



## **With Profit Operating Principles (WPOP)**

For the Closed Fund of Aviva Life & Pensions Ireland Designated Activity Company



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# Section 1: Introduction

The Introduction and any statements at the start of subsequent sections of this document, together with the appendices, are provided by way of background information and do not form part of the Principles.

## 1.1 Company information

Aviva Life & Pensions Ireland Designated Activity Company (“the Company”) is owned by Aviva Life & Pensions UK Limited, which is owned by Aviva Life Holdings UK Limited, whose ultimate holding company, Aviva plc, is incorporated in England.

Further information on the company names and background is provided in Appendix B. The Company sells products throughout Ireland under the Aviva brand.

## 1.2 What business is covered by this document?

This document covers the With-Profits business in the Closed Fund of the Company.

The Company contains policies originally issued by a number of other insurance companies. The structure chart in Appendix C shows the composition of funds under the Company.

The most common names that exist on what are now policies of the Closed Fund are National Mutual Life Association of Australasia and NM Life Assurance Ireland Ltd. There are no policies issued by “Aviva Life & Pensions Ireland Limited”, “Norwich Union Ireland”, “Norwich Union Insurance Ireland Limited”, “Hibernian Life Limited”, “Hibernian Life & Pensions Limited”, “Friends Provident Life Office” and “Friends First Life Assurance Company” in the Closed Fund.

In 2018 Friends First Life Assurance Company Ltd (“FFLAC”) was purchased by Aviva plc. It became a wholly owned

subsidiary of Aviva Life & Pensions UK Ltd and was renamed Aviva Life & Pensions Ireland Designated Activity Company (ALPI DAC). The Closed Fund was a sub fund within FFLAC before this purchase.

## 1.3 Purpose of WPOP

### What is a WPOP?

A WPOP is a document that sets out the Principles that a company follows when managing its With-Profits business. A WPOP must comply with Central Bank of Ireland (CBI) regulations. The WPOP for the Closed Fund has been approved by the Board of Directors of Aviva Life & Pensions Ireland Designated Activity Company (‘the Board’). The Board will report each year on whether the Closed Fund has been managed in accordance with the WPOP.

The WPOP will be provided on request free of charge to Closed Fund With-Profits policyholders and for a reasonable charge to any other person. The location of the WPOP on the Company’s website will be prominently signposted.

### What are Principles?

The With-Profits Principles are enduring statements of overarching standards followed by a company when managing a With-Profits sub-fund bearing in mind its duties to With-Profits policyholders in both the current and future economic environments, its need to be fair to all policyholders, and comply with any relevant legislation and policy terms and conditions.

## Changes to Principles

Changes to the WPOP will only be made in accordance with CBI regulations, subject to the governance set out below and in compliance with any requirements of the Scheme as set out below.

### 1.4 Governance arrangements surrounding the WPOP

It is the responsibility of the Board to ensure that the Company manages the Closed Fund With-Profits business in line with the Principles set out in this document.

The Company has put in place the following governance arrangements to offer assurance that WPOP have been adhered to:

- The Board will produce a 'With-Profits Policyholder Report' annually that includes information on compliance with the WPOP and the way the firm has exercised discretion and addressed any competing or conflicting rights and expectations. This will be made available to policyholders on the website [friendsfirst.ie/with-profits](http://friendsfirst.ie/with-profits) and on request.
- The Board appoints a Head of Actuarial Function whose responsibilities are defined by the Central Bank of Ireland under their "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015. The individual appointed as Head of Actuarial Function must be approved by the Central Bank of Ireland before taking up the role. The Head of Actuarial Function responsibilities include advising the Board in relation to the WPOP.

### 1.5 Court Scheme

The management of Aviva Life & Pensions Ireland Designated Activity Company is also governed by a Scheme approved by the High Court of

England and Wales, 'the 2019 Ireland Scheme' (known as 'the Scheme' in the remainder of this document). This scheme did not change any of the requirements from the original scheme transferring the Closed Fund from FPLO to FPLAC. This is described in more detail in Appendix B. The WPOP and the Scheme are not intended to alter the rights and obligations we have under any policy documents issued to policyholders.

