

# **Report of the Board of The Rechabite Friendly Society Limited (trading as Healthy Investment) to its With profits policyholders for the calendar year 2010.**

## **1. Introduction**

The FSA requires all firms, with the exception of non-directive friendly societies, to publish and maintain its Principles and Practices of Financial Management (PPFM). The PPFM is a fairly technical document that states the principles and practices that an organisation follows in managing its With profits Fund.

The PPFM is available to all policyholders and you can obtain a copy from our website or by contacting this office.

We also publish a summary of the PPFM entitled 'A guide to how we manage our With profits Fund.' This is sometimes referred to as the Customer Friendly Principles and Practices of Financial Management and is also available from our website and the office.

Due to its continued growth the Society has, under FSA rules, become a directive friendly society during 2010. Whilst, as a mutual organisation, it has always worked only for the benefit of its members, the governance arrangements and reports of its With profits Fund are now more formal.

## **2. Governance arrangements**

It is the responsibility of the Board of the Society to report to the With profits policyholders at the end of every year.

The purpose of this report is to confirm that the Board believes that it has complied with its obligations detailed in its PPFM for the management of its With profits Fund and set out the reasons for that belief.

The report must also address all significant relevant issues, including the way in which the Society has:

- Exercised, or not exercised, any discretion in the way it has managed its With profits Fund;
- Addressed any competing or conflicting rights, interests and expectations of its policyholders including those with different products and different lengths of membership.

All organisations who operate With profits funds must appoint a With Profits Actuary, who is not a member of the Board, to advise it on its use of discretion and the implications of the way in which the Board has used discretion on the fair treatment of members. The With Profits Actuary makes a formal report at the end of every year to the Board on the implications of the Boards discretionary decisions. He is also required to produce an annual report to With

profits policyholders stating whether, in his professional opinion, the Society has taken the interests of With profits policyholders into account in a reasonable and proportionate manner in all their decisions. This report is annexed to this document.

In order to ensure even further independent judgement is applied to whether the Board has complied with the PPFM and whether all With profits members have been treated fairly, all organisations operating a With profits Fund are required to have a With Profits Committee. The With Profits Committee has reported to the Board that it believes the Board has acted in accordance with the PPFM and that the interests of With profits policyholders have been taken into account throughout the year.

At present, all of the Board sit on the With Profits Committee. However, to further strengthen its governance of the With profits Fund, the Society is currently recruiting additional independent members of its With Profits Committee. As a mutual friendly society, it is keen to hear from members who are independent of the Board who have relevant experience of With profits business.

### **3. Changes to the PPFM**

During the year some changes were made to the practices detailed within the PPFM. No changes were made to any of the principles. A new version (version 4) was issued on 17<sup>th</sup> September 2010.

The changes included:

- Clarifying the language used when explaining the exercising of discretion;
- Reducing the target range for payouts on regular premium With profit policies to be between 70% and 130% of the asset share;
- Reducing the target range for payouts for accumulating (single premium) With profits policies to be between 80% and 120% of the asset share;
- Clarifying the definition of the estate of the Society.

The change in the target range for the regular premium policies is a major change.

### **4. Compliance with the PPFM during the year**

This report comments on specific areas. In particular, where discretion was used and where the fair treatment of policyholders was specially considered. This report follows the same sections as the PPFM.

#### **4.1 The amounts payable on maturity**

Asset share values, which payouts are based on, were calculated during 2010 using the methods described in the PPFM.

Over 90% of payments were within the stated target range of between 70% and 130% for regular premium policies and 80% and 120% for single premium policies.

#### **4.2 The amounts payable in surrender**

Regular premium policies have surrender values that pay exactly the asset share plus a smoothing allowance when appropriate. This is in accordance with the PPFM.

The Board decided that an MVR needed to be applied on the single premium accumulating With-profits policies early in the year to reduce payouts to within the asset share target range. The MVR was removed before the end of the calendar year.

The Board are aware that terminal bonus rates and MVRs need to be reviewed on a regular basis.

#### **4.3 Bonus rates**

2010 saw an improved investment performance over the last two previous years. The annual bonus declaration for 2010 was agreed by the Board at their meeting on 10 February 2011.

The Board followed the advice of the With Profits Actuary in declaring bonus rates in excess of the interim rates.

Terminal bonus rates were agreed for maturing regular premium policies (and payments on death) and all payments on single premium accumulating With profits policies in force for at least 6 years.

In determining the level of bonuses, the Board bore in mind: the asset share methodology used to determine maturity values; the fair treatment of all members with different types of policy and different lengths of investment; the smoothing of members returns; and the need for maturity payments to be calculated in line with the PPFM.

#### **4.4 Smoothing**

The Society aims to smooth the fluctuations of investment return and other sources of profits and losses over the period of the contract.

