



National
Friendly



Performance Summary 2021





Chair's Review

As a mutual Friendly Society, our fundamental reason for being is to provide for our members in their time of need.

It is with pride that I read some of the correspondence from our members, who having been unfortunate enough to need to claim on their insurance, have then taken time to write directly to the members of staff who have been involved, thanking them for making everything so simple and for taking care to help them.

"I just wanted to say thank you for processing the claim so quickly. I have had to deal with a lot of financial institutions since my husband's death. National Friendly was one of the most efficient and easiest to deal with."

"I have been lucky enough [as has my wife] to be a policy holder for some years, I have in the last 4 years regrettably claimed a lot and you have been fair and provided very good value, particularly when compared with others. Your operatives/consultants who you speak to on the phone are kind and considerate and from what I can gather, the way that you are treated is head and shoulders above some of the more well-known health providers"

I mention this because for me it confirms that as a Society we are meeting the fundamental need of our members as we have promised to do, and importantly it is one of the reasons why we should seek to expand our reach so that more members can in due course benefit from our expertise. The other motive for expanding is affordability; the more members we have, the more we can invest in the services we provide and the scope of benefits our policies can offer.

I am reminded of the World Health Organisation's definition of good health, namely "a state of complete physical, mental and social well-being and not merely the absence of disease and infirmity".

In the UK, COVID-19 is now hopefully receding as a serious threat to health, but in its wake NHS waiting times are the highest they have ever been for certain treatments, projected to fall back by 2025 at the earliest. Many people have experienced the challenge of income uncertainty, the government's furlough scheme effectively being a massive state sponsored income protection arrangement which has now ended.

These two factors mean that market circumstances are also highly favourable for a Society such as ourselves to expand our member offerings, building on our strengths of expertise in health and sickness protection products. 2021 saw the launch of our new income protection product range and in February 2022 the launch of a comprehensive private medical insurance plan which complements our current medical plan.

We have also worked hard to expand our distribution network, sourcing brokers and strategic business partners who value our mutual ethos and want to work with a Society that provides excellent products and services for its members.

2021 has been a year of significant investment in our strategic capability, whilst not losing sight of what matters most – delivering what you, our members, expect from us. The Chief Executive’s Review gives more details

I am very grateful for the support of my Board colleagues and the team of staff led by Chief Executive Graham Singleton.

In September Julie Hansen was elected to the Board but for personal reasons stepped down in November. On receiving Julie’s resignation, the Nomination Committee met and recommended to the Board that Mike Hughes, who had joined the Board of our wholly owned subsidiary National Friendly Financial Solutions in September, be invited to join the main Society Board. Mike subsequently accepted the invitation. Mike has a wealth of financial services experience in a wide variety of different organisations and is a strong champion of the mutual model.

Looking ahead, after much debate we are seeking to transition to a virtual Annual General Meeting (“AGM”) in future years, subject to the motion being passed at this year’s meeting. We will be one of the last mutual Friendly Societies to adopt a virtual AGM and the rationale is twofold. The costs (which come directly from members’ funds) of hosting an in-person AGM have grown disproportionate to the actual number of in person attendees. Equally, speaking with other Societies their experience of virtual AGMs has been a marked increase in participation, and we very much do want you to have a say on key matters which impact the Society day-to-day. It is your Society – please vote on the resolutions we put forward.

Lastly it remains for me to thank you, our members, for your continued support and also thank both our existing and new strategic business partners. As a mutual Friendly Society we have delivered and will continue to deliver member products and services which make a real difference to people’s lives.

Geoff Brown

Chair

13 April 2022



Chief Executive's Review

Whilst I reflected on 2021, my mind was drawn to a conversation I had with one of our members during the AGM.

The member, who was also on our staff for a considerable period of time, reminded me that prior to the launch of the NHS, the Society membership was over two million. At the time, private health insurance provision was the norm for those who could afford to set aside regular premiums. This funded their medical insurance and ultimately access to the medical care they might need.

Much has changed since, with the NHS becoming a comprehensive provider of "cradle to grave" healthcare, despite challenges we hear regarding waiting lists in some instances of three or four years. Our membership is now much reduced as historic policies have steadily matured, standing at just over 35,000 at the end of the year.

All organisations, if they are to endure, must have a business model where ultimately income exceeds operating expenses - even if only marginally. If we are to continue to develop and enhance member value and services, we need to grow and once again increase our membership from where it is currently.

During 2021 we began a major transformation journey, leveraging our 150 years' experience in the health and protection market to sustainably increase the Society's membership, underpinned by the fundamental purpose of what the Society was founded on – to provide peace of mind to our members in times of need.

Using our technical expertise and that of our strategic business partners, and by embracing the new technology driven distribution platforms such as price comparison websites,

the aim is to broaden our product range and our access to potential new members. At the same time, we will ensure that we continue to deliver the personal and high-quality service our members expect and we see as making the Society stand out in the marketplace.

It is a two-year journey with 2021 very much being the foundation year, a year with considerable investment in product research and development, people, investment in core services for existing and new prospective members and increased access to distribution partners who share the Society's values. A major service improvement for our medical insurance members is our new claims management service delivered in partnership with AHG Group. The AHG consultant led referral process specialises in getting members faster access to correct diagnosis and ultimately faster treatment.

Products

» In February we became one of only four UK insurers offering immediate care plans (products which fund the provision of long-term care for the balance of the member's life) using a common market application process facilitated by the Medicals Direct Group.

» In April we entered the income protection market, initially with an accident only income protection product, and in November with the full income protection product (recently rated 'gold' by independent Protection Review), having invested in a state-of-the-art underwriting capability in partnership with Munich Re.

