Railway Enginemen's Assurance Society Limited: Report of the Management Committee to With-Profits Policyholders for the year 2024

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A Introduction

The Society's Principles and Practices of Financial Management (PPFM) document describes how the Society manages its With-Profits business. The PPFM is available to all members from our website or by contacting the office. We also publish a summary of the PPFM entitled the Customer Friendly Principles and Practices of Financial Management (CFPPFM), which is also available from our website or by contacting the office. No changes were made to the PPFM or CFPPFM during 2024.

The Society is required by the Financial Conduct Authority to produce an annual report to its With-Profits policyholders setting out whether it believes it has complied with its obligations in relation to its PPFM including the exercise of discretion and the way that the Society has addressed any competing or conflicting rights, interests or expectations of its policyholders. This report covers the financial year 1 January 2024 to 31 December 2024.

B Governance Arrangements

The Management Committee is responsible for the governance of the Society's With-Profits Fund, including compliance with the regulatory requirements contained in the Financial Conduct Authority's Conduct of Business Sourcebook. In discharging its duties, the Management Committee receives advice and guidance from the With-Profits Actuary (WPA) and the With-Profits Advisory Arrangement (WPAA).

B1 With-Profits Advisory Arrangement

A WPAA was in place throughout 2024. The role of the WPAA is to exercise independent judgement in assessing compliance with the Society's PPFM and in addressing conflicting rights and interests of With-Profits policyholders within the Society. The WPAA reviews the exercise of discretion by the Management Committee and provides advice to it if it feels that policyholders' interests are not being fully and properly taken into account.

As at 31 December 2024 there were two members of the WPAA. One of the members of the WPAA is a qualified actuary with substantial life office experience. The Terms of Reference for the WPAA are available on the Society's website or by contacting the office. The WPAA's Terms of Reference state that it should meet at least twice per year. Four meetings of the WPAA took place during 2024.

The WPAA raised no concerns regarding the administration of the With-Profits Fund during 2024 and, therefore, the WPAA does not wish to make a separate report to policyholders for this period.

B2 With-Profits Actuary

The role of the With-Profits Actuary (WPA) includes consideration of compliance with the PPFM, and the exercise of discretion in relation to With-Profits business and the interests of With-Profits policyholders. The Society's WPA during 2024 was Mrs. Alison Carr of SDA LLP, who is a Fellow of the Institute and Faculty of Actuaries.

C Compliance with the PPFM and Exercise of Discretion

This report comments on specific areas, in particular where discretion was used and where the fair treatment of policyholders was relevant.

C1 Governance

The Society has appropriate governance in place to comply with the requirements of the PPFM and consider and make appropriate decisions, including with regard to conflicts of interest.

C2 Communications with policyholders

The Management Committee has responsibility for approving communications with policyholders by reviewing and signing off documents. The Society's PPFM and CFPPFM have been approved by the Management Committee and With-Profits Actuary. The With-Profits Actuary reviewed the bonus notifications in respect of the 2023 valuation and judged that they were in line with the PPFM and, in her view, were clear and not misleading.

C3 Bonus policy and declarations

The PPFM principles state that when setting regular bonus rates, the Society aims to:

- distribute a proportion of the investment income earned by the assets backing the liabilities in a smoothed manner
- reflect the surplus generated by policies
- have regard to long-term expected rates of return on fixed interest securities
- distribute surplus in a manner that is fair to all policyholders and does not jeopardise the Society's solvency.

The PPFM principles also state that maturity and death and disability payouts will be smoothed from one period to the next by avoiding major changes in regular bonuses. The PPFM principles were all complied with when setting bonus rates during the year.

The vast majority of the Society's policies are conventional With-Profits regular premium policies, with maturity payouts based on guaranteed sums assured plus bonuses. During 2024, the Management Committee approved the following regular bonuses in respect of 2023 as a percentage of sum assured:

Policies issued before 1 January 2018	1.75%
Policies issued after 31 December 2017	2.00%

The Management Committee approved two sets of final bonus rates to be applied: firstly from 1 January 2024 to 30 June 2024 and then from 1 July 2024 to 30 June 2025.

The Society also has an accumulating With-Profits product, the Investment Bond. The bonus for this product in respect of 2023 was 3.00%.

