

This announcement applies to policies (“policy” or “policies”) held in respect of the Nordben Triple C Plan life insurance contracts that were issued in DKK (“affected policies”). The affected policies are administered in a DKK currency sub-fund of the With-Profits Policyholders’ Fund (“the Fund”) held by Nordben to meet its liabilities.

Please be advised that **no action is required from you.**

The principal outcome is that future annual bonus declarations applying to affected policies on and after **1 January 2021** will be linked to short term interest rates. For further information see below, or please contact us using the following webpage: <https://nordben.com/contact/>. You can also access the value of your policy using the following webpage: <https://flexandtriplecpolicies.nordben.com>.

## **BACKGROUND**

Nordben closed to new business in 2015 and since then, the number of affected policies in-force has continued to decline. There are a number of risks associated with the Fund used to pay the benefits of the affected policies, such as lapse risk (the risk that the policies surrender at a different rate to that anticipated) and investment risks (such as changes in bond values), that become harder to manage as the number of affected policies decline.

## **REINSURANCE OF AFFECTED POLICIES**

In order to effectively manage the affected policies, Nordben has entered into a reinsurance arrangement of the affected policies with its shareholder Monument Re Limited. The reinsurance applies from 31 December 2020.

## **SUMMARY OF THE REINSURANCE ARRANGEMENT**

For the affected policies, the reinsurance transfers all of the lapse, mortality, and investment (i.e. market, liquidity, and foreign exchange rate) risks to the reinsurer, removing the volatility which these risks would otherwise introduce to the profits and losses in the Fund.

## **PRINCIPAL EFFECT OF THE REINSURANCE ARRANGEMENT**

The effects of the reinsurance are discussed in more detail below, but one of the principal effects of the reinsurance arrangement is that profits arising in the relevant Fund will become more certain.

Whilst Nordben still applies discretion when determining annual bonus rates, the reduction in volatility of profits means that the future annual bonus declarations applying to affected policies on and after **1 January 2021** are expected to follow a set approach which is linked to short term “risk free” interest rates as set out below. Please note, linking future annual bonus declarations to short term “risk free” interest rates is consistent with the investment strategy that has been adopted in recent years where the sub fund has been predominantly invested in short term government securities of the appropriate currency.

1. The bonus rate in a given year is expected to be based on the following rate which is the rate of return the reinsurer has agreed to provide each year for the sub-fund:

Short term “risk free” interest rate applicable to the DKK currency fund  
PLUS the Fixed Enhancement  
LESS Fund Management Charges (“FMC”)

The FMC are the Shareholder Charge published in the announcement of 22 October 2018 (available at: <https://nordben.com/media/1025/important-announcement-increase-to-shareholder-charge.pdf>) plus an investment management charge of 0.085%.

- a) The bonus rate in a given year for all policies is subject to a guaranteed minimum bonus rate of zero, and this will continue to be applied by Nordben, i.e. if the bonus rate is zero your Account Value will remain unchanged from one year to the next.
  - b) Where the calculation in (1) above results in a rate less than zero the reinsurer has agreed to make up the shortfall relative to the minimum bonus rate of zero. In future years, bonuses will be set to zero until such time that the reinsurer has recouped any previous years’ shortfalls. This is consistent with Nordben’s practice in recent years with respect to certain funds which have made insufficient investment returns to cover the annual fund management charges, i.e. if interest rates increase then it is possible that bonuses will be paid in the future but only after losses have been recovered.
2. The short term interest rate used in the calculation in (1) above will be the 1-year “risk free” interest rate (i.e. the theoretical rate of return of an investment with zero risk) as determined by Nordben’s Appointed Actuary and agreed with the reinsurer.

3. The Fixed Enhancements used in the calculation in (1) above will be constant over the lifetime of the affected policies, having been set with the aim of exhausting the assets of the Fund as the last policy ends under certain assumptions. The Fixed Enhancement for DKK is 0.5%.

