

Report Number 30 A

## With-Profits Governance Arrangements

A summary of Aviva's proposals in connection with the reattribution of the inherited estates of CGNU Life and CULAC with-profits funds

Norwich Union rebranded as Aviva in the UK on 1 June 2009. Where an historical position or events prior to 1 June 2009 are described in this appendix, 'Aviva' and associated naming conventions have been used. Financial information has not been updated and remains as at the time of the report date.

Information contained in this report, its appendices or elsewhere which was provided by Aviva has been prepared by or commissioned by Aviva to facilitate its negotiations with the Policyholder Advocate. Aviva does not authorise the use of this information for any other purpose. Whilst Aviva has taken reasonable care that the information is accurate, it was prepared for use only by the Policyholder Advocate and her advisers and this information is not to be construed as advice by or on behalf of Aviva to any person, including policyholders and shareholders. No representation or warranty (whether express or implied) is given as to the future projections, estimates, returns or prospects, or any assumptions underlying them noted in this report. Aviva is not liable for any loss arising from any errors, omissions or misrepresentations in this report or other documents referred to in this report, or any third party action or decisions which may in any way be based on this report.

This information may not be published in any format or otherwise disclosed to any third parties without the express written permission of Aviva.

The report and appendices prepared by the Policyholder Advocate and her advisers do not necessarily represent the views and opinions of Aviva. Except where specifically stated otherwise, the views and opinions of the Policyholder Advocate, the Office of the Policyholder Advocate and/ or her advisers set out in the Policyholder Advocate's Report, its Appendices or elsewhere should not be taken to represent the views of Aviva.

Appendix by: Aviva UK Life - June 2009

Report Number 30 A

## Contents

1.00	Context	3
2.00	Identifying an Appropriate Governance Framework	4
3.00	The Governance Framework	5
4.00	The AVLAP Board	6
5.00	The With-Profits Actuary	7
6.00	The Independent Majority With-Profits Committee	9
7.00	The Scheme, PPFM and AFH Report	13
8.00	Aviva's view of the Policyholder Advocate's Approach	14
	Annexe A – Members of the With-Profits Committee	18
	Annexe B – Responsibilities of the WPC under the Scheme	19

Appendix by: Aviva UK Life - June 2009

Report Number 30 A

## 1.00 Context

One of the key aims of the post reattribution design is that the funds continue to be run after implementation of the scheme and reattribution in a way that is consistent with how they were run before the reattribution. The reattribution will, by its nature, more clearly identify the interests of both policyholders and shareholders but at the same time creates the potential for increased conflicts of interest. The design of the Scheme aims to strike a balance between these interests.

A number of controls will be embedded into the operation of the funds and these will be reflected in the Scheme and the Principles and Practices of Financial Management (PPFM). Other existing controls have already been reviewed and have been changed as part of our ongoing processes improvements. Together they aim to ensure that policyholders continue to be treated fairly.

In order to ensure that controls are observed in the running of the funds and that discretion is exercised appropriately, there is a need for an appropriate level of objective oversight. This oversight tends to be referred to collectively as “governance” and this paper outlines the various elements of the governance arrangements that are already in place and those that will be in place after the reattribution.

Report Number 30 A

## 2.00 Identifying an Appropriate Governance Framework

Underpinning all of our thinking is a strong desire to ensure that all Aviva customers will continue to be treated in a fair and open fashion.

In order to ensure that a robust governance framework is in place now and in the future we have taken into account the following criteria:

- The Financial Services Authority (FSA) governance requirements;
- The existing governance arrangements;
- Transparency to customers about the governance arrangements;
- Objective and expert oversight of the implementation of the various controls;
- Other market practice in relation to with-profits governance;
- The balance between policyholders' and shareholders' interests including directors' duties under common law and under the new Companies Act 2006.

### 2.02 The FSA Governance Requirements and Guidance

The Conduct of Business Sourcebook (COBS) provides details of the FSA's expectations in relation to governance arrangements for with-profits and the reporting of compliance to customers. The rules and guidance are intended to provide an appropriate degree of protection for both existing and future with-profits policyholders.

In summary, the rules and guidance:

- Describe governance arrangements designed to ensure there are appropriate systems and controls in relation to the conduct of with-profits business;
- Require an annual report on compliance to be made available to with-profits policyholders.

Report Number 30 A

### 3.00 The Governance Framework

With the various considerations in mind, the governance framework is a combination of:

- The AVLAP Board;
- The With-Profits Actuary (WPA); and
- An independent majority With-Profits Committee (WPC).

All of which is underpinned by a transparent set of “rules” about how the funds should be operated. These are encapsulated within:

- The Scheme
- The Actuarial Function Holder (AFH) Report;
- The With-Profits Actuary Report;
- The Principles and Practices of Financial Management; and
- The role of the With-Profits Committee.

Report Number 30 A

## 4.00 The AVLAP Board

After the reattribution, the Old With-Profits Sub Fund (OWPSF), the New With-Profits Sub Fund (NWPSF) and the Reattributed Inherited Estate (RIE) will be within Aviva Life and Pensions Limited (AVLAP).

The AVLAP Board will have duties in relation to the establishment of the funds, the payment of incentives to elected policyholders and the ongoing running of the funds, including in relation to bonus declarations.

Their discretion in these areas is not unfettered. The directors take account of:

- Their duty to treat customers fairly;
- The articles of association of the company, which include the 90:10 arrangements;
- Their general duties owed as directors to the company as a whole<sup>1</sup>;
- The conditions under the Scheme and restrictions imposed on them in the exercise of their powers. For instance, there are a number of issues on which they are required to take appropriate actuarial and/or other advice and/or seek the approval or involvement of the independent With-Profits Committee<sup>2</sup>;
- As Approved Persons of a regulated firm the directors have responsibilities under the FSA's Handbook, for example:
  - Principles for Business;
  - Statements of Principle and Code of Practice for Approved Persons;
  - Rules and guidance relevant to the running of with-profits funds.

