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# Pearl SERP Fund

## Principles and practices of financial management

VERSION 1: 2 January 2009



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# Introduction

## Structure and History

The Pearl SERP Fund was established on 2 January 2009 as part of the *High Court Scheme* approving the transfer of certain business from *NP Life* to *Pearl*.

Under the terms of the *High Court Scheme*, all *SERP* business previously written in *NP Life* was transferred to the Pearl SERP Fund, a new fund within the long-term fund of *Pearl*.

*NP Life* was established in 1999 to take over the existing business of *NPI* subsequent to *NPI*'s demutualisation and its acquisition by AMP Limited on 1 January 2000. Prior to 2 January 2009, the principles and practices of financial management of *SERP* business were set out in the *NP Life* Principles and Practices of Financial Management.

## The High Court Scheme

Under the terms of the *High Court Scheme* all *SERP* policies previously written in *NP Life* were allocated to the Pearl SERP Fund on 2 January 2009.

The Pearl SERP Fund is ring-fenced with separate accounting records sufficient to enable the separate identification of the assets and liabilities of the fund. It will be debited with taxation as if it were a separate mutual life assurance company.

The *Pearl SERP Fund Estate* comprises the value of the assets in the Pearl Loan Capital Fund and the Pearl Transfer Capital Funds, both of which are separate accounts within the Pearl SERP Fund. The *Pearl SERP Fund Estate* belongs to *Pearl*'s shareholders but will be used to meet all *guarantee costs* as they arise and to ensure that payouts meet the reasonable expectations of policyholders.

There are restrictions on the amounts in respect of expenses and charges that can be allocated to the Pearl SERP Fund. These restrictions are the same as those that applied to *NP Life* under the *Demutualisation Scheme*.

Subject to various safeguards designed to protect policyholders' interests, the Pearl SERP Fund may be wound up and policies converted to non-profit in accordance with the *High Court Scheme*, when the fund becomes less than £250 million (indexed in line with the Retail Price Index).

## *Pearl*'s Long-Term Funds

*Pearl* has four separate funds within its long-term fund:

- The Pearl SERP Fund.
- A 90:10 fund writing With-Profits business - this is the With-Profits fund.
- A 0:100 fund attributed to the shareholders writing pensions business.
- A 0:100 fund attributed to the shareholders writing life business.

## Purpose of the Principles and Practices of Financial Management (PPFM)

This PPFM describes the principles and practices that *Pearl* applies when managing the Pearl SERP Fund business. This document is designed to enable Pearl SERP Fund policyholders to better understand the way in which *Pearl* manages the business. *Pearl* will also produce an annual report available to policyholders on its compliance with this PPFM.

## Principles

The principles provide a high level description of the standards adopted by *Pearl* in managing the Pearl SERP Fund. They describe the business model used by *Pearl* in meeting its duties to policyholders and in responding to long-term changes in the business and economic environment.

Principles are intended to be enduring, but *Pearl* may change them from time to time, in which case three months' written notice will be given to current With-Profits policyholders before any change is made (in the absence of a waiver of this requirement by the Financial Services Authority).

## Practices

The practices provide a more detailed description of how *Pearl* intends to manage the Pearl SERP Fund and respond to changes in the business and economic environment in the short term. The aim is that the practices provide sufficient detail for a knowledgeable observer to understand the material risks and rewards of effecting or maintaining a Pearl SERP Fund policy with *Pearl*.

*Pearl* may change its practices without advance notice but policyholders will be notified of such changes. Notification may be given after the change has been made but will be within a reasonable time period from the effective date of the change.

These principles and practices apply to the Pearl SERP Fund business.

## 2. Disclaimer

None of the contents of this document form part of, or vary, the terms or conditions of any policy issued or to be issued by *Pearl*. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

This document is intended to assist knowledgeable observers to understand the way in which the Pearl SERP Fund business is conducted and the material risks and rewards involved in maintaining a Pearl SERP Fund policy. It is not a comprehensive explanation either of the management of the Pearl SERP Fund business or of every matter which may affect that business.

In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to the maintaining of a Pearl SERP Fund policy. Accordingly, any person considering whether to maintain a Pearl SERP Fund policy should seek independent financial advice.

