



PwC with-profits survey 2025



September 2025

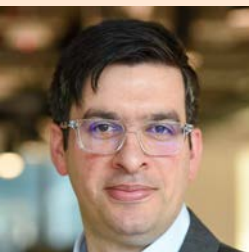


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Dear Participants and Readers,

Welcome to the latest edition of the PwC with-profits survey!
We are delighted to share the findings and themes emerging,
and we look forward to discussing them with you.

Building on our 2023 survey, we have continued to explore key themes
around Consumer Duty (including fair value), the factors impacting
investment strategy and performance, and refreshing the comparison
of expenses and charges across funds.

This year, we also explore:

- the oversight from Risk functions – a topic we know a lot of companies are grappling with currently.
- the management of goneaways – a hotly debated topic at our most recent with-profits actuaries dinner.
- a deeper dive into asset share methodology and approach.

One thing that stood out is the increased number of participants focusing on streamlining existing business-as-usual (BAU) processes. This aligns with a wider insurance industry shift towards leveraging emerging artificial intelligence (AI) tools, be that in-house or external, to drive operational efficiency. We have further details of the types of tools adopted on page 19.

Having reflected on the results of the survey, our top three questions are:

1. How are you leveraging AI and automation to improve with-profits processes, and do you have a governance framework to support responsible use?
2. Does your current governance structure ensure sufficient oversight and engagement in key with-profits decisions by your Risk function, and is this involvement aligned with Consumer Duty expectations?
3. Is your current strategy for managing goneaways fully balancing the financial impact on the fund with the fair treatment of policyholders – and could a more optimal, collaborative industry-wide financial solution be possible?

In the coming months we are looking forward to hearing your views on the survey findings, topics that would be useful to include in the next edition of our survey and to discuss how we can continue to support your business.

Finally, and most importantly, our thanks go to all 13 of the participants for kindly sharing their time and insights to help produce this survey.

Yours sincerely,

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Use of report



The report should be read in its entirety, reading individual sections in isolation may result in misinterpretation. The report contains information obtained from survey participants. We have not sought to establish the reliability of the information or otherwise verify the information so provided. Accordingly no representation or warranty of any kind (whether express or implied) is given by PwC to any person as to the accuracy or completeness of the report.

In some areas, not all participants responded to the questions asked. This will have been for various reasons, e.g. where data was unavailable in the format requested. In these instances, we have ensured that results disclosed in this report are always a sufficiently credible set of responses. Where we have received an insufficient number of responses to meet this objective, we have refrained from disclosing quantitative results.

The Financial Reporting Council ('FRC') requires actuaries to comply with Technical Actuarial Standards ('TASs') for various types of actuarial work. We also believe that it is normally appropriate to apply the requirements of the TASs to other work conducted by actuaries. Given the nature of the work, however, we have not attempted to follow the requirements of the TASs on this assignment. You will need to consider the impact of this limitation on your interpretation of our work and results.



Participants

We would like to express our thanks to the following firms which took part in our 2025 survey

01

Aegon UK

02

Aviva Plc

03

Countrywide
Assured Plc

04

Forester
Life Limited

05

Liverpool Victoria
Financial Services
Limited

06

Lloyds Banking
Group Plc

07

M&G Prudential

08

The National
Farmers' Union
Mutual Insurance
Society Limited

09

Phoenix Group

10

The Royal
London Mutual
Insurance
Society Limited

11

Scottish Friendly
Assurance
Society Limited

12

Wesleyan
Assurance Society

13

Zurich
Assurance Limited

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Introduction

01

1. Introduction

1.1 Summary



On the following three pages we draw out wider emerging themes from our 2025 survey, specifically in relation to our hot topics of investments and goneaways, as well as Consumer Duty, with-profits methodologies, and expenses and charges across funds.

Investment strategy continues to be a key area of focus, as firms respond to the ongoing challenges of weak economic growth, sustained high interest rates and moderating inflation. This year's survey highlights:

Continued shift away from government bonds:

The trend observed in our 2023 survey of moving out of government bonds in favour of property and equity investments continues. This indicates that businesses may remain cautious of the impact of sustained higher inflation on fixed-income returns. We have observed 11 funds that investment in non-traditional fixed interest instruments. This generally remains within a low proportion of asset mix sitting below 15% of each fund's portfolio, with one outlier at 30%.

Equity exposure remains diverse:

Most with-profits funds continue to invest less than 50% of their equities in the UK. This reinforces the ongoing trend of geographical diversification; although further diversification may benefit the few funds with larger proportions invested in UK equities.

Alignment with long-term planning:

Several participants indicated that changes to investment strategy are being considered as part of broader long-term planning such as preparing for a potential fund wind-up. Considerations around the wider strategic lifecycle of funds need to be balanced against the long-term returns to policyholders.



1. Introduction

1.1 Summary (continued)



Goneaways continue to be a significant area of focus for with-profits funds, with participants reporting a total of c.3m goneaway policies, with a value exceeding £5 billion, representing around 3% of total with-profits liabilities in the UK market.

These figures are likely to be understated given the challenge of knowing when a customer has lost contact, and these figures will continue to rise without a significant change in tracing success. The approach for managing unclaimed assets varies between businesses, particularly how and when the unclaimed assets are redistributed back to policyholders. Firms continue to balance reserve setting as overstating reserves can delay distribution and understating reserves risks unexpected claims. There is an opportunity to develop a collaborative financial solution to provide greater finality in the liability, allowing firms to have greater confidence in distribution while ensuring customer fairness and transparency.

We have explored participants' core **with-profits methodologies and processes** – covering Risk oversight, asset share methodology, expense methodology, grouping for bonuses and surrender value methodology. We have observed that Risk teams are becoming more involved in customer-focused areas, a trend that may continue given the importance of Consumer Duty.

Finally, we examined **current levels of expenses or charges**. Conventional with-profits whole-of-life products showed greatest variability across participants, which may be due to differences in legacy pricing structures. Since our 2023 survey, expenses have remained broadly stable as a percentage of asset share across products.

We have observed larger funds benefitting from economies of scale, applying lower percentage charges, while smaller and medium-sized funds show greater variability in charges.

1. Introduction

1.1 Summary (continued)



The FCA's Consumer Duty continues to shape how with-profits funds assess and deliver value to policyholders, aligned to the four outcomes: products and services, price and value, consumer understanding and consumer support.

Our survey results indicate that firms are assessing fair value using a mix of quantitative and qualitative indicators, including service quality, investment performance, charges and benefits.

We have also considered the broader product reviews, which we observe are performed at varying intervals depending on the product line and risk assessments. Common focus areas identified to improve customer outcomes relate to data quality, identifying vulnerable customers and improving management information (MI) and key performance indicators (KPIs). Although a variety of improvement areas were noted across participants, the quality and quantity of data is highlighted as a common improvement area, reflecting the importance of high quality data in demonstrating Consumer Duty compliance.

Approaches to measuring customer understanding are evolving, with a shift towards data and technology-driven monitoring, however there is wide variation between participants.

Consistent with our 2023 survey, only a minority of participants are prospectively assessing total expected performance over the lifetime of a product as part of their fair value assessments.

Whilst some progress since our last survey is evident, the 2025 survey results show considerable variation in approaches to fair value assessment and monitoring, providing good outcomes to policyholders and measuring and monitoring customer understanding, suggesting that these will remain areas of focus going forwards.



1. Introduction

1.2 Our team

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1. Introduction

1.3 Composition of with-profits funds surveyed

This survey covers 13 participants, across 59 funds and representing a total of c.£228bn Solvency II (SII) best estimate liabilities (BEL) of UK with-profits funds; of which 8 funds are open to new business and the remaining 51 are closed.

This survey provides a high level of coverage across comparable UK with-profits funds, particularly closed funds.

We estimate this covers over 95%, in monetary terms, of with-profits funds in the UK market.

Throughout the survey, any reference to a 'with-profits fund' is a reference to a ring-fenced fund as defined by Solvency II and all financial information has been captured as at 31 December 2024, unless otherwise stated. For each page, we reference the specific question(s) from the underlying questionnaire on the top right of the page.

To increase insights, we have considered responses to certain questions by fund size, measured as with-profits BEL – for these the following buckets have been used:

- **Large:** funds above £2bn
- **Medium:** funds between £200m and £2bn
- **Small:** funds below £200m

For the Risk oversight questions in section 4, we have considered responses by firm size:

- **Large:** SII BEL above £20bn
- **Medium:** SII BEL between £1bn and £20bn
- **Small:** SII BEL below £1bn

Participants are required to publish with-profits BEL as part of their Solvency II disclosures. Figure 1.1 shows the distribution of BEL by firm, as taken from participants' Solvency Financial Condition Report. In addition, we show the number of with-profits funds each firm has (as denoted above the bar graphs). Figure 1.2 shows the distribution of BEL by fund size.

Figure 1.1: Total with-profits best estimate liabilities (£bn)

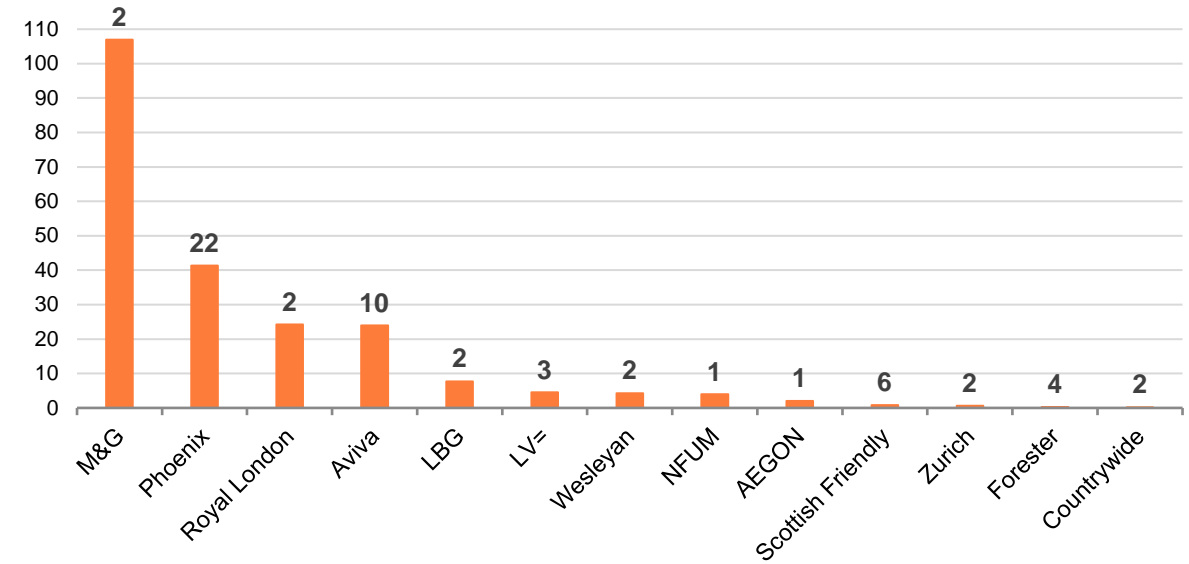
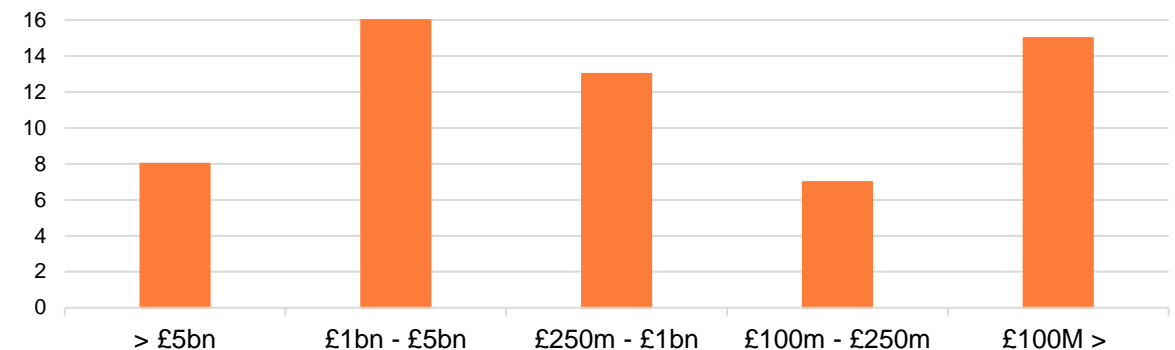


Figure 1.2: Funds by total BEL



1. Introduction

1.3 Composition of with-profits funds surveyed (continued)

With-profits management has a key focus on achieving a successful run-off, yet several firms are still actively in new business sales. Of the 59 funds included in the survey, 8 funds are open to new business (c.14%), however this represents 59%, as shown in figure 1.3, of the total BEL across all funds.

We asked firms with open funds where they are focusing new business efforts; the results are displayed in figure 1.4. Although product innovation has been limited within the with-profits space in the recent past, our survey indicates that firms are continuing to look at new products and variants, as well as improving existing sales.

Figure 1.3: Fund open or closed status by % of total BEL

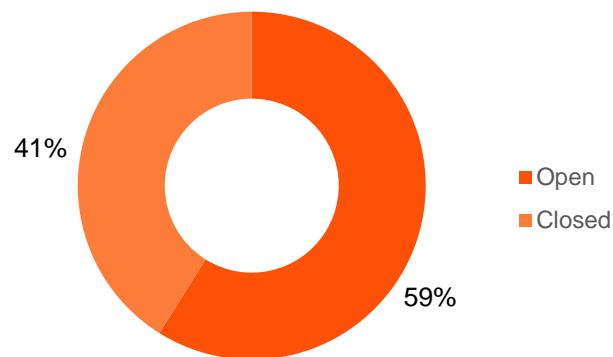
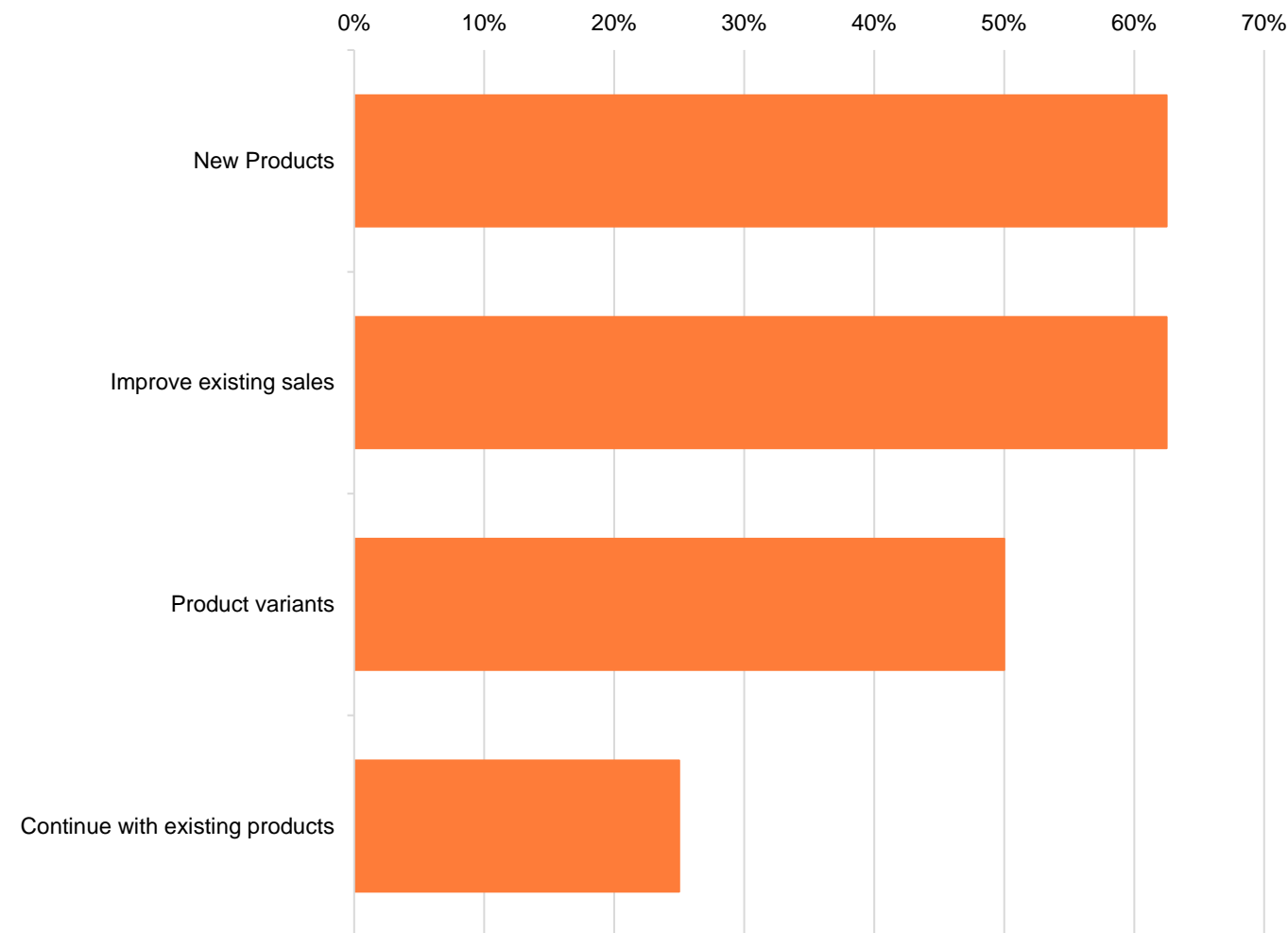


Figure 1.4: Focus of new business efforts by fund



1. Introduction

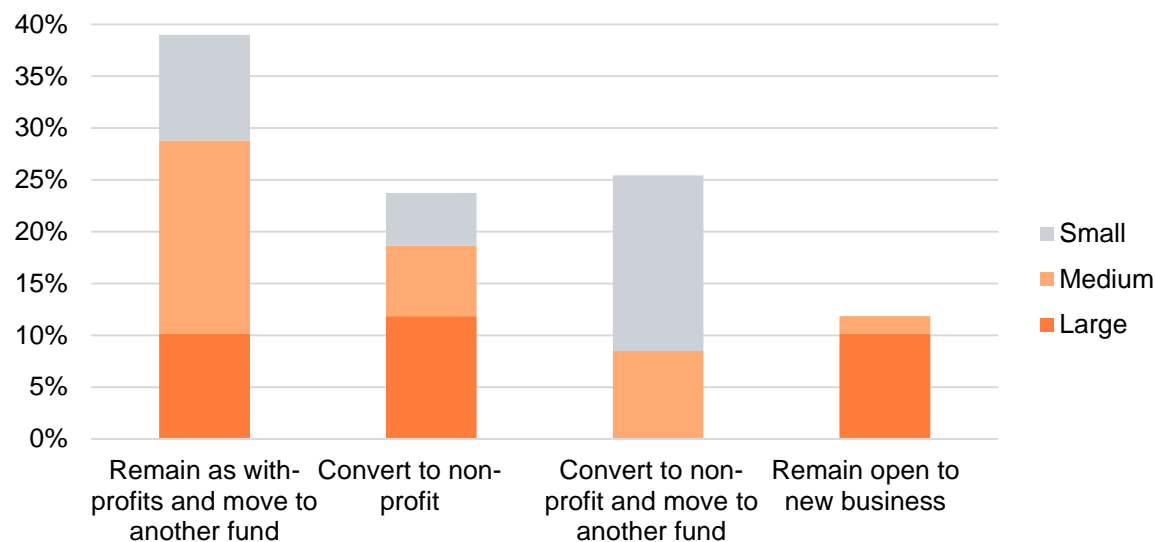
1.3 Composition of with-profits funds surveyed (continued)

We asked participants about the outlook of their funds. Figure 1.5 indicates that:

- almost 40% will remain in the fund as with-profits business over the medium to long term before being moved to another fund.
- over the medium to long term, approximately c.50% of the funds will convert to non-profit.
- 13% will remain unchanged over the long term.

For the funds which participated in both the 2023 and 2025 surveys, the proportions are broadly unchanged. Where there have been changes, we have detailed in Appendix A any key changes in participants' funds compared to our previous survey.

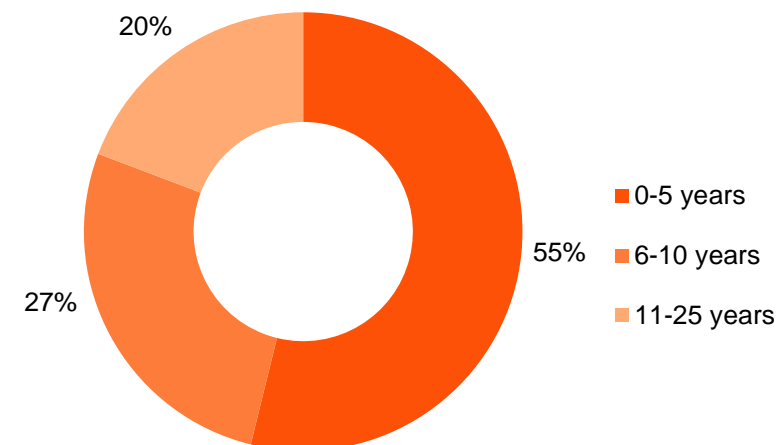
Figure 1.5: Future of with-profits funds



We then asked participants the time frame over which they expect the funds to merge or be wound up. Figure 1.6 shows that for the 51 funds for which we received responses, just over half are expected to change in structure within the next five years, with the remainder expected to change over the longer term (i.e. over the next 6 to 25 years).

For the funds which participated in both the 2023 and 2025 surveys, these timescales are broadly consistent when allowing for the intervening two years.

Figure 1.6: Estimated timescales for restructuring



1. Introduction

1.3 Composition of with-profits funds surveyed (continued)

We asked participants to provide their most recent national specific template NSR.02.01.01.01 relating to firms' with-profits liabilities and assets. This template requires firms to split with-profits BEL into those comprising the with-profits benefits reserve (WPBR) and future policy-related liabilities (FPRL).

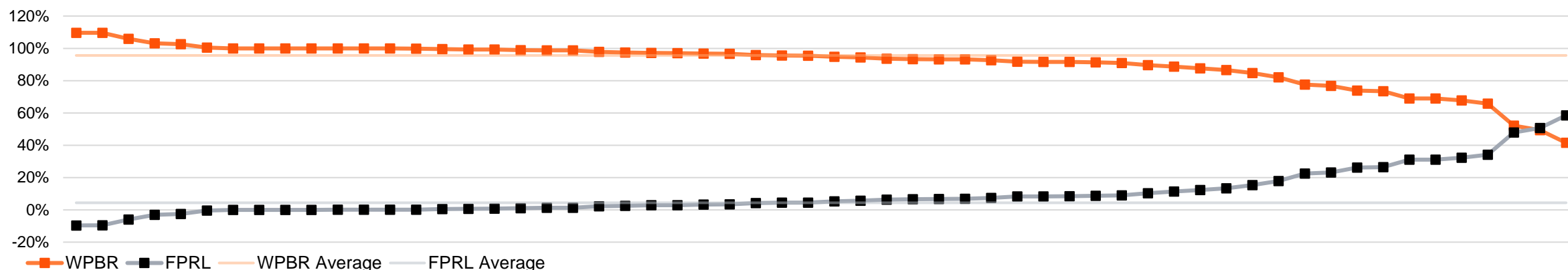
Funds with a higher proportion of FPRL denote those with larger proportions of guarantees that are in the money. We have analysed the FPRL as a proportion of BEL by examining NSR.02.01.01.01 and compared with our findings from our previous survey which reported 2022 year-end values.

Figure 1.7 below shows the results of our analysis as at year-end 2024.

- The weighted average FPRL as a percentage of BEL is 4%, which has reduced by c.1% since the 2022 year-end (and c.11% compared to 2020 year-end).
- We also observe that the FPRL is negative for five funds, and there are two cases where the FPRL exceeds the WPBR. Comparatively, at 2022 year-end, there were four negative funds and one instance where FPRL was equal to WPBR.

The downward trend in weighted average FPRL as a percentage of BEL and the increase in negative FPRL compared to 2022 year-end may suggest that guarantees have generally become less onerous, which could be a result of favourable asset performance or rate changes. However, model or assumption changes could also be driving the changes.

Figure 1.7: WPBR and FPRL as a proportion of BEL at fund level as at YE24





Hot topics

02

2. Hot topics



With economic growth remaining subdued, sustained elevated Bank of England interest rates and global trade and geopolitical tensions creating further uncertainty, firms are increasingly reevaluating their strategic priorities to keep pace with accelerating technological change. In this section we explore how firms are navigating this volatile environment across three key areas:



Operational focus and process

improvements: Including cost optimisation, system and technology upgrades and alignment with longer-term run-off planning.



Shifts in investment strategy: Examining trends in public UK equity holdings and the use of non-traditional private investments.



The growing challenge of 'goneaway' policies: Tracking the volume and value of unclaimed assets, and how firms are approaching redistribution and tracing efforts.



2. Hot topics

2.1 Areas of focus and process improvements

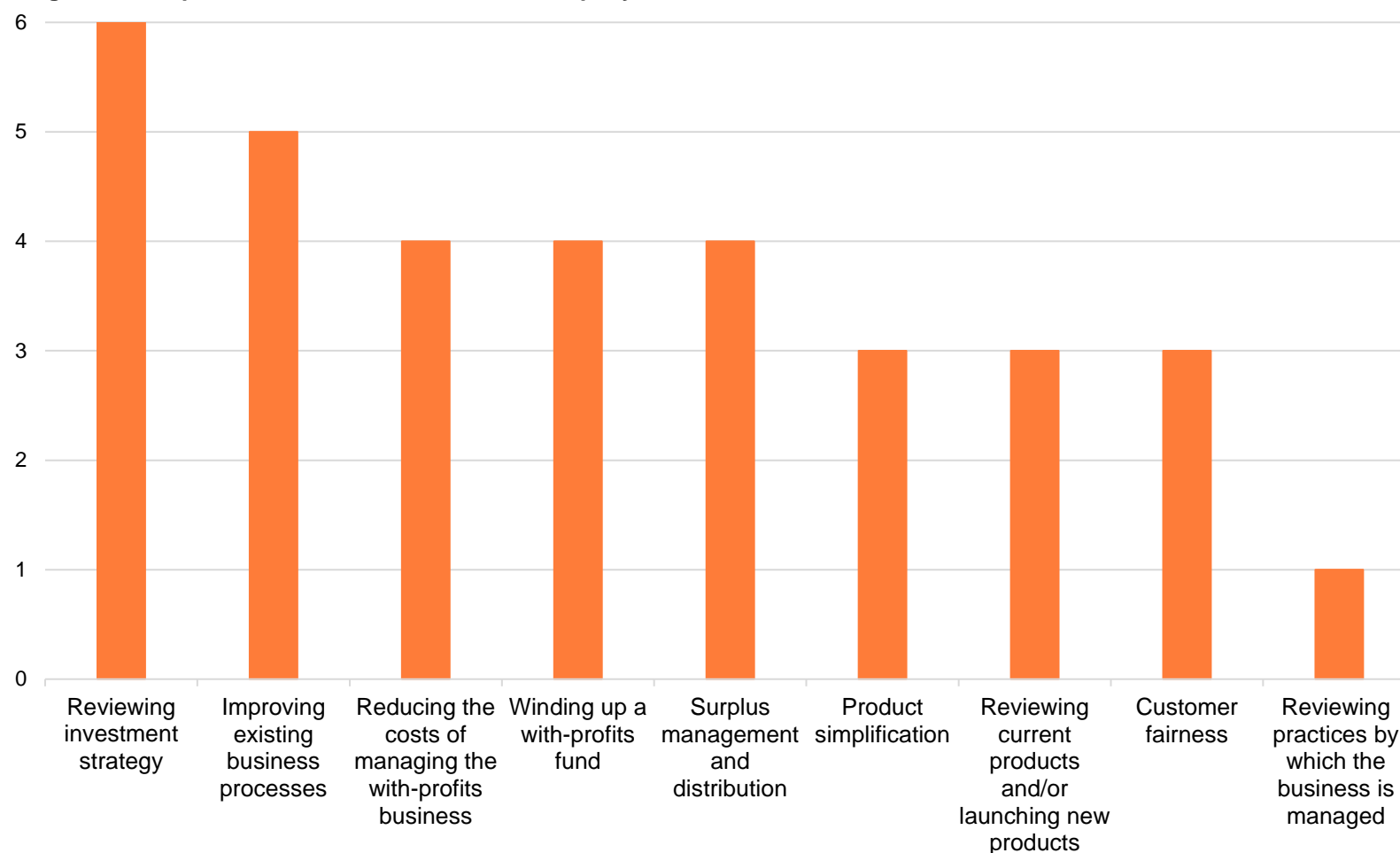
We asked participants to state the current top three areas of focus for their organisation's with-profits business.

