

**SOLVENCY AND FINANCIAL  
CONDITION REPORT**

**2024**

# Welcome from the Chair

Dear Members,

As the people responsible for your Society, the regulator requires us to report to you on the extent to which your benefits are secure in a document called the Solvency and Financial Condition Report ('SFCR'). I am delighted to present the SFCR for the year ended 31 December 2024.

Our job is to be there when you need us most. When you are too ill to work, we provide a replacement income. We manage the Society to provide these benefits in two ways. First, we make sure that the Society has a healthy financial position, now and in the future (called 'having sufficient capital'). Second, we make sure that we run the Society properly (called 'having effective governance'). This report describes the work we have done in 2024 to demonstrate that we have sufficient capital and effective governance and so ensure the security of your benefits.

Running any business involves risk. There is always a risk that our finances deteriorate. We, the Board, are obliged to take every reasonable step to ensure that we identify and manage the risks that the Society faces.

The SFCR is organised into six sections. The sections and their contents are set by the regulator. We include explanatory boxes throughout the report to explain terms as

they are used and have summarised them in a glossary at the end. We have deliberately tried to avoid technical language as much as possible.

I hope you enjoy reading this report. We are always delighted to discuss the Society with our Members at the Annual General Meeting or at any other time. If you have any comments, questions or suggestions, please do not hesitate to contact me.

# Summary

## Business and Performance

Despite the continued conflicts in Ukraine and Middle East, 2024 was a positive year for global markets and the UK, with the UK Consumer Confidence Index increasing over the course of the year to 99.36 in December 2024, from 98.43 in December 2023. This increase in confidence helped the UK economy in the first half of the year and had a positive impact to the life insurance sector, which was a welcome boost following several years of slower growth since the pandemic. The Society benefitted from this uplift, and our competitive, flexible and service focused approach saw us outperform a number of other peers and we ended the year with the highest level of new business sales since 2019.

It was reported that NHS patient waiting times reached an all-time high in 2024, which directly impacts the Society as it delays those needing treatment, getting back to work. This situation contributed to a higher-than-expected length of time to help get our Members in claim, back to work, and as a result the amount we paid in claims during the year was higher than expected. This is something that the Society will keep a continued watch on, and we have taken the action to strengthen our reserves as a result, ensuring that our future business projections include more prudence to allow for this trend.

Overall, the Society made good progress against its strategic objectives as expenditure was

controlled in line with our strategy and a high level of service was maintained to our Members. We met all our regulatory objectives and new business sales were very pleasing, surpassing our annual target, leading to a net growth in the Society's overall membership.

The highlights of the year were as follows:

- Net membership increased to 29,617 (2023: 26,952),
- Gross premium income (before reinsurance) increased to £13.2m (2023: £11.9m)
- Operational expenses were well managed in light of rising inflation at £7.05m (2023: £6.9m)
- Liquid assets reduced to £15.6m (2023: £19.8m) due to the cost of writing new business and withdrawals from our Holloway schemes.

As an organisation owned by our customers ("Members"), the Society's focus is always on helping our Members through our products, services and support. During the course of the year, we:

- Helped 409 members return to work following a period of sickness,
- Paid over £5m in claims to members unable to work,

- Maintained a high claims ratio, paying out on 96.6% of claims, and
- Raised over £20,000 for the James Hopkins Trust, our chosen charity.

We also provided our Members with additional support such as second opinion GP services and access to online GP consultations available 24 hours, 7 days a week.

Towards the end of the year we transitioned to our new actuarial platform, providing us with a chance to review our data, experience and assumptions in more detail than normal. This review led to strengthening our reserves further, aligning our projections with the revised assumptions, which in turn has lowered our solvency position in comparison to the previous year.

## Risk Profile

All insurers manage risk. It is management's job to organise the firm's affairs to ensure that benefits can be reliably paid when an insured event happens, and a claim is made.

The Society's risk profile has remained broadly stable over 2024. It underwrites one type of risk (sickness) and has done so throughout the period. The overall size of the Society has remained similar therefore maintaining the risk profile.

# Summary

## Managing Our Risk Profile

Risk is managed by having sufficient capital and having an effective system of governance. **We have sufficient capital and an effective system of governance.** This report sets out how we have concluded that this is the case.

## Having Sufficient Capital

Every year, we estimate the benefits that we expect to pay our Members and the assets that we have to meet them. We assume that most existing Members continue their policies, we make assumptions about expected sickness and we allow for a proportion of Members to stop their policies. This review is called the annual valuation.

The valuation proves that the Society has enough capital to meet Member benefits.

We calculate the risk in the Society's business using the regulatory formula. The cost of risk is called the Solvency Capital Requirement or SCR. It is a measure of how much extra capital the Society needs to be 99.5% sure that it can meet all Member benefits in the next year. If an insurer has more capital than the SCR, the chance of there being a problem in the next twelve months is even lower than 0.5%. We have more capital than the SCR.

## The Society's Valuation

This year, our valuation showed a healthy buffer of assets over liabilities (technical provisions plus current liabilities). This buffer is called, in regulatory jargon, 'Own Funds'.

The SCR is the capital needed to cover the cost of the risks calculated by the regulatory formula.

Surplus capital is the term used for the difference between Own Funds and the SCR. The surplus capital provides extra protection to Members and is available for other purposes, such as investment in the Society's strategy.

Table 1 shows that the Society has over £15m of surplus capital.

| Table 1: Surplus Capital, £000           | 31 Dec 2024 | 31 Dec 2023 |
|--|-------------|-------------|
| (a) Own Funds                            | 54,342      | 70,413      |
| (b) Solvency Capital Requirement ("SCR") | (38,669)    | (37,378)    |
| (c) Surplus Capital (a) – (b)            | 15,673      | 33,035      |

Surplus capital has reduced over 2024. This is mainly due to a reduction in the value of our Own Funds, which is down to several factors including

strengthening our future assumptions based upon our changing experience and writing higher levels of new business.

We expect our surplus capital to be broadly similar over the next year. Management will continue to monitor the SCR and the surplus capital monthly.

The regulator sets a minimum level of capital called the Minimum Capital Requirement or MCR which, for the Society, is one quarter of the SCR.

**In conclusion, we have more than enough capital to confidently support the payment of Member benefits over the next twelve months.**

# Summary

## An effective system of governance

The Society has an effective system of governance.

We have procedures in place to make sure that those working for the Society, especially at a senior level, are fit and proper. The risk management system has been reviewed this year and is effective.

Pay is properly managed.

The internal control system has similarly been reviewed, and the Society can confirm that it has effective compliance, actuarial, risk management and internal audit functions.

Our Independent Auditor is BDO LLP, unchanged from last year.

Our Internal Auditor for 2024 was RSM UK Risk Assurance Services LLP.

Alison Carr FIA of Steve Dixon Associates LLP is our Chief and With-Profits Actuary.

We have a robust process of assessing potential partner firms before we outsource any activity to them, and we continue to monitor those firms to whom we have outsourced services.

In conclusion, we are satisfied that our system of governance is effective, given the nature, scale and complexity of the Society's risks.

## Our Responsibility

The Directors are responsible for preparing this, the 2024 Solvency and Financial Condition Report, so that it meets the regulator's financial reporting rules and the rules that apply to insurance companies. The Directors are responsible for making sure that the working environment is robust enough to ensure that this report is accurate and free from any material mistakes, from any cause, including fraud or someone's error.

We are satisfied that, throughout 2024, the Society complied in all material respects with the requirements of the regulators' rules and the Solvency II regulations. It is reasonable to believe that the Society has continued to comply since and will continue to do so in future.

By Order of the Board



**Ben Pears**  
**Chief Executive Officer**  
**01 April 2025**

# Contents



|   |           |
|---|-----------|
| <b>A. Business and Performance</b>        | <b>7</b>  |
| <b>B. System of Governance</b>            | <b>14</b> |
| <b>C. Risk Profile</b>                    | <b>27</b> |
| <b>D. Valuation for Solvency Purposes</b> | <b>33</b> |
| <b>E. Capital Management</b>              | <b>39</b> |

Solvency and Financial  
Condition Report 2024

# A. Business and Performance

# A. Business and Performance

## A.1 Business

The Original Holloway Friendly Society Limited (‘the Society’) exists primarily to provide a replacement income when you, one of our Members, cannot work because of illness or injury (which we call ‘sickness’). We protect a proportion of your income when you cannot work and try to help you get back to work where we can.

In September 2023, we reviewed our strategy and concluded that we will pursue our “managed growth plus” strategy. This is best characterised as

- Aiming to grow our business over the 5-year period (2024-2029), in line with our available capital
- Managing headcount and financial resources carefully
- Remaining as an Income Protection specialist and developing a small number of new products over time to enable us to diversify our portfolio
- Retaining focus on the intermediary market for our core protection products
- Investing modestly to further improve our service to Members and Advisers and to drive further operational efficiencies

## Products

Alongside our product set we continue to invest in simplifying our point-of-sale journey for our Members and their supporting Advisers. We have introduced automated underwriting by deploying UnderwriteMe into our processes which has significantly reduced the time spent assessing and underwriting new business applications. We have continued to invest in our PRISM administration platform by moving PRISM to the cloud which will improve operational resilience for our systems and processes.

We have continued to evolve our Membership proposition and we have now launched a virtual GP service for all Members from quarter 1 2024, which is in addition to the other Member assistance/ support options that we make available to our Members.

We also have a Holloway product. This pays you an income if you cannot work with an additional benefit of some savings and the right to share in the Society’s profits. We call this our With-Profits (or ‘WP’) product.

### What is a Holloway product?

We understand that we were the first firm to combine income protection and savings. The resulting innovative product, introduced around 1875, was named after our founder, George Holloway, MP for Stroud.

We may, in the future, offer new products or adjust or stop offering existing products. As you might realise, this is a simplified description. Our products are available only through appropriately qualified Financial Advisers who can explain them, including how they can be adjusted for your needs and what options are available. Advisers act for you, not for us, although we do pay commission to them for every new product which is bought. They can usually offer products from a range of providers, not just from us.

We manage a number of products, some of which are no longer available. These can be divided into three types: Income Protection, With-Profits or Unit Linked products.

The Unit Linked product is closed to new business. It was a savings product where the benefit was linked to investment performance. Everyone who has a product issued by the Society becomes a Member.

## Membership

The Society is owned by its Members. It has no shareholders. Therefore, everyone at the Society works for you, our Members. The Society’s Board of Management (‘Board’) makes decisions on your behalf. You elect the Directors who serve on the Board.

# A. Business and Performance

## What is a Board?

Most companies are run by a Board of Directors. These are the people who direct the company, decide its strategy and ensure its governance. The Board oversees plans, performance and activity and, if not satisfied, makes changes.

The Board is chosen by the owners of the company. For us, the Board is chosen by you, our Members, at the annual general meeting.

The Society has Members throughout the UK, the Channel Islands and the Isle of Man. It offers its products throughout the UK and in the Isle of Man.

We are, legally speaking, a friendly society, registered and incorporated under the UK Friendly Societies Act 1992 with the registered number 145F. We are authorised and regulated by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). Our Firm Reference Number is 109986, which you can use if you want to write to either regulator.

The PRA is responsible for ensuring that we can pay benefits when they are needed. It is the regulator that requires this document to be produced and

when we use the term 'regulator', we mean the PRA. You can contact the PRA by writing to Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA or by calling 0203 461 7000.

We are also regulated by the FCA, which is responsible for regulating our conduct. You can contact the FCA by writing to the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN or calling 0207 066 1000.

Our independent auditor is BDO LLP ('BDO'). BDO can be contacted by writing to 55 Baker St, Marylebone, London W1U 7EU or by phoning 020 7486 5888.

## What is an independent auditor?

An independent auditor is a firm appointed mainly to provide independent assurance to Members that a Society's accounts are broadly accurate.

# A. Business and Performance

## A.2 Underwriting Performance

### What is underwriting?

Underwriting is the insurance term for setting the prices to be paid for the benefits offered at the right level for the risks accepted. For us, this means agreeing prices for individual Members that are competitive as well as ensuring that we can meet the claims of all Members and cover the Society's administration costs.

