

# PPFM Compliance

**Board report to with-profits policyholders**

For the period 1 January 2019 to 31 December 2019

**The Shepherds Friendly Society Limited**

Registered Office: Haw Bank House, High Street,  
Cheadle, Cheshire, SK8 1AL.

## 1 Introduction

The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its with-profits business.

The PPFM is available on the Society's website at [www.shepherdsfriendly.co.uk](http://www.shepherdsfriendly.co.uk) or copies may be obtained by writing to The Company Secretary, Shepherds Friendly Society, Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL.

The Society is required to produce a report for with-profits policyholders stating whether, throughout the financial year covered, it believes it has complied with the obligations relating to the PPFM and its reasons for that belief. This report covers the period from 1 January to 31 December 2019.

Version 12 of the PPFM was effective throughout the year.

The Society's PPFM is currently undergoing an extensive review and refresh to improve clarity. The key areas that have been identified as needing improvement are the sections on investments, business risk and management of the Society's surplus. The new version of the PPFM is expected to be published during 2020.

## 2 Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2019.

### **In particular, it confirms that:**

- a. the Board's discretion in the conduct of the Society's with-profits business has been applied in accordance with the PPFM,  
and
- b. any competing or conflicting rights, interests or expectations of the Society's policyholders have been addressed through the application of the PPFM in a reasonable and proportionate manner.

In so doing the Society confirms that it has maintained fairness between different categories of policy and policyholder.

### **In making this declaration we have taken into account:**

- a.** advice from our With-Profits Actuary on compliance with the PPFM and discretion exercised throughout the period. A statement from him is attached to this report,
- b.** judgement from our Fair Members Benefit Committee on our compliance with the PPFM throughout the period,
- c.** the Directors' overall assessment of the business,
- d.** the materiality of individual aspects of compliance.

The main reasons for believing we can make this statement are covered below.

## **3 Governance**

The Society is required to maintain governance arrangements designed to ensure that, in the conduct of our with-profits business, we comply with, maintain and record our PPFM.

The Board of Management takes overall responsibility for the management of the with-profits fund and ensuring that compliance with the PPFM is maintained. In doing so, advice is taken from the With-Profits Actuary, particularly on key aspects of the exercise of discretion in management of the fund. From 1 January 2019 until 30 September 2019 the With-Profits Actuary was Christopher Critchlow. From 1 October 2019 the With-Profits Actuary has been Cara Spinks. The With-Profits Actuary is required to report annually to policyholders on the management of the fund and her statement is attached to this report.

Since 1 January 2011 all key decisions are reviewed by a With-Profits Committee who have provided comments on compliance with the PPFM and the fairness of treatment of policyholders over 2018. During 2018 the Society changed the name of the With-Profits Committee to the Fair Members Benefit Committee to reflect the wider scope of issues it considers.

## 4

### **Reasons for Board's confirmation of compliance with the PPFM**

Having taken advice from the With-Profits Actuary and the With-Profits Committee the Board has reviewed the key provisions of the PPFM. The Board has considered each element of the PPFM and its conclusions on each area are as follows.

#### **Payouts and bonus rates**

Payouts made from the with-profits fund during the year broadly reflected asset shares, subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. The calculation of asset shares has been consistent with the PPFM and no departures from the methodology set out in the PPFM were made during 2019.

All bonuses were set following advice from the With-Profits Actuary.

Annual bonus rates for conventional policies declared for the 31 December 2018 distribution applied on an interim basis throughout 2019. The rates were reviewed in November 2019 and the decision was made to retain the existing rates for all business. This decision is consistent with the long-term sustainable rates that the With-Profits Actuary believes these policies can support.

The final bonus rates that applied to payouts throughout 2019 were set on the advice of the With-Profits Actuary with the aim that at least 90% of maturity and surrender payouts over 2019 would fall within the PPFM's stated target range of 80% to 120% of asset share.

The With-Profits Actuary has notified us that over 87% of maturity payouts were within the target range during 2019. This compares with 96% during 2018. Nearly all of the maturing policies outside the target range during 2019 had payouts that were higher than 120% of asset share.

A similar assessment carried out for surrendering policies over 2019 shows that a number of short-term surrenders, for nominally small amounts, have received payouts that were higher than the PPFM's stated target range.

The With-Profits Actuary has confirmed that, having reviewed these factors, and the size of the overpayment overall, she believes there has been no material detriment to the remaining with-profits policyholders and the Society's principles for smoothing have been met.

The overpayment on maturity claims has been addressed through the recent bonus declaration for claims over 2020 and the surrender basis is due to be reviewed during 2020. Additionally, in response to recent market falls and the impact of Covid-19 on the income protection book, further measures have been implemented to protect the fund when policyholders claim through the implementation of final bonus reductions and MVRs. This is being kept under regular review as the situation unfolds.

In setting final bonus rates and market value reductions (“MVRs”) we have followed the approach set out in the PPFM and have differentiated between classes and generations of policy in a reasonable and proportionate manner.

