



FRIENDLY SOCIETIES ACT 1992

DECISION BY THE PRUDENTIAL REGULATION AUTHORITY ON THE APPLICATION OF KINGSTON UNITY FRIENDLY SOCIETY LIMITED TO TRANSFER ITS ENGAGEMENTS TO THE INDEPENDENT ORDER OF ODDFELLOWS MANCHESTER UNITY FRIENDLY SOCIETY LIMITED UNDER SECTION 86 OF THE FRIENDLY SOCIETIES ACT 1992.

The Prudential Regulation Authority's Supervisory Assessment Policy panel decided the application and delegated authority to [REDACTED] to sign the decision notice on its behalf.

The Prudential Regulation Authority decided to confirm the transfer pursuant to section 86 of The Friendly Societies Act 1992. Its full decision is set out in section 5 of this notice.

1. INTRODUCTION

1.1. Kingston Unity Friendly Society Limited ("**the Society**") applied on 14 November 2020, to the Prudential Regulation Authority ("**the Authority**") for confirmation of its transfer of all of its engagements to The Independent Order of Oddfellows Manchester Unity Friendly Society Limited ("**the Transferee**") pursuant to section 86 of the Friendly Societies Act 1992 ("**the FS Act**").

Procedure

1.2. Paragraph 2(b) of section 86 of the FS Act requires that a friendly society, in order to transfer any of its engagements, must resolve to transfer the engagements by special resolution. The Society's delegates voted on the resolution relating to the proposed transfer of engagements of the Society to the Transferee ("**the Transfer**") with votes counted and declared on 14 November 2020.

1.3. Paragraph 6 of Schedule 15 of the FS Act requires that, where a friendly society applies to the Authority for confirmation of a transfer of engagements, a notice shall be published stating that interested parties have the right to make representations to the Authority with respect to the application. The notice must, among other matters, specify the date, determined by the Authority, before which any written representations or notice of a person's intention to make oral representations must be received by the Authority and the date on which the Authority intends to hear any oral representations. In the case of the Transfer, notice was given by the Society in the London Gazette on 19 November 2020. The notices specified 30 December 2020 as the closing date for receipt by the Authority of written representations or notice of intention to make oral representations and 15 January 2021 as the date set aside by the Authority to hear oral representations.

- 1.4. Paragraph 6 of Schedule 15 of the FS Act also states that the notice of the application shall be published in one or more newspapers if so directed by the Authority. In accordance with the direction of the Authority, notice of the application for the Transfer was published in The Yorkshire Post on 19 October 2020.
- 1.5. By 30 December 2020 the Authority had received no written representations, or notices of intention to make an oral representation. The Authority therefore did not hold the oral hearing as advertised on 15 January 2021. No written representations or notices of intention to make oral representations were received subsequently.

Materials prepared by the Society

- 1.6. In considering its confirmation of the Transfer, the Authority considered where relevant the material produced by the Society about the Transfer and sent to its members. The material sent to members included the statutory statement required to be sent to members of the Society and concerning the matters specified in paragraph 2 of Schedule 15 to the FS Act ("**the Member Statement**"). The Member Statement was approved by the Authority on 23 October 2020. The Authority consulted the Financial Conduct Authority (FCA) prior to giving this approval in accordance with paragraph 2(3) of Schedule 15 to the FS Act.
- 1.7. It is not, however, for the Authority to consider the merits of proposals which the members eligible to vote on the Transfer have approved, save for its assessment of the application against the relevant Preclusion Grounds as set out in section 3 of this notice.

