

# Terms of Reference

The Prudential Assurance Company Limited

With-Profits Committee

# The Prudential Assurance Company Limited With-Profits Committee Terms of Reference

## Purpose

The purpose of this document is to set out the terms of reference for the With-Profits Committee (“WPC” and the “Committee”) established as part of the overall governance arrangements required for with-profits business, as set out in the Financial Conduct Authority’s (“FCA”) Conduct of Business Sourcebook (“COBS”).

## 1. Role

**1.1.** The WPC acts in an advisory capacity to inform the decision-making of the board of directors (the “PAC Board”) of The Prudential Assurance Company Limited (“PAC”) and each of its relevant subsidiary companies, 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 as a whole or as separately identifiable groups of policyholders.

## 2. Scope

**2.1.** The WPC is constituted by the PAC Board.

**2.2.** The WPC will have no decision making powers other than the specific responsibilities as described in the scheme for the transfer of the with-profits annuity business of The Equitable Life Assurance Society (“ELAS”) to PAC.

**2.3.** Decisions on the use of discretion in relation to with-profits business (and for the production of the relevant company’s annual report to with-profits policyholders) will be the responsibility of the relevant board of directors.

**2.4.** Although PAC’s Independent Governance Committee provides oversight of PAC’s contract-based workplace pensions, the WPC will also consider matters where they affect with-profits policyholders.

**2.5.** There will be a single WPC covering all with-profits policies issued by or reinsured into PAC. All of the Prudential UK’s with-profits business is managed within PAC. This business consists of policies:

**2.5.1.** written directly in PAC;

**2.5.2.** previously transferred to PAC from Scottish Amicable Life Assurance Society (“SALAS”), Scottish Amicable Life plc (“SAL”), and with-profits annuity business of ELAS transferred to PAC on 31 December 2007; or

**2.5.3.** reinsured into PAC from its subsidiary companies such as Prudential International Assurance plc (“PIA”).

This includes with-profits business directly written in overseas territories including PAC Poland, other than where the business has subsequently been transferred out of PAC to a separate company.

**2.6.** The WPC will thus act as the with-profits committee for PAC and for each of its subsidiary companies writing with-profits business that is reinsured into PAC.

**2.7.** The establishment of the WPC and its membership are appropriate to the scale and complexity of PAC’s with-profits business.

## 3. Responsibilities

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

**3.1.1.** the way in which the with-profits fund is managed within PAC;

**3.1.2.** the assessment of compliance with the relevant company’s Principles and Practices of Financial Management (“PPFM”);

**3.1.3.** the way in which discretion is exercised in relation to with-profits business;

**3.1.4.** 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 Principle 6 (Treating Customers Fairly) of the FCA’s principles of good regulation; and

**3.1.5.** the investment management arrangements, general investment strategy and the relative investment performance of the with-profits fund; and

**3.1.6.** such other matters that arise, from time to time, which may require consultation with the WPC.

## 4. Duties

4.1. The following specific matters will be considered by the WPC:

- 4.1.1. the identification of surplus and excess surplus, the merits of its distribution or retention and the proposed distribution policy;
- 4.1.2. how bonus rates, smoothing, the treatment of policies with guarantees and, if relevant, market value reductions have been calculated and applied;
- 4.1.3. the management of the with-profits fund inherited estate;
- 4.1.4. if relevant, the relative interests of policyholders with and without valuable guarantees;
- 4.1.5. with-profits policyholder communications and product literature and whether it wishes to make a statement or report to with-profits policyholders in addition to the annual report;
- 4.1.6. any significant changes to the risk or investment profile of the with-profits fund including the management of material illiquid risk and PAC's obligations in relation to strategic investments;
- 4.1.7. PAC's strategy for future sales supported by the assets of the with-profits fund and its impact on surplus;
- 4.1.8. material new product developments;
- 4.1.9. the impact of any management actions planned or implemented;
- 4.1.10. relevant management information including customer complaints data;
- 4.1.11. the drafting, review, updating of and compliance with run-off plans, Court schemes, mergers and similar matters;
- 4.1.12. the costs incurred in operating the with-profits fund (including an annual review of the cost apportionment methodology and results) and any other costs associated with current or future operational, transformational or investment project supported by the assets of the with-profits fund;

4.1.13. the identification and extent of PAC's with-profits funds, and consideration whether any part of the with-profits fund constitutes a separate sub fund; and

4.1.14. the use and purpose of support assets that are available to the with-profits fund.