**Investment policy**

The overall gross asset mix of the fund at the start and end of 2019 is shown in the table below.

| <b>Investment Class</b>    | <b>Percentage of Fund at 31 December 2019</b> | <b>Percentage of Fund at 31 December 2018</b> |
|----------------------------|-----------------------------------------------|-----------------------------------------------|
| Equities                   | 17%                                           | 62%                                           |
| Property                   | 2%                                            | 12%                                           |
| Fixed Interest             | 73%                                           | 21%                                           |
| Cash and other investments | 8%                                            | 5%                                            |
| <b>Total</b>               | <b>100%</b>                                   | <b>100%</b>                                   |

No hypothecation of assets was applicable during 2019 as all of the assets belonged to the with-profits fund.

The return on the invested assets over 2019 was 7.8% (2018: -4.2%).

To address investment assets volatility risks, the Society changed investment management strategy in 2019 and selected a managed fund that has lower risk volatility, achieved by switching from a mainly equity based portfolio with LGT Vestra LLP to a variable mixed fund managed by RLAM. The fund managed by RLAM invests in UK and overseas equities, commodities, bonds, money market instruments, deposits and cash,

with a blend of active and passive funds and exchange traded funds. This move remains consistent with PPFM principles and doesn't represent any significant departure from the limits set out in the PPFM practices.

The Society also has a strategic investment in Mojo (previously known as Life's Great) which is covered in the Business Risk section below.

The Board is satisfied that the Society has abided by the principles and practices set out in the Society's PPFM during 2019 and in a manner consistent with the Society's desire to treat its policyholders fairly. However, it will continue to review its PPFM ranges to ensure they are consistent with the current investment climate and the stance of the Board in managing the Society's assets.

### **Business risk**

Risks were monitored regularly during the year.

The Society continues its investment in the growth of its non-profit business. Profits on these initiatives are now being paid to with-profits policyholders in the form of increased investment returns credit to members' asset shares.

The Society continually reviews ways in which risks can be managed within the business. This led to implementing a reinsurance arrangement on the Society's Over 50s business.

Over 2018 the Society increased its strategic investment with Mojo. Over 2019 this remained a significant component of the Society's investments. The Board actively considers its continued value-for-money.

No other new material ventures were undertaken.

### **Expenses and charges**

Expenses continued to be charged to the with-profits fund in line with the provisions of the PPFM.

### **Management of the Society's surplus**

The amount of surplus has continued to be monitored and the level remained within the broad target range set out in the PPFM.

The investment strategy of the surplus has been maintained in line with the fund's overall investment strategy.

The surplus has not been used for any new purpose in 2019 other than the 0.45% enhancement the Directors agreed in November 2019 should be distributed to asset shares in respect of surplus arising on the fund (primarily from non-profit business).

### **New business**

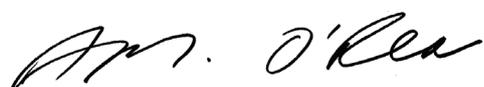
Volumes of new business were sufficient to justify the with-profits fund staying open to new business according to criteria included in the PPFM.

During 2019 the Society also began sales of its new Fixed rate Bond.

### **Changes to the PPFM**

There were no changes made to the PPFM during 2019. Version 12 of the PPFM was effective throughout the year.

The Society's PPFM is currently undergoing an extensive review and refresh to improve clarity. The key areas that have been identified as needing improvement are the sections on investments, business risk and management of the Society's surplus. The new version of the PPFM is expected to be published during 2020.



### **Ann-Marie O'Dea**

Chief Executive Officer

30<sup>th</sup> April 2020

## **With-Profits Actuary's report to with-profits policyholders for the year 2019**

As With-Profits Actuary to The Shepherds Friendly Society Limited ('the Society') I am required to report to the with-profits policyholders every year on whether, in my opinion, the with-profits business of the Society has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

I have been With-Profits Actuary to the Society since 1 October 2019. From 1 January 2019 to 30 September 2019 the role of With-Profits Actuary was held by Christopher Critchlow, also an employee of OAC plc at that time.

I can confirm that, since 1 October 2019, I have had full access to the Board of the Society to discuss matters relating to with-profits business. I have also had access to the work of the previous With-Profits Actuary in order to confirm the statements made in this report.

In preparing this report I have taken account of the rules of the Financial Conduct Authority and the guidance requirements of the Actuarial Profession and the Financial Reporting Council.

In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2019, may be regarded as having taken the interests of the Society's with-profits policyholders into account in a reasonable and proportionate manner.



**Cara Spinks FIA**  
With-Profits Actuary to the Society  
31<sup>st</sup> March 2020

**OAC plc**  
141-142 Fenchurch Street,  
London, EC3M 6BL



**The Shepherds Friendly Society Limited Registered Office:**

Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL

**Telephone:** 0800 526 249

**Email:** [info@shepherdsfriendly.co.uk](mailto:info@shepherdsfriendly.co.uk)

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

Shepherds Friendly is a trading name of the Shepherds Friendly Society Limited which is an incorporated Friendly Society under the Friendly Societies Act. Registered No 240F. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, Financial Services Register No 109997. The Head office and Registered office of The Shepherds Friendly Society is based in the United Kingdom.