Principles and Practices of Financial Management

Version 2nd February 2017

1 Introduction

1.1 About this document

This document ("the **PPFM**") sets out the **Principles** and **Practices** by which Railway Enginemen's Assurance Society Limited ("the **Society**") manages its **with-profits** business. It has been authorised by the **Society**'s **Committee of Management** ("**Committee**") in accordance with the powers granted to it by the **Society**'s Memorandum and **Rules**, and has been adopted by the **Committee**.

This document has two purposes:

- It meets the requirements of the Financial Conduct Authority, specifically section 20.3 of the Conduct of Business Sourcebook, for a directive friendly society. The Society is expected to become a directive friendly society from 1 January 2016.
- It enables a better understanding of the way the Society conducts its with-profits business and, in particular, the principles and practices adopted by the Committee in the application of its discretion in relation to such business. This improved understanding is intended to protect the interests of and promote confidence among with-profits policyholders.

The **PPFM** outlines two types of rules governing how the **Society** will manage its **with-profits** business: **Principles** of financial management and **Practices** of financial management, which are explained below. As the **Society**'s business consists entirely of **with-profits** business, the **PPFM** covers all the **Society**'s business.

This document does not override the **Society's Rules** or the terms of its insurance products, but supplements them. The **Rules** and product terms are contractual by nature, while this document outlines how the **Committee** will exercise its discretion in managing **with-profits** business.

This document considers in turn each key area where discretion is applied.

This document is Version 1.0 of the PPFM and has been accepted by the **Committee** on [day month 2015].

1.2 Principles of Financial Management

Principles are intended to be enduring statements of the overarching standards adopted by the **Society** and are expected to change infrequently.

The **Principles** form a broad framework of rules underpinning the operation of the **Society**, in a way which is appropriate to its stated aims and objectives. They provide an enduring, long-term structure to ensure both continuity and consistency over time. They also document how we intend to interpret Principle 6 of the **Financial Conduct Authority's** Handbook, which requires us to pay due regard to the interests of our customers and treat them fairly. They describe the business model used by the **Society** to enable it to meet its responsibilities to **policyholders**. They also set out the way in which we will respond to longer-term changes in the business and economic environments in which the **Society** operates.

1.3 Practices of Financial Management

Practices describe the **Society**'s current approach and will be subject to more frequent change whilst remaining within the **Principles** currently applying.

The **Practices** describe the way in which we manage the **Society** on a day-to-day basis, and how we will respond to shorter-term changes in the business and economic environment. They represent the practical implementation of the **Principles**. From the information they contain, it should be possible for **policyholders** and potential **policyholders** to understand the prospective rewards and material risks of maintaining a **with-profits** policy with the **Society**.

1.4 Governance and change

The **Society** is governed by its **Committee**. It also maintains a **With-Profits Advisory Arrangement** ("**WPAA**"), consisting of at least three non-executive **members** of the **Committee**. This advises the **Committee** on how it is managing its **with-profits** business and the exercise of discretion. The **Society** is advised by both a **Chief Actuary** ("**CA**") and a **With-Profits Actuary** ("**WPA**"). One of the **CA's** roles is to advise the **Committee** on the amount of **capital** the **Society** should hold, and on the assumptions used to value the **Society**'s liabilities and to carry out that valuation. The **WPA**'s role is to advise the **Committee** [and the **WPAA]** on the exercise of discretion and on the level of discretionary benefits, including **bonuses** and amounts paid on **surrender**. Currently, the roles of **CA** and **WPA** are held by one person.

The **Society**'s governance arrangements aim to ensure that the conduct of its business complies with this **PPFM**. The **WPA** will report annually to the **Committee** on its application of discretion including its application of the **PPFM**. The **Committee** will produce an annual report within six months of the financial year end to **with-profits policyholders** stating whether it believes it has complied with its obligations in relation to the **PPFM** and the reasons for that belief. Included with that report will be a report from the **WPA** stating whether, in their opinion, in writing its annual report and exercising its discretion over the previous year, the **Committee** has taken reasonable and proportionate account of the interests of the **with-profits policyholders**.

In addition, the **WPAA** will advise the **Committee** on whether the **PPFM** properly reflects the way the **Society** is managed and whether the firm is complying with the **Principles** and **Practices**.

