

Scottish Friendly's report to with-profits policyholders for the year 2009

Introduction

The Conduct of Business sourcebook of the Financial Services Authority ('FSA') requires firms to establish and maintain 'Principles and Practices of Financial Management' ('PPFM') to govern their conduct of their with profits business.

The FSA also requires the firm to report to its [with-profits policyholders](#) stating whether, throughout the [financial year](#) to which the report relates, the firm believes it has complied with its obligations relating to [PPFM](#) and setting out the [firm's](#) reasons for that belief.

Throughout 2009 Scottish Friendly has published and maintained separate PPFM documents covering the management of the Ordinary Branch Policies, Unitised With-Profits Policies and Industrial Branch Policies written within the Scottish Friendly Main Fund. In addition, separate PPFM documents have been published and maintained throughout 2009 for the Rational Shelley, LANMAS and Scottish Legal subfunds.

'Consumer-friendly' versions of each of these documents have also been published.

Both the PPFM documents and the consumer-friendly versions are available electronically on the internet at www.scottishfriendly.co.uk.

The Principles are high-level statements that reflect the general approach adopted in managing the with-profits fund and are not expected to change often.

The Practices are statements of specific practice employed in managing the with-profits fund. They reflect the current approaches given the particular circumstances and economic conditions. Practices are likely to be revised in response to changes in the regulatory, business and economic environment and as new methods and techniques are developed in the life and pensions industry. However, the different Practices would still need to conform to the Principles.

These documents have been reviewed during the year. A number of amendments and clarifications have been made to the practices. An SFA investment strategy principle has been changed to permit a different investment strategy to be maintained by the inherited estate and the assets backing the asset shares.

Compliance with PPFM

Scottish Friendly has established procedures to ensure that its Board of Directors can satisfy itself at regular intervals that the with-profits business is being managed in accordance with the PPFM; these procedures include formal reports to the Board from the With-Profits Actuary, and an Independent Person, appointed by the Board to review PPFM compliance.

A report from the With-Profits Actuary to with-profits policyholders is annexed to this report.

Scottish Friendly believes that it has complied with its obligations relating to [PPFM](#) for the reasons described in the following sections.

Payouts

The Bonus Declaration awarded by the Board in Dec 2009, met the requirements of the PPFMs in terms of the bonus policy detailed therein. The Board chose to use its discretion to override the provision that payouts should not increase by more than 10%, in the interests of treating policyholders fairly.

For most classes of with-profits business, payouts were determined having regard to asset shares to endeavour that fairness is maintained between different groups and generations of policies. During 2009 the payouts for maturities met the requirements of the target ranges set out in the PPFM. The payouts for surrenders also met the requirements of the target ranges set out in the PPFM for LANMAS, Rational Shelley and Scottish Friendly. Work is ongoing to refine the SLL surrender value payout methodology so that payouts are based on asset shares. Once this is complete, the SLL surrender values will also fall within the target ranges specified in the PPFM.

Investment Strategy

Responsibility for monitoring investment performance and strategy is carried out by the Board. This has been carried out in accordance with the PPFM. Asset allocation was carried out in accordance with the parameters set out in the PPFM.

Business risk

As members of a mutual society, policyholders ultimately bear the risks and rewards of all business undertaken by Scottish Friendly. Any significant additional business risks to be undertaken by the Society require the approval of the Board and Executive, acting on the advice of the With-Profits Actuary, and are based on expectations of achieving appropriate returns for the with-profits policyholders commensurate to the risks borne.

With-Profits Actuary's report to with-profits policyholders for the year 2009

As With-Profits Actuary to Scottish Friendly Insurance Society I am required to report to the with-profits policyholders every year on whether, in my opinion, the with-profits business of the Scottish Friendly 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 can confirm that, throughout 2009, I have had full access to the Board of Scottish Friendly to discuss matters relating to with-profits business. In addition, in preparing this report, I have taken account of the rules of the Financial Services Authority and the guidance requirements of the actuarial profession.

In my opinion, the annual report by Scottish Friendly to its with-profits policyholders, and the discretion exercised by Scottish Friendly in respect of 2009, may be regarded as having taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner.

**Presented by the With-Profits Actuary, David Lechmere FIA to the Board
of Scottish Friendly Assurance Society Ltd on 26th May 2010**