Figure 2.1 shows that the most common focus area is investment strategy, consistent with our last survey. Reducing the costs of managing the with-profits business and winding up of with-profits funds also remain among the top focus areas. In contrast, improving existing business processes has grown in popularity since our 2023 survey. As stated in section 1, this may be driven by the wider industry trend towards leveraging AI and technology to streamline processes.

Other observations to note:

- The surplus management and distribution category includes responses related to managing goneaways – an area that we have explored further in section 2.3.
- No participants selected options for the 'integration of the with-profits business following a transaction' or 'closing a with-profits fund to new business'.
- Four participants ranked 'winding up a with-profits fund' among their top priorities, compared with six participants in our 2023 survey.

Figure 2.1: Top three areas of focus for each company



2. Hot topics

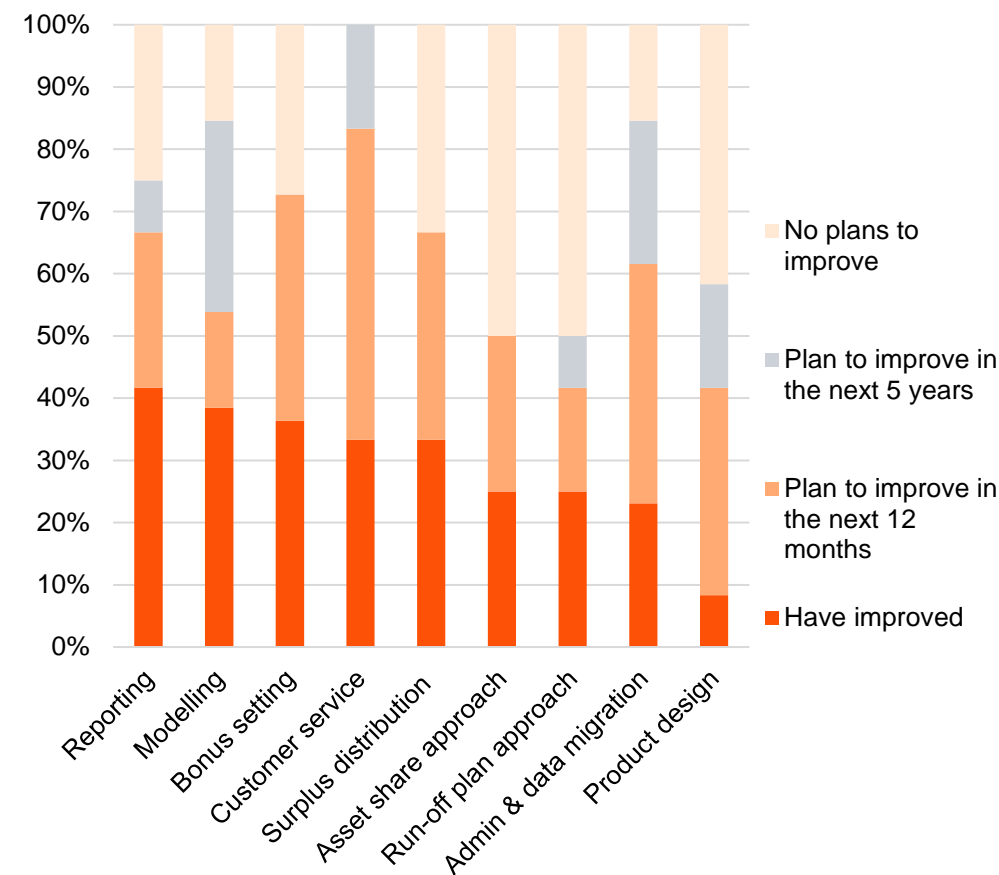
2.1 Areas of focus and process improvements (continued)

We asked participants where they have recently applied improvements or are considering making improvements, either in the short term (within 12 months) or the medium term (within the next 5 years).

Figure 2.2 shows:

- **Customer service** is the only area where all respondents were either planning improvements (c.70%) or had recently completed improvements (c.30%). This may relate to Consumer Duty, where consumer support is one of the key outcomes. Legacy or fragmented admin platforms (e.g. for closed funds or funds impacted by mergers or acquisitions) have been a staple of large corporations' customer interactions, recently this has been challenged by the emergence of generative AI chatbots and evolution of digital literacy resulting in firms needing to keep up with policyholder expectations.
- **Admin and data migration** is another area where a high proportion of respondents are planning future improvements (c.60%), with several also citing recently completed admin system programmes. This area is highly interlinked with customer service as well as reporting and modelling - there are likely to be some common drivers for improvements across these areas. Other drivers may include preparing for run-off or consolidation (e.g. four participants named fund wind-up as a top priority in 2025) or ensure that data is standardised, clean and accessible for use in AI and technology modernisation programmes.
- **Reporting and modelling** has the highest proportion of recently completed improvements (c.40% of respondents), with the majority planning short- or medium-term improvements. Manual workarounds remain common post-IFRS 17 implementation (n.b. some participants are not subject to IFRS 17 reporting), presenting scope for finance modernisation programmes which would capture with-profits reporting (and the supporting actuarial modelling). We have also observed an increased interest in cloud and graphics processing unit (GPU)-based modelling solutions, which may form part of planned future improvements in the modelling category.
- **Bonus setting and surplus distribution** are other common focus areas over the next 12 months. Firms will need to consider Consumer Duty requirements around fair value and transparency, as well as consider how surplus associated with goneaways is treated – we cover this further in section 2.3.

Figure 2.2: Plans for with-profits process improvements



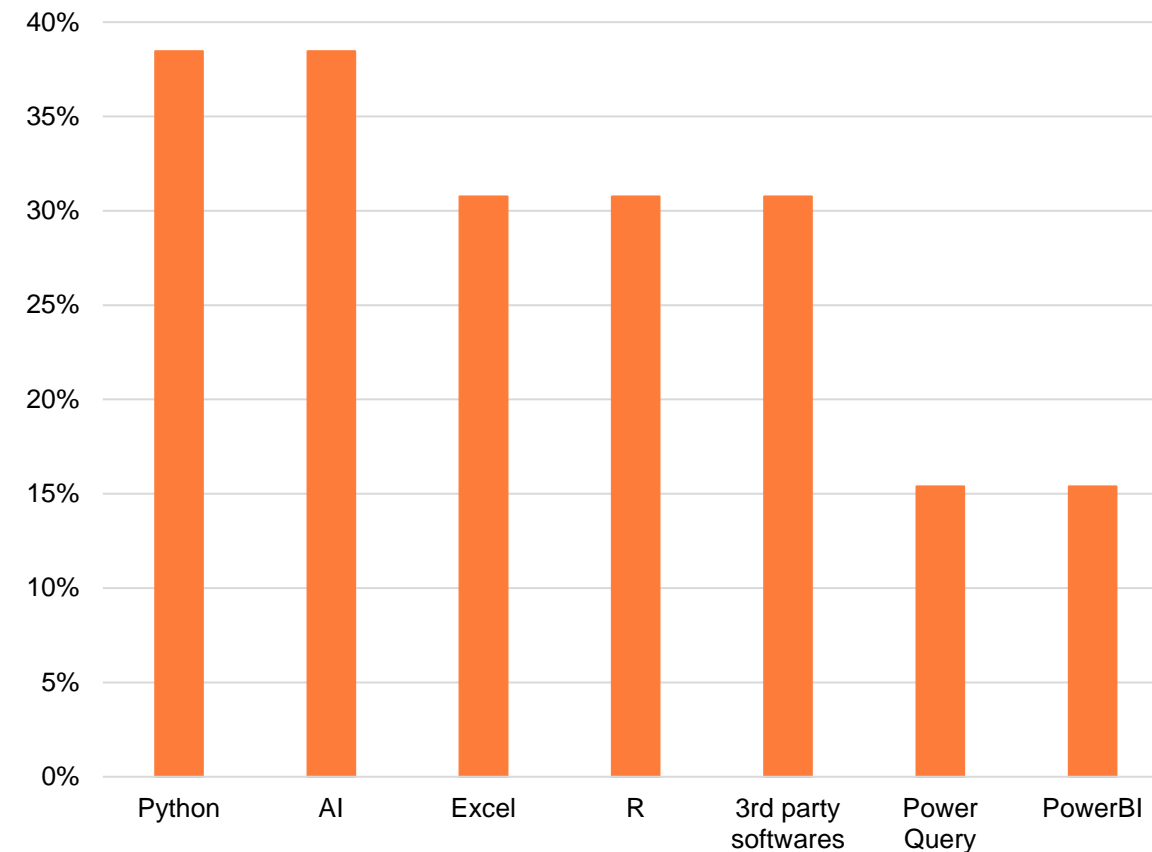
2. Hot topics

2.1 Areas of focus and process improvements (continued)

We asked participants what tools or software have been used to achieve process improvements. Figure 2.3 shows:

- Python and AI are the most common answers, with AI including both in-house and external tools, such as Copilot. This aligns with a general market trend moving away from legacy actuarial modelling tools such as Prophet and MoSes, and manual data preparation processes, towards more flexible and automated end-to-end solutions.
- Despite this, Excel is the next most common answer, suggesting that it is still being widely used. This means there is more opportunity for automation and AI to be embedded across core with-profits processes.
- The most common AI tool currently used by participants is Copilot, although we consider there to be limited scope for achieving wholesale process improvements using this tool. From a forward-looking perspective, we expect to see agentic AI and cloud-based data analytics platforms being used more widely across the industry.
- Examples of 3rd party software include Unify, Product Xpress and Strategic Reporting Solutions.

Figure 2.3: Companies using any tools or software to help achieve process improvements



2. Hot topics

2.2 Investment

We asked participants about the proportions of their investments in UK based equities and non-traditional fixed interest investments.

Figure 2.4 shows a range of UK equity investment concentrations.

The majority of funds invest less than 50% in UK equities, which is consistent with our 2023 survey (figure 2.5), and represents a sustained decrease in UK equity investment compared to our prior surveys (2021 and earlier).

The remaining funds, with higher proportions invested, may benefit from further diversification, either geographical or by asset type. However, it will be important to manage any associated increase in volatility resulting from global geopolitical events, for example changes to global tariffs on goods.

We note that all funds that answered this section of the survey invest within the UK public equity market.

Figure 2.4: Percentage of funds' equity investments that are invested in UK based equities from 2025 survey.

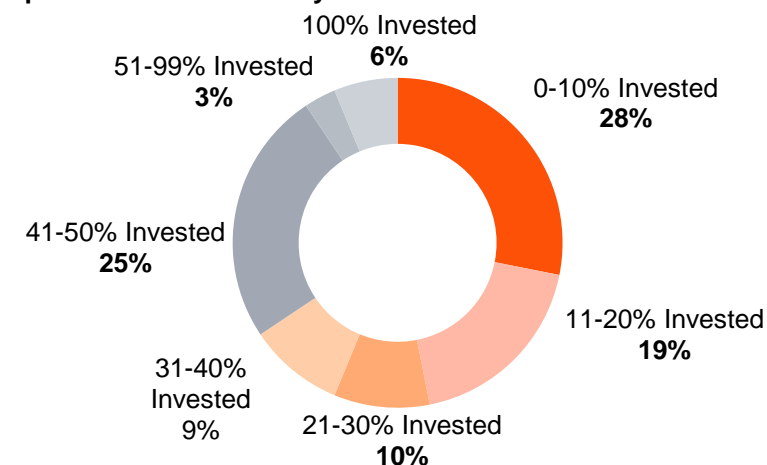
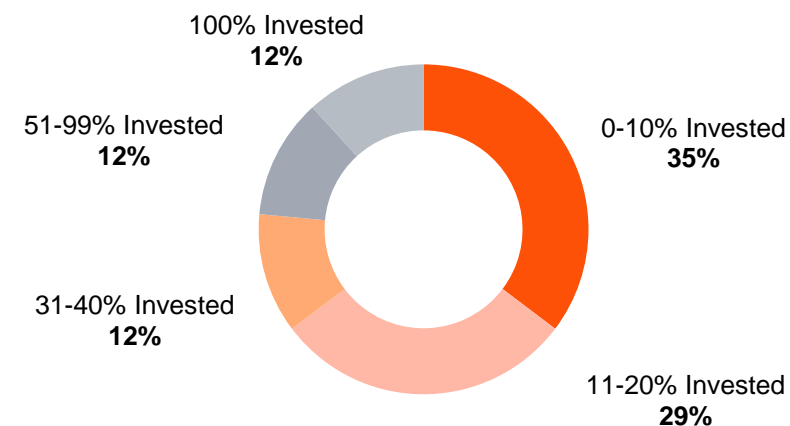


Figure 2.5: Percentage of funds' equity investments that are invested in UK based equities from 2023 survey.



2. Hot topics

2.2 Investment (continued)

We asked participants about their investments in non-traditional fixed income assets.

Compared to our 2023 survey, we have observed an overall increase in funds investing in non-traditional fixed interest assets, from 3 funds to 11 funds.

Figure 2.6 shows that these types of investments generally remain below 15% of each fund's portfolio, although one outlier invests 30%. Note that this chart does not include funds with no investment in these assets.

Figure 2.7 shows a breakdown of the different types of these non-traditional fixed income assets. Of the respondents that answered this question, 60% invest in private equity, 20% invest in venture capital and only 10% invest in the remaining areas:

- Private equity is the most common asset type representing c.80% of the total non-traditional fixed income investment. This suggests a preference for illiquid, high-return assets while diversifying away from traditional fixed income investments.
- Venture capital represents a further c.30% of the investments within the non-traditional fixed income asset category. Its lower proportion compared to private equity suggests a more cautious approach among funds towards earlier-stage investments, potentially due to more onerous capital requirements.
- Commercial mortgages, infrastructure loans and buy-to-let housing make up the remainder of the allocation. These types of assets tend to offer lower returns compared to private equity and venture capital, however, can be more stable – and therefore may be chosen to maintain a balance between yield and stability, in line with a fund's stated risk appetite.

Figure 2.6: Percentage of fund's investments held in non-traditional fixed interest investments

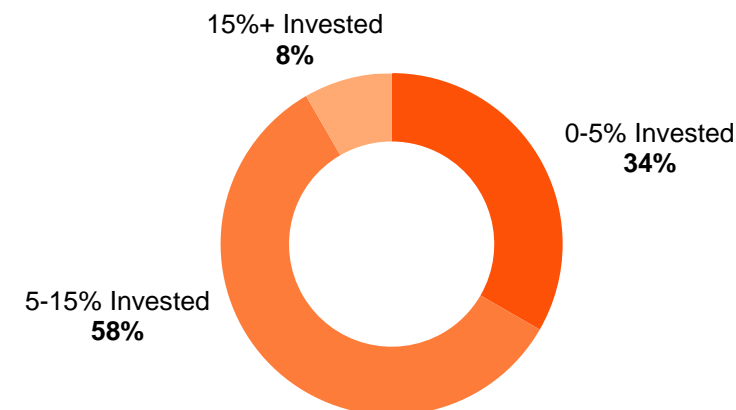
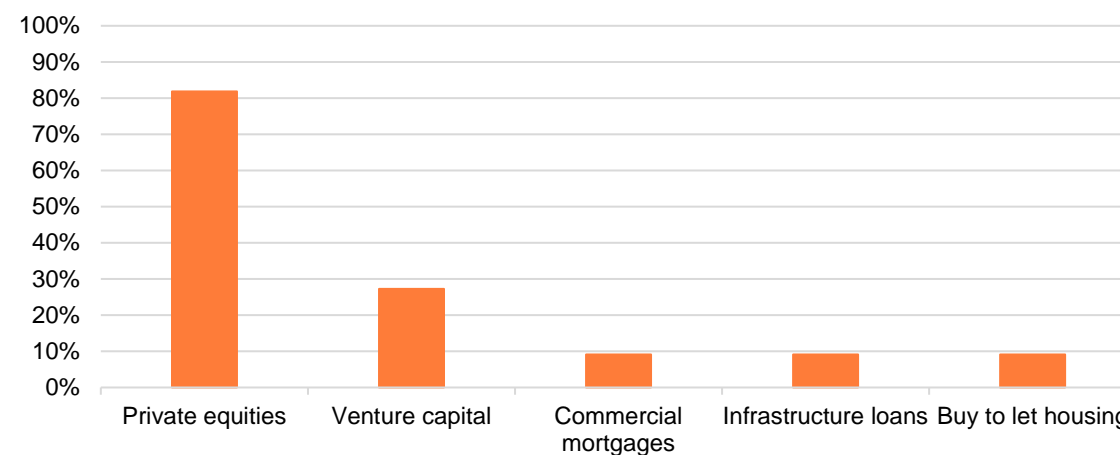


Figure 2.7: Breakdown of non-traditional fixed income investment



2. Hot topics

2.2 Investment (continued)

Figures 2.8 and 2.9 explore overall investment returns by fund, allowing for investment costs (but pre-tax) between 2023 and 2024, as provided by funds from their 2023 and 2024 NSR.02.01.01 submissions.

- Figure 2.8 plots the absolute investment return by fund in 2023 and 2024. The dashed diagonal line is the line of equality, meaning that funds above the line performed better in 2024 than 2023, while funds below the line performed comparatively worse in 2024. Overall, more funds lie below the diagonal line, indicating that investment returns worsened in 2024 for the majority of funds. Three funds experienced negligible investment return change between 2023 and 2024.
- Figure 2.9 demonstrates the change in return for these funds between 2023 and 2024. As stated above, several funds saw a decrease in overall returns between 2023 and 2024. Across funds which experienced a reduction, the average decrease was c.3.3% - those experiencing larger decreases in 2024 appear to have achieved exceptional returns in 2023.
- A minority of funds (eight) experienced growth in investment returns – across these funds the average increase was c.1.6%.

These trends mirror broader movements in global markets, which saw 2024 returns generally soften compared to 2023 across asset classes, including global equities and global fixed income.

Figure 2.8: Funds by absolute investment return post-cost, pre-tax plotted 2023 vs 2024

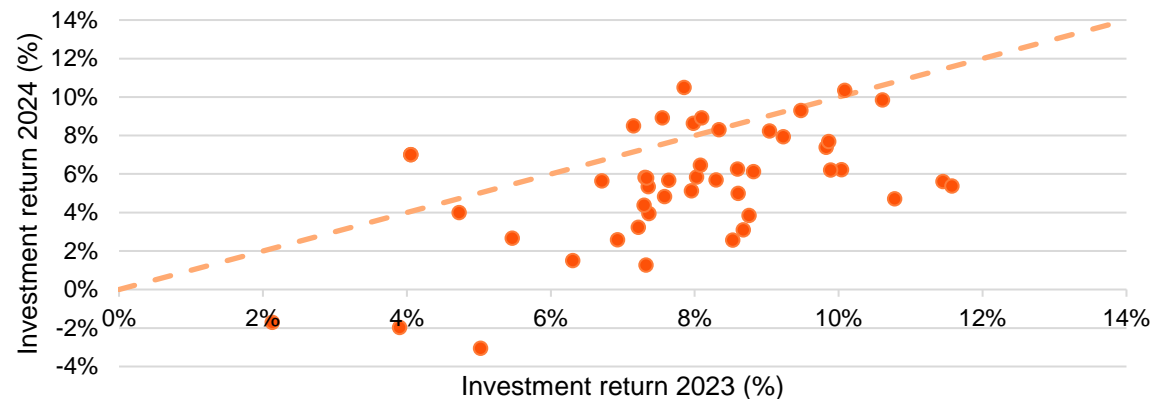
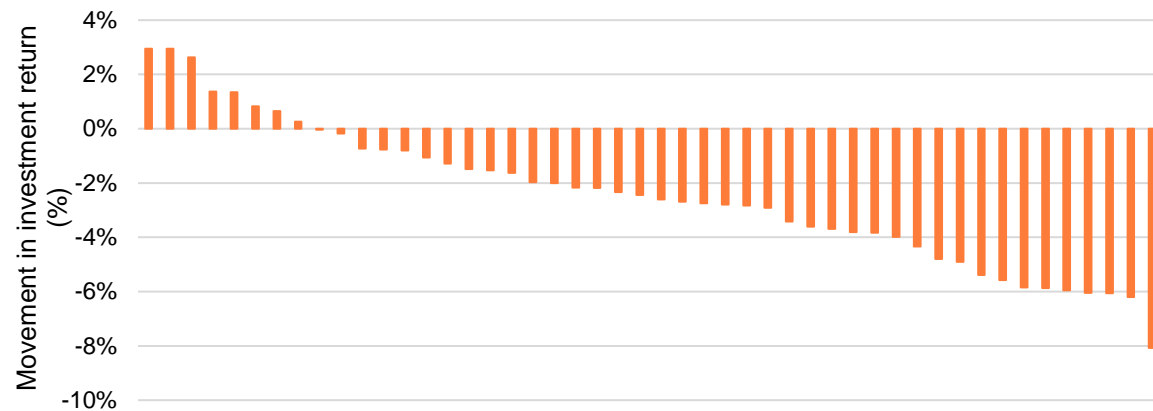


Figure 2.9: Funds ranked by movement in absolute investment return post-cost, pre-tax, movement from 2023 to 2024



2. Hot topics

2.2 Investment (continued)

We have assessed the relationship between funds' equity and property investment, or equity backing ratio (EBR), and total gross investment returns for 2023 and 2024 in figures 2.10 and 2.11 respectively.

The information is taken from NSR.02.01.01.01 as at 31 December of each respective year.

Both graphs show a positive correlation between EBR and overall gross investment returns, with more variance in the 2024 compared to 2023. Although both years saw positive returns, as highlighted on the previous page, 2024 was a poorer year for investment return on average compared to 2023 across the funds surveyed.

In Appendix C, we have shown a more granular breakdown, showing investment return against funds' property returns and equity returns separately, for both 2023 and 2024.

Figure 2.10: Funds by investment return post-cost, pre-tax plotted 2024 vs EBR

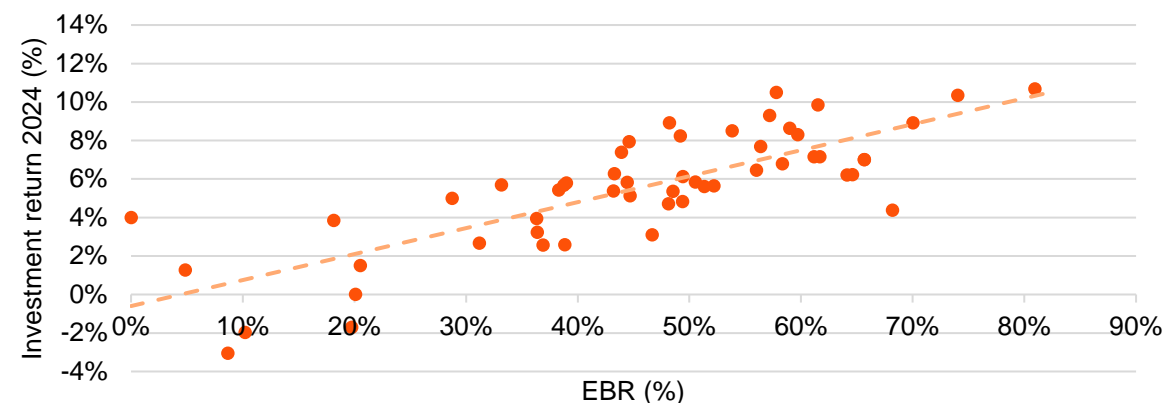
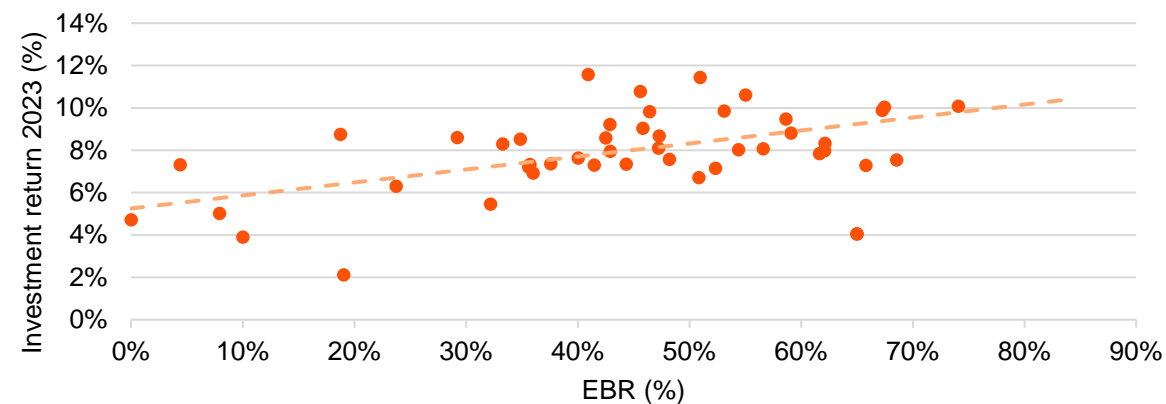


Figure 2.11: Funds by investment return post-cost, pre-tax plotted 2023 vs EBR



2. Hot topics

2.2 Investment (continued)

Figure 2.12 shows the asset mix breakdown as per the 2024 NSR.02.01.01.01 submissions, including notation to show which funds are currently open to new business.