1.5 Changes to the PPFM

Although the **Principles** are intended to be stable and permanent as far as is reasonably practicable, they can be changed from time to time if necessary. As the **Practices** are concerned with the ongoing and shorter-term operation of the **Society**, it is to be expected that they will need to be changed more frequently than the **Principles**.

We will change our **PPFM** only if the change is justified by the need to respond to changes in the business, economic, or regulatory environment to protect the interest of **policyholder**s, or to change **Practices** better to achieve the **Society's Principles**. We will give all **members** written notice of any proposed changes to the **Principles** at least three months before these become effective, and written notice of any changes to the **Practices**, within a reasonable period after the changes have become effective. Where appropriate, we will notify the **regulators** in advance of any change to the **Principles** and within a reasonable period of any changes to the **Practices**.

Also, we will change our **PPFM** if it is necessary to correct an error or omission, or to improve the clarity or presentation of the **PPFM** without materially affecting its substance and, in these instances only, we will just change the **PPFM** on our website.

At all times, current versions of this document will be placed on the **Society**'s website and will be available free of charge from the **Society**'s head office on request.

2 Methods used to determine amount payable under a policy

This section describes the **Principles** and **Practices** to determine the amount payable before allowing for any distribution of the **estate**, as described in section 8.

2.1 Principles

The **Society** aims to provide **with-profits policyholder**s with a fair return that reflects the actual experience applicable to each generation and class of policy, subject to the **smoothing Principles** described in section 4.1.

When applying the methods that the **Society** uses to determine the amount payable to **with-profits policyholder**s, the **Society** may use approximations. Where appropriate experience data is not available, the **Society** uses assumptions and parameters which in the opinion of the **WPA** are broadly reflective of experience.

Methods and assumptions will be documented and any changes to the methods used to determine claim values will be approved by the **Committee** having received advice from the **WPA,** who regularly reviews the methods and assumptions, including the parameters used.

The **Society** might change historical assumptions or parameters relevant to the methods if it can be shown that the changed assumptions or parameters are a more accurate reflection of the actual experience, and if changing the assumptions or parameters has a material impact on the results of applying the methods.

2.2 Practices

The amounts payable on maturity or death are calculated as the **guaranteed** sum assured plus declared **regular** and **special bonuses**, plus any **final bonus**. The amounts payable on **surrender** are calculated by reference to the premiums paid. However, the **asset share** is used as a guide to determining the **bonuses** and **surrender** factors to calculate the amounts payable.

The aim in the long term, in determining **payout**s for maturing **with-profits** policies, is to return as a group, on average 100% of **asset shares**. The amounts payable on maturity in any year, or to any particular **policyholder**, may be more or less than 100%, due to the effects of **smoothing**, **guarantees**, and grouping of policies. The benefit payable on maturity or death is subject to a minimum of the **guaranteed** sum assured plus declared **bonuses**.

The aim in the long term, in determining **payout**s for **surrendering with-profits** policies, is to return as a group, on average 100% of **asset shares**. The amounts payable on **surrender** in any year, or to any particular **policyholder**, may be more or less than 100%, due to the effects of **smoothing**, the grouping of policies and any deductions necessary to protect the interests of remaining **policyholder**s.

Subject to meeting any **guaranteed** benefits, the maturity **payout** for an individual policy, when scaled up or down according to the average **guaranteed** benefits for the group of policies to which it is allocated, should fall in the range of 80% to 120% of the average **asset shares** for the group. The aim is for all maturity **payouts** to fall within this range, although where that is not possible for all policies, at least 90% of **payouts** will fall within the range.

The surrender **payout** for an individual policy should fall in the range of 80% to 120% of the average **asset shares** for the group. The aim is for all surrender **payouts** to fall within this range, although where that is not possible for all policies, at least 90% of **payouts** will fall within the range.

The main assumptions or parameters in the **asset share** calculations are determined by regular investigations into the experience of the **Society**. The approximations allowed when applying assumptions or parameters across generations and classes of policy are in line with the overall aim of sharing the experience of the **Society** between **policyholder**s. Where reliable data can be obtained that materially alters the results of the calculations, the degree of approximations used is low.

Currently **asset shares** are calculated using averaging across product class (including tax status), policy sizes and **policyholder** age. The aim is to ensure consistent and equitable treatment for all policies.

