

The **co-operative** investments  
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With-Profits Guide

# **Your Policy with The Co-operative Investments**

A guide to investing in the CIS With-Profits Fund

# Your policy

## A reference guide to how your policy works

### At a glance – some common questions

This page contains brief answers to some commonly asked questions.

#### What is a 'with-profits' policy?

A with-profits policy is a type of insurance policy that lets you share in the profits and losses of the long-term insurance business in our with-profits fund. You receive your share of these profits and losses in the form of bonuses which we may add to your policy. (See section 2.)

#### What guarantees do I have?

We guarantee to pay, on the death of the life assured (the person covered by the policy), the total of the premiums paid less any initial charge (or rebate) plus any bonuses added to your policy at that time less any previous withdrawals. There is no guarantee that this amount will be sufficient to cover the cost of the funeral that you have arranged with the life assured.

#### What affects my bonuses?

Your bonuses vary according to the investment returns achieved by the fund, the level of policy guarantees, the charges that we make, and how we smooth payouts. (See section 5.)

#### What types of bonus could I get?

- **Annual bonuses**, which we may add to policies each year.
- **Final bonuses**, which we may add when a claim is made. (See section 6.)

#### What risks are there in investing in the fund?

- The main risks are the risks relating to how well our investments might do and how much our costs might be.
- The fund is also exposed to other risks. (See section 8.)

#### What do I get if I cash in my policy?

If you cash in your policy, we would normally pay you your premiums back less any initial charge (or rebate) and any previous withdrawals. However, in order to help secure a fair share of the fund for all investors, we may, in certain circumstances, apply a Market Value Reduction to reduce this amount.

No bonuses are payable if you cash in your policy. You should consider seeking independent financial advice when deciding whether to cash in your policy. (See section 10.)

For more complete answers see the rest of this booklet. It describes how your policy works, and how we manage the fund that your policy is invested in. It's not necessary for you to read it now, but we suggest you keep it in a safe place in case you should wish to refer to it in the future.

## 1. What is this guide for?

### **This guide tells you how we manage the CIS with-profits fund.**

It should answer most of the questions you might have. If you have any further questions then please contact us – our contact details are shown at the end of this guide.

The guide explains the main points about how we currently manage our with-profits fund for funeral providers who have a Funeral Investment policy or a Funeral Pre-Payment policy. It covers the key points from the detailed technical guide called the Principles and Practices of Financial Management (PPFM) document, but is not a replacement for it. Please see the PPFM for a fuller description of how we manage our with-profits fund. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

You can download all of our guides, including the PPFM documents, from our website, [co-operativeinvestments.co.uk](http://co-operativeinvestments.co.uk) or instead you can contact us for a copy.

If we make a significant change to our approach to managing our with-profits fund in the future, we'll write to tell you and also provide you with an updated copy of this guide.

## 2. What is a with-profits policy?

### **A with-profits policy is a type of insurance policy that lets you share in the profits and losses of our long-term insurance business, which includes life assurance and pensions business.**

Your money, together with other policyholders' money, is invested in our with-profits fund. We aim to make profits for the fund by investing in a range of assets (types of investments), which we will then share with with-profits policyholders by adding bonuses to their policies. We also use the fund to issue policies which do not share in the profits or losses of the fund, known as non-profit policies.

Your with-profits policy benefits from a special feature known as smoothing. Smoothing is designed to protect with-profits policyholders from the direct impact of some of the sudden movements in the stockmarket, but it cannot get rid of the strong link between the underlying market investment returns, and with-profits returns.

For policies such as yours, in deciding what to pay you in the event of a claim, we smooth (or average) the investment profits or losses over the time you hold your policy. This means that we hold back some of the profit made when investment returns are good, so that we can increase returns if investment returns are lower. We do this so that your investment should provide a steadier return from day to day than if you invest in a fund which fully reflects the rise and fall in stock markets, such as a unit trust.

Smoothing does not protect against prolonged falls in the stock market, because the profits held back from periods of good returns may not provide sufficient protection against investment losses.

Also, unlike simpler stock market investments, your policy contains a guarantee about the amount of money we will pay in the event of a death claim.

## 3. What are the guarantees?

### **We guarantee to pay, on the death of the life assured (the person covered by the policy), the total of the premiums paid less any initial charge (or rebate) plus any bonuses added to your policy at that time less any previous withdrawals.**

There is no guarantee that this amount will be sufficient to cover the cost of the funeral that you have arranged with the life assured.

#### 4. What are the investments in the with-profits fund?

**The fund is invested in a wide range of carefully selected assets with the aim of achieving growth. A wide range of assets is held to help reduce the risk to the value of the fund that would arise if most or all of the assets were invested in a single category of assets.**

Investments include:

- UK and overseas shares
- Government bonds (loans to the Government)
- company bonds (loans to companies)
- property (which may also include our business premises)
- our subsidiary companies
- cash deposits
- more complex types of assets that are used to help reduce investment risk such as derivatives.