2. THE SOCIETY'S VOTE

- 2.1. In its application for confirmation, the Society declared that the requisite special resolution, required by section 86(2)(b) of the FS Act, was passed by ballot of the Society's delegates.
- 2.2. Paragraph 7(2) of Schedule 12 to the FS Act provides that a resolution of a friendly society shall not be effective as a special resolution unless it is passed by not less than three-quarters of the number of the members of the society entitled to vote on it and voting either (in person or by proxy) on a poll at a meeting of the society or in a postal ballot.
- 2.3. Paragraph 7(1) of Schedule 12 of the FS Act provides that a friendly society must give at least 14 days' notice (or such longer period as the rules may require) before the meeting at which such resolution is to be moved. The Society convened the special general meeting on 14 November 2020 under rule 13.7 in its rules. Notice of the special general meeting was published in The Times on 19 October 2020 and sent on 19 October 2020 by post (or electronic means, where members had consented to this under the Society's rules) to all registered delegates as well as to all adult members and all registered contacts of child members holding Child Trust Fund policies inviting further nominations of delegates.
- 2.4. Paragraph 1(3) of Schedule 15 of the FS Act states that a friendly society must send a statement to arrive no later than 14 days (or such longer period as its rules may require) before the meeting at which any such resolution is to be moved. The information pack about the transfer, including the Member Statement, was issued to the voting delegates

on 30 October, ahead of the special general meeting held on 14 November 2020, and therefore arrived no later than 14 days before the resolution was moved.

- 2.5. 64% of all of the Society's registered voting delegates voted on the special resolution in respect of the Transfer. 91.8% of the delegates voting voted in favour to approve the Transfer.
- 2.6. The Society confirmed that the resolutions were duly passed in accordance with the FS Act and its rules in force at the time.
- 2.7. The Transferee's board also approved the transfer on 10 September 2020 after being given permission by the Authority under section 86(3)(b) of the FS Act.

3. THE AUTHORITY'S CONCLUSIONS

- 3.1. Paragraph 8(1) of Schedule 15 to the FS Act provides that the Authority must confirm the Transfer **unless** it is precluded from doing so on any of the grounds specified in the FS Act ("**the Preclusion Grounds**").
- 3.2. The Authority consulted the FCA prior to taking its decision on whether to confirm the Transfer. The FCA did not object to the Transfer and its full response to the Authority's consultation was taken into consideration when assessing the Preclusion Grounds.

Preclusion Ground 1 "The Successor Factor"

- 3.3. Paragraph 8(2) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it appears to it that there is a substantial risk that the Transferee will not be able lawfully to carry out the engagements to be transferred.
- 3.4. The Authority considered whether a) it is lawful for the Transferee to carry out the transferred business; and b) whether the Transferee is capable of carrying out the business.
- 3.5. The Authority was not aware of any reason that the Transferee would be unable to carry out lawfully the engagements to be transferred as Transferee holds the necessary Part 4A permissions (considered in Preclusion Ground 5) and there is no evidence that the transferring business differs from the business that Transferee currently carries out in such a way that would render the transfer unlawful.
- 3.6. Based on the Authority's supervision of the Transferee and the FCA's regulation of the Transferee, the Authority was not aware of any matter related to the scale or nature of the Society's business that would materially increase the complexity of the Transferee's business, particularly given the relative scales of the business.
- 3.7. The Authority noted the Transferee's past experience of acquiring and integrating smaller similar friendly societies to itself and was not aware of any reason that the Transferee would not be capable of carrying out the transferring business.
- 3.8. The Authority noted that, although all of the Society's engagements with members had been concluded in the United Kingdom, a number of members had subsequently moved to states in the European Union. The Authority noted that all competent authorities in the

relevant jurisdictions had indicated that they either comply with or intend to comply with the European Insurance and Occupational Pensions Authority's "Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union" (including Recommendation 6 in particular).¹

- 3.9. The Authority therefore finds that there is no substantial risk that the Transferee will not be able lawfully to carry out the engagements to be transferred and that **this Preclusion Ground does not apply**.

Preclusion Ground 2 "The Material Information Factor"

- 3.10. Paragraph 9(1)(a) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that some information material to the members' decision about the transfer was not made available to all the members eligible to vote.