Statements in this document in relation to the risks and rewards involved in maintaining a Pearl SERP Fund policy are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.

The contents of this document may change as the circumstances of *Pearl* and the business environment change. The document may also change to reflect changes made by *Pearl* to the management of the Pearl SERP Fund.

Readers of this document should read the whole document. Reading only selected sections or paragraphs in isolation may result in a misleading impression of the way in which the Pearl SERP Fund is conducted and the material risks and rewards involved in maintaining a Pearl SERP Fund policy. The principles set out in this document and their associated practices should in particular be read together.

## A. Methods Used to Determine Payouts

### Principles

- PA.1 The benefits payable on *SERP* policies will not be less than the guaranteed amounts.
- PA.2 Except where guaranteed amounts are higher, *asset share* techniques are used as a guide to determining *payouts* with the intention that all policyholders are treated fairly and that aggregate *payouts* will target 100% of the *asset share*.
- PA.3 *Asset shares* are calculated from the *asset shares* determined as at 1 January 2009, using the methods in use by *NP Life* at 31 December 2008, accumulated by reference to the investment return of the assets notionally attributed to the *asset shares* and the expense and mortality experience of the Pearl SERP Fund.
- PA.4 *Open Market Option* and *tax-free cash* values will represent a fair value of the annuity benefits given up.
- PA.5 Approximations are only used where it is necessary, for example, due to insufficient data or systems constraints.
- PA.6 Significant changes to the methods and data used to determine *payouts* require the approval of the *Board*. Changes to historical data are only made if they are found to be incorrect.

### Practices

- CA.1 *Payouts* are determined using the results of the *asset share* calculations, subject to the smoothing practices described below, with a minimum payout of the value of the guaranteed benefits.
- CA.2 The *asset share* for a policy is:
- (i) the *asset share* at 1 January 2009;
- plus
- (ii) the premiums subsequently paid;
- less

(iii) the expenses (including commission and investment management charges) relevant to *SERP* business; and

(iv) an appropriate allowance for mortality

accumulated at the rates of investment return notionally attributed to each policy as described in CA.6 below.

CA.3 For *SERP* regular premium business, except where the value of guaranteed benefits are higher, *payouts* are based on *asset shares* calculated for a number of specimen policies commencing in each previous *Terminal Bonus Period* and becoming payable in the current calendar year. *Payouts* on an individual policy are then based on the *asset share* for the specimen policy with the closest premium level to the actual premium level for the individual policy.

CA.4 For the purposes of determining *payouts*, *asset shares* are calculated as at the mid-point of the financial year of claim. Estimates of investment returns are used where the investment return for the year of claim and the previous year is not known at the date of calculation. The actual rates of investment returns (determined in accordance with CA.6) are used in any subsequent calculation of *asset shares* once the actual investment returns have been determined.

CA.5 The methodology and assumptions used to determine *payouts* are documented by papers submitted to, and approved by, the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate. Investment returns, expenses and charges are documented by internal memoranda.

CA.6 The investment return allocated to *asset shares* is determined from the return on the assets notionally attributed to each policy as specified in practices CD.3 and CE.4. The investment return for determining *asset shares* is then increased or decreased as appropriate by the charge in respect of past smoothing costs in accordance with CD.2 below.

CA.7 The expenses deducted from *asset shares* from 1 January 2009 are based on the expenses set out in Schedule 6 of the *High Court Scheme*, namely:

- Until 1 January 2010, the expenses charged are £53.30 pa for each premium paying policy and £21.42 pa for each non-premium paying policy, increased each 1 July by the change in the Retail Price Index over the previous 12 months, plus 1%; and investment management expenses of 0.1125% of funds under management.

- From 1 January 2010, such amounts as are agreed with the administrator and *investment manager* in accordance with the *High Court Scheme*.

The amounts deducted from *asset shares* will be adjusted to take account of policies becoming claims.

CA.8 The mortality rates used for *asset shares* are based on recent experience.

CA.9 No tax is brought into the *asset share* calculation since no tax is currently payable on the investment return allocated to *asset shares* nor is there tax relief on any of the expenses brought into the *asset share* calculations.

CA.10 Except where payment of a guaranteed benefit results in a higher amount, and except where the amount cannot be reasonably compared with a calculated *asset share*, the target range for *policy payouts* is 60% to 140% of *asset share*.

