

# Principles and Practices of Financial Management

## Summary of changes

### Introduction

The Principles and Practices of Financial Management (PPFM) (applicable to UK with-profits policies issued by or reinsured into The Prudential Assurance Company Limited) sets out how we manage our with-profits funds. The current version of the main PPFM, and PPFM applicable to PruFund policies, v2.2, can be found on our website at [pru.co.uk/ppfm](https://pru.co.uk/ppfm)

The main PPFM was first published in 2004. We have summarised below the notable changes made to the main PPFM since then. Other versions of the PPFM documents, not listed below, have been published to reflect changes necessary to correct minor errors and omissions, and improve clarity or presentation without materially affecting the PPFM's substance. Where necessary, corresponding changes have also been made to the Prufund and consumer-friendly versions of the PPFM documents.

This Summary does not form part of the PPFM documents themselves.

PPFM version and publication date	Summary of notable changes
PPFM v2.2 August 2024	<p>General updates throughout to clarify descriptions and definitions or to more accurately reflect the intention of the principles and practices.</p> <p><b>Section A</b> Updates to Section A in respect of the applicability of the PPFM, particularly in relation to offshore business.</p> <p><b>Section E</b> Updates reflecting the Consumer Duty requirements which the FCA introduced in July 2022 to ensure a higher standard of protection for consumers in retail financial markets.</p> <p><b>Sections I and 2.3, 2.3.2, 2.3.7</b> Updates to clarify the investment strategy and objectives of the With-Profits Fund.</p> <p><b>Sections 1.3.7.7, 1.3.7.9</b> Updates to simplify and clarify the treatment of expenses and commissions, and miscellaneous profits and losses.</p> <p><b>Section 2.3.5</b> Removal of obsolete wording as a result of the closure of the OPRP asset pool.</p> <p><b>Section 5.3.3</b> Clarifications added on how the Inherited Estate supports differences in certain expenses and charges on the with-profits business.</p>

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<p>PPFM v2.1 March 2023</p>	<p><b>Section A, C2, C2.2, 1.1, 1.3.7.7</b> Minor wording corrections and removal of certain words for clarity.</p> <p><b>Section C1</b> Removed 'Prudential Portfolio Management Group', the renamed 'M&amp;G's Treasury and Investment Office' is not a separate company.</p> <p><b>Section I</b> Created to update a high level description of Responsible Investment and Sustainability in the With-Profits Fund.</p> <p><b>Section 1.3.4</b> Changes made to reflect the AWP approach for CWP policies.</p> <p><b>Section 1.3.7.2, 1.3.7.8, 2.3.6, 3.3.3</b> Wording added for clarity.</p> <p><b>Section 1.3.7.5</b> Changes made to correct 'policy' to 'each investment' and minor amendments to ordering of paragraph for clarity.</p> <p><b>Section 2.3.1</b> Updated for clarity and removal of duplication and contextual information for investment practices and risk appetite.</p> <p><b>Section 2.3.2</b> Addition of wordings to clarify PAC's responsibility for all lending activity and adherence of all parties</p> <p><b>Section 2.3.5</b> Addition of pointer for ESG factors for investment strategy and minor re-drafting and add addition of wordings for clarity.</p> <p><b>Appendix A</b> – ELAS Removal of lower level detail and context for regular bonus declared.</p>
<p>PPFM v2.0 April 2021</p>	<p>A revised PPFM was published in April 2021 which simplified the way we describe our principles and practices to make it more accessible to advisers and customers. We also started producing a PruFund specific version of the PPFM as well as retaining the full PPFM. The changes below summarise the updates made to each section of the full PPFM.</p> <p><b>Introduction (Sections A-H)</b> Minor re-drafting for clarity and removal of duplication.</p> <p><b>Section D created to include high level description of the different types of bonus (moved from previous Section 1)</b> Removal of wording referring to SAIF (as a result of SAIF's merger with the With-Profits Sub-Fund on 1 April 2021). Signpost to the With-Profits Committee Terms of Reference added.</p> <p><b>Section 1</b> Removal of contextual information Wording added to clarify the operation of PruFund Updates to reflect tax methodology Removal of SAIF specific wording ELAS Specific practices moved to Appendix and signposted</p> <p><b>Section 2</b> Minor amendments to simplify wording Removal of SAIF specific practices Removal of detailed list of hypothecated funds</p> <p><b>Section 3</b> Re-drafting for clarity and removal of duplication and contextual information Clarifications of our approach to Business risk Removal of SAIF specific practices ELAS Specific practices moved to Appendix and signposted</p>

