

# WESLEYAN

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## **PPFM Compliance Report to With-Profits Policyholders 2023**

**30 June 2024**

**Wesleyan Assurance Society  
(Medical Sickness Society Fund)**

Wesleyan Assurance Society  
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Incorporated by Private Act of Parliament (No. ZC145)

Wesleyan Assurance Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

## Introduction

This is the Society Board's annual report to the Medical Sickness Society (MSS) Fund with-profits policyholders covering compliance with our Principles and Practices of Financial Management (PPFM) and the exercise of discretion. This report is in respect of the financial year ended 31 December 2023, including the bonus declaration in respect of that year made in April 2024.

The MSS Fund consists of the in-force with-profits policies sold by Medical Sickness Society before the transfer of its business to Wesleyan Assurance Society (Wesleyan) in July 1997. We have a separate with-profits fund called the "Open Fund", which comprises all in-force with-profits policies except for those in the MSS Fund. A separate report is available for the Open Fund.

We publish the MSS Fund PPFM on our website. This document describes the way we manage the MSS Fund with-profits business. It also includes a Glossary of some of the most common technical words and phrases, which may be useful when reading this report.

We have also compiled a guide called "How our With Profits Fund Works" and this is also available on our website. The guide explains some of the phrases used in this report, such as smoothing and bonuses.

### Opinion

We believe that, throughout the year, the Society has complied with its obligations relating to the PPFM, has exercised discretion in a fair manner and has addressed fairly any competing or conflicting rights, interests or expectations of policyholders (or groups of policyholders) including the competing interests of different classes and generations.

Our reasons for that belief are set out in the remainder of this report.

Compliance in this context means performing the obligations set out in the PPFM. Occasionally in performing these obligations errors or operational issues arise which may impact on policyholder outcomes. However, providing such issues are managed appropriately including redressing any policyholder detriment, they do not result in non-compliance with the PPFM.

## Governance Arrangements

The Society's Board takes overall responsibility for the PPFM in the course of managing the Society for the benefit of policyholders. The Board has also established a With Profits Committee (WPC). Members of the WPC are appointed by the Board and are made up of non-executive Directors and external appointees.

The WPC's main role is to give advice, and make recommendations, to the Board on:

- ▶ the way in which the MSS Fund and Open Fund are managed by the Society;
- ▶ whether the Society is complying with the PPFM; and
- ▶ whether the Society has identified and addressed effectively the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders of the MSS Fund or Open Fund in a way that is consistent with treating customers fairly.

The WPC also considers changes to the PPFM when required and advises the Board accordingly.

There is also a Monitoring Committee for the MSS Fund, which ensures that the fund is administered in accordance with the terms agreed as part of the transfer of Medical Sickness Society business to Wesleyan Assurance Society in 1997 (as set out in a Scheme of Transfer).

The With Profits Actuary advises the Board on the key aspects of the discretion to be exercised in respect of the with-profits business.

Compliance with each section of the PPFM is also monitored and compliance confirmed formally (with evidence) by the appropriate person(s) within the Society.

This report has been reviewed by the With Profits Actuary and the With Profits Committee.

### **Additional Reports**

The With Profits Actuary is also required to provide a report to with-profits policyholders. This is attached to this report as an Appendix.

The WPC may also make a separate statement, or report, to with-profits policyholders in addition to this report, if they wish. The WPC has decided that no report is necessary this year.

### **Policy Benefits**

All the changes to policy benefits paid on death or maturity during or in respect of 2023 were made after taking advice from the WPC and the With Profits Actuary.

### Asset Shares

Whilst bonuses are calculated by reference to asset shares for sample policies, the aggregate asset shares used to calculate the overall liabilities are based on actual policy data for all policies. Most policies have a history of flexible payments for which there is insufficient data available to calculate precise asset shares. Therefore, an approximate method is used to estimate the aggregate asset shares.

### Annual Bonus

Recent increases in expected future investment returns have meant that, with effect from April 2024, we were able to increase annual bonus rates again by another 0.5% for Life products and pension policies where the benefits are expressed as a cash fund on retirement.