CA.11 The range applies to both maturity payments and transfer payments. It is expected that at least 90% of cases would fall within the target range. The range has been determined and will be monitored by reference to specimen *SERP* policies.

CA.12. The assumptions used to calculate *Open Market Option* and *tax-free cash* values are the best estimates of interest, mortality and expenses as follows:

- Interest rates are derived from the LIBOR swaps curve.
- Future mortality experience follows best estimate assumptions based on recent experience and forecast improvements.
- Expenses are 2% of the value.

CA.13 *Open Market Option* and *tax-free cash* values are reviewed each week using then current yields for specimen policies. If the difference compared to the current basis is more than 2.75% in any week or if the difference over a three-week period is more than 2.5% then the *Open Market Option* and *tax-free cash* values are normally updated.

## B. Setting Annual Bonus Rates

### Principles

- PB.1 In circumstances where the value of guaranteed benefits is close to or in excess of *asset shares*, no *annual bonus* is likely to be declared. Conversely, if the value of the guarantees was to fall below *asset shares*, consideration would be given to declaring an *annual bonus*.
- PB.2 As the Pearl SERP Fund is closed to new business it is not anticipated that any new series of bonus rates will be necessary.

### Practices

- CB.1 *Annual bonus* rates are normally declared annually at 31 December. The value of the guaranteed benefits is currently close to or well in excess of *asset shares* for all *SERP* policies. This is expected to remain the position and it is therefore expected that no *annual bonus* will be declared for the foreseeable future.
- CB.2 There is currently no maximum amount by which *annual bonuses* would alter were they to be introduced.

## C. The Approach to Setting Final Bonus Rates

### Principles

- PC.1 *SERP* policyholders will not receive less than the value of the guaranteed benefits under the relevant policy. Subject to this, for maturities and retirements, the aim is to set *final bonuses* so that the total *payout* is targeted on the *asset share*, subject to smoothing (see section D below).

### Practices

- CC.1 *Final bonuses* are normally reviewed twice a year at 30 June and 31 December, but may be changed without notice at any time that *Pearl* determines. Such an interim change would normally be because economic conditions have changed leading to a larger than expected gap between the levels of *payouts* and the underlying *asset shares*.
- CC.2 *Final bonuses* are currently set so the *payout* is targeted at 100% of the *asset share* but the amount payable may differ from this target because of the impact of smoothing.
- CC.3 Where the policy provides for a return of fund benefit to be payable on death, the amount payable on death will be determined as if the policyholder could have retired at the date of death, including any *Final Bonus* then payable.

## D. Smoothing of Payouts

### Principles

- PD.1 *Payouts* are usually smoothed so as to avoid excessive differences in *payouts* on similar policies over short periods of time.
- PD.2 A *smoothing account* is maintained which is credited or debited with the difference between the *payouts* (excluding any increase due to payment of guaranteed benefits) and the *asset shares*. The *smoothing account* is accumulated each year at the rate of return on the assets notionally attributed to the *smoothing account*.
- PD.2 The intention is that smoothing will be cost neutral over time. If necessary, *payouts* will be amended to help ensure that the cost of smoothing does tend towards zero, and the aim will be to adjust *payouts* so that any outstanding *smoothing account* balances are small within a limited period of time.
- PD.3 *Pearl* may change the way it smoothes *payouts* at any time, or may cease to smooth *payouts*, if the *Board* deems it necessary to protect the *financial position* of *Pearl*. In such circumstances, it may also adopt a different approach to smoothing by claim type.

PD.4 The basis for calculating transfer values will be reviewed from time to time so that transfer values remain broadly consistent with the targeted level of *payouts*.

#### Practices

CD.1 The *smoothing account* will be reduced (or increased) by amending the investment return credited to *asset shares*. The resulting change in the *asset shares* will be credited or debited to the *smoothing account*.

CD.2 The reductions (or increases) in investment return credited to *asset shares* each year are normally determined to cover one half of the then current *smoothing account* balance. However a higher fraction may be used if the *Board* deem it necessary to protect the *financial position* of *Pearl*.

CD.3 *Payouts* are normally determined using *asset shares* under which the investment return credited in the year of claim is equal to the Bank of England base rate one month prior to the date on which payouts are set, less one quarter of one percent. This applies to all generations of policyholders.

