

SUMMARY REPORT AND FINANCIAL STATEMENTS

for year ended 31 December 2018



BRITISH
FRIENDLY

It feels good to be covered



founded in
1902



one of the
larger UK
Friendly
Societies



94.7% of
all claims
paid in 2018



over **£77m**
in assets in
2018



12%
increase in
membership
in 2018



over **£125k**
paid out in
discretionary
benefits in
2018



£8,000
raised for our
charity of the
year in 2018



nearly
27,500
members in
2018



Contents

02 Our History

03 Chairman's Welcome Statement

05 Meet the Team

06 Strategic Report

11 Summary Financial Statements

The full Report and Financial Statements can be found online at members.britishfriendly.com/about-us/society-information/.

Alternatively, contact us to request a copy.

Our History

The Society was founded in 1902 to provide sickness benefits for commercial travellers and their families.

We are located in Bedford, with members throughout the UK and are one of the larger UK Friendly Societies with assets in excess of £77m.

The principal activity of the Society is to provide sickness cover for its members in times of illness or accident. After paying sick pay and expenses any surplus is invested for the benefit of the members and the British Friendly Investment Policy is determined by the Board of the Society with input from the Risk and Investment Committee and our Chief Actuary.

As a mutual we exist solely for the benefit of our members and have no shareholders to whom we need to pay dividends. Until 2011 the Income Protection insurance offered by the Society was mainly of a 'Holloway' type with a capital element building up over time through the allocation of interest and other apportionments (effectively distributing annual surpluses to members). This business had been in decline for a number of years and in 2011 a pure Income Protection product, BFS Protect, was launched. This is sold via intermediaries and is now the core business product of the Society.

In recent years we have also introduced Breathing Space, a policy which does not require financial underwriting and is designed for the self-employed market.

Chairman's Welcome Statement



Chris Radford

Chairman

“I am delighted that, despite the falls in the market, we were able to maintain our interest rate and terminal bonus to Holloway members at 1.75% and 17.5% respectively.”

Introduction

2018 saw another turbulent year in the world economy with major stock markets showing substantial falls and the UK being particularly affected by the ongoing uncertainty regarding Brexit. The UK economy saw another sluggish year with growth of around 1.5%, which is close to what we predicted at the start of the year, and predictions for 2019 don't show any expected improvement.

Against this challenging backdrop I am delighted to report that the Society had another excellent year showing strong performances in the two key areas of our strategy; growth, where we saw a double digit increase in membership of 12%, and member value, as measured by our capital position. We continued to invest in our service to members resulting in another strong year of claims paid at 94.7%, thus helping our members in times of need. We also saw another substantial increase in membership of our Mutual Benefits programme, enabling members to experience added value from their membership.

I am also delighted that, despite the falls in the market, we were able to maintain our interest rate and terminal bonus to Holloway members at 1.75% and 17.5% respectively.

We continued to develop our products and computer systems to support our growth strategy. Last year we introduced three new services to the Mutual Benefits programme; discounted travel insurance, health MOTs and lasting power of attorney and also launched a guaranteed rate Income Protection product.

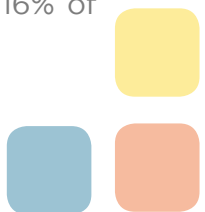
We did experience some challenges with our new computer system provider that have resulted in us making the decision to move to another supplier. Whilst this has been disappointing we have gained a huge amount of knowledge and experience that we will be able to use with a new provider that will ensure we continue towards our strategy of a flexible computer system that supports our future growth, achieving cost efficiencies and enables greater product development.

Strategic Goals

Having achieved significant growth over the previous two years I am delighted to say that, despite the difficult economic environment, we saw a further 12% increase in members to nearly 27,500. I am also pleased to confirm that during this continued period of growth our capital position remains strong with a Solvency Capital ratio of 243%, which is amongst the strongest in our peer group.

Member Engagement

Last year I was delighted to provide an update on our Mutual Benefits programme which we launched in 2017. This has provided an ideal means for us to regularly engage with members and most importantly enhance their membership experience. During 2018 we continued to enhance the programme through the addition of new benefits and by the end of year over 4,000 members had joined up, representing close to 16% of eligible members.



Chairman's Welcome Statement

As part of the enhancement of member experience, over the last couple of years we added our discretionary Death Benefit, Bereavement Benefit and Care Assistance Benefits and in 2018 we paid over £125,000 to members and their families who suffered a life changing event. As a result of these kind of initiatives and our ongoing commitment to providing the best service possible to our members we received nine awards during 2018. These included Best Income Protection Provider at the Health Insurance Awards and Most Engaging Customer Experience at the Life Insurance International Awards.