Below is the weighted average (by BEL) for each asset class:

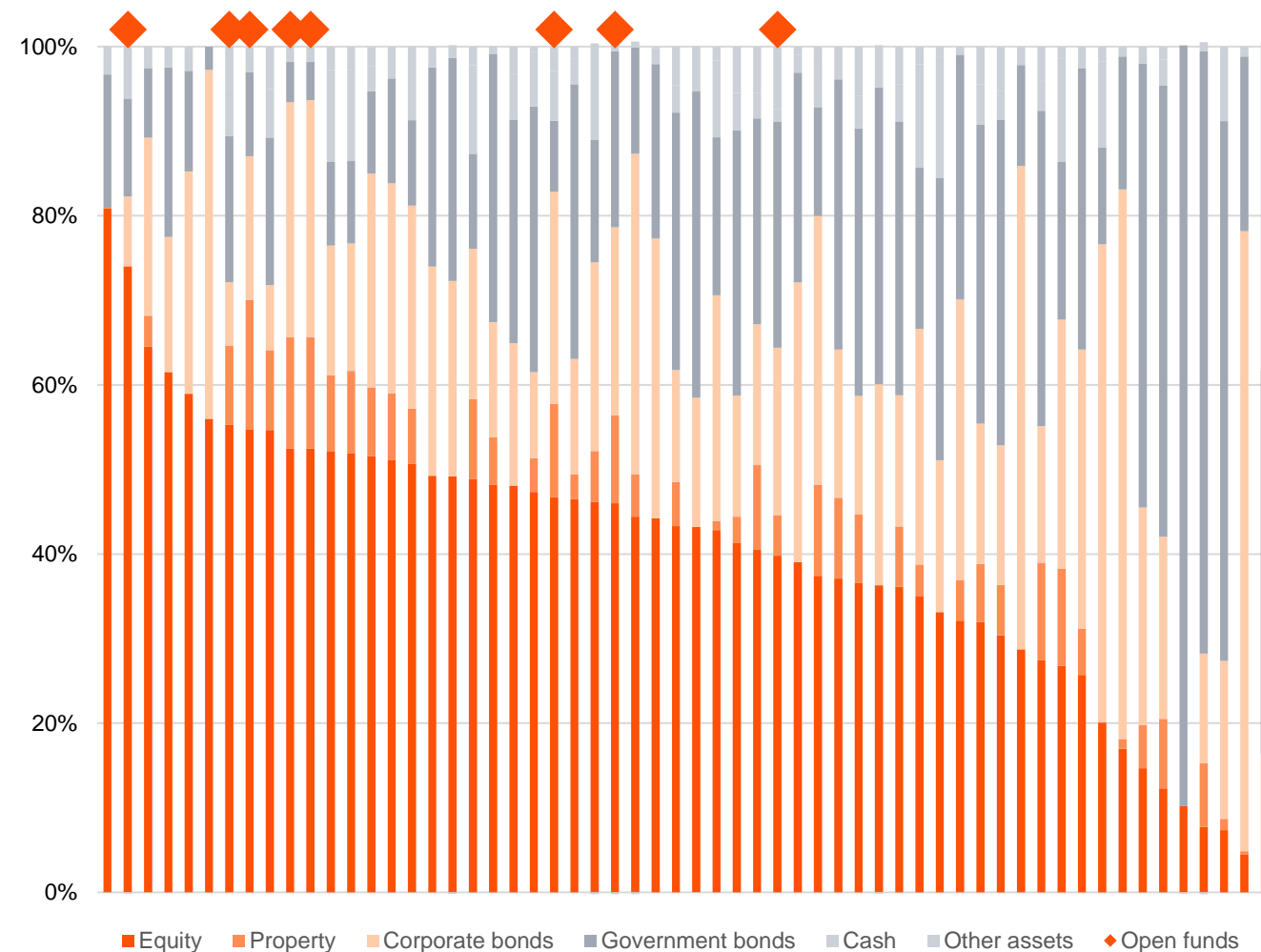
- Equity: 49%
- Corporate bonds: 24%
- Government bonds: 12%
- Property: 10%
- Cash (and equivalent): 4%
- Other assets: 1%

Compared to the unweighted average for each asset class below:

- Equity: 40%
- Government bonds: 25%
- Corporate bonds: 23%
- Property: 5%
- Cash (and equivalent): 5%
- Other assets: 2%

Given the correlation between funds' overall investment returns and EBRs, there may be the opportunity for funds with lower EBRs to generate greater policyholder returns by increasing equity and property investments.

Figure 2.12: Funds by Asset Mix as Reported YE24



2. Hot topics

2.3 Goneaways

c.3m

Goneaway policies

>£5bn

Goneaway policy value

c.3%

Proportion of with-profits liabilities



The issue of goneaways, where there has been no contact between policyholders and the life office over a period of time, continues to be a significant focus area for with-profits funds. The figures above represent the total number of UK goneaway policies, policy value and the proportion of UK with-profits liabilities attributable to goneaway policyholders reported by this year's survey participants.

The true figures are likely to be higher – given that not all participants provided responses and also considering that it is not always possible to determine when a customer has lost contact – and these numbers will continue to rise without a significant change in tracing success (an area that we have explored later in this section). One of the main challenges with managing goneaways is valuing the associated reserves, given that:

- overstating reserves – i.e. holding reserves for policyholders who are true goneaways and will never claim – risks delaying the distribution of surplus to other policyholders and may lead to a tontine; whereas
- understating reserves – i.e. releasing reserves for policies where there is unlikely to be a claim – exposes funds to adverse experience and unexpected claims.

This needs to be considered alongside wider policyholder considerations, ensuring that both goneaway policyholders and remaining policyholders are treated fairly, and satisfying Consumer Duty more widely.

The growing materiality of goneaways to with-profits funds has generated demand for a finite solution that gives certainty to the value of goneaways, while balancing these wider policyholder considerations. A collaborative financial approach could address this need, offering greater finality in the liability, giving firms greater confidence in the distribution while ensuring policyholder fairness and transparency.

The remainder of this section covers further insights on the scale of the goneaways challenge; approaches and risks in reserving for goneaways and redistributing surplus, and tracing activities and spend.

2. Hot topics

2.3 Goneaways (continued)

The figures below provide further insight on the scale of the goneaways issue across participants. These graphs only contain information relating to ordinary branch (OB) policies as we received insufficient responses relating to industrial branch (IB) policies – this likely reflects the lack of underlying data and small individual IB policy values. The results show the continuing trend of increasing OB goneaways.

Figure 2.13 shows that funds estimate around 4,000 goneaway policies on average, although this varies significantly between funds. Most reported estimates of between 1,000-7,000, with some as high as 17,000, and two outliers having over 25,000 (excluded from figure 2.13). Small and medium funds reported an average estimate of c.2,500, while large funds average 7,000. Overall, this suggests a high degree of variation depending on fund size and internal practices and strategies around goneaways.

Figure 2.14 and 2.15 converts these policy estimates into monetary (£) values.

- Figure 2.14 shows the total value of goneaway policy values and associated unclaimed assets, which mainly fall between £5m-£20m. Outliers which were excluded from the main analysis ranged from £50m-£400m.
- Figure 2.15 shows the average value of a policy for a goneaway, c.£13,000, with most values falling between £5,000-£17,000. There were no outliers in this data, and values were consistent across different fund sizes.

Overall, the data suggests that goneaways are likely to be financially significant both to funds and to the individual goneaway policyholders.

Figure 2.13: Expected number of goneaway policies - OB combined fund size

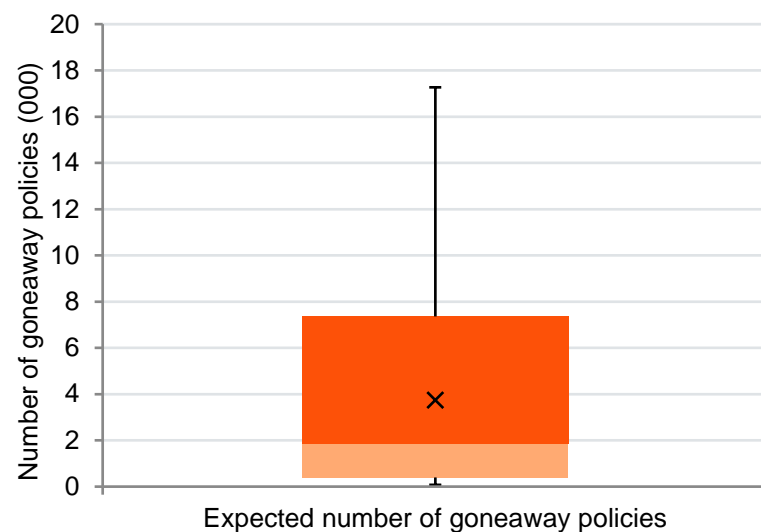


Figure 2.14: Value of policies and unclaimed assets - OB combined fund size

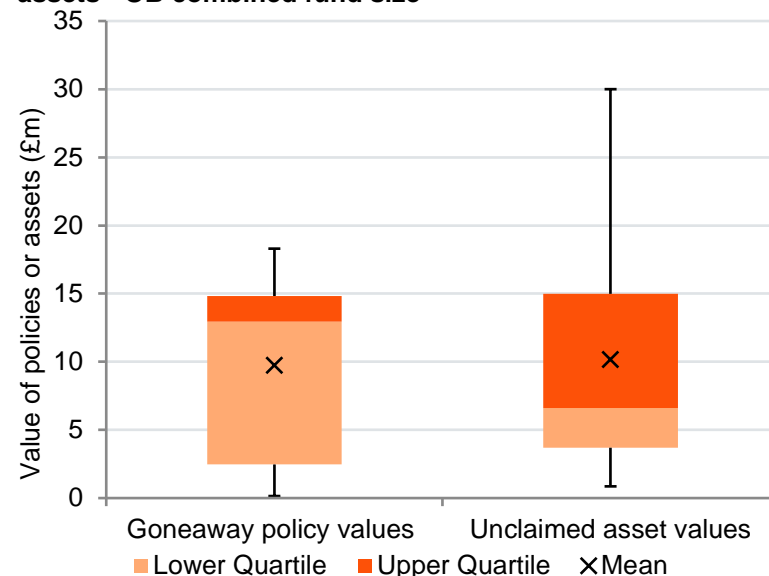
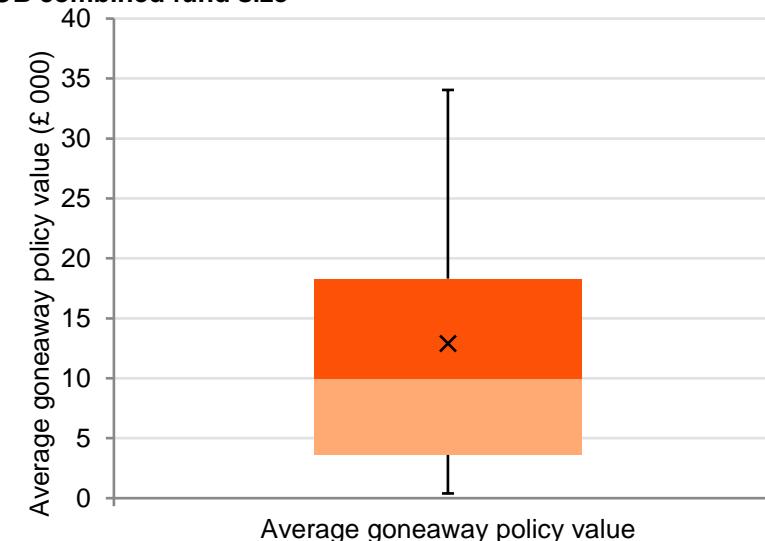


Figure 2.15: Average value of goneaway policy - OB combined fund size



2. Hot topics

2.3 Goneaways (continued)

- We asked participants about criteria and approaches for distributing unclaimed assets.
- The majority of respondents are not currently releasing unclaimed assets (figure 2.18). This could be for several reasons including materiality or the inherent uncertainty around goneaways – as highlighted on the previous pages, given the growing materiality of goneaways, there may be scope for a collaborative financial solution that could provide greater certainty in the value of goneaways. For those who are releasing, figure 2.17 shows that time overdue and policyholder age are the most common criteria. For time overdue criteria, 5 years and 15 years are used by different participants. For policyholder age criteria, age 100 is the most commonly used threshold. Most participants who use age barriers set an upper threshold, however one participant sets both an upper and lower threshold, where an increasing proportion of assets related to a goneaway are released between the lower and upper threshold. Another participant sets a fund-wide assumption, calculating the proportion of claims outstanding beyond the threshold age. Policy in-force status is used by one participant, by monitoring whether the policyholder is contactable.
 - For the few firms who are distributing unclaimed assets, figure 2.18 shows that the most common method is via estate distribution, followed by via terminal bonus and finally by crediting asset shares. One participant who doesn't currently distribute stated that they would use an estate distribution method, while another participant stated that they would apply a credit to asset shares.
 - Figure 2.16 shows the percentage of surplus from unclaimed assets that participants plan to distribute in the next 12 months. The most common bucket was the 0-10% range, with larger percentages being less common.

Figure 2.16: Based on current unclaimed assets, percentage of the surplus to be allocated to policies in the next 12 months

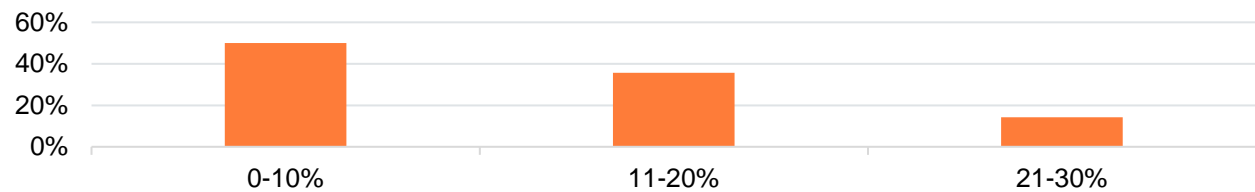


Figure 2.17: Criteria for release of goneaways for distribution (becoming an unclaimed asset) to other policies

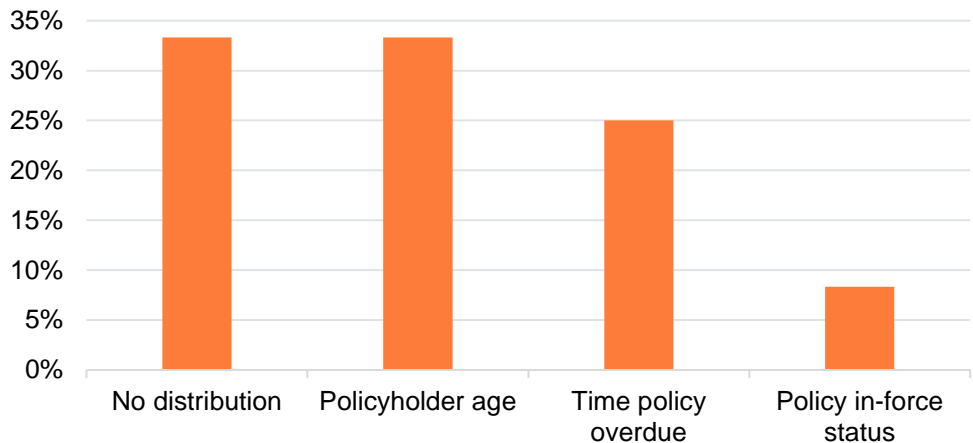
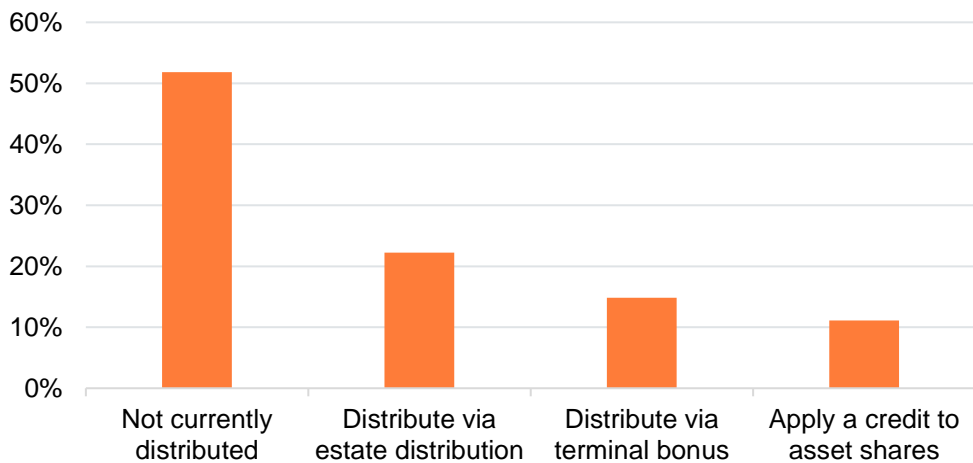


Figure 2.18: Method used to distribute surplus from unclaimed assets to other policies



2. Hot topics

2.3 Goneaways (continued)

We asked participants about their tracing activities - providers, approach and spend. Most participants are now engaged in BAU tracing activity, although some perform targeted tracing exercises. Two respondents do not currently trace goneaway policies, and one is planning to begin shortly.

- Figure 2.19 shows a mix of external providers and national databases are used for tracing customers, consistent with our previous surveys. Lexis Nexis is the most common provider, followed by Capita. 2 firms out of 13 use multiple providers.
- Figure 2.20 sets out any changes in overall approaches to goneaways over the last 12 months. While the most common response was that there had been no change, where changes have occurred, these included: changes to reserving methodology, improvements to tracing processes and changes to tracing partners. One participant adjusted estate distribution for unclaimed assets without changing their wider reserves.

In terms of tracing spend, while wider responses indicate an increased focus on tracing efforts, with increasing sophistication in methods used, the cost-benefit balance of tracing activities remains a key challenge, as even with external assistance, only a portion of goneaway customers are likely to be successfully reengaged.

- A limited number of respondents (four) reported that they tracked the spend of tracing activities on a per-fund level, with a further three respondents tracking spend at a less granular level.
- In terms of spend on tracing activities, we observed a large variance in amounts reported by participants, between £49,000-£500,000 on an aggregate level, broadly proportional to fund size (i.e. higher total spend for bigger funds).
- When looking at the spend per policy successfully reconnected within the last 12 months, this converts to between £14-£52 per policy, with an average spend of c.£33 per reconnected policy. This relates to OB policies only.
- The absolute number of policies that were reconnected by each fund ranged from 2,000-36,000.

Figure 2.19: Providers of tracing activity

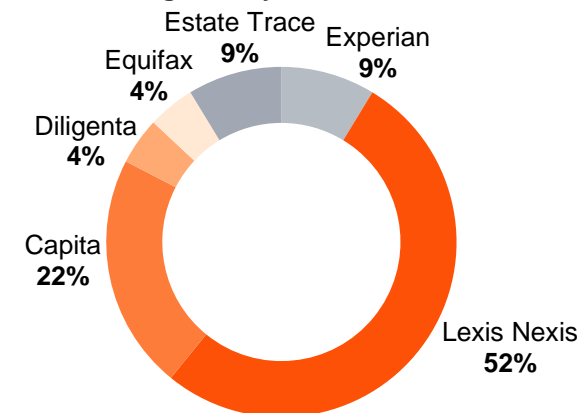
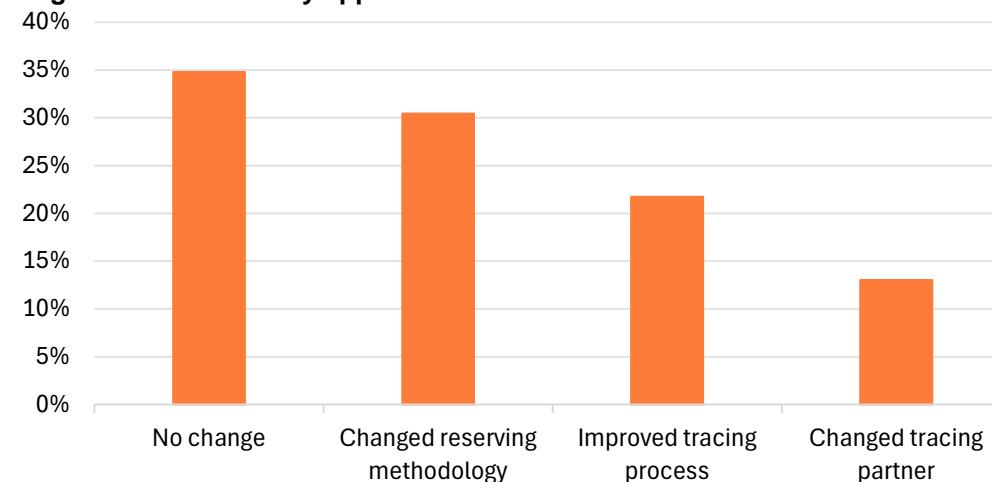


Figure 2.20: Goneaway approach in the last 12 months





Consumer Duty

03

3. Consumer Duty

Since its introduction, the FCA's Consumer Duty has marked a fundamental shift in regulatory expectations – away from demonstrating compliance with regulations to proactively ensuring positive customer outcomes. Now fully in force across both open and closed book products (as of 31 July 2024), Consumer Duty has entered a new phase of embedded supervision and evidence-based delivery. The FCA has made clear that firms should not only comply but continually assess, monitor and improve the outcomes that customers receive.

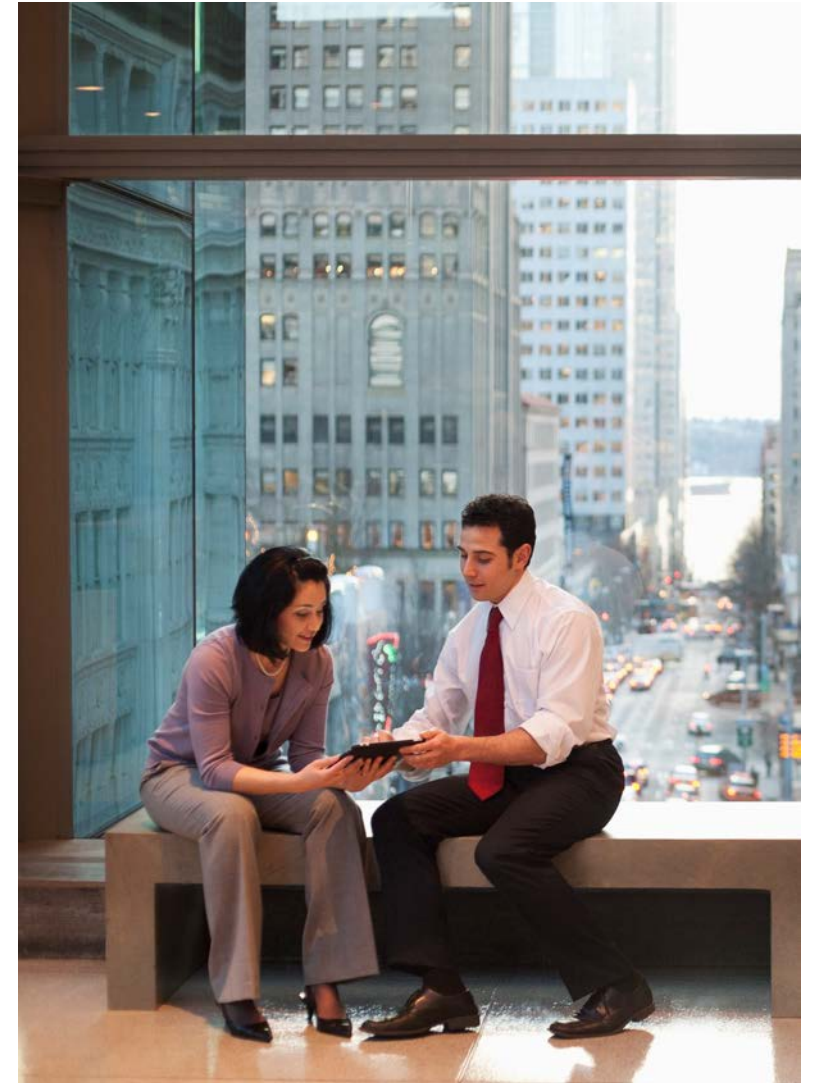
Consumer Duty requires firms to 'act to deliver good outcomes for retail customers'. As part of this firms need to deliver and assess four key outcomes:

- Products and services
- Price and value
- Consumer understanding
- Consumer support

Across the with-profits sector, there is a recognition that Consumer Duty is not just a compliance requirement but a catalyst for broader customer-centric transformation. While many with-profits firms already have strong customer-focused cultures and governance in place, Consumer Duty has prompted further focus on areas such as value assessments, the clarity of communications on bonuses and smoothing, and the ease with which customers can interact with providers.

This section explores how with-profits firms are continuing to embed Consumer Duty into business-as-usual activities and evolving their approaches to delivering, evidencing and improving each of the four core outcomes. Specifically, we have considered:

- measuring fair value and monitoring performance.
- product reviews and key areas of improvement identified for good customer outcomes.
- consumer understanding.
- fund sizes where this helped provide better insights.



3. Consumer Duty

3.1 Fair value

We asked participants to describe their overall approach to assessing fair value. Overall, responses described a holistic approach, using a mix of qualitative and quantitative factors. Often a structured framework is followed, which has been subject to Board approval and is aligned with the Consumer Duty outcomes or internal policies.

We also asked participants about specific factors used as part of their fair value assessments. We provided 16 predefined options to participants, which have been bucketed into the following groups as per figure 3.1:

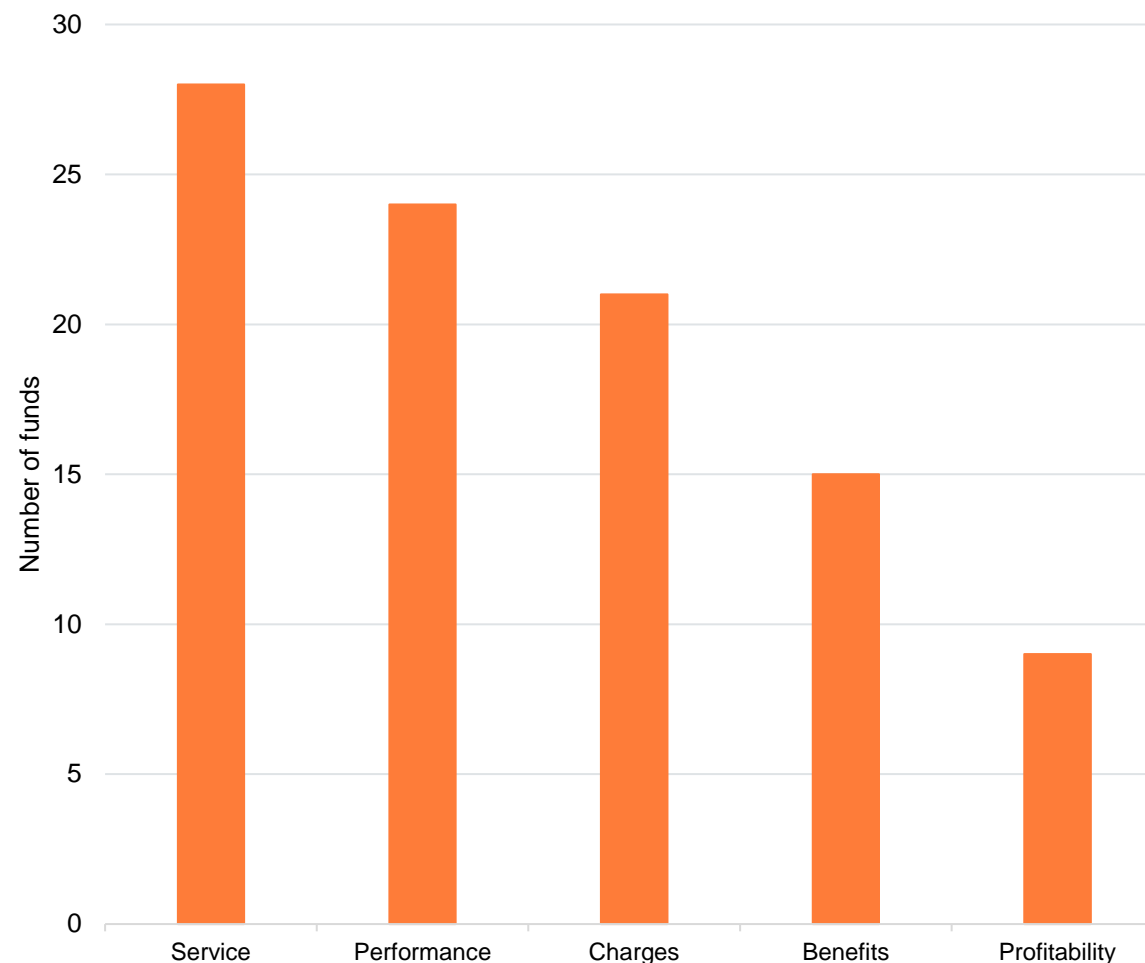
- Service – including complaints and ombudsman findings
- Performance – including target range and rate of return
- Charges – including reduction in yield, consideration of shareholder transfers
- Benefits – including take up of options and guarantees
- Profitability – including retrospective and prospective product profitability

Participants were also given the option to share additional factors, where these differ from the predefined options, we have assigned these into one of the five groups above and listed as part of the analysis on the following pages.