Underwriting success can be judged by the difference between payments received and claims paid. Underwriting is effective if the payments received are greater than the claims paid. We look first at payments received and claims. Table 2 shows payments and claims for the three products described earlier (Income Protection (IP), With-Profits (WP) or Unit Linked (UL)). Reinsurance is included and is explained a little later.

|   | IP           |              | WP           |              | UL   |      | Total        |              |
|---|--------------|--------------|--------------|--------------|------|------|--------------|--------------|
|   | 2024         | 2023         | 2024         | 2023         | 2024 | 2023 | 2024         | 2023         |
| <b>Net Earned Payment Income</b>                        |              |              |              |              |      |      |              |              |
| Gross Payments (P)                                      | 11,064       | 9,567        | 2,179        | 2,320        | -    | -    | 13,243       | 11,887       |
| Reinsurance Out   | (26)         | -            | (40)         | (49)         | -    | -    | (66)         | (49)         |
| Gross Claims  | (4,400)      | (3,659)      | (664)        | (611)        | (68) | (57) | (5,132)      | (4,327)      |
| Reinsurance In  | -            | -            | 10           | 9            | -    | -    | 12           | 9            |
| <b>Surplus (by how much does income, exceed claims)</b> |              |              |              |              |      |      |              |              |
| Surplus (S)   | 6,640        | 5,908        | 1,485        | 1,669        | (68) | (57) | 8,057        | 7,520        |
| <b>% Surplus (S+P)</b>                                  | <b>60.0%</b> | <b>61.7%</b> | <b>68.2%</b> | <b>71.9%</b> | -    | -    | <b>60.8%</b> | <b>63.2%</b> |

Key: IP = Income Protection, WP = With-Profits, UL = Unit Linked

Note: 'Reinsurance In' and 'Reinsurance Out' do not include any amounts included in the Munich Re agreement.

The Surplus is the difference between income from Members and claim payments to Members. The bigger the number, the more money the Society has to support Member benefits, expenses and the Society's growth.

Very little new With-Profits business was sold in 2024. The With-Profits results include Members

claiming their investment balances. The Unit Linked policies are closed to new business and have all completed their payment-paying term.

Our main source of income is payments from Members. We also receive income from our investments. Details of this income are in section A.3.

# A. Business and Performance

Having identified in Table 2 the difference between payments from Members and claims paid to Members, we consider the expenses. Table 3 shows the expenses.

| Table 3: Operating Expenses, £000    |                        |               |               |
|--------------------------------------|------------------------|---------------|---------------|
| Expense Type                         |                        | 2024          | 2023          |
| Acquisition                          | Commission             | 4,452         | 2,449         |
|                                      | Sales-related Expenses | 4,428         | 4,351         |
|                                      | One-off Expenses       | 89            | -             |
| <b>Total Acquisition Expenses</b>    |                        | <b>8,969</b>  | <b>6,800</b>  |
| Administrative                       | Maintenance Expenses   | 3,139         | 3,090         |
|                                      | One-off Expenses       | -             | 138           |
| <b>Total Administrative Expenses</b> |                        | <b>3,139</b>  | <b>3,228</b>  |
| <b>Total Operating Expenses</b>      |                        | <b>12,108</b> | <b>10,028</b> |

Commission is in line with the higher new business.

# A. Business and Performance

## A.3 Investment Performance

The Society's investments are managed by a firm called LGT Wealth Management UK LLP. We classify our investments into three categories: equities (shares), fixed interest (UK gilts and bonds) and cash. Table 4 below shows how our investments have performed:

| Return Type \ Asset Type       | Equities  |            | Fixed Interest |            | Cash      |           | Total      |              |
|--------------------------------|-----------|------------|----------------|------------|-----------|-----------|------------|--------------|
|                                | 2024      | 2023       | 2024           | 2023       | 2024      | 2023      | 2024       | 2023         |
| Realised Capital Gain/(Loss)   | (22)      | 78         | 73             | 39         | -         | -         | 51         | 117          |
| Income Received                | 74        | 59         | 418            | 318        | 84        | 80        | 576        | 457          |
| Unrealised Capital Gain/(Loss) | (13)      | 57         | (184)          | 471        | -         | -         | (197)      | 528          |
| Investment Expenses            | (5)       | (4)        | (40)           | (41)       | (6)       | (9)       | (51)       | (54)         |
| <b>TOTAL</b>                   | <b>34</b> | <b>190</b> | <b>267</b>     | <b>787</b> | <b>78</b> | <b>71</b> | <b>379</b> | <b>1,048</b> |

During the year, interest rates fluctuated owing to continued uncertainty in global market conditions and inflationary outlook. We have not made any changes to our investment profile.

At the end of the year, we held no securitised assets. The Society has a small portfolio of assets to support its Unit Linked policies, which is also managed by LGT Wealth Management.

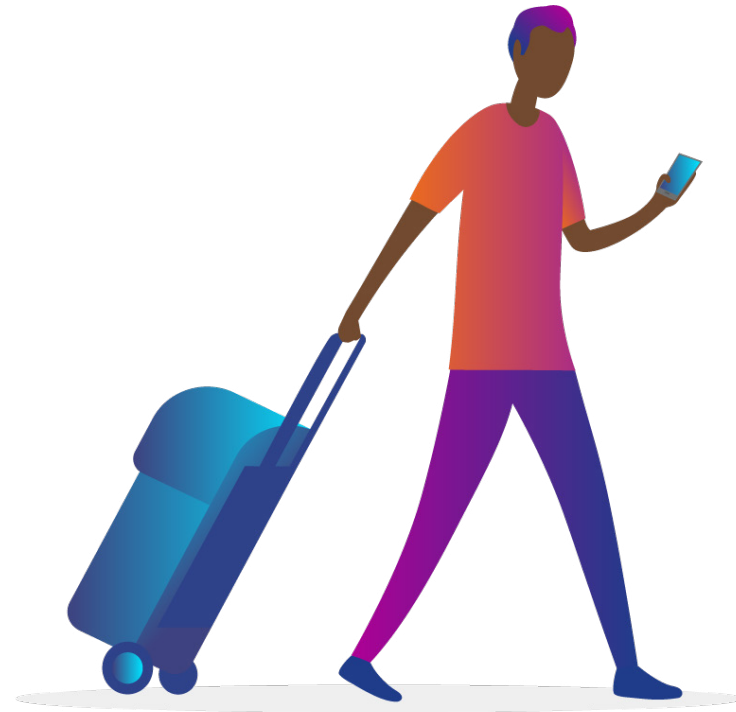
# A. Business and Performance

## A.4 Performance of Other Activities

The Society did not perform any other activities.

## A.5 Any Other Information

There is nothing additional to report.



Solvency and Financial  
Condition Report 2024

# B. System of Governance

# B. System of Governance

## What is governance?

Governance is a system that provides a framework for managing organisations. It identifies who can make decisions, who has the authority to act on behalf of the organisation and who is accountable for how an organisation and its people behave and perform.

## B.1 General Information on the System of Governance

### What is a system of governance?

This means everything that is in place to make sure that the Society is well governed.

The system of governance reflects our size, the range of products that we offer and our historic expertise in the work that we do. The system of governance for a large company is different to that of a small one. It is important that the approach chosen fits the company. We think that ours does.

Regulation asks for three things in the system of governance: (a) a transparent organisational structure, (b) clear and appropriate segregation of responsibilities, and (c) a well-established and effective system for ensuring the transmission of

information. We have these in place. In short, (a) all of our Colleagues know what their jobs are and who does what, (b) we insist that everyone's work is checked by someone else and that no-one is allowed to do work where there might be a conflict, and (c) we work hard to make sure that everyone knows what is going on, and if not, that it is clear where to go for help.

The system of governance is regularly reviewed by the Board and its Audit and Risk Committee ('ARC').

### What is the Audit and Risk Committee?

The Board has set up Committees to help it with oversight. The Audit and Risk Committee oversees internal and independent audit, compliance, actuarial and risk management activities. It ensures that the risk management and internal control systems are effective.

### About the Board

The Board is a group of people, called Directors, who, together, run the Society at a high level. It is chosen by our Members and is responsible to them and to the regulators.

The Board is made up of Non-Executive and Executive Directors.

The Non-Executive Directors are independent. Primarily this means that they don't work in the Society other than as Directors, nor do they have any personal interest in the Society, other than owning one of the Society's products.

The Executive Directors work in the Society as well as being Directors. They too own products issued by the Society.

Directors are explicitly allowed to own products issued by the Society under the Society's rules.

As everyone knows about this, it is not deemed to be a conflict.

There are more Non-Executive Directors on the Board than there are Executive Directors. If it comes to a vote, Executive Directors cannot out-vote the independent Non-Executive Directors.

The Board was, as at 31 December 2024, made up of eight people: six Non-Executive Directors, the Chief Executive and the Chief Operating Officer.

The Board decides the strategy, hires the Chief Executive and other senior people, and monitors performance. The Board can consider anything it chooses. Mainly, it considers business plans, culture, financial and other reporting, the quality of the system of governance, risk management, the prudential management of the Society and its own succession. The Board is led by the Chair.

# B. System of Governance

## What is the Chair?

The Chair is the Non-Executive Director who leads the Board. It is an important role with specific responsibilities to the regulator and to Members.

There are three Board Committees which help the Board do its work. These Committees and the Board hold the Executive to account.

## What (or who) is the Executive?

The Executive refers to a small group of senior employees. At the end of 2024, the Executive comprised the Chief Executive, the Chief Operating Officer and the Chief Risk Officer.

These are the employees who run the Society, led by the Chief Executive, responsible to the Board.

The Nomination and Remuneration Committee is two committees sitting at the same time.

The Nomination Committee is, as at 31 December 2024, made up of four people: two independent Non-Executive Directors, the Chair and the Chief Executive. It considers the Board's performance and its current and future make up. The Remuneration Committee is made up of three people: two independent Non-Executive Directors and the Chair. It considers all aspects of pay, including Executive pay, and bonus plans (annual, enhanced and sales). This joint Committee meets at least twice a year. It helps the Board by making sure that the Board and its Committees work effectively, including having a plan for succession, and that there is effective oversight of pay and benefits. No Director is involved in setting their own pay.

The Audit and Risk Committee (or 'ARC') is, at 31 December 2024, made up of four people, all of whom are independent Non-Executive Directors. It considers the effectiveness of our financial management, risk management and internal controls systems and the controls around compliance.

The Committee draws on the work of the independent auditor, the internal auditor, the risk management function, the actuarial function and the compliance function. The Committee meets at least four times every year. It helps the Board have confidence in the quality of our system of governance and the accuracy of our financial statements.

# B. System of Governance

## Main Business Functions

There are three main functions of the business:

- Sales and marketing,
- Member services, IT and operations, and
- Finance, risk, compliance and actuarial.

The sales and marketing function is responsible for:

- presenting us to Members and Advisers before and after a product has been bought
- dealing with press enquiries
- writing and designing material
- finding new Advisers
- managing the relationship with Advisers
- agreeing commission rates, and
- designing new propositions and products and making sure existing ones remain fit for purpose.

Its role is to make sure there is a healthy flow of new Members.

The Member services, IT and operations function are responsible for:

- the handling of our Head Office activities involving Members and their products
- dealing with Members, underwriting and administration
- handling claims when Members cannot work
- keeping the IT systems going
- managing new IT developments
- looking after all aspects of the Head Office building
- disaster recovery planning (how the Society would cope in an emergency)
- people management, and
- project and change management.

Its role is to handle all aspects of supporting Members, as well as ensuring that the computer systems are working, the buildings are safe and so on.

The finance, risk, compliance and actuarial function is responsible for the money, be it money coming in from Members, money being paid to Members who are ill or injured (claims), or money being paid to cover commissions, wages, suppliers, training, insurance, consultancy fees etc. Part of this responsibility is the proper accounting for every penny received and spent. The function includes:

- the risk management systems (does the Society understand the risks it is running and has it thought about how to manage risks to prevent a problem?)
- the actuarial function (is there sufficient capital, now and over the long term?)
- the compliance function (does the Society meet the rules and regulations?)
- liaison with independent and internal audit, the Chief Actuary and the With-Profit Actuary.

Its role is to ensure that the Society is managed and controlled to the high standards expected of an insurer and that benefits can be paid when needed.