In addition, we continued to focus on member communications increasing regular email communications to members by 28% and completing four member surveys. We also continued to grow our social media presence with followers increasing by 20% on Facebook, 22% on Twitter and 39% on LinkedIn.

Board Changes

2018 saw the further strengthening of the Board with the appointment of Stuart Purdy as our Senior Independent Director and Michael Bartholomeusz, who has also taken on the role of chairing our Audit and Compliance Committee. They both bring a wealth of business and market experience and I am confident they will help the Board to continue successfully delivering on our agreed strategy.

We said goodbye to Nick Bayley at the end of the year. He joined the Board in 2008 and in his time with the Society he has held the position of Vice-Chair, Chairman and Senior Independent Director. He has made a substantial contribution to the Society and we wish him all the best for the future.

Our Chief Executive, Iain Clark, announced in November that he would be stepping down and so I would like to thank him on behalf of the Board for how he has led the Society's growth during his tenure. It has been a period of significant change and he leaves the Society with our very best wishes. As part of our planned succession timetable, the Board recently decided to appoint

Stuart Purdy as my successor as Chairman of the Society, a role he will take up at the 2019 Annual General Meeting. I wish Stuart every success in this key role as we continue to serve the interests of the members of the Society.

The Board also extended to me a request that I remain a member of the Board in order to support the Society in areas such as the recruitment of our new Chief Executive while also recognising that we have a number of ambitious strategic priorities that we are currently implementing. I was very pleased to be able to agree to this request.

Summary

During my three-year tenure as Chairman I am proud to be able to report that the Society has delivered very impressive results, with membership growing by over 60% whilst maintaining a strong capital position. During this period, we have significantly enhanced our product range, launched the market leading Mutual Benefits programme, undergone a major re-branding and invested heavily in our staff and infrastructure. 2019 will almost certainly bring further challenges with Brexit imminent, continuing turbulence in global markets and a continuing shift towards protectionism in many parts of the world. As I have mentioned in previous report and accounts we continue to 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.

We could not do this without the fantastic support of our members and our team in Bedford so I would therefore like to thank everyone for their continued commitment to our stated purpose, that is, to be a trusted and relevant provider of financial support in times of need.



Chris Radford
Chairman



Meet the Team

Board of Directors



Chris Radford
Chairman

Chris was elected Chairman in May 2016. He joined the Board in June 2010 and has over 35 years experience in the Financial Services sector. Chris is also chair of the Nomination Committee.



Nick Bayley
Non- Executive Director
(until May 2018)

Nick joined the Board in January 2008 and after period as both Chairman and Senior Independent Director has stepped down at the end of 2018.



Audrey McNair
Non-Executive Director

Audrey was appointed as a Non-Executive Director in April 2016 after a 35 year career in financial services. She also chairs the Risk & Investment Committee.



Robin Willison
Non-Executive Director

Robin joined the Board in June 2017. He has over 35 years experience in financial services. Robin is chair of Remuneration Committee.



Stuart Purdy
Senior Independent
Director (from May 2018)

Stuart joined the Board in May 2018 after an extensive career in financial services including as CEO of a number of businesses in Aviva and RSA.



Michael Bartholomeusz
Non-Executive Director

Michael joined the Board in April 2018 and had many years across both general and life insurance. He is chair of the Audit and Compliance Committee.



Iain Clark
Chief Executive Officer
(CEO)
(until November 2018)

Iain was appointed Chief Executive Officer in December 2016 before stepping down in November 2018.

Full bios for the Board of Directors and Management Team are available in our full Report and Financial Statements at members.britishfriendly.com/about-us/society-information/.



Lee Schöpp
Finance Director
(until November 2018)
Appointed Interim CEO in
November 2018

Lee was appointed to the Board in July 2010 as Finance Director and has been serving as interim CEO since November 2018.



Lee Schöpp

Interim Chief Executive Officer

Business Model

The Society was founded in 1902 to provide sickness benefits for commercial travellers and their families. To this day we continue to specialise in providing sickness and accident insurance, more commonly known as Income Protection insurance, although we now offer this to the wider public.

We were formed as and remain a Mutual which means we are owned 100% by our members or policyholders. In practice this means that any surplus generated after paying for claims, expenses and setting aside suitable provisions for the future, is invested for the benefit of our members.

Our Investment Policy has in recent years sought to achieve fair and stable returns for our members. Any assets we have are ultimately owned by our members and as such we have capital preservation at the core of our investment strategy.

