

This announcement applies to policies (“policy” or “policies”) held in respect of the ICS Nordben Pension Plan (“affected policies”). The affected policies are administered in three different sub-funds of the With-Profits Policyholders’ Fund (“the Funds”) 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 and the enhancement applying to affected policies on and after **1 January 2021** are expected to remain stable. 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 Funds 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 in the Funds to the reinsurer, removing the volatility which these risks would otherwise introduce to the profits and losses in the Funds. Please note that surrender values will continue to be set with reference to the level of interest rates as noted below.

## **PRINCIPAL EFFECTS 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 Funds will become more certain.

Whilst Nordben still applies discretion when determining annual bonus rates, the reduction in volatility of profits means that in each Fund the future annual bonus declarations applying to affected policies on and after **1 January 2021** are expected to remain **stable**.

From 1 July 2015 benefits paid out on the affected policies may have been increased by an additional percentage (known as an enhancement) determined by Nordben at its discretion. This enhancement is also expected to remain **stable**.

The bonus rates and the enhancements on which the reinsurance was transacted are determined based on the sub-fund of the affected policies and are available at: <https://ics.nordben.com/bonus/>

## **SURRENDER VALUE TERMS**

From 1 January 2021, there are not expected to be material changes in the benefits paid on surrender as a result of the reinsurance.

However, it should be noted that if interest rates rise it may become necessary to reflect a market value adjustment and pay amounts on surrender which are lower than the Account Value. If required, the level of market value adjustment is likely to be greater the further a policy is surrendered from its specified retirement age (i.e. a policy surrendering 10 years from its scheduled retirement age would typically be subject to a greater market value adjustment than a policy surrendering 1 year from its scheduled retirement age). No market value adjustments are being applied at the current time.

## **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.

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) in the Funds to the reinsurer and remove the volatility these risks bring to the profits and losses in the Funds.
- There are not expected to be material changes in benefits paid on surrender resulting from the reinsurance. However, it should be noted that if interest rates rise it may become necessary to reflect a market value adjustment and pay amounts on surrender which are lower than the Account Value (as explained above).
- 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, the applicable level of bonus each year will be set at a level consistent with that which was affordable for the Funds at the date the reinsurance was transacted.
- Nordben retains the discretion to change enhancement added to benefits, but it is anticipated that enhancements will be set at the long-term level which could be afforded by the Funds at the date the reinsurance was transacted.
- 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://ics.nordben.com/bonus/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>).
- 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, enhancements, and surrender values.

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.