- 3.11. The Authority considered whether a) the communication materials were provided to all members eligible to vote; b) the materials omitted any information material to the members' decision about the Transfer; and c) whether any material information came to light subsequently.

- 3.12. The Authority noted that the communication materials were sent to all members individually allowing sufficient time, in accordance with the FS Act, to review the materials in advance of the voting date.

- 3.13. The Authority noted that the members were provided with the required Member Statement and is satisfied based on statements and assurances from the Society that this contained all necessary information in accordance with the requirements of the FS Act.

- 3.14. The Authority noted that the Society provided additional material relevant to the Transfer to its members. This material included the background to the transfer; an explanation of why the Transferee was appropriate; the impact of the Transfer on the Society's members; the opinion of the Society's Chief Actuary and With-Profits Actuary; the outcome of the independent review undertaken of the actuarial reports and reference to the Society's website where members could find responses to relevant questions which were asked after the initial material was provided.

- 3.15. The Authority therefore finds that there was no information material to the members' decision about the Transfer that was not made available to all the members eligible to vote and that **this Preclusion Ground does not apply**.

Preclusion Ground 3 "The Representative Vote Factor"

- 3.16. Paragraph 9(1)(b) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that the vote on any resolution approving a transfer does not represent the views of the members eligible to vote.

- 3.17. The Authority considered whether a) the members eligible to vote have been identified correctly; b) the number of votes cast in favour of the resolution exceeds the requirements

¹ https://www.eiopa.europa.eu/content/recommendations-insurance-sector-light-united-kingdom-withdrawing-european-union_en

in the FS Act and the rules of the Society for it to be passed; and c) the vote is representative of the views of every subset of members eligible to vote (as applicable).

- 3.18. The Authority notes that all adult members (including registered contacts of Child Trust Fund policyholders) were eligible to register to become delegates in order to become 'voting members'. This opportunity was advertised in the Special General Meeting noticed shared with the Society's adult members.
- 3.19. The Authority, in consultation with the FCA, reviewed the overall communications strategy of the Society and raised no objection.
- 3.20. The Authority finds that the vote represents the views of the members eligible to vote and that **this Preclusion Ground does not apply**.

Preclusion Ground 4 "The Requirements Factor"

- 3.21. Paragraph 9(1)(c) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that some relevant requirement of the Act or the rules of a friendly society participating in a transfer was not fulfilled.
- 3.22. The Authority has not identified any rules or provisions of the FS Act that were not fulfilled by either society. The FCA has also confirmed that it does not have any concerns that some relevant requirement of the FS Act or of either society's rules has not been fulfilled to any material extent.
- 3.23. The Authority notes that Transferee's board approved the transfer on 10 September 2020, with approval from the Authority in line with the permissions granted by the Authority under section 86(3)(b) of the FS Act.
- 3.24. The Authority finds that there is no evidence that either society has not fulfilled any relevant requirement of the Act nor their rules (as applicable) and that **this Preclusion Ground does not apply**.

Preclusion Ground 5 "The Permissions Factor"

- 3.25. Paragraph 11 of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that there is no substantial risk that the transferee will not have the necessary Part 4A permissions to enable it to carry on the business.
- 3.26. The Authority noted that the Transferee is authorised by the Authority to effect and carry out contracts of insurance in the classes of 'life and annuity' and 'permanent health' and a number of other classes.
- 3.27. The Authority noted that the Transferee currently satisfies the Threshold Conditions (as set out in Schedule 6 to the Financial Services and Markets Act 2000) and that the Transfer was not expected to have any impact on the Transferee's satisfaction of those conditions.
- 3.28. The FCA confirmed that it has considered this Preclusion Ground and has not seen any evidence to suggest this was not satisfied with respect to the Transferee.

3.29. The Authority finds that there is no substantial risk that the Transferee will not have the necessary Part 4A permissions to enable it to carry on the business to be transferred and that **this Preclusion Ground does not apply**.

