PRUDENTIAL

Principles & Practices of Financial Management

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2020

Contents

Summary

In the opinion of the Board ("the Board") of The Prudential Assurance Company Limited ("PAC"), PAC has complied with its obligations in relation to the Principles and Practices of Financial Management ("PPFM") over the period 1 January 2020 to 31 December 2020 (inclusive) and at the bonus declaration in respect of the year 2020, announced on 23 February 2021.

The following pages set out the PAC Board's reasons for its opinion stated above.

These are unprecedented times, given the COVID-19 pandemic, and we appreciate it has been an unsettling time for policyholders. PAC has two clear priorities during this international emergency: serving the needs of policyholders; and protecting the well-being and safety of colleagues.

PAC's existing infrastructure allowed a relatively seamless transition to adhere to Government guidelines on working, with the vast majority of employees successfully, and efficiently, working from home from 2020. This operational resilience allows PAC to safeguard employees while continuing to serve policyholders as best as possible.

Thank you for your continued trust in us during this extraordinary period.

Report to With-Profits Policyholders on the Prudential Assurance Company's Compliance for 2020

1. Introduction

Each year, the Board of PAC must report to its with-profits policyholders on how it has complied with its PPFM.

"Compliance" in this context means performing the obligations set out in the PPFM. Occasionally in performing these obligations, errors or operational issues arise which may impact policyholder pay-outs. However, provided such issues are managed appropriately, including redressing policyholder detriment, they do not result in non-compliance with the PPFM.

In managing with-profits business, firms rely on their ability to use discretion, particularly in relation to the investment strategy adopted, and the smoothing and bonus policies used. The purpose of PAC's PPFM is to:

- explain the nature and extent of the discretion available;
- show how competing or conflicting interests or expectations of
  - different groups and generations of policyholders, and
  - policyholders and shareholders,

are managed so that policyholders and shareholders are treated fairly; and

- give a knowledgeable observer (e.g. a financial adviser) an understanding of the material risks and rewards from starting and continuing an investment in a with-profits policy with PAC.

The PPFM covers all with-profits policies issued in the UK by:

- companies in the M&G Group i.e. by
  - PAC
  - Scottish Amicable Life plc (SAL), which was transferred to PAC with effect from 31 December 2002,
  - Prudential (AN) Limited, which was transferred to PAC with effect from 31 October 2010,
  - Prudential International Assurance plc (PIA); and
- Scottish Amicable Life Assurance Society (SALAS) which was transferred to PAC with effect from 30 September 1997. For information, the Scottish Amicable Insurance Fund (SAIF) merged with PAC's With-Profits Sub-Fund (WPSF) on 1 April 2021.

The PPFM also covers the with-profits annuity business that was transferred from the Equitable Life Assurance Society (ELAS) to PAC with effect from 31 December 2007.

In general, the Principles and Practices set out in the PPFM do not apply to the overseas business written prior to 1 January 2019 in PAC's branches in Poland, France and Malta which on 1 January 2019 was transferred to PIA and reinsured into PAC, nor the PIA Poland business written from 1 January 2019 which is reinsured into PAC. They do, however, apply to all other off-shore business sold directly by PIA and Canada Life Assurance Europe Limited which is reinsured into PAC.

This report covers the period from 1 January 2020 to 31 December 2020 (inclusive), and includes the bonus declaration announced on 23 February 2021. It describes:

- changes to the PPFM during 2020,
- how PAC has complied with the PPFM in exercising discretion in managing its with-profits business,
- how PAC has addressed competing or conflicting rights, interests and expectations,
- governance arrangements for with-profits business, and
- maintenance of the PPFM.

Any terms used in this report have the meaning set out in the PPFM which can be found at **pru.co.uk/ppfm**.