A formal smoothing account has been established at the beginning of 2011 with a nil balance. The smoothing account forms part of the estate of the Society.

The Board can confirm that the smoothing policy detailed within the PPFM is being followed.

#### **4.5 Investment policy**

During the year the equity and fixed interest elements of the With profits Fund were moved to by BNP Paribas who actively manage them. The property holding and cash deposits are managed directly by the Society.

The mix of asset classes held has been within the investment limits laid down by the Board, which was agreed after advice from the With Profits Actuary and the investment managers.

The fund's performance exceeded the benchmarks set by the Board.

The mix of assets held is published by the Society on its website and has been in line with the fund manager's view on the potential performance of each asset class.

The Board is satisfied that that it and the Investment Managers have controlled investment policy in line with the PPFM.

#### **4.6 Business risk**

Risk management is the responsibility of the Board who use various tools including a detailed risk register to manage potential risks.

Consideration of the various business risks is incorporated within the Society's Individual Capital Adequacy assessment, the first of which it completed towards the end of the year.

The Society has three main outsourcers: Parkhill for internal audit, Steve Dixon Associates for actuarial functions and BNP Paribas for investment management.

Risk and outsourcing arrangements have been controlled in accordance with the PPFM.

#### **4.7 Charges and expenses**

Charges to the With profits Fund and the way these are apportioned are reviewed on a regular basis. Costs for the year were higher than expected due to large actuarial expenditure on implementing the FSAs Solvency II project.

As the total expenses suffered are still larger than the expenses used in the illustrations of the Society and on the expenses being charged through to the surrender value asset shares, these additional costs are being charged to the Estate of the Society.

The year end valuation carried out by the Actuarial Function Holder had no expense overruns on renewal expenses on a closed fund basis.

The Board are content that the charges and expenses are in line with the PPFM.

#### **4.8 Management of the Estate**

The PPFM defines the Estate as the difference between the assets and the realistic prospective value of policy cash flows on the regular premium policies and the asset shares on the accumulating With profits policies.

The With Profits Actuary and the Board are satisfied that the Estate was managed in accordance with the rules of the PPFM.

The Board has decided to cover any expense overruns in the short term from the Estate of the Society.

#### **4.9 New business.**

Considerable work was carried out in 2010 on examining the profitability of new business.

The Society is successful at selling With profits business through IFAs. The Board are confident that sales were at a level which did not place a undue strain on solvency and were beneficial to the existing policyholders.

The Board has taken the decision to continue with the current pricing of products until new products are developed to meet the changes in the IFA market brought about by the FSA's Retail Distribution Review which will prevent the payment of commission to IFAs.

#### **4.10 Allocation of profits**

The Society is a mutual friendly society which means that there are no shareholders. All profits and potentially any losses are shared between the members of the Society.

#### **4.11 Customer communications**

The With Profits Actuary has responsibility for controlling representations made to policyholders by reviewing and signing off documents. All new documents and amendments to existing documents (the Key Feature Documents, Terms and Conditions, Illustrations and Policy Documents) are reviewed and signed off prior to issue. The Society's PPFM and CFPPFM have been approved by the With Profits Actuary, as have the bonus notices and accompanying leaflet.

During the year a review of the Society's surrender and maturity letters was conducted and the With Profits Actuary approved the revised letters.

## **5. Conclusion**

During the period covered by this report (2010) the Board is satisfied that the Society has complied with the PPFM.

Mr P J M Smith  
Chairman  
10 March 2011

Mr P Green  
Chief Executive  
10 March 2011

#### **Healthy Investment**

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Healthy Investment is the trading name of The Rechabite Friendly Society Limited, founded in 1835 and is an incorporated Society within the meaning of the Friendly Societies Act 1992  
FSA Registration Number 109994

***Authorised and regulated by the Financial Services Authority***

## **Annex 1**

### **Report from the With Profits Actuary to With profits policyholders of Healthy Investment.**

I have made a report to the Board in accordance with the requirements of the Supervision Manual of the FSA Handbook to inform them of my view of the way in which the Principles and Practices of Financial Management (PPFM) has been applied and how discretion has been exercised in respect of the With profit policyholders.

I am also required by the Supervision Manual to draft a report to With profits policyholders to accompany the firm's annual report required by COBS20.4.7R, stating whether, in my opinion, the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking the interests of the firm's With profit policyholders into account in a reasonable and proportionate manner. In doing this, I must have regard to the rules and guidance laid down in COBS20.2 of the FSA Handbook.

I can confirm that, in my opinion, the Board has acted in a manner consistent with the PPFM in the year from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010.

I can confirm that, in my opinion, the Board has taken the interests of With profit policyholders into account in a reasonable and proportionate manner.

S W Dixon BA, FIFa, FSAS  
With Profits Actuary for Healthy Investment.

Dated 10<sup>th</sup> March 2011