On the next two pages we explore further breakdowns of the groups of factors, except for profitability due to the lower number of responses and limited number of different factors in this category (two).

Within the 'profitability' category, four firms assess product profitability prospectively and two firms assess retrospectively. One participant stated that while profitability is actively considered for open propositions, for closed funds profitability is inferred from charge benchmarking assessments.

Figure 3.1: Factors used in fair value assessments



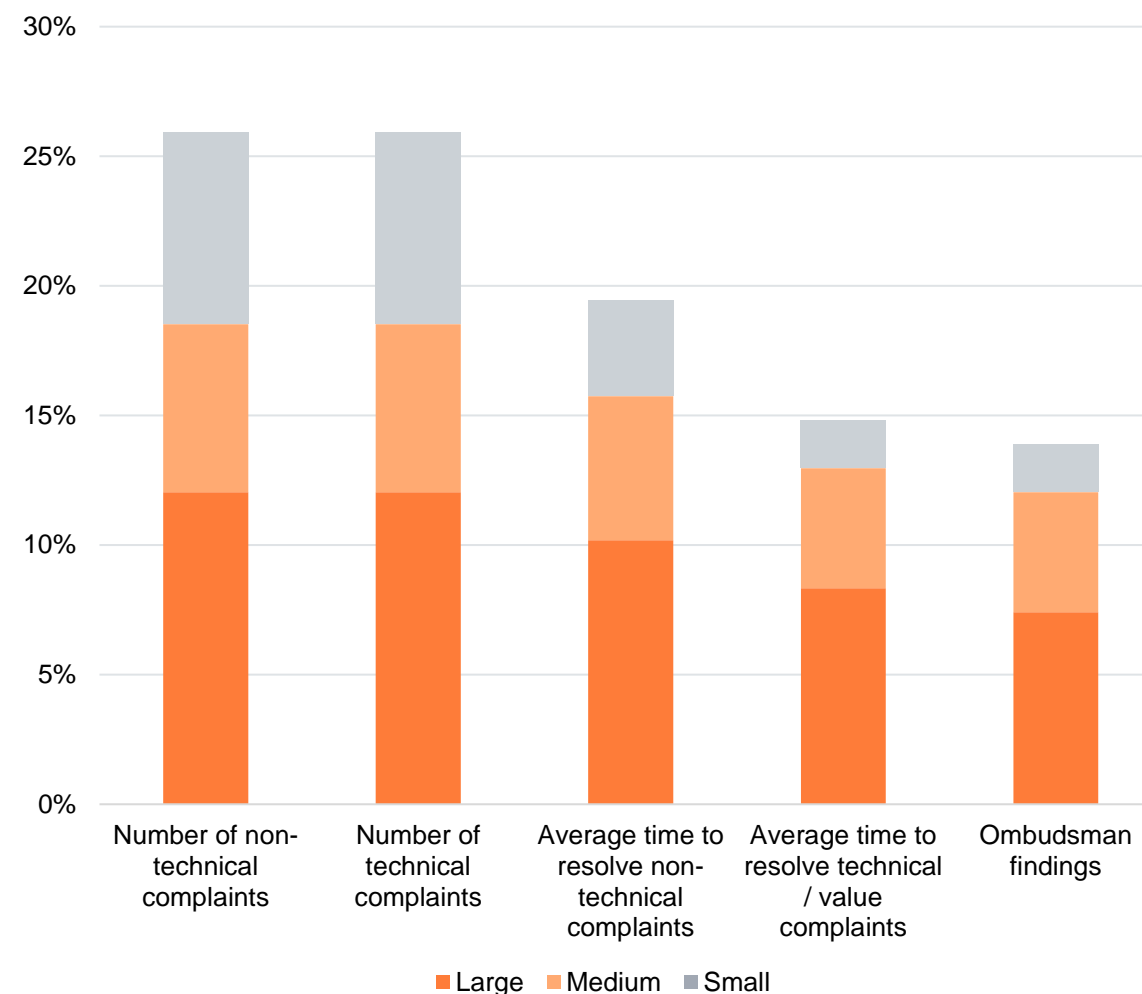
3. Consumer Duty

3.1 Fair value (continued)

Figure 3.2 shows the breakdown of areas that participants are using in their fair value assessments within the 'service' category, from figure 3.1 on the prior page, split by fund size. Figure 3.2 shows:

- Large and medium sized funds use factors covering technical and non-technical complaints-and ombudsman findings. In some instances, funds noted that ombudsman findings are considered as part of complaint root cause analysis and would only be included in their fair value assessments if areas of concern were identified through this process.
- Smaller funds tend to focus mainly on complaints, which may be driven by relatively limited resources compared to larger funds.
- Other factors noted by participants include:
 - customer outcomes testing on product promises and effective engagement.
 - non-financial value measures covering customer experience more widely – for example covering customer communications and customer service.
 - vulnerable customer statistics.
 - persistency experience and goneaway statistics.
 - claims declined.

Figure 3.2: Sub-focus areas used within fair value assessments - service



3. Consumer Duty

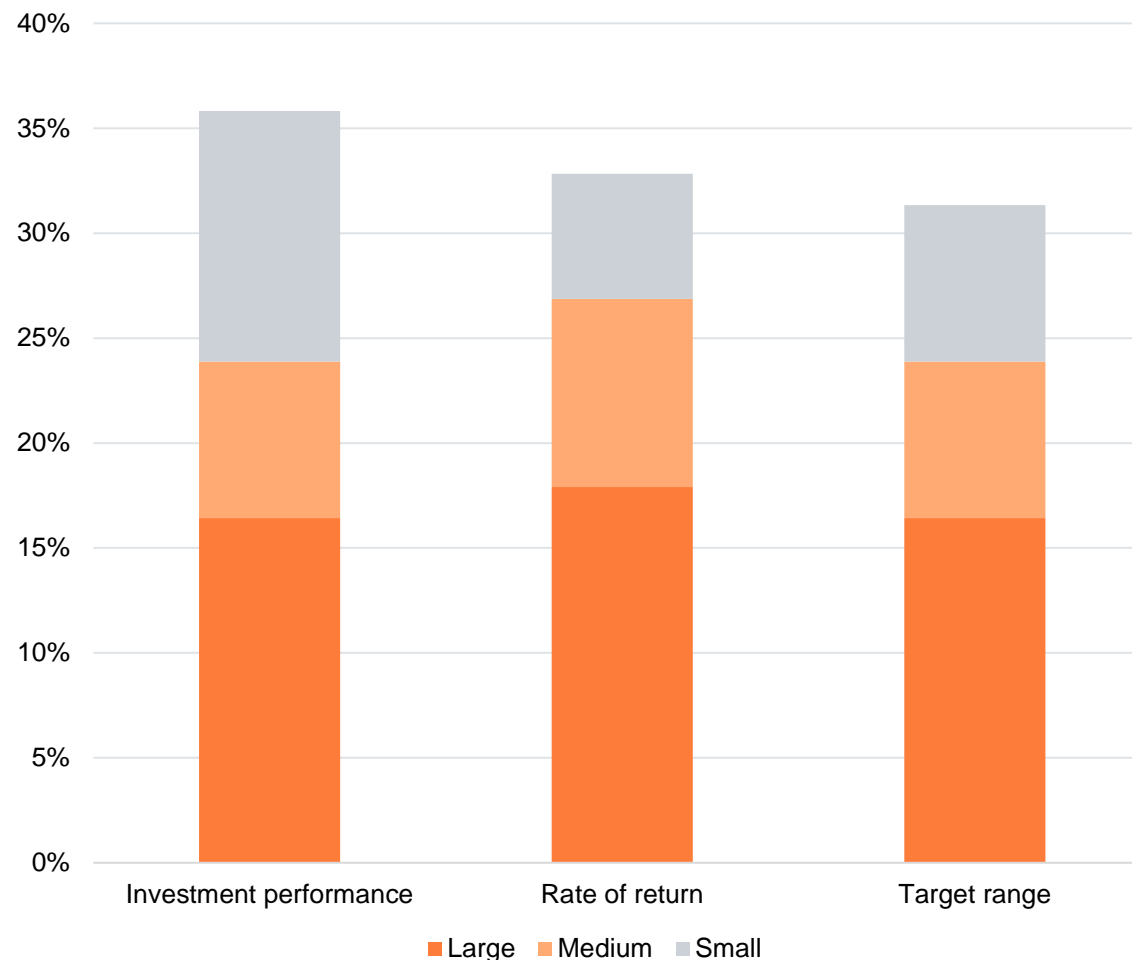
3.1 Fair value (continued)

Figure 3.3 shows the breakdown of areas that participants are using in their fair value assessments within the 'performance' category, from figure 3.1, split by fund size.

Figure 3.3 shows that there is a relatively balanced use of investment performance, rate of return and target range metrics used across funds of all sizes, however when looking at small funds in isolation, investment performance is the most common factor. This may be due to more limited resources at smaller funds perhaps with less complex investment strategies.

One participant noted that whilst target range monitoring is carried out, it isn't specifically included within the fair value assessment, however it does contribute to the application of discretion.

Figure 3.3: Sub-focus areas used within fair value assessments - performance



3. Consumer Duty

3.1 Fair value (continued)

Figures 3.4 and 3.5 show the breakdown of the areas that participants are using in their fair value assessments within the 'charges' and 'benefits' categories from figure 3.1.

- Figure 3.4 shows that total charges is the most popular factor used by large and medium funds, either on an absolute or percentage basis. One participant noted that commission, the cost of smoothing and the cost of guarantees are considered separately to the main level of charges comparison (AMC). For smaller funds, prospective reduction in yield is the most common factor, while this is less common for large funds. Other less common factors across funds of all sizes are inclusion of shareholder transfers in consideration of charges and retrospective reduction in yield.
- Within the 'benefits' category, figure 3.5 shows that the most common factor used across funds is take up of guarantees and options (GAOs), with take up of market value reduction (MVR) frees dates less commonly used.

Figure 3.4: Sub-focus areas used within fair value assessments - charges

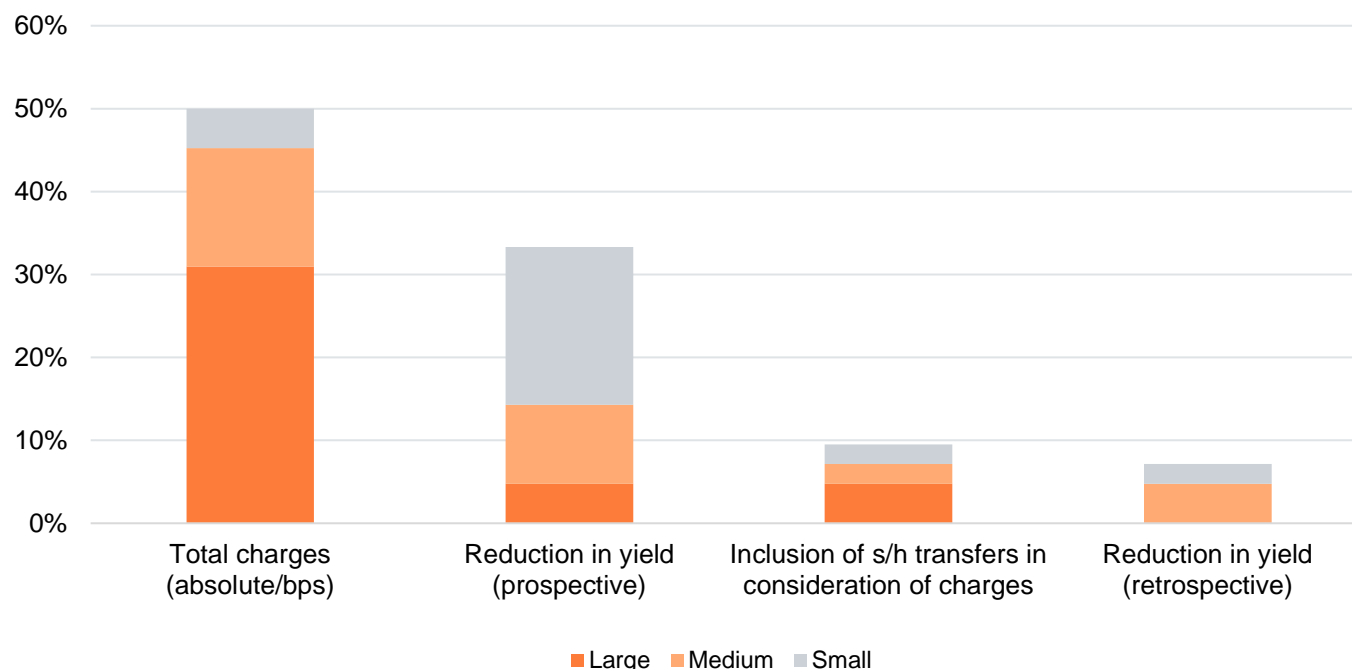
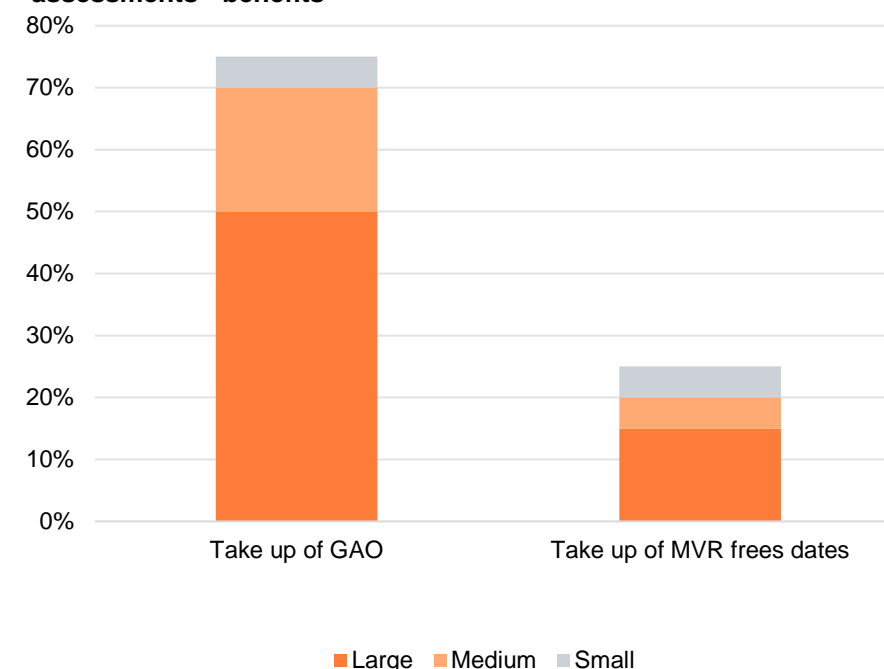


Figure 3.5: Sub-focus areas used within fair value assessments - benefits



3. Consumer Duty

3.2 Product reviews

We also asked participants about product reviews, considering the wider lifecycle of a product rather than just fair value. In terms of frequency of product reviews, every 2-3 years is the most common; annual reviews are held for around 20% of funds, with a similar proportion performing reviews every 5 years. Figure 3.6 shows the breakdown by fund size; in general, for larger funds more frequent reviews are common, with five-yearly reviews performed for more smaller funds. However, there is not a direct correlation between fund size and frequency of product reviews; as frequency can also vary according to product line, risk assessments and fund status. Figure 3.7 shows there is an approximately even split of the frequency of review across open funds, whereas closed funds mostly review within the 2-3-year timescale.

Figure 3.6: Frequency of product reviews by fund size

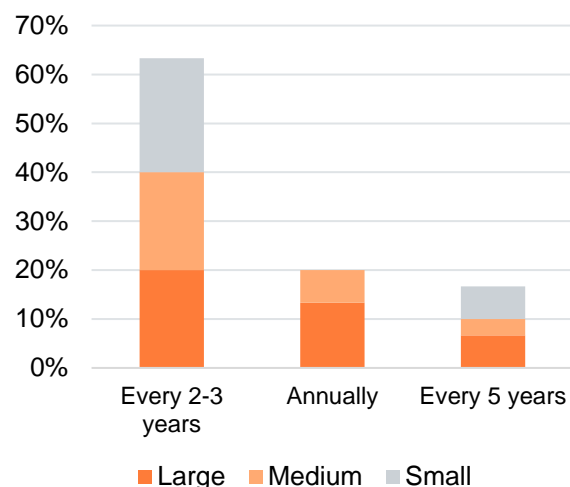
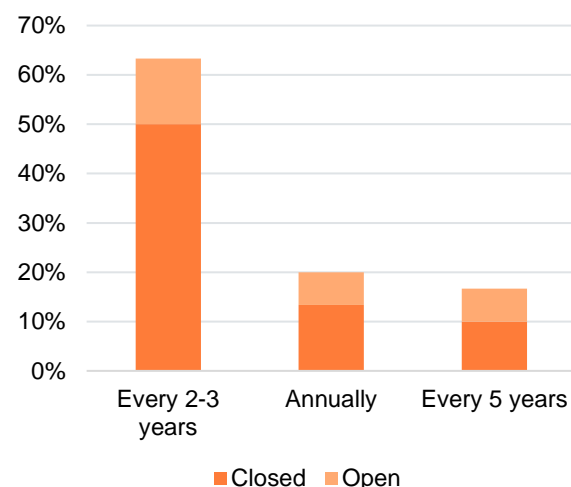
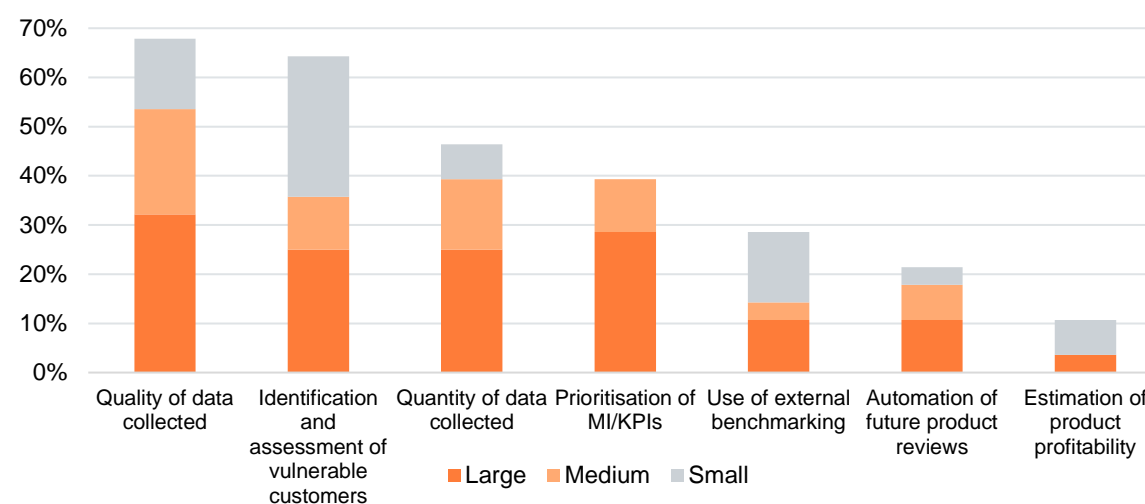


Figure 3.7: Frequency of product reviews by fund status



We also asked participants to list key areas of improvement identified through product reviews. Figure 3.8 shows that quality of data collected is the most cited improvement area overall, with c.70% of respondents listing it, followed by identification and assessment of vulnerable customers (c.66% of respondents). Large funds have more frequently cited prioritisation of MI and KPIs, and quantity of data collected compared to small and medium funds. Smaller funds were more likely to cite the use of external benchmarking and automation of elements of product reviews as improvement areas, which could be due to resource gaps at smaller funds. Overall, both quality and quantity of data are key improvement areas across funds of all sizes, reflecting the importance of high-quality, rich and actionable data to demonstrate Consumer Duty compliance.

Figure 3.8: Key areas of improvement identified by product reviews



3. Consumer Duty

3.2 Product reviews (continued)

Figure 3.9 sets out key areas of improvement identified to provide good outcomes to policyholders, based on product reviews performed by July 2024. The most common improvement areas are in relation to customer understanding, performance and customer service.

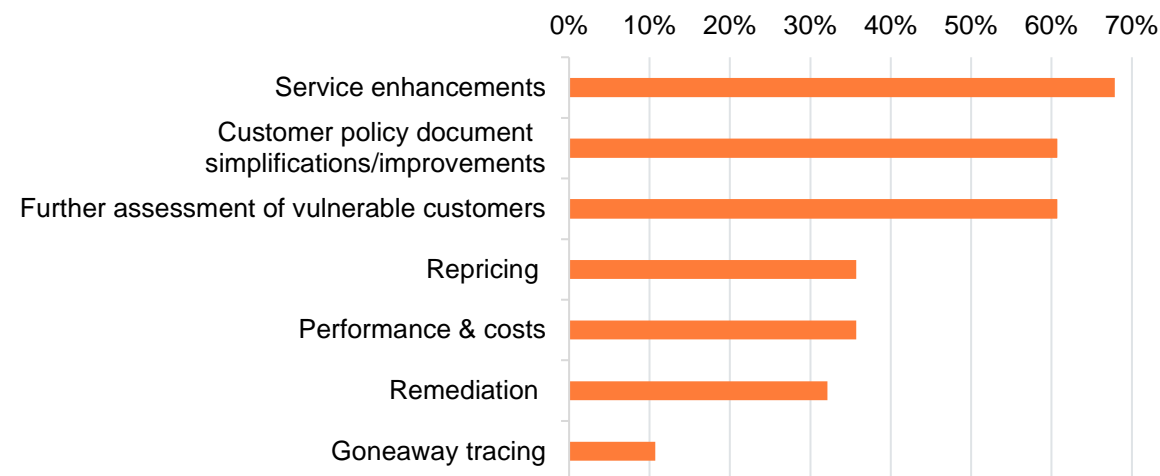
Figure 3.9: Key areas of improvement identified for good policyholder outcomes



Figure 3.10 then shows key actions currently being taken to improve policyholder outcomes and reduce future harm to policyholders, based on product reviews performed by July 2024.

- Service enhancements is the most common type of action – this includes improvements to customer interaction around unclaimed assets.
- Many respondents (c.60%) are also taking actions related to simplifying or improving customer policy documents and further assessing vulnerable customers.
- The 'performance and costs' group includes different actions such as analysis of AMCs, review of estate distribution, run-off plans, alteration to valuing policyholder led guarantees and review of cost to service subsidisations between open and closed books, and/or large and small product groups.

Figure 3.10: Key actions identified to improve policyholder outcomes



3. Consumer Duty

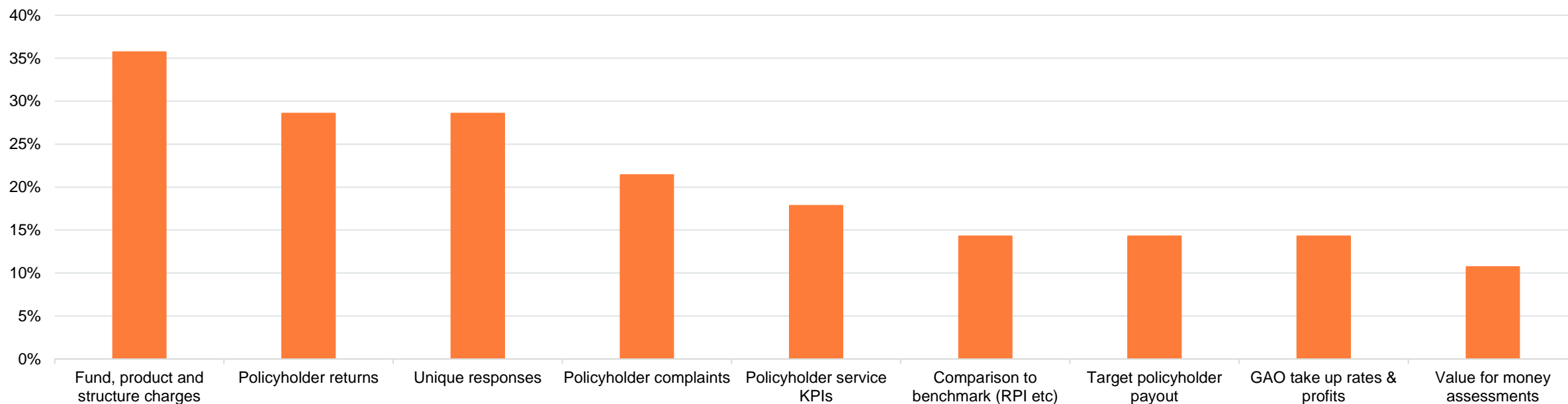
3.3 Monitoring and performance assessments

We asked participants what quantitative factors are used to monitor fair value, as part of ongoing oversight to ensure that products continue to provide fair value over time. Participants considered a wide range of factors. Further, this list is greater than what we see for the qualitative factors, set out on the next page. Figure 3.11 shows the main groups of quantitative factors.

In many instances, the responses provided were unique to a single company or fund – these have been captured by the ‘unique responses’ category and include:

- projected reduction in yield
- persistency rates
- surrender rates
- solvency ratio
- comparison to other closed funds

Figure 3.11: Quantitative factors used in fair value monitoring



3. Consumer Duty

3.3 Monitoring and performance assessments (continued)



Qualitative factors used to monitor fair value

The most common factors relate to communications and customer understanding (7), feedback and complaints mechanisms (6) and product design and features (6) - there is some overlap with factors used in initial fair value assessments (per figures 3.1-3.5). Only respondents that hold medium or large sized funds provided responses.

- **Customer communications and customer understanding** - examples of factors include:

- performing reviews of customer communication materials.
- monitoring specific avenues of communication such as calls, emails and online queries received from customers.
- reviewing descriptions of services and assessing how policyholders understand those services.
- assessing whether customers receive timely and helpful support to understand and use the benefits of the products they hold.
- performing annual post-sales customer communication reviews to ensure features, benefits, limitations, risks and charges are clear, fair, engaging and timely.