2. Strategic Matters

As part of our continuing transformation programme, the SALAS policyholder administration system was migrated in October 2019 to a new third-party platform, BaNCS. The Hartlink administration system that serviced some of our corporate pensions book was also migrated to

BaNCS in November 2020. These are some of the largest migrations that Prudential has undertaken and following the migrations the focus was to ensure customer service levels returned to satisfactory positions as quickly as possible. However, the challenges brought about by the COVID-19 outbreak during 2020 have had a significant further impact on service levels. We continuously strive to serve policyholders as best as possible in such extraordinary times, and contingency plans are in place to recover service levels and improve the experience for our policyholders.

In September 2020, the company announced that, as part of its overall transformation agenda it would be investing in building digitally supported, lower cost advice journeys for customers; with face to face advice continuing to be provided through its self-employed advice business, The Advice Partnership (TAP). Combining the best of digital innovation, with the valuable personal relationships in TAP, will enable us to deliver support to policyholders with different needs across a range of distribution channels.

The Court Scheme, which enabled the transfer of business of SALAS to PAC contained specific provisions for the merger of the SAIF with the PAC WPSF once the value of SAIF fell below a specified level, or earlier if approved by the Scottish Amicable and PAC Boards. The SAIF merged early with PAC's WPSF on 1 April 2021. The decision to merge the funds early considered the interests of both the SAIF and PAC policyholders. The merger was approved by the PAC Board and the Scottish Amicable Board, and notice was provided to the regulators (i.e. the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)). The early merger benefits SAIF policyholders as it reduces the uncertainty about how the surplus assets will be distributed to remaining Scottish Amicable with-profit policyholders as the number of remaining policies continues to reduce. SAIF policyholders will also now benefit from being part of the largest and one of the most financially strong with-profits funds in the UK. The terms of the early merger, which were reviewed by the PAC With-Profits Committee (WPC) and the PAC Board, were also acceptable to the WPSF.

3. Changes to the PPFM during 2020

The PPFM is updated as and when required to reflect significant developments. No updates were made to the PPFM during 2020. However, a comprehensive review of the PPFM was carried out by the With-Profits Actuary (WPA) and discussed with the WPC during 2020, with an updated version of the full PPFM and a first PruFund only version published at the beginning of April 2021. The key changes were to remove a lot of contextual information that was not required to describe our principles or practices, to reflect the operation of PAC's With-Profits Funds post-merger with the SAIF funds, and to create a stand-alone PPFM for PruFund policyholders. However, there have been no substantive changes to the Principles by which we manage the fund.

The current full PPFM's and Customer Friendly versions of the PPFM, are available at **pru.co.uk/ppfm**. A document summarising the notable changes to the PPFM is available at **pru.co.uk/pdf/WPGG10116.pdf**.

4. How PAC has complied with its PPFM in exercising discretion in managing its with-profits business

The PAC Board, having taken advice from the WPA and following discussion with the WPC has confirmed that PAC complied with the obligations set out in the PPFM in respect of 2020. Compliance with the PPFM is subject to the investigation and appropriate addressing of the operational issues covered further in section 4.10.

The key areas where PAC has exercised its discretion in managing its with-profits business are set out below.

4.1 Bonus rates

Setting the rates of regular and final bonus for with-profits policies is probably the single most important item of discretion that PAC has which affects its with-profits policyholders.

Bonus declarations covering regular and final bonuses were made on 26 February 2020 and 23 February 2021.

The 2020 and 2021 bonus declarations were reviewed by both the WPA and the WPC prior to being approved by the PAC Board. For each bonus declaration, the PAC Board was supplied with sufficient information for it to be comfortable that the declaration was consistent with the requirements of the PPFM. The Scottish Amicable Board also approved the 2020 and 2021 bonus declarations for SAIF business.

When setting regular bonuses a number of factors are considered, including the long-term returns expected on the relevant with-profits fund and the level of existing guarantees. Consideration of these factors at the February 2021 bonus declaration showed that for some product types, current rates of regular bonus were unsustainable based on our expectations of future returns. Consequently, the PAC Board decided to slightly lower the regular bonus rates for some PAC with-profits policies. For other policies, including all SAIF with-profits policies, current regular bonus rates remain sustainable and have therefore been maintained.