**Our Responsible Shareholding programme is an important part of how we manage the investments in the fund.**

We aim to influence the companies we invest in on a range of social, ethical and environmental issues. In particular, and following extensive consultation with our customers, in 2005 we were the first insurance company in the world to launch an ethical engagement policy.

This means that we will engage with companies on a broad and challenging ethical agenda, reflecting the issues that our customers would expect the businesses in which we invest to address.

We consider such influence to be for the benefit of the companies in which the fund invests and therefore for the benefit of the fund itself.

In the 1980s and 1990s, when stockmarket investment returns were relatively high, we invested a high proportion of the assets of the fund in shares and property with the aim of achieving above average investment returns. Although shares and property investments are riskier than other types of investments such as bonds and cash deposits, over the longer term they tend to produce higher investment returns (although this is not guaranteed).

As a result of the generally much lower investment performance of the world stockmarkets since the year 2000 and following a general decline in interest rates, we have moved towards holding a lower proportion of shares and property assets in recent years. Also, since 2004 we have allocated the assets of the fund in different ways to different groups of policies. We do this to take account of a number of factors such as the value and nature of policy guarantees. As a result, different groups of policies might be invested in a different mix of assets.

For policies such as yours, we currently aim to hold between 55% and 75% of the assets obtained by investing your premiums in shares and property, with investments in property normally representing no more than 40% of the total invested in shares and property. We hold the rest of the assets in less risky assets such as bonds, cash deposits and suitable derivatives.

The current mix of assets held for your type of policy is usually shown with your statement and is also available on request.

#### 5. What affects the bonuses that may be added to my policy?

**The bonuses are affected by the investment returns achieved by the fund, the level of policy guarantees, the charges that we make and how we smooth payouts.**

The bonuses added to your policy represent your share of the profits and losses of our with-profits fund.

The main factor that affects the level of bonuses that we may add to different groups of with-profits policies is the investment profits or losses of the assets held in respect of those policies. Other important factors are:

- the charges we make
- the effect of the guarantees we offer to you and to other policyholders.

Other factors, such as the profits (or losses) that result from other types of business in the fund and any difference between the amount we have paid to investors moving out of the fund and the fair share (see section 7) of the total fund value for those plans at the time, may also give rise to profits or losses within the fund. (see section 8.)

The charges which we make allow for, amongst other things:

- our costs of acquiring and administering policies
- tax
- the costs of helping to meet policy guarantees
- the cost of life cover.

Charges are set to be at least sufficient to cover the above costs.

We use all the profits of the life assurance and pensions business in the fund for the benefit of the life assurance and pensions policyholders only. This includes adding to reserves to strengthen the fund for current and future life assurance and pensions policyholders. No profits in respect of the long term business in the fund will be distributed to our shareholders.

Similarly, any losses incurred within the fund are met by the policyholders, either through a reduction in the working capital (see section 9) of the fund or through a reduction in their benefits.

## 6. What types of bonuses may be added to my policy?

**There are generally two types of bonuses:**

- annual bonuses, which if added increase the value of your policy over time; they are calculated each day and added to your policy once a year, and
- final bonuses, which we may add when a claim arises.

Unless any special conditions apply as described in documents provided to you, the benefit payable on the death of the life assured is the plan value (see below) at that time together with any further annual bonuses (to cover the period since any annual bonuses were previously added) plus any final bonus.

The plan value is equal to:

- the premiums paid
- less any initial charges (or rebates)
- less any withdrawals taken
- plus any annual bonuses added.

## 7. How do we decide what the bonuses should be?

**Bonuses are set so that payouts represent a fair share of the fund, allowing for smoothing. In setting annual bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to policyholders at any time and has enough working capital.**

### Annual bonuses

We set annual bonuses on 1 April each year. These bonuses pay out part of the profits of the fund, increasing the plan value.

We set annual bonus rates with the aim of holding back part of the policy's share of the profits of the fund to be paid as final bonus.

When we set annual bonuses, we take account of factors such as our long-term view of future investment conditions, the level of guarantees applying to policies and the level of working capital in the fund.

Annual bonuses increase the level of guarantees applying to policies such as yours. In order to ensure that the fund can afford to pay such guarantees, it may be necessary to limit future annual bonuses or to set annual bonuses to zero.

### Final bonuses

**These represent a fair share of the profits and losses arising over the lifetime of policies which we haven't already distributed as annual bonuses. In setting final bonuses, we also aim to ensure that the fund is large enough to cover all our liabilities to policyholders at any time and has enough working capital. We normally set final bonuses early in our financial year (usually mid-February), but we also review final bonus rates at least once more during the year (usually mid-August), and may change them if necessary.**

There are a number of different factors that contribute to the fund's profits and losses and we have to decide how to share these profits or losses when we set the bonuses. We do this by calculating a 'fair share' of the assets of the fund for typical policies and using the results to fix a scale of final bonuses to apply to all similar policies.

