

Annual Report to  
With-Profits Policyholders on  
Compliance with  
The Principles and Practices of Financial  
Management (PPFM) for  
1 January to 31 December 2016



*the*  
**ODDFELLOWS** SINCE 1810  
*making friends, helping people*

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## 1 Introduction

The Independent Order of Oddfellows Manchester Unity Friendly Society Limited (“the Society”) has published its Principles and Practices of Financial Management (referred to as the Oddfellows PPFM). The PPFM sets out how the Society manages the with-profits business within its Long Term Business (“LTB”) fund.

The LTB Fund consists of five ring-fenced with-profits funds:

- **Unity Insurance and Endowment and Retirement Annuity Fund (UIEF):** this relates to the Manchester Unity Insurance and Endowment and Retirement Fund which closed to new business in 2000. The Fund also includes contracts from other funds which were subsequently merged with the UIEF Fund. The fund is open for new business for unit-linked ISA and Junior ISA business.
- **The Ideal Fund:** encompassing the business of the Ideal Benefit Society which transferred into the Society on 31 July 2007. The fund also closed to new business prior to 2005.
- **The Nottingham Fund:** encompassing the business of the Nottingham Friendly Society (NFS) which transferred into the Society on 30 December 2009. The fund is open for new business for unit-linked Child Trust Fund (CTF) business.
- **The Schoolteachers Fund:** encompassing the business of the Schoolteachers Friendly Society (SFS) which transferred into the Society on 31 March 2011, and contains with-profit and Child Trust Fund unit linked business which are both open for new business.
- **The Druids Fund:** encompassing the business of the Druids Sheffield Friendly Society (DSFS) which transferred into the Society on 30 April 2015, and contains with-profit, non-profit and Child Trust Fund unit linked business. It is open to new business for tax-exempt policies and Child Trust Fund (CTF) business.

In addition, there is one Non-profit Fund into which non-profit business is being written. This Fund has no impact on the management of the with-profit funds.

In order to comply with the rules set out by the Financial Conduct Authority (FCA) the Society’s Board are required to report to with-profits policyholders each year on our compliance with the PPFM. The report must:

- (1) state whether, throughout the financial year to which the report relates, the firm believes it has complied with its obligations relating to its PPFM and setting out its reasons for that belief;
- (2) address all significant relevant issues, including the way in which the firm has:
  - a. exercised, or failed to exercise, any discretion that it has in the conduct of its with-profits business; and
  - b. addressed any competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders), including the competing interests of different classes and generations.

As such, this report covers:

- our governance arrangements for with-profits business;
- the use of discretion in managing our with-profits business;
- how we have addressed any competing or conflicting rights, interests or expectations; and;
- our conclusions

This compliance report dated 1 May 2017 covers the period from 1 January 2016 to 31 December 2016.

In 2015 a separate compliance report was produced for the DSFS Fund as following the transfer, the PPFM for this fund was still at that point separate. For 2016, as a result of the incorporation of DSFS into the Society's PPFM, the PPFM compliance for all the Society's with-profits funds are within this one report.

There is a Glossary in our PPFM which contains an explanation of a number of terms used in the PPFM and in this document.

## **2 Governance**

In order to ensure that our with-profits business is managed in accordance with the PPFM, the Society's Board has appointed an independent With-Profits Actuary (WPA) and included appropriate terms of reference for the Insurance Committee to cover the With-Profits Advisory Arrangement (WPAA).

### **2.1 The role of the With-Profits Actuary**

The role of With-Profits Actuary (WPA) includes consideration of compliance with the PPFM, and the exercise of discretion in relation to with-profits business and the interests of the with-profits policyholders.

The Society's WPA at the start of 2016 was Mr. David Addison. Mr. Addison was replaced by Mrs. Karen Miller during 2016; Mrs. Miller is a consulting actuary with Willis Towers Watson and is authorised by the FCA to undertake this role.

A report from Mrs. Karen Miller to the Society's with-profits policyholders covering the period 1 January 2016 to 31 December 2016 can be found in [appendix A](#).

