



National Deposit Friendly  
Society Limited

**Annual Report &  
Financial Statements**

2018



# CHAIRMAN'S REVIEW



2018 has been a pivotal year for the Society as we have made significant progress in building the robust and sustainable new business stream required to achieve our long term strategy of: “being a forward thinking and trusted mutual that meets the health, welfare and protection needs of our customers.”

We are pleased to tell you that we issued just under 5,000 policies in the course of last year, which is significantly over our 4,200 target. This increase in sales has been driven primarily by our Over 50s guaranteed acceptance whole of life insurance policy which had outstanding sales performance in the last quarter of the year and this performance has continued into the first quarter of this year.

Supporting this are sales of our healthcare and savings and investment products which continue to be a reliable source of new policy growth and provide us with a more balanced book of business with a diversification of risk profile across product groups.

2018 has been a pivotal year for a number of other reasons, the growth in new business being only one. We have delivered a number of regulatory projects, including compliance with the General Data Protection Regulation ('GDPR'), greater accountability under the Senior Managers and Certification Regime and enhanced product governance and transparency of service through the Insurance Distribution Directive, as required by our regulators, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

We have also launched, in early 2019, the final stage of our policy administration system, allowing us to administer all of our policies on one system. This provides us with an efficient and robust administration platform by which we can generate significant new business growth with little increase in cost. Furthermore, significant cost savings can now be generated with the launch of the final stage through decommissioning our legacy systems and reducing our server capacity.

Looking ahead, we are seeking to embed our new products launched to date into a sustainable and growing income stream whilst also developing further new products to diversify our overall product proposition. 2019 and the years that follow will present an exciting, yet challenging, time for the Society as we further develop our offering to our existing members and prospective new members to best advantage.

Finally, I would like to thank our staff for all of their hard work, support and commitment in 2018 and also our members for their loyal support in using us to provide the financial support and protection that they require.

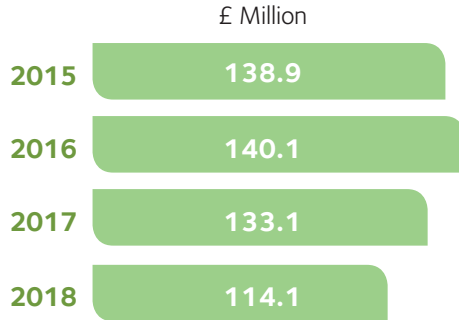
**Tracy Morshead**

Chairman  
15 April 2019

# FINANCIAL HIGHLIGHTS

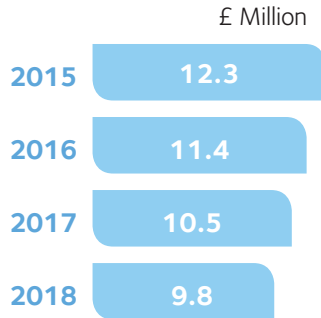
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## Total Assets



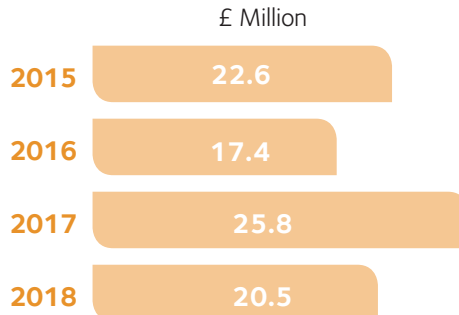
## Premium Income

Earned premiums net of reinsurance



## Own funds

Capital available to meet regulatory capital requirements



# CHIEF EXECUTIVE'S SUMMARY



The Society's vision is:

**“To be a forward thinking and trusted mutual that meets the health, welfare and protection needs of our customers”**

The Society's aim as an organisation is to provide for its policyholders products and services that look after their health and welfare to give certainty and control over their wellbeing both now and in the future. This service will be delivered in a timely, personal and friendly manner using technology as appropriate.

The Society has three key objectives to achieve net growth in its customer base, whilst managing regulatory capital and acting in the best interests of the Society's policyholders in protecting and enhancing member value:

- Promoting customer retention, offering alternatives when products mature or reach trigger points such as price and benefit review.
- Expanding the current proposition with further new products and services.
- Establishing a presence in the later life care market in accordance with the long-term strategy.

The Society continues to develop its overall welfare and healthcare proposition. The Society's long-term proposition remains in the health and welfare market providing both insurance and investment products to help members to insure and / or save towards meeting their long term care needs.

The launch of the healthcare products in 2017 and 2018, available at different levels of cover provides insurance for a range of treatments and offers an alternative option to existing policyholders as well as providing affordable healthcare cover to new customers.

The 50 plus Guaranteed Life Assurance ('GLA') product, launched in mid-2018, provides a whole of life insurance with guaranteed acceptance for customers aged between 50 and 80 designed to pay out a sum on death of the life assured.

# BUSINESS PERFORMANCE

The Society's business plan and key performance indicators ('KPIs') for 2018 have focussed on continuing to develop and launch new products in line with its strategy, whilst maintaining a strong capital base and controlling costs in order to enhance Own Funds and ultimately, member value.