### 1.6 Glossary

Appendix A defines the key words and phrases used within this report. The following section also gives some background information on types of With-Profits policies, and types of bonus.

### 1.7 Background information on With-Profits policies

With-Profits policies typically provide benefits at certain contractual dates specified in the policy.

The contractual date is typically the end of the policy term, called the 'maturity date' for endowment policies or the 'retirement date' for pensions policies. For other policies such as With-Profits bonds, the policy may specify particular contractual dates, for example the 10th policy anniversary. The benefits are also, typically, guaranteed on the death of the policyholder. Benefits may be taken at other times, but the payout received in this case is not usually guaranteed in any way.

Bonuses may be added to increase the value of the benefits of the policy. There are typically two forms of bonus:

- Regular bonuses, which are added throughout the policy term, although at certain times the regular bonus may be zero; and
- Final bonuses, which may be added whenever the policy benefits are taken. Again, the final bonus may be zero.

The Closed fund contains 'Conventional' With-profits policies:

- 'Conventional' With-Profits ('CWP') policies typically provide a guaranteed amount of money on a set date or dates ('the contractual date(s)') and/or on death, provided that all the premiums are paid when due. The regular bonuses added from time to time increase the value of the initial guarantee set out in the policy. A final bonus may be added on the contractual date.

Policies may be ended early, but the proceeds are then not usually guaranteed.

Not all policies receive the same bonus rates. For the purposes of setting bonuses, policies are grouped, mainly by type of policy. All policies in the group, known as a 'bonus series', will receive the same rate of regular bonus. The final bonus rates that apply to the group will typically depend on the year the benefits were purchased.

## Section 2: Core Principles

### Principles

ALPI DAC will manage the Closed Fund in accordance with all legal and regulatory requirements. This will include managing the Closed Fund in accordance with the Scheme of Transfer and observing all contractual terms set out in policy documents.

In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme shall prevail.

ALPI DAC will manage the Closed Fund in a sound and prudent manner and with due regard to the interests of its policyholders and with a view to treating all policyholders fairly.

ALPI DAC will aim to manage the Closed Fund in order to ensure that all guaranteed benefits can be paid as they fall due. ALPI DAC will aim to achieve a fair distribution of the Closed Fund assets attributable to the With-Profits policies, over the lifetime of those policies.

The assets of the Closed Fund are intended to be sufficient in all but exceptional circumstances. No further capital is normally expected to be provided to the Closed Fund from the Other Business Fund or the Shareholder Fund. Further, whilst from time to time assets outside the Closed Fund may be used to provide part of the risk capital (i.e. solvency capital requirement) required by the Closed Fund, the Closed Fund is intended to be managed so that over time it will provide all of this risk capital itself.

If the number of Closed Fund With-Profit policies falls below 1,000 then ALPI DAC may, but will no longer be obliged to, maintain the Closed Fund as a separate fund. If the number of such policies falls below 500 then ALPI DAC will cease to maintain the Closed Fund as a separate fund. If ALPI DAC ceases to maintain a separate Closed Fund then the board will consider the appropriate treatment of the remaining policies.

# Section 3: The amount payable under a With-Profits policy

## Amount payable

### Introduction

The amounts paid (payouts) at maturity or at the contractual retirement date in respect of With-Profits policies are calculated as follows (reference should be made to the policy document for the exact terms):

- Payouts in respect of most classes of conventional With-Profits policies are calculated as the sum of the guaranteed amount including the regular bonuses added during the term of the policy, together with any interim and final bonus added at the date of claim.

Some With-Profits policies do not have a maturity date and benefits are payable only on death or surrender.

The method for calculating payouts on death depends on the contractual terms of each policy and whether it is designed principally for savings or protection. Some pensions policies do not pay out a benefit on death.

Typically, one of the following methods is used to determine death benefits:

- (i) The basic sum assured and bonuses added to date, plus any interim and final bonus.
- (ii) A formula is applied, typically a return of premiums, possibly accumulated at a particular interest rate (this method is commonly used for conventional pensions policies).

Surrender values paid on conventional With-Profits policies, including pensions payable on early and late retirement, are, unless specified in the policy document, calculated in accordance with bases determined by the Directors of ALPI DAC and reviewed periodically.

