



# SUMMARY REPORT AND FINANCIAL STATEMENTS

for year ended 31 December 2017

**BRITISH  
FRIENDLY**

It feels good to be covered

## Contents

- 03** Chairman's Welcome Statement
- 04** Meet the Team
- 05** Strategic Report
- 11** Financial Statements

## Our Highlights

**24,528 members**  
in 2017



Final Bonus  
paid in 2017

**17.5%**



£

Trading Profit

**£3.7m**

**96.7%**

Claims paid in  
last 12 years



**Over £87m**  
in assets

**EST 1902**



**20%**

Increase in  
membership

**263%**

Solvency II  
Capital Coverage  
Ratio

The full Report and Financial Statements for the year ended 31 December 2017 is available at [members.britishfriendly.com/about-us/society-information/](http://members.britishfriendly.com/about-us/society-information/).



# Chairman's Welcome Statement

**CHRIS RADFORD**

CHAIRMAN, BRITISH FRIENDLY

## Introduction

In my welcome statement last year, I outlined the two key elements of our strategy; membership growth and the creation of member value as measured by our capital position.

## Strategic Goals

Starting with membership growth, following the excellent result in 2016 when our membership grew 20%, I am delighted to report that we have again achieved growth of 20%, to 24,528 members. During this period of further growth we also saw our Solvency Capital Requirement Ratio remain strong and in line with our forecast.

## Member Engagement

Having regular and qualitative engagement with our members is central to our strategy so that we are able to determine the direction our members want the Board to take the Society. Historically, as with most small mutuals, achieving regular member engagement can prove challenging and so we have significantly increased our focus in this area over recent years.

Last year I outlined a comprehensive programme of activities that we held in 2016 that substantially increased our levels of engagement. We continued with this same level of focus during 2017 including regular e-mail communications and surveys, inviting members to volunteer to represent our brand, member case studies, social media competitions and welcome e-mails when new members join the Society. Two significant initiatives were the launch of our innovative Mutual Benefits programme and holding our Annual General Meeting (AGM) in London rather than at our head office in Bedford.

As a result of all our member engagement activity during 2017 we saw a significant increase in attendance at our AGM, over 13% of members now take advantage of the Mutual Benefits programme and substantial increases in our following on social media with Facebook up 115%, LinkedIn up 78% and Twitter up 52%.

## Board Changes and Governance Matters

2017 was an important year for the Society with regard to strengthening the Board. In July Robin Willison joined us, bringing excellent business and sector experience and at the beginning of this year Michael Bartholomeusz was appointed as Chair of our Audit and Compliance Committee.

In 2017 we said goodbye to Jeff Hayes who has served the Society with great professionalism since joining the Board in 2010 and who stepped down on 31<sup>st</sup> December. He made a significant contribution to the Society, especially to our investment strategy, and we wish him all the best for the future. In 2018, Barbara Merry resigned due to other work commitments, stepping down from the Board in March 2018, and we thank her for her contribution and wish her well for the future. Last year we also completed a detailed review of our Board and Sub-Committee structure which has resulted in a more streamlined and effective approach to overseeing the business. We have completely separated the Remuneration and Nominations Committee, often run as one committee, with different chairs. We increasingly see these two areas as distinctly separate issues requiring different focus. Also our Senior Independent Director now chairs the Nominations Committee bringing us in to line with larger firms.

We also incorporated the Investment Committee into our Risk Committee as we outsource our fund management to LGT Vestra and so increasingly see the Investment Committee's role as the oversight of our Board agreed investment strategy. This also means that this key area now comes under the chairmanship of a Senior Manager Regime approved person.

Overall in 2017 I believe we have made an important investment in strengthening our Board and oversight structure which will allow us to run the business even more effectively in future.

## Summary

2018 will almost certainly bring further challenges with Brexit moving ever closer and a likely further shift away from globalism in many parts of the world. As in 2017 we believe we are well prepared to manage this uncertainty with a clearly defined strategy, a strong Board and Executive team, a robust capital position and a continued commitment to putting our members at the heart of everything we do.

I would like to once again thank our members for their continued support and our team in Bedford who continue to stay true to our ideals of doing the right thing and being easy to do business with.

## Board of Directors



**CHRIS RADFORD (59)**

Chris was elected Chairman in May 2016. He joined the Board in June 2010 and has over 35 years of experience in the financial services sector.