- **Feedback and complaints mechanisms** - there is overlap with the above category, additional factors include:

- monitoring specific customer complaint channels (including online and via phone calls) and assessing the nature of complaints.
- using net promoter score (NPS) metrics which include actual customer verbatim feedback and complaints.

- **Product design and features** - again there is some overlap with the above categories, however additional factors include:

- assessing the nature of the product and service, taking overall consideration of all the product benefits, features and guarantees (including the benefits of smoothing), and assessing whether they meet the needs of the customers.
- reviewing investment options and their suitability for customers.
- comparing products benefits and features to competitors' offerings.



- **Other qualitative factors** - further factors mentioned include:

- vulnerable customer assessments.
- customer service performance including assessing service levels on transactions such as fund switches and transfers out.
- governance processes for the management of the fund.
- considering FCA guidance on the fair treatment of longstanding customers.

3. Consumer Duty

3.3 Monitoring and performance assessments (continued)

We asked participants which benchmarks are used in assessing quantitative measures on performance (return and risk) as part of their product reviews.

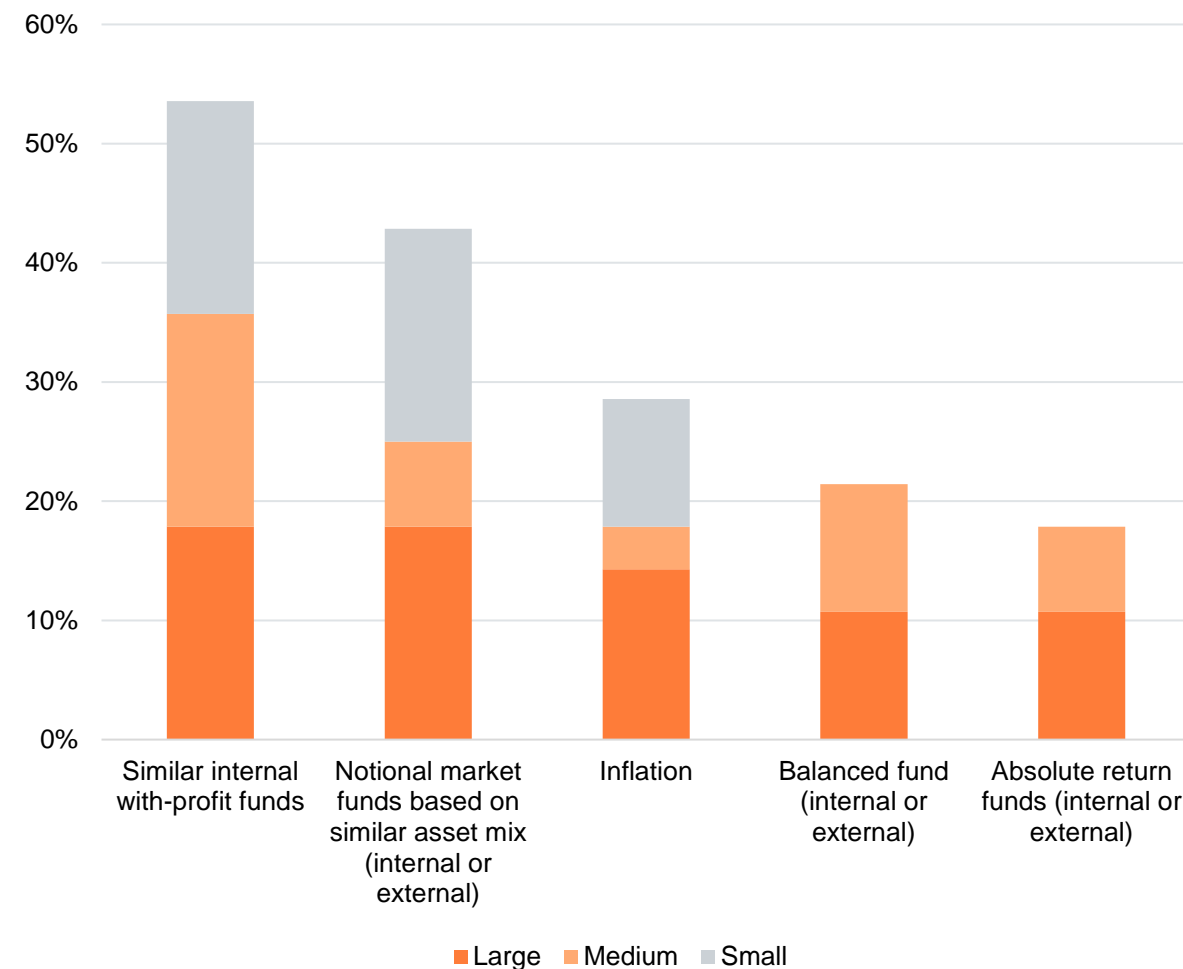
Figure 3.12 shows:

- A variety of metrics are used covering internal with-profits funds, notional market funds, external with-profits benchmarks and several inflation-related measures.
- Comparing to similar internal with-profits funds or notional market funds is the most common practice. Further, most funds compare to a combination of funds (as opposed to a single fund), whether internal or external.
- Some funds benchmark against competitors with respect to fund performance and charges, regardless of asset mix.
- Larger and medium sized funds tend to benchmark against all areas that were available to answer. Smaller funds reported using similar internal funds and notional market funds with similar asset mix and inflation.

Participants who use balanced funds as a benchmark tend to have a diverse asset mix, except for one participant with a c.95% allocation of bonds. These same funds (excluding one) also use absolute return funds as benchmarks.

We also asked participants how they prospectively determined total expected performance over the lifetime of the product as part of their fair value assessments. 20 of the 22 funds do not assess the total expected performance over the lifetime of the product – this is broadly consistent with our 2023 survey. The remaining participants used future return and volatility assumptions based on either stochastic modelling or deterministic modelling.

Figure 3.12: Benchmarks used to assess quantitative measures on performance (return and risk) by fund size



3. Consumer Duty

3.4 Consumer understanding

Consumer understanding is a challenge for with-profits funds, considering the relative complexity of the products and that accompanying public facing principles and practices of financial management (PPFM) documents tend to be lengthy, technical documents. We asked participants what assessments have been performed to gauge customer understanding of policy documentation and the value of the product. PPFM documents were not explicitly referenced in any responses, supporting the statement above.

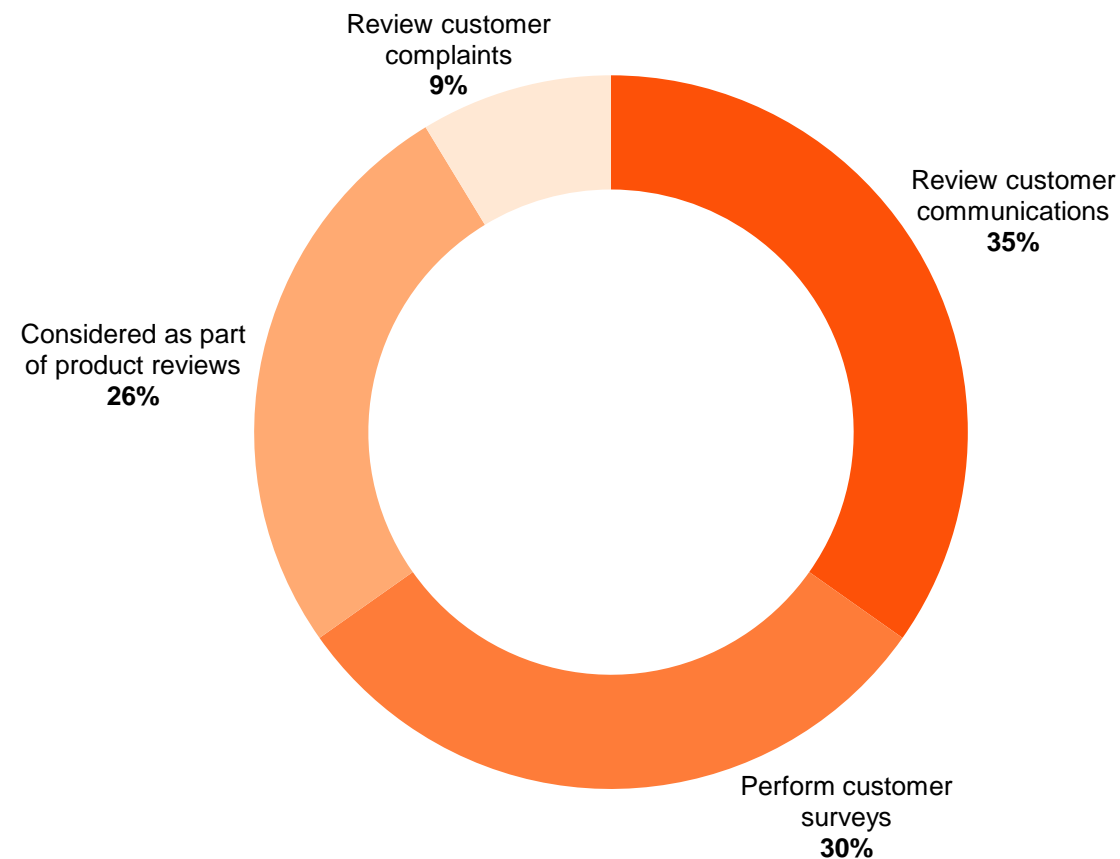
Responses have been summarised in figure 3.13:

- The most common technique used to assess consumer understanding is a review of customer communications (35% of responses), including written and verbal communications.
- Performing customer surveys and collecting written feedback is almost as common (30% of responses), with some participants noting that this data is then fed into an MI to streamline the monitoring process.
- Other less common factors include considering as part of product reviews (26% of responses) and reviewing customer complaints (9% of responses).

In addition to the assessments described above, we noted some further detail on performing regular (including monthly) assessments to test customer documentation and value comprehension.

We also asked participants about any planned assessments to monitor consumer understanding of policy documentation and the value of products going forwards. Most participants intend to continue with programmes already in place - there are some instances of new customer feedback systems and frameworks that feed into internal governance structures. A small number of participants also reported that they are implementing technology-based solutions to improve customer understanding, such as readability tools or tagging systems for potentially misaligned documentation.

Figure 3.13: Assessments performed to gauge customer understanding of policy documentation and value of the product





With-profits methodology and approach

04

4. With-profits methodology and approach

4.1 Risk oversight

We asked participants to describe the level of involvement of Risk across different areas of with-profits. The results are summarised, by company, in figure 4.1.

Risk teams are heavily involved with restructuring projects, though relatively less involved with pre-restructuring monitoring (i.e. sunset clause triggers),.

In terms of BAU activities, we observe significant involvement with:

- Investment and hedging strategies;
- Asset share and model approach; and
- Bonus setting, estate distribution and run-off plans.

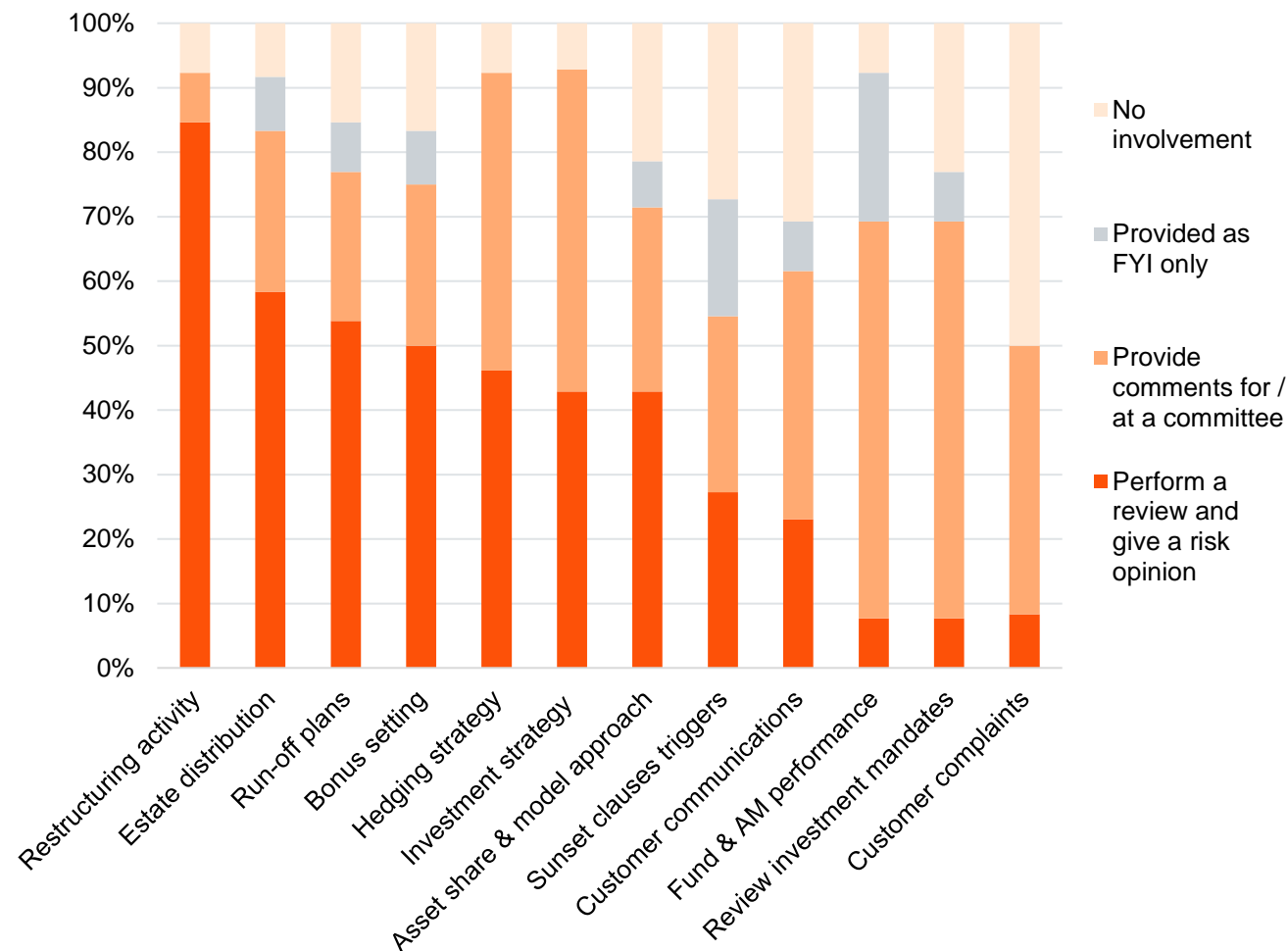
Across these areas, c.50% of firms report Risk teams performing formal reviews or providing Risk opinions, with Risk teams providing comments or discussing at a committee for most remaining firms.

For investment operations areas, i.e. investment mandates and fund and asset manager (AM) performance, the role of Risk tends to be more limited to providing commentary as opposed to performing formal reviews or providing Risk opinions.

Risk teams are less consistently involved in customer communications and customer complaints. This may reflect that these areas are more customer facing and tend to be fully owned by other, more operational business areas.

Notably, on the next page (figure 4.4), we observe that 21% of respondents stated that over the last 12 months their Risk team has become more focused on customer communications and Consumer Duty – given the focus on consumer understanding and support under Consumer Duty, there is likely to be benefits to further Risk involvement in customer-related areas and we therefore expect this trend to continue.

Figure 4.1: Involvement of Risk team in with-profits



4. With-profits methodology and approach

4.1 Risk oversight (continued)

Figure 4.2 shows the size of Risk functions, by full-time equivalent (FTE), according to company size, and figure 4.3 shows the proportion of each Risk function that is focused on with-profits oversight. This analysis focuses on Risk with-profits oversight activities only and does not include with-profits management activities that may take place within the line 2 Risk team, such as with-profits actuary (WPA) activities. As expected, the overall size of the Risk function generally increases with company size. However few business allocate significant proportions of their Risk functions to with-profits oversight activities. Small firms who responded do not have any Risk employees working full time on with-profits oversight (range of 0.2-0.5 employees); medium-sized firms have between 2-12 employees focusing on with-profits oversight; while large firms reported a range of 0.5-5 people – perhaps driven by more streamlined and improved processes within larger firms.

Figure 4.4 sets out changes in with-profits Risk oversight over the past 12 months. Changes reported include:

- Strategic or structural areas, e.g. strategy oversight, remediation oversight. This is consistent with our analysis on the previous page, which highlights that Risk teams spend significant amounts of time focusing on strategic and structural areas.
- Customer-focused areas, e.g. customer communications and Consumer Duty oversight.

Figure 4.2: Size of Risk Function (by FTE) by firm size

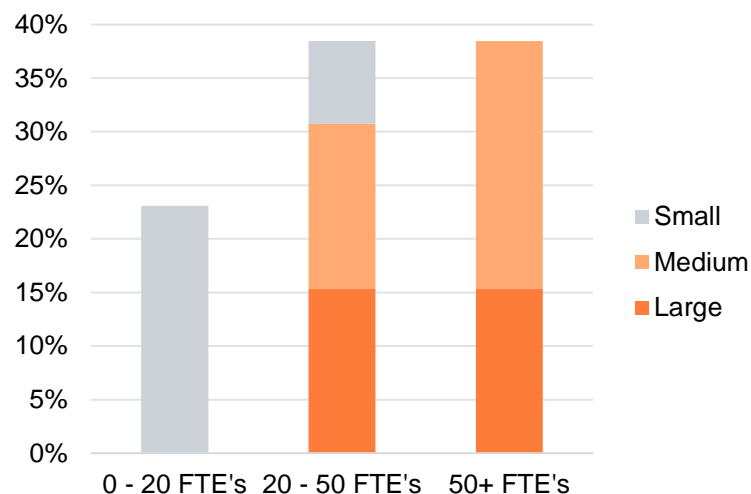


Figure 4.3: Size of with-profits specific Risk function by firm size

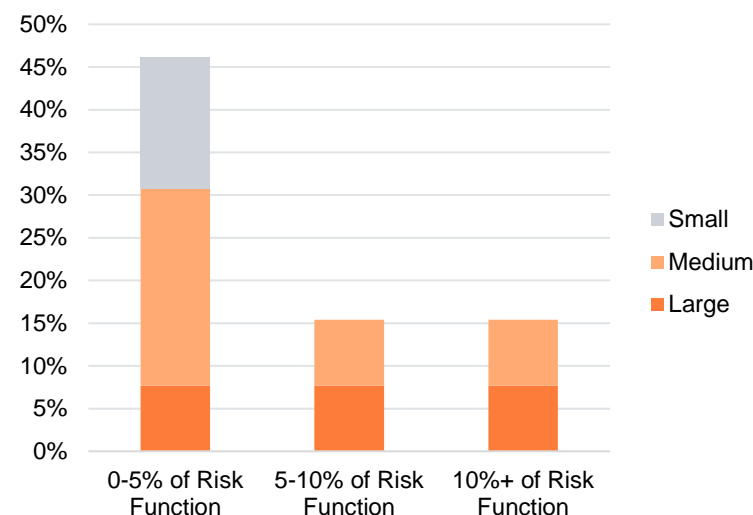
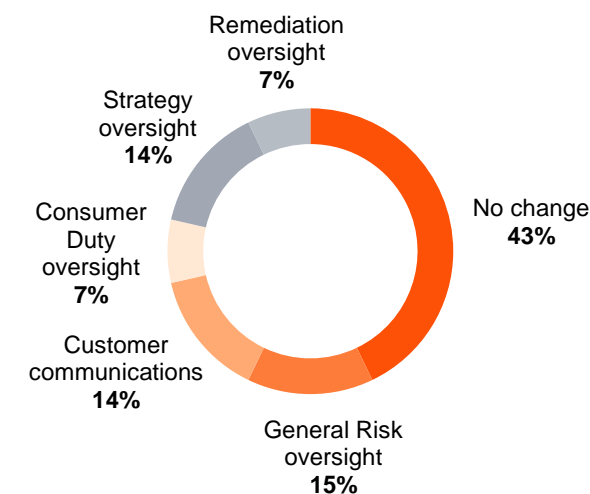


Figure 4.4: Has Risk oversight changed in the last 12 months?



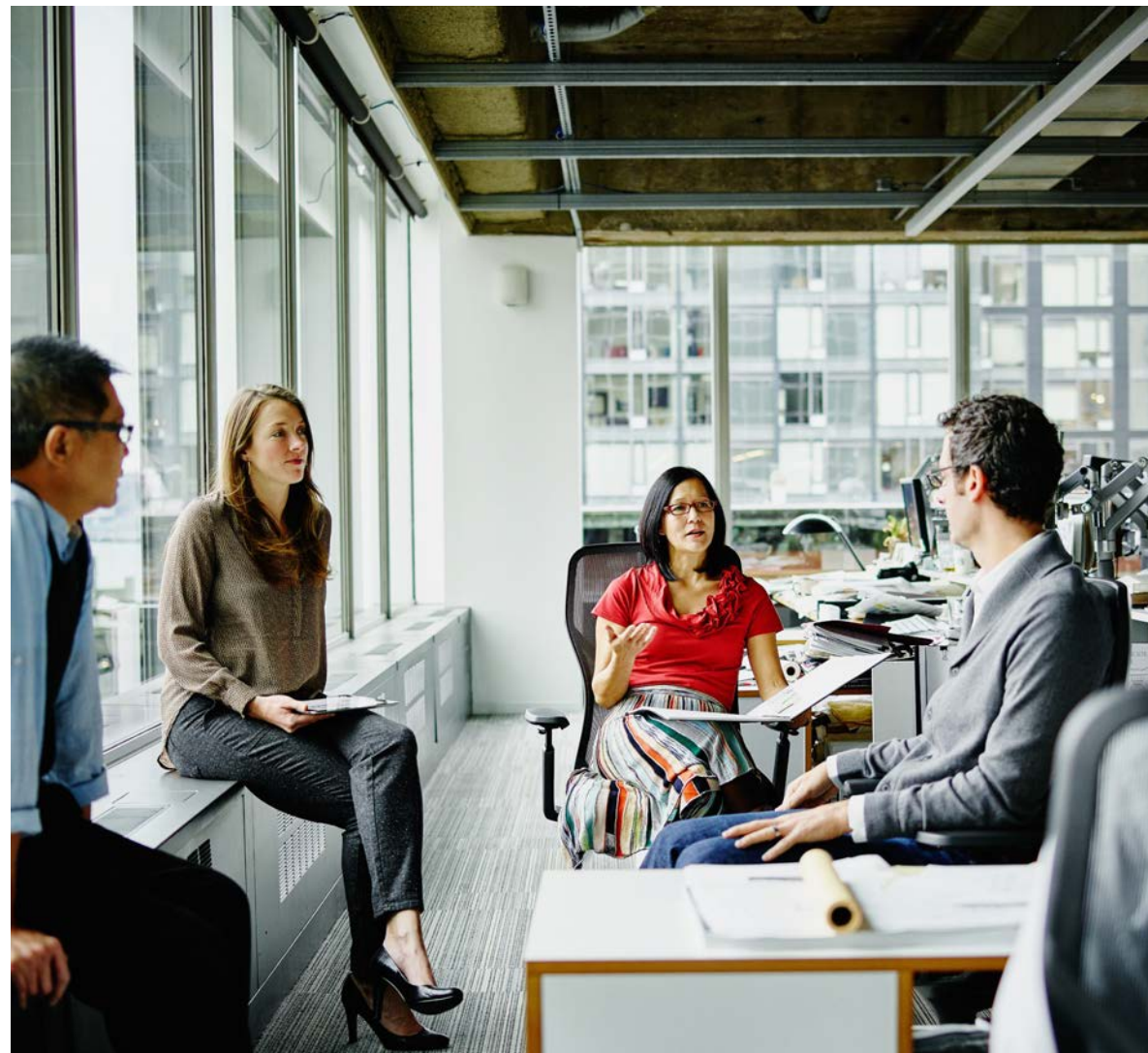
4. With-profits methodology and approach

4.1 Risk oversight (continued)



We asked participants to share further information on their overarching approach to Risk oversight within with-profits. We have the following observations:

- Most participants described Risk teams sitting within line 2, as part of the standard ‘three lines of defence’ model.
- A formal Risk opinion tends to be required for highly material or judgemental matters however the extent of Risk involvement varied between firms, e.g.:
 - One participant stated that all board papers require a Risk opinion.
 - Another reported that formal Risk approval is required for all hedging and bonus decisions, and Risk is involved with wider executive governance.
 - Other firms report more targeted Risk oversight, for example focused on expert judgements.
 - Where firms have less with-profits Risk oversight in-house, they use external independent review and challenge through their standard with-profits governance.
- The WPA generally sits within line 1, however for two firms the WPA sits within line 2 instead, as part of the Risk function. This is broadly consistent our prior 2019 survey where 3 out of 13 participants’ WPAs sat in line 2.
- One participant has a separate Actuarial function as part of line 2 to perform a reviewing role.



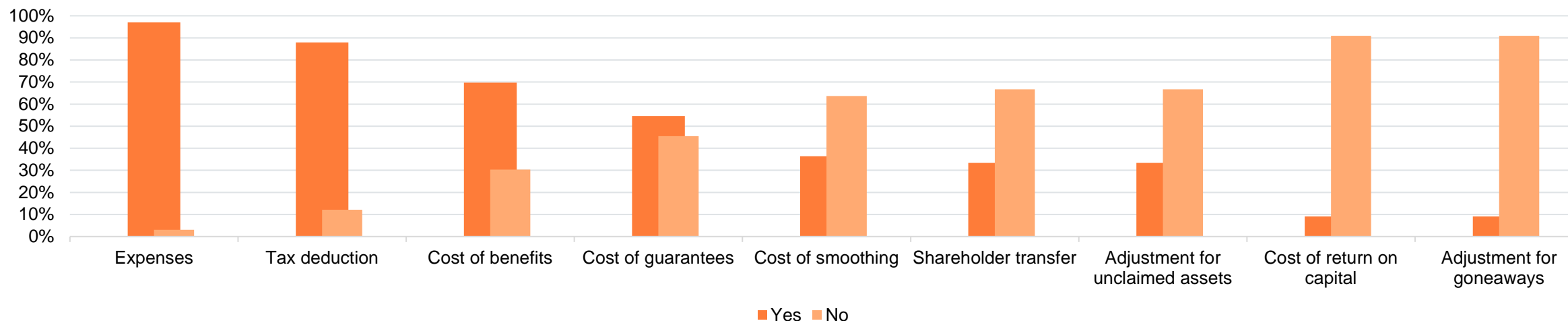
4. With-profits methodology and approach

4.2 Asset share deductions and charges

We asked participants to indicate deductions or charges applied in their asset share methodology. The results are displayed in figure 4.5. Expenses is the most common deduction, followed by:

- Tax – applied by almost 90% of funds. This is in line with standard practice where tax is treated as a cost to the individual when determining asset shares.
- Cost of benefits is also common, applied by c.70% of funds. We would expect these to align with product design principles.
- Cost of guarantees has a mixed treatment across funds, close to an equal split between those who do and do not apply an explicit deduction to asset shares. Where a deduction is not explicitly made for cost of guarantees, another common approach is to absorb the cost of guarantees through the estate.
- Smoothing costs, shareholder transfers and adjustments for unclaimed assets are less commonly included as deductions to asset share. Again, an alternative approach may be to manage these items via the estate. This will likely depend on factors such as legacy practices and any customer fairness considerations.
- Return on capital and goneaway adjustments are the least common asset share deductions, both applied by less than 10% of participants. This may reflect views that these costs should be borne by the estate (or shareholders, for 90:10 funds), as opposed to policyholders. In addition, the earlier hot topics analysis suggests that approaches to the treatment of goneaways are still developing across the industry, and figure 2.18 (page 27) showing that c.50% of respondents are not currently distributing unclaimed assets.

