

# OneFamily (EM) With Profits Fund annual report to policyholders for 2015

FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED  
(trading as OneFamily)

The logo for OneFamily, featuring the word "OneFamily" in a dark blue, cursive script font. The text is set against a light yellow rectangular background.

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## 1. introduction

The OneFamily (EM) With Profits Fund ("the Fund") was transferred to Family Assurance Friendly Society on 1st April 2015 (see section 6). As part of the transfer the 'Engage Mutual With Profits Fund' was renamed the 'OneFamily (EM) With Profits Fund'.

The purpose of this report is to explain how the Fund has been managed during 2015 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.

You may find it helpful to refer to 'Your Guide to how we manage our OneFamily(EM) With Profits Fund' which summarises how we manage the Fund. This is available on our website [<http://www.onefamily.com/company-information/financial-reports/>]

If you require more technical detail our PPFM is also available on our website.

## 2. summary

In the opinion of the Board, the management of the Fund has met the requirements of the PPFM over the period 1 January 2015 to 31 December 2015, and at the bonus declaration in respect of the year 2015.

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.

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.

## 3. governance arrangements for With Profits business

The Board has established a sub-committee of the Board, whose terms of reference include oversight of the management of the Fund. The composition of this Committee is the responsibility of the Board, and during 2015 it has consisted of three Non Executive Directors. It is also attended by the Chief Executive, the Governance and Risk Director, the Finance Director and the With Profits Actuary.

The Non Executive Directors provide independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.

When the Board sub-committee discusses matters relating to the Fund the With Profits Actuary is in attendance.

The Board sub-committee 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 Board sub-committee confirms that the Fund has been managed in accordance with the PPFM and this is reported to the Board.

The With Profits Actuary has provided advice on key aspects of discretion at the Board sub-committee meetings, and at Board meetings, when matters relating to the Fund have been discussed. The With Profits Actuary's report to policyholders in respect of 2015 can be found in the Appendix.

#### **4. how we have complied with our PPFM**

There are a number of important areas where the Board has exercised its discretion in managing the Fund during 2015.

##### **bonus rates**

Payouts made from the Fund during 2015 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.

In setting regular and final bonus rates and Market Value Reductions (MVRs) 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, market value reductions and surrender scales were reviewed by the With Profits Actuary and the Board sub-committee.

##### **claims payouts**

Claims payouts were monitored throughout 2015 to ensure that payouts remained in line with the targets defined in the PPFM.

##### **investment policy**

The investment policy for the Fund is regularly monitored by the Board sub-committee, and proposals for any changes in policy are reported to the Board for approval. The investment policy has remained largely unchanged during 2015.

##### **arrangements for new business**

When setting the planned levels of new With Profits sales there is a requirement to ensure there is enough capital available in the Fund to support new sales without adversely affecting existing policyholders of the Fund. In addition, new business should be transacted only if it is expected to be beneficial to the Fund.

The Fund has remained open to new business throughout 2015 and the profitability of new business being written has been assessed on an ongoing basis throughout 2015. Overall new business written in 2015 has been profitable. The new business strategy for the Fund is currently being reviewed.

## **other areas of discretion**

### free assets

The Fund contains an amount of money over and above the amount expected to be paid to existing policyholders, and risk capital to comply with the Prudential Regulatory 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.

Due to the financial strength of the Fund, during 2011 the Board agreed a set of proposals by which some of the Free Assets can be used to improve policyholder payouts. This is done by uplifting asset shares by an agreed percentage at the point of claim when calculating final bonus rates, market value reductions and surrender values. For claims arising in 2015 the uplift rate was 11.5%, and the Board have agreed that an uplift of 11.5% will apply for claims arising in 2016. The claims enhancement will not apply to new business sold on or after 1<sup>st</sup> January 2015. For future years the uplift rate may vary depending on the financial strength of the Fund at the time.

### miscellaneous surplus

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 2015, the amount of miscellaneous profits arising was very small and this was added to the Free Assets in the fund. This was reviewed by the With Profits Actuary and approved by the Board.

### expenses

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 2015, 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 and approved by the Board.

### business risks

Risks were monitored regularly throughout the year, with a full risk assessment for the Fund approved by the Board in September 2015.

### equity between different groups of policyholders

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

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 2015.

## **5. changes to the PPFM**

The PPFM describes how the Fund is managed on an ongoing basis.

No changes were made to the PPFM during 2015.

## **6. implications of the transfer of engagements to Family**

On 1<sup>st</sup> April 2015, the engagements of Homeowners Friendly Society were transferred to Family Assurance Friendly Society. As part of the merger approval process, the Board fully considered the likely effect on with profits policyholders, and took advice from the With Profits Actuary.

The Board concluded that the transfer did not materially affect the benefit expectations or security of benefits for with profits policyholders, and that it was consistent with the fair treatment of policyholders and the PPFM. This view was supported by an Independent Actuary who was appointed to advise on the transfer, and the transfer was subsequently approved by the Prudential Regulatory Authority and the Financial Conduct Authority.

Following the transfer, the fund continues to be operated as a ring fenced sub-fund and remains entitled to all of the surpluses arising within the fund. The PPFM, capital framework, governance arrangements, investment policy and expense agreements have all remained materially unchanged as a result of the transfer. There were no changes to the policy conditions for any of the ex-Engage policies as a result of the transfer.

# appendix

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## report from the With Profits Actuary

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

In April 2016 the role of With Profits Actuary transfers from myself to David Addison, but I am making this report for 2015 as I have been the With Profits Actuary throughout that period.

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 Family Assurance Friendly Society, the discretion exercised by the Board during 2015 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).

**Steve Turland**

With Profits Actuary for the OneFamily (EM) With Profits Fund  
Willis Towers Watson

**19th April 2016**