**ROBIN WILLISON (58)**

Robin was appointed as a Non-Executive Director in June 2017. He has over 35 years experience in financial services.



**NICK BAYLEY (57)**

After serving as Chairman, Nick was elected Senior Independent Director in May 2016. He joined the Board in January 2008.



**JEFF HAYES (64)**

Jeff joined the Board of British Friendly in April 2010 following a 40 year career in the UK fund management industry.



**AUDREY MCNAIR (57)**

Audrey was appointed as a Non-Executive Director in April 2016. She chairs the Risk Committee and is also a member of the Investment Committee, Audit and Compliance Committee.



**IAIN CLARK (50)**

Iain was appointed Chief Executive Officer in December 2016. Iain brings over 28 years of experience in the insurance and protection industry to British Friendly and initially joined the Society as the Distribution and Marketing Director in September 2015.



**BARBARA MERRY (61)**

Barbara joined the Board in March 2016 as the Chair of the Audit and Compliance Committee and also Chair of the Remuneration and Nomination Committee.



**LEE SCHOPP (47)**

Lee was appointed Finance Director and joined the Board in July 2010. He is a Chartered Accountant and also received the New Chartered Director of the year 2015 award from the Institute of Directors. He brings more than 18 years' of strategic planning and executive experience to the Society.

### APPOINTED IN 2018



**MICHAEL BARTHOLOMEUSZ (60)**

Michael joined the Board in April 2018. He has 35 years experience in financial services across general and life insurance sectors and retail banking with Flood Re, AIG UK, and Abbey National Group.



## CEO REVIEW

IAIN CLARK  
CHIEF EXECUTIVE OFFICER,  
BRITISH FRIENDLY

**This is my first report as Chief Executive having taken over from Mark Myers in January 2017. It was both a pleasure and a privilege to work alongside Mark who helped to stabilise and strengthen the Society during his tenure. I look forward to building on the solid foundations he has laid and delivering the best possible results for our employees, intermediaries and Members.**

I am delighted that for the second year in a row we have seen 20% growth in membership to the Society and have achieved a trading surplus.

Our strong capital position has allowed us to continue to pay and enhance bonuses to Holloway and Century members, introduce our Mutual Benefits programme, develop new product enhancements and upgrade our systems and service to remain relevant and in line as one of the best in the market.

We have been able to increase our Final Bonus to 17.5% and our interest rate to Holloway and Century members has also increased to 1.75%. Overall we paid interest and bonuses in 2017 of £3.7m and over the last five years a total of £17.5m.



With this growth, our expenses rose in 2017 but this was an inevitable consequence of managing higher levels of new business and of the significant investments we have made in recruiting high calibre people and in updating our technology platform.

Most importantly, this year we have taken the opportunity to strengthen our reserves to ensure that the Society's growth path is supported by a robust balance sheet.

*Giving members products and services they value.*

### Mutual Benefits

Central to our strategy is the creation and distribution of value to our members and we have continued to increase our efforts to retain our existing members by offering demonstrably superior value. In recent years, the principal way in which the Society has been returning value to its Holloway and Century members has been by paying apportionment (profit share on trading surpluses) at stable rates, paying a competitive rate of annual interest on member balances and reintroducing and increasing final bonuses year on year over a six year period.

In 2017, we launched Mutual Benefits which is our annual discretionary programme of everyday practical lifestyle benefits designed exclusively for our members. It launched with the following objectives:

- to be a tangible expression of our value of membership for British Friendly
- to increase the opportunities for engagement between you, our members, and British Friendly
- to bring meaningful and relevant offers/ services specifically for British Friendly members
- to provide a mechanism to return value to you, our members

Most insurance policies only come to life when something bad happens. With Income Protection, this means when you are sick or injured and cannot work. With Mutual Benefits, however, we wanted to design a programme where you could receive a range of additional benefits that you can use anytime. The programme gives access to great deals and discounts, free healthcare services, tips to help you live a healthier lifestyle and bespoke offers from our partners. We also offer you practical support services for when the going gets tough and you need that extra helping hand on your route to recovery.

We have been delighted with the programme to date with over 13% of our members registered and using the benefits in 2017. Further enhancements and inclusions to this program are envisaged for 2018 and beyond.

# Board of Directors

## CLAIMS

There is little point in having Income Protection if it does not pay out when you need it which is why we focus as a Society on paying as many claims for our members as possible. We pride ourselves on our consistently high claims payment track record. Over the last 12 years we have paid an average of 96.7% of all claims including 92.4% in 2017. We believe this is a true reflection on how we serve our members.