For a small number of older deferred pension policies where the benefit is expressed in the form of an annuity, no annual bonuses are being paid because asset shares are close to the value of guarantees at some terms. A bonus rate of 1.5% was maintained for With-Profits annuities in payment.

### Final Bonus on Maturity or Death

Bonuses must be declared such that the whole of the surplus of the MSS Fund is progressively and equitably distributed to the policies in the fund. The aim in setting final bonus rates is that

policyholders should receive their policy's fair share of the fund, subject to smoothing, including investment returns plus past distributions of the surplus assets.

We normally review final bonus rates twice a year. Final bonuses were reviewed and updated in October 2023 and again in April 2024 to reflect 2023 experience. Maturity values benefitted from strong investment returns during 2023 and average payouts were generally at or above 100% asset share at the date of the bonus declaration.

The surplus in the fund is reviewed annually, and payouts following this year's declaration reflect the Board's view of a fair distribution of the remaining surplus to policyholders.

It should be noted that final bonus rates are not guaranteed and can be changed any time without prior notice, to ensure that outcomes remain fair to policyholders.

### Surrender and Transfer Values

The PPFM states that surrender bases are usually reviewed at least once in each calendar year. Surrender values have been updated to reflect the revised bonus rates implemented at each bonus declaration and we have monitored surrender payouts against fair value as part of our target range monitoring. The parameters in the surrender value basis have not been reviewed during 2023, but these would not be expected to change materially from one year to the next. The surrender value basis will be reviewed during 2024.

### Smoothing Policy

When determining payouts for maturity and death claims, we currently aim to equate average payouts to 100% of asset share within three or four years. In stable investment conditions we aim to change maturity values on equivalent policies by no more than 10% from one year to the next, though the PPFM states that larger changes may be required following volatile investment conditions, significant changes in economic conditions, or in either periods of prolonged low investment returns or periods of prolonged high investment returns.

The final bonus rates declared in April 2024 were set such that the expected change in maturity value compared to equivalent policies in April 2023 was expected to be less than 10%.

### Target Ranges

The PPFM specifies target ranges for maturity and surrender payouts relative to their asset shares. Target ranges should be large enough that they do not unnecessarily restrict the management of the fund and allow us to smooth out the ups and downs of equity markets. This smoothing is considered to be of benefit to policyholders.

We set our bonuses with the aim of keeping our payouts within the target range, which is currently 80% to 125% of asset shares, and aim to have at least 90% of payouts within the target range.

Throughout the year, we monitor the ratio of representative sample claim values to their respective asset shares. Due to the flexible nature of this business, some policies became paid up early in their contract term, and, as in previous years, the payouts on these policies typically fall above the target range. Asset share methodology was updated in the 2023 bonus declaration to minimise this issue going forwards. Maturity and surrender payouts in 2023 on all other business were within the target range.

### **Investment Strategy**

The Board sets our policy for strategic asset allocation for with-profits business, and during 2023 the Investment Committee monitored adherence to these allocations and considered investment decisions and investment performance at a more detailed level.

Our investment strategy for assets backing with-profits policies, as described to policyholders, has consistently referred to maximising returns subject to an acceptable level of risk based on significant equity investment where possible.

All our directly-invested customer funds must meet the requirements of our Sustainable Investing Policy: this sets out how we invest in companies that we believe are operating in a way that reduces the impact our portfolios have on the environment, the climate, and the communities we all live in. More information on our approach to sustainability is available here: <https://www.wesleyan.co.uk/savings-and-investments/sustainable-investing>

Our investment strategy is reviewed each year and in 2022 this resulted in the decision to transition into a more globally diverse equity portfolio. This aims to reduce the impact of any single country or region's performance. This transition began in 2022 and continued in 2024.

