



Member of the Broadstone Group

Appropriate Actuary View

**Proposed transfer of Tees Mutual to
Oddfellows**

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Introduction

1. The purpose of this report is to provide my view as Appropriate Actuary to Tees Mutual as to whether the proposed transfer of engagements from Tees Mutual to The Oddfellows is in the interests of the members of Tees Mutual pursuant to SUP 18.4.25 (2) (b).
2. Tees Mutual is the trading name of The Kensington Friendly Collecting Society Limited, an incorporated Friendly Society under the 1992 Friendly Societies Act, authorised by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
3. The Oddfellows is the trading name of The Independent Order of Oddfellows Manchester Unity Friendly Society Limited, an incorporated and registered Friendly Society, authorised by the PRA and regulated by the FCA and PRA.

Compliance with professional standards

4. In preparing this report I have taken account of the relevant professional standards as published by the Actuarial Profession and the Financial Reporting Council, in particular TAS 100 and TAS 200. In my opinion, this report complies with both TASs.
5. This report has been subject to internal peer review by a senior actuary within OAC who is not routinely involved in the normal day to day actuarial activities with Tees Mutual. As such I believe this peer review may be regarded as independent and in keeping with the Actuarial Profession Standard X2: Review of Actuarial Work. Any issues raised by the review have been addressed, and no unresolved issues remain as a result of that review.

Background to the proposal

6. Along with many similar firms, Tees have found it increasingly difficult to write new business in sufficient volumes to replace business exiting. This, combined with their small size and the increasing regulatory burden has resulted in increasing per policy expenses making it difficult to offer competitive products with attractive bonus rates.
7. Despite careful expense control and management of investments Tees' free asset ratio has fallen over recent years and the low level of free assets and the need for close matching of assets and liabilities have constrained investment freedom, again reducing the scope for paying bonuses to the with-profit policyholders.
8. With the Chief Executive and Company Secretary both approaching retirement it may be difficult to find replacements, particularly anyone willing to take on the roles for the modest salaries taken by the current incumbents. The current Board Chair will be stepping down this year, and although the Society has recruited a number of engaged and committed non-executive directors, there are none willing to step up as Chair, especially in light of the Society's current difficult position.
9. As a result of all these issues, the Society has closed to new business and considered, with legal and actuarial advice, options to best secure the future of their members.

Outline of the proposal

10. The Oddfellows proposal is:
 - guaranteeing a return of premiums on surrender (if the surrender value would be lower) for endowments,

- guaranteeing that endowments will receive at least 105% of premiums paid on maturity or, if higher, the maturity value based on future guaranteed bonuses of 1% pa simple and a final bonus of 10% of the sum assured,
- guaranteeing that whole life policies will receive a 1% simple annual bonus and a final bonus of 10% of the sum assured on death,
- guaranteeing that quinquennial policies will receive a 0.25% simple annual bonus and a final bonus of 10% of the sum assured on death, and
- appointing a Tees Mutual Customer Care Manager.

Benefits to Tees Mutual members

Claim payouts

11. Since 31 December 2019 it has not been possible to declare an annual bonus, reflecting the high levels of guarantees that had already built up and Tees' constrained solvency position. Final bonuses have been reviewed at least annually and set at a level tending downwards towards the long term affordable level.
12. The Society's practice has been to pay at least a return of premiums on death or maturity which has often resulted in paying effective final bonus rates in excess of those set. This is a generous approach and relies on the assumption that investment returns are sufficient to cover expenses and mortality costs, which has not been the case throughout the period of very low interest rates, or years when investments have performed poorly. Due to concerns about the Society's ability to meet its solvency requirements this was discontinued for whole life policies in September 2023.
13. Despite careful control of expenses and the recent closure to new business, it is difficult to see where significant reductions in expenses could be made as the business runs off.
14. The Oddfellows are a significantly larger society with comfortable levels of free assets and are expected to be able to absorb any additional costs of taking on the Tees members.
15. The proposals in respect of claim payouts are likely to enhance or at least match the level of payouts that Tees could afford in the majority of cases and I consider that this is in the interests of Tees' members as a whole.

Governance

16. The proposed transfer provides a solution to the succession planning issues that Tees currently face, at both the executive and non-executive level. The Oddfellows current executive team and Board members will be able to absorb Tees' members within their current structure. This will result in reduced combined costs post transfer.

Disadvantages of the proposal

17. Despite many members moving to pay premiums by automated payment methods during the pandemic there remain a proportion who prefer the face to face approach of having premiums collected and benefits paid by the collectors.
18. The majority of Tees customers are classified as vulnerable and for these customers in particular the availability of the collectors to guide them through the claims process or temporary inability to pay premiums is a valuable benefit. Under the proposed terms of the transfer, at least one collector will be retained for a period. Part of their role during this period will be to support Tees' members to move to automated payment systems.

Alternatives to the proposed transfer

19. The Oddfellows have been identified as a good fit for Tees, due to their traditional friendly society values, experience with similar products and experience in executing transfer of engagements. If this transfer does not proceed then Tees would consider a transfer to an alternative provider.
20. If a transfer of engagements could not be arranged, then the alternative would be to attempt a solvent run-off. In this scenario, a new executive team and Board Chair would be required to take over in the very near future and there are doubts that suitable candidates could be found at the equivalent cost.
21. Challenges to achieving a solvent run-off include difficulty in reducing expenses in line with the run-off of the policies, the very long-term of the run-off due to the whole life nature of the policies and the requirement to hold a minimum capital requirement which does not reduce as the business runs off.

Conclusion

22. Although the ultimate loss of the collector network will be seen as a negative outcome for some members, it is my view that on balance, the proposed transfer is in the interest of the members as a whole and will provide enhanced claim payouts in the majority of cases, more certainty of payouts and good governance with a focus on consumer duty outcomes.

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