Report of the Board of The Rechabite Friendly Society Limited (trading as Healthy Investment) to its With-profits policyholders within the Coventry Assurance Ring Fenced Fund for the calendar year 2018.

1. Introduction

The FCA 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 sets out the principles and practices that an organisation follows in managing its With-profits Fund.

The PPFM for the Coventry Assurance Ring Fenced Fund (RFF) is available to all policyholders and you can obtain a copy from our website or by contacting this office.

The RFF came into existence on 28 October 2011 on completion of the transfer of engagements from Coventry Assurance Society (CAS) to Healthy Investment. This report covers the period from 1 January 2018 to 31 December 2018.

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 Ring Fenced 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 in 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 Board's discretionary decisions. They are also required to produce an annual report to With-profits policyholders stating whether, in his professional opinion, the Society have 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 that even further independent judgement is applied to whether the Board has complied with the PPFMs and whether all With-profits members have been treated fairly, it is recognised good practice for all organisations operating a With-profits Fund to have a With-profits Committee. The With-profits Committee met on 14 March 2019 and has reported to the Board that it believes the Board has acted in accordance with the PPFM for the main With-profits Fund and the PPFM for the RFF and that the interests of With-profits policyholders have been taken into account throughout the year.

The With-profits Committee comprises of 1 Non-executive Director and two independent persons with relevant experience of With-profits. This ensures that the With-profits Committee is independent.

3. Changes to the PPFM

The PPFM was established on 28 October 2011 and no changes have been made to it since its inception. As it was a non-directive friendly society Coventry Assurance Society (CAS) was not obliged to publish a PPFM and relied on policyholders' reasonable expectations alone to define what would be classed as fair treatment.

The PPFM has been compared against previous marketing and policy literature issued by CAS and in the view of the Board and Actuary accords with their view of policyholders' reasonable expectations.

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 especially considered. This report follows the same sections as the PPFM.

4.1 The amounts payable on maturity

Asset shares for sample regular premium policies and single premium policies are calculated using the hypothecated fund performance and best estimate assumptions in accordance with the PPFM. There has been no change in the methodology this year. The asset shares deduct the expense allowances within the transfer agreement that will be charged to the RFF. For expenses charged to the asset shares prior to this date the amounts have been adjusted to bring total asset shares into line with the assets transferred to the Society on a straight proportionate increase. Mortality risk deductions are based on a standard actuarial table.

The Society has, on the advice of the With-profits Actuary and after considering the impact on and fairness to members, changed one element in the asset share calculation this year. Underwriting or miscellaneous profit is now being calculated based on the change in the estate of the fund other than that caused by the investment return the estate generates.
Other sources of profits arising within the year are added into the asset share as an addition as a percentage of the asset share.

Fund performance has been allowed for in the asset shares using the average mix of assets held in the year.

The target range for maturing policies in the PPFM is stated as being between 70% and 130%. During 2018 all maturing policies were within this range and we expect all maturity policies in 2019, with the exception of one historic paid up policy, to be within this range.

At the time of the transfer to Healthy Investment there was a deficit of assets over liabilities which required a support from Healthy Investment's main With-profits Fund. This support was fully repaid in 2014.

The Board followed the advice of the Actuary on the declaration of a 1.25% reversionary, 1% interim and 7% terminal bonus, for tax exempt and taxable policies.

4.2 The amounts payable in surrender

The target range is between 70% and 130% of asset shares for single and regular premium policies. Regular premium policies have surrender values that pay exactly the asset share plus a smoothing allowance into the maturity payout at higher durations in force. This is in accordance with the PPFM.

During 2018 1 policy was outside the target asset share range.

4.3 Bonus rates

The Actuary, in his role as With-Profits Actuary recommended that the Board declare a reversionary bonus of 1.25%. The Board followed this advice, agreeing that this is in accordance with the PPFM of the RFF.

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 smoothing account was established at the beginning of 2012 with a nil balance. The smoothing account impact in 2018 is -£10k. The cumulative smoothing account has moved from £80k at the start of the year down to £70k at the end of year.

The smoothing account is part of the Estate of the RFF.

The smoothing policy as detailed in the PPFM is being followed.

4.5 Investment policy

The funds within the RFF have been managed by Investec during 2018. The equity, fixed interest and commercial property holdings have been within the investment matrix laid down by the Board and the fund manager has reported that he has managed the investments in accordance with the Board's remit.

The position the investment manager has taken on asset allocation and stock selection was in line with their view of the investment outlook.

The Board is satisfied that the investment policy and their management has been in line with the PPFM.

4.6 Business risk

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

The Society has three main outsourcers: Moore & Smalley for internal audit, Steve Dixon Associates llp for actuarial functions and Investec for investment management.

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

4.7 Charges and expenses

The charges made to the RFF follow a formula outlined in the transfer agreement and stated within the PPFM, although they can be reduced to reflect the actual expenses suffered by the Society in the RFF. The actual expenses incurred were in line with the maximum allowed.

The charges and expenses applied to the RFF 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 RFF is in run off and the Board will manage the run off of the estate to provide extra benefits for the remaining policies.

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

4.9 New business

No new business is allowed to be written into the RFF.

4.10 Allocation of profits

The RFF is part of a mutual society. All profits are ultimately given to the members of the Society. In this case, all profits within the RFF accrue for the benefits of the members of the RFF after repayment (with interest) of any support provided by the main With-profits Fund of Healthy Investment.

4.11 Customer communications

The With-Profits Actuary has responsibility for controlling representations made to policyholders by reviewing and signing off documents. The PPFM has been approved by the With-Profits Actuary, as have the bonus notices and accompanying leaflet.

5. Conclusion

During the period covered by this report (2018) the Board is satisfied that the Society has complied with the PPFM of the RFF.

Steven Spilsbury
Chairman
2 April 2019

Peter Green
Chief Executive
2 April 2019

Healthy Investment

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Annex 1
Report from the With-Profits Actuary to With-profits policyholders of Healthy Investment's Coventry RFF.

I have made a report to the Board in accordance with the requirements of the Supervision Manual of the FCA 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-profits policyholders in the ring fenced fund.

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-profits 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 FCA Handbook.

I can confirm that, in my opinion, the Board has acted in a manner consistent with the PPFM in the period between 1st January 2018 and 31st December 2018.

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

S W Dixon BA, FIFA
With-Profits Actuary for Healthy Investment.

Dated 2 April 2019