Payouts on surrender are not generally guaranteed in advance of an application to surrender.

### Principles

ALPI DAC will use appropriate models, methods and techniques in order to manage the Closed Fund and determine payouts.

For most classes of With-Profits business payouts will be determined having regard to Adjusted Asset Shares to endeavour to ensure that fairness is maintained between different groups and generations of policies.

For classes of business where Adjusted Asset Share does not represent an equitable guide to payouts, or where it is not calculated, payouts will be determined using other methods.

Approximations should not materially affect resulting payouts or bonuses compared to the result of more precise methods which could practicably have been used at a reasonable cost.

## Approach used to set bonus rates

### Principles

Bonus rates and surrender value bases will be kept under regular review in order to manage the With-Profits policies in line with the Principles detailed in this section and to maintain equity between policyholders of different generations and bonus series and between those leaving the Closed Fund and those remaining.

Regular bonuses will be added when appropriate to provide policyholders with additional guaranteed benefits. When necessary, the Directors will restrict regular bonus rates for particular bonus series in order to protect the solvency of the Closed Fund or to ensure the maintenance of a reasonable balance between the guaranteed benefits and final bonuses payable at maturity or on retirement.

Final bonus rates will be determined for each bonus series in order broadly to reflect any excess of the Adjusted Asset Share over the amount already guaranteed by the addition of regular and interim bonuses. Regular and final bonus rates may be zero.

## Approach to smoothing

### Principles

In order to provide an element of stability in the returns to policyholders at maturity and surrender, smoothing is applied by spreading profits and losses from one year to the next.

It is intended that the long-term cost of smoothing is broadly neutral across

generations of policyholders.

## Surrender Values

### Introduction

It is the responsibility of the Board to ensure any current activity does not adversely affect ongoing policyholders and their rights. Therefore, the Board may alter the surrender value basis if permitted from time to time.

### Principles

Surrender value bases for conventional With-Profits business will be set in order to achieve a target percentage of Adjusted Asset Share averaged across all policies within each class.

## Section 4: Investment strategy

### Principles

The investment strategy aims to provide the highest long-term returns (allowing for the effect of taxation) consistent with the interests of policyholders and commensurate with acceptable levels of solvency risk. The investment strategy for the Closed Fund will be determined after taking into account:

- The overall strategy to achieve above average returns in the longer term;
- The current and projected financial position of the Closed Fund (treating the Closed Fund as if it were a notional mutual life company);
- Advice from the investment manager for the ALPI DAC Funds;
- Advice from the Head of Actuarial Function, and relevant committees of the ALPI DAC Board;
- The investment expectations of all classes of policyholder resulting from information provided to them; and

- The advantages of reducing overall volatility by investing in a wide range of assets;

provided that the existence of these requirements shall not prevent short term tactical asset allocation decisions from being implemented from time to time.

The liabilities of the Closed Fund may be grouped into separate pools within the Closed Fund as a whole (for example non-profit business, With-Profit business, or parts thereof) and the investment strategy for each of the resulting pools determined separately. ALPI DAC may instruct the investment manager to use derivatives as part of an investment strategy to help manage risk or to aid efficient portfolio management. ALPI DAC uses a range of counterparties in order to limit exposure to any one counterparty.

Assets that would not normally be traded are not expected to be held by the Closed Fund.

## Section 5: Business risk

### Introduction

The With-Profits policyholders are entitled to a share of the distributable surplus of the Closed Fund, as determined by the Board, and are exposed to general business risk of miscellaneous profits and losses that may arise from various sources within the Closed Fund.

### Principles

The Closed Fund bears financial, operational and insurance risk in respect of business written directly within the fund. In return any profits resulting from bearing these risks contributes to the surplus within the Fund.



## Section 6: Charges and expenses

### Principles

The expense charges to the Closed Fund consist of a fair share of the Company's total expenses subject to the terms of the Scheme. This is reviewed by the Head of Actuarial Function each year. Such expenses are charged to Asset

Shares taking into account the cost of selling and administering each type of contract.

The tax charge to the Closed Fund will be calculated on the basis that it is a mutual life assurance company.