Where methods or parameters used in the calculations are considered to require changes, the **WPA** completes a comparison with current methods and parameters and, if material, reports on the reasons for changes and results to the **Committee** for approval.

An annual deduction from **asset shares** may be made for use of the **Society's capital.** Currently no explicit deduction is made.

When calculating **asset shares**, the **Society** may make deductions for the assessed cost (determined on assumptions the **Society** considers appropriate) of providing **guarantees**. These deductions may vary by product type. Currently no explicit deduction is made.

Any mortality and morbidity charges deducted in the **asset share** calculations are based on a best estimate assessment of the cost of deaths arising on the **asset shares** in question. Currently no explicit deduction is made.

Where data is available, an allowance for miscellaneous profits and losses is included in the **asset shares**, which implicitly allows for mortality and morbidity charges, costs of **guarantees** and **smoothing** costs.

The **Committee** periodically reviews the appropriateness of the level of the charges specified and may, at its discretion, make additional deductions to **asset shares** to ensure that the **Society** maintains adequate financial strength.

3 Approach to setting bonus rates

3.1 Principles

The **Society**'s general aims in setting **regular bonus** rates for all classes of policy are to:

- distribute a proportion of the investment income earned by the assets backing the liabilities in a smoothed manner;
- reflect the surplus generated by policies
- have regard to long-term expected rates of return on fixed interest securities
- distribute **surplus** in a manner that is fair to all **policyholders** and does not jeopardise the **Society**'s **solvency**.

In addition, the **Society** may declare **special** or **final bonuses** to ensure that **policyholders** receive a fair return, subject to **smoothing**.

Once declared, both **regular** and **special bonuses** become part of the **guaranteed** benefits.

3.2 Practices

In the event of significant differences in the **bonus** expectations between ranges or generations of policies, and if the **Society** considers that a single **regular bonus** rate would violate the Principles, consideration would be given to setting up a new **bonus** series.

Regular bonus rates are currently set by reference to a sustainable level based on **asset share** and expected investment income according to the future investment strategy. This calculation is subject to the **smoothing** described below in section 4 and the overall **solvency** of the **Society**. **Regular bonus** rates are currently declared for all products as a proportion of sum assured.

The **Society** expects to review **regular bonus** rates once a year, although the rates may be reset more frequently if there is a significant change in economic circumstances. There is no maximum amount by which **regular bonus** rates may be changed.

If no significant change in **regular bonus** rates is anticipated at the next declaration, **interim bonus** rates are normally set equal to the previously declared **regular bonus** rates. If a significant change in **regular bonus** rates is anticipated at the next declaration, **interim bonus** rates may reflect partially or fully the anticipated change in **regular bonus** rates.

The **Society** may also declare **special or final bonuses,** which may vary depending on the year the policy commenced. Such **bonuses** would be declared to distribute additional **surplus** with a view to achieving equitable returns for different generations of policy, when considered appropriate, having considered **asset shares** and received advice from the **WPA**.

Special bonuses are intended to reflect sustained capital gains over a period. Therefore, credit for **special bonus** is intended to build progressively and may not reflect short term gains at early durations. In particular, instead of declaring **special bonuses**, which would increase **guaranteed** benefits, the **Society** may instead use **final bonus** to reflect capital gains, to protect its **solvency** position.

There is no maximum amount by which **special** or **final bonus** rates may change and they may be zero. They will not be negative.

4 Approach to smoothing

With-profits insurances are not designed to pay the exact amount accumulated within the **Society** allowing for the exact investment return on those assets, but to reduce volatility by **smoothing**. There are two levels of **smoothing** applied:

- Implicit **smoothing** occurs because the **Society** has uniform **bonus** rates between different contribution levels, durations, ages and products within the same **bonus** series.
- Explicit **smoothing** will apply over different time periods whereby the **Society** will try to avoid excessive movements in **payouts**.

Smoothing will involve the use of the "**estate**" (see section 8) to carry any deficits or **surplus**es compared with the unsmoothed **asset share**. The extent of **smoothing** will be constrained so that the expected cost of any underpayments or overpayments, when compared with projected **asset shares**, can be supported by the **estate**.