The fair share depends on the profits earned by policies such as yours over the period of the investment. In calculating the fair share, we smooth the investment return earned over the period for which policies have been held.

We also look at the total fair share for different groups of investors and use the results to decide the level of bonuses we pay to each group.

The way that smoothing works means that in any one year the amount paid out in the event of a death claim for each group of policies may be more, or less, than the amount that would be paid if there were no smoothing. Over the longer term we aim to make the average smoothed payout equal to the average payout without smoothing, and for policies such as yours we normally expect that the majority of smoothed payouts would be within 15% of the unsmoothed amounts for each group of policies.

## 8. What are the risks associated with investing in the fund?

**The fund is exposed to a number of risks, for example:**

- risks relating to how well our investments might do
- risks relating to how much our costs might be
- the cost of meeting guarantees that apply to most with-profits policies (such as basic sums assured and basic annuities together with any attaching annual bonuses); guaranteed annuity rates that apply to the majority of our with-profits pension business and guarantees that apply when certain with-profits bonds are cashed in
- the risk that we might have to pay compensation to certain policyholders
- risks associated with acquiring new business
- risks associated with operating subsidiary companies owned by the fund.

Losses from certain risks, such as the cost of paying guaranteed annuity rates and any that arise from our operating subsidiary companies, are currently covered by the working capital of the fund. Such risks do not usually affect what you get back. But if the working capital is not enough to meet some or all of these losses, we may have to reduce bonuses and cash-in values. Similarly, if the level of working capital is more than we require, we may share out additional profits. Compensation costs arising from non-profit business will be met by a fund held outside of the CIS with-profits fund and will therefore not be charged to with-profits policyholders.

**We actively monitor the risks and take preventative action when necessary.**

We regularly monitor the level of business risks within the fund as part of our standard risk management procedures, and where we think it is necessary we act to reduce risk exposure.

In particular, we regularly review the amount and type of new business issued in the fund to ensure that, where possible, it adequately reflects the risks taken by the fund and that, in total, it is expected to provide an adequate return on the working capital of the fund. This allows us to plan what volumes and mix of new business are appropriate given the fund's level of working capital. We would continue to issue new business in the fund provided that this was not expected to have a materially adverse effect on the existing business in the fund.

## 9. What is the working capital of the fund and what is it used for?

**The working capital of the fund is the excess of the value of the fund's assets over the amount needed to meet its liabilities.**

We use the working capital for a variety of purposes, for example to ensure that the fund is large enough to cover all our liabilities to policyholders at any time, to meet our future business plans and to support smoothing of payouts.

In the event that we were to stop accepting new with-profits business we would, if permitted by our regulator, retain enough working capital to enable us to issue non-profit business within the fund and to manage the existing with-profits and non-profit policies. Any remaining capital arising from the profits from the life and pensions business issued by the fund would be distributed to with-profits policyholders.

In the event of closure of the fund to all long-term business, we would retain enough working capital within the fund to manage the existing with-profits and non-profit policies. We would also aim to repay any support provided to the fund from outside the fund. Subject to this, we would distribute any remaining profits that had arisen from the life and pensions business in the fund to with-profits policyholders.

## 10. What do I get if I cash in my policy?

**If you cash in your policy, we would normally pay you your premiums back less any initial charge (or rebate) and any previous withdrawals. However, in order to help secure a fair share of the fund for all investors, we may, in certain circumstances, apply a Market Value Reduction to reduce this amount (see below).**

**No bonuses are payable if you cash in your policy.**

We would apply a Market Value Reduction to maintain a fair level of future payouts to everyone still invested in the fund. If we didn't, the extra amount that you would receive would have to come from other investors who might therefore receive less than their fair share.

It is most likely that we'll need to apply a Market Value Reduction following a large fall in stock markets, or after a prolonged period where investment returns are consistently below the level we normally expect.

We regularly monitor investment conditions and the total level of money being moved out of the fund, and may apply a Market Value Reduction at any time if we believe it to be necessary to protect the fund.

We will not apply a Market Value Reduction to bonus withdrawals and payments made on death.

## How to contact us

If you have a specific query about your policy, please contact  
The Co-operative Funeral Investment Plan administration team, as set out  
in the Services Agreement.

If you have a query of a more general nature, please contact your  
Relationship Manager, as set out in the Services Agreement.

Our website **[co-operativeinvestments.co.uk](https://www.co-operativeinvestments.co.uk)** contains more  
information, including all of our guides like this one, and the more detailed  
guides called the Principles and Practices of Financial Management.

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