2020 was a volatile year for most asset classes, with negative returns in the first half of the year as investment markets reacted to the implications of the COVID-19 pandemic. However, markets recovered somewhat in the second half of the year, resulting in positive returns in many investment markets. Against this background, investment returns for the main PAC and SAIF with-profit funds in 2020 were 1.7% and 2.0% before tax, respectively. As a result, following the February 2021 bonus declaration, policy values will, for the vast majority of policyholders, be maintained or show small increases compared to last year. The change in a policy's value from one year to the next will differ from the returns earned on the fund due to the smoothing of returns and the impact of policy charges.

However, for the majority of business final bonus rates are not guaranteed and can be varied at any time without prior notice. To ensure that bonuses remain fair, existing rates are regularly reviewed and in line with the PPFM, changes to bonuses may be possible.

When PAC's Ordinary Branch (OB) assets and Industrial Branch (IB) assets were merged in 1988, PAC undertook to link IB policy bonuses to OB policy bonuses so that, for IB policies issued from July 1988, total bonus additions will be 100% of those for corresponding OB policies and for IB policies issued prior to 1988, total bonus additions would not be less than 90% of those on corresponding OB policies. In addition, an annual test is carried out to confirm that, in aggregate, this approach produces IB pay-outs that are higher than the corresponding IB asset shares. The undertaking and aggregate test continued to be satisfied at the February 2021 bonus declaration.

4.2 Target Ranges

In line with the requirements of the PPFM, we manage our non-PruFund with-profits business with the aim of ensuring that maturity and surrender pay-outs for at least 90% of with-profits policies fall within the target range we have set of 80%-120% of asset share. This allows us a reasonable degree of flexibility to smooth returns in periods of market volatility, and provide more stability in pay-outs. It also provides greater certainty to policyholders and minimises the risk of customers not receiving their fair share of the fund return, or of receiving payments which are more than the fund can afford and to the detriment of the remaining policyholders.

At the February 2021 bonus declaration, PAC expected the bonus rates declared to meet its target range requirements. Pay-out levels relative to asset share do, however, vary over time, in particular as actual investment returns earned by the with-profits funds differ from those assumed when bonus rates and surrender value bases are set. We therefore continue to monitor pay-out levels regularly to ensure that they do not deviate too far from asset shares. Policies with claim values falling outside our target range are also investigated to ensure there is no underlying problem with our bonus setting processes and that pay-outs remain fair to customers. The monitoring of actual claims carried out during 2020, despite the market volatility, demonstrated that target range requirements were met.

PruFund investments are subject to separate smoothing constraints where the automatic smoothing mechanism ensures that almost all claims will fall within 10% of the underlying value of assets.

4.3 PruFund range of Funds

Policies invested in the PruFund range of Funds participate in profits via an increase in the unit price of the selected Fund at the relevant expected growth rate (EGR) subject to adjustments when the unit price moves outside specified limits. EGRs were set quarterly on 25 February 2020, 26 May 2020, 25 August 2020 and 25 November 2020 by the PAC Board following consultation with the WPA. The WPC is also informed of the EGRs declared. EGRs for all PruFund Funds were reduced slightly at the May 2020 quarter date reflecting the adverse impact that COVID 19 has had on market conditions and the global economic outlook. EGRs for a very small number of PruFund Funds were also reduced at the February 2020 quarter date. No changes were made to EGRs on PruFund Funds at any other point during 2020. Downward Unit Price Adjustments (UPAs) were triggered during March 2020 across a large number of funds, at the onset of the COVID-19 pandemic; the subsequent market recovery has triggered several upward UPAs later in 2020.

As set out in the PPFM, a unit price reset and/or temporary suspension of smoothing are discretionary actions available to the PAC Board, if required, to manage our smoothing process; or to protect PAC's With-Profits Fund and the interests of all our with-profits policyholders. Smoothing was not suspended and there were no unit price resets on any PruFund Fund during 2020.

