# Performance Summary 2019

National friendly

# CHAIRMAN'S REVIEW

I am pleased to present our Annual Report and Accounts following a hugely successful year for the Society in 2019. Having re-opened to new business in 2016, we have seen our newly issued policy count grow each year and, in particular, in 2019 our annualised new business premium income grew to £8 million compared to £1.8 million in 2018 representing significant growth.

An important driver to our new business has been our Guaranteed Life Assurance product, available to those aged 50 and over, and a variant where we undertake partial underwriting to allow a reduced deferred period before a claim can be made and a possible reduction in premium.

2019 also saw the launch of our Immediate Needs Annuity product, which aims to provide a monthly income for people entering into a nursing or care home, guaranteed for life, in exchange for a lump sum premium. Initial sales and feedback have been very positive and we hope to grow this source of income significantly over the coming years. A substantial element of this product is reinsured with a high credit quality reinsurer reducing the risk and capital strain for the Society.

Furthermore, 2019 saw the implementation of the final phase of our new policy administration system, Odyssey, which is now fully functional and in use allowing us to administer far higher volumes of policies without increasing incremental cost.

All of these have helped us in delivering our overall strategy of: *"being a forward thinking and trusted mutual that meets the health, welfare and protection needs of our customers."*

We will continue to build upon this through in the coming years, developing and launching new products that complement our strategy and using our system infrastructure to best effect.

At the time of writing this review, we are witnessing an unprecedented outbreak of a pandemic with COVID-19 taking its toll across the country. We have followed Government guidelines and remained focused on protecting the health and wellbeing of our colleagues and those around us, as well as continuing to service our members and business partners. Business continues as usual including sales performance in line with targets, and we activated our business continuity processes so that colleagues across all teams have been able to work from home and remain available to help meet the needs of our members with both existing policies and new business. This pandemic has also created uncertainty and volatility in the financial markets and global economy having a significant impact on asset values and yields, and resulting in a reduced capital position for the Society as at the end of March 2020. The Board has considered a number of options, some already in progress, to restore this position and strengthen it for the long term.

On this note, I would like to finish by thanking all colleagues for their continued hard work, dedication and commitment in driving the Society forward in achieving our strategy and best serving you all as members.

**Tracy Morshead**
Chairman
August 2020

# 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:

- Expanding the current proposition with further new products and services.
- Promoting customer retention, offering alternatives when products mature or reach trigger points such as price and benefit review.
- 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.

# BUSINESS PERFORMANCE

The Society's business plan and key performance indicators ('KPIs') for 2019 have continued to focus on developing and launching 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 in the long term.

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 £20.5m in 2018 to £18.3m in 2019. The main reason for the reduction was the maturing of business although this was to some extent offset by strong investment returns across all major asset classes.

Significant new business growth, particularly on the Guaranteed Life Assurance products resulted in further reductions in the Society's assets over the year with additional commission, expenses and claims from policies written in the year. Although the costs relating to the distribution of products is incurred in the initial year, the profits from these policies will be realised over a longer term.

The Staff Superannuation Fund also contributed to a reduction in Own Funds due to an increase to the deficit and further contributions paid into the Fund.

## Capital Management (continued)

The Solvency Capital Requirement (SCR) increased overall. Again, this was driven by the growth in new business and particularly in respect of mortality and lapse risk attributable to the Guaranteed Life Assurance products.

After allowing for the required SCR, the excess capital at 31 December 2019 reduced to £5.2m, from £8.8m at 31 December 2018 providing a SCR coverage ratio of 140% (2018: 176%).

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 pre 2016 policies over a period of 16 years, as these policies mature. Before taking account of the transitional measure, the excess assets position was £3.8m (2018: £6.7m).

## Impact of Covid-19

The impact of the pandemic and resulting volatility in the financial markets and reduced interest rates has had a significant impact on the Society's asset values and yields resulting in the Society falling below its SCR, reporting a solvency coverage ratio of 92% as at 31st March 2020. The Board took immediate management actions and these, coupled with gradual improvements in market conditions, despite further falls in interest rates and an increased pension scheme deficit, resulted in an improved solvency coverage of 100% as at 30 June 2020. Throughout this time, the Society has maintained significant capital resources to meets its Minimum Capital Requirement (MCR), reporting a coverage ratio of 400% as at 30 June 2020.

The Society notified the regulator, the Prudential Regulation Authority (PRA), on 27th May 2020 of its March 2020 position. Although solvency coverage had improved to 100% by end of June 2020, the Board has prepared and provided the PRA with a capital recovery plan, which includes proposed management actions to further strengthen the capital position for the long term in line with the Society's capital management framework/ risk appetite.

# BUSINESS PERFORMANCE (CONTINUED)

## New business

The Society has continued to widen 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. Increasing policy count and related income, against 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 that 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.

The launch of an Immediate Needs Annuity product in mid-2019 has further expanded our later life product portfolio and as an already developed market, gives us a relatively straightforward entry to a sustainable line of business. It will also help us to develop relationships with Financial Advisers who may be interested in selling pre-funded later life products as and when we develop them in the future. A substantial element of this product is reinsured with a high credit quality reinsurer reducing the risk and capital strain for the Society.

We measure new sales by their annualised new business premium income ('API') and deposits to new savings and investment policies. In 2019, the Society's new business API and investment deposits exceeded £8m, compared with £1.8m in 2018 representing an increase of over 341% from the prior year.

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.

## 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.

Project Asterix, being the development of a new policy administration system, is now completed with the final stage of migrating the healthcare policies onto the system achieved in January 2019. The implementation of the new system, and resulting decommissioning of legacy systems is delivering efficiencies in providing the ability to write new business and at a higher volume without the need for additional administration staff and cost savings in respect of IT server and maintenance.

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

**Jonathan Long**
Chief Executive Officer
August 2020

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**www.nationalfriendly.co.uk**
**info@nationalfriendly.co.uk**



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