4.1 Principles

Different levels of **smoothing** will apply to **payouts** on **surrender** to those on maturity or death. The **Society** allows for the fact that maturity payments or death payments are payments occurring to a **policyholder** who has made payments for the full term of the insurance and that the **policyholder** has no choice of the timing of the **payout**. **Surrender payout**s are made at the direct control of the **policyholder** and the **policyholder** can choose to act against the interests of other **policyholder**s in the timing of the **payout**.

Maturity and death **payout**s will be smoothed from one period to the next by avoiding major changes in **regular bonuses** and using the **estate** to finance this element of **smoothing**. The **Society** intends this **smoothing** to be neutral in cost to the **estate** in the long term. Any **smoothing** will also be subject to the need to meet the **solvency** requirements of the **regulators**.

Surrender payouts will normally be smoothed in the short term but the **Committee** will maintain its discretion to change **surrender payout**s immediately on any change in the market.

In the shorter-term, there is no total scale or cost of **smoothing** that the **Society** believes should not be exceeded.

4.2 Practices

The **Society** aims for **smoothing** to be financially neutral over a period of eight to ten years. The **Society** aims to ensure an accumulated cost of **smoothing** that does not threaten its ability to demonstrate an adequate **solvency** position or its ability to meet its contractual obligations to **policyholder**s. The amount of **smoothing** in relation to the **asset share** and the **realistic valuation** will be recorded at each annual valuation and will be discussed by the **Committee** and the **WPAA**. The **WPAA** will report on this in its report to **policyholder**s each year.

The **smoothing** strategy currently applied is the same for all policy types on claims of all sizes and terms, irrespective of the date of joining.

For regular premium policies, the **Society** aims to limit the differences between maturity **payout**s on similar policies to a maximum of 10% pa. In the event of conflict arising between this aim and the aim for the target ranges described in section 2.2, the aim for the target ranges takes precedence.

Surrender values are annually reviewed by the **WPA** with the aim of paying 100% of **asset share**, subject to an adjustment to ensure that the surrender value will not be more than the equivalent maturity value of the same policy type, premium level and duration. However, the **Society** may also apply market value reductions on **surrender** of policies due to the effects of movements in the value of assets held by the **Society** and the level of the reduction will be set so that **payouts** will be close to the **asset share** of the policy. However, major costs arising for other reasons may also need to be reflected in market value reductions if they are considered to be too large to be absorbed by the **estate**.

In extreme circumstances, it may not be possible to remain within the parameters set by the current **smoothing** policy. In such circumstances, the **Committee** will set **bonus** rates with the additional aim of being within the **smoothing** parameters within three years. In particular, if the cost of **smoothing** becomes significant relative to the **estate**, such that the **estate** could fall below its minimum target level within a three year period if the **smoothing** policy remained unchanged, then **smoothing** costs would be reduced (by making more significant adjustments to **bonus** rates than implied by the targets above).

5 Investment strategy

5.1 Principles

All assets of the **Society** are invested in a single long-term fund. The investment strategy of the **Society** is to maximise the overall return of the investments of the **Society** subject to ensuring that the **guarantees** are met through maintaining adequate **solvency** and liquidity. In determining the mix of assets between different asset classes, the investment strategy will take account of the financial strength of the fund, its ability to meet its regulatory **capital** requirements, and the long term expected returns and volatility in each asset category.

These returns, including income and increases in capital value, will be used for the benefit of the **Society**'s **policyholder**s.

Investment will be predominantly in properties, bonds, equities and deposits, but the Society may invest in other assets if the Committee believes that doing so is in the interest of the Society's members, including for efficient portfolio management.

The **Society** may invest in the office space that it occupies as well as properties held as assets. Investment in its office space will only take place if the saving in rental income and the prospect of future growth in market value make investment sense.

5.2 Practices

The investment policy will be controlled by the **Committee** of the **Society** and will be reviewed by the **Committee** at least once a year**.** In extreme circumstances, the policy may be revised and amended more frequently. The **Committee** will appoint property advisers and an investment manager to make detailed decisions on purchases and sales. The **Society** will not invest in any new classes of investments without seeking the advice of the **WPA**.

The **Society**'s investment strategy aims to ensure a diversified portfolio of assets is held and that that performance for each asset class is measured against a specified set of benchmarks. There are documented aims, risk objectives and benchmarks for the equity and bond portfolios.