4.4 Surrender values

Surrender values and Market Value Reductions (MVRs) were monitored during 2020 to ensure that they remained appropriate. Surrender value bases were updated alongside changes in final bonus rates. No change was made to the MVR policy during 2020. We continue to monitor market conditions regularly and surrender and/or MVR practice can change at any time without prior notice.

4.5 Investment strategy

The investment strategy for the WPSF, the Defined Charge Participating Sub-Fund (DCPSF) and for SAIF was regularly monitored by the business and any proposals for changes in investment strategy were put before the PAC Board for approval during 2020. The investment strategy for the Scottish Amicable Funds was also monitored by the Scottish Amicable Board until the merger with the PAC WPSF in April 2021.

The PPFM states that the objective of each with-profits fund is to maximise investment return subject to an appropriate level of risk. This is achieved by investing in a broad and well diversified portfolio of assets. In determining this level of risk, consideration is given to the overall solvency of each fund relative to its risk appetite, policyholder expectations and investment views. In light of these factors the PAC Board agreed in 2020 to retain broadly the same level of risk as the previous year, with a slight increase in the proportion of equity assets held by the WPSF to align with PAC's long-term target asset allocation for each fund. This increase in equity investment was afforded by a decrease in fixed income holdings. At the end of 2020 about 70% of the assets backing the WPSF were invested in real assets such as equities and property.

The PAC Board and WPC continue to keep investment strategy under review to ensure that the with-profits funds (including SAIF following SAIF's merger with the WPSF on 1 April 2021) continue to achieve an appropriate balance between risk and return, having regard to regulatory changes, the financial strength and risk appetite of the funds, the attractiveness of the expected returns available on different asset classes and the on-going volatility in investment markets, particularly as a result of the COVID-19 pandemic.

An important driver of investment performance is the choice of investment managers who manage the assets of the fund and the business regularly reviews their performance and capabilities. Over the course of 2020 a number of managers were assessed which resulted in some re-allocation of mandates across both internal and external managers.

Over 2020 M&G plc (PAC's parent company) continued to develop its approach to sustainable investing by further embedding Environmental, Social and Governance (ESG) into its investment processes. The PAC Board and WPC are fully supportive of these developments. As part of this, in February 2021, M&G plc announced that it would allocate £5 billion from PAC's With-Profits Fund into privately-owned enterprises working to create a more sustainable world. For further information on M&G plc's sustainability plans see: **mandgplc.com/sustainability/sustainability-report**

Information on the current investment allocation of the WPSF can be found at **pru.co.uk/ppfm**, section 2 within the PPFM.

4.6 Business Risks

In consultation with the WPC and WPA, the PAC Board and, where relevant, the Scottish Amicable Board for SAIF until 1 April 2021, continually monitor the business risks and approve any management actions required to protect the security of the with-profits funds and limit any adverse impact on with-profits policies. This continued to be the case during 2020.

4.7 Charges and expenses

PAC's apportionment of administration expenses to with-profits funds and products is regularly monitored and reviewed for fairness. In line with the PPFM, the WPA and Chief Actuary (CA) review the fairness of the cost allocation to each category of with-profits policy each year. In 2020 a new cost allocation methodology was developed, discussed with the WPC, and approved [by the Board] against which the 2020 cost allocation was assessed.

The outcome of the 2020 review was that the cost allocation in 2020 was consistent with the agreed methodology and fair to the with-profit policyholders as a whole. The cost allocation methodology will continue to be reviewed regularly to ensure the ongoing fair treatment of our customers.

In addition to the expenses of administering with-profits policies, PAC pays fees from the with-profits funds to the asset managers for the investment management of PAC's assets. Where assets are managed by M&G plc's in house asset manager, M&G Investments, these investment fees are reviewed at least every three years with the latest review being completed in 2020. The review followed the same approach as adopted during the previous review which concluded in 2018. Updated fees were approved in early 2021, and apply for the period 2021-2023.