The allocations of assets backing with-profits policies at the last three year-ends are shown below:

	<b>31 Dec 23</b>	<b>31 Dec 22</b>	<b>31 Dec 21</b>
<b>UK Equities</b>	36%	40%	41%
<b>Overseas Equities</b>	28%	24%	22%
<b>Property</b>	8%	9%	9%
<b>Fixed Interest</b>	24%	20%	20%
<b>Other</b>	4%	7%	8%

The 'Other' category mainly comprises cash deposits and derivative assets used to protect the fund against changes in interest rates.

## **Charges and Expenses**

During 2023, the expenses deducted from asset shares were as set out in the reinsurance agreement between the Open Fund and the MSS Fund which guarantees the level of expenses to be charged to policies in the MSS Fund. This agreement ensures that the MSS Fund runs off in an orderly way and that the expenses charged to asset shares do not increase unfairly as the number of policies in the fund declines.

In addition, a non-discretionary charge is made to the MSS Fund for the investment support received from the Open Fund, as specified by the Transfer Scheme.

## **Other Business Activities**

During the year the With Profits Committee have monitored our business activity, and the risks we run as a result, to ensure it is managed in line with the PPFM and to treat our customers fairly.

The number of policies in the MSS Fund has fallen below 5000, which is the threshold upon which the With Profits Actuary can consider whether to merge the MSS Fund into the Open Fund. We are currently comfortable that MSS policyholders are not disadvantaged by

continuing to manage the MSS Fund separately to the Open Fund. However, having considered the advice of the With Profits Actuary, the Board has agreed in principle to merge the MSS Fund into the Open Fund. Preparations for merger have now begun and we will keep policyholders informed of relevant developments.

A run-off plan for the fund is maintained and reviewed periodically to ensure it remains up to date. This allows us to ensure that - as the number of policies remaining in the fund falls - the surplus in the fund is being distributed progressively and equitably to the remaining policyholders in the fund.

In 2022 new Consumer Duty regulations were released by the FCA. We reviewed products within the MSS Fund in line with this new guidance in 2023 and early 2024, which did not highlight any significant areas of concern.

There was no other business activity that materially impacted the MSS Fund

## **Communication**

A guide to the bonus declaration is included as part of our online FAQs which will be signposted in statements sent to policyholders in 2024.

Further information is available on our website, <https://www.wesleyan.co.uk/savings-and-investments/with-profits-fund>. This includes our guides called 'How our With Profits Fund Works'. There are three different guides covering different types of policy.

## **Changes to the Medical Sickness Society Fund PPFM**

The Medical Sickness Society Fund PPFM was last changed with effect from 1 June 2023 as reported last year. A copy of the PPFM is available on the Society's website.

## Appendix

### Annual Report for 2023 from the With Profits Actuary to Wesleyan Assurance Society's MSS Fund With Profits Policyholders

#### *Basis of Opinion*

As With Profits Actuary for Wesleyan Assurance Society (Wesleyan), I advise Wesleyan on the key aspects of discretion that it exercises in respect of with-profits business and I am required by the Financial Conduct Authority's rules to report to with-profits policyholders as to whether Wesleyan's annual report to with-profits policyholders and the discretion exercised by Wesleyan in respect of the period covered by the report has taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

I have based my opinion below on the information and explanations provided to me by Wesleyan, and on my own knowledge and investigations. In doing so I have taken into account the relevant rules and guidance issued by the Financial Conduct Authority, the actuarial profession and the Financial Reporting Council.

#### *Opinion*

In my opinion, Wesleyan's annual report and the discretion exercised by Wesleyan in respect of 2023 take, or have taken, your interests into account in a reasonable and proportionate manner, and was consistent with disclosures to customers and the Principles and Practices of Financial Management (PPFM).

As noted in the Society's PPFM Compliance Report to With-Profits Policyholders, on occasion errors or operational issues arise which may impact on policyholder outcomes. However, providing such issues are managed appropriately including redressing any policyholder detriment, they do not result in non-compliance with the PPFM. Wherever appropriate, I review how such issues are managed to ensure that the outcome is consistent with the PPFM.