# B. System of Governance

## How the system of governance has changed during 2023

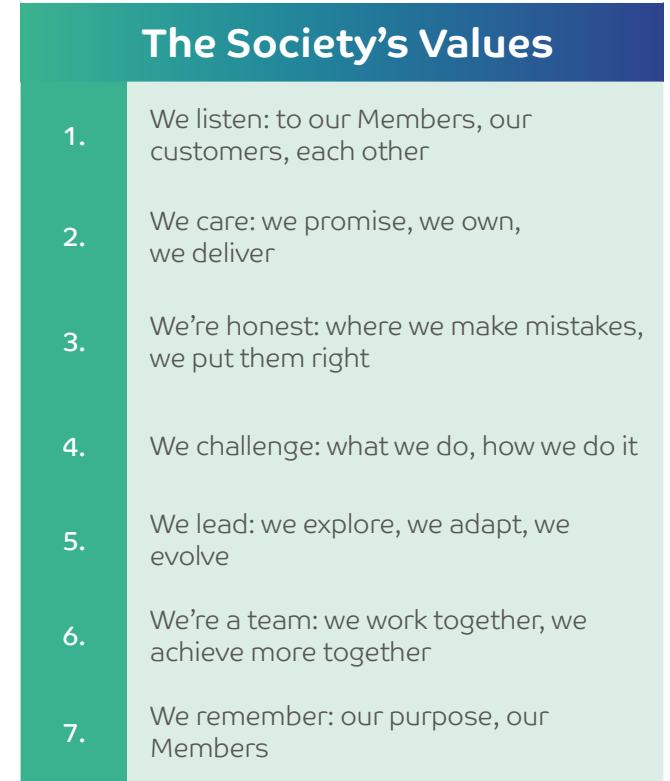
There were no substantive changes to the system of governance in 2024.

### Remuneration policy and practice

We will only be successful if our people work hard and do a good job. The Society's future is in the hands of its employees, whom we call Colleagues, who need to be rewarded properly for doing a good job.

The Society's approach to paying Colleagues is set out in its Remuneration Policy. Our Remuneration Policy tries to make sure that the right behaviour at work is rewarded. This is a balance between continuing doing everyday work to the right standards and coping with the changes that growth requires.

We have a clear idea why the Society exists (to be there when Members need us the most – our mission) and what it has to be if it is to grow (to be the most recommended specialist provider – our vision). We have a clear idea of what makes the Society special (our values).



# B. System of Governance

The Remuneration Policy supports the mission, vision and values and tries to recognise and reward those who support them through their behaviour at work.

Rewards have to be in proportion to the overall success of the Society. They have to reflect each person's contribution.

Our Remuneration Policy is based on the following:

- there needs to be a balance between achievements and risk taking
- rules must be met, values demonstrated, and standards maintained
- no-one should benefit through an accident or because the rules did not cover every possible situation (so payments are discretionary), and
- everyone should have the opportunity to earn a bonus based on how well they work.

Pay at the Society is made up of (i) salary, benefits and pension, (ii) a sales incentive plan or (iii) an annual bonus plan and enhanced bonus plan.

(i) Salary, benefits and pension are paid to all Colleagues.

The salary, benefits and pension are competitive.

They are regularly compared with the pay and benefits of similar firms, at every level.

Benefits include car allowance, private medical and dental and other standard benefits (death-in-service, paid holiday, sick pay etc.). The benefits offered differ according to role and seniority.

(ii) The sales incentive plan is open to all Colleagues working directly in the sales function.

The sales incentive plan generates bonuses based on quarterly and annual sales performance, and performance on a number of conduct and capability measures.

(iii) Annual Bonus Plan and Enhanced Bonus Plan is open to all Colleagues excluding the sales function.

The amount of bonus available for both plans is calculated by reference to the Society's cash flow relative to the business plan approved by the Remuneration Committee for this purpose. The available bonus is split 75% annual bonus plan; 25% enhanced bonus plan.

The annual bonus plan requires thresholds on solvency, cash flow and conduct to be achieved. If they are, a bonus linked to performance against a set of numeric and activity targets may become payable with the overall amounts available determined as above.

The Executive may be invited to join an enhanced bonus plan that pays a bonus depending on performance against a number of measures, subject to meeting a number of higher thresholds. Payments are staged: 50% payable following the end of the next year, 25% one year later and 25% one further year later. Subject to agreement, a new plan begins each year.

In 2024, a final payment was made from the 2022-2024 enhanced bonus plan to the previous Chief Executive and the Sales and Marketing Director.

## The Purpose of Remuneration

We use pay to attract and keep good people who have the skills and experience that the Society needs to grow and serve existing Members well. Salary, pension and benefits are set in comparison with similar firms and to attract people to the Society.

All bonus plans are structured to encourage the activities needed for the Society to grow and be affordable.

## Terms of appointment of Executive Directors and other members of the Executive

The employment terms, including pay, for the Society's most senior executive functions are overseen by the Remuneration Committee. No

# B. System of Governance

individual is involved in setting her or his own remuneration.

The incentive plans are intended to attract and retain Executives of the right quality and the Balanced Scorecard (which records the performance of the Society against a number of metrics under the headings of: Financial, Customer and Member, Enablers and Controllers and People) should encourage focus on the most important elements that contribute to the Society's strategy. The Remuneration Committee is responsible for all payments under this bonus plan. It can choose to ignore the amounts calculated from the bonus formulas, and instead to increase or reduce bonuses payable. It is expected that this would only happen to fairly reflect contributions made, where not to do so would be harmful to the Society's long-term success. The Committee can reduce, withdraw or claw back any payments under the long term or enhanced incentive plan in certain circumstances.

No Executive service agreement has a notice period longer than one year and there are no loss-of-office or other benefits linked to resignation, except pay during notice periods. Any severance package for an Executive is subject to agreement by the Remuneration Committee. There are no early retirement or supplementary pension schemes.

## Terms of appointment of Non-Executive Directors

Non-Executive Directors are paid fixed fees. The fees reflect the work required of each role. There are no other benefits offered. The notice period is one month. There are no loss-of-office or other benefits linked to resignation from the Board. Re-election varies depending on time served, but no Director may serve for more than three years following their election at the Society's Annual General Meeting without re-election. Serving for more than six years requires particular consideration. There are no early retirement or supplementary pension schemes.

## Remuneration throughout the Society

The Remuneration Policy applies to all Colleagues. The annual bonus plan is open to all non-sales Colleagues. The sales incentive plan is open to members of the sales team, but not senior sales management (who instead are part of the annual bonus plan).

## Transactions with connected parties

During 2024, the Society did not do any paid work with people or firms which are closely connected with its Directors or senior managers.

## B.2 Fit and Proper Requirements

We need our Executive and Senior Leadership Teams to have the skills, knowledge and expertise to run the Society properly and to develop and implement our strategy. The most important quality is experience. Professional qualifications are important for some roles, as is a willingness to make the changes necessary to allow us to be there for our Members in their times of need and to demonstrate our strengths to Advisers.

### What is the Senior Leadership Team?

This is the group of people who work for members of the Executive. On a day-to-day basis, the Senior Leadership Team makes sure that the Society is properly run. Members of this team attend the monthly Executive, and some other Committee meetings and, depending on their job, may occasionally attend or present at Board meetings.

Our Board ensures that those running the Society are properly qualified and have the knowledge and experience to do their work properly. They must have good reputations and have integrity. The regulator calls this being fit and proper. For the most senior people, the Nomination Committee ensures that applicants are fit and proper. For other roles, the Executive has this responsibility.

# B. System of Governance

The regulator is kept up to date with all changes in senior management, including key function holders (the regulator's label for specific functions). We share the information used to confirm that someone is fit and proper. In particular, if someone was thought to be no longer fit and proper, we would tell the regulators.

When someone joins our Executive or Senior Leadership Team for a role that requires regulatory approval, a specialist firm is hired to collect the information needed to decide whether they are fit and proper. This firm considers fitness mainly by validating statements made by the candidate, including qualifications earned. It considers probity (a word used by the regulation to mean honesty or integrity) by searching for indicators of poor behaviour, including criminal record checks. It asks for references from previous employers. The Board ultimately decides whether it feels that someone at this level is fit and proper. For these roles, having made its assessment, the Board has to propose the individual to the regulator to be approved before the person can begin in the role.

In all other roles, the checking process is tailored for the role.

## B.3 Risk Management System, Risk Function and the Own Risk and Solvency Assessment

### (a) Risk Management System

Insurers are required to have an effective risk management system. This system must include strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis, the risks, at an individual and at an aggregated level, to which they are or could be exposed, and their interdependencies. This statement of what must be covered by the risk management system is taken from the regulations. Management keeps the Risk Management System under review and make adjustments as necessary.

Our Risk Management System considers all risks to which the Society is exposed within the categories of Financial, Strategic and Operational. Risks to the business plan are automatically considered when it is developed.

The Board periodically gets an independent review of the Risk Management System. Overall, the Board is satisfied that the Risk Management System is effective. It is well integrated into the Board processes and is becoming embedded into other parts of the Society.

The Society's Risk Management System starts by defining the risks that the Society faces. A risk threshold and/or tolerance is defined for each risk which may be qualitative or quantitative.

The thresholds and tolerances are set to balance the consequences of risks arising versus the cost of maintaining appropriate controls. Management then reports to the Board if one or more thresholds are, or looks like they might be, exceeded.

#### What is a risk tolerance?

This is the point at which the level of risk being run by the Society becomes unacceptable. Where we can, we have quantitative measures, for example the number of process errors that are acceptable.

The Executive continually monitors risks, including operational risks, that come to light. Where appropriate, reports are made to the Board, to ensure that Directors are informed about the risks that materialise.

#### What is operational risk?

Operational risk is the risk of some planned activity going wrong because a process fails, a system fails, or someone does something wrong.

The regulator includes fraud and legal problems as operational risks.

The Society maintains a risk register.

# B. System of Governance

## What is a risk register?

The Society's risk register is a list of the risks that it faces, with details of how the risks are identified, measured, monitored, managed, and reported.

We regularly discuss how risk might affect outcomes and our solvency, even if no change is expected. We especially consider risk and the impact on future solvency when developing new products or business initiatives. The CRO is responsible for ensuring that risk consequences are properly considered.

When the Board or a Committee has a decision to make, the papers describing the decision include CRO comment. The CRO is expected to cover the impact of the decision on our risks and our solvency. The result is that the Board makes decisions in full knowledge of the possible impacts of the decision on risk, on solvency and on the system of governance.

## (b) Risk management function

Insurers are required to have a risk management function as part of their Risk Management System. The Society's CRO runs the risk management function. The risk management function makes sure that the Risk Management System works properly.

The CRO reports to the Chair of the ARC on risk matters. The CRO attends board meetings. These arrangements provide the authority necessary for the role. The CRO regularly discusses the work for the risk management function, its resources, and the Risk Management System, with the ARC.

## (c) Own risk and solvency assessment

### What is an Own Risk and Solvency Assessment?

The regulations require insurers to undertake an Own Risk and Solvency Assessment, or ORSA, at least annually and whenever its risk profile significantly changes.

The ORSA is a judgement by the Board of the insurer's risks and the impact on the insurer's solvency. Importantly, it is the Board's view, not the regulator's (and not necessarily the view using the regulatory formula).

The starting point for the own risk and solvency assessment (ORSA) is the ORSA policy. This is a document required by the regulator to set out how an ORSA is to be done.

The ORSA process is a series of steps. The Board and others consider all of the risks that we face and their possible impact. The impact of each risk might be how it affects capital, how management has to behave to manage the risk, or a mixture of both.

## What is capital?

Capital is the name for the resources available to meet the Society's outgoings.

For the Society, capital is made up of cash, investments, and the difference between payments from Members (inflow) and future claims and expenses (both outflow).

We design a number of risk tests. Some just look at a single risk and suggest the extent to which it might move. Others look at groups of risks occurring together. The tests are used to see the impact on the Society if risks occur as suggested. The Board considers the results and may ask for new tests when it sees what the first results reveal.

When the Board is satisfied that it has considered all possible risks, it can start to think about the right level of solvency given those risks. The Board needs to decide how much surplus capital it needs to be sure that Member benefits can be paid when due, despite all the risks.

## What is surplus capital?

Surplus capital is the capital over and above that is needed to meet expected Member benefits and the SCR.

# B. System of Governance

We then perform a number of routine checks before drawing up a draft ORSA report for the ARC to consider. Based on the ARC's views, a final report is presented to the Board. This includes the Board's proposal on the necessary level of surplus capital that we need to have confidence that Member benefits can be paid. Once agreed by the Board, the report is sent to the regulator.