As PAC seeks to improve its operational efficiencies for the benefits of existing and new customers and also shareholders, significant investment is being made in several transformational projects, the aim of which is to allow the business to operate at a fundamentally lower cost and provide policyholders with improved service. The allocation of costs incurred in respect of these projects was agreed with the WPA and WPC to ensure fairness for both customers and shareholders. Costs allocated to the with-profits funds will be borne by the inherited estate and will not directly impact existing policyholders.

4.8 Management of the inherited estate

The WPSF contains an amount of money in excess of the amount expected to be paid to existing policyholders. This excess money, known as the inherited estate, has built up over many years from a number of sources and it provides working capital to support current and future business.

The inherited estate is reviewed each year to identify whether there is any available surplus to share with policyholders. In its financial management of the WPSF, the PAC Board considers the financial position of the inherited estate.

The WPSF inherited estate has been increasing in recent years and at the end of 2019 the PAC Board, following the advice of the WPC and WPA determined that the inherited estate exceeded the amount of working capital required to support current and future business. In such circumstances regulations require that, to the extent that retaining any part of this excess would be in breach of customers' interests and result in unfair treatment, then that part of the excess should be distributed to policyholders. As a result, in February 2020 we announced a distribution of excess surplus which increased policy values on eligible plans in the WPSF. If your plan was invested in PruFund we increased your unit price by 0.9% on 26 February 2020, while if your investment was in any type of plan, other than PruFund, the final bonus rates declared in February 2020 reflected a 1.25% increase in asset shares made in respect of this surplus distribution. Please note that final bonus rates are not guaranteed and so the excess surplus distribution on non-PruFund business could be clawed back in future if required to protect the interests of all policyholders and the financial strength of the WPSF. The distribution on PruFund will not be clawed back, but is lower as a result.

At the end of 2020 the PAC Board was advised by the WPA and WPC in respect of the excess surplus position of the fund. Having reflected on this advice, the PAC Board concluded that there should not be an additional distribution of the inherited estate at the February 2021 bonus declaration, however this position is reviewed on an annual basis. Further information about how the inherited estate is managed is available at **pru.co.uk/ppfm**, section 5 within the PPFM.

SAIF's inherited estate is being distributed under the terms of the SALAS Scheme as an addition to the payments to its policyholders, and the Scottish Amicable Board, acting on the advice of the independent SAIF Monitoring Actuary, approved that the enhancement applied on SAIF claims will increase from 7.5% to 13.3% with effect from the final bonus rates declared in February 2021. The enhancement of 13.3% is a provisional amount based on the financial position at 31 December 2020. The final enhancement will be determined in 2021 based on the final position of SAIF at 1 April 2021 and will be communicated to SAIF policyholders no later than 31 July 2021 (via our merger webpage: **pru.co.uk/saifmerger**). The assets backing SAIF's inherited estate were mainly invested in fixed interest securities and cash. However as a result of the early merger of SAIF these will now be invested the same way as assets backing asset shares.

A number of separate asset pools are maintained within the WPSF. There are separate asset pools for the assets backing asset shares and those backing the inherited estate. This enables the inherited estate to follow a different investment strategy to that for the assets supporting asset shares in order to help meet guarantees and maintain regulatory solvency in adverse market conditions.

Currently the assets backing the inherited estate are mainly invested in a range of fixed interest securities and cash. This was reviewed during 2020 and no change in investment strategy was recommended.

4.9 Management of new business

PAC sets limits on the capital available to support new business, and the terms on which new business is written, to ensure new sales do not adversely affect existing with-profits policyholders. The new business written during 2020 stayed within the allocated capital budget.

The terms on which new business was written in 2020, including actions taken by the shareholder, met the company's guidelines to ensure that new business did not adversely affect existing with-profits policyholders. These guidelines are regularly reviewed and are an area in which PAC exercises discretion and the WPC are actively involved. In addition, shareholders currently pay a subsidy to cover any shortfall in the costs of providing certain guarantees in excess of charges taken.

