

One Family

One Family (EM) With Profits Fund Annual Report to Policyholders for 2022

June 2023

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Section 1: Introduction

- 1.1 The purpose of this report is to explain how the OneFamily (EM) With Profits Fund (“the Fund”) has been managed during 2022 and to demonstrate that we have followed our published Principles and Practices of Financial Management (PPFM). This includes the setting of bonuses and the investment decisions we have made.
- 1.2 If you require more technical detail about how we manage the Fund, our PPFM is available on our website:

<http://www.onefamily.com/company-information/financial-reports/>

Section 2: Closure of OneFamily (EM) With Profits Fund

- 2.1 A communication has been sent to each policyholder invested in the WP1 fund to explain that as of 1 June 2023, the Fund is closed.
- 2.2 Since the Fund stopped selling new business in 2016, the number of investors has been reducing. When the Fund was established, there was a clause set that describes what happens when the number of members or value of the fund reach a certain level – this is called “the sunset clause”. The sunset clause can be found on page 18 of the PPFM.
- 2.3 The number of policy holders within the with-profits fund dropped below the number needed to trigger the sunset clause during 2022 so, to reduce the cost of managing the fund, we have converted all policies in the fund to “guaranteed bonus business”, as mentioned in the sunset clause, and we have moved the investments to our Non-Profit fund, which will provide a guarantee of future returns. This guarantee means that instead of benefiting from variable returns, customers will receive a fair share of the fund through fixed bonuses that are defined in advance. The effective date of closure is 1 January 2023.
- 2.4 All policyholders have been contacted to explain how closure has impacted their policy so that they can make informed decisions on what, if anything, they want to do next.
- 2.5 Further information on the closure of the Fund is available on our website:

<https://www.onefamily.com/help/fund-information/with-profits/>

Section 3: Summary

- 3.1 In the opinion of the Board, the management of the Fund has met the requirements of the PPFM over the period 1 January 2022 to 31 December 2022, and at the bonus declaration in respect of the year 2022.
- 3.2 This opinion takes into account all areas where discretion has been exercised, or where there have been any competing rights, or interests, between different groups of policyholders.
- 3.3 Appropriate governance arrangements have been maintained throughout this period to ensure that we comply with the PPFM in the conduct of OneFamily (EM) with-profits business.

Section 4: Governance arrangements for with-profits business

- 4.1 The Board have established a sub-committee of the Board (the With-Profits Sub-Committee “WPSC”) whose terms of reference cover the management of the Fund. The composition of this Committee is the responsibility of the Board, and during 2022 has consisted of three Non-Executive Directors (for WPSC meetings prior to September) and two Non-Executive Directors (for WPSC meetings during and after September) It is also attended by the Chief Executive Officer, the Chief Risk Officer, the Chief Finance Officer, the Commercial Actuarial Director and the With-Profits Actuary.
- 4.2 The Non-Executive Directors provide independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.
- 4.3 The WPSC reviews all key developments for the Fund and regularly reviews its financial progress, referring matters to the Board for approval, as required by the PPFM. On an annual basis the WPSC confirms that the Fund has been managed in accordance with the PPFM and this is reported to the Board.
- 4.4 The With-Profits Actuary has provided advice on key aspects of discretion at the WPSC meetings, when matters relating to the Fund have been discussed. The With-Profits Actuary’s report to policyholders in respect of 2022 can be found in the Appendix.

Section 5: How we have complied with our PPFM

- 5.1 There are a number of important areas where the Board has exercised their discretion in managing the Fund during 2022.

Payouts and bonus rates

- 5.2 Payouts made from the Fund during 2022 have reflected asset shares, subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. The calculation of asset shares was consistent with the PPFM.
- 5.3 In setting regular and final bonus rates and Market Value Adjustments (MVAs) the Board have been supplied with sufficient information for it to be satisfied that they were calculated in accordance with the PPFM. All bonus rates, MVAs and the methodology underlying the surrender scales were reviewed by the With-Profits Actuary and the WPSC.
- 5.4 Claims payouts were monitored throughout 2022 to ensure that payouts remained in line with the targets defined in the PPFM.