## Section 7: New Business

### Principles

No new business is written in the Closed Fund except business written following the exercise of options on existing contracts.

## Section 8: Equity between the Closed Fund and shareholders

### Principles

Shareholders have no entitlement to any surplus arising in the Closed Fund. Distributions of surplus to policyholders will be determined by the Directors of ALPI DAC after taking into account the advice of the Head of Actuarial Function and after consideration by a subcommittee of the Board if it considers it appropriate. In giving this advice the Head of Actuarial Function will take into account:

- The need to ensure that the Long-Term Business Fund in aggregate is able to meet the statutory liabilities of ALPI DAC;

- The current and projected capital needs of the Closed Fund;
- The investment strategy of the Closed Fund;
- The bonus policy; and
- The need for an appropriate level of security for Closed Fund policyholders' benefits, taking into account the nature of each type of business;

Surplus arising in the Closed Fund will only be distributed to With-Profits policyholders.

The Closed Fund has no entitlement to any of the surplus from other sub-funds of the long-term business fund and vice versa.

# Appendix A: Glossary

## *(Adjusted) Asset share*

The premiums paid, less deductions for expenses, guarantees, tax and other charges, plus any allocations of business profits, accumulated at the investment return achieved on relevant assets of the Par Fund.

## *Central Bank of Ireland*

The Central Bank of Ireland (CBI) is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in Ireland. It is the lead regulatory body responsible for the Par Fund.

## *Closed Fund*

The Closed Fund of Aviva Life & Pensions Ireland Designated Activity Company.

## *Conventional With-Profits*

Life and pension policies written with an initial guaranteed benefit and all charges are allowed for within the premium rates. The policies are invested in the Par Fund and share in the return on the Par Fund through the addition of bonuses.

## *Counterparty*

Investment contracts impose an obligation on both parties to meet with the terms of the contract. The other party is known as the counterparty

## *Counterparty limits*

The Company set limits on the amount of investments it can have with a particular counterparty. This prevents excessive exposure to one company and the risk that would entail.

## *Endowment assurance*

A life assurance plan that pays a sum of money on the survival of the life assured to a specific date, or upon their earlier death, in return for regular premiums or a one-off payment.

## *Final Bonus*

This may be added to investments in the Par Fund when a claim arises. The final bonus is not guaranteed and may be changed or removed at any time.

## *Head of Actuarial Function*

The Head of Actuarial Function role is defined by the Central Bank of Ireland under their “Domestic Actuarial Regime and Related Governance Requirements under Solvency II” document of 2015.

## *Initial guaranteed benefits*

When a conventional With-Profits policy is taken out the policy defines a basic benefit that is guaranteed to be paid at maturity or earlier death or other specific times (together with any bonuses declared subsequently on the policy) as long as all premiums are paid when they are due and the policy is kept in force.

## *Interim bonus*

Where a regular bonus rate has only been declared up to a certain date, then an interim bonus covers the period before a next declaration for claims made during that period.

## *Maturity date*

When an endowment policy is taken out there is an agreed date, the maturity date, when the benefits will be paid so long as the policy is kept in force. For a pension policy it is the selected retirement date at commencement of the policy.

### ***Other Business Fund***

The main non-profit fund of the Company.

### ***Payouts at maturity or at the contractual retirement date***

The total amount payable at the date originally agreed as being the termination date of the policy if it is still in force at that time.

### ***Payouts on death***

The total amount payable if the insured person dies while the policy is still in force.

### ***Payouts on surrender***

The total amount payable if the policyholder decides to cash in (or transfer in respect of a pension) the benefits at a date other than the originally agreed termination date.

### ***Regular bonus***

These are the distributions of surplus added to the policy each year. For conventional With-Profits policies this is done by adding further to previously declared bonuses. Once added, regular bonus is guaranteed to be paid on death and, if the investment has a maturity date, at the end of the term.

### ***Scheme/Scheme of Transfer***

With the exception of the Introduction and Appendix B, all references throughout this document refer to the Scheme of Transfer approved by the High Court of England and Wales in 2019 and effective from 29 March 2019 (the 'Scheme Date').