PAC currently has no intention to close the WPSF or the DCPSF to new business, and has had no such intention during the period. SAIF is already closed to new business.

4.10 Operational Issues

Action is taken to rectify issues that impact with-profits business, as well as to prevent any such issues arising again. Given the number and complexity of transactions undertaken in managing the WPSF, SAIF and DCPSF, errors inevitably occur from time to time. These are carefully monitored and, in general, are of a minor nature and dealt with in an efficient manner. Corrective actions consider the causes of the error, and any policyholder impact, as well as allocation of the costs of rectification.

As mentioned in last year's report, during 2019, an error in the level of tax allowed for in the tax charged to asset shares for certain product lines and the actual amounts paid to HMRC was identified. The PPFM outlines PAC's practice with regards to tax, containing provision for retrospective adjustments to be made to asset shares for any significant difference in tax paid versus tax charged. As at 31 December 2020, c85% of impacted policies had been remediated with plans in place to complete the exercise in 2021. A review of the methodology for charging tax to asset shares was carried out, reviewed by the WPC, and a new approach was approved and implemented for the Final 2021 bonus declaration.

5. Competing or conflicting rights, interests and expectations

In managing with-profits business, consideration is given to how competing or conflicting interests (e.g. the review of investment management fees and asset managers where these are in house as explained in 4.7 above) or expectations of policyholders and shareholders and different groups and generations of policyholders, are managed so that policyholders are treated fairly.

5.1 Equity between with-profits policyholders and shareholders

Inequity between with-profits policyholders and shareholders could arise in tax, in expense apportionment, in inter-fund transactions and in new business pricing.

5.1.1 Tax

The WPSF, SAIF and DCPSF are funds within PAC, alongside other funds, including some owned by PAC's shareholders. To ensure that the tax charged to the WPSF, SAIF and the DCPSF is fair, PAC has ensured that the tax charged to each sub-fund is no more than the tax that would have been charged if that sub-fund had been a stand-alone entity. Consistent with the PPFM and established practice, tax on the transfer of shareholder profits is paid from PAC's inherited estate.

As noted in section 4.10, an issue was identified with regard to the historic tax charged to asset shares and that paid to HMRC and a plan is in place to resolve this issue in line with the PPFM for 2020. The PPFM issued in April 2021 was updated to reflect the new approach. The new approach charges tax to asset shares where applicable, and PruFund net asset value, through the net investment return. Any difference between the assumed tax and the actual tax payable will be paid by the estate.

Given that there was a review of the methodology in 2020 and a remediation project in place to resolve the tax issue, PAC is, therefore, satisfied that the allocation of the overall tax charge for 2020 was fair to both with-profits policyholders and shareholders.

5.1.2 Expenses

Audited expense apportionment processes are in place, so that a fair and appropriate split of expenses between the WPSF, SAIF, other funds and shareholder-owned funds can be achieved. Exceptional expense items are included in these processes.

As noted in section 4.7, the WPA, CA and WPC reviewed the overall expense apportionment for 2020, which used a new expense methodology and model. The Scottish Amicable Board also reviewed the SAIF expenses to ensure these charges are consistent with the limits in the Scheme under which policies were transferred to PAC.

5.1.3 Inter-fund transactions

A risk mitigation agreement has been implemented between the shareholder fund and the WPSF estate, in respect of PruFund new business written from 2018, to reduce the shareholder losses incurred when investment returns are very low. In return, the WPSF benefits from some reduction in its exposure to losses which result from shareholder transfers exceeding the fixed charges deducted to cover those transfers when investment returns are very high. The WPSF is also paid a premium to cover the difference in the value of the shareholder and policyholder benefits. The terms of this agreement were agreed with the WPA and reviewed by the WPC to ensure the agreement was fair to the WPSF.

All inter-fund transactions made during 2020 were carried out at fair value (i.e. on market related terms).

5.1.4 New business pricing

PAC seeks to price new with-profits business so it is financially self-supporting over the lifetime of the business at the point the business is priced. In achieving this aim, it is possible for cross-subsidies to arise between certain product lines. Where new business is not self-supporting, shareholders will make an appropriate contribution to the WPSF.