## HIGHLIGHTS



**38%**  
of claimants  
were female

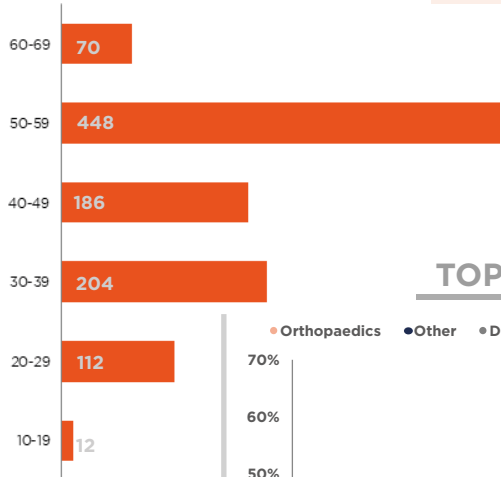


**62%**  
of claimants  
were male

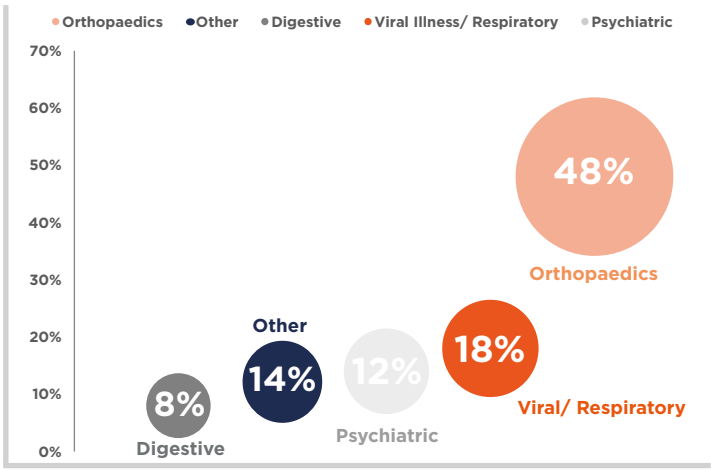


top reason for claim in  
2017  
**orthopaedics**

## CLAIMS BY AGE



## TOP 5 CLAIMS BY CONDITION





## Recognition

We always aim to deliver high standards of service and product development to our members and this was evidenced in 2017 when we were nominated for a number of prestigious industry awards. We were delighted to receive Best Income Protection Provider of the year from the top intermediary company LifeSearch and pleased to be Highly Commended for Best Income Protection Provider and Best New Product at the Cover Excellence Awards. Additionally, for the 2<sup>nd</sup> year in a row we were awarded a 5 star Defaqto rating.



# Board of Directors

## Business Performance Indicators

2017 saw a continuation of our strong performance which is reflected in a solid set of business results.

The key highlights being:

|            | Target | Achieved |
|------------|--------|----------|
| Membership | 23,250 | 24,528   |
| Solvency   | 270%   | 263%     |

These key metrics were achieved whilst keeping costs strictly under control, maintaining a high claims paid ratio and also strengthening reserves.

## Investment Returns

We invest our assets in order to provide a stable return to our members whilst putting capital preservation at the heart of any investment decisions made. Investment returns for 2017 again exceeded our budget and expectations and despite the continuing backdrop of uncertainty of world events and a somewhat chaotic UK election results economies have continued to improve and we have seen steady growth

We are delighted to be able to increase our annual bonus rate from 1.5% to 1.75% for the year.

We have also been able to increase our Final Bonus from 15% to 17.5% reflecting the longer term value being created in the Society.

We hope to be able to continue to raise the Final Bonus rate in future years to reflect the loyalty of our long standing Holloway and Century members.

## People, Culture and Operational fitness


I am really proud of our employees, as ultimately it is them who make us different. Even though we have grown rapidly over the past 2 years, their engagement and enthusiasm to deliver to our principles remains core to our success.

The formulation of our strategy has been built upon a deep alignment with British Friendly's principles, culture, values and beliefs. We developed these principles by engaging with our members, advisers and employees and asking for their feedback.

We have invested heavily in 2017 in a new training and competency scheme which has, and will, help the business deliver its objectives and develop future leaders. We are in a dynamic and evolving environment however, where members expectations continue to rise. It is our challenge therefore to continually adapt to these demands in order that we remain "a trusted and relevant provider of financial products in times of need".