Every year, the Board must produce a report to with-profits policyholders stating whether AVLAP believes that it has complied with its obligations in relation to the PPFM.

---

<sup>1</sup> Ss 170 to 177 of the Companies Act 2006 explains the general duties that a director has to the company. These sections came into force on 1 October 2007 and so will be in force at the Effective Date. It is worth noting that the general duties include the duty to promote the success of the Company for the benefit of all stakeholders, whilst having a regard to the need to protect the Company and business' relationship with its customers.

<sup>2</sup> More detail on the operation of the With-Profits Committee is provided in section 6

Report Number 30 A

## 5.00 The With-Profits Actuary

Aviva will continue to have a With-Profits Actuary (WPA) after the Scheme Effective Date. The WPA will have the following responsibilities, all of which serve to ensure that the interests of both existing and future with-profits policyholders are taken into account in a reasonable and proportionate manner.

In particular, the WPA will continue to:

- Advise the Board on the exercise of its discretion, particularly in the following areas:
  - Annual and final bonus rates;
  - Any special distributions of excess surplus;
  - Investment policy;
  - Surrender value methodology;
  - New business plans and premium rates;
  - Allocation of expenses to with-profits business;
  - Investment fees to be charged to with-profits business;
  - Changes to the PPFM;
  - Communications with policyholders.
- Advise the Board on the assumptions underpinning the exercise of discretion for the purposes of assessing the capital requirements of the funds;
- Provide an annual report to the Board on the exercise of its discretion;
- Make an annual written report to policyholders in which he will provide his opinion on whether the annual report provided by AVLAP on the operation of the PPFM and the exercise of the Board's discretion may be regarded as taking or having taken into account the interests of the with-profits policyholders in a reasonable and proportionate manner.

In order to enable the WPA to carry out his responsibilities the AVLAP Board must<sup>3</sup>:

- Keep the WPA informed about business developments and plans;
- Provide the WPA with sufficient resources;

---

<sup>3</sup> SUP 4.3.17R

Report Number 30 A

- Hold such data and establish such systems as the WPA may reasonably require;
- Request the WPA's advice on the fair treatment of the relevant classes of with-profits policyholders, where the Board is likely to effect a material change in the business plans, practices and other circumstances;
- Take the WPA's advice in relation to a number of areas prescribed in the Scheme, namely:
  - The proportionate split amongst the AVLAP Sub-Funds of any liabilities not provided for in the Scheme<sup>4</sup>;
  - The allocation of non policy specific expenses amongst AVLAP Sub-Funds<sup>5</sup>;
- Pay due regard to his advice.

---

<sup>4</sup> Paragraph 4.6.3 of the Scheme

<sup>5</sup> Paragraphs 5.7.5 and 5.7.7 of the Scheme

Report Number 30 A

## **6.00 The Independent Majority With-Profits Committee**

### **6.01 The Existing With-Profits Committee**

On 1<sup>st</sup> July 2007 Aviva took the step of further strengthening the governance of with-profits funds by disbanding the existing With-Profits Committee and replacing it with a committee that has a majority of independent members.

The independent members are Sir Nicholas Montagu KCB, Harriet Maunsell OBE and John Hylands. The other committee members are David Barral and Stephen Marsh. Although not excluded by the committee's terms of reference it is worth noting:

- that the company representatives are not directors of any of the Life companies
- that none of the independent members are former employees or directors (in any capacity) of Aviva
- that all appointments to the With-Profits Committee must not be objected to by the FSA

The Chairman of the committee is Sir Nicholas Montagu KCB

Further details of committee members' is given in Annexe A.

### **6.02 The Role of the With-Profits Committee**

The purpose of the With-Profits Committee (WPC) is to provide independent oversight and challenge to the Board of Aviva Life and Pensions UK Limited (AVLAP) (and of any other relevant subsidiary of Aviva Plc ("the Company")). Its key purpose is to ensure that fairness to with-profits policyholders continues to be more deeply embedded in the firm's decision making. This aims to ensure that, in as much as their actual and prospective benefits and security are concerned, with-profits policyholders are treated fairly.

In carrying out its role and in assessing fairness the WPC will consider all relevant issues and information including practicalities and in particular:

- The rights, interests or reasonable expectations of different classes and generations of with-profits policyholders;
- The way in which the firm exercises any discretion that it may apply in the conduct of its with-profits business; and

Report Number 30 A

- The way in which the firm addresses any competing or conflicting rights, interests or reasonable expectations of its policyholders (or groups of policyholders) and, if applicable, shareholders.

In summary, some of the key elements of the WPC role are:

(a) In relation to the PPFM

- To consider and provide the firm with an independent assessment of compliance with the PPFMs (as defined by COBS 20.3.2(G));
- To consider and provide the firm with an independent assessment of any proposed changes to the PPFM;
- To provide recommendations for changes to the practices and procedures of the firm in its management of the with-profits business and for changes to the PPFM.

(b) In relation to the Scheme

- After the Effective Date, fulfill the roles and responsibilities reserved for the WPC in the reattribution and Scheme of Transfer, the accompanying Actuarial Function Holder report and With-Profits Actuary report. In particular:
  - Consider and provide the firm with an independent assessment of its compliance with the Reattribution Scheme insofar as it affects the rights and interests of with-profits policyholders;
  - Consider and provide the firm with an independent assessment of any proposals to change its practices and procedures or its PPFM including whether such changes would materially alter the effect of the Reattribution Scheme and are consistent with the governance objectives set out in the Reattribution Scheme.

(c) In relation to policyholder communications

- To review key communications of the firm to with-profits policyholders to satisfy itself that they are appropriately drafted to be readily comprehensible to policyholders and to provide the firm with recommendations for change to such communications;
- To communicate directly with with-profits policyholders as a group as it considers appropriate, and/or to recommend that the firm makes such communications, to enhance policyholder understanding of the role of the WPC.