## 5. Reporting

5.1. The WPC will monitor and consider relevant issues and information, and the Chair of the WPC will report to the relevant company board after each meeting, including recommendations on any area which requires PAC's consideration including:

- 5.1.1. on the way in which PAC exercises discretion in relation to with-profits business;
- 5.1.2. on the way in which PAC addresses any competing or conflicting rights and interests of policyholders and shareholders;
- 5.1.3. with an assessment of PAC's compliance with its PPFM; and
- 5.1.4. on any other issue concerning or affecting with-profits policyholders.

5.2. All material matters in relation to the use of discretion for with-profits business will be reviewed by the WPC. Material matters will include, but are not limited to:

- 5.2.1. distributions or other disbursements from the estate;
- 5.2.2. the implicit or explicit charges paid by the Scottish Amicable Insurance Fund ("SAIF") and the Defined Charge Participating Sub-Fund ("DCPSF") for support from the estate within the With-Profits Sub-Fund ("WPSF");
- 5.2.3. the drawing down of shareholder support under the Shareholders' Undertaking; and
- 5.2.4. confirmation of the mortality bases to be used in any period for determining expected annuity payments on transferred Equitable Life policies.

5.3. The WPC will provide an annual report on issues considered to relevant company boards.

5.4. The WPC may issue a statement or report to with-profits policyholders in addition to PAC's annual with-profits report to policyholders. If the WPC wishes to do this, PAC will facilitate the issuing of it.

5.5. The WPC will be consulted on the proposed appointment of the With-Profits Actuary. The WPC will also assess the performance of the With-Profits Actuary annually and submit a report to the PAC Board.

## 6. Membership

6.1. The members of the WPC shall be appointed by the PAC Board and will have at least three members, all independent of and external to PAC.

6.2. The WPC will be consulted on the proposed appointment of additional members to the WPC and, in turn, will consult with the With-Profits Actuary on any such proposed appointment.

6.3. The Chair and the members of the WPC will be appointed for an initial term of three years, which may be renewed for two further periods of three years, subject to approval from the PAC Board. No member shall serve on the Committee for more than nine years from the date of his/her first election.

6.4. The composition of the WPC will be reviewed by the PAC Board at least triennially.

6.5. The Chair of the WPC will be approved as SMF15 pursuant to the Senior Managers Certification Regime.

6.6. WPC meetings will usually be attended by PAC's Chief Executive, the Chief Risk Officer, the Chief Financial Officer, the Chief Actuary and the With-Profits Actuary, the General Counsel and the Secretary, though the Chair may choose to hold meetings, or parts of meetings, restricted to committee members only.

6.7. Other persons, whether employees or not of the Prudential group of companies, may attend at the Chair's request.

6.8. PAC will ensure that the WPC has access to the Auditors, the FCA or other regulators as required.

6.9. The members and attendees of the WPC, as amended from time to time, are detailed in Appendix B.

## 7. Meetings

7.1. The WPC will meet at least quarterly. Additional meetings may be held if necessary.

7.2. In the event that an urgent decision is required between meetings, the Secretary shall arrange for the relevant paper to be circulated to all WPC members and standing attendees by email for their consideration. The paper shall be noted at the next formal WPC meeting.

7.3. The quorum for WPC meetings will be at least half, and no less than two, WPC members.

7.4. Potential conflicts of interest will be declared and managed in accordance with the relevant policy.

7.5. If any member is unable to attend a particular meeting, then a written submission may be made to the Chair in advance.

7.6. There may be circumstances where it is necessary to hold additional Committee meetings at short notice (for example if market conditions were such that material changes to bonus rates or PAC's application of Market Value Adjustments).

7.7. All or any of the WPC members may participate in meetings by telephone or any communication equipment which allows all participants in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to be counted in a quorum. A resolution passed at a meeting in accordance with this provision shall be as valid and effectual as if it had been passed at a meeting held in person.

## 8. Minutes

**8.1.** Minutes are to be prepared for each Committee meeting.

**8.2.** The draft minutes of each Committee meeting shall be reviewed by the Chair and circulated to all Committee members by the Secretary as soon as practicable but no later than the distribution date of the papers for the next meeting of the Committee.