CD.4 *Payouts* are also normally determined so that the amount payable is consistent with the *asset share* for a sample policy of similar size, entry date and age attained as the actual policy.

CD.5 There are no limits to the changes in the level of *payouts* between bonus declaration periods.

PE.4 Derivatives may be used to implement investment policy ahead of physical sales and purchases of assets. Derivatives are also used to match certain policy liabilities or to provide protection against increases in policy liabilities.

PE.5 The maximum counterparty risk is that agreed with the investment manager from time to time, but in no event more than that permitted by the asset admissibility regulations unless expressly authorised by the *Board*.

PE.6 The investment policy in respect of the Pearl SERP Fund is determined by the *Board*. Such investment policy shall take account of (but shall not be bound by) the advice of the *Actuary*, and shall have regard to the need for the investments to be suitable for the purpose to which they will be put.

PE.7 The investment return credited to individual asset shares may be based on the investment return on a notional portfolio of assets, as opposed to the return on the *Asset Share Fund*.

#### Practices

CE.1 The investment strategy for the Pearl SERP Fund is reviewed formally at least once a year. The *Board* sets the investment strategy for the Pearl SERP Fund, and approves the investment mandate. The investment mandate specifies what proportion of the fund is to be invested in each of the asset classes, within agreed tolerances, and sets out within each asset class the restrictions on holdings of any particular asset or group of assets, and the acceptable levels of credit risk.

CE.3 The *Board* has to approve any new or novel form of investment, including *alternative investments*.

CE.4 The investment returns allocated to *asset shares*, before adjusting for investment expenses and smoothing costs, are set equal to the returns on the Merrill Lynch AAA under 5 year Index or such other index as may be notified to *SERP* policyholders from time to time.

CE.5 The investment strategy for the Pearl SERP Fund is set without taking account of other funds of *Pearl*. However *Pearl* will provide support to this fund as necessary to maintain the chosen investment strategy and an acceptable *financial position*.

## E. Investment Strategy

#### Principles

PE.1 The investment strategy will be consistent with the sound financial management of the Pearl SERP Fund.

PE.2 The investment strategy will aim to ensure there are sufficient liquid assets to meet claims as they fall due.

PE.3 The investment strategy for the *Pearl SERP Fund Estate* may differ from the investment strategy of the *Asset Share Fund*.

## F. Business Risks

UK life insurance businesses are subject to a number of inherent risks that arise from a range of factors, including product design (for example the provision of guarantees to policyholders), selling and marketing practices, interest rate and market fluctuations and demographic changes. There can be no assurance that all risks which might emerge have been identified nor that any provisions for identified risks will prove to be adequate. In addition, the risks to which the Pearl SERP Fund is exposed will inevitably change over time.

### Principles

- PF.1 The Pearl SERP Fund is closed to new business and ring-fenced. The business risks it is exposed to are, therefore, expected to be confined to those associated with maintaining the existing policies of the Pearl SERP Fund.
- PF.2 The Pearl SERP Fund will seek to avoid taking on new business risks and will be managed in such a way as to minimise the existing business risks.
- PF.3 *SERP* policyholders will not be directly exposed to the risks associated with the cost of providing guarantees on other *SERP* policies or any other business risks. No charge will be made to *asset shares* in respect of *guarantee costs* or the costs associated with any other business risks and, to the extent that the *Pearl SERP Fund Estate* has insufficient assets to meet these costs, the shortfall would be met by surplus assets in *Pearl's shareholder fund* or other long-term funds.

### Practices

- CF.1 It is not expected that the Pearl SERP Fund will take on any further business risks. The more significant business risks are outlined below.
- CF.2 The expenses described in CA.7 only apply to 1 January 2010. The *High Court Scheme* stipulates that after that date the expenses allocated to the Pearl SERP Fund should not exceed the charges for similar services made by third party companies, nor significantly exceed the costs *Pearl* would incur if undertaking the services itself. Therefore, there is a risk that if the charges made by third party companies are higher than the current fixed expenses, the charges made to *asset shares* for administering the business could increase after 2009.