### ***Shareholder Fund***

Assets held within the Company that are not within the Par Fund, the Other Business Fund, the Closed Fund, the Irish With-Profit Fund or the Other ALPI DAC UKLAP funds introduced by the Scheme on 29 March 2019. The assets of this fund are available to meet the Solvency Risk Appetite and, to the extent not required for this, may be distributed to shareholders.

### ***Smoothing***

The claim payout under a With-Profits policy aims to dampen the volatility of return from the underlying assets.

### ***Solvency Capital***

The required minimum level of assets in excess of liabilities including any required regulatory buffer.

### ***Solvency Risk Appetite***

The Solvency Risk Appetite describes the Company's approach to the management of its Capital position. The Solvency Risk Appetite is the preferred level of capital in excess of the minimum required by regulations. It provides protection to the Company against the risk of breaching regulatory requirements and restricts the ability of the Company to pay dividends.

### ***Surrender***

The termination of a contract prior to maturity or for a pension policy earlier than its initial selected retirement date.

### ***With-Profits business***

This is that part of the business, which includes the issuing of With-Profits policies.

### ***With-Profits sub-fund***

This is a pool of assets held in respect of With-Profits business which can back a combination of With-Profits and non-profit policies. There are a number of With-Profits sub-funds within the Company, of which the Closed Fund is one.

# Appendix B: Background

## *Company Information*

Aviva Life & Pensions Ireland Designated Activity Company (“the Company”) is an authorised life insurance company incorporated in Ireland. Its registered office and head office are in Dublin. It is a wholly owned subsidiary of Aviva Life & Pensions UK Limited.

The history of the Company is briefly described below.

Friends’ Provident Life Office (FPLO) was founded in 1832 as a mutual life company. It wrote business in both the UK and Ireland. In 1990 it transferred its Irish branch business to Friends Provident Life Assurance Company Limited (FPLAC) under a Scheme of Transfer approved by the High Court.

In 1993 FPLAC acquired control of NM Life Assurance Ireland Limited, which in 1995 was transferred into FPLAC under a Scheme of Transfer approved by the High Court.

In 1998 FPLAC was renamed Friends First Life Assurance Company Ltd (FFLAC). In 2016 it became Friends First Life Assurance Company dac.

In 2018 FFLAC was purchased by Aviva plc. It became a wholly owned subsidiary of Aviva Life & Pensions UK Ltd and was renamed Aviva Life & Pensions Ireland Designated Activity Company (ALPI DAC).

## *Fund Structure*

The fund structure of Aviva Life & Pensions Ireland Designated Activity Company is shown in Appendix C below.