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	<p><b>Section 4</b> Added new practice to clarify the WPC's role in the expense review process.</p> <p><b>Section 5</b> Removal of contextual information Removal of SAIF specific practices and wording added to be clear that former SALAS policyholders would not be eligible for any distribution of the PAC Inherited Estate Wording added to clarify potential management action approach</p> <p><b>Section 6</b> Minor amendments to ordering for clarity Removal of SAIF specific practices Detail added further explaining approach to pricing and how we test new business is self supporting.</p> <p><b>Section 7</b> Minor amendments to ordering for clarity Removal of references to SAIF Appendix A – ELAS New appendix bringing together all of the specific practices for ELAS as well as removing lower level detail and context.</p>
PPFM v1.35 November 2019	<p><b>Section 3.3.4</b> Changes to reflect the replacement of PAC's current Capital Support Arrangement with Prudential plc, with a Parental Support Arrangement with M&amp;G plc.</p> <p><b>Sections A, C, G, 1.3.7.5, 1.3.8.5, 2.3.5, 5.1, 5.3.2.2 &amp; Appendix D</b> Changes to reflect the Demerger of M&amp;G Prudential from Prudential plc to form M&amp;G plc on 21 October 2019.</p> <p><b>Section 1.3.8.2</b> Updates around the re-spreading of mortality surplus on ELAS With-Profit Annuity business.</p> <p><b>Section 2.3.3</b> Minor wording correction.</p>
PPFM v1.34 August 2019	<p><b>Section 1.3.7.4</b> Inclusion of a new AVC with-profits bonus series.</p> <p><b>Section 1.3.8.5 &amp; Appendix C</b> Updates for the launch of the PruFund Risk Managed 5 ISA fund.</p> <p><b>Section 5.3.2</b> An update to clarify that the PAC inherited estate may be used to implement inter-fund transfers with the 0:100 sub-funds which are appropriately priced.</p>
PPFM v1.33 January 2019  June 2019	<p><b>Section A, C, 1.3.7.4, 1.3.8.4, 3.1 &amp; 3.3</b> Changes made to reflect the transfer of PAC's European business (ie the Poland, Malta &amp; France business as well as the ELAS policies that were originally sold in Ireland and Germany) to PIA, effective from 1 January 2019.</p> <p><b>Section C</b> Changes made to reflect the transfer of Hong Kong business to Prudential Corporation Asia with effect from 14 December 2018.</p> <p><b>Section 2.3.3, 2.3.8 &amp; Appendix C</b> Updated to include the new PruFund Risk Managed fund, and the changes to the existing PruFund Risk Managed fund names effective from 21 January 2019.</p> <p><b>Section C</b> Minor correction to company structure diagram.</p>