(d) In general

- To consider and provide the Board with an assessment of fairness of any material proposals for its with-profits business;
- To provide a formal response to any issue on which the Board of Directors of the firm has requested the view of the WPC and to report to them on any matters of significance arising from its work;

Report Number 30 A

- To carry out a review of its terms of reference at least annually against best practice and regulatory requirements and, if considered necessary or appropriate, make recommendations for change to the Board of Directors of the firm;
- To provide an annual report to the Board of Directors of the firm of the WPC's conclusions on compliance with the PPFMs and the Reattribution Scheme. If requested by the WPC, the firm will facilitate issuing such a report (or representative summary) to policyholders.

### **6.03 What does the WPC have to approve?**

The Scheme prescribes a number of instances where the AVLAP Board's decision in relation to the management of the with-profits fund and the exercise of discretion requires the approval of the WPC. The WPC is entitled to withhold its approval on such matters. A table outlining such instances can be found in Annexe B and examples include:

- A number of areas relating to the establishment of the OWPSF, NWPSF and RIE;
- The allocation of non-profit business;
- Reinsurance;
- Certain expense allocation;
- Amendments to the Scheme Principles and changes to the basis of allocation;
- The allocation of assets and liabilities in the funds;
- Certain deductions from the core asset account;
- Changes in new business assumptions.

### **6.04 When can the WPC whistleblow?**

The WPC can notify the AVLAP Board if it considers that the AVLAP Board is not complying with the PPFM or Scheme or is otherwise failing to treat with-profits policyholders fairly. The AVLAP Board will then have 28 days within which to provide a satisfactory response.

The WPC may report the AVLAP Board to the FSA if the AVLAP Board has not provided a satisfactory response within the 28 days.

### **6.05 What if there is a Dispute between the WPC and the AVLAP Board?**

There is a remote possibility that there could be a disagreement between the WPC and the AVLAP Board which cannot be resolved to the satisfaction of both parties. To anticipate this, appropriate

Report Number 30 A

provisions are included in the WPC's Terms of Reference to enable a form of arbitration or mediation to be used in such circumstances.

## 6.06 How will the Role of the WPC Change?

Inevitably, the role of the WPC will evolve as it matures and changes in the management of the with-profits funds take place (either as a result of regulatory change or through internal change). This is viewed as a desirable and beneficial continuous improvement process.

As an example, through the reattribution process some observations and suggestions for changes to the WPC role were made by both the Policyholder Advocate and the Independent Expert.

These suggestions, along with the reflections of the WPC members themselves, have been considered by the WPC in conjunction with the company and where it was felt appropriate they have been incorporated into the terms of reference for the WPC.

Their suggestions have included:

- The responsibilities of the WPC arising from the Reattribution;
- Clearer definition of the WPC's ability to recommend changes to practice, procedures or the PPFM;
- The WPC's ability to correspond directly with policyholders as a group;
- The WPC's ability to liaise with industry and consumer groups/bodies;
- Company support for continued professional development of the WPC;
- Extending the WPC's whistleblowing powers beyond those of reattribution & PPFM compliance to fairness more generally

Report Number 30 A

## 7.00 The Scheme, PPFM and AFH Report

The controls regarding the operation of the funds after reattribution will be contained within a combination of:

- the Scheme;
- the PPFM;
- the AFH report; and
- the WPA report

The Scheme will contain the key principles and the PPFM<sup>6</sup> and the AFH report more information about the principles and details of the practices relating to those principles. The Scheme, PPFM and AFH report will be available to customers.

The WPC and the AVLAP Board will have internal guidance available to them with more detail than is applicable in the PPFM for use:

- by the AVLAP Board to guide them in the exercise of their discretion and
- by the WPC:
  - to guide in making recommendations to the AVLAP Board regarding the management of the funds and
  - to enable them to oversee the exercise of that discretion by the Board in the running of the funds.

Whilst the internal guidance will be reviewed by the FSA, it will contain commercially sensitive information about the funds and it will therefore remain an internal document.

---

<sup>6</sup> Details of the contents of the PPFM can be found in the NU paper entitled "Principles and Practice of Financial Management"

Report Number 30 A

## **8.00 Aviva's view of the Policyholder Advocate's Approach**

### **8.01 The Role of the WPC**

The Office of the Policyholder Advocate has suggested in their appendix that the role of the WPC may not have the right focus and that the remit of the WPC should include the consideration of policyholders' rights and interests and exercises of discretion by AVLAP more generally and a requirement to regard themselves as the policyholders' representatives in this respect, and not, in contrast to the AVLAP Board, as representatives of the company. Section 6.02 above states that, the WPC has a key role to play in ensuring that with-profits policyholders are treated fairly.

In assessing fairness the WPC will consider all relevant issues and information and in particular:

- The rights, interests or expectations of different classes and generations of with-profits policyholders;
- The way in which the Board exercises any discretion that it may apply in the conduct of its with-profits business; and
- The way in which the Board addresses any competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders) and, if applicable, shareholders.

From Aviva's perspective a combination of the terms of reference, responsibility in the scheme to ensure that customers are treated fairly, and the requirement by the WPC to evaluate the performance of the company against its objective to treat customers fairly give it extremely wide powers.

The role of the WPC is to provide independent oversight and challenge to the management of the with-profits funds, if additional powers were granted to the WPC there is a danger that the committee could effectively become a part of the company's management of the funds and thus the committee would no longer be independent in nature.

### **8.02 Constitution of the WPC**

The Office of the Policyholder Advocate has suggested that it is not appropriate for AVLAP directors to sit on the WPC due to conflicts of interest and that as a result it follows that the WPC should be constituted separately from the Board. They do acknowledge that none of the current members of the WPC are or have been directors of the company.

Report Number 30 A

The comments made could be viewed as misleading in that:

- All appointments to the WPC must not be objected to by the FSA
- All directors of the company must safeguard the interests of policyholders under their duties to treat customers fairly.