Throughout this process, an ORSA record is kept containing details of the intermediate results and discussions on risk matters.

Once the ORSA report is agreed, the Board conducts a review of the process. The results of the review are fed into the review of the ORSA policy and the next scheduled ORSA.

The results of the ORSA are shared throughout the Society. Integrating the ORSA is part of the risk management function work described earlier.

The ORSA is expected to be undertaken annually, or if there is a significant change to the Society's risk profile. Last year's ORSA was completed in September 2024.

## (d) Decision making

Insurers are required to write down their decision-making procedure as part of their Risk Management System. We have done this.

We have taken steps to ensure that the Board does not make decisions without understanding the risks to that decision. One of the purposes of the Risk Management System is to ensure that all of the risks affecting major decisions are understood and that ways to manage or remove risks are considered before the decision is made. Thinking about risk as a day-to-day feature of decisions, rather than something separate, should improve the quality of Board and Committee decisions.

## B.4 Internal Control System

### (a) About the internal control system

Insurers are expected to have an effective internal control system.

We have an effective internal control system, which covers administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the Society and a compliance function.

Our internal controls are generally managed by the person responsible for each function. These managers are responsible for making sure that there is the right mix of controls and for managing changes safely within their functions.

Each manager assesses the effectiveness of their controls and discusses their plans to improve

controls where necessary with the Head of Risk and their manager. After each quarterly meeting with the Risk Officer, a report is produced for the Risk and Controls Committee, which in turn produces a report for the ARC.

The Head of Risk is responsible for documenting and managing internal controls.

These structures and accountabilities (regulatory jargon) form the Society's internal control system.

In conclusion, the Board is satisfied that the Society has an effective internal control system.

# B. System of Governance

## (b) Compliance function

The regulator requires that every insurer has an effective compliance function.

The compliance function advises the Board on the effectiveness and completeness of the structures in place to ensure that the Society complies with the laws, regulations and rules of Solvency II and a number of other regulations. It considers changes in regulations and how they might affect the Society. The function considers the risk of non-compliance.

### What is Solvency II?

Solvency II is the name given to the regulations that UK insurers have to follow. It sets out what insurers have to do to protect Member benefits.

The areas discussed in this document are all required under Solvency II, as is the production of this document.

The Compliance Officer is appointed by the Board and has a direct reporting line to the ARC Chair and to the Chief Executive as well as a day-to-day reporting line to the Chief Risk Officer. These arrangements provide the authority necessary for the role.

The Compliance Officer is industry-experienced and has access to external support should it be needed. Their responsibility covers compliance, money laundering, other financial crime prevention and data protection. The Compliance Officer is the Board-appointed person responsible for money laundering and financial crime controls.

It is important that, while the Compliance Officer is employed by the Society, she or he can independently decide whether something is in accordance with the rules, without being swayed by her or his manager or by wider management. The Board is satisfied that the Compliance Officer has operational independence by nature and professional training, and that this is maintained through the reporting line to the ARC.

The Society's planned compliance activities, including compliance monitoring, are set out in an annual compliance plan that is considered by the ARC. It reports progress on this and any other compliance work at regular ARC meetings. It is available to all other functions of the Society to offer advice.

The activities selected for inclusion in the plan depend on the Compliance Officer's assessment of the areas that require review in the light of both the Society's business plan and issues emerging which have a compliance implication. The Compliance Officer regularly considers whether the function

has enough time and resource to ensure that the Society is appropriately compliant and reports her conclusions on this subject to the ARC.

The Board periodically asks for the Internal Auditor to review the effectiveness of the Compliance Function. In conclusion, the Board is satisfied that the Society has an effective compliance function.

## B.5 Internal Audit Function

The regulator requires that every insurer has an effective internal audit function.

The internal audit function considers the adequacy and effectiveness of the internal control system and other elements of the system of governance. It is objective and independent from the operational functions. These are regulatory requirements.

Internal audit performs an independent risk assessment and agrees the areas it will investigate with the ARC. It produces a report after each investigation describing its findings and its recommendations. This report is presented to management, which ensures that appropriate actions are taken within an appropriate timescale. A summary of activity and investigation results, including progress towards implementing the recommendations, is provided to the ARC by the internal audit function.

# B. System of Governance

The internal audit function, in 2024, has been provided by RSM UK Risk Assurance Services LLP.

Over a multi-year cycle, RSM agrees the areas to be investigated with the ARC and produces a work plan for the next year. During 2024, a number of investigations were carried out, covering the areas deemed highest risk by the ARC. A report was produced after each investigation as well as an annual summary report on our governance, risk and controls.

By using an external firm as internal auditor, we judge that internal audit is independent and objective. RSM does not provide any additional services to the Society.

The Chair of the Audit & Risk Committee serves as the Head of Internal Audit. The Head of Risk liaises between the Head of Internal Audit, the internal auditor and the ARC. These arrangements ensure that the function has appropriate authority.

As part of continuing review, the Head of Internal Audit regularly considers whether there is enough resource, in terms of days of RSM time, directed to internal audit work, and discusses his conclusions on this subject to the ARC. In conclusion, the Board is satisfied that the Society has an effective internal audit function.

## B.6 Actuarial Function

The regulator requires that every insurer has an effective actuarial function.

### What is an actuary?

An actuary is a specialist insurance professional who is trained in actuarial work.

Actuarial work tends to involve projecting events over the long term. Events include sickness, investment returns and expenses.

Actuaries use these projections to confirm the financial health of insurers.

Alison Carr of Steve Dixon Associates LLP carried out the function of Chief Actuary. Alison was approved in this role by the regulators on 18 November 2021.

The actuarial function carries out a number of tasks set out in the regulations and provides a number of required reports to the Board.

The Chief Actuary heads the actuarial function and reports to the Chief Risk Officer, with explicit additional reporting lines to the ARC. These arrangements ensure that the function has appropriate authority.

The Chief Risk Officer commissions advice from the Chief Actuary as necessary. The Chief Actuary is always available to members of the Executive and Board to discuss matters of actuarial interest. The Chief Actuary is industry-experienced and has access to external support should it be needed.

It is important that the Chief Actuary can independently decide whether something is in accordance with the rules or guidance, without being swayed by her or his manager or by wider management. The Board is satisfied that the Chief Actuary has operational independence by her nature and professional training, and that it is maintained through the reporting line to the ARC.

The Chief Actuary takes steps to ensure that any conflicts are managed and discusses these with the ARC where necessary. The Chief Actuary liaises with the Chief Risk Officer to plan the work required and to ensure that there is sufficient resource available to perform it to the appropriate standard.

Alison Carr of Steve Dixon Associates LLP also provides our With Profit Actuary service. The contract is an annual one. The With-Profits Actuary is industry-experienced. She carries out several tasks set out in the regulations, including recommending bonus rates on With-Profits policies to the Board.

# B. System of Governance

The With-Profits Actuary reports to the Chief Risk Officer with an explicit additional reporting line to the ARC. These arrangements ensure that the With-Profits Actuary has appropriate authority. By using an external firm, we judge that the With-Profits Actuary is independent and objective.

In conclusion, the Board is satisfied that the Society has an effective actuarial function, including the Chief Actuary and the With-Profits Actuary.

## B.7 Outsourcing

We outsource some functions of our business, including:

- Human Resources services
- investment services
- hosting of web-based services
- medical reviews and nurse triage
- AGM voting management
- call recording
- internal audit (see B5)
- Chief Actuary services, (see B6), and

- With-Profits-Actuary services (see B6).

In all cases, we remain fully responsible to our Members for the quality of the service.

We do not outsource critical or important operational functions or activities if we judge that the result would unduly increase operational risk, would reduce the regulator's ability to oversee the extent of our compliance with its rules, or would undermine continuous and satisfactory service to Members.

We outsource typically to UK-based organisations, although some work may be done elsewhere in the world. In these cases, we take steps to ensure that the provider agrees that no personal information is sent outside the UK without proper measures to keep it safe.

We alert our regulator prior to any outsourcing of critical or important functions or activities as well as to any subsequent material developments regarding those functions or activities.

## B.8 Any Other Information

None.

Solvency and Financial  
Condition Report 2024

# C. Risk profile

# C. Risk Profile

The Society's key risks, which together make up its risk profile are described in the following paragraphs.

## C.1 Underwriting Risk

Underwriting risk is the risk that we don't charge our Members enough to cover the claims payments that we need to make and the expenses that we have to cover. In assessing our underwriting risk, we have to think about the health of new Members, the health of existing Members, how many claims we are receiving and their length, how long Members keep paying for cover, what we can earn on our investments at what risk, and how much it costs us to run the Society, including paying commission to Advisers for new sales.

The main way to assess our underwriting risk is to compare what we assumed when we determine how much to charge for insurance cover with our experience.

### What is experience?

Insurers make a lot of assumptions in their planning and projections. Experience is the term used to describe what actually happened rather than the assumption that was made.

## Sickness

We assess every potential new Member's health and lifestyle so that we can decide the insurance cover that we can offer and the cost and conditions of that insurance. There is a risk that Members are ill or injured more often or for longer than the average that we assume.

We compare the total sickness and other benefit payments made each year with our average assumptions. If the number, value or duration of claims is materially higher or lower than assumed, we consider whether we need to change our prices and/or reflect this difference in our valuation.

### What is a valuation?

Every year, we are required to calculate the value of the products that we administer, primarily to make sure that we have enough capital to meet the benefits that are due to Members. This process is called the valuation.

Many of our products have fixed premiums, so it is important that over the long term, the average experience does not vary materially to that assumed.

We assess the risk of worsening sickness by closely

monitoring new claims and active management of existing claims. We mitigate it by increasing the amount of capital held against the risk, reviewing underwriting practice where necessary, increasing active claims management and re-pricing where we think the change in experience is likely to persist into the future.

We continually review our claims procedures to ensure that they are effective for Members.

## Lapses

We assume that some Members will stop paying every year. When this happens, we say their policy has lapsed. We compare the number of policies that actually lapse with the number that we assumed. Every policy that lapses leave fewer to bear the remaining expense. Thus, lapse risk and expense risk are connected.

### What is a lapse?

When a Member decides not to continue with their policy, we say that it has 'lapsed'.

Policies may also end because the Member dies, the Member reaches retirement, or the policy reaches its maturity date.

# C. Risk Profile

Every year we look at how many Members have stopped paying, usually divided up by features that may mean Members are more or less likely to lapse. We compare this with our assumptions. We assess emerging lapse risk by closely monitoring payment collections and other processes which might lead a Member to decide not to continue with their policy.

Lapse risk is mitigated by prompt service, sensitive review of individual circumstances (recognising that lapse may be appropriate in some circumstances) and by thinking about how to ensure that Members keep their policy going where it is sensible for them to do so.

## Expenses

Expense risk is the risk that expenses are higher or increase more quickly than we expected. It is important that our expenses are appropriate for the Society's size, so we monitor the expense per policy as well as overall expenses. If there are fewer policies than expected, even if expenses are as budgeted, the expense per policy will be higher. There are several reasons why there might be fewer policies than expected. The most common are because our sales are lower or because more Members lapse.

We assess expense risk by continually monitoring spending and the number of policies in place. We mitigate it by planning and careful use of resource

and continuing to look at the effectiveness and efficiencies of our processes.

## Other health risks

There is a risk that Members die and their policies cease earlier than expected. There is a risk that Members live longer than expected. Neither of these risks are very significant for us. There is a risk, examined within the ORSA, that future sickness experience is different from the past due to the emergence of new treatments and/or health conditions.

## Concentrations

Sickness and lapse risk are very material for the Society. There is no concentration of risk. We always aim to sell a large volume of each of the policies that we offer and to sell through a variety of Advisers.

## Reinsurance

We reinsure 50% of the sickness risk arising on the Home Protector product line with General Reinsurance (London Branch).

We also have a reinsurance arrangement in place with Munich Re that enables the Society to draw cash against the value of future premiums. The Society received an initial advance against policies that were already in force in November 2023 and

then we have the option to draw on an ongoing basis against new policies until we reach our agreed limit. The Society makes repayments to Munich Re, each quarter, from the premiums that we receive against these policies.

