

Annual Report to
With-Profits Policyholders on
Compliance with
The Principles and Practices of Financial
Management (PPFM) for
1 January to 31 December 2017



O the SINCE 1810
ODDFELLOWS
making friends, helping people

Contents

Page No.

1	Introduction.....	3
2.	Background.....	3
3	Governance.....	4
4	Compliance with the Oddfellows PPFM in the exercise of discretion	5
5	Competing or conflicting rights, interests and expectations	6
5	PPFM changes.....	7
6	Conclusion	7
	Appendix A: Report from the With Profits Actuary	7

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 four 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 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 Nottingham Fund:** encompassing the business of the Nottingham Friendly Society (NFS) which transferred into the Society on 30 December 2009.
- **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 which is 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.

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. On 15 December 2017 the Ideal Fund, which encompassed the business of the Ideal Benefit Society, which transferred into the Society on 31 July 2007, closed and the policies were transferred to the Non-profit Fund. The closure was in line with the PPFM for the Ideal Fund and approved by the regulator. This resulted in a proportion of the surplus in the Ideal Fund being distributed to with-profits policyholders and these policies were then converted to non-profit. Further information on this was communicated to the Ideal policyholders at the time.

2. Background

In order to comply with the rules set out by the Financial Conduct Authority (FCA) the Society’s Board is required to report to with-profits policyholders each year on the Society’s 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:

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

This compliance report dated 28 June 2018 covers the period from 1 January to 31 December 2017. The management of the with-profits funds was covered by two PPFMs during 2017:

- version 3 dated January 2016 which covered the period 1 January to 14 December 2017 during which time the Ideal Fund included with-profits business; and
- version 4 dated December 2017 which covered the period 15 December to 31 December 2017 which removed all references to the Ideal Fund following the closure of the fund.

Any reference to the PPFM throughout this document refers to both versions of the document. There is a Glossary in the PPFM which contains an explanation of a number of terms used in the PPFM and in this document.

3 Governance

In order to ensure that the Society's 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).

3.1 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 during 2017 was Mrs. Karen Miller; 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 to 31 December 2017 can be found in [appendix A](#).

3.2 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 2017 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.

4 Compliance with the Oddfellows PPFM in the exercise of discretion

4.1 Setting bonus rates

Annual and final bonus rates were reviewed in 2017, and, as a result of these reviews the following bonus declarations were made:

Fund	Annual bonuses	Final bonuses
UIEF	May 2017	May 2017
NFS	May 2017	May 2017
SFS	March 2017	May 2017
DSFS	May 2017	May 2017

In declaring bonuses, discretion was used with regard to smoothing of bonus rates from 2016 levels to the new 2017 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.

4.2 Setting of surrender values

The Society has updated the historic methodology for the surrender value payouts which results in fairer surrender values. The PPFM requirements on payouts on surrender have been met.

4.3 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.

4.4 Allocation of expenses

During 2017 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.

4.5 Management of the estate

During 2017 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.

The estate of the Ideal Fund was distributed as part of the cessation of the fund and the Society believes the approach taken, which was agreed by the WPA, represents a fair distribution to the Ideal Fund with-profits policyholders.

4.6 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 2017. The Society removed the MVR on the Druids ISA products in 2016, communicating this to policyholders in 2017, and then monitored the impact of this decision during the year. Following an initial spike in surrenders/transfers exits rates have been consistent with prior years.

5 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 separately 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

In addition, in 2017 discretion was exercised in determining the approach adopted for the cessation of the Ideal Fund.

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.

6 PPFM changes

The references to the Ideal Fund were removed from the PPFM in 2017 following the closure of the Fund on 15 December 2017 and the subsequent transfer of policies into the Non Profit Fund.

7 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 2017, 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.

Dated: 28 June 2018

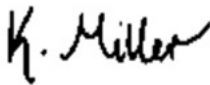
Appendix A: Report from the With Profits Actuary

Report of the With-profits Actuary to with-profits 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.
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 2017.
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 2017 compliance report of the Society’s Board to with-profits policyholders on compliance with the Oddfellows PPFM dated June 2018 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 2017 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 2017
 - the discretion exercised by the Society in 2017 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 2017 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 has published Technical Actuarial Standards (“TASs”), and the Institute and Faculty of Actuaries has published Actuarial Professional Standards (“APS”). This report is subject to and, in my opinion, complies with:
 - TAS 100: Principles for Technical Actuarial Work

- TAS 200: Insurance
- APS L1: Duties and Responsibilities of Life Assurance Actuaries
- APS X2: Review of Actuarial Work which includes the obligation to carry out appropriate levels of review on actuarial work

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
June 2018

Willis Towers Watson
Belvedere
12 Booth Street
Manchester
M2 4AW
UK

Willis Towers Watson is authorised and regulated by the Financial Conduct Authority.