The Office of the Policyholder Advocates suggestion for a change in the constitution of the committee was considered by the With-Profits Committee members as part of the recent annual review of their Terms of Reference. They concluded that no change was necessary since the way that the WPC is currently constituted satisfies its objectives, and provides strong safeguards and protection of with-profits policyholders' interests.

### **8.03 Veto Rights**

The Office of the Policyholder Advocate has noted that we have specified a number of areas where the express approval of the WPC is required. These are defined in the Scheme and With-Profits Actuaries report.

In conjunction with the WPC, Aviva has carefully considered the Office of the Policyholder Advocate's comments on this matter. We have concluded that the current regulatory and legal framework gives strong policyholder protection, and that the additional powers proposed would not contribute to any material improvement.

### **8.04 Power of the WPC to Make Recommendations**

The Office of the Policyholder Advocate has expressed a view that the WPC should have powers to initiate its own reviews of the management of the with-profits funds. Whereas we suggest that the role of a with-profits committee is to protect policyholder rights, not to set up an alternative management to that executed by Aviva. The company has a duty to make sure that its strategy for with-profits funds is consistent with its general business. This proposal, if formally instituted, would inevitably dilute the accountability and authority of the AVLAP board, and is thus unacceptable to the company.

In fact, the WPC does make suggestions and proposals, all of which to date have been adopted by the company.

### **8.05 Appointment and Removal of Members**

Aviva has a different perspective to the Office of the Policyholder Advocate regarding the appointment and removal of members of the WPC in that it is the directors of Aviva who bear the responsibility for managing the funds, and protecting and enhancing the company's reputation. A key tool in that work

Report Number 30 A

is the right to choose the best people for the job. In making key appointments (such as directors, office holders, members of the with-profits committee, or contractors for specialist roles - such as the policyholder advocate) the company searches widely and prides itself on its selection processes.

## **8.06 Changes to the Constitution of the WPC**

The current terms of reference for the WPC allow for revisions to be made using a tiered level of approval depending on the nature of the change. For instance:

- They can be revised to reflect up to date attendees and standard agenda items subject to the prior approval of the chairman of the WPC;
- Changes to the parts of the terms of reference which relate to the Scheme can only be made with the approval of the AVLAP Board, and after the agreement of the WPC and FSA;
- All other changes to the terms of reference require the agreement of the chairman of the WPC prior to approval of the Board.

Aviva does not accept the Office of the Policyholder Advocate's inference that it is inappropriate for some changes in the WPC's terms of reference to be approved solely by the chairman of the WPC. It clearly lies within the chairman's discretion if he wishes to consult (either formally or informally) with the other members of his committee. This approach allows trivial changes to be made with a minimum of cost and delay.

## **8.07 Conduct of Business**

### **8.07.01 Meetings**

The Office of the Policyholder Advocate's comments seem to overlook the provisions in the WPC's terms of reference which allow the Chairman to request a meeting with the Board in connection with any matter within the WPC's terms of reference. Such Board meetings must be held within 60 days of the request.

### **8.07.02 Access to Information and People**

The WPC terms of reference make it clear that the WPC can have access to individuals and all information as the WPC reasonably considers necessary in order to fulfil its role.

In addition, with the consent of the Board the WPC can seek external legal, actuarial or other independent professional advice where reasonably required. This facility is at the expense of the Company and it should be noted that their consent cannot be unreasonably withheld.

Report Number 30 A

### **8.07.03 Consultation and Reporting**

The Office of the Policyholder Advocate has recently suggested that the WPC should be:

- able to consult with policyholders more generally or indeed allowed to “whistle blow” to policyholders; and
- under a positive duty to communicate with policyholders annually. This could for example take the form of a consumer friendly version of the WPC’s annual report to the Board.’

These suggestions will be passed to the WPC for consideration as part of their next review of the Terms of Reference.

Report Number 30 A

## Annexe A – Members of the With-Profits Committee

Member	
Sir Nicholas Montagu KCB	<p>Non-Executive Director of Xafinity and of the Pension Insurance Corporation, and adviser to Pricewaterhouse Coopers.</p> <p>A civil servant for 30 years, ending his career as Chairman of the Board of the Inland Revenue 1997-2004 (also chairman of the Civil Service Benevolent Fund 1998-2003, and Permanent Secretary Diversity Champion 1999-2004).</p> <p>He was appointed a Knight Commander of the Order of the Bath in the 2001 Birthday Honours list.</p>
Harriet Maunsell OBE	<p>Non-Executive Director of the Serious Fraud Squad and former Chairman of the Occupational Pensions Regulatory Authority.</p> <p>In 1994 she was awarded the OBE for services to pensions.</p>
John Hylands	<p>Joined Standard Life in 1979. He was Group Finance Director from 2001 until 2005 and then led the demutualisation of the company. He retired from his position as an executive director of Standard Life plc in March 2007.</p> <p>He has recently been appointed Chairman of the Trustees of the Standard Life Staff Pension Scheme. He is an actuary.</p>
David Barral	Marketing Director, Aviva UK Life
Stephen Marsh	Director of Risk and Governance, Aviva UK Life

