

Annual Report to
With-Profits Policyholders on
Compliance with
The Principles and Practices of Financial
Management (PPFM) for
1 January to 31 December 2023



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1 Introduction

The Independent Order of Oddfellows Manchester Unity Friendly Society Limited (“the Society”) has published its Principles and Practices of Financial Management (referred to as the Oddfellows PPFM). The PPFM sets out how the Society manages the with-profits business within its Long Term Business (“LTB”) fund.

During 2023 the LTB Fund consisted of four with-profits funds:

- **Unity Insurance and Endowment and Retirement Annuity Fund (UIEF):** this relates to the Manchester Unity Insurance and Endowment and Retirement Fund which also includes contracts from other funds which were subsequently merged with the UIEF Fund. The fund is open for new business for unit-linked ISA and Junior ISA business.
- **The Schoolteachers Fund:** encompassing the business of the Schoolteachers Friendly Society (SFS) which transferred into the Society on 31 March 2011. It contains with-profit endowment and sickness and unit-linked Child Trust Fund business. The Fund is open for new business.
- **The Druids Fund:** encompassing the business of the Druids Sheffield Friendly Society (DSFS) which transferred into the Society on 30 April 2015, and contains with-profit, non-profit and Child Trust Fund unit linked business. It is open to new business for tax-exempt savings policies.
- **The Kingston Unity Fund:** encompassing the business of the Kingston Unity Friendly Society (KUFS) which transferred into the Society on 1 February 2021, and contains with-profit endowment, Bond, ISA, Junior ISA and Child Trust Fund business and unit linked ISA, Junior ISA and Child Trust Fund business. It is closed to new business.

In addition, there is one Non-profit Fund into which new non-profit business is being written. This Fund has no impact on the management of the with-profit funds.

Note that sections 2-6 below relate to the with-profits funds within the Society during 2023.

2. Background

In order to comply with the rules set out by the Financial Conduct Authority (FCA) the Society’s Board is required to report to with-profits policyholders each year on the Society’s compliance with the PPFM. The report must:

- (1) state whether, throughout the financial year to which the report relates, the firm believes it has complied with its obligations relating to its PPFM and setting out its reasons for that belief;
- (2) address all significant relevant issues, including the way in which the firm has:
 - a. exercised, or failed to exercise, any discretion that it has in the conduct of its with-profits business; and
 - b. addressed any competing or conflicting rights, interests or expectations of its policyholders (or groups of policyholders), including the competing interests of different classes and generations.

As such, this report covers:

- the governance arrangements for with-profits business;

- the use of discretion in managing with-profits business;
- how any competing or conflicting rights, interests or expectations were addressed; and;
- the conclusions

This compliance report dated 18 June 2024 covers the period from 1 January to 31 December 2023.

The management of the with-profits funds between January and June 2023 was covered by PPFM version 6 dated November 2021 and, for the remainder of the year, by PPFM version 6.1 dated July 2023.

The Society also has a Consumer Friendly PPFM (CFPPFM) which describes the most important information in the PPFM in clear and plain language that can be easily understood. Any reference to the PPFM throughout this document refers to both versions of the document. There is a Glossary in the PPFM which contains an explanation of a number of terms used in the PPFM and in this document.

3 Governance

In order to ensure that the Society's with-profits business is managed in accordance with the PPFM, the Society's Board has appointed an independent With-Profits Actuary (WPA) and included appropriate Terms of Reference for the Commercial Board to act as the With-Profits Advisory Arrangement (WPAA).

3.1 The role of the With-Profits Actuary

The role of With-Profits Actuary (WPA) includes consideration of compliance with the PPFM, and the exercise of discretion in relation to with-profits business and the interests of the with-profits policyholders.

The Society's WPA during 2023 was Mr George Andrew Pennington; Mr Pennington is a consulting actuary with Zenith Actuarial and is authorised by the FCA to undertake this role.

A report from Mr. Pennington to the Society's with-profits policyholders covering the period 1 January to 31 December 2023 can be found in [appendix A](#).

3.2 The role of the With-Profits Advisory Arrangement

The Terms of Reference of the Commercial Board cover the role of the WPAA. It is the Commercial Board's responsibility to ensure the with-profits business is managed in accordance with the PPFM.

The ultimate responsibility for managing the With-Profits funds rests with the Society's Board. The role of the Commercial Board in acting as the WPAA is, in part, to act in an advisory capacity to inform the decision making of the Board. The Commercial Board, as the WPAA, also acts to ensure a means by which the interests of With-Profits policyholders are appropriately considered within the Society's governance structures.

The Commercial Board raised no material concerns in the 2023 review and, therefore, the Commercial Board does not wish to make a separate report to the policyholders on compliance with the Oddfellows PPFM for this period.