### **2.2 The role of the With-Profits Advisory Arrangement**

The terms of reference of the Insurance Committee cover the role of the WPAA. It is the Insurance Committee's responsibility to ensure the with-profits business is managed in accordance with the PPFM.

The ultimate responsibility for managing the With-Profits funds rests with the Society's Board. The role of the Insurance Committee in acting as the WPAA is, in part, to act in an advisory capacity to inform the decision making of the Board. The Insurance Committee, as the WPAA, also acts to ensure a means by which the interests of With-Profits policyholders are appropriately considered within the Society's governance structures.

The Insurance Committee raised no material concerns in the review for 2016 and, therefore, the Insurance Committee does not wish to make a separate report to the policyholders on compliance with the Oddfellows PPFM for this period.

### 3 Compliance with the Oddfellows PPFM in the exercise of discretion

#### 3.1 Setting bonus rates

Annual and final bonus rates were reviewed in 2016, and, as a result of these reviews the following bonus declarations were made:

<b>Fund</b>	<b>Annual bonuses</b>	<b>Final bonuses</b>
UIEF	February 2016	May 2016
Ideal	February 2016	May 2016
NFS	February 2016	May 2016
SFS	January 2016	May 2016
DSFS	April 2016	April 2016

In declaring bonuses discretion was used with regard to smoothing of bonus rates from 2015 levels to the new 2016 declaration.

These bonus declarations were approved by the Board, on advice from the WPA and WPAA that the declarations complied with the PPFM.

The Society has met its PPFM requirements on payouts on maturity, except where guarantees resulted in a higher amount being paid. The Society will be improving the process of monitoring payouts on maturity from 2017 onwards.

#### 3.2 Setting of surrender values

The Society has met its PPFM requirements on payouts on surrender, however the Society will be reviewing the historical formula based methods currently used to determine surrender values due to the market conditions and to continue to monitor fairness across all policyholders.

#### 3.3 Investment strategy

We are satisfied that, during the year the discretion exercised, with respect to the types of investments held and the proportions of the Society's assets held in each asset type, was in line with the principles and practices of the PPFM.

#### 3.4 Allocation of expenses

During 2016 all expenses which were identified as belonging to a specific fund were charged directly to that fund.

Discretion was applied in the allocation of indirect LTB expenses, such as those expenses that relate to the running of LTB but which cannot be directly attributed to any one fund, across the LTB funds using an activity based analysis. In addition, discretion was applied in determining the

proportion of other expenses charged to the LTB fund through the allocation of a proportion of the Society's "non-specific" expenditure which relate to items that are relevant to the running of the Society as a whole, and its infrastructure.

The Druids fund was allocated a proportion of indirect LTB expenses and "non-specific" expenditure however there are restrictions around the charging of the expenses to the Druids fund as set out in the transfer of engagement documents.

The allocation of expenses was in line with the principles and practices set out in the Oddfellows PPFM.

### **3.5 Management of the estate**

During 2016 each of the ring-fenced funds in the LTB fund, including the estate within each ring-fenced fund was managed independently in line with the PPFM.

### **3.6 Management of risk**

Business risk continues to be monitored through the Society's risk assessment procedures and controls in order to manage and mitigate business risk.

No significant business risks were taken nor materialised during 2016. The Society decided to remove the MVR on the Druids ISA product. The risk from this decision will be monitored by the Society going forward.

## **4 Competing or conflicting rights, interests and expectations**

As the Society has no shareholders there can only be competing or conflicting rights, interests or expectations between different groups of with-profits policyholders. Potential conflicts between policyholders in different ring-fenced funds are dealt with by managing each ring-fenced fund so that benefits are paid to policyholders in a ring-fenced fund only from the surplus in that fund. Other potential conflicts could be between:

- policyholders with different products;
- policies of different sizes or policy terms;
- policies with different entry or maturity dates; and
- policyholders claiming for different reasons (e.g. maturity, death, surrender)

Discretion is exercised in order to balance the interests of these groups in the:

- smoothing of policy benefits;
- setting bonus rates, MVRs and surrender penalties for similar policies; and
- the setting of asset shares

MVRs and surrender penalties were reviewed with the aim that payments to those policyholders taking benefits other than at contractual points did not adversely affect the interests of remaining with-profits policyholders. As above, it should be noted that, during 2016 the Society decided to remove the MVR on the Druids ISA product.