## Underwriting risk sensitivity

Table 5 shows the sensitivity on Own Funds to the underwriting risks described above:

| Table 5: Approximate Impact of Changes to Assumptions on Own Funds, £000 — Underwriting Risks |                                      |         |         |
|---|--------------------------------------|---------|---------|
|   |                                      | 2024    | 2023    |
| Own Funds as at 31 December   |                                      | 54,342  | 70,413  |
| Assumption  | Change                               | Impact  |         |
| Spells of sickness  | sickness incidences increase by 10%  | (5,231) | (4,101) |
| Length of sickness  | sickness recovery rates reduce by 5% | (3,990) | (3,127) |
|   | 10% more Members leave               | (5,888) | (6,252) |
| Lapse rate  | 10% fewer Members leave              | 6,610   | 7,183   |
|   | 10% increase in servicing expenses   | (996)   | (1,268) |

# C. Risk Profile

The sensitivity tests are carried out by individually varying the assumptions as described and re-calculating the Society's Own Funds in full.

## Outlook

As our underwriting risk is directly correlated with the size of the Society, we expect that, given our growth plans and our continued focus on the individual income protection sector, our underwriting risk will increase over the medium term.

## C.2 Market Risk

Market risk is the risk that Own Funds reduce through changes in market prices of assets, liabilities and financial instruments.

The size and nature of our market asset risk depends on the assets that we hold. For the Society, this includes the risk that our investments in equities, bonds and property fall or there is an adverse movement in foreign currency exchange rates on any non-GBP denominated assets. There is a risk that our assets become overly concentrated in a small number of issuers so are at risk of one of these failing. All of these asset market risks are small for the Society.

The material market risk for the Society is a change in risk-free interest rates that could lead to a reduction in the size of the negative liability (i.e. asset) representing the future value we believe

exists within the in-force policies. Risk-free interest rates have generally increased over all durations in 2024.

The Society does not currently undertake asset-liability matching.

Matching by currency is straightforward. All of our liabilities are denominated in Great British Pounds ('GBP'), so we match by investing mainly in GBP-denominated assets. As a result, our currency risk is low.

We invest our assets in line with the Prudent Person Principle, by carefully selecting investment managers and designing their instructions to cover the security, quality, liquidity and profitability of the assets they select. Assets are always invested in the best interests of Members.

We mitigate market risk by ensuring that our investment policy is set with a proper understanding of the nature of the Society's liabilities and its future cash demands, by specifying the degree of diversification required, selecting suitable benchmarks and by monitoring the activity of the selected investment managers.

We invest in a wide range of assets to reduce the chance that poor performance or the failure of a single asset could have a significant impact on the performance overall. Section D.1 describes the portfolio in terms of the different types of assets.

We hold equities and bonds from a diverse range of issuers, so our asset concentration risk is very low. The only property that we hold directly is Holloway House, our headquarters, but as this has a low value in comparison to our other asset holdings it attracts low concentration risk.

## Market Risk Sensitivity

The Society is sensitive to changes in a number of economic factors. Table 6 shows the impact on Own Funds of changes in these factors:

| Table 6: Approximate Impact of Changes to Assumptions on Own Funds, £000 – Investment |   |         |         |
|---|---|---------|---------|
|   |   | 2024    | 2023    |
| Own Funds as at 31 December   |   | 54,342  | 70,413  |
| Assumption  | Change  | Impact  |         |
| Risk-free yields  | risk-free yields increase by 100 basis points | (3,967) | (5,609) |
|   | risk-free yields reduce by 100 basis points   | 4,596   | 6,809   |
| Corporate bonds   | corporate bond asset values fall by 10%       | (936)   | (1,184) |
| Inflation   | inflation falls by 50 basis points            | (1,400) | (2,189) |

The sensitivity tests are carried out by varying the individual assumptions as described and re-calculating the Society's Own Funds in full.

# C. Risk Profile

## Outlook

The risk from changes to risk-free interest rates is expected to increase as more policies are sold and the liability for these increases. Interest rates are expected to reduce from current levels within the next 12-18 months if inflationary pressures continue to ease.

The risk from falling equity and corporate bond values is expected to reduce as these are being held in order to provide returns for the with-profit members, which are reducing. The value of assets is expected to fall as more money is paid out as commission for new business, to meet the higher expense base and as an investment in the Society's strategy. Recent market volatility has had a limited effect on the Society's balance sheet.

## C.3 Credit Risk

Credit risk is the risk that someone owes you money and cannot pay. It exists with Adviser commission balances and reinsurance recoveries.

We pay commission to Advisers assuming that a number of payments will be made by the Members that they introduce. If a member ceases to pay earlier in the product lifetime, we expect the Adviser to repay some of the commission that they received. This is a credit risk, that is the risk that the Adviser will not have the money to repay. We think that this risk is low because we choose Advisers

carefully, actively manage our relationships with them and continually monitor the amounts owing. As sales have grown, the size of this risk has increased. With the economic uncertainty, there may be more products lapsing and some Adviser firms may not be able to repay their commission debt.

We have some agreements with reinsurers. We expect them to pay a proportion of claims on some policies. This is a credit risk, that the reinsurer cannot pay us. We think that this risk is low because we have such low levels of reinsurance and we only use high quality reinsurers.

## C.4 Liquidity Risk

### What is liquidity and liquidity risk?

Liquidity is the term used to describe how easy it is to get hold of cash when it is needed. Liquidity often changes when economic factor changes: for example, sometimes property is easy to sell, sometimes it is harder to sell, depending on interest rates, market activity etc.

Liquidity risk for us occurs when a benefit cannot be paid because we cannot physically get hold of the cash to pay. We take steps to make sure that the Society is not exposed to this risk.

Liquidity risk arises if we cannot pay a claim when it falls due because we could not physically provide the cash, even though we have sufficient assets.

Our sources of cash are payments from Members, investment income and sale/maturity of investments. Generally, Member payments are predictable within a range (allowing for lapses) and by definition are highly liquid once made. The liquidity expected from investment income and asset sales depends on the instructions we give to investment managers. We want to invest in high quality assets with good liquidity, but we know that we don't need all of our assets to be in cash immediately. All of our assets held with our investment managers are realisable in 4 days. By investing to match the expected claims by timing, we can increase the return expected without affecting our ability to pay Member benefits.

We invest our cash and deposits across reputable institutions with high credit ratings, and thus high liquidity, over the short term. The quality is measured by the credit rating of each bank or fund. We choose a mix to reduce our reliance on a single bank or fund. We have a significant holding in a cash fund approved by the Board and recommended by LGT Wealth Management UK LLP. We believe that this fund is diverse and well managed.

# C. Risk Profile

We monitor and manage our short-term expected cashflow to ensure we have enough immediately available, short-term assets.

## C.5 Operational Risk

Operational risk is a wide category of risk. It is the risk of something going wrong. This might be people working in the Society doing things wrong or not doing things that they should. It might be a process that is faulty or a process that is missing. It might be a computer program that goes wrong or a computer system that crashes. It might arise from a fraud, cyber-attack, from a reputational failing or from poor strategy. There doesn't tend to be an upside from operational risk.

Our exposure to operational risk is typically low to medium because the business has adequate processes, systems and controls. We seek to manage operational risk by undertaking quarterly self-assessments of the progress of identified risks and feeding into this process errors and "near miss" data that we record. Our high governance standards, as described in section B, act to reduce the likelihood of operational risks materialising.

We measure operational risk through the Risk Management System (see B.3). By its nature, we are managing a number of often-very-different risks under the heading of operational risk. The measures used are particular to the individual risk.

The impact of operational risk on the business plan is considered in the ORSA.

We have no significant concentration of operational risk. We mitigate the impact of certain risks by purchasing insurance.

The Society's risk management and internal control systems make sure that operational risk is managed to acceptable levels. Section B.3 gives more details.

## C.6 Other Material Risks

We assess material risks in our ORSA. We consider the business plans and the areas where results are uncertain. We then consider the range of possible outcomes for individual risks (sensitivities) and for groups of risks that may not be independent (scenarios).

The Board through the ARC maintains oversight of all of the Society's risks throughout the year on a quarterly basis.

## C.7 Any Other Information

There is nothing additional to report.

Solvency and Financial  
Condition Report 2024

# D. Valuation for Solvency Purposes

# D. Valuation for Solvency Purposes

## D.1 Assets

The value of our assets on a Solvency II basis is shown in Table 7:

| Asset Type                            | 31 Dec 2024   | 31 Dec 2023   |
|---------------------------------------|---------------|---------------|
| Property – office, own use            | 745           | 745           |
| Equities – listed                     | 891           | 1,411         |
| Bonds – government                    | 4,119         | 5,110         |
| Bonds – corporate                     | 7,684         | 9,347         |
| Bonds – other                         | 597           | 700           |
| Tangible assets                       | 64            | 58            |
| Collective investment undertakings    | 582           | 334           |
| Assets held for Unit Linked contracts | 556           | 610           |
| Cash with investment managers         | 1,095         | 2,344         |
| Cash at bank and in hand              | 453           | 520           |
| Other                                 | 1,276         | 329           |
| <b>Solvency II Asset Value</b>        | <b>18,062</b> | <b>21,508</b> |

The office property is assessed every three years by a qualified valuer at open market value. This was last performed in November 2023.

Equities, government bonds, collective investment undertakings, and corporate and other bonds are valued using quoted market prices in active markets provided by third party pricing sources. Cash and cash equivalents are included at face value.

There have been no changes to the valuation approach used and no significant exercise of judgement in arriving at the values shown.

There are no unlisted equities, derivatives, loans, mortgages or leases included in the balance sheet in the 2024 financial statements. There are no deferred tax assets.

We use the same bases, methods and main assumptions to value assets for solvency purposes as we use in our financial statements, other than the exceptions shown below in Table 8 which reconciles the differences:

|   | 31 Dec 2024   | 31 Dec 2023   |
|---|---------------|---------------|
| <b>Value of assets presented in financial statements</b>  | <b>60,537</b> | <b>76,810</b> |
| Intangible assets: administration system                  | (3,008)       | (3,499)       |
| Intangible assets: product and software development       | (4)           | (8)           |
| Technical Provisions net of reinsurance, excl Unit Linked | (39,463)      | (51,795)      |
| <b>Solvency II value of assets</b>                        | <b>18,062</b> | <b>21,508</b> |

# D. Valuation for Solvency Purposes

## D.2 Technical Provisions

We have to calculate two numbers that measure the value of our policies: the Best Estimate Liability and the Risk Margin. Added together, these numbers are called the Technical Provisions.

The Best Estimate Liability is the realistic assessment of every product's worth when administered by the Society.

The Risk Margin is the extra money that someone else would require to take on the Society's plans and look after them, in the same way that we do. It is calculated using a formula set by UK regulations.

The Technical Provisions are calculated by the actuarial function. The approach is well established.

We have to calculate the Technical Provisions for all of our products. Since the Society began in the 1870s, it has offered a number of different product types. We continue to administer all of these for as long as our Members wish to keep their products going, whether or not we currently offer them to new Members.

Table 9 summarises the Technical Provisions by line of business:

| Table 9: Technical Provision Components, £000 |                            |                 |             |            |                 |                 |
|---|----------------------------|-----------------|-------------|------------|-----------------|-----------------|
| Product Type                                  | Income Protection (Health) |                 | Unit Linked |            | Total           |                 |
|   | 2024                       | 2023            | 2024        | 2023       | 2024            | 2023            |
| Best Estimate Liability                       | (47,273)                   | (60,358)        | 556         | 610        | <b>(46,717)</b> | <b>(59,748)</b> |
| Risk Margin                                   | 7,810                      | 8,563           | -           | -          | <b>7,810</b>    | <b>8,563</b>    |
| <b>TP</b>                                     | <b>(39,463)</b>            | <b>(51,795)</b> | <b>556</b>  | <b>610</b> | <b>(38,907)</b> | <b>(51,185)</b> |

### (a) How are the calculations done? The Best Estimate

#### Income Protection (or IP) product types

We calculate the expected expenses and claims costs for each product and subtract the expected payments. The difference between the two numbers is the net cash outflow. We calculate the net cash outflow for each product, month by month.

The net cash outflow is made up from all the possible things that might happen on a product. Then, for each product, for every future month, we calculate the net cash outflow in that month:

$$\begin{aligned} \text{Net Cash Outflow} &= \text{expected monthly sickness benefit} \\ &+ \text{expected expenses (to cover investment and administration)} \\ &- \text{expected payments} \end{aligned}$$

# D. Valuation for Solvency Purposes

The calculations include assumptions about the probability that a Member becomes sick and, if so, for how long, or that their policy lapses or ends for any other reason. We separately consider products where Members that are currently sick and receiving payment so that we allow for the additional cash outflow.