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PPFM v1.32 November 2018	<p><b>Section 1.3.8.5</b> Changes made to reflect new smoothing limits on some of the PruFund funds, and the introduction of a 'unit price reset'.</p> <p><b>Section 1.3.6.2</b> Wording added to clarify that cash claim values for PPRP policies depend on current annuity rates.</p> <p><b>Section 2.3.3</b> The PruFund Cautious (Sterling) Fund has been removed from the list of hypothecated asset pools (as these investments are held in OBPC and not hypothecated).</p>
PPFM v1.31 March 2018	<p><b>Section 1.4.4</b> Changes made to reflect the Scottish Amicable Board's decision to increase the charge taken for guaranteed annuity rates on SAIF policies from 1.0% to 1.25% per year with effect from 1/1/2018.</p> <p>Note: a cosmetically improved version of PPFM v1.31 was published in June 2018. No wording changes were made.</p>
PPFM v1.30 November 2017	<p><b>Section 1.3.5.1 &amp; 1.3.5.2</b> Wording clarifications made to better explain the purpose and choice of 'target range' (i.e. the range of asset shares within which we expect most claim values to fall).</p>
PPFM v1.29 August 2017	<p><b>Section 1.1.2, 1.1.4 &amp; 1.3.8.5</b> Changes made to clarify the method by which PruFund policyholders receive their share of divisible profit, and the approach taken when setting Expected Growth Rates. Introduction of monthly switches from the fixed rate account for Prudential Retirement Account from 26 August 2017 onwards.</p> <p><b>Section 2.3.3</b> Change made to correct 'DCSPF' to 'DCPSF'.</p>
PPFM v1.28 March 2017	<p><b>Section F</b> Changes to reflect the new risk appetite statement and with-profits financial management framework.</p> <p><b>Section 1.3.6.2</b> Change in practice for determining surrender values on conventional with-profits products. Note this change is also reflected in the Conventional With-Profits consumer friendly versions of the PPFM.</p> <p><b>Section 1.3.7.2</b> Addition of wording to clarify the asset share basis used for certain personal and corporate pensions policies.</p>
PPFM v1.27 September 2016	<p><b>Section 1.2.6</b> Correction to principle 1.2.6 to clarify that only the cumulative cost of smoothing (not the cost of guarantees) is monitored.</p> <p><b>Section 1.3.8.5</b> Changes made to reflect the launch of the Prudential Retirement Account.</p>
PPFM v1.26 1 January 2016	<p><b>Sections C1,C2, D, 2.3.3, 2.3.6, 7.3.1</b> Changes made to reflect the introduction of the Solvency II regulations on 1 January 2016.</p> <p><b>Section 1.4.4</b> A change to the Scottish Amicable Insurance Fund (SAIF) Guaranteed Annuity Rate (GAR) charge to asset shares from 0.25% to 1.00%.</p>

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PPFM v1.25 18 February 2015	<p><b>Sections C1, 1.3, 2.3 &amp; addition of a glossary</b></p> <p>Changes made to reflect the launch of PruFund ISA, the removal of references to Prudential Health business which was sold in November 2014, and the addition of a Glossary.</p>
PPFM v1.24 2 October 2014	<p><b>Sections C, 1.3, 2.3, 3.3, 6.3 and 7.3</b></p> <p>Changes made to reflect the transfer, on 1 October 2014, of the long-term insurance business of PAL into PAC under Part VII of the Financial Services and Markets Act 2000.</p>
PPFM v1.23 8 April 2014	<p><b>Section 3.3</b></p> <p>This update includes details of a Capital Support Arrangement that has been put in place between Prudential plc and PAC.</p>
PPFM v1.22 3 January 2014	<p><b>Sections C1 and C2.5</b></p> <p>Changes made to reflect the completion of the transfer of Prudential's Hong Kong Branch to two new Prudential companies in Hong Kong on 1 January 2014, and to summarise the effect on Prudential.</p>
PPFM v1.21 15 October 2013	<p><b>Sections B and D</b></p> <p>Amendments made to reflect the introduction of the Prudential Regulatory Authority and the Financial Conduct Authority. These regulators replaced the Financial Services Authority on 1 April 2013.</p> <p><b>Sections C1 and C2.5</b></p> <p>Structure chart updated to show the effect of the proposed transfer of the Hong Kong branch on Prudential's company structure. Further information also provided on the effect that the proposed transfer would have on Prudential.</p>
PPFM v1.20 28 February 2013	<p><b>Sections C2, C2.1, 3.1 and 3.3</b></p> <p>This update reflects the launch of Prudential's Polish branch, including changes to the company structure, the business risk and the practices for management of these risks.</p>
PPFM v1.19 10 October 2012	<p><b>Section D</b></p> <p>Wording added to reflect the introduction of the FSA's Policy Statement 12/4 "Protecting with-profits policyholders".</p> <p><b>Section 5.1</b></p> <p>Updates regarding the treatment and management of "excess surplus" in the inherited estate in the with-profits funds in accordance with the FSA's Conduct of Business Sourcebook (COBS) rules.</p> <p><b>Sections F, 3.1 and 3.3</b></p> <p>Wording added to expand upon the risk appetite of the WPSF, the changing business risks faced by the long-term fund and the changing practices to managing business risks to with-profits policyholders.</p> <p><b>Section 1.3</b></p> <p>Updated wording to cover the change in the way asset shares are calculated for with-profits annuity policies issued by Prudential and policies transferred from Equitable Life Assurance Society.</p> <p><b>Section 7.1</b></p> <p>Updates made to wording relating to conflicts of interest between with-profits policyholders and shareholders, specifically in the management of such interests.</p>
PPFM v1.18 1 November 2011	<p><b>Sections 1.3, 5.3 and 7.3</b></p> <p>Wording updated to reflect that the PAC inherited estate will not be used for expense overruns arising on new and existing business from 1 January 2012.</p>

