

Annual Report to
With-Profits Policyholders on
Compliance with
The Principles and Practices of Financial
Management (PPFM) for
1 January to 31 December 2020



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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.

During 2020 the LTB Fund consisted 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.

Note that sections 2-6 below relate to the with-profits funds within the Society during 2020.

On 1 February 2021 the business of Kingston Unity Friendly Society transferred into the Society, referred to as the ‘KU Fund’. As the transfer occurred after 2020, the Society is not responsible for reporting on PPFM compliance or the application of discretion for the KU Fund during 2020. However, as the Kingston Unity Friendly Society no longer exists, the Society considers it appropriate to incorporate comments on the KU Fund. These comments are based on information provided to us by Kingston Unity. Further details are provided in section 7.

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 23 June 2021 covers the period from 1 January to 31 December 2020. The management of the with-profits funds during 2020 was covered by version 5 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 2020 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 2020 can be found in [appendix A](#). Note this is combined with the report from Mr. Robinson (WPA for the KU Fund during 2020).

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 2020 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 2020, and, as a result of these reviews the following bonus declarations were made:

Fund	Annual bonuses	Final bonuses
UIEF	March 2020	June 2020
SFS	December 2020	December 2020
DSFS	March 2020	June 2020

In declaring bonuses, discretion was used with regard to smoothing of bonus rates from 2019 levels to the new 2020 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

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

As in previous years, during 2020 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 2020 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.

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.

During 2020 the COVID pandemic arose. Whilst this created risk in terms of operations, and potentially insurance risk, and resulted in economic/financial risks arising, the Society has managed this appropriately for the relevant funds. No significant other business risks were taken nor materialised during 2020.

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

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

No changes were made to the PPFM during 2020.

7 KU Fund

The Kingston Unity WPA during 2020 was Mr. Scott Robinson. Mr. Robinson is a consulting actuary with Zenith Actuarial and was authorised by the FCA to undertake this role.

A report from Mr. Robinson to the ex-Kingston Unity's with-profits policyholders covering the period 1 January to 31 December 2020 can be found in [appendix A](#). Note this is combined with the report from Mr. Pennington (WPA for Oddfellows during 2020).

The following comments provide a summary of the compliance with the PPFM (based on information provided by Kingston Unity):

Compliance with the PPFM

The KU With Profits Committee provide independent views on the exercise of discretion during 2020. KU also has a With-Profits Actuary to report to the Board regarding compliance with the PPFM during 2020. A statement from the With Profit Actuary is included at the end of this report.

Payouts, bonuses and smoothing

The KU Board utilises asset shares as the basis for trying to ensure fairness between different groups of policyholders. This resulted in the vast majority of payouts for the year are in line with the PPFM target range.

The KU Board exercised its discretion in deciding upon bonus rates for the year and the rates declared met the requirements contained in the PPFM. The smoothing policy contained within the PPFM was followed.

Investment Policy

The KU Board via a delegated Investment Sub Committee was responsible for monitoring the strategy and performance of the Investment Manager. Holdings in the various asset classes were within the Investment Matrix set by the KU Board and investment policy during 2020 was carried out in accordance with the PPFM.

Business Risks

The nature of the KU business means that it is exposed to risks, the majority of which relate to investment risk, and insurance risks. However, there are wider business risks, which would include the writing of new business. These were managed in line with the PPFM, and the KU Board monitored the KU approach to new business, including business volumes and expenses and charges.

7. Conclusion

It is the opinion of the Board, on advice from the WPAA that, the management of the with-profits business in the existing LTB funds and the KU Fund during 2020, has complied with the relevant PPFMs 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: 23 June 2021

Appendix A: Report from the With Profits Actuary

Report of the With Profits Actuary to Policyholders for The Independent Order of Oddfellows Manchester Unity Friendly Society Limited

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.

This report and the annual report to which it is appended covers all of the with-profits within the Society's long term business fund. It also covers the with-profits business of the ex-Kingston Unity Friendly Society Limited (the "KU Fund"). The KU Fund transferred into the Society on 1 February 2021, and now forms part of the Oddfellows entity. Whilst it was not part of Oddfellows for 2020, it is considered appropriate for Oddfellows to provide commentary on the application of discretion also in relation to the KU Fund.

Having considered the manner in which the Society and KU Fund has managed its with-profits business, and having reviewed the discretion applied during 2020, we can confirm that, in our opinion, the Society and KU Fund Boards have acted in a manner consistent with the relevant PPFMs in the year from 1st January 2020 to 31st December 2020. We can also confirm that, in our opinion, the Society and KU Fund Boards have taken the interests of with-profits policyholders into account in a reasonable and proportionate manner.

Our opinion is based on the information and explanations provided to us by the Society and KU Fund, 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

and

Scott Robinson

With-Profits Actuary to the Kingston Unity Friendly Society Limited (the KU Fund) for the calendar year 2020.