We assume that each product bears an equal share of the investment and administration expenses for every month and that the total expenses are covered in full. We expect new products to bear their share of future expenses, and we allow for products that end, whatever the reason.

The monthly cash flows are converted to today's value and the converted values are then added up. This value is the Best Estimate Liability for these products.

To convert the future cash outflows to today's value, we use risk-free interest rates provided by our regulator, the PRA, with no adjustment.

Some WP products have benefits on maturity, death or lapse. We have some discretion over these payments. We allow for their expected cost within the Best Estimate Liability. Each year, the benefits on these policies are increased by different types of bonus reflecting investment returns and other surplus generated over the year.

We have some reinsurance arrangements in place on a small number of older products and Home

Protector which is currently open to new business. None of these arrangements were material in 2024. In November 2023 the Society entered into a new arrangement with Munich Re. The contingent advance payment received and the reinsurance premiums due on the business in scope of the treaty, have been included within the valuation.

## Unit Linked (or UL) product types

The Best Estimate Liability for these products is the value of the benefit payable on request. No new payments from Members are expected on these products.

## Other product types

There are fewer than ten policies where the Best Estimate Liability is not calculated but is set to zero on the grounds of materiality.

## (b) How are the calculations done? The Risk Margin

The Risk Margin is an amount over and above the Best Estimate Liability equal to the amount that another insurer would need to take on the Society's business.

The regulator sets out how the Risk Margin is to be calculated. The Risk Margin is intended to reflect the cost of holding the SCR (see B.3 and E.2), excluding the market risk component, over the lifetime of the business, allowing for a required return of interest

of 4% per year reducing over time.

The full formula set down by the regulator can be quite onerous for an insurer as small as we are. The regulator recognises this and has allowed a simpler formula to be used. We have decided to use 'simplification 1', which estimates the future SCR in proportion to the underlying risk driver of each risk. So, for example, the amount of capital held in respect of sickness risks is assumed to change in proportion to the expected value of future sickness benefits payable.

## (c) Assumptions

The calculations need a number of things to be assumed, specifically:

1. if and when Members might fall sick and how quickly they might recover
2. if and when Members might stop paying premiums
3. how much it will cost to run the Society and implement its strategy
4. how expenses and product benefits will change over time, and
5. if and when policies might end because of death.

# D. Valuation for Solvency Purposes

## 1. if and when Members might fall sick and how quickly they might recover.

Currently, we do not have enough claims, particularly long term claims, to rely solely on our own experience in deciding our best estimate of future claims and recoveries. Instead, we use industry data which gives us access to a far greater number of claims. We then adjust to allow for trends we observe in our data where we think these will continue in the future. The Board considers the advice of the Chief Actuary on these matters and challenges the assumptions that are proposed, including how they have been derived.

## 2. if and when Members might stop paying

If a Member stops paying for their cover, the policy is said to have lapsed. The lapse rate is the proportion of policies that lapse during a given period. The assumed rates of lapse used for the valuation are set based on recent lapse experience by main product groups.

## 3. how much it will cost to run the Society and implement its strategy

In the valuation, we work out the expenses that we expect to incur, based on the activities we expect to carry out.

The type of expense is important. Some expenses are expected to occur every year (for example, the expense of people to look after Member queries). Some expenses are linked to sales and only happen once in a product's lifetime. Others are one-off costs during the year. The projections that we use take into account the expenses related to the business in force at the valuation date but not expenses on future sales.

## 4. how expenses and benefits will change over time

We make assumptions about how our costs will grow. We make assumptions about how payments and cover levels will change where they are linked to inflation, whether that is price inflation for general purchases or salary inflation for staff costs.

## 5. if and when products might end because of death

We use industry tables to assess if and when policies might end due to death, although the impact on the Best Estimate is very small. For Members who are currently healthy we use the AMCOO tables, and for Members who are sick we use the IP11 tables. As for sickness, we adjust these tables so that they reflect our recent experience.

## Other Relevant Information

### Currency

Our liabilities are all recorded in GBP.

### Options and guarantees

None of our products have financially significant options or guaranteed surrender values.

### Uncertainty associated with the value of Technical Provisions

Calculating Technical Provisions involves predicting the future. All of the predicted values are determined using assumptions, which may not work out in practice.

The uncertainties include economic uncertainty (e.g., what will interest rates be?), Member behaviour (e.g., when might Members make withdrawals from their plans?) and fate (e.g., when might a Member fall sick?). In practice, the uncertainties might increase or reduce the cash flows and hence increase or reduce the Best Estimate Liability.

# D. Valuation for Solvency Purposes

The Society's Technical Provisions are particularly sensitive to:

- the risk-free interest rates set by the regulator
- expense assumptions, given the scale of the change that the Society is undergoing
- sickness assumptions, given the lack of data to support the assumption setting, and uncertainty on future sickness levels, and
- lapse assumptions, given the lack of data to support the assumption setting, potential changes in Member behaviours and the sensitivity of lapse rates to changes in regulation and general economic health.

## Use of transitional measures

The Society has not used transitional measures or the volatility or matching adjustment.

## Differences between solvency valuation and financial statement valuation

We use the same bases, methods and main assumptions to value liabilities for solvency purposes as we use in our financial statements.

### What are the financial statements?

Financial statements are reports that we are required to produce by law setting out basic information about the Society's financial health. They are available on our website. They are sometimes referred to as the Report and Accounts.

## D.3 Other liabilities

The Society's other liabilities are Creditors as shown in Table 10 below and which appear in the financial statements.

Under Solvency II there is a £81,000 provision, in 2024, relating to additional one-off expenses.

| Liability Type                                    | 31 Dec 2024  | 31 Dec 2023  |
|---|--------------|--------------|
| Arising out of reinsurance operations             | 485          | 340          |
| Claims outstanding                                | 99           | 77           |
| Other creditors including tax and social security | 1,962        | 1,861        |
| <b>TOTAL</b>                                      | <b>2,546</b> | <b>2,278</b> |

Under Solvency II there is a £81,000 provision, in 2024, relating to additional one-off expenses.

## D.4 Alternative methods for valuation

We don't use any other alternative methods for valuation.

## D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities.

Solvency and Financial  
Condition Report 2024

# E. Capital Management

# E. Capital Management

## E.1 Own funds

Under the terms of the Friendly Societies Act 1992, the Society is an incorporated society with a single Members' fund and no defined mutual member fund. As such, it has no shareholders and our Members are the Society's ultimate owners. The Society's organisation is very simple: all its capital is held in tangible and realisable assets.

The table below, a copy of Table 1, shows the Own Funds and Surplus Capital:

| Table 1: Own Funds, £000     |               |               |
|------------------------------|---------------|---------------|
| Item                         | 31 Dec 2024   | 31 Dec 2023   |
| Own Funds                    | 54,342        | 70,413        |
| Solvency Capital Requirement | (38,669)      | (37,378)      |
| <b>Surplus Capital</b>       | <b>15,673</b> | <b>33,035</b> |

### What are Own Funds?

This is jargon for an insurer's total assets less technical provisions and other liabilities, counted using the rules of Solvency II.

### Own Funds – objectives, policies and processes

Own funds are managed to ensure they are sufficient to cover the SCR within a wide range of circumstances and so that the Society is operating within its solvency risk appetite. This is set to maintain sufficient, but not excessive, financial strength, enabling new business growth while satisfying the requirements of regulators, Members and other stakeholders.

The Society maintains a capital management policy which includes a solvency ladder, showing how capital is to be managed at different levels.

The Society has a management action plan which sets out actions that are planned if certain solvency ratio triggers are breached within the capital management policy.

The Society monitors its own funds and other aspects of its capital through:

- tracking and estimating solvency regularly
- ORSA and other business projections to ensure that business plans remain appropriate
- monitoring new business levels, mix and profitability, and
- ensuring that the assets are invested appropriately.

### Own Funds – objectives

We manage our invested assets according to our investment policy. Broadly, this requires us to invest to ensure we can pay all Member benefits as they fall due, to invest in ways that meet Member expectations by generating Member bonuses.

Given the strategy, we aim to invest to meet the Society's requirements for cash over the business plan period, bearing in mind the payments from Members that we expect to receive, the claims that we expect, the expenses we expect to incur and the new plans that we expect to go on risk.

We aim to generate a return on the assets held. We aim to be able to meet the benefits due to Members.

### Own Funds – policies

**Investment policy** - From time to time, the Board agrees the Society's investment policy. This describes the powers and limits of authority of the Society's selected investment managers. The Executive Management make sure that the Investment Policy is followed.

**ORSA policy** - The regulator requires us to produce a policy setting out how we will run our ORSA. At least once a year, we run our ORSA process (see Section B.3). Part of this process is to allow the Board to assess the level of future Surplus Capital

# Capital Management

expected allowing for all sorts of different risks over time. The Board wants to be sure that it always has enough capital to pay Member benefits, and that it knows which risks could threaten this position.

The ORSA process includes testing of many different risks. It allows the Board to understand where there might be a problem and to draw up plans to deal with it. The plans will depend on the situation, but might include a change of strategy, re-pricing or re-designing our plans, or changing how we organise the business (usually so it runs at a lower cost). More dramatic action includes closing to new business or transferring the business to another firm.

## Own Funds – processes

At least twice every year, the Society reviews the performance of its investment managers to ensure that the investment policy is being followed and to assess performance.

## Material Changes

There have been no material changes to the Society's investment mix during 2024.

## Capital Tiers

The regulations classify capital in different tiers. All of the Society's Own Funds are Tier 1 (the highest quality tier of capital) and have always been Tier 1.

At 31 December 2024, our Tier 1 capital was £54.342m (2023: £70.413m). There are no restrictions on how we might use our Own Funds. They are fully available to cover the SCR and the MCR.

### What is the MCR?

The MCR, or Minimum Capital Requirement, is the threshold at which the regulator is allowed to take over the running of an insurer. It is much lower than the SCR (a quarter of the amount).

The level of Own Funds and of Surplus Capital has changed over the reporting period reflecting the progress of the strategy, the revised assumptions made in the valuation, the changes to the Management Action Plan, the investment in new business and the resulting movement in Technical Provisions and SCR as summarised in section D2 and E2.

## Required statements

The regulations require us to set out a number of points about our Own Funds. Specifically:

- there are no Own Fund items subject to a transitional arrangement
- under the rules, insurers are allowed to hold Ancillary Own Funds. Ancillary Own Funds count as capital but are slightly less easy to get hold of. We don't have any Ancillary Own Funds, and
- there are no deductions from our Own Funds and no restrictions on their availability and transferability.

# Capital Management

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

The following table summarises the Society's SCR and MCR:

| Table 11: Solvency and Minimum Capital Requirement, £000 |               |               |
|--|---------------|---------------|
|  | 31 Dec 2024   | 31 Dec 2023   |
| Market risk  | 1,039         | 4,641         |
| Counterparty default risk                                | -             | -             |
| Health underwriting risk                                 | 37,866        | 35,483        |
| Diversification across all risks                         | (766)         | (3,206)       |
| <b>Basic Solvency Capital Requirement</b>                | <b>38,139</b> | <b>36,918</b> |
| Operational risk   | 530           | 460           |
| <b>Solvency Capital Requirement</b>                      | <b>38,669</b> | <b>37,378</b> |
| <b>Minimum Capital Requirement</b>                       | <b>9,667</b>  | <b>9,344</b>  |

The SCR was calculated using the same assumptions as used in the Technical Provisions calculations.

We are satisfied with the result of the calculations to give the SCR and MCR. The regulator reserves the right to assess the result and ask us to amend it. If this happens, we will amend this document and describe the changes.

## Required statements

The regulations insist that we set out several points about our SCR and MCR. Specifically:

- there are no simplifications applied to the SCR calculation.
- there are no undertaking-specific parameters used in the SCR calculation, and
- the MCR for the Society is 25% of the calculated SCR.

The MCR is calculated using a regulator-provided formula. The change in the MCR over the year follows the change in the SCR.

## E.3 Duration-based Equity Risk Sub-module in the Calculation of the SCR

We have not used the duration based equity risk sub-module in the calculation of the SCR.