C4 Payouts on maturity

The PPFM practices state that the aim in the long term, in determining payouts for maturing With-Profits policies, is to return as a group, on average, 100% of asset shares before allowing for any distribution of the estate. On average during 2024, maturity payouts were 118% of asset shares. This compares to an average of 108% over the period 2018-24 and 95% over the period 2011-17.

Since the 31 December 2023 valuation, the asset share methodology has allowed for permanent enhancements to asset shares, which were deemed to have occurred each year from declarations in respect of 2018, to reflect excess bonuses that have been funded by the Estate. This was reflected in payouts in 2024 and will continue to be in future payouts. For 2024, the Society set final bonuses by allowing for the investment return earned on surplus assets. At present, the Society is planning to distribute surplus assets over the next 5-10 years to reduce its surplus to within its risk appetite. Payouts will therefore generally average more than 100% of asset shares.

The PPFM practices also state that, subject to meeting any guaranteed benefits, the maturity payouts should fall in the range of 80% to 120% of the average asset share for the group, before allowing for any distribution of the estate. The aim is for all maturity payouts to fall within this range, although where this is not possible for all policies, at least 90% of payouts should fall within the range. During 2024, there were 1,200 maturing policies. 789 of these had payouts in the range of 108% to 120% of asset shares, with 411 policies paying between 121% and 140% of asset shares. Only 66% of maturity payouts fell within the specified range in 2024, but those payouts include distribution of the estate. If we exclude the estate distributions of 15% of asset share uplift for the period 1 January 2024 to 30 June 2024 and 11% for the period 1 July 2024 to 31 December 2024 then 99.9% of maturity payouts would have fallen within this range. Therefore, this practice was met in 2024.

C5 Payouts on surrender

Surrender values, where applicable, are the amounts payable on cancellation of a policy before it would otherwise be payable on death, disablement or maturity.

The PPFM practices state that the amounts payable on surrender are calculated by reference to the premiums paid and that asset share is used as a guide in determining the surrender factors to calculate the amounts payable. Throughout 2024, the amounts payable on surrender were calculated as a proportion of premiums paid. The proportion varied by duration in force and was set based on asset shares.

The PPFM practices state that the aim in the long term, in determining payouts for surrendering With-Profits policies, is to return as a group, on average 100% of asset shares, subject to smoothing and any deductions necessary to protect the interests of remaining policyholders. On average, the surrender payouts during 2024 were 96% of asset shares. On average in the period 2011-24, surrender payouts were 94% of asset shares. The overall average of 94% reflects the need to ensure fairness and protect the interests of remaining policyholders by limiting payouts to no more than the equivalent maturity payouts. The introduction of final bonuses from 1 May 2018 enabled maturity values to match asset shares more closely and this, together with the uplifts to maturity values to distribute excess surplus, have reduced the need to limit surrender values to below asset shares. During 2025 the Management Committee will consider whether it would be appropriate to amend the PPFM to enable uplifts to surrender values to distribute additional surplus as well as those currently added to payouts on maturity, death and disability.

The PPFM states that at least 90% of the surrender payouts for individual policies should fall in the range of 80% to 120% of the average asset shares for the group. The aim is for all surrender payouts to fall within this range, although where that is not possible, at least 90% of payouts should fall within this range. During 2024, 99% of all the surrendering policies that received a payout had payouts in the range 80% to 120% of their asset share, with a range of 79% to 115%. Policies that lapsed within the first year received no surrender payout as asset shares for that group were in total negative so all asset shares were deemed to be nil.

C6 Investment strategy

The PPFM principles state that the investment strategy of the Society is to maximise the overall return of the investments subject to ensuring that the guarantees are met through maintaining adequate levels of solvency and liquidity. This was put into practice by holding a diversified portfolio of assets and measuring the performance of each asset class against a specified set of benchmarks. The Chief Actuary reviews the Society's investment strategy annually in light of the Society's capital requirement and solvency position, taking into account the statements in the PPFM on investment strategy and makes proposals for consideration and approval by the Management Committee. During 2024, the Society invested in government bonds, corporate bonds, equities, properties, cash deposits, collective investments and policy loans. Changes to the strategy were made during 2024 which reflected the Society's high level of surplus assets. The Society retains LGT Wealth Management as its investment manager and Walker Singleton as its property manager.