4 Compliance with the Oddfellows PPFM in the exercise of discretion

4.1 Setting bonus rates

Annual and final bonus rates were reviewed in 2023, and, as a result of these reviews the following bonus declarations were made:

Fund	Annual bonuses	Final bonuses
UIEF	March 2023	May 2023
SFS	December 2023	December 2023
DSFS	March 2023	May 2023
KU	March 2023	May 2023

In declaring bonuses, discretion was used with regard to smoothing of bonus rates from 2022 levels to the new 2023 declaration.

These bonus declarations were approved by the Board, on advice from the WPA and WPAA that the declarations complied with the PPFM.

The Society has met its PPFM requirements on payouts on maturity, except where guarantees resulted in a higher amount being paid.

4.2 Setting of surrender values

The PPFM requirements on payouts on surrender have been met.

4.3 Investment strategy

The Society is satisfied that, during the year, the discretion exercised, with respect to the types of investments held and the proportions of the Society's assets held in each asset type, was in line with the principles and practices of the PPFM.

4.4 Allocation of expenses

Maintenance expenses (other than investment management expenses) are not Fund specific, and, are classified as "overheads". It has previously been agreed that weights determined on a fair share basis would be used to allocate the maintenance expenses to each fund. These weights are subject to periodic review.

Expense arrangements

Expense arrangements are in place:

- for the Druids Fund, through a restriction around the charging of the expenses to the Fund; and;
- for the Kingston Unity Fund through a rate card which sets out the charge to the Fund

The expense arrangements are set out in the relevant Transfer of Engagement documents.

Allocation of expenses in 2023

The allocation of expenses was in line with the principles and practices set out in the Oddfellows PPFM.

4.5 Management of the estate

During 2023 each of the funds in the LTB fund, including the estate of each fund, was managed independently in line with the PPFM.

4.6 Management of risk

Business risk continues to be monitored through the Society's risk assessment procedures and controls in order to manage and mitigate business risk.

No significant other business risks were taken nor materialised during 2023.

5 Competing or conflicting rights, interests and expectations

As the Society has no shareholders there can only be competing or conflicting rights, interests or expectations between different groups of with-profits policyholders. Potential conflicts between policyholders in different funds are dealt with by managing each fund independently so that benefits are paid to policyholders only from the surplus in that fund. Other potential conflicts could be between:

- policyholders with different products;
- policies of different sizes or policy terms;
- policies with different entry or maturity dates; and
- policyholders claiming for different reasons (e.g. maturity, death, surrender)

Discretion is exercised in order to balance the interests of these groups in the:

- smoothing of policy benefits;
- setting bonus rates, Market Value Reductions and surrender penalties for similar policies; and
- the setting of asset shares

The WPAA is of the opinion that, any potentially competing or conflicting rights, interest and expectations of policyholders were managed in accordance with the PPFM.

6 PPFM changes

The PPFM was updated to version 6.1 in July 2023 to allow for minor adjustments/clarifications to practices for with-profit pay-outs.

7 Conclusion

It is the opinion of the Board, on advice from the WPAA, that the management of the with-profits business in the LTB fund during 2023 has complied with the PPFM in full.

It is also the Board's opinion that, during this period, the exercise of discretion was appropriate and that any issues involving competing or conflicting rights, interests and expectations of policyholders were resolved fairly.

Dated: 18 June 2024

Appendix A: Report from the With Profits Actuary

Report of the With Profits Actuary to Policyholders for The Independent Order of Oddfellows Manchester Unity Friendly Society Limited

The Society's Board has made a report to with-profit policyholders in accordance with the requirements of the FCA Handbook to inform them 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 FCA Handbook to provide a report to with-profits policyholders to accompany the firm's annual report, 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 the FCA Handbook.

This report and the annual report to which it is appended covers all of the with-profits business within the Society's long term business fund.

Having considered the manner in which the Society has managed its with-profits business, and having reviewed the discretion applied during 2023, I can confirm that, in my opinion, the Society has acted in a manner consistent with the PPFM in the year from 1st January 2023 to 31st December 2023. I can also confirm that, in my opinion, the Society has taken the interests of with-profits policyholders into account in a reasonable and proportionate manner.

My opinion is based on the information and explanations provided to me by the Society, and taking into account where relevant the rules and guidance of the FCA and PRA on treating with-profits policyholders fairly.

Members of the Institute and Faculty of Actuaries must comply with Actuarial Professional Standards ("APSs") when carrying out work. In addition, the Financial Reporting Council specifies a number of Technical Actuarial Standards ("TAS"). This paper has been produced with consideration of the standards listed below, and in my opinion complies with the relevant standards.

APS X1 : Applying standards to actuarial work.

APS L1 : Duties and responsibilities of life assurance actuaries.

APS X2 : Review of actuarial work.

TAS 100 : General actuarial standards.

TAS 200 : Insurance.

George Andrew Pennington

With-Profits Actuary for The Independent Order of Oddfellows Manchester Unity Friendly Society Limited