The investment strategy includes:

- target neutral proportions of total assets for each category of assets, with maximum and minimum proportions giving ranges within which the assets can move
- maximum proportions in non-sterling assets, derivatives and policy loans
- maximum that can be from a single equity or counterparty
- maximum proportions in corporate bonds, dependent on credit ratings
- overall duration range for bond and deposit assets

The property advisers and investment manager will be tasked with maximising the performance of the assets subject to the target ranges, and bearing in mind the target asset allocations.

The target asset allocations are designed to:

- Primarily back the **guarantees** of the **Society**, which equate to the value of **guaranteed** benefits less the value of future contributions, with fixed interest assets;

- Allow greater freedom to match the **guarantees** with other assets provided the **estate** remains above a minimum target level (as set out in Section 6).
- Match the bond assets to the duration of these **guaranteed** liabilities.
- Allow greater investment freedom for the assets backing the **estate**.

The minima and maxima are set at the level of risk that the **Society** can afford to take from mismatching assets against liabilities without placing the **solvency** of the **Society** at risk. The investment strategy for the **estate** is the same as for the rest of the assets, but the size of the **estate** does influence the setting of the investment strategy.

Counterparty risk levels will be set to avoid over concentration of assets by **counterparty** and possible risks to **solvency** from a **counterparty** defaulting on an obligation.

The **Committee** will review investment performance of the investment manager at least quarterly and review the investment strategy annually. The **CA** will provide advice to the **Committee** at least annually on the investment policy. The **Committee** will seek input from the investment manager on the practicality of the policy.

Deposits will be placed by the Chief Executive of the **Society** to achieve the best rate of return whilst ensuring sufficient liquidity and minimising credit risk.

Where appropriate, the Society will allow policy loans of up to 5% of total assets. Such loans are governed by a Society policy and the Society will ensure that the terms of the loans minimise the risk to the Society to ensure very low risk of policy proceeds not covering the loan amounts.

The **Society** owns the office space that it currently occupies. The **Committee** will review at least every three years the rental outgoing saved and the prospect of future growth in market value on the basis of valuations carried out by a qualified property surveyor.

6 Business risk and new business

6.1 Principles

As the **Society** is owned by its **members**, all of the costs and benefits from business decisions, including whether to accept new business and on what terms, will ultimately be shared amongst the **members**.

New insurances tend to require extra **capital** to cover regulatory **liabilities** and the additional **capital** required by the **regulators**. This **capital** is provided by existing **members** of the **Society**, who require a return on their investment.

6.2 Practices

No specific limits have been set with regard to business risk. In assessing any potential business activity and the potential scale of the risk, the **Committee** will consider the likely effects on the **solvency** of the **Society**.

No minimum value has been set on the level of profit or losses from business risks that would be applied to **asset shares** and consequently impact **payouts**. Any such decision to include such profit or losses would be at the discretion of the **Committee** and the impact would be smoothed in a manner consistent with the approach taken to **smoothing asset shares**. However, any compensation costs arising from business risks will be charged to the **estate**, not to **asset shares**.

The **Society** addresses risks through its risk management system, which identifies risks and puts controls in place to mitigate their likelihood and impact.

The **Society** has to make decisions on any limits on the amount of new business to be sold, what types of business to make available and the terms and conditions of that business. The **Committee** will make this decision at least annually from advice provided by the **CA** (and the **WPAA** and **WPA** where appropriate). New business will only be accepted if, in the reasonable opinion of the **Committee**, the terms upon which such plans are accepted are unlikely to have a materially adverse effect on the interests of existing **policyholder**s of the **Society** at that time. In the event of a significant increase in new business volumes, the **Committee** would review whether it was appropriate to specify a limit on the maximum volume of new business.

Any decision to close the **Society** to new business will require the formulation of a business plan allowing for no new business and showing the run off of the **estate** and the business in force. The **Committee** will also consider winding up the **Society** and sharing the assets amongst the **members**. Any decision to wind up will need to allow for providing risk insurances for those **members** who still require the risk insurance from another provider.

7 Charges and expenses

7.1 Principles

The charges applied to policies for the purpose of determining **asset shares** will be the charges deemed by the **Committee** to be fair and appropriate. The **Committee** will take into account the charges included within the premium rates, the level of charges disclosed in product literature and initial costs relating to the acquisition of policies. Any difference between those deemed charges and the actual expenses incurred in administering the business will be charged to the **estate**.