» In December we finalised the design of a new comprehensive medical insurance plan to complement our current tailored insurance plan, with an expectation of launching in Spring 2022. As outlined above, we also finalised a new medical claims management contract with AHG Group. This went live for all our private medical insurance customers in February 2022.

Distribution

» In 2021 and early 2022 we signed contracts:

- with a number of major insurance broker networks which will be using National Friendly for the first time.
- with a number of the major quotation services used by insurance advisors to source products most appropriate to their client's needs.
- with a number of brokers to sell our products exclusively.

» Combined with the expansion of the dedicated direct sales operation, these increase the accessibility and availability of the Society's products to a wider range of potential customers.

People

» We welcomed several new executives as part of the establishment of a very experienced and talented management team.

» We committed to adopting as the new normal a hybrid office/home operating model, enabling staff to embrace a more balanced work/home life balance which works for them.

Technology

» We continued to invest in our technology ensuring:

- We achieved the Cyber Essentials kite mark in September.
- Every staff member has access to IT equipment which enables them to easily work from home or in the office.

The transformation also maximises the Society's past investment in its administration system, which is able to rapidly implement new products and handle the associated processing capabilities.

COVID-19

We retained for most of 2021 a strong bias to home working to as far as possible protect our staff from workplace infection, whilst being very mindful of the mental health challenges that working from home can lead to for some.

We continued to deliver smooth operations and excellent customer service throughout which is testament to the dedication of all my colleagues.

The biggest COVID impact was not on us directly as an organisation but rather our distribution partners, a number of whom were impacted by serious COVID outbreaks. We are however very grateful for all our distributors strong and continued commitment to the Society in these challenging times.

Conclusion

I stated it is a two-year transformation plan. The second year is essentially delivery and consolidation of the various growth initiatives commenced in 2021. We listen intently to both member and distribution partner feedback and are always seeking to improve the products and services we provide to our members.

I thank everybody, our Board, our colleagues and business partners for the strong support in 2021. I am very confident that 2022 will be even more successful as we grow our membership base, diversify our product range and continue to build on our 150 years of heritage whilst remaining true to the principles that the Society was founded on; we are a proud Mutual that looks after the health and protection of our members in their time of need.

Business Performance

The financial performance of the Society is closely monitored month on month, comparing actual results against that anticipated in the Society’s business plan and corresponding Own Risk and Solvency Assessment (“ORSA”).

The key performance indicators (“KPIs”) are those detailed in the table below. These KPIs are used to measure ongoing success and have been monitored throughout the year.

Key Performance Indicators:

	31st December	
	2021	2020
Absolute Level of Own Funds	£15.5m	£16.0m
SCR coverage ratio		
• With Transitional Measures Relief	144%	143%
• Without Transitional Measures Relief	140%	131%
MCR coverage ratio		
• With Transitional Measures Relief	497%	479%
• Without Transitional Measures Relief	487%	442%
Gross new premiums written in the year	£12.2m	£9.5m

Own Funds – This is the Solvency II regulatory measure of the Society’s net assets after liabilities. It represents the long-term value attributable to its members and allows the Board to establish the impact of management activity over the long term.

Own Funds have decreased by £0.5m during the year. Although the Society’s liabilities reduced (owing mainly to the maturing of with profits policies), this was offset by a reduction in asset values predominantly driven by market movements during the year.

Solvency Capital Requirement (“SCR”) coverage ratio – This is a measure of how many times over the surplus capital covers the SCR. The SCR is the capital that an insurer is required to hold, to withstand a set of events covering market, underwriting, counterparty and operational risks such that the resulting level of capital would only be breached during a 1-in-200 year event. The SCR is calculated using the prescribed Standard Formula set out in the regulations. The regulatory requirement is for the SCR coverage ratio to exceed 100%, and the Society has a Solvency Risk Appetite which is set on a Red-Amber-Green scale in order to provide additional security to members.

The Society’s capital position is assessed in accordance with the PRA Rulebook 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 of liabilities plus a risk margin.

The SCR coverage ratio has increased slightly to 144% (prior year; 143%). The eight basis point adverse impact of the change in mandatory ‘risk free’ discount rate from LIBOR to SONIA described on page 9 was offset by the balance sheet de-risking activities undertaken during the year, as well as by changes in assumptions.

Business Performance (continued)

Minimum Capital Requirement (“MCR”) coverage ratio – This is a measure of how many times over the surplus capital covers the MCR. The MCR is the absolute minimum regulatory capital required to sustain the Society; if this is breached then immediate action would be taken by the regulator.

The above SCR and MCR results allow for the transitional measure on interest rates (‘TMIR’) approved by the regulator to enable the Society to smoothly transition to Solvency II. TMIR allows the gradual move from using Solvency discount rates to the prescribed Solvency II risk free rates for pre-2016 policies over a period of 16 years, as these **policies mature**.

In 2021, the year end MCR coverage ratio was 497% (2020; 479%).

Gross New Premiums Written – The target is an increase in membership numbers whilst maintaining strong control over costs.

New Business sales are measured by their annualised new business premium income (“API”) plus deposits to new savings and investment policies. In 2021, the new business API grew by 28%, driven by strong sales of the immediate care plan launched during the year.

The previous year’s Annual Report highlighted the Society’s aim to introduce a KPI measuring member engagement and overall advocacy. Whilst somewhat delayed, this will be launched in 2022, utilising the Medallia platform to monitor and understand our performance through the customer journey. The aim is to continuously improve how we meet our members’ needs both through product design, pricing and service.

Graham Singleton

Chief Executive

13th April 2022

Contact us

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

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