The main risk for the Society is that premiums and investment income are insufficient to pay the contractual benefits on a policy or the actual demographic experience and/or expenses of administering a group of policies is worse than that assumed in the calculation of future liabilities.

The following KPIs are used to measure ongoing success:

## **Own Funds**

This is an economic Solvency II measure of the Society's net assets after liabilities and represents the long-term value to its members (Embedded Value), and allows the Board to establish the impact of management activity over the long term.

## **Solvency Coverage Requirements (SCR) ratio**

This is a measure of how much surplus capital is available after the solvency capital requirements (a risk-based calculation, based on the actual risks on the balance sheet) that an insurer is required to hold.

## **Capital Management**

The Society's capital position is assessed in accordance with the Solvency II regulations and the Society manages its business on this basis. This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate liabilities plus a risk margin. The Society is required to hold sufficient own funds (assets less technical provisions) to meet the SCR, which represents the amount of risk capital required to withstand a set of events at the 1/200 confidence level which covers market, underwriting, counterparty and operational risks.

The Own Funds reduced from £25.8m in 2017 to £20.5m in 2018. The main drivers of this change were:

- A difference between actual and expected investment income. The majority of the investment loss was on the Society's equity portfolio, which fell by 12% over 2018. This was comparable to the fall in the FTSE 100 over 2018.
- Strategic expenses reduce the net assets as these expenses included further system development and strategic activities.
- The commission and acquisition expenses of writing new business were greater than the value created by the new business written in 2018. This is to be expected as the acquisition expenses relating to product development and marketing activities were incurred throughout 2018 whereas most of the new business was written in the last quarter as the investment in these activities was realised.

# BUSINESS PERFORMANCE (CONTINUED)

## Capital Management (continued)

After allowing for the required SCR under Solvency II, the excess capital at 31 December 2018 reduced to £8.8m, from £13.6m at 31 December 2017.

The above result also takes account of a transitional measure for interest rates ('TMIR') approved by the regulator to enable the Society to smoothly transition to Solvency II. It allows the gradual move from using Solvency I discount rates to the prescribed Solvency II risk free rates set by the European Insurance and Pension Authority ("EIOPA") for existing policies over a period of 16 years, as these policies mature. Before taking account of the transitional measure, the excess assets position was £6.7m (2017: £10.8m).

## New Business

The Society has continued to consider widening its product offering in order to further protect and enhance the long-term interests of its policyholders through:

- i. Writing profitable new business that strengthens embedded value for all policyholders;
- ii. Providing an affordable option for new and existing policyholders to help fund their later life care needs;
- iii. Reversing the decline in policy count and related income, as policies lapse, that has, to date, been addressed primarily by robust cost control; and
- iv. Maximising the use of its existing expertise, resources and systems.

The Society's aim is to provide existing and new customers with products which address their welfare and care needs at every stage of life. Later Life Care (long-term care) is one of the key aims, and it is felt that the Society's best route into this market at this early stage is to develop and distribute products in partnership with major reinsurers.

We measure new sales by their annualised new business premium income ('API') and deposits to new savings and investment policies. In 2018, our new business API and investment deposits exceeded £1.8m, compared with £0.65m in 2017 representing an increase of over 175% from the prior year. Most of these sales were achieved in the last quarter of the year as our new products and investment in marketing activities came to fruition and therefore, we expect to report a further significant increase in API in 2019.

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## Cost Control

Administration costs are closely controlled and monitored against budgets and reported to both the Executive Committee and the Board. Writing new profitable business helps to reduce the per policy expenses. However, in the situation where lapses are higher or lower than expected, we are able to take management actions to address potential increases in per policy expenses.

Project Asterix, the development of a new policy administration system continued to progress well with the first phase of delivery being achieved in January 2017 and the second phase launched in October 2017. These first two phases provided a fully operational policy administration system and enabled the Society to migrate all of the Society's assurance policies onto the new system and decommission one of its legacy systems. The final stage of migrating the healthcare policies was completed in January 2019.

The implementation of the new system and decommissioning of legacy systems is expected to deliver efficiencies in providing the ability to write new business and at a higher volume without the need for additional administration staff or continued system development of legacy systems and in respect of IT server and maintenance cost savings.

## Brexit

The Society is a UK based insurer providing regulated products to UK domiciled customers only. We are aware that a very small number of our members have, since taking out their policy, moved to a country within the EU and we will continue to meet the liabilities on these policies as they fall due.

As the UK considers to leave the EU, the Board will continue to consider how we may be impacted in the future and what, if any actions, we need to take. We are also proactively working with our partners in particular our reinsurers to understand any impacts on their business and the actions they are taking to address this.

Overall, we do not anticipate any material impact on our business and operations.

### Jonathan Long

Chief Executive Officer  
15 April 2019



**For further information or to request a copy in Braille, large print or audio please call us on:**

**0333 014 6244** Calls from UK landlines and mobiles cost no more than a call to an 01 or 02 number and will count towards any inclusive minutes.

8am–6pm Monday to Friday excluding bank holidays. Calls are recorded for training and quality purposes.

**[www.nationalfriendly.co.uk](http://www.nationalfriendly.co.uk)**  
**[info@nationalfriendly.co.uk](mailto:info@nationalfriendly.co.uk)**

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