The advice of the WPA was sought with regard to these issues and they were reviewed by the WPAA.

The WPAA is of the opinion that, any potentially competing or conflicting rights, interest and expectations of policyholders were managed in accordance with the PPFM.

## **5 PPFM changes**

The Druids Fund was incorporated into the PPFM during 2016. This exercise involved the amalgamation of the documentation with no material impacts to the management of the funds.

## **6 Conclusion**

It is the opinion of the Board, on advice from the WPAA, that the management of the with-profits business in the LTB funds during 2016 has complied with the PPFM in full.

It is also the Board's opinion that, during this period, the exercise of discretion was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

It is noted that the Society will be reviewing the historical formula based methods currently used to determine surrender values due to the market conditions and to continue to monitor fairness across all policyholders.

**Appendix A: Report from the With Profits Actuary**



## Report of the with-profits actuary to with-profit policyholders of the Independent Order of Oddfellows Manchester Unity Friendly Society

1. I have been appointed by the Independent Order of Oddfellows Manchester Unity Friendly Society Limited (“the Society”) to act as with-profits actuary I am a Fellow of the Institute and Faculty of Actuaries and an employee of Willis Towers Watson, a firm of actuarial consultants. I am not a policyholder of the Society. I replaced my colleague David Addison as the Society’s with-profits actuary during 2016.
2. The Society’s Board must produce an annual report to its with-profits policyholders that states whether it believes it has complied with its obligations relating to Principles and Practices of Financial Management and setting out its reasons for that belief. As the Society’s With-Profits Actuary I am required by Financial Conduct Authority (“FCA”) rules to report to with-profits policyholders on whether the Society has exercised discretion in a reasonable and proportionate manner. The purpose of this report is to report to with-profits policyholders on the exercise of discretion in 2016.
3. My report and the annual report to which it is appended covers all of the with-profits ring-fenced funds within the Society’s long term business fund.
4. I have been provided with a copy of the 2016 report of the Society’s Board to with-profits policyholders on compliance with the Oddfellows PPFM dated January 2016 for which the Society remains responsible. I have also requested from the Society such information and explanations as I consider reasonably necessary to enable me to perform my duties as with-profits actuary. In providing this report I have relied on the accuracy and completeness of the Board’s compliance report and of the information and explanations provided to me by or on behalf of the Society. I have also taken into account, where relevant, the rules and guidance issued by the FCA and the Prudential Regulation Authority (“PRA”).
5. In my opinion, the compliance report and the discretion exercised by the Society in 2016 may be regarded as having taken the interests of with-profits policyholders into account in a reasonable and proportionate manner. My opinion is based on the information and explanations provided to me by the Society, and taking into account where relevant the rules and guidance of the FCA and PRA on treating with-profits policyholders fairly.
6. In summary, based on the information that has been made available to me, I am satisfied that:
  - with-profits policyholders have been treated fairly in material respects in relation to the exercise of discretion during 2016, however it is noted that the Society will be reviewing the historical formula based methods currently used to determine surrender values due to the market conditions and to continue to monitor fairness across all policyholders;
  - the discretion exercised by the Society in 2016 may be regarded as having taken the interests of the Society’s with-profits policyholders into account in a reasonable and proportionate manner; and
  - the Society has in 2016 complied, in all material respects, with the PPFM

7. The report is provided for the purposes set out above, and should not be used as the basis to make any decisions regarding contracts with the Society, whether to enter into them, to continue them or terminate them, for which decisions fuller information and qualified financial advice should be sought.
8. The Financial Reporting Council (“FRC”) has published a number of technical standards for the members of the UK Actuarial Profession. This report and work carried out to produce it is subject to the following standards:
  - Insurance Technical Actuarial Standard
  - Technical Actuarial Standard R: Reporting Actuarial Information
  - Technical Actuarial Standard D: Data
  - Technical Actuarial Standard M: Modelling

This report and the work carried out to produce it complies with these standards although it should be noted that I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the Board’s compliance report to which my report is annexed.

Karen Miller  
May 2017

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