Figure 4.5: Types of deductions or charges applied to asset share



4. With-profits methodology and approach

4.2 Asset share deductions and charges (continued)

Cost of guarantees

We asked participants their approach to calculating the cost of guarantees. 24 funds reported using stochastic modelling, while 2 funds use an option pricing approach within their reserving framework.

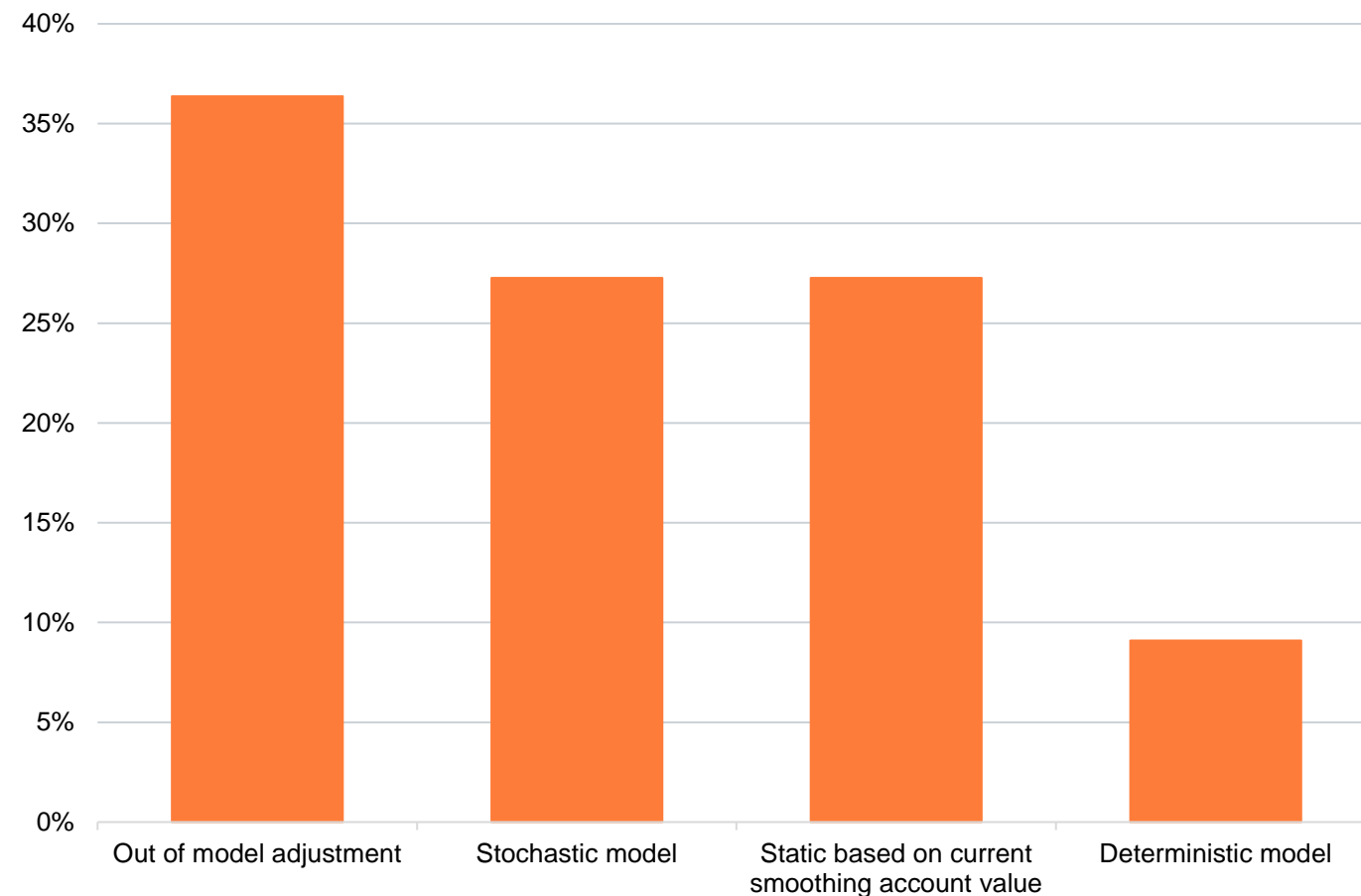
Cost of smoothing

We also asked participants about their approach to calculating the cost of smoothing within their asset share calculations. Out of 30 fund responses, 19 do not model the cost of smoothing – with one recently moving away from modelling it within asset shares. The breakdown of the remaining 11 responses is set out in figure 4.6. Of these 11 responses:

- 4 apply an out-of-model adjustment
- 3 use a stochastic model
- 3 apply a static cost based on current smoothing account value
- 1 uses a deterministic model

On the following page we have analysed the cost of smoothing as a percentage of WPBR for each fund.

Figure 4.6: Methods for modelling cost of smoothing



4. With-profits methodology and approach

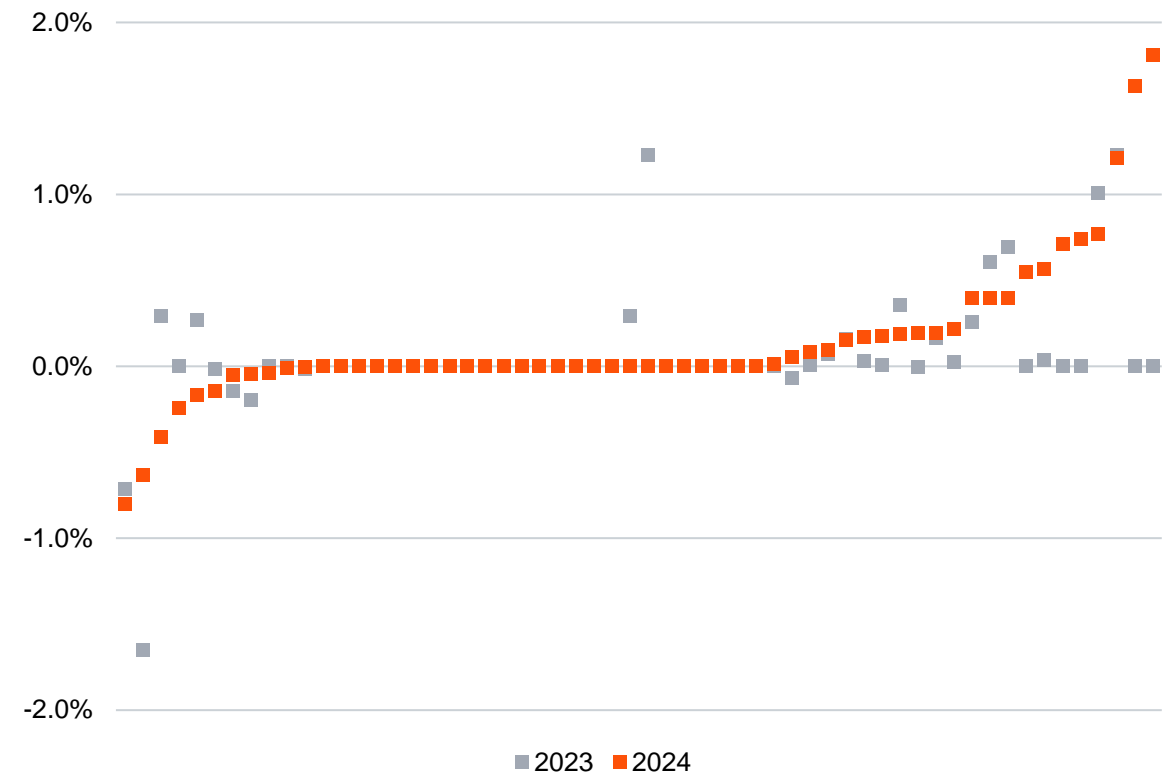
4.2 Asset share deductions and charges (continued)

We have analysed the cost of smoothing by fund using data from NSR.02.01.01.01. Figure 4.7 shows the cost of smoothing as a proportion of the WPBR for each fund at 31 December 2023 and 31 December 2024:

- The median cost of smoothing remains at 0% of WPBR in both years, indicating that most funds continue to operate smoothing mechanisms that balance profits and losses over time. This may be a driver for our observations on the previous page where we noted that 19 out of 30 funds not currently modelling the cost of smoothing within asset shares.
- However, the weighted average cost of smoothing has continued to decrease to 0.46% in 2024 from 0.58% in 2023. Overall, this suggests a broader declining trend from previous surveys, where the average stood at 0.65% in 2022 and 0.61% in 2021.
- The plotted cost of smoothing for firms year-on-year all continue to show the same trends, with a narrowing centred just above 0%. For this year's survey we can observe: 24 funds with a positive value for WPBR, 23 funds at 0% and the remaining 11 funds with negative values.
- These results suggest that most with-profits funds aim to recycle both smoothing gains and losses back to policyholders, keeping the cost of smoothing close to neutral over time.
- While many funds cluster tightly around 0%, a small number of outliers experience more material smoothing costs (both positive and negative), highlighting differing smoothing strategies or stages in the economic cycle.

Note - Figure 4.7 displays the 2024 values in ascending order, with the corresponding 2023 values of the same funds aligned accordingly.

Figure 4.7: Cost of smoothing as a percentage of WPBR by fund



4. With-profits methodology and approach

4.3 Expenses

We asked participants about their expense allocation methodology. Figure 4.8 shows:

- there is an equal split between expenses set in line with a tariff agreement and charged in line with a derived cost base.
- there are some instances where additional expenses may be charged on top of the tariff agreement for one-off costs, e.g. special projects.

We also asked participants how frequently they performed expense reviews and whether the timeframe depends on expense agreement renewal, shown in figure 4.9. Responses indicate that where expenses are set in line with a derived cost base, these are reviewed annually even if there is no contractual obligation, whereas expenses set by tariff are not always actively reviewed - however, any project and one-off costs charged outside of tariff agreements are subject to frequent review. Given the split between those setting expenses in-line with tariffs vs a derived cost base (per figure 4.8), this may suggest that c.50% of participants conduct annual expense reviews, with the other c.50% conducting more infrequent reviews. However, responses received showed a higher proportion of annual expense reviews, specifically:

- 71% conduct annual expense reviews;
- 13% do not conduct expense reviews;
- 10% conduct expense reviews every 5 years; and
- 6% conduct reviews inline with signed agreement and did not state their frequency.

Our 2023 survey highlighted that cost control was a key industry focus, particularly regarding streamlining operations in closed funds and managing expenses and charges effectively - this continues to be a focus, as businesses may look to rationalise or merge declining funds and implement process improvements across key with-profits activities, as highlighted in our hot topics section. This, alongside a focus on customer outcomes, may explain the driver for frequent expense reviews.

Figure 4.8: Approach used for expense allocation methodology

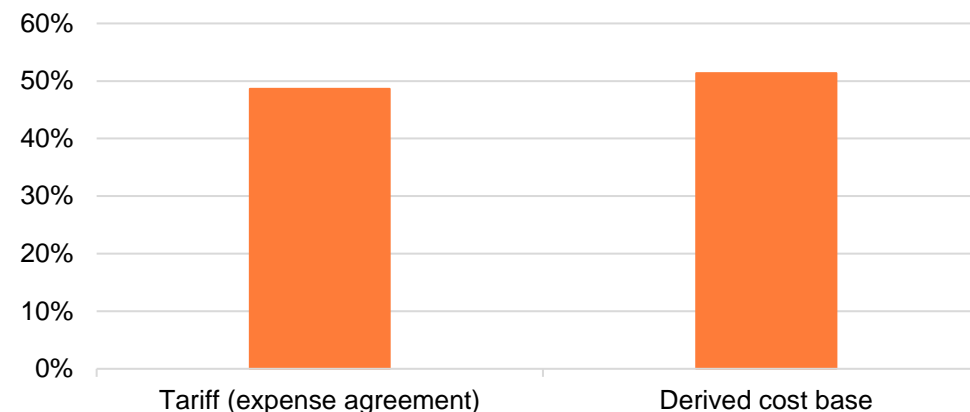
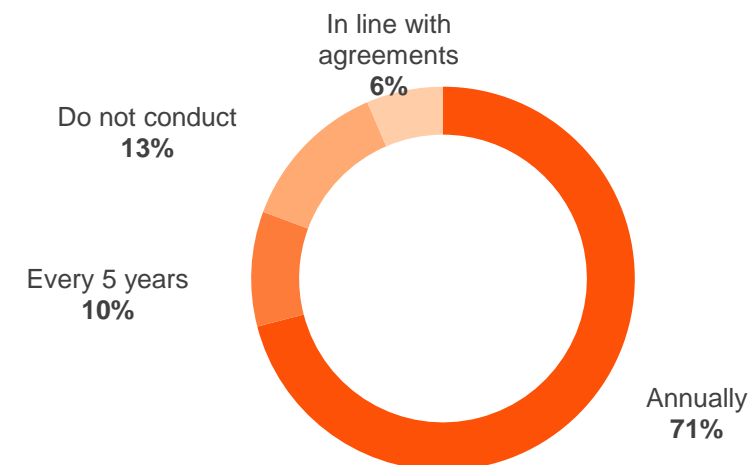


Figure 4.9: Frequency of expense reviews



4. With-profits methodology and approach

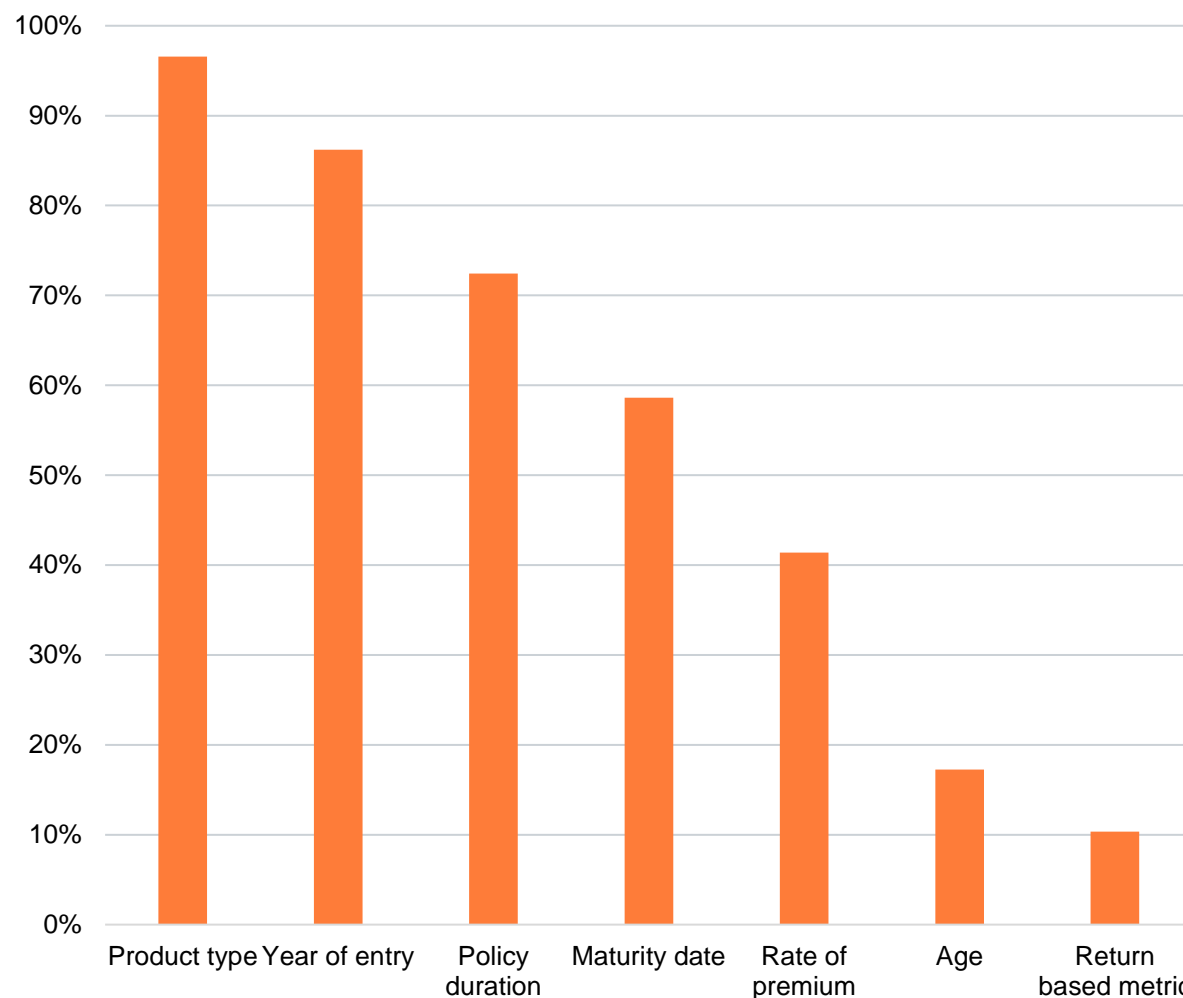
4.4 Grouping methodology for bonuses and market value reductions

We asked participants to list the factors used in their grouping methodology to determine bonuses and market value reductions.

Figure 4.10 shows:

- Product type factors are the most common and a breakdown of detail includes:
 - Conventional with-profits (CWP) vs unitised with-profits (UWP) structure
 - Guarantee types and rates, and excess of guarantees
 - Bonus series
 - Premium paying status
 - Calculated asset share vs expected asset share
- Return based metrics includes grouping by payout from: the higher of smoothed asset share or guaranteed amount for claims, and the lower of the smoothed or unsmoothed asset share on surrender. Firms also determine final bonus based on a smoothed investment return.
- No participants use policy size as a factor.

Figure 4.10: Factors used in grouping for bonuses and MVR



4. With-profits methodology and approach

4.5 Surrender value methodology

We asked participants to describe the basis of calculation of surrender values for each fund, including whether early surrender penalties are applied.

For surrender value methodology, we received responses for 26 funds. All funds base their methodology on asset share. Further information was provided, with some funds using a combination of approaches, which has been summarised below:

- 9 base the calculation off smoothed asset share, with 2 further specifying that they choose the lower of smoothed and unsmoothed asset share.
- 7 weight by estate distribution.
- 5 include final bonus within their calculation.
- 5 calculate on a retrospective basis, of which one blends their asset share into maturity values at higher durations.
- 4 calculate on a prospective basis.

- 2 include the final bonus within the calculation.
- 2 include a floor from already agreed upon minimum guarantees.
- 1 participant split their response by product type, where all but one product use asset shares – for this product it is calculated as a retirement value based on actual duration.

For 21 of the 26 funds, the surrender value calculation did not vary by exit type (e.g. full surrender, transfer).

In terms of surrender penalties, four participants stated that they apply such penalties, of which all use MVRs, and one who does not apply penalties does apply an MVR. Other penalties included:

- Short-term investment charges.
- Discontinuance charges.





Comparison of charges and expenses

05

5. Comparison of charges and expenses

5.1 Comparison of current expense levels

We asked participants to provide the current level of expenses or charges applied to asset shares for an average-sized policy, expressing this same amount in both percentage and monetary terms. The responses are shown in figures 5.1 (monetary amount in £s) and 5.2 (% p.a. charged to the asset share). Our observations are:

- Average expenses in monetary terms are higher for UWP products compared to CWP products, however:
 - UWP expenses are also more variable, with CWP products appearing more standardised in cost – potentially reflecting legacy pricing structures for CWP products.

- Comparing the average expenses expressed as percentages shows that UWP products are closer to the average for CWP products, or in fact slightly lower than the CWP whole of life product - this suggests that UWP policies have a larger policy value and that is consistent with UWP being the more 'modern' with-profits product.

- Finally, we observe that CWP whole of life products have the largest average expense/charge and the largest variability – this may reflect the long duration of these policies and the legacy nature means that the policies being compared could have been written over a longer period of time.

On the following page we have performed a comparison against our 2023 survey. In Appendix B, we have included a more granular analysis of the 2025 expenses by fund size.

Figure 5.1: Level of expense applied to asset shares (£ p.a.) for an average-sized policy

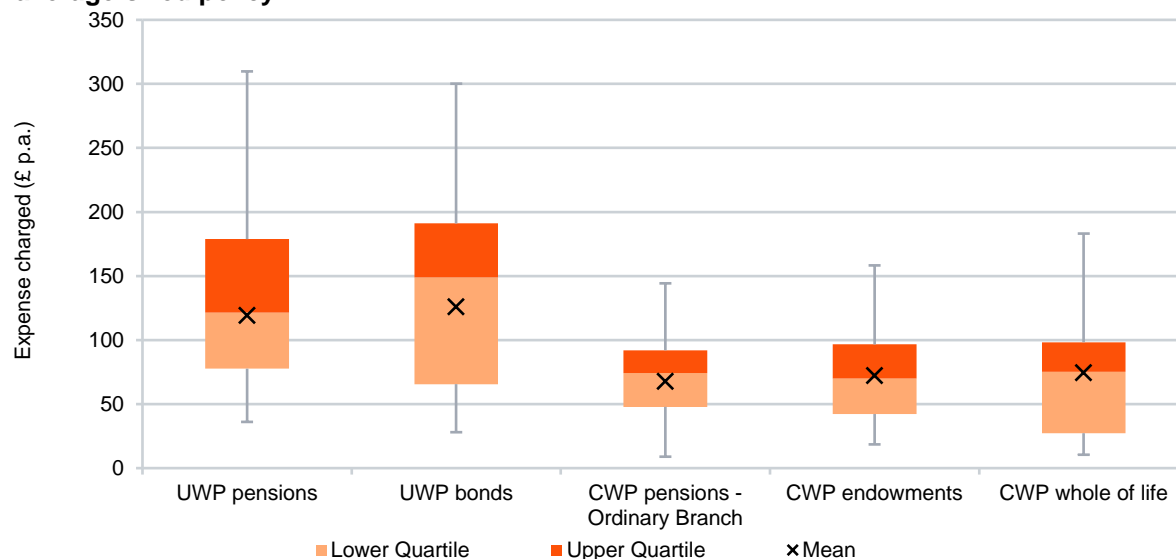
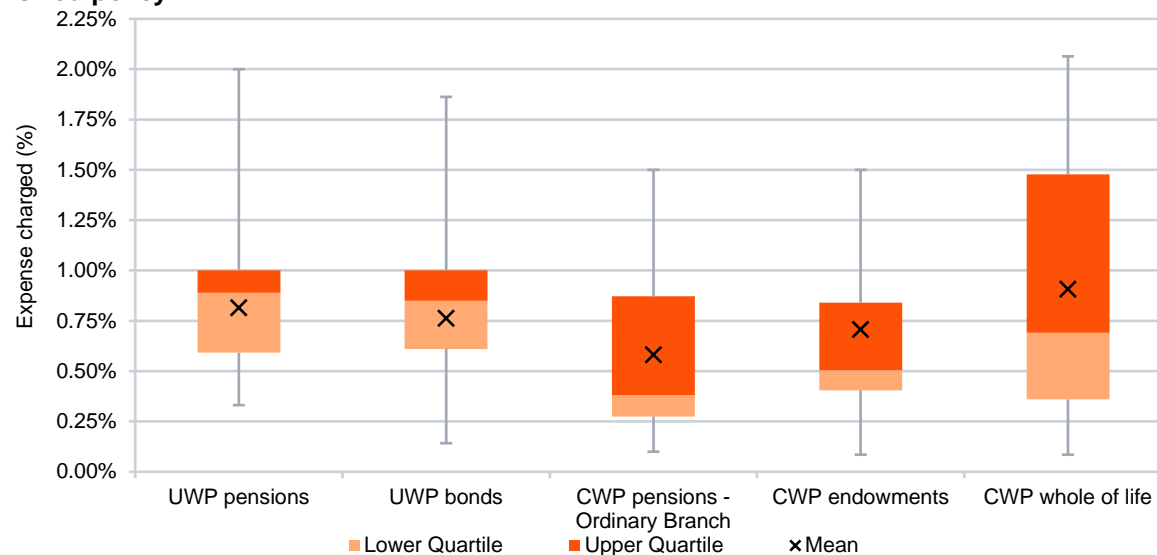


Figure 5.2: Level of expense applied to asset shares (%) for an average-sized policy



5. Comparison of charges and expenses

5.2 Comparison of expense levels – current and prior survey

Figures 5.3 (monetary amount in £s) and 5.4. (% p.a. charged to the asset share) compare the mean expenses/charges applied to asset shares for an average sized policy reported in this year's survey, with those reported in our 2023 survey. Our observations are:

- Average UWP expenses have decreased in monetary terms but remained flat in percentage terms (very small increases across products) – potentially due to more efficient expense structures or asset shares growing over time which reduce per-policy charges. Average CWP expenses have increased in monetary terms, but, like UWP expenses, remain fairly stable in percentage terms.
- The difference in average monetary expenses/charges between UWP and CWP pensions (2023: UWP £133.25 and CWP £80.15, 2025: UWP £126.79 and CWP £86.58) decreased from c.£53 (2023) to c.£40 (2025), with UWP retaining a higher quantum of expenses.
- The percentage expenses/charges remain tiered – with UWP products around 0.77% of asset share, and CWP products between 0.54%-0.63% of asset share for 2025, similar to 2023. This suggests that relative charging strategies between product groups have remained consistent, despite changes in the monetary expenses.

Figure 5.3: Charges to asset share for average-sized policy by product type (£ p.a.)

Product Type	2023 Average (£ p.a.)	2025 Average (£ p.a.)	Change (£ p.a.)	Change (%)
UWP pensions	133.25	126.79	↓ 6.46	(4.8)%
UWP bonds	214.57	210.90	↓ 3.67	(1.7)%
CWP pensions	80.15	86.58	↑ 6.43	+8.0%
CWP endowments	61.80	67.14	↑ 5.34	+8.6%
CWP whole of life	56.18	58.14	↑ 1.96	+3.5%

Figure 5.4: Charges to asset share for average-sized policy by product type (% p.a.)

Product Type	2023 Average (%)	2025 Average (%)	Change (%)
UWP pensions	0.76%	0.77%	+0.01%
UWP bonds	0.75%	0.77%	+0.02%
CWP pensions	0.55%	0.54%	(0.01)%
CWP endowments	0.55%	0.58%	+0.03%
CWP whole of life	0.65%	0.63%	(0.02)%



Appendices

06

Appendix A – Key changes in with-profits funds since 2023 survey



Below we have set out respondents that have merged with-profits business since our previous survey (2023):

- Forester Life Limited – Turnstile, Leek and Pure Endowment Funds all merged under the 'Order Insurance Fund' which is a mixed with-profits fund in 2023.
- Phoenix Group – All Standard Life Assurance Limited (SLAL) and Standard Life Pension Funds Limited (SLPF) funds brought into Phoenix Life Assurance Limited, this was combined with merging the existing Phonic Life Assurance Limited funds; Pearl With-Profits Fund, SERP Fund, London Life With-Profits Fund and National Provident Life With-Profit Fund, all under Phoenix Group. Data provided by Phoenix Group shows they are tracking these funds separately as of writing.
- The Royal London Mutual Insurance Society Limited – Merged Royal Liver Sub-Fund and the Phoenix Life Assurance Ltd (PLAL) Sub-Fund into the Royal London Open Fund.