## Outlook

I am delighted that in my first year as CEO we have seen a continuation in the growth of membership but also in the strengthening of our financial position. This vindicates the strategic plan the Society set out to deliver in 2015. With the continued investment in people and systems and unrelenting support from the Board, I am confident that the Society will remain relevant and supportive to its members in the future.



**IAIN CLARK**  
Chief Executive Officer



## Risk Management

The Board is responsible for the delivery of risk management and controls. Detailed below is the Board's existing risk management framework.

### Strategic

| Description   | Mitigation   |
|---|--|
| The nature of the Society's business model and its vulnerability to competitor and technological innovation remains a significant risk.   | The Society continues to invest in efforts to diversify the approach away from being a mono product provider and extend our distribution channels. Significant progress has been made this year in diversifying our distribution base. In addition plans are in place to update our technological infrastructure over the coming year. |
| A failure to develop the Society's product proposition in line with changing market dynamics and expectations could erode and significantly impact the achievement of our strategic objectives. | The Society continues to develop its product and member propositions and the introduction of the Mutual Benefits programme is an example of this.  |
| The economic and political environment is currently uncertain with several factors apparent which might affect the Society's ability to fulfil its strategic objectives.                        | The Board monitors this and the potentially adverse impact of the political and economic environment on the Society's strategy is kept constantly under review.  |

### Insurance

| Description  | Mitigation  |
|--|---|
| The Society is required to make assumptions as to the likelihood of an insured event occurring.                                    | The Society continues to define its controls against KPIs and KRIs which are regularly reported to the Board to identify adverse trends and are accommodated within our agreed risk appetite. The Society uses actuarial models to determine the pricing of our products. This is carried out by the Actuarial Function Holder. The Society complies with specified risk models under Solvency II Regulations which are designed to facilitate oversight and understanding of the risks facing the Society and to ensure adequate capital reserves to meet liabilities. |
| The Society's solvency and operational ability will be adversely affected if these, particularly claims and lapses are inaccurate. |   |

### Credit

| Description   | Mitigation   |
|---|--|
| This is the risk that the Society suffers financial loss as a result of another party's failure to meet their financial obligations in a timely manner. | The Society seeks to minimise credit risk by ensuring that all counterparties have strong credit ratings, hold investments in segregated client funds and maintains a diversified portfolio of investments, thereby reducing the potential impact of any one credit event. |

### Market

| Description  | Mitigation  |
|--|---|
| The limitations of the Society's capital base remain and our exposure to investment shocks is a vulnerability of the current strategy. | Market risk for investments is managed by use of detailed investment guidelines which cover risk/reward relationships, limits on exposure by markets and asset classes and maturity profiles.   |
|  | The Society's investment objectives are to achieve medium term stability in bonus rates and to ensure that members' capital is not put at risk.   |
|  | The Society does not match its assets and liabilities precisely. Average duration benchmarks are set instead, which approximate the maturity profile of the liabilities but with a degree of mismatch to allow the Society some flexibility to enhance returns. |

# Strategic Report

## Operational

| Description   | Mitigation  |
|---|---|
| The Society is subject to a number of regulatory and legislative obligations. A failure to anticipate regulatory change or respond effectively to such changes could impact on our ability to operate and achieve our strategic objectives and damage our relationships with members. | <p>The Society manages its regulatory risks through strong processes and procedures. The Society seeks to identify and meet its regulatory obligations and to respond to emerging risks.</p> <p>Operational controls, training and reporting processes are in place to ensure compliance with the requirements of the regulators. Objective oversight is affected by means of a risk based monitoring programme approved by the Audit and Compliance Committee of the Board.</p> <p>Additional compliance support and oversight is provided by an external consultancy.</p> |
| The Society has commissioned a major IT upgrade programme that carries embedded operational risks as well as the opportunity to modernise and streamline its operational capability.  | A robust supplier selection process has been carried out to ensure supplier competency and ability to deliver to specification. This is supported by strong contractual protections and real time management and oversight by an internal project team reporting to Senior Management and the Board.  |
| The Society needs to keep up with current technology practices in order to deliver its products in a relevant way to its customers and members.   | Significant efforts go into ensuring our systems meet the needs of our customers and members. Any major IT change goes through a thorough risk analysis process before it is implemented.   |
| The limited resource available to an organisation of our size increases the level of challenge to remain both competitive and compliant.  | The Society has actively recruited to key posts during the year which will facilitate scalability and support future developments as well as compliance controls.   |
| The Society aims to ensure that it has personnel with the appropriate competencies and behaviours.  | A formal Training, Competency and Development Programme was initiated in 2017 and is being continually developed to demonstrate appropriate and consistent behaviours.  |
| The Government's Universal Credit programme presents a challenge for the Society. If implemented in the current form it could have an impact on the attraction of new business.   | The Society, along with the wider Income Protection sector is monitoring early feedback from the Universal Credit rollout, seeking to understand the impact on our business. We continue to review our products to ensure that there is real value to members in our products.  |
| A significant breach of our Information Security arrangements leading to loss of member and the Society's data could impact our ability to operate and achieve our strategic objectives.  | <p>The Society constantly reviews its information security arrangements including internal audit of our outsourced IT partner.</p> <p>A comprehensive review of the Society's Information Security controls was commissioned in 2017, in which the Society demonstrated that strong systems and controls are in place.</p>  |
| A number of critical functions are outsourced to third parties.   | Due diligence is carried out on potential suppliers and there is robust monitoring of all critical and important outsourced functions.  |

