

Annual Report to  
With-Profits Policyholders of the  
DSFS Fund on Compliance with  
The Principles and Practices of Financial  
Management (PPFM) for  
1 January to 31 December 2015



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## Contents

### Page No.

1	Introduction .....	3
2	Governance.....	3
3	Compliance with the PPFM in the exercise of discretion .....	5
4	Competing or conflicting rights, interests and expectations.....	6
5	PPFM changes .....	7
6	Conclusion.....	7
	Appendix A: Report from the With Profits Actuary .....	8

## 1 Introduction

The Druids Sheffield Friendly Society (“DSFS”) transferred into The Independent Order of Oddfellows Manchester Unity Friendly Society Limited’ (“the Society”) under a Transfer of Engagement on 30 April 2015. The business of DSFS is managed as a separate ring-fenced fund (the “DSFS Fund”), within the Society’s long term business (“LTB”) fund.

Throughout 2015, the with-profits business within the DSFS Fund was managed according to DSFS Principles and Practices of Financial Management (the “DSFS PPFM”) dated April 2015.

In order to comply with the rules set out by the Financial Conduct Authority (FCA) the Society’s Board are required to report to 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 the DSFS with-profits business;
- how we have addressed any competing or conflicting rights, interests or expectations; and;
- our conclusions

This report (dated 01 March 2016) covers the DSFS Fund for the period from 1 January 2015 to 31 December 2015.

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

## 2 Governance

### 2.1 Period 1 January to 30 April 2015

A With-Profits Advisory Arrangement (“WPAA”) was in place during this period, consisting of two non-executive members of the Committee of DSFS, as required by the PPFM. The role of the WPAA was to exercise independent judgment in assessing compliance with the DSFS PPFM and in addressing conflicting rights and interests of with-profits policyholders within DSFS.

The purpose of the WPAA was to review the exercise of discretion by the Committee and to provide advice to the Committee when it felt that the Committee was not taking with-profit members' interests fully into account.

DSFS was advised by its With profits Actuary ("WPA") Mr. Steve Dixon; a consulting actuary with Steve Dixon Associates, who provided advice on bonus policy, investment strategy, and other aspects of the financial management of DSFS.

Day to day monitoring of the financial management of DSFS was carried out by DSFS's staff.

## **2.2 Period 1 May to 31 December 2015**

Following the transfer of Engagement, the Society's Board extended the terms of reference of its Insurance Committee to cover the With-Profits Advisory Arrangement (WPAA) for the DSFS fund.

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

The role of 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 2015 was Mr. Scott Robinson. Mr. Robinson was replaced by Mr. David Addison during 2015; Mr. Addison is a consulting actuary with Willis Towers Watson and, authorised by the FCA to undertake this role.

A report from Mr. David Addison to the DSFS with-profits policyholders covering the period 1 January 2015 to 31 December 2015 can be found in [appendix A](#).

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

The terms of reference of the Insurance Committee covers the role of the WPAA. It is the Insurance Committee's responsibility under the WPAA to ensure the DSFS with-profits business is managed in accordance with its 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 Committee, as the WPAA, also acts as a means by which the interests of With-Profits policyholders are appropriately considered within the Society's governance structures.

The WPAA raised no material concerns in the review for 2015 and, therefore, the WPAA does not wish to make a separate report to the DSFS policyholders on compliance with DSFS PPFM for this period.

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

#### 3.1 Setting bonus rates

Annual and final bonus rates were reviewed in 2015 by the Committee of DSFS, and, as a result of these reviews the bonus declarations were made in March 2015.

In declaring bonuses discretion was used with regard to smoothing of bonus rates from 2014 levels to the new 2015 declaration.

These bonus declarations were approved by the Committee of DSFS, on advice from the WPA and WPAA that the declarations complied with the PPFM. The Society's Board has no reason to question this assessment. No changes to bonus rates have been made since the transfer.

The Society has met its PPFM requirements on payouts on maturity, except where guarantees resulted in a higher amount being paid.

#### 3.2 Maturity payouts

The PPFM explicitly stated the following:

- *long term aim of paying an average of 100% of asset shares*
- *short term aim of 90% of claims paying 80%-120% of asset shares*

The short term aim was not met in 2015 but this was because most conventional with-profits policies were issued with high levels of guaranteed "bonuses" and the maturity payouts for these policies are currently greater than asset share.

