

WESLEYAN

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PPFM Compliance Report to With-Profits Policyholders 2023

30 June 2024

**Wesleyan Assurance Society
(Open 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 Open 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 Open Fund includes all policies with Wesleyan Assurance Society (Wesleyan) including unitised with-profits business written via external platforms (referred to in the PPFM as Class 2 policies) introduced from 2021. It does not include those in the Medical Sickness Society (MSS) Fund. The MSS Fund consists of the in-force with-profits policies sold by Medical Sickness Society before the transfer of business to Wesleyan in July 1997. A separate report is available for the MSS Fund.

We publish the Open Fund PPFM on our website. This document describes the way we manage the Open 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 set of guides called “How our With Profits Fund works”, which are also available on our website. These explain some of the phrases used in this report, such as Market Value Reductions, 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 current and future 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 Open Fund and MSS 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 Open Fund and MSS Fund in a way that is consistent with treating customers fairly.

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

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

Conventional with-profits policies

Asset shares, which form the basis for determining payouts on conventional with-profits business, were determined for relevant classes of business as described in the PPFM. The With Profits Actuary approved the parameters used in the calculation.

Unitised with-profits policies

Unitised with-profits policies use a smoothed unit price to determine the total value of the policy. Unit prices, after allowing for charges, are calculated using actual investment returns which are subject to smoothing in line with the approach described in the PPFM. The policy value for Class 2 policies (as defined in the PPFM) is solely based on the smoothed unit price. Values for other unitised with-profits policies are dependent on bonus rates as described below.

Annual Bonus

Recent increases in expected future investment returns have allowed us to increase our annual bonus rates again with effect from April 2024. Class 1 unitised with-profits policies and the majority of conventional with-profits policies saw another increase of 0.5%. The exceptions to this were Ordinary Business conventional with-profits life policies which saw an increase of 0.25% (of sum assured and bonuses) and conventional with-profits equity policies which saw an increase of 2.0% (of sum assured). We believe this level of annual bonus is fair and sustainable in current market conditions. However, the level of annual bonus provided in future is not guaranteed.

Final Bonus on Maturity or Death

The aim in setting final bonus rates is that policyholders should receive their policies' fair share of the fund, subject to smoothing.

For Class 1 unitised with-profits business, the final bonus depends on the difference between the smoothed fair share and the With Profits Unit Value of a policy. This will change daily.

For conventional with-profits business, we normally review final bonus rates twice a year. Final bonuses were changed for claims in the period January-March 2024 and again from April 2024 following the Bonus Declaration in respect of 2023 experience. Maturity values benefitted from strong investment returns during 2023 and average payouts are generally at or above 100% asset share. The final bonus rates for conventional with-profits business are not guaranteed and can be changed at any time without prior notice, to ensure that outcomes remain fair to policyholders.

Surrender and Transfer Values

The PPFM states that surrender bases for conventional with-profits policies are usually reviewed at least once in each calendar year and that in stable conditions it may only be necessary to undertake a high-level review of the adequacy of the basis.

For all conventional with-profits policies, 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. A more detailed surrender basis review will be carried out during 2024 for all conventional with-profits products.

Market Value Reductions

For Class 1 unitised with-profits policies, the surrender value is the With Profits Unit Value plus final bonus, to which a Market Value Reduction (MVR) may apply if the policy's fair share of the fund is lower. The need for MVRs is reviewed regularly and no MVRs were applied in 2023.

Smoothing Policy

When determining payouts for maturity claims on conventional with-profits business, 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%.

Unitised with-profits policies have benefits determined by reference to smoothed investment returns. Smoothing is applied when premiums are received as well as when determining the claim value.

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 payouts within the target range and ensure that we have good reason to believe that at least 90% of payouts are or will be within the target range.

The target range for conventional with-profits maturities and surrenders is 75%-125% of asset share. The target range for unitised with-profits products is 80%-120% of asset share.

Throughout the year, we monitor the ratio of representative sample claim values to their respective asset shares. This showed that for conventional with-profits business, 100% of sample maturity payouts and 90% of sample surrender payouts were within the target range in 2023. For unitised with-profits business, 100% of sample payouts were within 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. A separate investment strategy is maintained for the rest of the assets, including the Society's estate.

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 2023.

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

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

The "Other" category mainly comprises cash deposits and subsidiary company holdings.

Charges and Expenses

Our aim in allocating expenses to with-profits policies is to charge the costs incurred in selling and administering the policies, plus an appropriate share of overheads. This has been carried out in 2023 in line with the PPFM.

Approximately £10m of expense profits earned in 2023 were distributed to eligible policyholders via a mutual bonus of 0.25% in March 2024.

Management of the Estate

We aim to provide the security of a strong estate. This allows us the freedom to invest asset shares in assets that we expect to give higher returns over the long term. We monitor the size of the estate over time and ensure that the uses to which the estate is put are reasonable and appropriate.

Wesleyan are undertaking significant transformation activity which began in 2022 and will continue for several years. During 2023, Wesleyan agreed to outsource some operations processes and IT infrastructure to Diligenta Limited, a leading provider of third-party administration services for the Life and Pensions industry.

This new partnership focuses on improving customer journeys and achieving operational efficiencies and we expect it will take around 18 months to complete the transition.

Any financial benefits arising from this transformation activity will be shared with relevant with-profits policyholders in a timely manner.

The Board has completed the usual review and concluded that there was no excess surplus as at 31st December 2023.

New Business Volumes

Writing new business uses up capital initially. Therefore, we carry out projections of the future financial strength of the fund assuming different levels and types of new business, including policies with guarantees and both with-profits and non-profit business.

The Society's overall new business volume (excluding brokered business) in 2023 was £54.7m of Annual Premium Value¹.

Other Business Activities

During the year, the Society's management and the WPC 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.

In 2022 new Consumer Duty regulations were released by the FCA. These new regulations focus on ensuring good customer outcomes and avoiding any foreseeable harm. Throughout 2022 and 2023 we reviewed our products in line with these new regulations and no material concerns were raised.

¹ Annual Premium Value is defined as the total of single premiums received divided by 10 plus regular premiums.

Communication

A guide to the bonus declaration is held within the 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 Wesleyan Open Fund PPFM

There were no changes required to the Open Fund PPFM in 2023. The Open Fund PPFM has been recently updated in 2024 to reflect our recent practice of funding the Society's strategic transformation costs from the Estate. A copy of the updated PPFM is available on the Society's website.

Appendix

Annual Report for 2023 from the With Profits Actuary to Wesleyan Assurance Society's Open 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.