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PPFM v1.10 27 November 2008	<p><b>Section C2.3</b></p> <p>Wording included to capture any International Prudence Bond business invested in the PruFund Range of Funds, and the treatment of the smoothing account in the case of any created or cancelled units as a result of premiums being received or claims being paid.</p>
PPFM v1.9 1 July 2008	<p><b>Section 4.3</b></p> <p>The period of notice at which the investment management and policy administration intra-group arrangements can be cancelled, has been changed from 3 months notice for both, to 3 and 6 months respectively.</p> <p><b>Section 5.1</b></p> <p>The PPFM has been updated to reflect that, after suitable investigation, it has been decided not to proceed with a reattribution of the PAC inherited estate, and that the current practice is within the best long-term interests of current and future policyholders.</p>
PPFM v1.8 29 November 2007	<p><b>Sections A, E, 1.1, 1.2, 1.3, 2.3, 3.3 and Appendix B</b></p> <p>Updated version as a result of the transfer of The Equitable Life Assurance Society (ELAS) annuities to Prudential with effect from 31 December 2007, as well as clarifying points of detail on existing with-profits annuity business.</p> <p><b>Sections C2.3 and C2.4</b></p> <p>The description of the business in the Defined Charge Participating Sub-Fund (DCPSF) has been extended to include with-profits annuity business transferred from ELAS into PAC on 31 December 2007. This includes explanation of the charges and expenses on this business, the management of a bonus smoothing account, the way in which the profits are distributed on this business, and the management of the inherited estate for the transferred business.</p>
PPFM v1.7 29 October 2007	<p><b>Section 1.3</b></p> <p>Updated to correct the description of how charges for guarantees are deducted on with-profits annuities. Previous wording incorrectly described the charge for guarantees as being 0.16% of each annuity payment, whereas the charge is 0.16% per annum and is deducted from the investment return credited to asset shares.</p>
PPFM v1.5 31 December 2006	<p><b>Section 5.3</b></p> <p>Updated to reflect the differential investment strategies for the PAC and SAIF inherited estates. In particular it has been clarified that the investment strategy for the PAC inherited estate is determined in accordance with the overall investment strategy. This may involve having a different investment strategy to that backing the with-profits policies in order to meet guarantees and maintain regulatory solvency. This position will be reviewed regularly. No change has been made to the investment strategy for the SAIF inherited estate.</p>
PPFM v1.3 31 December 2005	<p><b>Section 1.3</b></p> <p>Updates made to reflect the publication of the FSA's Policy Statement 05/1 on "Treating with-profits policyholders fairly".</p>
PPFM v1.2 30 June 2005	<p><b>Section E</b></p> <p>Changes made to comply with the publication of FSA Policy Statement PS05/1.</p> <p><b>Section 3.3</b></p> <p>The business risks SAIF and SAA policies are exposed to have been updated to include a guarantee on certain SAIF accumulating with-profits pensions business, relating to regular bonuses.</p>