

## **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 2022.**

### **1. Introduction**

The Prudential Regulation Authority (PRA) requires all With-profits providers, 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 2022 to 31 December 2022.

### **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 sets 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 their 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 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, 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 7 March 2023 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 one Non-executive Director and two independent persons all of whom have 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 on completion of the transfer from Coventry Assurance Society. As it was a non-directive friendly society, Coventry Assurance Society was not obliged to publish a PPFM and relied on policyholders' reasonable expectations alone to define what would be classed as fair treatment.

There has been no change to the PPFM during the year.

### **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 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.

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 arising within the year are added into the asset share 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 2022 nearly all maturing policies were within this range, with just five (2% of the total) paid up policies falling outside this range. However, for 2023 we expect sixteen policies to fall outside this range (7% of maturing policies) which is largely due to the poor investment return during 2022. Fifteen policies are expected to be above the 130% and one policy, which was made paid-up after only a few years, below 70%.

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

The Fund was in deficit in March 2022 and the main Fund of Healthy Investment provided support of £150,000.

The Board followed the advice of the Actuary on the declaration of a nil reversionary bonus, for tax exempt and taxable policies.

#### **4.2 The amounts payable on 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 2022, 98% of policies were within the target asset share range.

#### **4.3 Bonus rates**

The Actuary, in his role as With-profits Actuary recommended that the Board declare a nil reversionary and terminal bonus rate, and an interim reversionary bonus for 2023 of 0.25%. 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 2022 is (£51k). The cumulative smoothing account has reduced from (£8k) at the start of the year to (£59k) at the end of year. As the business runs off and the estate of the Fund is distributed, it is to be expected that the smoothing account will become increasingly negative.

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 abrdn (previously Aberdeen Standard Investments) throughout 2022. The equity, fixed interest and commercial property holdings have been within the

investment guidelines laid down by the Board and the fund manager has reported that they have 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 investment 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: MHA Moore & Smalley for internal audit, Steve Dixon Associates llp for actuarial functions and abrdn 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 conventional 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 (2022) the Board is satisfied that the Society has complied with the PPFM of the RFF.

Tim Birse  
Chair  
30 March 2023

Peter Green  
Chief Executive  
30 March 2023

### **Healthy Investment**

2 The Old Court House, Tenterden Street, Bury, Greater Manchester, BL9 0AL

Tel No. 0161 762 5790 Fax No. 0161 764 3557

E-Mail [enquiries@healthyinvestment.co.uk](mailto:enquiries@healthyinvestment.co.uk)

Website [www.healthyinvestment.co.uk](http://www.healthyinvestment.co.uk)

Healthy Investment is the trading name of The Rechabite Friendly Society Limited,  
an incorporated Society within the meaning of

The Friendly Societies Act 1992

Financial Services Register 109994

Authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority  
and the Prudential Regulation Authority

## **Annex 1**

### **Report from the With-Profits Actuary to With-Profits policyholders of Healthy Investment's Coventry Assurance Ring Fenced Fund.**

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<sup>st</sup> January 2022 to 31<sup>st</sup> December 2022.

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, FIF  
With-Profits Actuary for Healthy Investment.

Dated 3 April 2023