Report Number 30 A

## Annexe B – Responsibilities of the WPC under the Scheme

Scheme Reference	Role of With-Profits Committee
Para 4.5.7	The With-Profits Committee must agree with the allocation, to such AVLAP Sub-Fund as the AVLAP Board deems appropriate having taken appropriate actuarial advice, of all Transferred Policies (or relevant parts thereof) which are not allocated or are not capable of allocation to a AVLAP Sub-Fund pursuant to paragraphs 4.5.2 to 4.5.6, which concern the allocation of Transferred Policies on the Effective Date.
Para 4.6.6	AVLAP shall allocate any Transferred Liability which is not referred to in paragraphs 4.4, 4.5 or 4.6.1 to 4.6.5 (which concern allocation of Transferred Liabilities on the Effective Date) to the Old WPSF and the New WPSF in the Old WPSF Proportion and the New WPSF Proportion, respectively. The With-Profits Committee may approve any alternative allocation (not to the PM Sub-Fund, the AVLAP WPSF or the Belgian Sub-Fund) determined by the AVLAP Board, taking into account its duty to treat policyholders fairly, provided that any Transferred Liability which relates to a Transferred Asset shall be allocated to the same AVLAP Sub-Fund (including to the RIEESA) as such Transferred Asset.
Para 4.7.8	The With-Profits Committee may approve the allocation of Transferred Assets to AVLAP Sub-Funds on the Effective Date, so as to constitute Specifically Allocated Assets of such AVLAP Sub-Funds, as determined by the AVLAP Board, subject to the requirements of paragraphs 4.7.2 to 4.7.7 (which concern allocation of Transferred Assets on the Effective Date) and save as set out in paragraph 4.7.9 (allocation of assets that are specifically ear-marked to meet or hedge particular policyholder liabilities).
Para 5.2.4	The With-Profits Committee must consent to any reduction by the AVLAP Board of the proportion in which New Policies which are WP Policies are reinsured to the Old WPSF, to less than the Old WPSF Proportion.

Report Number 30 A

Para 5.2.6	The With-Profits Committee must agree, with the AVLAP Board, to allocations pursuant to paragraph 5.2.5 (ceasing the allocation of any New WP Policies to the Old WPSF and the New WPSF on or before 31 December 2013) made as between WP Policies allocated or reassured to the Old WPSF and the New WPSF.
Para 5.2.9	A transfer as described in paragraphs 5.2.5 - 5.2.7 of the Scheme shall not be required (notwithstanding that the capital condition in paragraph 5.2.8 may be fulfilled) if (i) the AVLAP Board considers the reduction in new business volumes was either unavoidable or appropriate in the then prevailing circumstances; (ii) the FSA has not disagreed within 14 days of notification by AVLAP of such a view being taken by the AVLAP Board; and (iii) the With-Profits Committee agrees that such reduction was unavoidable or appropriate.
Para 5.3.1(a)	This relates to the re-allocation of any Non Profit Policy or all or any part of a WP Policy which becomes a Non Profit Policy (other than as a result of switching) to any AVLAP Sub Fund (other than the PM Sub Fund or Belgian Sub Fund) or to any other sub fund to which Non Profit Business may be allocated (including the RIEESA, the New WPSF or the Old WPSF in accordance with part 3 of Schedule 4) or to become an investment of Asset Shares or to no longer be an investment within the New WPSF, provided that the reallocation is not inconsistent with paragraph 5.2.1(b) and (c), the terms of the Policy, regulatory requirements and applicable governance principles and where this involves the with-profits fund or the RIEESA, the approval of the With-Profits Committee.
Para 5.3.1(b)(iii)	The With-Profits Committee must approve the re-allocation of policies (to become an investment of Asset Shares or to no longer be an investment of Asset Shares) pursuant to paragraph 5.3.1 of the Scheme and the amount to be debited or credited to the Core Assets Account.
Para 5.3.1(c)	The With-Profits Committee can approve a different period of aggregation of re-allocations in relation to paragraph 5.3.1(c) of the Scheme, which provides a restriction on the re-allocation of certain Policies.
Para 5.3.2(c)	This relates to the allocation of a WP Policy or all or any WP Part of a Policy to any AVLAP Sub-Fund that is a With-Profits Fund (other than the PM Sub-Fund or the Belgian Sub-Fund) provided that the AVLAP Board is satisfied that such reallocation will not have a material adverse affect either on the Policy or Policies being reallocated or on the holders of policies then allocated or reassured to the Sub-Fund to which or from which the reallocation is proposed and the reallocation is approved by the With-Profits Committee.

Report Number 30 A

Para 5.3.2(e)	The With-Profits Committee must agree the amount to be debited and credited to the Core Assets Account where the Policy is to be allocated in whole or in part to the New WPSF, or from the New WPSF.
Para 5.3.3(e)	The With-Profits Committee shall be asked to confirm that the principles to be adopted by the AVLAP Board for determining the deduction from the Core Assets Account or the re-allocations under paragraph 5.3 of the Scheme (re-allocation of certain Policies) are fair and equitable as between the affected Sub-Funds and as between policyholders and shareholders.
Para 5.4.3(c)	This provides that internal reinsurance of New Stakeholder Policies and Transferring Stakeholder Policies to the Stakeholder WPSF may be recaptured, inter alia, with the approval of the With-Profits Committee.
Para 5.4.3(e)	This is a similar provision relating to the recapture of the Non-Profit Element of both New Stakeholder Policies and Transferring Stakeholder Policies and has the same provisions as for the With-Profits part, together with requiring the approval of the With-Profits Committee.
Para 5.6.1	This is a general provision subject to other safeguards in the Scheme which allows AVLAP at any time, provided not inconsistent with the terms of underlying insurance contracts and in accordance with applicable laws and regulatory requirements, to effect other internal reinsurance arrangements (except with the PM Sub Fund) or enter into reinsurance agreements with any company and modify, vary or terminate any internal or external reinsurance arrangements provided that any reinsurance to the Old WPSF of WP Policies or as between the Old WPSF and the New WPSF or under paragraph 5.2.1(c) will always comply with the pro-rata requirements as between the Old WPSF and the New WPSF set out in paragraph 5.4 or 5.2.1(c) and shall be subject to the approval of the With-Profits Committee.
Para 5.6.2	The With-Profits Committee must approve any internal reinsurance arrangement entered into or amended after the Effective Date.
Para 5.6.5	This is the general provision allowing AVLAP to enter into reinsurance arrangements with an Aviva Group Company only if the reinsurance arrangements do not materially prejudice the interests of AVLAP policyholders, are consistent with AVLAP's duty to treat its customers fairly and, where they relate to the Old WPSF, the New WPSF or the RIEESA, shall be subject to the prior approval of the With-Profits Committee.