5.2 Equity between different groups of with-profits policyholders

Different groups of with-profits policyholders have potentially competing or conflicting interests. Such groups comprise, for example, holders of:

- different products,
- policies of different sizes or policy terms,
- policies with different entry dates or maturity dates, or with-profits policyholders of different ages,
- policies with different levels of guarantees,
- policies claiming for different reasons (e.g. maturity, death, surrender), and
- policies exercising different policy options, who could receive different benefits relative to each other depending on how discretion is exercised.

The main areas in which judgement and discretion are exercised in balancing the interests of these groups are:

- smoothing of policy benefits, and
- grouping of policies for setting bonus rates and surrender values and sharing of investment and other experience, such as surrender, expense and mortality profits or losses.

The approach taken to smoothing during 2020 was as described in the PPFM. The bonus declarations made during 2020 and 2021 were within the normal smoothing guidelines.

The approach to grouping policies varies for different purposes (for example investment returns, expenses and mortality). For each particular purpose policies judged to have similar characteristics are grouped together, in order that a practical and equitable approach to the sharing of experience is achieved.

In 2020, the WPA carried out a review of the ELAS Court Scheme resulting in changes to the Scheme rules to remove a “cap” which previously limited increases to policyholder’s non-guaranteed income. The new rules were reviewed by the WPC and reflected in the February 2021 bonus declaration.

6. Governance arrangements for with-profits business

There are two specific roles which have been set up to ensure that PAC is managing its with-profits business in accordance with the PPFM – the WPC and the WPA. In addition, for SALAS business managed within SAIF, there was the Scottish Amicable Board and an independent Monitoring Actuary. Upon merger with the PAC WPSF on 1 April 2021, the role of Monitoring Actuary and the Scottish Amicable Board ceased to exist.

6.1 The role of the With-Profits Committee (WPC)

The WPC acts in an advisory capacity to inform the decision-making of the PAC Board to ensure that the interests of with-profits policyholders are appropriately considered within PAC’s governance structures and to consider issues affecting with-profits policyholders.

The role of the WPC is to assess, report on and provide clear advice and, where appropriate, make recommendations to PAC on:

- the way in which the with-profits funds are managed,
- the assessment of compliance with its PPFM,
- the way in which discretion is exercised in relation to with-profits business,
- how the competing or conflicting rights and interests of with-profits policyholders and other policyholders and/or shareholders have been addressed in a way that is consistent with the regulator’s (the Financial Conduct Authority) Treating Customers Fairly principles, and
- the investment management arrangements including general investment strategy and the relative investment performance of the with-profits fund.

The WPC comprises at least three members, all of whom are independent of the company. While there were no changes to the membership of the WPC during 2020, some changes have been made in 2021. Throughout 2020, the Committee was comprised as follows:

- Ronald Stewart Bowie (Chair), a Partner at Hymans Robertson and past president of the Institute and Faculty of Actuaries – joined the Committee in November 2014,
- Julius Laurence Mark Pursaill, Chair of the RBS and Heineken DC schemes, Governor of the Pensions Policy Institute and past Trustee member of NEST – joined the Committee in November 2014,
- Bruno Marcel David Geiringer, formerly a Partner specialising in financial services at international law firm Pinsent Masons and past Chairman of the board of the Investment and Life Assurance Group (ILAG), a trade body – joined the Committee in June 2015,
- David John Keeler, a consulting actuary with Towers Watson for over 25 years until 2010 and Chairman of the CIS With-Profits Committee from 2010 to 2014 – joined the Committee in October 2015,
- Katie Blacklock, over 15 years of Fund Manager experience, a Non-Executive Director at two Financial Services Companies and a member of various Advisory Committees since 2012 – joined the Committee in May 2019, and
- Robert Talbut, former CIO of Royal London Asset Management for 10 years until September 2014 and Non-Executive Director experience at various Financial Services Companies – joined the Committee in September 2019.

