

**Pearl Assurance Limited**  
**90:10 With-Profits Fund**

**Annual report to with-profits policyholders by the Board of Pearl Assurance Limited for the period 1 January 2010 to 31 December 2010**

**Purpose**

We set out how we manage the Pearl Assurance Limited with-profits funds in our Principles and Practices of Financial Management (PPFM). In this report we give details of how we have complied with the PPFM for 2010 for our 90:10 With-Profits Fund ('the fund').

Pearl Assurance Limited has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders. This report deals with how Pearl Assurance Limited has exercised its discretion in these areas.

**Background**

The Pearl Assurance Limited 90:10 With-Profits Fund consists of life assurance and pension policies sold by Pearl. They are classified as either with-profits or non-profit policies.

Pearl Assurance Limited also has another with-profits fund. We manage each with-profits fund in accordance with its own PPFM. The with-profits bonuses, policy returns and payouts for each with-profits fund reflect the financial position of that fund.

We have produced a separate report for our other with-profits fund.

Our PPFM is available on our website at [www.pearl.co.uk](http://www.pearl.co.uk), or you can ask us for a copy. We have produced a shorter guide called 'A Guide to How We Manage Our With-Profits Fund' and this can be obtained in the same way.

**Independent review**

The company formally consulted with, and took into account the opinions of the With-Profits Actuary and the With-Profits Committee (a committee that is independent by virtue of its majority of independent members) regarding all material changes during 2010. This included consultation on the changes to bonus rates, surrender values and the estate.

## Summary

Payouts for with-profits policies depend on the discretion exercised by Pearl Assurance Limited. The interests of with-profits policyholders are protected by the PPFM of the company.

Each year the Board will produce a report to you, the with-profits policyholders, summarising compliance with the PPFM and how any discretion has been used over the previous year.

The main areas of discretion are as follows.

- Amounts payable
- Investment strategy
- Business risk
- Charges and expenses
- Management of estate
- New business
- Equity between the with-profits fund and shareholders

These are expanded on in the sections below. In addition, there is a commentary on any changes to the PPFM and communications to with-profits policyholders during the year.

### Amounts payable

- **Bonus rates**

Bonuses are the additions that we make to the value of your policy. They come in the form of annual bonuses (that are added each year) and final bonuses (that are added when the policy pays out). We set bonus rates by reference to asset shares. The general aim is to pay the asset share.

- **Asset shares**

Asset shares are intended to be a reasonable approximation of the contribution a policy has made to the with-profits fund. Calculation of asset shares in 2010 followed the methodology set out in the PPFM.

- **Annual bonus rates**

As in 2009, no annual bonuses were added to conventional or personal pension version 1 policies at 31 December 2010. Personal pension version 1 policies are managed on a unitised basis (effective 1 January 2008). For other unitised policies annual bonuses are added in daily steps and the daily rates for adding annual bonuses were reviewed regularly during 2010. These bonus rates comply with the PPFM. The annual bonuses were set with the view that a proportion of the final payout comprises a final bonus.

- **Final bonus rates**

Final bonus rates for conventional policies were reviewed twice for the 2010 calendar year with new final bonus scales being implemented from 1 January 2010 and 1 July 2010 and also from 1 January 2011. The final bonus rates were calculated using the methodology set out in the PPFM.

Final bonus rates and market value reduction factors (MVRFs) on unitised policies (other than personal pension version 1) were reviewed at least monthly during 2010. The rates were calculated in accordance with the PPFM.

With effect from 1 January 2008, personal pension version 1 policies have been managed so that policy values better reflect the underlying asset mix in the fund and payouts more closely target asset shares in accordance with the PPFM. No final bonus scale is now needed but each payout includes an individual final bonus reflecting that policy's asset share.

- **Payout ranges**

The PPFM sets out a target that 90% of payouts should fall within the range of 80% to 120% of asset share. Over 90% of actual claims paid in 2010 fell within this range.

### **Investment strategy**

We hold assets that we use to make payments when policies pay out. We need to invest these assets sensibly, so that we can afford to make payouts when they are due, but also we aim to earn investment return on these assets so that bonuses can be paid.