## 9. Support

**9.1.** PAC will furnish the WPC with the necessary resources to carry out its duties, including:

**9.1.1.** all information (including information requiring additional runs of the economic capital model), documents and access to individuals (including secretarial support) which the WPC reasonably considers necessary to satisfy the requirements set out in these terms of reference;

**9.1.2.** information relevant to its terms of reference even when the WPC does not ask for it and bring issues to the attention of the WPC at an early stage; and

**9.1.3.** access to professional advice, including external independent advice, to support its work, where the WPC reasonably considers it necessary to satisfy the requirements set out in these terms of reference.

## 10. Evaluating Performance

**10.1.** In order to ensure that the Committee is fulfilling its duties, it will:

**10.1.1.** assess its performance against the requirements of these terms of reference, provide that information to the PAC Board and propose to update these terms of reference if required;

**10.1.2.** provide any information that PAC Board may request to facilitate its review of the Committee's performance and that of its members; and

**10.1.3.** obtain feedback from the PAC Board on the Committee's performance on an annual basis and implement any agreed action.

## 11. Escalation

**11.1.** The WPC will consider whether or not there are any specific issues which should be proactively raised with the Prudential Regulation Authority or the FCA, with reference to the guidance contained in the relevant current policy, and to record whether or not there are any such issues in the minutes of each meeting.

## Appendix A – Date of Last Revision and Approval

Revision	Approval
V1.0 (April 2015) (based on new terms of reference template) V2.0 (October 2015)	Approved by WPC 1 May 2015 Approved by PAC Board 19 June 2015
V2.1 (June 2016) V3.0 (September 2016)	Approved by WPC 10 September 2015 Approved by PAC Board 06 October 2015 Minor Changes no approval required Approved by WPC 1 September 2016 Approved by PAC Board 29 September 2016
(September 2017) (July 2018) (November 2018) V4.0 (March 2019)	Draft to WPC 15 November 2017 Draft to WPC 14 September 2018 Draft to WPC 7 December 2018 Approved by the PAC Board 20 March 2019

## Appendix B – Membership and Attendance

Member's Role	Name	Rationale for Membership
Chair – With-Profits Committee	Ronnie Bowie	Chair and independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures
With-Profits Committee Member	Chris Daykin	Independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures
With-Profits Committee Member	Julius Pursaill	Independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures
With-Profits Committee Member	Bruno Geiringer	Independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures
With-Profits Committee Member	David Keeler	Independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures
With-Profits Committee Member	Katie Blacklock	Independent member responsible for ensuring that the interests of with-profits policyholders are appropriately considered within Prudential UK's governance structures

## Appendix B – Membership and Attendance – continued

<b>Attendee's Role</b>	<b>Name</b>	<b>Rationale for Attendance</b>
Chief Executive Officer	Clare Bousfield	Overall accountability for the Prudential UK business including appropriate risk management
Chief Risk Officer	Keith Davies	Accountable for oversight of the risk framework and its effectiveness within Prudential UK
Chief Financial Officer	Gavin Phillips (interim)	Accountable for providing information and advice to the Committee on matters including investment strategy, bonus policy, pricing for new business, longevity, financial regulation and solvency
With-Profits Actuary (the "WPA")	Peter Needleman	To provide advice and guidance in respect of decisions impacting the with-profits business and policyholders
Chief Actuary	Jonathan Hughes	Performs the statutory role of Chief Actuary and provides advice and guidance on the risk the firm runs insofar as they have may have a material impact on the firm's ability to meet liabilities to policyholders
General Counsel	Jennifer Owens	To provide legal support and advice including regulatory matters, commercial/contractual disputes and material or complex customer complaints
Senior With-Profits Actuary	Callum Stuart	To assist the WPA in providing advice and guidance in respect of decisions impacting the with-profits business and policyholders and ensure the WPC receives the information it requires
Senior With-Profits Actuary	Alan Buckland	To assist the WPA in providing advice and guidance in respect of decisions impacting the with-profits business and policyholders and ensure the WPC receives the information it requires
Secretary	UK Secretariat	To maintain the minutes of the meetings and support the Chair in preparing the agenda and in evaluating the Committee's performance

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