Preclusion Ground 6 “The Eligibility Factor”

3.30. Paragraph 12(a) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that all the engagements included in the transfer may be transferred in accordance with the FS Act.

3.31. The Authority considered whether the Transfer is eligible for confirmation under the FS Act.

3.32. Paragraph 1 of section 86 of the FS Act provides that a society may transfer its engagements to a company registered under the Companies Act 2006, or in relation to engagements which constitute the carrying on of insurance business, to any other person who is an insurer.

3.33. The Authority noted that the Transferee is registered as a friendly society and has the relevant insurance permissions.

3.34. The Authority finds that all the engagements included in the Transfer may be transferred and that **this Preclusion Ground does not apply**.

Preclusion Ground 7 “The Members Factor”

3.35. Paragraph 12(b) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that the transfer is in the interests of the members of each friendly society participating in the transfer.

3.36. The Authority noted the challenges that the Society faced as set out in its application and acknowledged the Society’s conclusion that it would be in the long term interests of the Society’s members to transfer them to a larger organisation with economies of scale in managing both insurance and administrative costs.

3.37. The Authority noted that the Chief Actuary of the Society concluded in his report that the Transfer is in the interests of the members of the Society. The Chief Actuary considered one alternative scenario: the Society to pursue a closed-fund stand-alone operation (or a wind-down), and found that this would be a relatively adverse outcome for a large number of the Society’s members compared to the Transfer.

3.38. The Authority noted that those members who would have their policies moved were offered greater policyholder security due to the Transferee’s financial position whilst maintaining very similar values.

3.39. The Authority noted that the Transfer was also in the interest of the members of the Transferee primarily through the benefits expected via the expense synergies.

3.40. The Authority noted that the Transfer is not expected to have any material impact on service standards for policyholders.

3.41. The Authority noted that the Society's adult members will be eligible voting members at the Transferee, and therefore able to apply to become a "Deputy" at the Oddfellows Annual Moveable Conference. However the Society's members that are under the age of 18 will not be eligible voting members at the Transferee and will not be able to be represented by named sponsors or registered contacts. The FS Act prohibits anyone under the age of 18 from voting at general meetings of a society but under the Society's rules they can be represented by named sponsors or registered contacts and minors aged between 16 and 18 can become non-voting delegates. However, after the Transfer such people will not be eligible to become Deputies or attend the Transferee's Annual Moveable Conference. However, the Authority considers that this small loss of membership rights is outweighed by the other benefits of the Transfer, including enhanced benefit security and benefit expectations.

3.42. The Authority finds that the transfer is in the interests of members and that **this Preclusion Ground does not apply.**

Preclusion Ground 8 "The Solvency Factor"

3.43. Paragraph 15A(2)(b) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless the relevant authority certifies that the Transferee possesses the necessary margin of solvency after taking the proposed transfer into account.

3.44. The Authority noted the expected Solvency Coverage Ratio of the Transferee before and after the Transfer and that it possesses the required margin of solvency in excess of the Solvency Capital Requirement (SCR) and issued a certificate of solvency on 13 January 2021.

3.45. The Authority is accordingly satisfied that the Transferee will possess the required margin of solvency. Accordingly, the Authority is satisfied that **this Preclusion Ground does not apply.**

4. REPRESENTATIONS

4.1. The Authority received no written representations nor any intent to make an oral representation.

5. DECISION

The Authority has considered the application by Kingston Unity Friendly Society Limited for confirmation of the transfer of its engagements to The Independent Order of Oddfellows Manchester Unity Friendly Society, pursuant to section 86 of the Friendly Societies Act 1992, and, having had regard to the information available to it and having consulted with the Financial Conduct Authority as required under paragraph 11A(1) of Schedule 15 of the FS Act confirmed the transfer on 27 January 2021.

For and on behalf of the
Prudential Regulation Authority



29 January 2021

**Prudential Regulation Authority
20, Moorgate
London EC2R 6DA**