Where **asset shares** are used to set **payout**s, the expenses of the **Society** are apportioned across individual **asset shares** in line with **Committee** decisions, on a basis that aims to be proportionate to the level of cost and complexity. The allocation of expenses to policies necessarily involves a number of assumptions and allocations. The **Society** uses its best endeavours to ensure that the allocation is as accurate as possible and reflect the activities that give rise to such expenses. The basis of allocation may change to reflect changes to the activities (eg due to changes in regulations or outsourcing arrangements), changes to distribution methods or to improve the allocation in the light of new information.

The **Committee** may use its discretion to amend the basis on which charges are applied or expenses are apportioned if in its view, having regard to the advice of the **WPA**, the current basis leads to a material inequity between different types and generations of **policyholder**s. The factors most likely to trigger a change to the charges applied would be either a change in the level of the **estate** to a point outside (or close to being outside) the specified target range, and/or a sustained level of actual expenses different to those previously.

7.2 Practices

Expenses cover the acquisition of business, (including commission) and the administration of existing business including claims and investment costs as well as other structure costs. Most of the costs incurred by the **Society** are under the direct control of the **Society** and reviewed annually by the **Committee**. The Society has an outsourcing policy in place. The arrangements for any outsourced services are reviewed at least annually and where necessary are re-tendered or re-negotiated. All outsourced services can be terminated with notice of one year or less, depending on the nature of the services.

Most expenses are charged to **asset shares**. However, any unusually large costs of a non-capital nature will normally be charged to the **estate**. The **Committee** may, however, elect to charge such costs to **asset shares**, spread over subsequent years, subject to any associated surplus being added to **asset shares**.

It is the Society's practice to allow for non-acquisition expenses of the **Society** as a relatively stable percentage of premium income, reflecting both the expenses within the current premium rates and the actual level of expenses incurred. However, any significant change in expense levels, eg due to regulatory changes, will lead to changes in the percentage assumed from the date of significant change. Additional charges for the impact of acquisition costs in the first year are also allowed for within **asset shares**.

The costs of **smoothing** are charged to the **asset shares**. These are expected to be broadly neutral over the medium to longer term. The **Society** has not set a maximum limit for these costs but should it do so in the future such limit would be determined by the need to maintain the **solvency** of the **Society**.

8 Management of inherited estate

The **inherited estate** ("**estate**") is the excess of assets within the **Society** over and above the amount required to meet liabilities, including liabilities which arise from the **regulator**y duty to treat customers fairly in setting discretionary benefits. It provides working **capital** to enable relative freedom for the **Society**’s investment policy and allows the **Society** to meet any shocks that may occur, smooth **payout**s and provide **capital** to allow the writing of new business.

8.1 Principles

The **estate** is defined by the **Society** as the **realistic valuation** of assets less the **realistic valuation** of liabilities. The **realistic valuation** of liabilities is the sum of prospective values of future benefits, including **regular, special** and **final bonuses**.

The **estate** will be targeted at levels that the **Committee,** after advice from the **WPA,** believes is reasonable given the nature of the liabilities and assets held by the **Society**. The target range will be set taking into account the need to be able to meet **capital** requirements in reasonably foreseeable adverse conditions whilst ensuring that **policyholders** receive an appropriate level of benefit from favourable experience. In the normal course of events, the size of the **estate** is not expected to impact the claims values of the **policies**. The aim will be to hold a sufficient level to be able to **smooth** the returns to **policyholder**s without unduly building up excess that is not needed.

There are no constraints on the **Society**’s freedom to use the **estate** as a result of previous transfers of engagements or other dealings.

8.2 Practices

The **WPA** will advise the **Committee** at least annually on the size of the **estate** as part of the annual valuation of the **Society**. The **Committee**, advised by the **WPAA**, will consider:

- the likely financial impact of known events in the future;
- the likely financial impact of volatility of experience in the future;
- the business plans of the **Society**;
- the level of **capital** required by **regulators**;
- the level of **smoothing** of **bonus** rates that the **Committee** wishes to achieve.

The **Committee** will review whether the **surplus** assets within the **Society** are more than is needed to meet the prudent management of the **Society**. If it is determined that there is an excess **surplus**, then the **Committee**, after receiving advice from the **WPAA** and the **WPA**, will decide at the time how it will be best utilised in the interests of the **Society**'s **policyholder**s.