Up until 2011 we sold only Holloway type policies which had an investment element to them. For those members the principal way in which value is returned to them is by the paying of annual interest, apportionment (profit share on trading surpluses) and via final bonuses when members leave.

Since 2011 new sales have been focused on pure Income Protection insurance without an investment part. It is those new members who have driven the growth in the Society in recent years and due to the success we have seen from our Protect and Breathing Space products we have been able to distribute value to all our members via continuing to offer and enhance the Mutual Benefits

programme we launched in 2017.

Business Strategy

Our strategy is based around an enduring purpose and behind it sits key principles. We articulate this both internally within the firm and externally in our literature and marketing. These principles are at the core of everything we do:

Purpose: To be a trusted and relevant provider of financial support in times of need

We know we need to be there when our members need us the most, when they need to make a claim, we therefore always look at our risks of future sustainability in anything we do.

Aim: Easy to do business with

We aim to provide simple, easy to understand products that anyone can access. We do this via the intermediated market to offer the greatest chance of reaching the most people.

Promise: To do the right thing

We will never hide behind small print, and seek to pay claims wherever practically possible.

Commitment – To put members at the heart of what we do

We pay as many claims as possible, only pursue strategies that are in our long term members interests and constantly seek to enhance the value of benefits we can offer our members.

Strategic Report

CEO Review

Business Environment

The overall business environment in the UK is largely dominated by geopolitical events both domestically and globally. Whilst as a UK based mutual insurer who sell only to UK residents we are broadly insulated from any direct effect of Brexit, in whatever form it takes, no firm is able insulate themselves fully from market risk or falls in consumer confidence that may occur.

We have a Risk and Investment Committee which closely monitors these events and ensures we seek and listen to advice from

experts in order to protect our member's interests.

In addition the increasing need to be one step ahead of cyber criminals and to stay on top of regulation such as GDPR means firms constantly need to review and refresh their IT and system security and capabilities.

A full description of the key risks we face and the mitigating actions we take is shown in the below grid.

DESCRIPTION	MITIGATION
OPERATIONAL	
The limited resource available to an organisation of our size increases the level of challenge to remain both competitive and compliant.	The Society has increased its staff this year in order to cover the continued growth in business.
The Society aims to ensure that it has personnel with the appropriate competencies and behaviours.	A formal Training, Competency and Development Programme is in place and many of our employees are assessed to ensure they remain fit and proper to conduct their role.
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.	The Society constantly reviews its information security arrangements including internal audit of our outsourced IT partner. The Society continues to conduct penetration tests in order to ensure the safety of our Members Data.
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.	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. 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.
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.
The Society has commissioned a IT upgrade programme that carries embedded operational risks as well as the opportunity to modernize and streamline its operational capability.	The Society has met with a number of suppliers and has a preferred candidate. This will be monitored further as we go through to the discovery phase.
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.

Strategic Report

CEO Review

DESCRIPTION	MITIGATION
CREDIT	
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 has robust procedures in place for all onboarding of new third parties and 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	
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.
LIQUIDITY	
The ability to pay claims is a key deliverable for any insurer. There is a risk that the Society will have insufficient funds to pay its claims in a timely manner.	The Society mitigates this risk through cash flow projections and holds a level of cash reserves which is monitored monthly for its sufficiency.
STRATEGIC	
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 including its Mutual Benefits programme.
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	
The Society is required to make assumptions as to the likelihood of an insured event occurring.	Defined controls against KPIs and KRIs 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.	

Strategic Report

CEO Review

Business Performance

2018 saw a continuation of our strong underlying trading performance. Key performance indicators and how we measure them are as follows:

Membership

Criteria	Target	Actual
Membership	26,510	27,469

We exceeded our target by almost 1,000 members and grew overall membership by 12%. This was helped by both working with new advisors to increase our market reach and by constantly reviewing and enhancing our offerings. In June we were able to offer all new policies at guaranteed rates meaning the rate table quoted on policy inception will remain guaranteed through the life of the policy. We also increased the range of Mutual Benefits offered as part of the discretionary package offered to members.

Capital Position

Criteria	Target	Actual
SCR	250%	243%

Our solvency position remains strong and amongst the highest in those firms offering Income Protection insurance.

We have maintained a strong position despite the market falls experienced in 2018 which pushed us slightly below our target at the end of the year; this is in large part due to the profitable new business volumes we are writing.