# financial Statements

## SUMMARY FINANCIAL STATEMENTS 2017

The members of the Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the financial statements comply with the Friendly Societies Act 1992. They are responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and protection of fraud and other irregularities.

| <b>RESULTS FOR THE YEAR</b>                      | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
|--|-----------------------|-----------------------|
| Income   |                       |                       |
| Premiums   | 7,783                 | 6,344                 |
| Invested income                                  | 2,584                 | 2,665                 |
| Unrealised gain on investments                   | 2,423                 | 2,402                 |
| Other  | 27                    | 44                    |
| <b>Total income</b>                              | <b>12,817</b>         | <b>11,455</b>         |
| Costs  |                       |                       |
| Claims payable                                   | (2,319)               | (1,516)               |
| Expenses   | (6,827)               | (5,918)               |
| Unrealised loss on investments                   | (400)                 | -                     |
| Change in technical provisions                   | 462                   | 4,731                 |
| <b>Total cost</b>                                | <b>(9,084)</b>        | <b>(2,703)</b>        |
| Trading Surplus for the year                     | 3,733                 | 8,752                 |
| Member withdrawals                               | (5,558)               | (5,262)               |
| Net (deficit)/surplus for the year               | (1,825)               | 3,490                 |
| <b>FINANCIAL POSITION AT THE END OF THE YEAR</b> | <b>2017<br/>£'000</b> | <b>2016<br/>£'000</b> |
| Assets   |                       |                       |
| Investments                                      | 80,266                | 84,824                |
| Other assets                                     | 6,982                 | 4,539                 |
| <b>Total assets</b>                              | <b>87,248</b>         | <b>89,363</b>         |
| Liabilities                                      |                       |                       |
| Technical provisions                             | 49,855                | 50,317                |
| Fund for future appropriations                   | 35,650                | 37,475                |
| Other  | 1,743                 | 1,571                 |
| <b>Total liabilities</b>                         | <b>87,248</b>         | <b>89,363</b>         |

The summary financial information above has been extracted from the full statutory financial statements which were approved on 26/04/2018. The full statutory statements have been audited and received an unqualified report from the auditors, BDO LLP Chartered Accountants, who have also confirmed to the Board that the summary financial information is consistent with the full statutory financial statements. A copy of the full statutory statements, including the Report of the Board and Auditors' report are available on our website at [www.britishfriendly.com](http://www.britishfriendly.com) or a copy can be obtained from the Society's offices, 45 Bromham Road, Bedford, MK40 2AA.



Signed on behalf of the Board  
**Chris Radford** (Chairman)

---

**British Friendly Society Limited**

Registered Office:

45 Bromham Road, Bedford MK40 2AA

Telephone:

**01234 358344**

Fax:

**01234 327879**

Email:

**[enquiries@britishfriendly.com](mailto:enquiries@britishfriendly.com)**

Web:

**[britishfriendly.com](http://britishfriendly.com)**

Facebook:

**British-Friendly**

---

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered No: 110013. Incorporated under the Friendly Societies Act 1992. Registered No: 392F. Member of the Association of Financial Mutuals.

**BRITISH  
FRIENDLY**

It feels good to be covered