- CF.3 More generally, investment management services have been outsourced to the *investment manager* and administration services have been outsourced to the *administrator*. There is a risk that the *investment manager* and/or the *administrator* fail to provide an adequate service or cease to trade.
- CF.5 Policyholders are exposed to the risk of changes in future interest rates, the expenses of administering annuities and longevity, causing a reduction in *Open Market Option* and *tax-free cash* values upon vesting.
- CF.6 Any losses caused by errors in administration or investment management services would be met by the relevant service provider. Any other losses incurred by the fund would be met by the *Pearl SERP Fund Estate*.

## G. Charges and Expenses

### Principles

- PG.1 The charges and expenses that can be deducted from the Pearl SERP Fund are set out in the *High Court Scheme* and are described in CA.7.
- PG.2 In addition, the *High Court Scheme* permits other amounts to be debited or charged to the Pearl SERP Fund, as determined by the *Board* (as advised by the *Actuary*). Such amounts will only be attributed to the Pearl SERP Fund if they relate to a development which is expected to be beneficial to the Pearl SERP Fund and the development was not expected when the *High Court Scheme* was implemented. Consideration will be given to deducting such costs from *asset shares* only where the development is expected to lead to a clear policyholder benefit.
- PG.3 All direct costs of investment are borne by the Pearl SERP Fund and reduce the investment return on the Pearl SERP Fund assets.
- PG.4 The *High Court Scheme* requires that the amount that can be deducted from the Pearl SERP Fund in respect of taxation must not exceed that which the fund would have incurred had it been a separate mutual life assurance company.

### Practices

- CG.1 All expenses charged to the Pearl SERP Fund are charged at cost.
- CG.2 The outsourcing agreements with the *administrator* may be terminated at any time by them (subject to one year's notice) or by *Pearl* (subject to three months' notice). The agreements may also be terminated in the event of either party becoming insolvent or wound up. Similar arrangements apply to agreements with the *investment manager*.
- CG.3 There are no costs which may be apportioned to other parts of the business or to the shareholder other than those described in PG.2 above.

## H. The Estate

### Principles

- PH.1 The *Pearl SERP Fund Estate* belongs to *Pearl's* shareholders. *SERP* policyholders have no right to share in the *Pearl SERP Fund Estate* or the estate of any of the other of *Pearl's* funds.
- PH.2 The size of the *Pearl SERP Fund Estate* will reflect the *financial position* of the *Pearl SERP Fund*.

### Practices

- CH.1 The *Pearl SERP Fund Estate* will be used to meet any losses incurred by the *Pearl SERP Fund* as a result of business risk, to provide a buffer against adverse experience, to meet *guarantee costs* as they arise and to meet any other costs necessary to ensure that *payouts* meet the reasonable expectations of policyholders.
- CH.2 The size of the *Pearl SERP Fund Estate* will be monitored to ensure it remains adequate to meet the purposes set out in CH.1 and its regulatory liabilities and will, if necessary, be supplemented by *Pearl* from its other funds, with the exception of the *Pearl Pacific Fund*.

## K. Equity Between Policyholders and Shareholders

### Principles

- PK.1 *SERP* policyholders are entitled to receive the higher of their guaranteed benefits and benefits targeted on 100% of *asset shares*.
- PK.2 If the guaranteed benefits exceed the relevant *asset share*, the amount of the excess will be met from the *Pearl SERP Fund Estate*.
- PK.3 A *smoothing account* will be maintained which shall be credited (or debited as appropriate) with the difference between claim payments on the relevant policies and their *asset shares*. The *smoothing account* is available solely for distribution to *SERP* policyholders.
- PK.4 *SERP* policyholders are entitled to the notional investment return allocated to *asset shares* (less tax and charges as appropriate) and to any pre-vesting mortality profits or losses. *Pearl's* shareholders are entitled to all of the other profits or losses arising in the *Pearl SERP Fund*.

## Appendix 1: Glossary

### Actuary

This means the With-Profit Actuary of the Pearl SERP Fund.

### Administrator

This means Pearl Group Services Limited.

### Alternative Investments

Investments typically made within a series of specialised funds set up with the aim of enhancing returns whilst reducing investment risk and fluctuations in returns. The specialist funds will use a range of *investment managers* in order to diversify their exposure to both individual managers and to the risks of the underlying portfolios.