## E.4 Differences between the Standard Formula and any Internal Model used

We calculate our SCR using the standard formula, as set out by the regulator and do not use an internal model.

## E.5 Non-compliance with the Minimum Capital Requirement and Non-compliance with the Solvency Capital Requirement

The Society held Own Funds in excess of the SCR (and therefore by definition the MCR) throughout 2024.

## E.6 Any Other Information

None.

# Summary of Explanatory Notes

The notes are not intended to be definitions, nor are they very technical. They have been provided to aid understanding. If you would like a technical definition or to understand more about the limits of the explanation, we would be happy to provide more details.

| Term                            | Explanatory Note   |
|---------------------------------|--|
| <b>Actuary</b>                  | An actuary is a specialist insurance professional who is trained in actuarial work. Actuarial work tends to involve projecting events over the long term. Events include sickness, investment returns and expenses. Actuaries use these projections to confirm the financial health of insurers.   |
| <b>Audit and Risk Committee</b> | The Board has set up Committees to help it with oversight. The Audit and Risk Committee oversees internal and independent audit, compliance, actuarial and risk management activities. It ensures that the risk management and internal control systems are effective.   |
| <b>Board</b>                    | <p>Most companies are run by a Board of Directors. These are the people who direct the company, decide its strategy, and ensure its governance. The Board oversees plans, performance, and activity and, if not satisfied, makes changes.</p> <p>The Board is chosen by the owners of the company. For us, the Board is chosen by you, our Members, at the annual general meeting.</p> |

| Term                        | Explanatory Note   |
|-----------------------------|--|
| <b>Capital</b>              | <p>Capital is the name for the resources available to meet the Society's outgoings.</p> <p>For the Society, capital is made up of cash, investments, and the difference between expected payments (inflow) less current and future claims and expenses (both outflow).</p>                   |
| <b>Chair</b>                | The Chair is the Non-Executive Director who leads the Board. It is an important role with specific responsibilities to the regulator and to Members.   |
| <b>Executive</b>            | The Executive refers to a small group of senior employees. At the end of 2024, the Executive comprised the Chief Executive, the Chief Operating Officer and the Chief Risk Officer. These are the employees who run the Society, led by the Chief Executive who is responsible to the Board. |
| <b>Experience</b>           | Insurers make a lot of assumptions in their planning and projections. Experience is the term used to describe what happened rather than the assumption that was made.  |
| <b>Independent auditor</b>  | An independent auditor is a firm appointed mainly to provide independent assurance to Members that a Society's accounts are broadly accurate.  |
| <b>Financial statements</b> | Financial statements are reports that we are required to produce by law setting out basic information about the Society's financial health. They are available on our website or on request, free of charge. They are sometimes referred to as the Report and Accounts.                      |
| <b>GBP</b>                  | Great British Pounds, the international code for pounds sterling   |

# Summary of Explanatory Notes

| Term                     | Explanatory Note  |
|--------------------------|---|
| <b>Governance</b>        | Governance is a system that provides a framework for managing organisations. It identifies who can make decisions, who has the authority to act on behalf of the organisation and who is accountable for how an organisation and its people behave and perform.                       |
| <b>Holloway products</b> | We understand that we were the first firm to combine income protection and savings. The resulting innovative product, introduced around 1875, was named after our founder, George Holloway, MP for Stroud.  |
| <b>Lapse</b>             | When a Member decides not to continue with their product, we say that it has 'lapsed'. Products may also end because the Member dies, the Member reaches retirement, or the product reaches its maturity date.  |
| <b>Liquidity</b>         | Liquidity is the term used to describe how easy it is to get hold of cash when it is needed. Liquidity often changes when economic factor changes: for example, sometimes property is easy to sell, sometimes it is harder to sell, depending on interest rates, market activity etc. |
| <b>Liquidity risk</b>    | Liquidity risk for us occurs when a benefit cannot be paid because we cannot physically get hold of the cash to pay. We take steps to make sure that the Society is not exposed to this risk.   |
| <b>MCR</b>               | The MCR, or Minimum Capital Requirement, is the threshold at which the regulator is allowed to take over the running of an insurer. It is much lower than the SCR (a quarter of the amount).  |

| Term                                    | Explanatory Note  |
|---|---|
| <b>Operational risk</b>                 | Operational risk is the risk of some planned activity going wrong because a process fails, a system fails or someone does something wrong.<br><br>The regulator includes fraud and legal problems as operational risks.   |
| <b>Own Risk and Solvency Assessment</b> | The regulations require insurers to undertake an Own Risk and Solvency Assessment, or ORSA, whenever its risks change, or at least annually.<br><br>The ORSA is a judgement by the Board of the insurer's risks and the impact on the insurer's solvency. Importantly, it is the Board's view, not the regulator's (and not the view using the regulatory formula). |
| <b>Own funds</b>                        | This is jargon for an insurer's total assets less liabilities, counted using the rules of Solvency II.  |
| <b>Prudent Person Principle</b>         | This is a phrase in the regulations. It means that investments should be only those that a prudent person would make.   |
| <b>Reinsurance</b>                      | Reinsurance is insurance for insurance companies. An insurer can use reinsurance to reduce its own risk, to provide technical support and to help with cash flow. Reinsurance is provided by specialist firms called reinsurers.  |
| <b>Risk register</b>                    | The Society's risk register is a list of the risks that we face with details of how the risks are identified, measured, monitored, managed, and reported.   |

# Summary of Explanatory Notes

| Term                          | Explanatory Note   |
|-------------------------------|--|
| <b>Risk tolerance</b>         | Most measures of performance have an expected value or target. The risk is that the actual value is higher or lower than the target, to an extent that might cause harm or cause the business plan to be re-considered.  |
| <b>Senior Leadership Team</b> | This is the group of people who work for members of the Executive. On a day-to-day basis, the Senior Leadership Team makes sure that the Society is properly run. Members of this team attend the monthly Executive, and some other Committee meetings and, depending on their job, may occasionally attend or present at Board meetings.                                  |
|                               | Regulators recognise that the more surplus money a firm has, the more secure the Member benefits. 'Solvency' is the jargon used by insurers to mean the surplus money that a firm has in excess of that needed to meet Member claims in most circumstances.  |
|                               | Insurers talk about capital rather than money. Capital is defined a little later.  |
| <b>Solvency</b>               | When considering a risk, insurers look at the impact the risk might have on their surplus capital - hence, the impact on solvency.<br><br>Generally, high or increasing solvency is a good thing for benefit security. Low or declining solvency is a concern, unless the change was planned or there is a good reason for it, for example if benefits are being improved. |

| Term                                | Explanatory Note   |
|-------------------------------------|--|
| <b>Solvency II</b>                  | Solvency II is the name given to the regulation that UK insurers must follow. It sets out what insurers must do to protect policyholder benefits.<br><br>The areas discussed in this document are all required under Solvency II, as is the production of this document.   |
| <b>Solvency Capital Requirement</b> | This is the amount that the regulator says the Society must hold to ensure Member benefits are secure in most circumstances over one year. We calculate it using a formula provided by the regulator. It is often shortened to SCR.  |
| <b>Surplus capital</b>              | Surplus capital is the capital over and above that is needed to meet expected Member benefits and the SCR.   |
| <b>System of governance</b>         | This means everything that is in place to make sure that the Society is well governed.   |
| <b>Underwriting</b>                 | Underwriting is the insurance term for setting the prices to be paid for the benefits offered at the right level for the risks accepted. For us, this means agreeing prices for individual Members that are competitive as well as ensuring that we can meet the claims of all Members and cover the Society's administration costs. |
| <b>Valuation</b>                    | Every year, we are required to calculate the value of the plans that we administer, primarily to make sure that we have enough capital to meet the benefits that are due to Members. This process is called the valuation.   |

Solvency and Financial  
Condition Report 2024

# Disclosures

# The Original Holloway

## Solvency and Financial Condition Report

### Disclosures

31 December

**2024**

(Monetary amounts in GBP thousands)

## General information

|   |   |
|---|---|
| Entity name   | The Original Holloway Friendly Society Limited                |
| Entity identification code and type of code         | LEI/213800KXXTV6FPMS2652                                      |
| Type of undertaking                                 | Life undertakings   |
| Country of incorporation                            | GB  |
| Language of reporting                               | en  |
| Reporting reference date                            | 31 December 2024  |
| Currency used for reporting                         | GBP   |
| Accounting standards                                | Local GAAP  |
| Method of Calculation of the SCR                    | Standard formula  |
| Matching adjustment                                 | No use of matching adjustment                                 |
| Volatility adjustment                               | No use of volatility adjustment                               |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions        | No use of transitional measure on technical provisions        |

## List of reported templates

-

IR.02.01.02 - Balance sheet

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.02.01.02

Balance sheet

|               |  | Solvency II<br>value |
|---------------|--|----------------------|
|               |  | C0010                |
| <b>Assets</b> |  |                      |
| R0030         | Intangible assets  |                      |
| R0040         | Deferred tax assets  |                      |
| R0050         | Pension benefit surplus  |                      |
| R0060         | Property, plant & equipment held for own use   | 809                  |
| R0070         | Investments (other than assets held for index-linked and unit-linked contracts)        | 16,229               |
| R0080         | <i>Property (other than for own use)</i>   | 0                    |
| R0090         | <i>Holdings in related undertakings, including participations</i>                      | 0                    |
| R0100         | <i>Equities</i>  | 891                  |
| R0110         | <i>Equities - listed</i>   | 891                  |
| R0120         | <i>Equities - unlisted</i>   |                      |
| R0130         | <i>Bonds</i>   | 11,803               |
| R0140         | <i>Government Bonds</i>  | 4,119                |
| R0150         | <i>Corporate Bonds</i>   | 7,684                |
| R0160         | <i>Structured notes</i>  | 0                    |
| R0170         | <i>Collateralised securities</i>   | 0                    |
| R0180         | <i>Collective Investments Undertakings</i>   | 2,260                |
| R0190         | <i>Derivatives</i>   |                      |
| R0200         | <i>Deposits other than cash equivalents</i>  | 1,275                |
| R0210         | <i>Other investments</i>   | 0                    |
| R0220         | Assets held for index-linked and unit-linked contracts                                 | 556                  |
| R0230         | Loans and mortgages  | 0                    |
| R0240         | <i>Loans on policies</i>   | 0                    |
| R0250         | <i>Loans and mortgages to individuals</i>  |                      |
| R0260         | <i>Other loans and mortgages</i>   |                      |
| R0270         | Reinsurance recoverables from:   | -8,746               |
| R0280         | <i>Non-life and health similar to non-life</i>   |                      |
| R0315         | <i>Life and health similar to life, excluding index-linked and unit-linked</i>         | -8,746               |
| R0340         | <i>Life index-linked and unit-linked</i>   | 0                    |
| R0350         | Deposits to cedants  | 0                    |
| R0360         | Insurance and intermediaries receivables   |                      |
| R0370         | Reinsurance receivables  |                      |
| R0380         | Receivables (trade, not insurance)   |                      |
| R0390         | Own shares (held directly)   |                      |
| R0400         | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0                    |
| R0410         | Cash and cash equivalents  | 468                  |
| R0420         | Any other assets, not elsewhere shown  |                      |
| R0500         | <b>Total assets</b>  | <b>9,317</b>         |

|                    |  | Solvency II<br>value |
|--------------------|--|----------------------|
|                    |  | C0010                |
| <b>Liabilities</b> |  |                      |
| R0505              | Technical provisions - total                                       | -47,653              |
| R0510              | <i>Technical provisions - non-life</i>                             | 0                    |
| R0515              | <i>Technical provisions - life</i>                                 | -47,653              |
| R0542              | Best estimate - total  | -55,463              |
| R0544              | <i>Best estimate - non-life</i>                                    |                      |
| R0546              | <i>Best estimate - life</i>  | -55,463              |
| R0552              | Risk margin - total  | 7,810                |
| R0554              | <i>Risk margin - non-life</i>                                      |                      |
| R0556              | <i>Risk margin - life</i>  | 7,810                |
| R0565              | Transitional (TMTP) - life   | 0                    |
| R0740              | Contingent liabilities   |                      |
| R0750              | Provisions other than technical provisions                         |                      |
| R0760              | Pension benefit obligations  |                      |
| R0770              | Deposits from reinsurers   |                      |
| R0780              | Deferred tax liabilities   |                      |
| R0790              | Derivatives  |                      |
| R0800              | Debts owed to credit institutions                                  |                      |
| R0810              | Financial liabilities other than debts owed to credit institutions |                      |
| R0820              | Insurance & intermediaries payables                                | 1,168                |
| R0830              | Reinsurance payables   |                      |
| R0840              | Payables (trade, not insurance)                                    | 309                  |
| R0850              | Subordinated liabilities   | 0                    |
| R0860              | <i>Subordinated liabilities not in Basic Own Funds</i>             |                      |
| R0870              | <i>Subordinated liabilities in Basic Own Funds</i>                 | 0                    |
| R0880              | Any other liabilities, not elsewhere shown                         | 1,151                |
| R0900              | <b>Total liabilities</b>   | -45,025              |
| R1000              | <b>Excess of assets over liabilities</b>                           | 54,342               |