#### 3.3 Setting of surrender values

Surrender values, where applicable, are the amounts payable on cancellation of a policy before it would otherwise be payable upon death or maturity.

No changes were made during the year to the methods used to determine surrender values for conventional and unitised with-profits business. On the basis of information received from the DSFS WPA prior to transfer, surrender values for some policies were outside the range specified in the DSFS PPFM, but these are unavoidable due to:

- the high level of guaranteed bonuses on some conventional with-profits policies; and
- the lack of ability to apply MVRs on unitized with-profits CTF business

We are satisfied this indicates a need to review the relevant practices in the DSFS PPFM rather than an inappropriate exercise of discretion.

### **3.4 Investment strategy**

The DSFS PPFM stated the following:

- Druids' investment strategy principle was to maximise the overall return of the investments of the Society subject to ensuring that the guarantees were met.

This was put into practice by holding a diversified portfolio of assets and measuring the performance for each asset class against a specified set of benchmarks.

Within the principle, there were no restrictions on the types of asset that can be held.

During the year discretion was exercised with respect to the types of investment held and the proportions of the DSFS assets held in each asset type in line with the DSFS PPFM.

### **3.5 Allocation of expenses**

During 2015 the expenses charged to the DSFS Fund was in line with the principles and practices set out in the DSFS PPFM and in line with the terms of the transfer of Engagement (the expenses charged to the DSFS Fund became subject to a cap as part of the transfer of Engagement).

### **3.6 Management of the estate**

During 2015 DSFS Fund was managed in line with the PPFM and in line with the terms of the transfer of Engagement.

Following the transfer of DSFS the business of DSFS has been managed as a separate ring-fenced fund (the "DSFS Fund"), within the Society's long term business ("LTB") fund.

### **3.7 Management of risk**

Throughout 2015 Business risk was monitored through risk assessment procedures and controls in order to manage and mitigate business risk.

The Committee of DSFS did not consider that the transfer to the Society would create significant business risk to DSFS as it would be managed as a separate ring-fenced fund within the LTB fund. It was further considered that the expense cap included in the conditions of the transfer reduced risk in the DSFS Fund.

No significant business risks were taken nor materialised during 2015.

## **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. This 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 by the Committee of DSFS as part of the in March 2015. The aim was to ensure that payments to those policyholders taking benefits other than at contractual points did not adversely affect the interests of remaining with-profits policyholders.

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

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

## **5 PPFM changes**

No changes were made to the DSFS PPFM during 2015.

## **6 Conclusion**

It is the opinion of the Board that, with the exception of the points noted in this report, the management of the with-profits business in the DSFS fund during 2015 has complied with the DSFS PPFM

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.

## Appendix A: Report from the With Profits Actuary

### Report of the with-profits actuary to with-profit policyholders of the Druids Sheffield Friendly Society (DSFS) fund 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 Scott Robinson as the Society’s with-profits actuary during 2015.
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 of the Druids Sheffield Friendly Society fund (the “DSFS fund”) on the exercise of discretion in 2014.
3. The Druids Sheffield Friendly Society (“DSFS”) was transferred into the Society on 30 April 2015 and for the period prior to the transfer I have relied on information provided by the DSFS Board and DSFS WPA. I have also been provided with a copy of the 2015 report of the Society’s Board to the DSFS fund with-profits policyholders on compliance with the PPFM dated 01 March 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. 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”).
4. In my opinion, the compliance report and the discretion exercised by the Society in 2015 may be regarded as having taken the interests of DSFS 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 by DSFS at the time of the transfer and taking into account where relevant the rules and guidance of the FCA and PRA on treating with-profits policyholders fairly.
5. In summary, based on the information that has been made available to me, I am satisfied that:
  - the DSFS with-profits policyholders have been treated fairly in material respects in relation to the exercise of discretion during 2015;
  - the discretion exercised by the Society in 2015 may be regarded as having taken the interests of the DSFS with-profits policyholders into account in a reasonable and proportionate manner; and
  - with the exception of the points mentioned in sections 3.2 and 3.3 of the report on compliance, the Society has in 2015 complied, in all material respects, with the DSFS PPFM.
6. 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.



7. 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.

David Addison  
01 March 2016

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