

Terms of Reference Fair Members Benefit Committee (incorporating the With-Profits Committee)

Adopted by the Board on 28th April 2020

1. Introduction

The Shepherds Fair Members Benefit Committee assists the Board of the Society (the “Board”) in meeting its obligations under the Friendly Societies Act 1992, the Financial Services and Markets Act 2000 and the Financial Services Act 2012. The Fair Members Benefit Committee will always seek to deliver its responsibilities within the Policy framework set by the Board and the applicable parts of the Prudential Regulation Authority and Financial Conduct Authority rulebooks.

2. Purpose

The Fair Members Benefit Committee (FMBC) is a body that will:

- 2.1 support the Board in discharging its corporate governance responsibilities in relation to compliance with the Principles and Practices of Financial Management (PPFM);
- 2.2 without taking responsibility or accountability from the Board, independently assess the fair treatment of all Members, in particular with-profits

policyholders, including how any competing or conflicting rights and interests of different types of policyholders have been addressed and to advise the Board accordingly.

3. Membership

- 3.1 The Committee will be appointed by the Board and will comprise at least three members, two of which will be Non-Executive Directors of the Society;
- 3.2 The Chairman of the FMBC shall be a Non-Executive Director of the Society with relevant experience of with-profits business;
- 3.3 The Board may also elect to appoint an Independent Expert to the FMBC from outside the Society in order to enhance effectiveness;
- 3.4 The With-Profits Actuary, or deputy will attend all meetings;
- 3.5 Members should have the skills and experience necessary for them to make a useful contribution to the work of the Committee;
- 3.6 The Company Secretary acts as Secretary to the Committee.

4. Meetings

- 4.1 Meetings will normally be held a minimum of four times a year. In case of need, the Chairman may call a special meeting of the Committee. Attendance may be by teleconference call with the consent of the Chairman;
- 4.2 The agenda will be prepared by the Company Secretary and agreed with the Chairman of the FMBC. The agenda and supporting papers will be circulated to all members and invited attendees at least five days before the next meeting;
- 4.3 Minutes of the meetings will be taken by the Company Secretary or such other person as the Chairman nominates, and will then be circulated to Committee members and to Board members prior to the next meeting;
- 4.4 Two Non-Executive Directors are required to constitute a quorum. No business will be conducted in the absence of a quorum. A meeting will terminate as soon as it becomes inquorate;

- 4.5 If the Chair is unable to attend, then he may appoint another member of the Committee to act as Chair;
- 4.6 The FMBC may invite members of management and others to attend meetings as required;
- 4.7 Membership of the Committee will be reviewed periodically.

5. Responsibilities

- 5.1 To assess, report and provide clear advice on matters outlined in COBS 20.5.3R, namely:
- the way in which the with-profits fund is managed and whether this is properly reflected in the PPFM;
 - whether the Society is complying with the Principles and Practices set out in the PPFM;
 - significant decisions, transactions and issues that affect all Members' interests to ensure their fair treatment;
 - any other issues with which the Board or FMBC considers with-profits policyholders might reasonably expect the FMBC to be involved.
- 5.2 Decisions, transactions and issues which may be considered include:
- The identification of surplus and excess surplus, the merits of its distribution or retention and the proposed distribution policy;
 - Bonus rate declarations and smoothing policy;
 - Maturity and surrender values;
 - Market value reductions;
 - With-profit and Non-profit product terms and conditions;
 - Strategic business investments if supported by the Long-Term Fund surplus;
 - The Society's profitability including the profitability of non-profit business;
 - Any communication to policyholders;
 - Content of the PPFM;

- The Society's annual report to with-profits policyholders;
- Any significant changes to the risk or investment profile of the with-profits fund. Including the management of material illiquid investments and the Society's obligations in relation to strategic investments;
- Sales strategy and its impact on with-profits surplus;
- The costs incurred in operating the with-profits fund;
- The impact of management actions planned or implemented;
- The drafting, review, updating of and compliance with run off plans, court schemes and similar matters;
- The sales process as it affects policyholders

5.3 The FMBC will review the Society's summary complaints reports to identify any systemic issues or material breaches of compliance and ensure that policyholders continue to be treated fairly.

5.3 The FMBC will work closely with the With-Profits Actuary, and obtain their opinion and input as appropriate;

5.3 The FMBC will assess the performance of the With-Profits Actuary at least annually and report its view to the Board;

5.4 The FMBC will review its terms of reference annually.

6. Delegation

The FMBC will delegate the Conduct Risk Committee to:-

- ensure that the best interests of the Society's, and any subsidiaries' members and customers are always considered and protected;
- consider the Conduct Risks associated with new or changed products or policies to ensure fair outcomes for the members and customers; and
- consider the Conduct Risks associated with minor changes to product terms and conditions.

The minutes of the Conduct Risk Committee will be tabled at the FMBC.

7. Escalation and Reporting Structure

- 7.1 The FMBC will report directly to the Board.
- 7.2 The FMBC will report at least once a year to the Board on how any competing or conflicting rights and interests of policyholders have been addressed, and whether all policyholders, in particular with-profits policyholders, have been treated fairly.
- 7.3 The FMBC will set out the results of its compliance review in a report to the Board in sufficient detail for the Board to be able to judge whether the Society has met its obligations under PRA/FCA rules in COBS 20. If the FMBC wishes to make a statement or report to with-profits policyholders in addition to that made by the Society this will be facilitated by the Society.
- 7.4 Matters that are deemed to be outside the responsibilities of the Fair Members Benefit Committee will be submitted to the Board for consideration and/or guidance.

8. Authority

- 8.1 The FMBC will, for the purposes of compliance reviews, rely on analyses and calculations prepared by the Society without resort to review by any third party. The FMBC shall be entitled to carry out such checking as it thinks necessary for the proper discharge of its responsibilities and, for this purpose, will have access to the Actuarial Function and may request further information from it where this is necessary to resolve any queries which the FMBC may have about the information, calculations and analysis supplied.
- 8.2 For the avoidance of doubt, the role of the FMBC is not limited to commenting on actuarial issues or PPFM compliance, but extends to all aspects of the management of the fund and the fair treatment of all policyholders.

9. Self Appraisal

On an annual basis the FMBC should formally appraise its performance against its role and objectives and minute the extent to which it had met

its requirements, together with an action plan should any shortcomings be identified.



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