## 1 JANUARY 2021 BONUS

The Fixed Enhancement given in (3) above and the applicable short term “risk free” interest rates for 2020 results in an annual bonus rate in 2020 for DKK of 0.0%, applied to accounts on 1 January 2021.

As described above, annual bonus rates in future years will depend on the applicable short term “risk free” interest rate in the relevant future year.

## AMENDMENT TO THE BONUS REGULATIONS

We are amending the bonus regulations governing the computation and distribution of annual bonuses to reflect that a reinsurance arrangement has been entered into for the affected policies.

Up until and including 30 December 2020, the bonus regulations describe that the prime source of the surplus arising in the funds for distribution to policyholders via bonuses was determined by investment returns, mortality and disability profits, as well as profits arising from surrenders, lapses and paid-up policies (where contractually possibly).

With effect from 31 December 2020, the regulations for the affected policies have been amended to confirm the prime source of the surplus is the reinsurance arrangement, and that this arrangement links the surplus directly to short term interest rates of the relevant currency.

In order to determine bonuses, a financial review is carried out by Nordben’s Appointed Actuary each year. The financial review compares Nordben’s assets (the total value of our investments) with its liabilities (the total value of money we owe to our policyholders in respect of our insurance contracts). The basis of calculation used to determine the liabilities for the affected policies is available within the latest Annual Report and Financial Statements (available at: <https://nordben.com/annual-report-and-financial-statements/>), which is published annually on the Nordben website in May each year.

## MORE DETAIL ON THE EFFECTS OF THE REINSURANCE ARRANGEMENT

Entering into a reinsurance arrangement and the amendment to the bonus regulations has the following implications on the affected policies:

- The reinsurance arrangement will transfer all of the lapse, mortality, and investment risks (described above) to the reinsurer and remove the volatility these risks bring to the profits and losses in the Fund.
- The reinsurance arrangement has **no impact** on any of the policy terms governing the affected policies and does not affect any rights under these contracts. In particular, bonus rates cannot be less than zero.
- Future bonus rates will continue to be declared on 1 January each year. Whilst Nordben still applies discretion when determining annual bonus rates, we expect future bonuses will be set as described above.
- The first annual bonus declaration that will be impacted by this change is that applying on 1 January 2021.
- A pro rata proportion of the annual bonus is credited in relation to each part of the accumulated account which has been held for a period of less than a full year.
- Benefits paid part way through the year have a pro rata proportion of an interim bonus applied. Interim bonuses may be zero and can be found here: <https://nordben.com/bonus-enhancement-information/triple-c-plan/interim-bonus>
- The reinsurance arrangement will ensure that Nordben’s Shareholder Charge does **not** increase beyond those published in the announcement of 22 October 2018 (available at: <https://nordben.com/media/1025/important-announcement-increase-to-shareholder-charge.pdf>).
- Benefits paid out on policies from 1 July 2015 were being increased by an additional percentage (known as an enhancement) determined by Nordben at its discretion. The enhancement currently applying to benefits paid out from Nordben’s DKK Triple C Plan Policies is zero and this is not expected to change.
- The amount paid out on surrender of a DKK Triple C Plan Policy is **not affected** and remains the Policy’s Account Value at the date of surrender. However, Nordben continues to reserve the right to use its discretion when declaring future surrender values.
- Nordben continues to meet all regulatory capital requirements and policyholder protection requirements set under Guernsey law.
- Counterparty risk introduced via the reinsurance arrangement is mitigated by a collateral arrangement should the reinsurer be unable to meet its liability towards Nordben.

- Nordben continues to reserve the right to amend bonus regulations and use its discretion when declaring future annual bonus rates.

The above action has been taken in consultation with Nordben's Appointed Actuary, Nordben's Independent Third Party Trustee in compliance with its policyholder protection arrangements, and approved by the Nordben Board of Directors.

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**Nordben Life and Pension Insurance Co. Limited**  
**20 August 2021**