Report of the Board of The Rechabite Friendly Society Limited (trading as Healthy Investment) to its With-profits policyholders for the calendar year 2019.

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

This is the ninth report the Board has made to its With-profits policyholders since the Society became a directive friendly society.

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 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. 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 that further independent judgement is applied to whether the Board has complied with the PPFM 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 4 March 2020 and 16 July 2020 and 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.

The With-profits Committee comprises of one 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

No changes to the PPFM have been made during the year. The current version was issued on 12 December 2011.

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. This allows for expense deductions reflecting the expense allowances within the product terms (table allowances) until 31 December 2010 and then actual expenses thereafter. Mortality risk deductions are based on a standard actuarial table.

Underwriting or miscellaneous profit is 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 within the calendar year are added into the asset share as an addition as a percentage of the asset share.

The hypothecated fund performance allows for the differing amount of guarantees on the individual policies and assumes that the assets required to back the guaranteed benefits are invested in bond assets whereas the remaining asset share is invested in equities and properties (or "risky" assets).

The expense deductions are sensible as they allow for both the reasonable expectations of policyholders in following the table deductions until the business had developed to a reasonable size and then assuming no subsidy from the estate after 31 December 2010. For accumulating With-profits, we would normally only examine the table charges. However, we are following the actual expenses since 31 December 2010 so the asset shares reflect any expense profits and losses.

The individual policy calculations are reasonable and generate a compliant framework.

The target range in the PPFM for maturing policies is stated as being between 70% and 130% of asset shares for regular premium policies and between 80% and 120% of asset shares for single premium policies. For 2020 the projected payouts of all maturing policies fall within the target range.

The Board followed the advice of the With-profits Actuary in declaring reversionary (regular) bonuses on both conventional and accumulating With-profits policies and terminal (final) bonuses dependent on the length of time invested.

Terminal bonuses and any market value reductions that might be required to ensure fairness are determined on a monthly basis. Asset shares are calculated for an example policy every six-monthly period that a premium could have been paid for each series of Bond and ISA. The actuary advised the Board on the smoothed terminal bonuses and market value reductions (mvr) to be applied and the Board followed that advice throughout 2019.

4.2 The amounts payable on surrender

The target range for pay outs on surrendered policies is between 60% and 130% of asset shares for regular premium policies and 70% to 120% for accumulating With-profits 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.

A small number of market value reductions were applied to short term surrenders of accumulating With-profits policies during 2019 in accordance with the advice of the With-profits Actuary due to a fall in the market values of assets.

The Board is aware that the need to apply a market value reduction to reduce payouts or a terminal bonus to increase payouts needs to be reviewed on a regular basis and this is monitored and advice from the With-profits Actuary taken at least monthly.

4.3 Bonus rates

The Board, after taking advice from the With-profits Actuary and the With-profits Committee deferred the annual bonus declaration until investment markets had stabilised following the disruption caused by the out break of coronavirus.

The declaration of 2019 reversionary bonuses was agreed by the Board at their meeting on 21 July 2020.

The Board followed the advice of the With-Profits Actuary on the declaration of reversionary, terminal and interim bonuses on conventional and accumulating With-profits policies.

The Board is aware of the need to monitor the interim bonuses rates and investment performance throughout the year and amend interim bonuses accordingly.

In determining the level of bonuses, the Board considered: the asset share methodology used to determine maturity values; the fair treatment of all members with different types of policies and different lengths of investment; the smoothing of members returns and the balance of the smoothing account; the solvency position of the Society and the need for maturity payments to be calculated in line with the PPFM.

The With-profits Actuary has confirmed that the bonus declarations made by the Board are in accordance 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 was established at the beginning of 2011 with a nil balance. The asset share on payouts within the year has been compared to the payouts made on individual policies on surrender, maturity and death

There has been an increase to the smoothing account of £143,614 for the year giving a balance carried forward as at 31 December 2019 of £763,856. This figure includes an adjustment, which the Board approved in 2017 following advice by the Actuary, made for the impact of the Whole Life policies.

The smoothing account is 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

The Board appoints discretionary fund managers to actively manage the equity, fixed interest and commercial property elements of the With-profits Fund. During the year the appointed fund managers were Investec.

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 investment performance was above the benchmark set for the year. The performance of the portfolio (net of charges) was 13.27% compared to the benchmark performance (gross of charges) of 9.4%.

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 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 Risk Management Team, a Risk Committee and a detailed risk register to manage potential risks.

Consideration of the various business risks is incorporated within the Society's Own Risk and Solvency Assessment which was completed towards the end of the year.

The Society has during 2019 used three main outsourcers: MHA 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 Society continues to control costs carefully.

The expenses incurred are close to the expenses used in the Key Information Documents issued by the Society and to the expenses being charged through to the surrender value asset shares. An expense analysis was carried out in 2019 which showed a consistent but slightly different mix of expense allowances for 2019 compared with 2018.

The new expense allowances were used for asset shares and the Solvency II valuation. As part of the Solvency II governance process they will be reviewed before the next valuation.

The Board is content that the charges and expenses are in line with the PPFM, recognising that this position needs to be reviewed against the business plan on an annual basis.

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 estate as at 31 December 2019 was £16.3 million. Total assets excluding those for unit-linked policies was £108 million. The estate is within the range set out within the PPFM.

4.9 New business

The Society provides a range of With-profits policies including Investment Bonds, ISA, Junior ISAs and Tax Exempt and Standard Savings Plans.

All of the Society's products allow for the facilitation of financial adviser's fees or are available directly.

The expenses charged to asset shares from 31 December 2010 follow the actual expenses incurred by the Society, therefore support from the estate to the asset shares for expense overruns has been curtailed.

The Society is successful at selling With-profits business through financial advisers and directly to members. The Board is confident that sales were at a level which did not place an undue strain on solvency, were beneficial to the existing policyholders and were in accordance with the PPFM.

4.10 Allocation of profits

The Society is a mutual friendly society which means that there are no shareholders. All profits are ultimately given to 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 (Key Information Documents, Terms and Conditions and Policy Documents) are reviewed and signed off prior to issue.

The Society's With-Profits Actuary has also reviewed the bonus statements and accompanying literature.

5. Conclusion

During the period covered by this report (2019) the Board is satisfied that the Society has complied with the PPFM.

Steven Spilsbury
Chairman
18 August 2020

Peter Green
Chief Executive
18 August 2020

Healthy Investment

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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 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.

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 year from 1 January 2019 to 31 December 2019.

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

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

24 July 2020.