Investment Policy

- 5.5 The investment policy for the Fund is regularly monitored by the WPSC, and proposals for any changes in policy are reported to the Board for approval.
- 5.6 The investment strategy for the Fund was reviewed during 2022 in accordance with the principles and practices in the PPFM and a number of changes were made over the year. As part of preparing for the closure of the Fund and conversion to non-profit, this included the sale of all equity and corporate bond assets in favour of low risk UK government bonds.

Management of free assets

- 5.7 The Fund contains an amount of money over and above the amount expected to be paid to existing policyholders (based on asset shares and guarantees), and risk capital to comply with the Prudential Regulation Authority (PRA) regulations. This is known as the Free Assets. The Board has regard to the size of the Free Assets in its financial management of the Fund.
- 5.8 The Fund was closed to new business with effect from 1 October 2016. As a result, a run-off plan was approved by the Board and agreed with the regulator to distribute the Free Assets to existing policyholders in a fair and equitable manner.
- 5.9 Any miscellaneous surplus in the Fund arising during 2022 has fallen to the free assets and has not been explicitly allocated to policy asset shares. As the fund is in run-off and the inherited estate is being distributed, this is considered to be a reasonable approach.
- 5.10 For the purposes of determining claims payouts, the distribution rate for claims arising in 2022 was an enhancement to asset shares of 41.0%. The Board reviewed the distribution rate during 2022 and agreed to increase the enhancement rate to 46.0% for claims arising during 2023.

Miscellaneous Surplus

- 5.11 The Board is responsible for ensuring that profits, or losses, arising from exposure to business risks are allocated fairly to all policyholders having regard to the source of the profit or loss. At the end of 2022, the amount of miscellaneous profits arising was small and this was added to the Free Assets in the fund.

Expenses and charges

- 5.12 The expenses and tax charged to the Fund, and the way in which these are apportioned to products, are reviewed on a regular basis. During 2022, the amounts of expenses and tax charges made to the Fund were in accordance with the expense and other legal agreements in operation, and documented in the PPFM. These amounts were reviewed by the With-Profits Actuary.

Business Risks

- 5.13 Risks were monitored regularly throughout the year and a full risk assessment for the Fund was carried out in 2022.

Equity between different groups of policyholders

- 5.14 Different groups of OneFamily (EM) With Profits policyholders have potentially competing interests due to :
- Different products
 - Policies of different size, or duration
 - Policies with different entry dates, claim dates or dates of birth
- 5.15 The main areas in which judgement is required in balancing the interests of different groups are with regards to the smoothing of policy benefits, and the way in which policies are grouped when determining payouts. The approach taken to smoothing and grouping is described in the PPFM and was applied in determining payouts in 2022.

Section 6: Changes to the PPFM

- 6.1 The PPFM describes how the Fund is managed on an ongoing basis.
- 6.2 Changes were made to the Fund's PPFM in 2022 to update investment practices following the changes in investment manager and strategy made over 2021. There were no changes to the principles.
- 6.3 The PPFM which applied over 2022 is available on our website.

Appendix A: Report from the With-Profits Actuary

As With-Profits Actuary for the OneFamily (EM) With-Profits Fund, I advise the Board, and With-Profits sub-committee of the Board, on key aspects of the discretion that they exercise.

I have been With-Profits Actuary since September 2019.

I have been involved in all matters referred to in this report. In my opinion, based on the information and explanations provided to me by OneFamily, the discretion exercised by the Board during 2022 took your interests into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Conduct Authority's Conduct of Business Rules (Treating with profits policyholders fairly).

The Financial Reporting Council ("FRC") sets technical actuarial standards ("TASs") for the members of the UK Actuarial Profession. This report is intended to comply with TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance, except that, in terms of completeness, I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the Board report to which my report is annexed.

Michael Green BSc FIA

With-Profits Actuary for the OneFamily (EM) With Profits Fund

June 2023