

Annual Report to  
With-Profits Policyholders on  
Compliance with  
The Principles and Practices of Financial  
Management (PPFM) for  
1 January to 31 December 2019



*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 three 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 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.

During 2019 the Nottingham Fund, which encompassed the business of the Nottingham Friendly Society, which transferred into the Society on 30 December 2009, closed and the policies were transferred to the Non-profit Fund. On cessation of the fund the with-profits policies were converted to non-profit. As this report considers PPFM compliance for 2019, it still covers the Nottingham Fund.

## 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 19 June 2020 covers the period from 1 January to 31 December 2019. The management of the with-profits funds during 2019 was covered by version 4 of the PPFM dated December 2017 and version 5 of PPFM dated December 2019.

The Society also has a Consumer Friendly PPFM (CFPPFM) which describes the most important information in the PPFM in clear and plain language that can be easily understood. 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 Commercial Board 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 2019 was Mr. George Andrew Pennington; Mr. Pennington is a consulting actuary with Zenith Actuarial and is authorised by the FCA to undertake this role.

A report from Mr. Pennington to the Society's with-profits policyholders covering the period 1 January to 31 December 2019 can be found in [appendix A](#).

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

The Terms of Reference of the Commercial Board cover the role of the WPAA. It is the Commercial Board'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 Commercial Board in acting as the WPAA is, in part, to act in an advisory capacity to inform the decision making of the Board. The Commercial Board, 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 Commercial Board raised no material concerns in the review for 2019 and, therefore, the Commercial Board 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 2019, 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	March 2019	June 2019
NFS	March 2019	June 2019
SFS	December 2019	December 2019
DSFS	March 2019	June 2019

In declaring bonuses, discretion was used with regard to smoothing of bonus rates from 2018 levels to the new 2019 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 PPFM requirements on payouts on surrender have been met.

### 4.3 Investment strategy

The Board is 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 2019 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 2019 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.

In December 2019 the Nottingham Fund was closed and all policies were transferred to the Non-Profit Fund. The position of the Fund was considered and it was agreed by the WPA that there was no estate to distribute.

#### **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 2019.

## **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, Market Value Reductions and surrender penalties for similar policies; and
- the setting of asset shares

In addition, in 2019 discretion was exercised in determining the approach adopted for the cessation of the Nottingham Fund, which was approved by With-Profits Actuary, Chief Actuary, PRA & FCA.

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

During 2019 some changes were made to the PPFM as follows:

- Updates to remove reference to the Nottingham Fund to reflect the conversion of Nottingham with-profits policies to non-profit and the subsequent rolling up of this Fund into the Non-Profit Fund.
- Minor adjustments to practices for with-profit pay-outs.

## 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 2019, 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: 19 June 2020**

## Appendix A: Report from the With Profits Actuary

### **Report of the With Profits Actuary to Policyholders of Manchester Unity Friendly Society**

*The Society's Board has made a report to with-profit policyholders in accordance with the requirements of the FCA Handbook to inform them of the way in which the Principles and Practices of Financial Management (PPFM) has been applied and how discretion has been exercised in respect of the with-profits policyholders.*

*I am also required by the FCA Handbook to provide a report to with-profits policyholders to accompany the firm's annual report, stating whether, in my opinion, the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking the interests of the firm's with profit policyholders into account in a reasonable and proportionate manner. In doing this, I must have regard to the rules and guidance laid down in the FCA Handbook.*

*My report and the annual report to which it is appended covers all of the with-profits within the Society's long term business fund.*

*I took over the role of With-Profits Actuary on 1 January 2019. Having considered the manner in which the Society has managed the with-profits business, and having reviewed the discretion applied during 2019, I can confirm that, in my opinion, the Board has acted in a manner consistent with the PPFM in the year from 1st January 2019 to 31st December 2019. I can also confirm that, in my opinion, the Board has 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.*

*Members of the Institute and Faculty of Actuaries must comply with Actuarial Professional Standards ("APSs") when carrying out work. In addition, the Financial Reporting Council specifies a number of Technical Actuarial Standards ("TAS"). This paper has been produced with consideration of the standards listed below, and in my opinion complies with the relevant standards.*

*APS X1 : Applying standards to actuarial work.*

*APS L1 : Duties and responsibilities of life assurance actuaries.*

*APS X2 : Review of actuarial work.*

*TAS 100 : Principles for technical actuarial work.*

*TAS 200 : Insurance.*

**George Andrew Pennington**

**With-Profits Actuary for The Independent Order of Oddfellows Manchester Unity Friendly Society Limited**