Claims

Criteria	Target	Actual
Ratio of Accepted Claims to Claims Received	90%	94.7%

Given our purpose, we pride ourselves in being able to pay as many claims as possible. All our policies are written on an 'own occupation' basis. This means we pay claims until the member can return to their normal occupation, not just any kind of work. Whilst this undoubtedly leads to longer claims it is the right thing to do.

With this policy feature we find that the majority of our membership is made up of tradespeople, manual workers and non-office based occupations. This leads to orthopaedics being the top claim reason as shown below:

Orthopaedics

50%

Viral Illness/
Respiratory

19%

Mental Health

13%

Digestive

9%

We also are committed to helping claimants get back to work as early as possible, and as such we are able to have significantly shorter average claims lengths than industry averages.

Service Levels

Criteria	Target	Actual
Service Levels	93%	97%

We do not hit service targets by making them easy to achieve, in fact the majority of our targets are to turn enquiries around within 24 hours. We do this by ensuring we always put members and their interests first and ensuring we have adequate staff levels to satisfy our member's needs.

Strategic Report

CEO Review

Other Performance Indicators

As shown above, the majority of our business targets were met and in fact significantly exceeded.

However, there was one key target which was not met and that was the delivery of a new IT system. Unfortunately 18 months into the project it became clear to us that our supplier would not be able to complete the delivery of the project without a substantial injection of additional funds from the Society. On a balance of risks, we made the decision to terminate the project rather than run the risk of further losses should the ultimate delivery not succeed. This has resulted in a one off write-down of £1.6M.

The need for a new system has not gone away however, and we remain committed to delivering one in 2019. A comprehensive review has been undertaken and all lessons learned are being incorporated into the new plan.

This also was a factor in our overheads increasing as efficiencies we planned to achieve in 2018 by having a new system will now be delayed until 2019/20.

We also saw a very volatile investment market in 2018, particularly towards the end of the year.

We seek to invest in a broad range of assets which not only provide an income but also seek to protect our member's capital. Despite this we still saw a small overall investment loss in the year. Nevertheless we have been able to maintain both annual interest rates and final bonuses due to the strength we have built up over recent years.

People & Culture

The Society realises that it is our employees and their actions that really make a difference and are the way in which members and other stakeholders experience our culture and values first-hand.

We operate a clear diversity policy and offer equal opportunities to all our staff and those

applying to join us. We consider our staff our most valuable asset, and as such offer a comprehensive set of benefits and reward staff through a bonus scheme closely linked to the Society's strategic targets and their personal performance.

We are committed to providing the training and support our staff need in order for them to do not only their jobs but also try and reach their full potential.

The Society also actively supports charities each year. In 2018 this was Tibbs and Disability Rights UK. And we were proud to raise over £8,000 for them during the year. In 2019 our staff have chosen the Road Victims Trust to be our charity of the year.

Outlook

I am pleased to say the Society is well positioned for the future. 2019 has started very well for us with strong demand for our products and increases in membership.

We will continue to enhance our offerings and add to our Mutual Benefits package to our members but at the same time ensuring we get the new IT system we need to ensure we remain robust for the future and able to deal with the growth we continue to see.

We are already at record levels of membership but would hope to see us reach the next milestone of 30,000 members in 2019.

We will do this without compromising our values or reputation, and we will continue to invest in our people and remain a Society to be proud of.



Lee Schöpp

Interim CEO



Summary of Financial Statements 2018

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.

Results for the Year

	2018 £'000	2017 £'000
Income		
Premiums	8,889	7,783
Invested income	2,155	2,584
Unrealised gain on investments	236	2,423
Other	22	27
Total income	11,302	12,817
Costs		
Claims payable	(3,131)	(2,319)
Expenses	(10,053)	(6,827)
Unrealised loss on investments	(2,873)	(400)
Change in technical provisions	9,481	462
Total cost	(6,576)	(9,084)
Trading surplus for the year	4,726	3,733
Member withdrawals	(5,426)	(5,558)
Net deficit for the year after withdrawals	(700)	(1,825)

Financial Position at the end of the Year

	2018 £'000	2017 £'000
Assets		
Investments	71,035	80,266
Other assets	6,181	6,982
Total assets	77,216	87,248
Liabilities		
Technical provisions	40,374	49,855
Fund for future appropriations	34,950	35,650
Other	1,892	1,743
Total liabilities	77,216	87,248

The summary financial information above has been extracted from the full statutory Financial Statements which were approved on 16/04/19. 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 information is consistent with the full statutory financial statements.

A copy of the full statements including the Report of the Board and Auditors' report are available on our website at members.britishfriendly.com/about-us/society-information/ 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

Web:

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