Appendix B – Comparison of charges and expenses

Granular breakdown of current expense levels by fund size

Over the following four pages, across figures **B.1-B.8**, we have broken down the current levels of expenses or charges by both monetary and percentage amounts by fund size. Our observations are:

- Across all products, larger funds tend to have higher absolute charges but lower percentage charges relative to small and medium funds, consistent with economies of scale. Small and medium funds are likely to have some fixed elements of their cost base but spread across relatively lower total asset shares.
- In small and medium funds, there is greater inconsistency in charges, both in monetary and percentage terms – in particular, for CWP endowments and whole of life. This may suggest less standardisation and potentially more manual or legacy servicing costs compared to larger funds.

Figure B.1: Level of expense applied to asset shares (£ p.a.) for an average sized policy - large funds

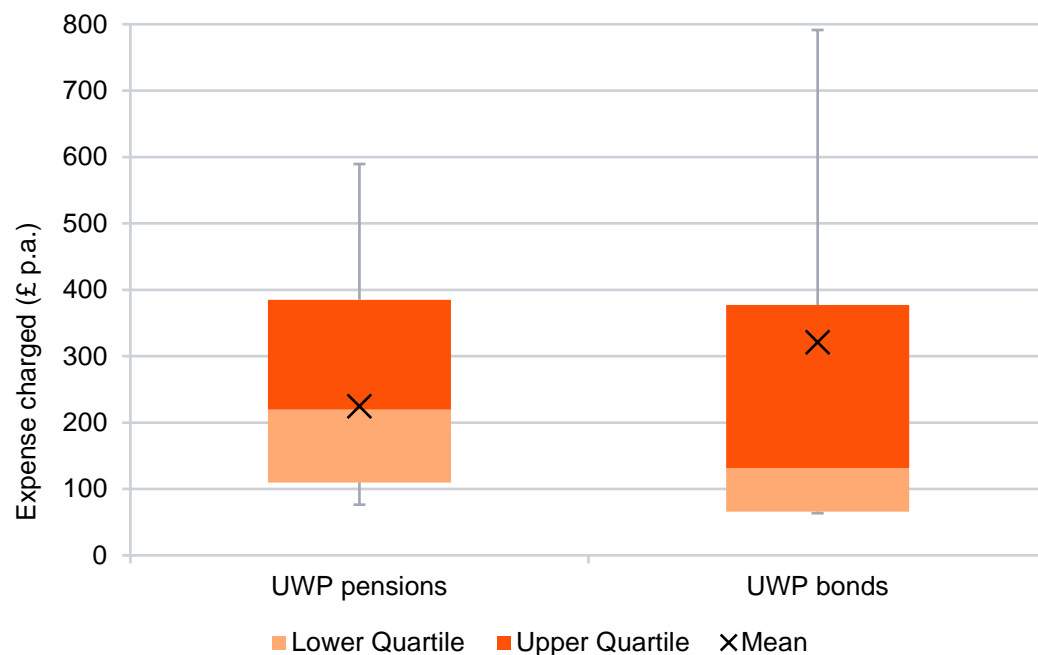
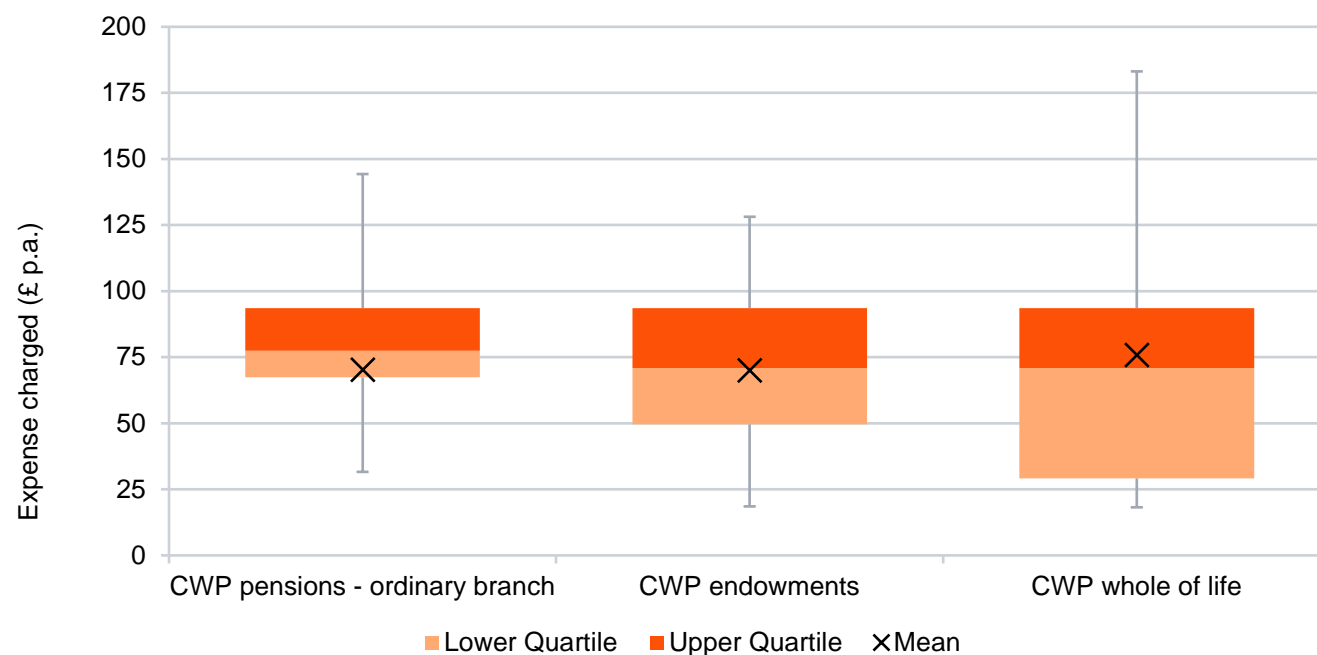


Figure B.2: Level of expense applied to asset shares (£ p.a.) for an average sized policy - large funds



Appendix B – Comparison of charges and expenses

Granular breakdown of current expense levels by fund size (continued)

Figure B.3: Level of expense applied to asset shares (£ p.a.) for an average sized policy - small and medium funds

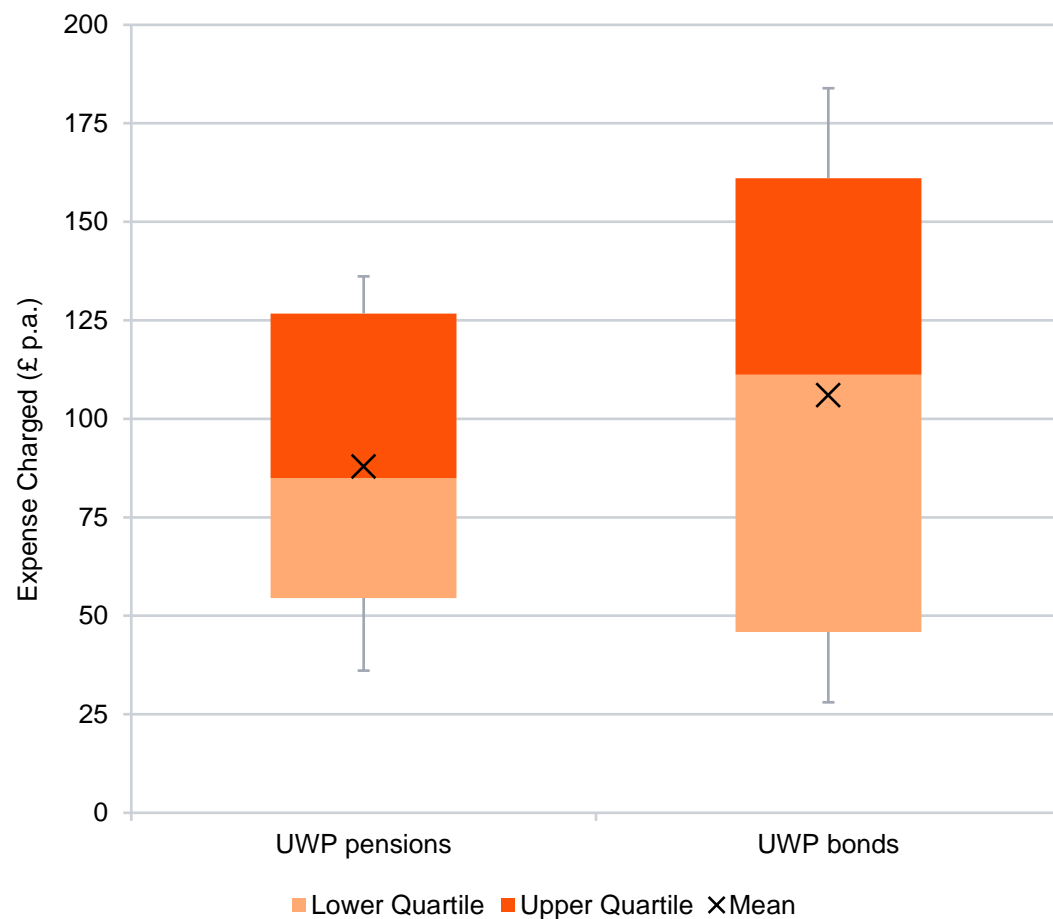
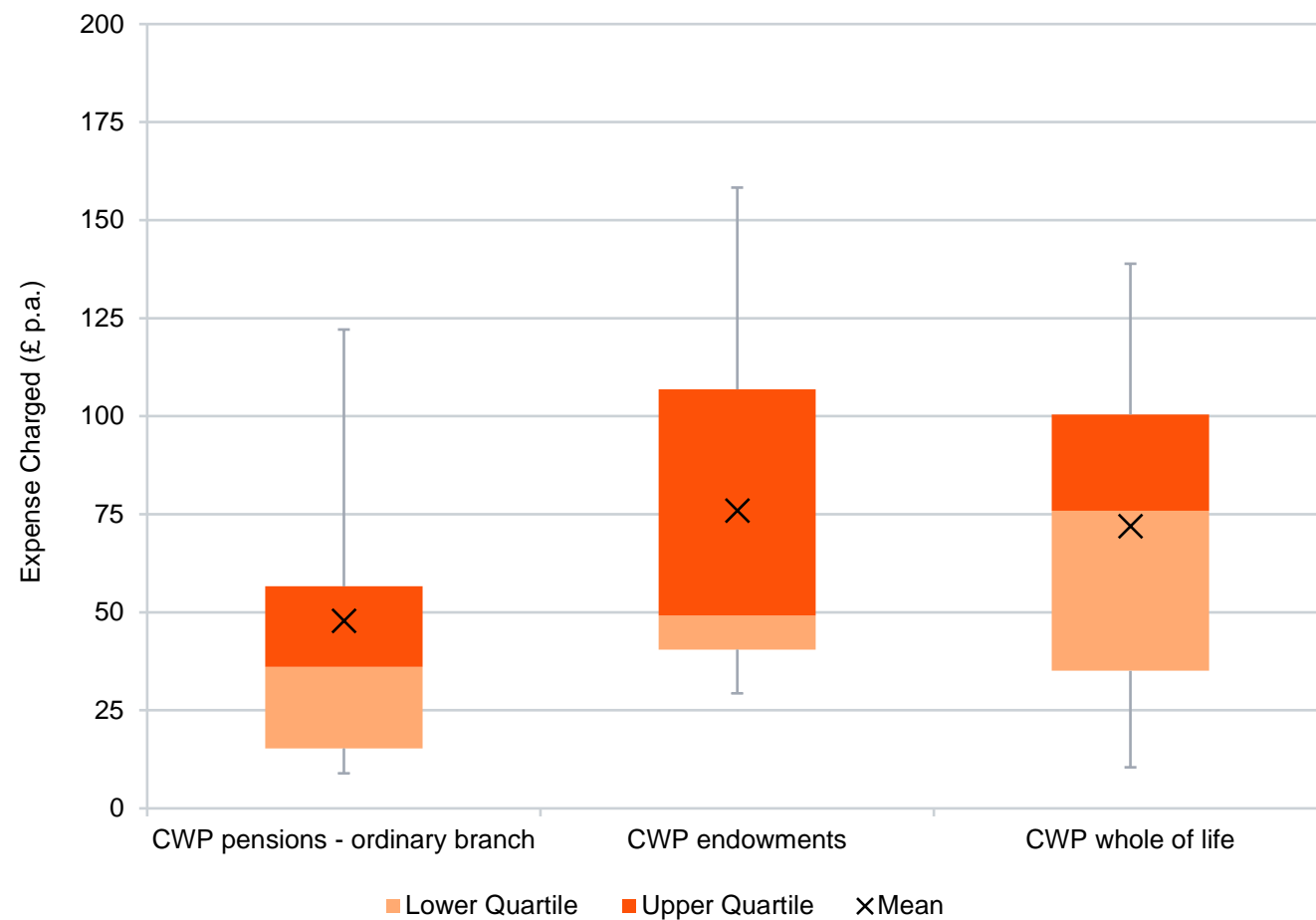


Figure B.4: Level of expense applied to asset shares (£ p.a.) for an average sized policy - small and medium funds



Appendix B – Comparison of charges and expenses

Granular breakdown of current expense levels by fund size (continued)

Figure B.5: Level of expense applied to asset shares (%) for an average sized policy - large funds

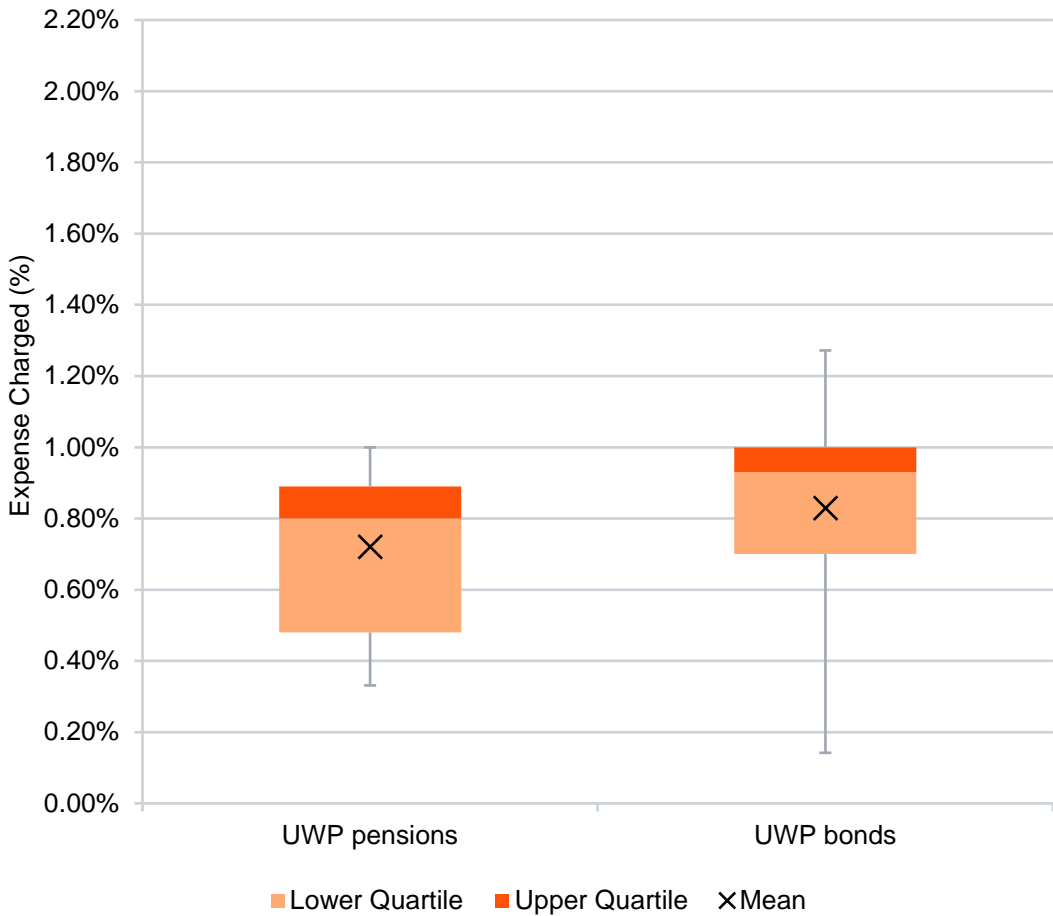
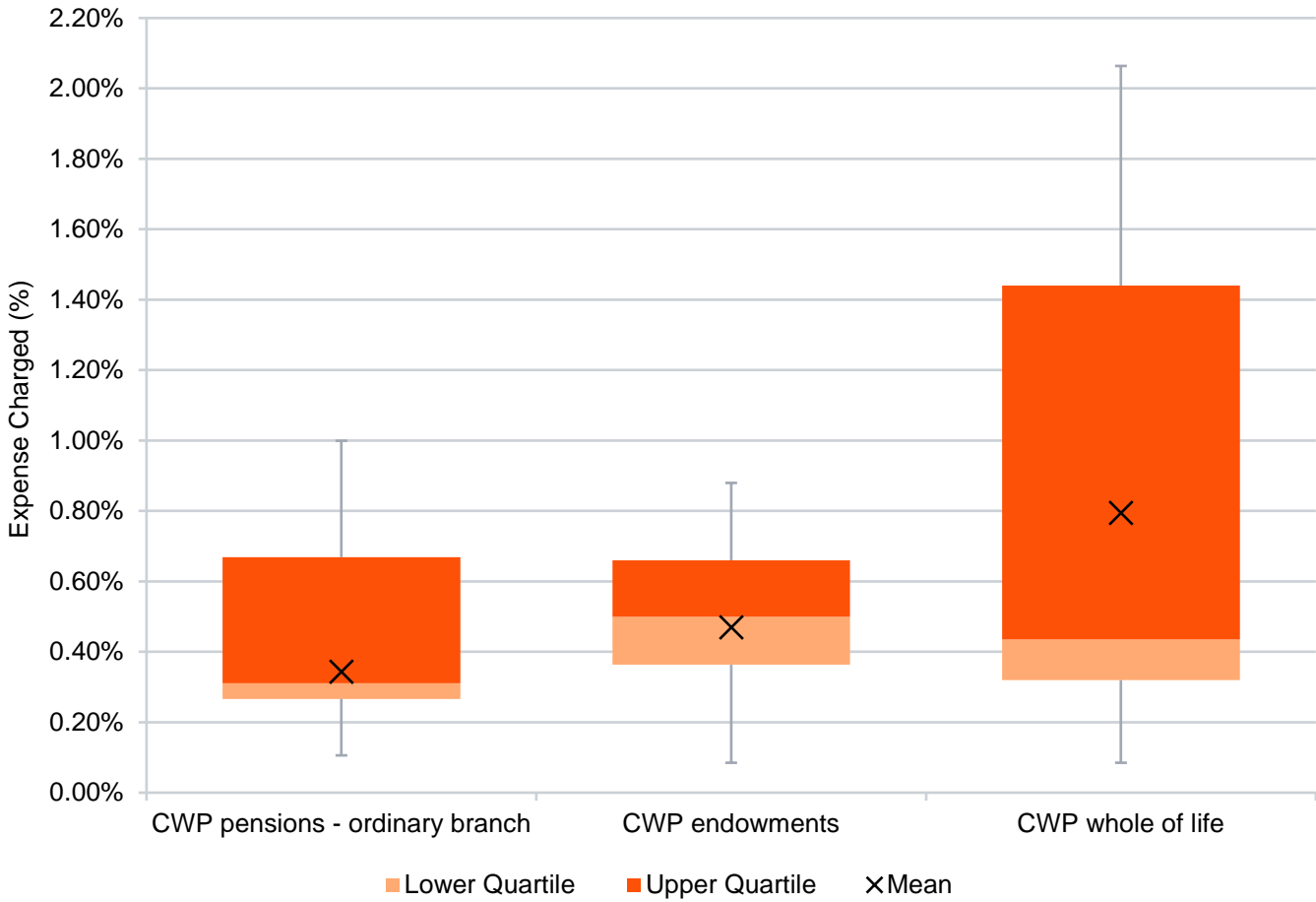


Figure B.6: Level of expense applied to asset shares (%) for an average sized policy - large funds



Appendix B – Comparison of charges and expenses

Granular breakdown of current expense levels by fund size (continued)

Figure B.7: Level of expense applied to asset shares (%) for an average-sized policy - small and medium funds

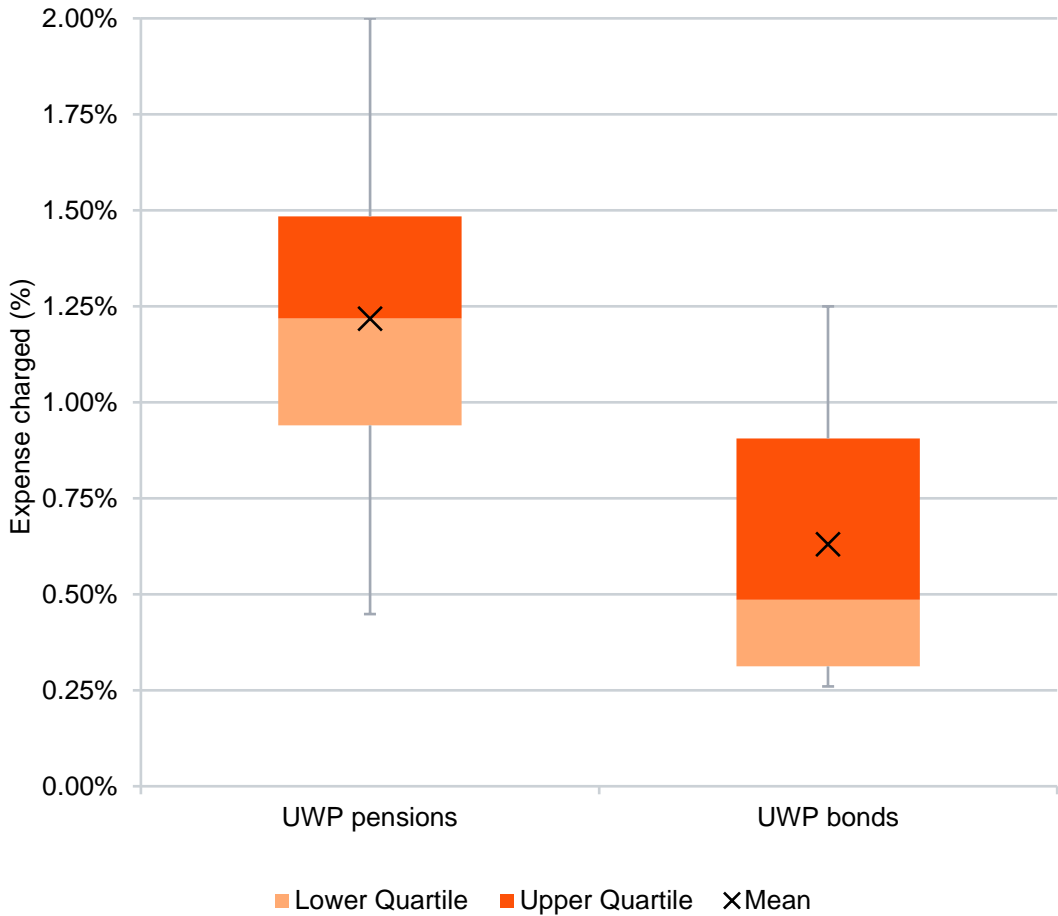
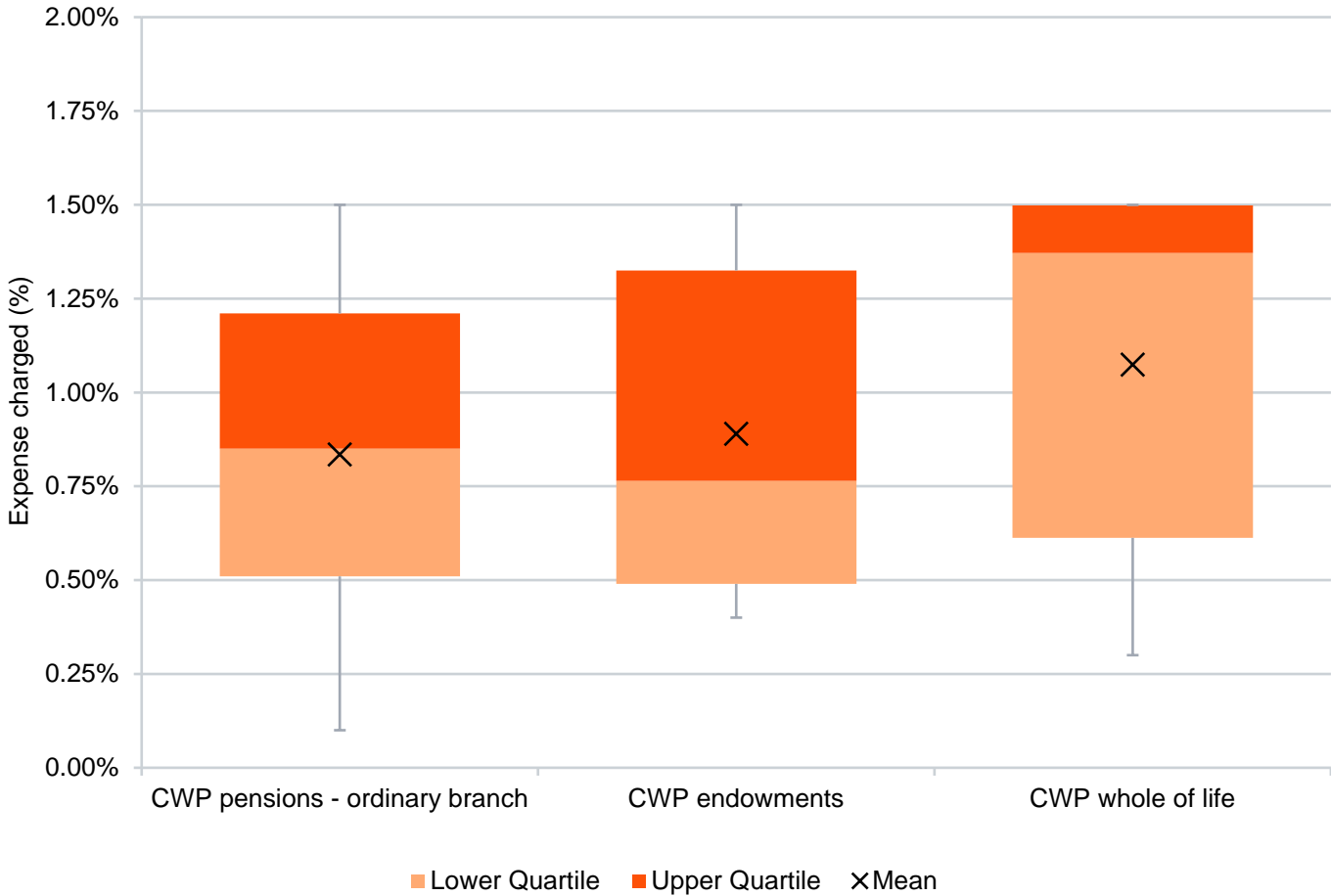


Figure B.8: Level of expense applied to asset shares (%) for an average-sized policy - small and medium funds



Appendix B – Comparison of charges and expenses

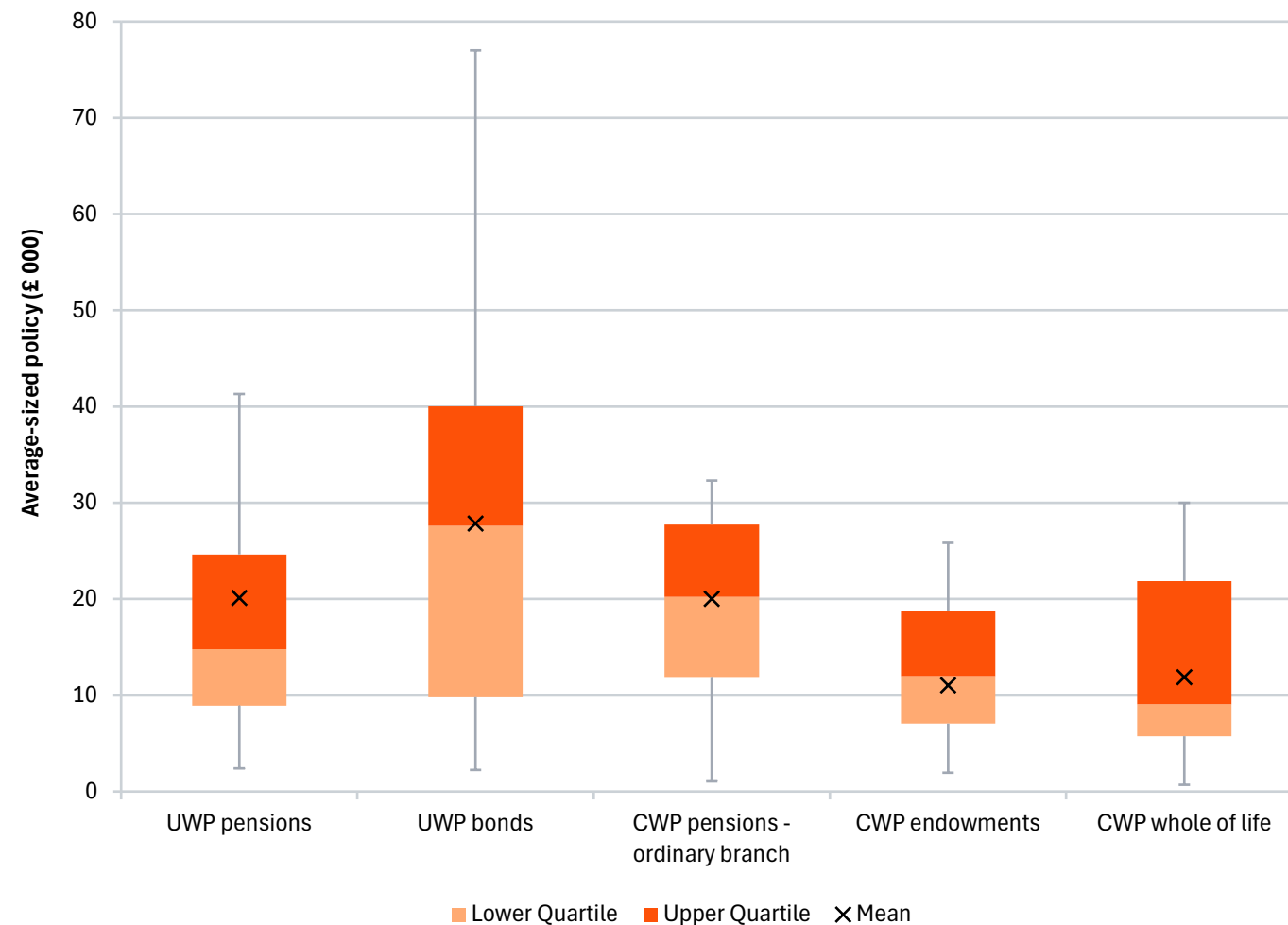
Breakdown of average-sized policy used in expense and charge analysis

Over the following three pages we have provided a breakdown of average policy value, by fund size.