IR.05.03.02

Life income and expenditure

|                                | Insurance with profit participation | Index-linked and unit-linked insurance | Life annuities | Non-life annuities | Other life insurance | Health insurance | Total life and health |
|--------------------------------|-------------------------------------|--|----------------|--------------------|----------------------|------------------|-----------------------|
|                                | C0010                               | C0020                                  | C0030          | C0040              | C0050                | C0060            | C0070                 |
| <b>Premiums written</b>        |                                     |  |                |                    |                      |                  |                       |
| R0010                          | Gross direct business               |  |                |                    |                      | 13,242           | 13,242                |
| R0020                          | Gross reinsurance accepted          |  |                |                    |                      |                  | 0                     |
| R0030                          | Gross                               | 0                                      | 0              | 0                  | 0                    | 13,242           | 13,242                |
| R0040                          | Reinsurers' share                   |  |                |                    |                      | 1,848            | 1,848                 |
| R0050                          | Net                                 | 0                                      | 0              | 0                  | 0                    | 11,394           | 11,394                |
| <b>Claims incurred</b>         |                                     |  |                |                    |                      |                  |                       |
| R0110                          | Gross direct business               |  | 68             |                    |                      | 7,196            | 7,265                 |
| R0120                          | Gross reinsurance accepted          |  |                |                    |                      |                  | 0                     |
| R0130                          | Gross                               | 0                                      | 68             | 0                  | 0                    | 7,196            | 7,265                 |
| R0140                          | Reinsurers' share                   |  |                |                    |                      | 3,389            | 3,389                 |
| R0150                          | Net                                 | 0                                      | 68             | 0                  | 0                    | 3,807            | 3,876                 |
| <b>Expenses incurred</b>       |                                     |  |                |                    |                      |                  |                       |
| R0160                          | Gross direct business               |  |                |                    |                      | 12,069           | 12,069                |
| R0170                          | Gross reinsurance accepted          |  |                |                    |                      |                  | 0                     |
| R0180                          | Gross                               | 0                                      | 0              | 0                  | 0                    | 12,069           | 12,069                |
| R0190                          | Reinsurers' share                   |  |                |                    |                      |                  | 0                     |
| R0200                          | Net                                 | 0                                      | 0              | 0                  | 0                    | 12,069           | 12,069                |
| R0300                          | Other expenses                      |  |                |                    |                      |                  | 89                    |
| <b>Transfers and dividends</b> |                                     |  |                |                    |                      |                  |                       |
| R0440                          | Dividends paid                      |  |                |                    |                      |                  |                       |

IR.12.01.02  
Life technical provisions

Best estimate

R0025 Gross Best Estimate (direct business)  
R0026 Gross Best Estimate (reinsurance accepted)  
R0030 Gross Best Estimate

R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default  
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re

R0100 Risk margin

Amount of the transitional on Technical Provisions

R0140 TMTP - risk margin  
R0150 TMTP - best estimate dynamic component  
R0160 TMTP - best estimate static component  
R0170 TMTP - amortisation adjustment  
R0180 Transitional Measure on Technical Provisions

R0200 Technical provisions - total

|  | Insurance<br>with profit participation | Index-linked<br>and unit-linked<br>insurance | Life<br>annuities | Non-life<br>annuities | Other life<br>insurance | Health<br>insurance | Total life<br>and health |
|--|--|--|-------------------|-----------------------|-------------------------|---------------------|--------------------------|
|  | C0010                                  | C0020  | C0030             | C0040                 | C0050                   | C0060               | C0070                    |
|  |  | 556  |                   |                       |                         | -56,019             | -55,463                  |
|  |  |  |                   |                       |                         |                     | 0                        |
|  | 0                                      | 556  | 0                 | 0                     | 0                       | -56,019             | -55,463                  |
|  |  |  |                   |                       |                         | -8,746              | -8,746                   |
|  | 0                                      | 556  | 0                 | 0                     | 0                       | -47,274             | -46,718                  |
|  |  | 0  |                   |                       |                         | 7,810               | 7,810                    |
|  |  |  |                   |                       |                         |                     | 0                        |
|  |  |  |                   |                       |                         |                     | 0                        |
|  |  |  |                   |                       |                         |                     | 0                        |
|  | 0                                      | 0  | 0                 | 0                     | 0                       | 0                   | 0                        |
|  | 0                                      | 556  | 0                 | 0                     | 0                       | -48,209             | -47,653                  |

IR.23.01.01  
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

|       |   |
|-------|---|
| R0010 | Ordinary share capital (gross of own shares)  |
| R0030 | Share premium account related to ordinary share capital   |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings |
| R0050 | Subordinated mutual member accounts   |
| R0070 | Surplus funds   |
| R0090 | Preference shares   |
| R0110 | Share premium account related to preference shares  |
| R0130 | Reconciliation reserve  |
| R0140 | Subordinated liabilities  |
| R0160 | An amount equal to the value of net deferred tax assets   |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above                   |

R0220 **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

R0290 **Total basic own funds after deductions**

**Ancillary own funds**

|       |   |
|-------|---|
| R0300 | Unpaid and uncalled ordinary share capital callable on demand   |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand |
| R0320 | Unpaid and uncalled preference shares callable on demand  |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand  |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC   |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC   |
| R0390 | Other ancillary own funds   |
| R0400 | <b>Total ancillary own funds</b>  |

**Available and eligible own funds**

|       |   |
|-------|---|
| R0500 | Total available own funds to meet the SCR |
| R0510 | Total available own funds to meet the MCR |
| R0540 | Total eligible own funds to meet the SCR  |
| R0550 | Total eligible own funds to meet the MCR  |

|       |   |
|-------|---|
| R0580 | <b>SCR</b>                                |
| R0600 | <b>MCR</b>                                |
| R0620 | <b>Ratio of Eligible own funds to SCR</b> |
| R0640 | <b>Ratio of Eligible own funds to MCR</b> |

**Reconciliation reserve**

|       |   |
|-------|---|
| R0700 | Excess of assets over liabilities   |
| R0710 | Own shares (held directly and indirectly)   |
| R0720 | Foreseeable dividends, distributions and charges  |
| R0725 | Deductions for participations in financial and credit institutions  |
| R0730 | Other basic own fund items  |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds |
| R0760 | <b>Reconciliation reserve</b>   |

| Total   | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---------|---------------------|-------------------|--------|--------|
| C0010   | C0020               | C0030             | C0040  | C0050  |
| 0       | 0                   |                   | 0      |        |
| 0       | 0                   |                   | 0      |        |
| 0       | 0                   |                   | 0      |        |
| 0       |                     | 0                 | 0      | 0      |
| 0       | 0                   |                   |        |        |
| 0       |                     | 0                 | 0      | 0      |
| 0       |                     | 0                 | 0      | 0      |
| 54,342  | 54,342              |                   |        |        |
| 0       |                     | 0                 | 0      | 0      |
| 0       |                     |                   |        | 0      |
| 0       | 0                   | 0                 | 0      | 0      |
| 0       |                     |                   |        |        |
| 54,342  | 54,342              | 0                 | 0      | 0      |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   | 0      | 0      |
| 54,342  | 54,342              | 0                 | 0      | 0      |
| 54,342  | 54,342              | 0                 | 0      |        |
| 54,342  | 54,342              | 0                 | 0      | 0      |
| 54,342  | 54,342              | 0                 | 0      |        |
| 38,669  |                     |                   |        |        |
| 9,667   |                     |                   |        |        |
| 140.53% |                     |                   |        |        |
| 562.13% |                     |                   |        |        |
| C0060   |                     |                   |        |        |
| 54,342  |                     |                   |        |        |
| 0       |                     |                   |        |        |
|         |                     |                   |        |        |
|         |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 0       |                     |                   |        |        |
| 54,342  |                     |                   |        |        |

## IR.25.04.21

## Solvency Capital Requirement

## Net of loss absorbing capacity of technical provisions

|                                    |  | C0010         |
|------------------------------------|--|---------------|
| <b>Market risk</b>                 |  |               |
| R0070                              | Interest rate risk   | 1,030         |
| R0080                              | Equity risk  | 0             |
| R0090                              | Property risk  | 0             |
| R0100                              | Spread risk  | 0             |
| R0110                              | Concentration risk   | 133           |
| R0120                              | Currency risk  | 0             |
| R0125                              | Other market risk  |               |
| R0130                              | Diversification within market risk                                       | -125          |
| R0140                              | <b>Total Market risk</b>   | <b>1,039</b>  |
| <b>Counterparty default risk</b>   |  |               |
| R0150                              | Type 1 exposures   | 0             |
| R0160                              | Type 2 exposures   | 0             |
| R0165                              | Other counterparty risk  |               |
| R0170                              | Diversification within counterparty default risk                         | 0             |
| R0180                              | <b>Total Counterparty default risk</b>                                   | <b>0</b>      |
| <b>Life underwriting risk</b>      |  |               |
| R0190                              | Mortality risk   | 0             |
| R0200                              | Longevity risk   | 0             |
| R0210                              | Disability-Morbidity risk  | 0             |
| R0220                              | Life-expense risk  | 0             |
| R0230                              | Revision risk  | 0             |
| R0240                              | Lapse risk   | 0             |
| R0250                              | Life catastrophe risk  | 0             |
| R0255                              | Other life underwriting risk   |               |
| R0260                              | Diversification within life underwriting risk                            | 0             |
| R0270                              | <b>Total Life underwriting risk</b>                                      | <b>0</b>      |
| <b>Health underwriting risk</b>    |  |               |
| R0280                              | Health SLT risk  | 37,764        |
| R0290                              | Health non SLT risk  | 0             |
| R0300                              | Health catastrophe risk  | 401           |
| R0305                              | Other health underwriting risk   |               |
| R0310                              | Diversification within health underwriting risk                          | -299          |
| R0320                              | <b>Total Health underwriting risk</b>                                    | <b>37,866</b> |
| <b>Non-life underwriting risk</b>  |  |               |
| R0330                              | Non-life premium and reserve risk (ex catastrophe risk)                  |               |
| R0340                              | Non-life catastrophe risk  |               |
| R0350                              | Lapse risk   |               |
| R0355                              | Other non-life underwriting risk   |               |
| R0360                              | Diversification within non-life underwriting risk                        |               |
| R0370                              | <b>Non-life underwriting risk</b>  | <b>0</b>      |
| R0400                              | <b>Intangible asset risk</b>   |               |
| <b>Operational and other risks</b> |  |               |
| R0422                              | Operational risk   | 530           |
| R0424                              | Other risks  |               |
| R0430                              | <b>Total Operational and other risks</b>                                 | <b>530</b>    |
| R0432                              | <b>Total before all diversification</b>                                  | <b>39,858</b> |
| R0434                              | Total before diversification between risk modules                        | 39,435        |
| R0436                              | Diversification between risk modules                                     | -766          |
| R0438                              | <b>Total after diversification</b>                                       | <b>38,669</b> |
| R0440                              | Loss absorbing capacity of technical provisions                          |               |
| R0450                              | Loss absorbing capacity of deferred tax                                  |               |
| R0455                              | Other adjustments  |               |
| R0460                              | <b>Solvency capital requirement including undisclosed capital add-on</b> | <b>38,669</b> |
| R0472                              | Disclosed capital add-on - excluding residual model limitation           |               |
| R0474                              | Disclosed capital add-on - residual model limitation                     |               |
| R0480                              | <b>Solvency capital requirement including capital add-on</b>             | <b>38,669</b> |
| R0490                              | Biting interest rate scenario  | increase      |
| R0495                              | Biting life lapse scenario   | mass          |

