy represent your share of the profits and losses of the Royal London Main Fund. The main factor that affects the level of bonuses that we may add to different groups of with-profits policies is the investment profits or losses of the assets backing those policies.

Other important factors are the effect of policy guarantees and the charges we make. The charges include:

- the costs of acquiring and administering your policy
- the costs of helping to meet policy guarantees
- the cost of life cover
- tax, and
- any specific terms included as part of the transfers from Caledonian Insurance or Irish Life.

Other factors may also give rise to profits or losses within the Royal London Main Fund that may be shared with you if it is considered that the size of the Royal London Main Fund is larger or smaller than necessary to meet its aims. Such factors might include:

- the profits or losses from other types of policy in the Royal London Main Fund, and
- any differences between the amounts paid to policyholders leaving the Royal London Main Fund and the fair share of the total value for their policies at the time.

7 What types of bonus might you add to my policy?

There are three types of bonuses:

- Annual bonus, which we may add to your policy each year and which increase the guaranteed minimum amount that we will pay out.
- Interim bonus, which we may add when your policy ends to cover the period since we added an annual bonus.
- Final bonus, which we may add when your policy ends.

Unless your policy documents include any special conditions that apply to your policy or you cash in your policy early or stop paying the premium early, the benefits payable when your policy ends are:

- the basic sum assured, plus
- any annual bonuses already added to your policy, plus
- any interim and final bonuses that we may add.

8 How do you decide bonuses?

We set bonuses so that payouts represent a fair share of the Royal London Main Fund, allowing for smoothing. We explain smoothing under question 5. Although your policy is reinsured by Royal London, we set the bonuses on your policy.

Annual bonuses pay out part of the profits of the Royal London Main Fund, increasing your policy's guaranteed benefits. We set annual bonus rates each year with the aim of holding back part of your policy's share of the profits to pay as final bonus.

When we set annual bonuses, we take account of factors such as our long-term view of future investment returns, the level of policy guarantees and the level of the estate in the Royal London Main Fund for its long-term objectives. We explain the estate under question 11.

Annual bonuses increase your policy's guaranteed benefits. In order to ensure that the Royal London Main Fund can pay such guaranteed benefits, we may limit future annual bonuses or set annual bonuses to zero.

We usually set interim bonuses at the same time and at the same rates as annual bonuses. However, we might change them more often than annual bonus rates, or set them at different rates to annual bonus rates.

Any final bonus that we add is intended to represent your policy's fair share of the profits and losses of the Royal London Main Fund over the policy's term that we haven't already added as annual or interim bonuses.

In setting final bonuses, we also aim to ensure that both the Royal London Main Fund and the Fund are always large enough to pay policyholders' guaranteed benefits when they are due and have enough money in the estate. We explain about the estates in questions 10 and 11. We normally set final bonuses on 31 December each year but we may review and change them during the year.

We aim to set final bonuses so that, in total, maturity payouts are equal to their fair share of the Royal London Main Fund. Some final bonuses might be zero, for example when the guaranteed benefits are greater than the fair share.

9 What risks are there in investing in the Fund?

The Royal London Main Fund, and by association, the Fund, are exposed to a number of risks, for example:

- risks relating to how well investments do
- risks relating to how much the expenses of the Fund might be (although these were largely fixed until December 2021)
- risks that the costs of meeting policy guarantees are greater than we expect
- the risk that we might have to pay compensation to certain policyholders.

We monitor the risks as part of our standard risk management procedures, and act to reduce risk exposure where we think it is necessary.

10 What was the estate of the Royal Liver Sub-Fund and what was it used for?

The estate of the Royal Liver Sub-Fund was the amount by which the assets of the Royal Liver Sub-Fund were greater than the amounts already promised to policyholders by way of guaranteed benefits.

On 31 December 2022, the Royal Liver Sub-Fund was consolidated into the Royal London Main Fund as a result of the Royal Liver Scheme of Arrangement. Accordingly, the assets and liabilities of the Royal Liver Sub-Fund were consolidated into the Royal London Main Fund and thereafter the Royal Liver Sub-Fund also ceased to exist.

When policies were transferred from Royal London to Royal London Ireland on 1 January 2019, we did not allocate any of the estate of the Royal Liver Sub-Fund. There were protections in the Scheme of transfer (which is a court approved document) to ensure you remained entitled to share in the estate of the Royal Liver Sub-Fund through the reinsurance arrangement.

With-profits policies within the Fund, and with-profits policies in the Royal Liver Sub-Fund participated in a one-off final distribution of the Royal Liver Estate when it was distributed fully and the policies were consolidated into the Royal London Main Fund on 31 December 2022.

11 What is the estate of the Royal London Main Fund and what is it used for?

The estate of the Royal London Main Fund is the amount by which the assets of the Royal London Main Fund are greater than the amounts already promised to policyholders by way of guaranteed benefits.

Royal London decides on the level of the estate required to help manage the Royal London Main Fund properly and support its operation. The estate is used to ensure the Royal London Main Fund has enough money to satisfy the regulators, develop the business, issue new business and carry out smoothing, for example.

If at any time the estate is more than Royal London thinks it needs, they may decide to reduce it by distributing some of the profits to eligible policies. This is called ProfitShare. Policies in the Fund are not eligible for any such ProfitShare, instead they shared in the distribution of the Royal Liver Estate including enhancement on closure and consolidation into the Royal London Main Fund.

The Fund is a closed fund. However, the reinsurance arrangement ensures that your policy benefits are linked to Royal London's Main Fund which is an open fund. The Fund's capital requirements are provided by the Royal London Main Fund under the terms of the reinsurance agreement. If the reinsurance is terminated in future the Royal London Main Fund will return an amount to the Fund to allow Royal London Ireland to meet policyholders' reasonable expectations.

12 How do you decide how much I get if I cash in my policy early?

If you cash in your policy early, we will adjust your benefits to pay you a fair amount taking into account factors such as the level of expenses and investment returns over the period that you held the policy for and allowing for smoothing. We explain smoothing under question 5.

If you cash in your policy early, we aim to pay you an amount that is within a reasonable range of the value of the investments backing the policy, before allowing for smoothing. We outline this range in the Royal London PPFM.

If you have a unitised with-profits policy we may reduce the value of your units by applying a market value reduction (MVR) if you cash in your policy early. We may apply this reduction to ensure a fair level of payouts to everyone invested in the Royal London Main Fund. If we did not do this the policies remaining in the Fund or the Royal London Main Fund would not receive their fair share. We won't apply an MVR when we cash in the units in your policy after the life assured dies.

13 How can I find out more?

If you have any questions, please:

Call us on 01 429 3333 between 8am and 6pm Monday to Friday, unless it's a bank holiday in Ireland.

Email us at service@royallondon.ie

Fax us on 01 662 5095

Or write to
Royal London Ireland,
47-49 St Stephen's Green,
Dublin 2,
Ireland

If you would like a copy of this document in large print, please call us on 01 429 3333

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