As referenced in earlier sections of this report, the WPC was consulted during the year on all significant matters concerning with-profits business, and investment policy, including Environmental, Social and Governance (ESG) and sustainability considerations; and provided an independent view to the PAC Board on all matters where they were required to do so. The opinions provided by the WPC addressed the treatment of conflicting rights and interests of policyholders and shareholders, where relevant, as well as compliance with the PPFM.

6.2 The role of the With-Profits Actuary (WPA)

Phil Roberts was appointed as the WPA on 10 March 2020, succeeding Peter Needleman who had held the position since February 2015. Peter Needleman fulfilled the role of WPA until 10 March 2020, when Phil Roberts took over for the remainder of 2020. The WPA reviews all material aspects of the operation of the with-profits business, including communications to with-profits policyholders, and advises PAC on compliance with the PPFM, on the interests of with-profits policyholders, on the exercise of discretion and on the management of conflicts of interests.

The WPA's report to with-profits policyholders in respect of 2020 can be found in the Appendix.

6.3 The role of the Scottish Amicable Board and the Monitoring Actuary for SAIF

The Scottish Amicable Board reviews the management of SAIF to ensure it is managed in accordance with the Scheme under which policies were transferred to PAC. The Scottish Amicable Board is also responsible for the investment and bonus policy for SAIF.

The independent Monitoring Actuary advises the Scottish Amicable Board on the operation of SAIF to protect the interests of SAIF policyholders. John McKenzie, Head of Insurance Transfers and Reporting Service at Hymans Robertson, has been the Monitoring Actuary since August 2004.

Upon merger with the PAC WPSF on 1 April 2021, the role of Monitoring Actuary and the Scottish Amicable Board ceased to exist. From 1 April 2021 PAC's WPC and WPA advise the PAC Board on the application of discretion and the fair treatment of former Scottish Amicable with-profits policyholders.

6.4 Governance of ex-ELAS policies

The business transferred from ELAS to PAC on 31 December 2007 is operated in accordance with the terms of the Scheme that effected the transfer. The WPC reviews the operation of the transferred ELAS business to ensure compliance with the Scheme.

As mentioned in section 5.2 above, in 2020, the WPA carried out a review of the ELAS Scheme resulting in changes to the Scheme rules to remove a “cap” which previously limited increases to a policyholder’s non-guaranteed income. The WPC were consulted on, and supportive of, these changes.

7. Maintenance of the PPFM

The PPFM content is reviewed regularly and updated as and when required to reflect significant developments. A comprehensive review of the PPFM was carried out by the With-Profits Actuary Team, and discussed with the WPC, during 2020, with updated versions published at the beginning of April 2021.

Appendix

Report from the With-Profits Actuary

As With-Profits Actuary ("WPA"), for The Prudential Assurance Company Limited ("PAC"), I advise PAC on key aspects of the discretion that it exercises on with-profits business and I am required by the Financial Conduct Authority's rules to report to with-profits policyholders as to whether PAC's annual report to with-profits policyholders and the discretion exercised by PAC in respect of the period covered by the report has taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

I was only appointed as WPA on 10 March 2020. I have been involved in consideration of all the matters referred to in the attached report on PAC's compliance with its Principles and Practices of Financial Management, and I have carried out a review of PAC's compliance with the PPFM and its exercise of discretion over 2020, including the bonus declaration for the year ending 31 December 2020 which was announced in February 2021.

In my opinion, the discretion exercised by the Directors of PAC over the period took your interests into account in a reasonable and proportionate manner, and was consistent with disclosures to customers and the PPFM.

I have based my opinions on the information and explanations provided to me by the Directors and management of PAC and on my own knowledge and investigations. In doing so I have taken into account the relevant rules and guidance issued by the Financial Conduct Authority, the actuarial profession and the Financial Reporting Council.

Philip John Roberts, Fellow of the Institute and Faculty of Actuaries

With-Profits Actuary

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