Report Number 30 A

<p>Para 5.7.3</p>	<p>This provides that the With-Profits Committee shall exercise the powers and oversight in relation to the Old WPSF, the New WPSF and the RIEESA as set out in part 4 of Schedule 4, elsewhere in the Scheme, in the Actuarial Function Holders' Report, the With-Profits Actuary's Report and the relevant PPFM and such other powers and duties in relation to other With-Profits Sub-Funds as are set out in the Scheme or as the AVLAP Board may determine from time to time.</p>
<p>Para 5.7.5</p>	<p>This is a general provision that, except as specifically provided elsewhere in the Scheme, expenses which do not relate specifically to a policy shall be apportioned amongst such AVLAP Sub-Funds (other than the PM Sub-Fund save for regulatory fees or industry levies) as determined by the AVLAP Board, having obtained appropriate actuarial advice (including in respect of any with-profits Sub-Fund or the RIEESA the advice of the With-Profits Actuary), having due regard to the interests of policyholders and their fair treatment and the business carried on for the account of each AVLAP Sub-Fund and where the apportionment is to be made to the Old WPSF, the New WPSF or the RIEESA the prior approval of the With-Profits Committee.</p>
<p>Para 5.7.7</p>	<p>Where the fees referred to in paragraph 5.7.6 or other distribution, administration or investment management expenses are allocated to a Non-Profit Sub-Fund, other than the sub-fund to which the business is allocated, Expense Allowances equal to such expenses (or otherwise as agreed with the With-Profits Committee) shall be transferred from the AVLAP Sub-Fund to which the relevant business is allocated to the Non-Profit Sub-Fund which incurred the fee or expense, to the extent that such a transfer would be appropriate as determined by the AVLAP Board, having obtained appropriate actuarial advice (including in respect of any with-profits fund or the RIEESA the advice of the With-Profits Actuary), and consistent with any applicable Scheme Principles of Financial Management and AVLAP's duty to pay due regard to the interests of its policyholders and to treat them fairly. In addition the prior approval of the With-Profits Committee shall be required where the Old WPSF, the New WPSF or the RIEESA is involved in such transfer.</p>
<p>Para 5.7.15</p>	<p>Save for specified paragraphs, this paragraph allows the AVLAP Board to amend the Scheme Principles of Financial Management set out in Schedules 4 to 7 with the prior approval of the With-Profits Committee and after prior notification to the FSA (but without requiring an application to the Court) if, as a result of any change in, or a new interpretation of, any law, regulation, policy or practice, such an amendment is, in the opinion of the AVLAP Board having obtained appropriate advice, (1) necessary or (2) appropriate provided that in the latter case such amendment does not (except in the case of the application of changes in Tax legislation) materially adversely affect policyholders' interests.</p>

Report Number 30 A

Para 5.7.16	To the extent that the Scheme contains principles which are reflected in practices contained within the relevant PPFM the AVLAP Board shall procure that (in addition to obtaining any specific approvals from the With-Profits Committee required under or pursuant to this Scheme) no changes shall be made to such practices without confirmation from the With-Profits Committee that such change of practice does not materially and adversely change the effect of the Scheme on policyholders and that such change of practice is in conformity with the Scheme Principles of Financial Management.
Para 5.11.8	The With-Profits Committee must approve any alteration to the allocation of tax to the with-profits Sub-Funds by the AVLAP Board, pursuant to paragraph 5.11.8 of the Scheme.
Para 5.14.5	The With-Profits Committee may agree that mis-selling and other liabilities which relate to or arise from the conduct of a particular category of long-term insurance business written after the Effective Date which is conducted in a particular Sub-Fund shall be allocated otherwise than as provided for by paragraph 5.14.5 of the Scheme.
Para 5.14.7	This relates to allocation of assets and liabilities relating to the long-term insurance business of AVLAP which arise on or after the Effective Date and are not allocated to any particular sub-fund under the Scheme. These assets or liabilities shall be allocated as the AVLAP Board shall determine, in accordance with applicable legal and regulatory requirements, having obtained appropriate actuarial advice and with the approval of the With-Profits Committee.
Para 5.15.4(c)(viii)	This is a sweep up provision in relation to deductions from the Core Assets Account which requires the prior approval of the With-Profits Committee for such a deduction.
Para 5.15.5	The With-Profits Committee must agree, with the AVLAP Board, an amount reflecting the cost to the New WPSF of providing capital to support the Non-Profit Policies allocated to Asset Shares, for the purpose of paragraph 5.15.5 of the Scheme (calculation of the Enhanced Aggregate Asset Shares of Relevant WP Policies as at the relevant date).
Para 5.15.10(iii)	The With-Profits Committee must agree to any transfer of Identified Assets out of the New WPSF to any other AVLAP Sub-Fund on arm's length commercial terms, pursuant to paragraph 5.15.10(iii) of the Scheme (sale or disposal of Identified Assets of the New WPSF from time to time).