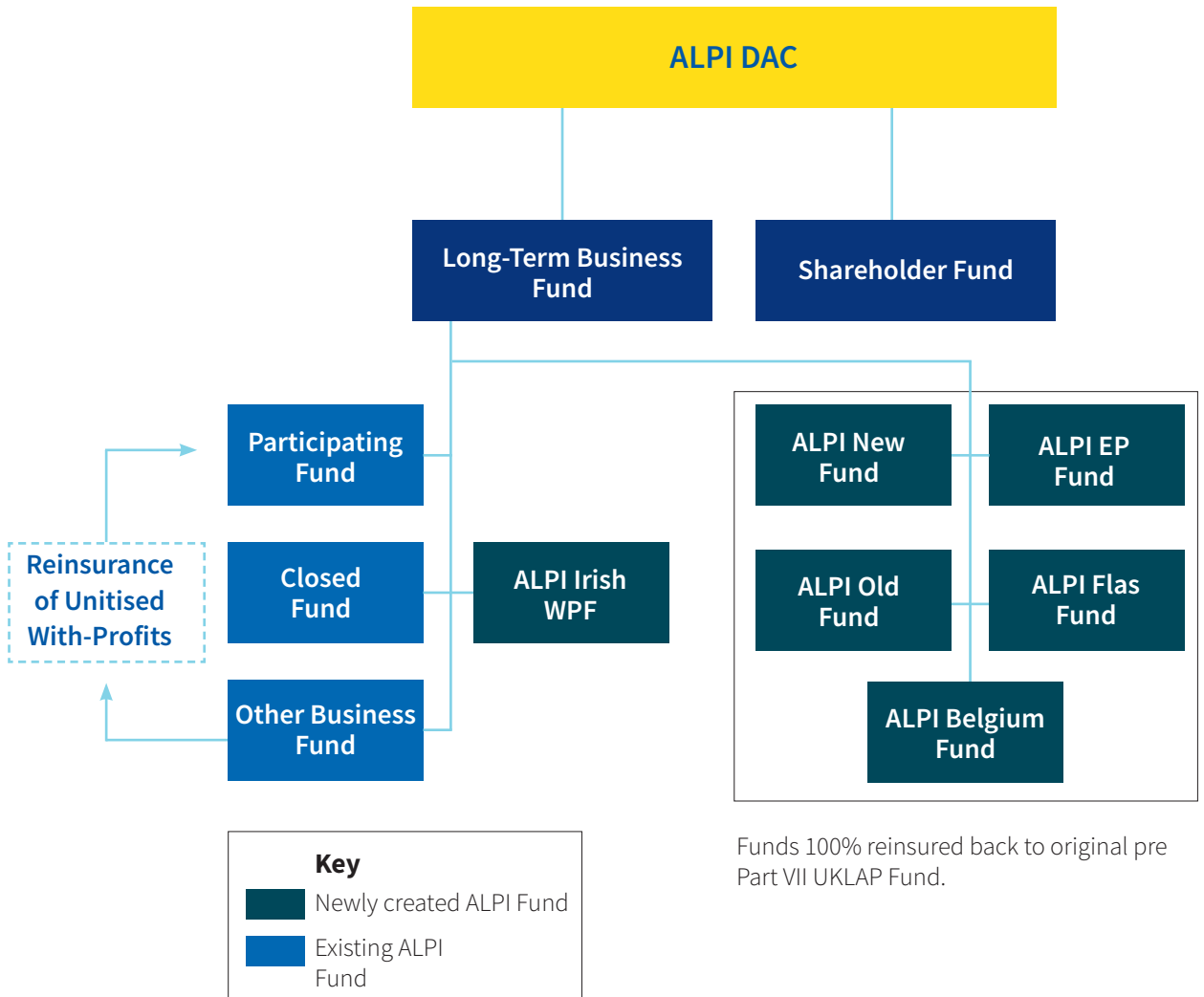
ALPI DAC consists of a Long-Term Business Fund in which all policies are written and a Shareholder Fund. Within the Long-Term Business Fund there are nine sub-funds of which five are 100% reinsured to the original pre-Part VII transfer UKLAP Fund. The four funds which are not 100% reinsured are: the Participating Fund, The Closed Fund, the Other Business Fund and the Irish With-Profit Fund. When used in this document, the expression “ALPI DAC Fund(s)” means any or all of the funds maintained by ALPI DAC from time to time including the Participating Fund, the Closed Fund, the Other Business Fund, the Irish-With-Profit Fund and the Shareholder Fund.

The Participating Fund contains all policies transferred from NMI to FFLAC in accordance with the Scheme of Transfer, other than unit-linked business, which was allocated to the Other Business Fund.

New business written by FFLAC since the transfer in 1995 has been written in the Other Business Fund or the Participating Fund except for some business arising from options granted to customers under Closed Fund policies.

Under a Scheme approved by the High Court of England and Wales, on 29 March 2019 certain business, including the Irish With-Profits Sub-Fund (Irish WPF), was transferred into the Company from Aviva Life & Pensions UK Limited. The transferred business comprised all the EEA (non-UK) business targeted exclusively to local nationals’ resident within their home country, under local laws and regulations, and sold under Freedom of Services or Freedom of Establishment.

# Appendix C: Aviva Life & Pensions Ireland Designated Activity Company – Fund structure chart



Funds 100% reinsured back to original pre Part VII UKLAP Fund.







**It takes Aviva**

Aviva Life & Pensions Ireland Designated Activity Company, a private company limited by shares.  
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Aviva Life & Pensions Ireland Designated Activity Company, trading as Aviva Life & Pensions Ireland and Friends First, is regulated by the Central Bank of Ireland.  
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