From 1 January 2007, we decided to increase the target for the combined proportion of higher risk investments such as company shares (equities) and property (the 'equity backing ratio') to 50% for certain classes of life with-profits policies (please refer to the PPFM). The increased exposure to company shares (equities) and property gives the prospect of higher long-term investment returns. In the short term the investment returns may be higher or lower.

Over the long term, the higher equity backing ratio is intended to provide better investment growth although this cannot be guaranteed.

We will keep this policy under review.

The exact level of the equity backing ratio will move with investment conditions. The aim is to maintain it within a range approximately 5% either side of the 50% target. The equity backing ratio was maintained within this range throughout 2010.

The fund undertakes stock-lending activities. These activities generated losses in 2008 which have been partially reversed in 2009 and 2010. These losses have not, to date, been borne by policyholder asset shares. There was an impact on the amount of fund's estate distributed in 2010 due to the effect of these losses on the estate.

### **Business risk**

During 2010, we did not take on any significant risks that would be likely to jeopardise the interests of with-profits policyholders.

## **Charges and expenses**

The way charges and expenses were set was unchanged during the year. The Board is satisfied that the allocation of expenses and the charges deducted were in line with the PPFM.

At the end of 2008 the fund set aside a provision for potential group pension scheme contributions and a contribution was made in 2009 with no further contributions in 2010. To date, the provision and contribution have been charged to the estate and not to policyholder asset shares.

## **Management of estate**

The fund's estate started to be distributed with effect from 1 July 2007. The estate distribution uplift percentage was 2.6% as at 1 January 2010 and 7.3% as at 1 July 2010. These distributions were in accordance with the PPFM.

## **New business**

During 2010 we did not sell new with-profits business.

## **Equity between the with-profits fund and shareholders**

There was no change to the method used to split profits between with-profits policyholders and shareholders during 2010. The shareholders' share of distributed profits for 2010 was £8.7m.

The Board is satisfied that the shareholders' share of the distributed profits for 2010 is in line with the PPFM.

## **Changes to the PPFM during 2010**

There were no changes to the PPFM during 2010.

## **Communications to with-profits policyholders**

During 2010, we provided with-profits policyholders with key information concerning annual bonuses with their annual statement.

## **Conclusion**

It is the opinion of the Board that Pearl Assurance Limited including the 90:10 With-Profits Fund was, in all material respects, managed in accordance with the PPFM over 2010.

The With-Profits Committee has reviewed this annual report to with-profits policyholders and does not wish to make any additional or separate reports.

## **The Directors of Pearl Assurance Limited**

June 2011

## **Report to with-profits policyholders by the With-Profits Actuary of the Pearl Assurance Limited 90:10 With-Profits Fund for the period 1 January 2010 to 31 December 2010**

### **Purpose**

The Principles and Practices of Financial Management (PPFM) for Pearl Assurance Limited ('the company') is a detailed document which sets out how the company manages its with-profits business.

The company has discretion in a number of areas, such as setting bonuses, policy payouts and surrender values, and in addressing any competing or conflicting rights of policyholders and shareholders.

The purpose of my report to the company's with-profits policyholders of the 90:10 With-Profits Fund is to give my opinion, as required by the rules of the Financial Services Authority, as to whether the company has taken the interests of these with-profits policyholders into account in a reasonable and proportionate manner in exercising this discretion during 2010.

### **Conclusion**

In my opinion, the company has taken the interests of the with-profits policyholders of the 90:10 With-Profits Fund into account in a reasonable and proportionate manner in exercising this discretion during 2010.

My opinion is based on the information that the company provided to me during the year.

The Board of Actuarial Standards has published a number of Technical Actuarial Standards (TASs). My report, when considered alongside the information in the company's own report to which my report is annexed, together with other information provided to policyholders in relation to 2010, is intended to comply with TAS R (which relates to the reporting of actuarial information), TAS M (which relates to modelling) and TAS D (which relates to data).

Kevin Arnott  
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With-Profits Actuary  
June 2011