Report Number 30 A

Para 7.3.3	The With-Profits Committee must confirm any release from the RIEESA under paragraph 6.3.1 (application of Available Excess Assets in the New WPSF) if alternative capital support is implemented pursuant to paragraph 7.3.3 of the Scheme.
Para 7.3.5(ix)	The With-Profits Committee shall approve any addition or deduction from transferred assets pursuant to paragraph 7.3.5 of the Scheme (adjustment of transferred assets representing capital support to the Old WPSF), having taken appropriate actuarial advice.
Para 8.2.1	Prior to the Old WPSF Merger Date, any merger of the Old WPSF with the New WPSF shall require the consent of the Court to which the provisions of paragraph 9.8.2(b) shall apply save that where the conditions in paragraphs 8.2.1(a) and (c) are satisfied, but not that in (b), the AVLAP Board may propose alternative terms to those set out in paragraphs 8.2.2 - 8.2.10 for a merger of the Old WPSF with the New WPSF taking into account the New Policies described in paragraph 8.2.1(b), which such merger, if the With-Profits Committee agrees, and after notification to the FSA, may proceed without requiring the consent of the Court.
Para 8.2.9(c)(ii)	The With-Profits Committee must approve any plan by the AVLAP Board, made in relation to paragraph 8.2.9 (c)(ii) (AVLAP no longer effecting WP Policies with an entitlement to a share in Available Excess Assets in the New WPSF).
Para 9.8.3	The With-Profits Committee must not dispute the decision of the AVLAP Board to amend the allocation of assets and liabilities to any of the AVLAP Sub-Funds with effect from the Effective Date, on the basis of inequity and pursuant to paragraph 9.8.3 of the Scheme.
Para 9.10	The With-Profits Committee must be consulted by the AVLAP Board regarding their obligation, pursuant to paragraph 9.10 of the Scheme, to deliver to the FSA on an annual basis a certificate that confirms whether the provisions of the Scheme have been complied with in all material respects since the date of the last such certificate or, in the case of the first such certificate, on and from the Effective Date.

Report Number 30 A

## SCHEDULES

Schedule Reference	Role of With-Profits Committee
Schedule 1 part 1	The With-Profits Committee must agree to the amendment of the definition of "Strategic Assets".
Schedule 2 part 2B para 6	The With-Profits Committee shall consider on an annual basis, after the date which is three years after the Effective Date, whether a distribution should be made of some or all of the OBA and so advise the AVLAP Board.
Schedule 2 part 4 para 1	The With-Profits Committee will approve assumed management actions in relation to the calculation of the Effective Date Benefit Security Factor for the Old WPSF, pursuant to paragraph 1 of part 4 of Schedule 2 to the Scheme.
Schedule 4 part 1 para 6	The views of the With-Profits Committee will be taken into account by the AVLAP Board, when considering whether it is appropriate to take action with the aim of moving the capital resources of the Old WPSF or the New WPSF back into the preferred range and what action should be taken.
Schedule 4 part 2A para 4	This relates to the obligation of the AVLAP Board to have regard to the overall financial strength of the aggregate of the Old WPSF and the New WPSF and amend the investment mix of Return Assets in respect of WP Policies allocated to the Old WPSF and the New WPSF or in respect of particular categories or durations of WP Policies (subject to compliance with the relevant PPFM, including in relation to maintaining the overall equity backing ratio of each fund within the range referred to in the PPFM or as otherwise approved by the With-Profits Committee).
Para 8	This provides that the policies adopted in the management of the With-Profits business written prior to the Effective Date will be substantially the same as those which the AVLAP Board, having obtaining appropriate actuarial advice, determines would have been adopted had the Scheme not become effective, unless the With-Profits Committee otherwise agrees.
Para 9	The consent of the With-Profits Committee will be required to adopt a policy being proposed under paragraph 8 above, which would result in a material benefit to shareholders that, in the reasonable opinion of the AVLAP Board, would not have resulted from the adoption of the policy had the Scheme not been implemented.

Report Number 30 A

Para 11	This provides that the investment policy with regard to the use of derivatives in the Old WPSF and the New WPSF in relation to assets backing the with-profits benefit reserve will be in accordance with the principles and practices set out in the AVLAP PPFM as at the Effective Date. Any changes to these principles or practices and any departure there from will require the prior approval of the With-Profits Committee.
Para 12	Changes to the policies and methodology of AVLAP, pursuant to paragraph 12 of part 2A of Schedule 4, where reasonably justified by changes in economic conditions or AVLAP's financial circumstances and are compliant with FSA Rules and where required by the Scheme, Actuarial Function Holder's Report, With-Profits Actuary's Report or PPFM, must be approved by the With-Profits Committee.
Schedule 4 part 2B para 4	<p>This provides for the prior approval of the With-Profits Committee for writing non-profit business as an investment of, and for the benefit of Asset Shares after the Effective Date.</p> <p>To the extent that the investment by Asset Shares in Non-Profit Policies is made after the Effective Date, the impact of premiums, claims and expenses relating to such Non-Profit Policies will, in the case of the New WPSF, be reflected in Core Assets Account or otherwise as agreed by the With-Profits Committee.</p>
Schedule 4 part 2C para 1(b)	This relates to expenses and charges to be deducted from Asset Shares of Transferred WP Policies allocated to the New WPSF and/or the Old WPSF. Expenses in respect of the administration of such policies (not being of a type which were being deducted immediately prior to the Effective Date) can be deducted if the AVLAP Board, having obtained appropriate actuarial advice, considers that it is consistent with the interests of policyholders and this deduction is approved by the With-Profits Committee.
Para 7	Unless otherwise provided in the Scheme, expenses relating to business written in or reassured to the Old WPSF and/or the New WPSF after the Effective Date will be allocated as determined by the AVLAP Board, having obtained appropriate actuarial advice and taking into account the views of the With-Profits Committee, in a manner consistent with the PPFM and with AVLAP's duty to pay due regard to the interests of its policyholders and to treat them fairly.
Para 8	If the AVLAP Board considers that any of the allocations in paragraph 4 to 6 of part 2C of Schedule 4 is inconsistent with AVLAP's duty to pay due regard to the interests of holders of policies allocated to the Old WPSF and the New WPSF and to treat them fairly, the relevant expenses should be allocated in a manner consistent with such a duty as determined by the AVLAP Board, having obtained appropriate actuarial advice and the approval of the With-Profits Committee.

