

With-profits fund

Annual report to policyholders

Contents

	Page
1. Introduction	3
2. Summary	3
3. Governance arrangement for with-profits business	3
4. How we have complied with our PPFM	
■ Bonus rates	4
■ Surrender values	4
■ Investment strategy	4
■ Inherited estate	4
■ Charges and expenses	4
■ Arrangements for new business	4
■ Equity between different groups of with-profits policyholders	5
■ Changes to the PPFM and Communications to policyholders	5
5. Conclusion	5
6. Report from the With-Profits Actuary	5

1. Introduction

The purpose of this report is to explain how we have managed our with-profits fund during 2019 and to demonstrate that we have followed our published Principles and Practices of Financial Management (PPFM), which is available on our website: www.nationalfriendly.co.uk. This includes the setting of bonuses and the investment decisions we have made.

If you require more technical detail you can view our current PPFM, which sets out the meaning of any terms used in this report and is also available on our website.

2. Summary

In the opinion of the Board, the with-profits fund has been managed in accordance with our PPFM over the period 1 January 2019 to 31 December 2019.

This opinion takes into account all areas where discretion has been exercised or where there have been any competing rights, or interest, between different groups of policyholders.

Appropriate governance arrangements have been maintained throughout this period to ensure we comply with the PPFM in the conduct of with-profits business.

3. Governance arrangement for with-profits business

We have two key roles to provide reassurance that our with-profits business is being managed in accordance with our PPFM. They are the With-Profits Advisory Arrangement (WPAA) and the With-Profits Actuary.

The WPAA was established to monitor, advise and report on matters relating to the management and governance of our with-profits business.

In particular the WPAA provides independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.

The With-Profits Actuary is responsible for providing the Board with advice on areas of discretion as they relate to the fair treatment of with-profits policyholders. This includes making recommendations regarding bonus rates, reviewing communication to with-profits policyholders and ensuring the interests of with-profits policyholders are taken into account in a fair and balanced way.

The With-Profits Actuary's report to policyholders in respect of 2019 can be found at the end of this document.

4. How we have complied with our PPFM

There are a number of important areas where the Board has exercised its discretion in managing the with-profits business during 2019.

Bonus rates

Bonus rates were reviewed by the With Profits Actuary and the WPAA and changes were approved by the Board and implemented with effect from 1 July 2019.

As part of the bonus recommendation, reversionary bonus rates were declared for the year 2018, replacing the interim bonus rates previously applicable (and those reversionary bonus rates are not subject to change whereas interim bonus rates may be changed). Revised interim bonus rates were also implemented for the year 2019 onwards. Reversionary and interim bonuses have remained at the same level as the previous year, due to the continued low interest rate environment.

The Board was supplied with sufficient information for it to be content that bonus rates were consistent with the PPFM and reflected fair value to with-profits policyholders.

Surrender values

As part of the bonus declarations in 2019, surrender values for with-profits business were reviewed by the WPAA and the With-Profits Actuary.

Revised surrender values were approved by the Board and implemented with effect from 1 July 2019. No Market Value Reductions were applied to any with-profits policies during 2019.

Investment strategy

The investment strategy for the with-profits fund is monitored regularly, with any changes in strategy being approved by the Investment Committee, a sub-committee of the Board.

In the course of 2019, the Investment Committee has continued to review equity, fixed interest and property holdings where appropriate for potential disposal and to assess reinvestment opportunities in order to create value from this fund.

Inherited estate

The with-profits fund contains an amount of money over and above the amount expected to be paid to existing policyholders. This is known as the inherited estate.

The inherited estate provides working capital to cover statutory solvency requirements and to support current and future business. The inherited estate is currently defined as the Society's "own funds" determined in accordance with the PRA Rulebook. The target range for the inherited estate is currently defined as between 200% and 300% of the Society's "solvency capital requirement" determined in accordance with the PRA Rulebook.

During 2019 the inherited estate was below 200% of the Society's solvency capital requirement. However, the Board are looking to review this measure in line with their risk appetite and capital management plan.

Charges and expenses

Charges to the with-profits fund and the way these are apportioned to products are reviewed on a regular basis. During 2019 charges made to the with-profits fund were in accordance with the PPFM and reflected the charges advised to policyholders in relevant disclosure material. Expenses in excess of these charges were borne by the inherited estate during 2019, with the exception of the cost of providing benefit guarantees. This cost was borne by the with-profits policyholders in accordance with the PPFM when the inherited estate is below the target range described in the previous section. This cost was borne by the with-profits policyholders throughout 2019.

Arrangements for new business

When setting the planned levels of new sales, there is a requirement to ensure there is sufficient capital available to the with-profits fund to support new sales, without adversely affecting the expectations of existing with-profits policyholders. In addition, new business should be transacted only if it is expected to be beneficial to the with-profits policyholders. The Board had considered this and believe that this requirement was met.

Equity between different groups of with-profits policyholders

Different groups of with-profits policyholders have potentially competing or conflicting interests, such as holders of:

- different products
- policies of different sizes or policy terms
- policies with different entry dates, maturity dates or dates of birth
- policies claiming for different reasons (e.g. maturity, death, surrender)
- policies exercising different policy options, who could receive different benefits relative to each other depending on how discretion is exercised.

The main area in which judgement is required in balancing the interests of different groups is with regard to the smoothing of policy benefits and the way in which policies are grouped when determining payouts. The approach taken to smoothing and grouping is described in the PPFM and was applied in determining payouts in 2019.

Changes to the PPFM and communications to policyholders

No changes were made to the PPFM in 2019.

The PPFM is available on our website: www.nationalfriendly.co.uk

5. Conclusion

During the period covered by this report (the calendar year 2019), the Board and the WPAA are satisfied that the Society has complied with its PPFM.

6. Report from the With-Profits Actuary

As With-Profits Actuary, I am required to report to the with-profits policyholders on whether, in my opinion, the with-profits business of National Friendly has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner. During 2019 the role of With-Profits Actuary was held by Christopher Critchlow and I have had full access to his work in order to confirm the statements made in this report.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice. I can confirm that, throughout 2019, the then With-Profits Actuary had full access to the actuarial team and the Board of National Friendly to discuss matters relating to with-profits business. In addition, in preparing this report, I have taken account of the rules of the Financial Conduct Authority, the relevant standards published by the Financial Reporting Council and the Practice Standards of the Actuarial Profession.

In my opinion, the annual report by National Friendly to its with-profits policyholders, and the discretion exercised by National Friendly in respect of 2019, has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner. I believe that the Society has complied appropriately with the requirements of its Principles and Practices of Financial Management. I also consider that the Society has paid due regard to the information needs of its members.

Sally Butters, FIA
With-Profits Actuary (Designate) to National Friendly

02 June 2020

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 a 01 or 02 number and will count towards any inclusive minutes.

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

Alternatively, you can email us at info@nationalfriendly.co.uk



National Friendly is a trading name of National Deposit Friendly Society Limited. Registered office: 11-12 Queen Square, Bristol BS1 4NT. Registered in England and Wales no. 369F. National Deposit Friendly Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register number is 110008. You can check this at: <https://register.fca.org.uk>. National Deposit Friendly Society Limited is covered by the Financial Services Compensation Scheme and Financial Ombudsman Service.
www.nationalfriendly.co.uk