The **Society** targets a level of **estate** as a proportion of the Society’s regulatory capital requirements**.** If the **estate** falls outside the range, the **Committee** will agree a target period over which to return **estate** to the target level, which would normally be within 5 years.

If the **estate** falls below the minimum target level, then the **Committee** will apply tighter restrictions on the investment strategy, the **smoothing** of benefits to existing **policyholders**, the amount of any subsidy of actual expenses borne by the **estate** and the level of new business being written. The **Committee** will determine such increased restrictions having regard to the causes of the fall in the level of the **estate** and the anticipated impact on the level of **solvency** and the **estate** of applying such restrictions and will consider the advice of the **WPA** before deciding the extent to which such restrictions should be tightened.

9 Glossary

asset share	a measure of the share of assets attributable to a **with-profits** policy, calculated by accumulating, at the rates of return earned on the assets assumed to be backing the policy, the premiums paid less expenses, tax and risk benefits, in accordance with the actual experience of the **Society**
bonus	that part of any distributable **surplus** generated by the **Society**'s operation and management which is allocated to participating **with-profits** policies, either as **regular bonus** or **final bonus**
Capital	assets that are available to the **Society** and not required to be used to cover existing liabilities
CA	see **Chief Actuary**
Chief Actuary	an actuary engaged by the **Society** who has the responsibility under the **regulators**' rules for advising the **Committee** on the amount of **capital** it should hold and on the assumptions used in valuing the **Society**'s liabilities, as well as carrying out that valuation
Committee	see **Committee of Management**
Committee of Management	the governing body of the **Society**, ultimately responsible in law for all actions taken by the **Society**
counterparty	an individual or company in which the **Society** has made investments or against which the **Society** has rights under a contract
estate	see **inherited estate**
final bonus	a method of distributing **surplus**, whereby the **bonus** is not **guaranteed** and is only declared when a policy becomes a claim
Financial Conduct Authority	one of the two **regulators** of financial services in the UK
guarantee or guaranteed	legally binding commitment by the **Society** to pay out specified monetary amount in certain specific circumstances, such as on death or on survival to the end of the term of the policy
inherited estate	the assets held in excess of those required to pay policy benefits and other liabilities, which include payments of guaranteed benefits and future **bonuses** in line with the **regulatory** duty to treat customers fairly in setting discretionary benefits
interim bonus	the **bonus** granted in respect of the period since the last declaration of **regular bonus** to the date of claim
member	a holder of a policy that confers **membership** rights on the holder
payout	the amount paid in the event of a claim, whether due to death, **surrender** or maturity

policyholder	the holder of an in-force policy of the **Society**
PPFM	the **Society**'s **Principles and Practices of Financial Management**
Practices	the practices of financial management as set out in this document
Principles	the principles of financial management as set out in this document
Principles and Practices of Financial Management	this document
Prudential Regulation Authority	one of the two **regulators** of financial services in the UK
realistic valuation	a valuation carried out using best estimate assumptions
regular bonus	a method of distributing **surplus**, where the **bonus** is added on a regular basis throughout the life of a **with-profits** policy, providing an addition to the **guaranteed** benefits payable to the **policyholder**
regulators	**Prudential Regulation Authority** and/or the **Financial Conduct Authority**
Rules	the Rules of the **Society**, as registered from time to time under the Friendly Societies Act 1992
smoothing	the process whereby movements in **asset shares** are not fully reflected in **payouts** in order to reduce the volatility of **payouts**
Society	Railway Enginemen’s Assurance Society Limited
solvency	the ability of the **Society** to demonstrate that it has sufficient assets to meet its liabilities and any other margins or **capital** required to be held by **regulators**
surplus	the excess of the value of the **Society**'s assets over the amount of its regulatory **liabilities**
surrender	when the **policyholder** requests an insurance policy is cancelled
with-profits	a policy or group of policies which can share in the profits and losses of the **Society**, as they are eligible to participate in any established **surplus** through the addition of policy **bonuses**
With-Profits Actuary	an actuary engaged by the **Society** who has the responsibility under **Financial Conduct Authority** rules for advising the **Committee** on its application of discretion in relation to **with-profits** policies
With-Profits Advisory Arrangement	a body that advises the **Committee** on the fair treatment of **with-profits policyholder**s, including compliance with the **Society**'s **Principles and Practices of Financial Management**