Figure **B.9** shows the average sized policy used in the expense/charges analysis in section 5, and the previous section of this Appendix (B). UWP bonds have the highest average-sized policy (c.£30k mean), followed by UWP pensions and CWP pensions, which are similar in average size (c.£20k mean). CWP endowments and CWP whole of life are the smallest – these are likely to contain policies written a longer time ago compared to UWP products.

Figures **B.10-B.13** on the next two pages provide further breakdowns of these average policy sizes into large funds and small and medium funds. In general, large funds show higher average policy values compared to small and medium funds – particularly for UWP pensions and CWP whole of life. For UWP bonds and CWP endowments, this difference is less-defined, and average-sized policies for smaller and medium funds are similar to larger funds.

Figure B.9: Average-sized policy (£ 000)



Appendix B – Comparison of charges and expenses

Breakdown of average-sized policy used in expense and charge analysis (continued)

Figure B.10: Average-sized policy (£ 000) - large funds

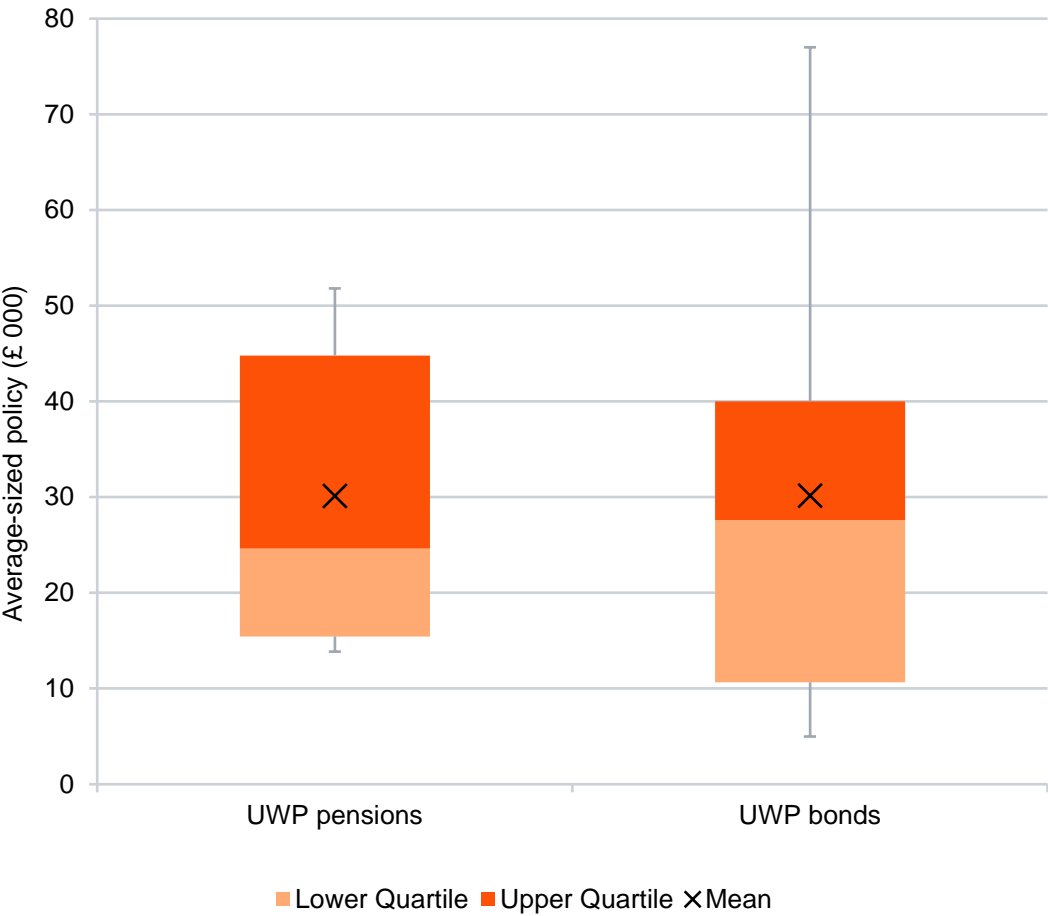
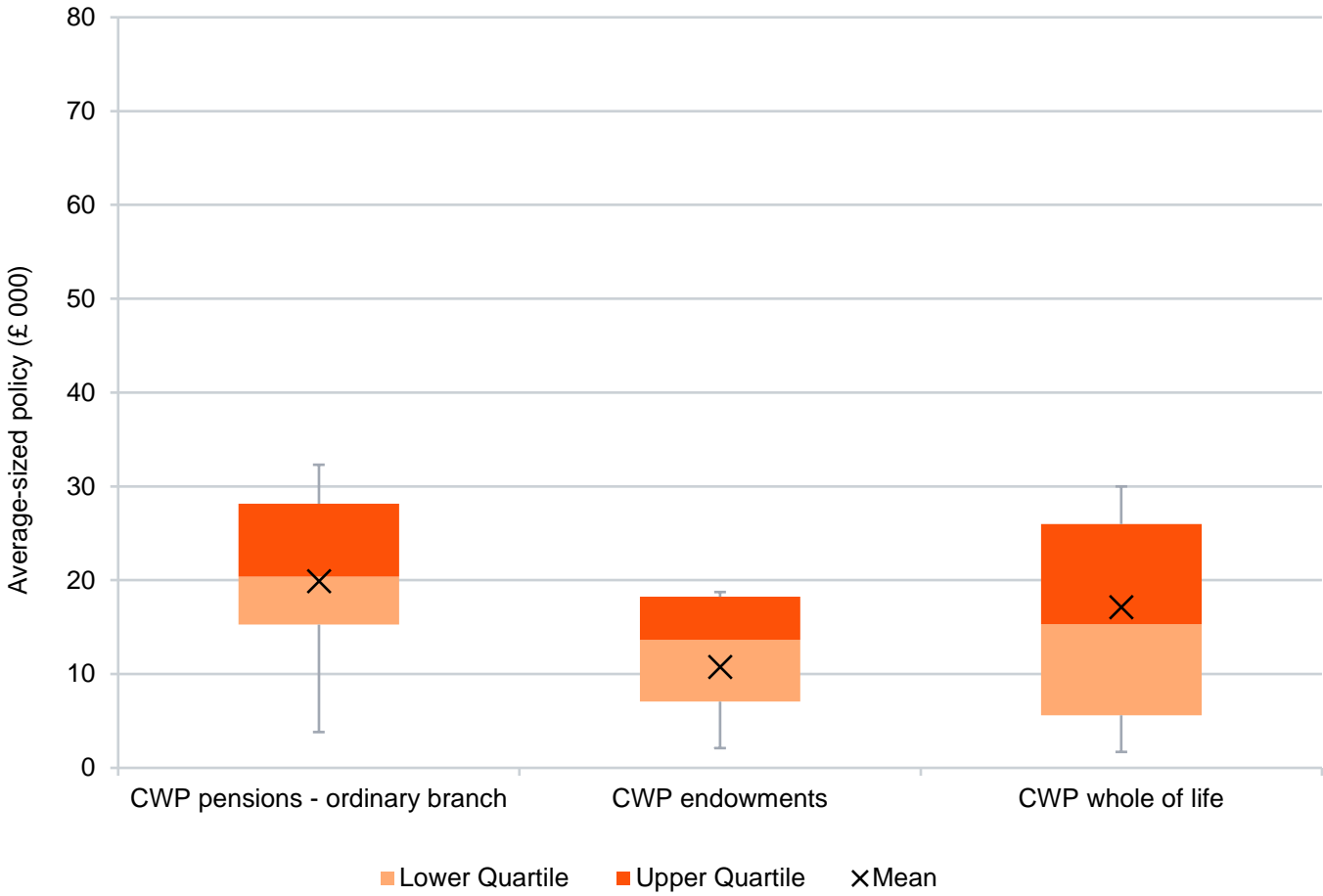


Figure B.11: Average-sized policy (£ 000) - large funds



Appendix B – Comparison of charges and expenses

Breakdown of average sized policy used in expense and charge analysis (continued)

Figure B.12: Average-sized policy (£ 000) – small and medium funds

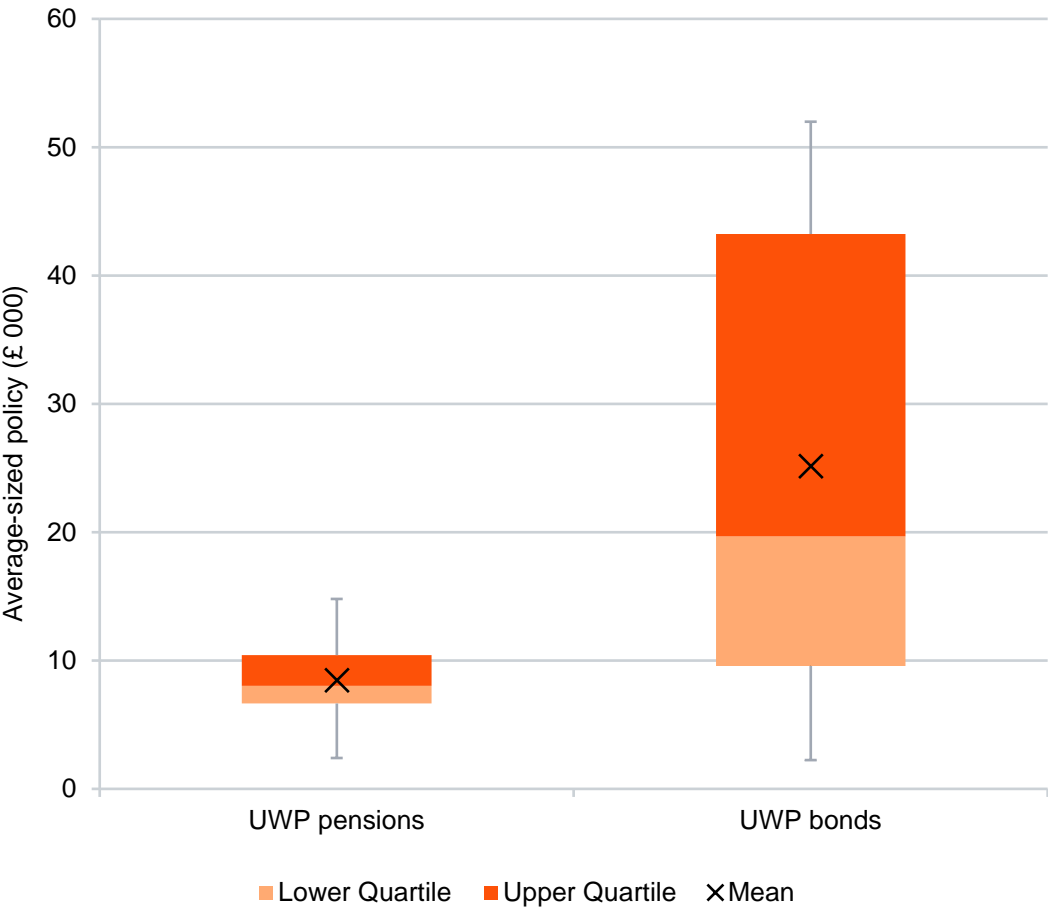
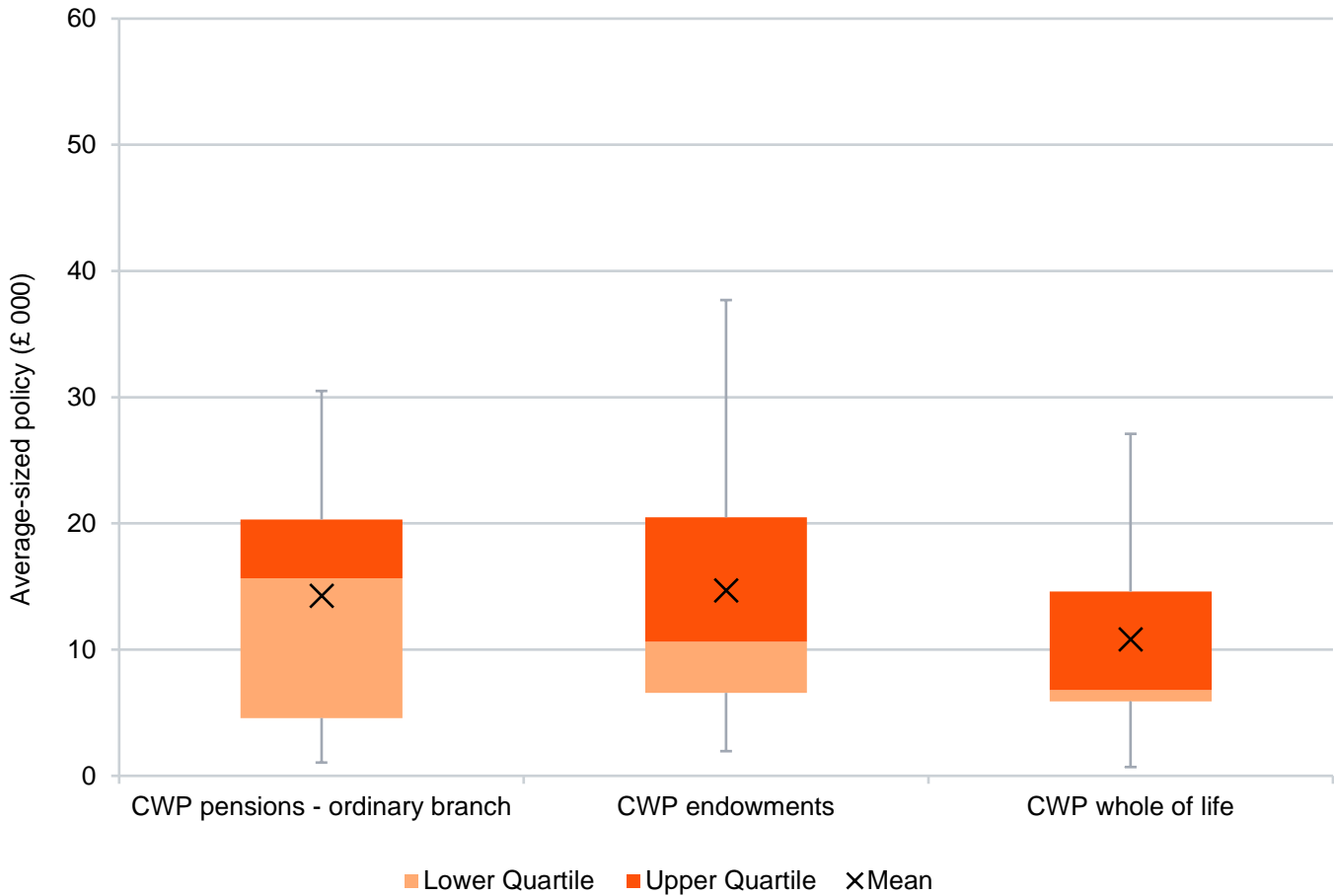


Figure B.13: Average-sized policy (£ 000) – small and medium funds



Appendix C – Investment return analysis

Comparison of investment return against equity and property holdings for 2023 and 2024

The following two pages provide further analysis from section 2.2 where we assessed the relationship between EBR and overall investment return – here we consider the two components of EBR, equity and property, separately.

Our original combined analysis in section 2.2 showed an overall positive correlation between EBR and overall gross investment returns, albeit with more variance in 2024 compared to 2023. The graphs on the right-hand side (figures C.1-C.2) indicate that the equity component generally drives this positive correlation – when looking at property separately (figures C.3-C.4 on the next page), there is a less clear relationship, e.g. with 2024 showing a weak positive correlation between property holding % and overall investment return, but 2023 showing the opposite. This may be driven by property being in general less liquid than equity and subject to exhibiting more volatile returns, for example due to infrequent valuations or real estate investment trust (REIT) bonds not always being readily traded.

Figure C.1: Funds by investment return post-cost, pre-tax plotted 2023 vs equity holding

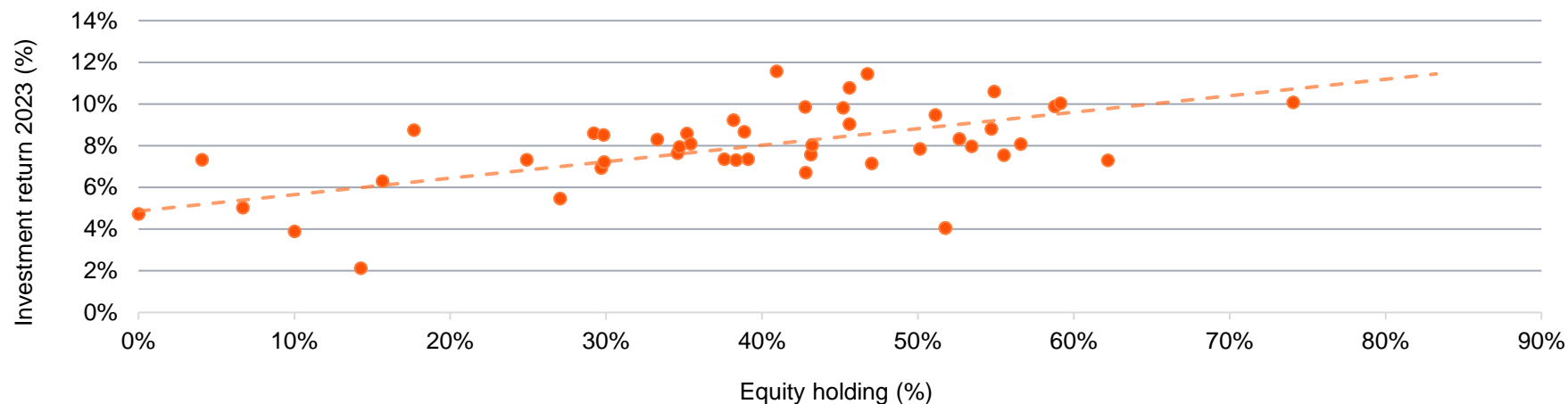
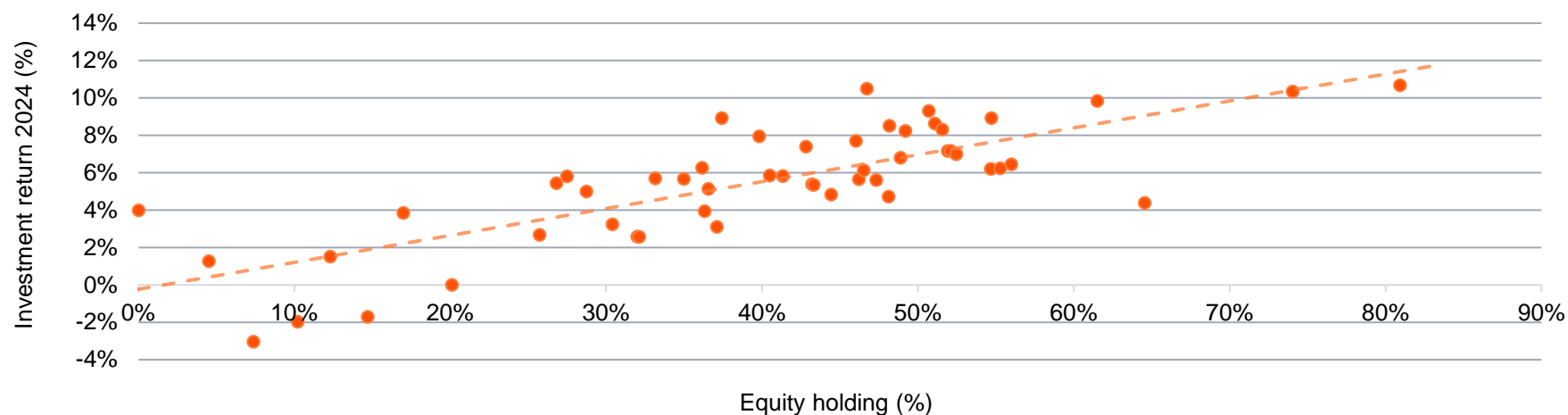


Figure C.2: Funds by investment return post-cost, pre-tax plotted 2024 vs equity holding



Appendix C – Investment return analysis

Comparison of investment return against equity and property holdings for 2023 and 2024 (continued)

Figure C.3: Funds by investment return post-cost, pre-tax plotted 2023 vs property holding

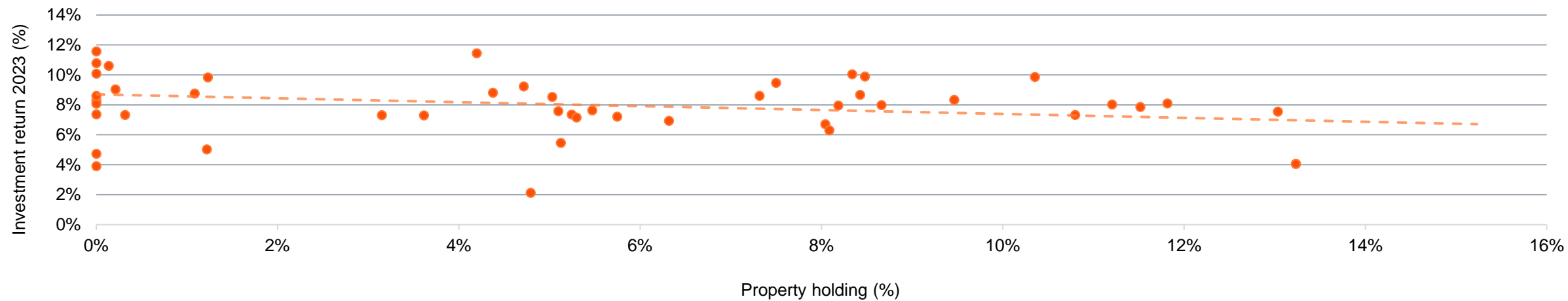
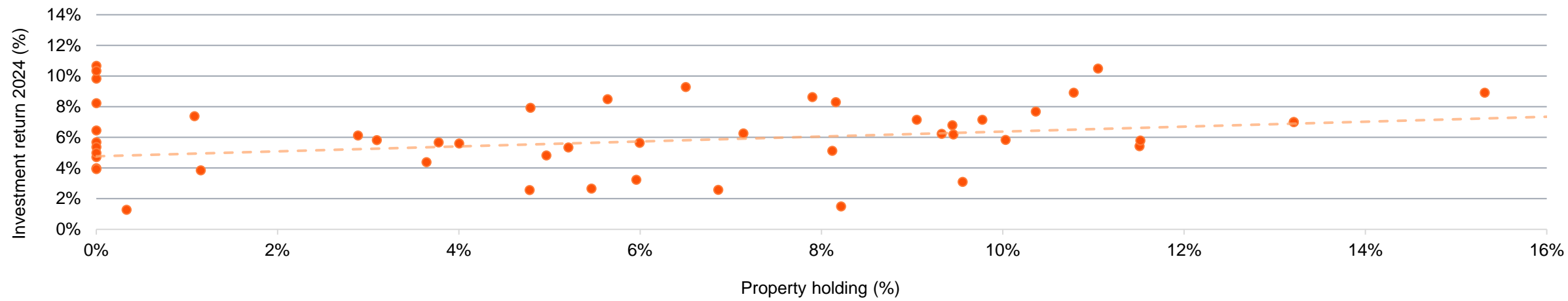


Figure C.4: Funds by investment return post-cost, pre-tax plotted 2024 vs property holding



Thank you

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