The *investment managers* will invest in a wide range of financial instruments (such as shares, fixed interest securities, cash and derivatives) to achieve their investment objectives. Selection and management of the *investment managers* will be subject to particularly detailed and continuous assessment in order to minimise the potential for adverse investment outcomes.

### Annual Bonus

This means the increase to the guaranteed benefits arising from a declaration by the *Board*. Once declared, *annual bonuses* become an addition to the benefits guaranteed under the policies to which they attach.

### Annual Bonus Rate

*Annual bonuses* are distributed as a percentage of the guaranteed benefits and existing *annual bonuses*. The *annual bonus rate* means that percentage rate.

### Asset Share(s)

The amount determined in CA.2 above.

### Asset Share Fund

The total of the individual policy *asset shares* plus the *smoothing account*.

### Board

The *Board of Pearl*.

### Demutualisation Scheme

The Scheme approved by the High Court under Section 2C of the Insurance Companies Act 1982 on 5 October 1999, governing the demutualisation of NPI and the operation of *NP Life* thereafter.

### Final Bonus

A bonus payable on claim to increase the benefits to the level determined in accordance with Section C above.

### Financial Position

Financial strength as measured by the regulatory solvency requirements, and/or an assessment of its financial strength on a realistic basis as determined by the *Actuary*.

### Guarantee Cost

The amount by which the value of the guaranteed benefits, under any policy which becomes a claim, exceeds the value of the payout that would have been made had the benefit not been guaranteed.

### High Court Scheme

The Scheme approved on 2 January 2009 by the High Court under Part VII of the Financial Services and Markets Act 2000, governing the transfer of certain business of *NP Life* and NPI Limited to *Pearl*.

### Investment Manager

This means Axial Investment Management Limited.

### NPI

National Provident Institution, a mutual life insurance company established in 1835 and demutualised at the beginning of 2000.

### NP Life

National Provident Life Limited - established in 1999 to take over the existing business of *NPI* subsequent to *NPI*'s demutualisation and its acquisition by AMP Limited on 1 January 2000.

### Open Market Option

The cash value payable to another insurance provider as an alternative to the pension benefits payable under the policy.

### Payout

Depending on the context, the death benefit, transfer value, retirement value or *Open Market Option*.

### Pearl

Pearl Assurance plc.

### Pearl SERP Fund Estate

The amount by which the total assets of the Pearl SERP Fund exceed the total of the *asset shares*.

### Pearl Pacific Fund

The 0:100 fund established and maintained by *Pearl* pursuant to the Section 68 Order relating to the organisation and operation of the Pearl Long-Term Insurance Fund, made by the Secretary of State for Trade and Industry and dated 13 September 1996.

### Pearl Shareholder Fund

The assets and liabilities of *Pearl* other than those attributable to the Long-Term Funds.

### SERP

Self Employed Retirement Plan, a type of policy approved under Section 620 of the Income and Corporation Taxes Act 1988. The policies are characterised by the promise of an annuity benefit at a future date (or an alternative benefit on death), in return for an agreed series of premium payments. *Annual bonuses* declared are added to the annuity benefit, as is any *final bonus* payable. *Final bonus* rates vary by the date the policy commenced.

### Smoothing Account

An account which is credited (debited) with the difference between the *payouts* (excluding any increase due to the payment of guaranteed benefits) and the *asset shares*.

### Tax-Free Cash

The cash value payable in exchange for a reduction in pension benefits.

### Terminal Bonus Period

A *Terminal Bonus Period* is generally a calendar year in which the policy commenced, but may be a shorter period.

### With-Profits Committee

A body appointed by the *Board* to help with all aspects of the management of the fund including solvency, investment strategy, bonus declaration, customer communication and fund management supervision.



Pearl Group Ltd No.5282342 and Pearl Group Services Ltd No. 5549998. The following companies are subsidiary companies of Pearl Group Ltd and are authorised and regulated by the Financial Services Authority: Pearl Assurance plc No. 1419, London Life Ltd No. 1179800, NPI Ltd No. 3725037, National Provident Life Ltd No. 3641947. All companies are registered in England at The Pearl Centre, Lynch Wood, Peterborough PE2 6FY. Tel. 01733 470470. We may record or monitor telephone calls to improve service and for our mutual protection.