C7 Business risk and new business

The Society manages its risks within a defined framework which comprises the Risk Appetite Statement, the Capital Assessment of Risks and the Key Risks Summary. Ultimate responsibility for risk management rests with the Management Committee whilst the Audit and Risk Management sub-Committee has responsibility for the detailed scrutiny of risk management issues. The Society's Own Risk and Solvency Assessment is a rolling process that provides a detailed analysis of the Society's capital adequacy, risk management and forward-looking perspective. This is achieved using a combination of internal, actuarial and regulatory documents and information to report appropriately on the Society's financial position.

In controlling its business risk and new business, the Society complied with the relevant principles and practices in the PPFM. The PPFM states that new business will only be accepted if, in the reasonable opinion of the Management Committee, the terms upon which such plans are accepted are unlikely to have a materially adverse effect on the interests of existing policyholders of the

Society at that time. The projections carried out for the Society showed that higher new business increases the Society's surplus and enables higher bonuses for members.

C8 Charges and expenses

The charges applied to policies for the purpose of determining asset shares are the charges deemed appropriate by the Management Committee taking into account the charges included within the premium rates and initial costs relating to the acquisition of policies. The total expenses charged to asset shares are the actual expenses incurred by the Society. This is deemed fair and appropriate given the mutual nature of the Society. The asset shares charge expenses to each policy in proportion to the premiums paid which is also deemed to be a fair allocation.

C9 Management of inherited estate

The Society maintains a level of free assets which enables it to invest in a range of investments and to fund the writing of new business. The Society's Risk Appetite Statement sets a target range for the level of its free assets of between £1.5million and £7.5million. These levels have been set to enable the Society to withstand relatively severe market movements without unduly building up excess capital. During 2024, the Society all of its principles and practices in respect of management of the inherited estate. Similarly to 2023, at 31 December 2024, there would have been material excess surplus if no action was taken, so in 2024 bonuses were set to be above those supported by asset shares, with the aim of further distributions above asset share over the next 5-10 years, thus reducing the excess surplus in future.

D Conclusion

Considering compliance with the PPFM in 2024, the Management Committee confirms:

- In setting its payouts for maturities, disablement claims and death claims, including the setting of bonus rates, the Society complied with the relevant principles and practices in the PPFM, as almost 100% of maturity payouts excluding the estate distribution via final bonus were within a target range of 80% to 120% of asset shares.
- In setting its payouts for surrenders, the Society complied with the relevant principles and practices in the PPFM, except the PPFM states that the aim in the long term, in determining payouts for surrendering with-profits policies, is to return as a group, on average 100% of asset shares. Over the period 2011-2024, the average has been 94%, but the average from 2018-2024 was 98%. It is the judgement of the Management Committee that payouts in the long term should be closer to 100% than they have been over the past thirteen years.
- In setting and complying with its investment strategy, the Society complied with the relevant principles and practices in the PPFM.
- In controlling its business risk and new business, the Society complied with the relevant principles and practices in the PPFM. Given current expected future returns and setting long-term bonuses to be equal to sustainable rates, the new business is shown to produce surplus and therefore it is not expected to have a materially adverse effect on existing policyholders.
- In considering its charges and expenses, the Society complied with the relevant principles and practices in the PPFM.
- In managing its inherited estate, the Society complied with the relevant principles and practices in the PPFM, in particular agreeing a plan to bring the surplus back within the target range.

Considering the treatment of With-Profits policyholders and the exercise of discretion in 2024 the Management Committee confirms:

- With-Profits policyholders have been treated fairly in material respects in relation to the exercise of discretion during 2024.
- The discretion exercised by the Society during 2024 took the interests of each class of the Society's With-Profits policyholders into account in a reasonable and proportionate manner.

In making this declaration the Management Committee has taken into account advice provided by the With-Profits Actuary on compliance with the PPFM and exercise of discretion during 2024.

The Management Committee has also received advice from the Society's With-Profits Advisory Arrangement.

J W Goolamier, Chair M A Bicknell, Chief Executive