

# Abstract of Actuarial Report on Transfer of Members from Coventry Assurance to Rechabite Friendly Society Limited trading as Healthy Investment

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The following is a short abstract of my report. Copies of the full report can be downloaded from the Healthy Investment web site at [www.healthyinvestment.co.uk/](http://www.healthyinvestment.co.uk/) This abstract is only a short summary.

Coventry Assurance Society and Healthy Investment have proposed a transfer of all of the assets and all of the liabilities from Coventry Assurance into a “ring fenced fund” in Healthy Investment. There is a requirement under the Friendly Societies Act and under SUP18 of the FSA Handbook for an actuarial report to be prepared showing the impact of the change on both the policyholders in Coventry Assurance and in Healthy Investment.

I am the Actuarial Function Holder and With Profits Actuary of Healthy Investment. I am a qualified actuary and am a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Singaporean Actuarial Society. I hold a practising certificate from the Institute and Faculty of Actuaries on life assurance (including with profits). I am also a partner in Steve Dixon Associates LLP.

## **1. Impact of transfer on Coventry Assurance Society’s members**

Coventry Assurance Society’s members will gain from the transfer into the ring fenced fund by:

- Increased financial strength from being part of Healthy Investment. The current solvency financial position for Coventry would possibly be technically insolvent on a stand alone basis due to the need to maintain resilience reserves, required minimum margins and a reserve to cover the cost of expenses not provided by valuation margins;
- Reduced expenses on an ongoing basis. The expenses suffered by the members of Coventry Assurance Society is some £235K for 2010 and £166K for 2009. Expenses over 2010 that would have been charged in the ring fenced fund would have been £98K. The expenses charged to the ring fenced fund will reduce in line with the business in force whereas the current expenses of Coventry Assurance Society would be unlikely to reduce much in future other than the elimination of marketing costs;
- An investment policy that would not be constrained by the need to maintain statutory solvency in the run off of the business in force. Healthy Investment will invest the assets within the fund in line with the underlying economic requirements of the policies rather than being restricted by the statutory solvency position of Coventry Assurance.

The solvency position at 31/12/2010 is estimated to be a deficit of £289K before the required minimum margin for Coventry as a stand alone society allowing fully for the requirements from FSA in its rules for a net premium valuation for with profits policies against a deficit of £17K after the transfer.

We have also tested the ability to generate future bonuses if the policies are within the ring fenced fund. I believe that the fund will support bonuses if reasonable expectations on future investment performance applied. This is less likely to apply on a stand alone basis.

## **2. Impact of the transfer on Healthy Investment members.**

Healthy Investment members will initially suffer a reduction in the published solvency position within the FSA Returns for carrying out the transfer but by a small amount. The position as at 31/12/2010 would have been free assets after the £2.28 million required capital margin has been deducted of £1.051 million reducing to £0.958 million. This is a small reduction which in my opinion is not material.

The members of Healthy Investment will gain:

- Extra expense margins. The extra charge into the ring fenced fund is more than sufficient to cover the time spent pure marginal costs of administering the extra Coventry policies and will provide a small but valuable extra contribution to Healthy Investment's overheads (actuarial, audit, senior management, financial management, compliance costs). This reduces the impact of these overheads marginally on Healthy Investment's members.
- Greater resilience against potential capital losses from unexpected events. Healthy Investment monitors its ability to meet 1:200 year events under the Individual Capital Assessment system. The extra policies from Coventry provide greater resilience in giving greater flexibility in reducing benefits if large scale events occurs. The ring fenced fund will meet all of its own ICA capital requirements.

Healthy Investment members will be exposed to the risks of guaranteeing the solvency of the ring fenced fund. However, I have tested the ring fenced fund and found sufficient resilience within the expected bonuses that could be paid to ensure the fund can be self standing in meeting most of the anticipated risks that could occur.

## **3. Summary**

I believe that this transfer should be in the interests of both sets of members.

S. Dixon

13th April 2011