Report Number 30 A

Para 9	The approval of the With-Profits Committee shall also be required in relation to:
	any expenses or charges to be deducted from the assets in the Old WPSF, or the New WPSF (other than expenses or charges to be deducted from Asset Shares governed by paragraphs 1-3 of Part 2C of Schedule 4) where such expenses or charges would represent a change in either the type of expenses or charges which were being deducted from the CGNU Life WP Sub-Fund or the CULAC WP Sub-Fund immediately prior to the Effective Date or a change to the basis of calculation of such expenses or charges; or
	any increase in expenses or charges above the levels charged at the Effective Date, which would reduce policyholder benefits under Transferred WP Policies save to the extent that an increase is contemplated in the policy documents of the relevant Policy and the basis for such increase is in accordance with that used prior to the Effective Date; or
	any amendment of the AVLAP Services Agreement at the point of renewal or otherwise which impacts on the allocation of charges and expenses to the New WPSF, the Old WPSF and the RIEESA or changes the level of charges, except where the basis of such change is specifically contemplated in the AVLAP Services Agreement as in force at the Effective Date.
Schedule 4 part 3 para 2 (a)	The With-Profits Committee can approve a decision of the AVLAP Board not to check that assets of a Market Value equal to the balance on the Core Assets Account are held within the New WPSF in the form of investments other than Non-Profit Business, Strategic Assets or other Aviva Group Companies, pursuant to paragraph 2 (a) of part 3 of Schedule 4 to the Scheme.
Para 3	The With-Profits Committee must approve any decision of the AVLAP Board to invest the Remaining Assets in the New WPSF in Non-Profit Business, in Strategic Assets or in other Aviva Group Companies without necessarily investing the Remaining Assets in the Old WPSF in such assets, pursuant to paragraph 3 of part 3 of Schedule 4 to the Scheme.
Para 6	The With-Profits Committee must approve any investment in Strategic Assets by the New WPSF (including the RIEESA) or by the Old WPSF after the Effective Date, pursuant to paragraph 6 of part 3 of Schedule 4 to the Scheme.
Para 8	The With-Profits Committee must approve the transfer or reinsurance of Non-Profit Business pursuant to paragraph 8 of part 3 of Schedule 4 to the Scheme.

Report Number 30 A

<p>Para 9</p>	<p>The calculations made for the purposes of paragraphs 5 and 8 of part 3 of Schedule 4 to the Scheme will be reviewed by the With-Profits Committee, who may only object if such calculations are inconsistent with the provisions of those paragraphs.</p> <p>The With-Profits Committee (having taken appropriate actuarial advice) must approve changes proposed by the AVLAP Board in the methodology applied for the purposes of paragraphs 5 and 8, pursuant to paragraph 9 of part 3 of Schedule 4 to the Scheme.</p>
<p>Schedule 4 part 4</p>	<p>This whole part describes the role of the With-Profits Committee.</p> <p>Paragraph 12 provides that the provisions of part 4 of Schedule 4 and/or any of the terms of the With-Profits Committee's Terms of Reference related to the Scheme, may be amended by the AVLAP Board in the event of a merger of the Old WPSF and the New WPSF pursuant to Chapter 9, or any time prior to such a merger with the prior approval of the AVLAP Board, provided that, in either case, the With-Profits Committee has certified that it is satisfied that the change is not inconsistent with AVLAP's duty to treat the holders of policies allocated to the Old WPSF and/or the New WPSF fairly and to take due regard of their interests and the FSA has been notified of the proposed change and does not object to it.</p>
<p>Schedule 6 part 4 para 6</p>	<p>The With-Profits Committee may approve the AVLAP Board's suggestions for an alternative basis for the charge and per policy fees as set out in the AVLAP Services Agreement, other than that provided by paragraph 6 of part 4 of Schedule 6 of the Scheme.</p>
<p>Para 7</p>	<p>At any time before or after the Effective Date, the With-Profits Committee must approve changes to the service levels provided to the PM Sub-Fund pursuant to paragraph 7 of part 4 of Schedule 6 to the Scheme (adjustment of the Expense Allowances to be transferred from the PM Sub-Fund in accordance with paragraph 6 of part 4 of Schedule 6).</p>
<p>Schedule 6 part 5 para 2</p>	<p>The With-Profits Committee must approve any adjustment of the standard and/or scope of services provided to the PM Sub-Fund pursuant to paragraph 2 of part 5 of Schedule 6.</p>
<p>Schedule 8 part 2 para 1 "AAA Capital Threshold"</p>	<p>The With-Profits Committee must agree to the use of any adaptation of the principles used for the calculations required for Form 19 of the FSA Returns as at 31 December 2008.</p>

Report Number 30 A

Schedule 8 part 2 para 1, "Required Probability"	The With-Profits Committee must agree changes and modifications to the derivation described in the AFH Report of the risk level consistent with the historic observed default rate published by Moody's in respect of Aaa corporate bonds.
Schedule 8 part 3 para 2	The With-Profits Committee must agree to any changes to the assumed management actions as used by AVLAP as the basis for its then most recent ICA.  The With-Profits Committee must agree to any proposal by the AVLAP Board to change the nature of the projection in paragraph 2 of part 3 of Schedule 8.
Para 3 (a)	The With-Profits Committee must agree to any alternative to the Theoretical EBR proposed by the AVLAP Board for the purposes of determining and monitoring the investment mix of assets backing the with-profits benefits reserve.
Para 4	The With-Profits Committee must approve any changes after the Effective Date to the assessment of the Required Probability, the stochastic model, ESG1, or other aspects of the methodology used for the annual investigations described in Schedule 8 of the Scheme.
Schedule 8 part 4 para 1	The With-Profits Committee must agree to the AVLAP Board designating any amount of assets in the Old WPSF in excess of those required to meet the Capital Requirements of the Old WPSF as Potential Excess Assets, pursuant to paragraph 1 of part 4 of Schedule 8.
Schedule 8 part 6 para 5	The With-Profits Committee must approve any amendment to the test in paragraph 3 of part 6 of Schedule 8 (restricting any release of assets from the RIEESA which would result in the financial strength, measured as AAA CT Coverage, of the New WPSF falling below that of the Old WPSF) prior to implementation of any such amendment.