

## FRIENDLY SOCIETIES ACT 1992

### DECISION BY THE PRUDENTIAL REGULATION AUTHORITY ON THE APPLICATION OF THE RED ROSE FRIENDLY SOCIETY LIMITED TO TRANSFER ALL OF ITS ENGAGEMENTS TO THE RECHABITE FRIENDLY SOCIETY LIMITED, UNDER SECTION 86 OF THE FRIENDLY SOCIETIES ACT 1992.

The Prudential Regulation Authority's Supervision Assessment Panel decided the application and 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. The Red Rose Friendly Society Limited ("**the Society**") applied on 20 November 2024, to the Prudential Regulation Authority ("**the Authority**") for confirmation of the transfer of all of its engagements to The Rechabite Friendly Society Limited ("**the Transferee**") pursuant to section 86 of the Friendly Societies Act 1992 ("**the Act**").

#### Procedure

1.2. Paragraph 2(b) of section 86 of the 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 members 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 16 November 2024.

1.3. Paragraph 6 of Schedule 15 to the 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 any 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 this Transfer,

notice was given by the Society in the London Gazette on 21 November 2024 and the Belfast and Edinburgh Gazettes on 22 November 2024. The notices specified 31 December 2024 as the closing date for receipt by the Authority of written representations or notice of intention to make oral representations and 13 January 2025 as the date set aside by the Authority to hear oral representations.

- 1.4. Paragraph 6 of Schedule 15 to the 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 was published in The Daily Mail and The Scottish Daily Mail on 19 November 2024.
- 1.5. The notice had also been displayed on the home page of the Society's website since 18 December 2024. The notice stated that if interested parties missed the closing date for contacting the Authority by 31 December 2024, representations could be made directly to the Society provided they were received before 24 January 2025 so they could be passed onto the Authority.
- 1.6. By 31 December 2024 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 13 January 2025. No written representations or notices of intention to make oral representations were received by the Authority or the Society subsequently.

### **Materials prepared by the Society**

- 1.7. 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 by paragraph 1(1) of Schedule 15 to the Act, concerning the matters specified in paragraph 2 of Schedule 15 ("**the Member Statement**"). The Member Statement was approved by the Authority on 8 October 2024. The Authority consulted the Financial Conduct Authority ("**FCA**") prior to giving this approval in accordance with paragraph 2(3) of Schedule 15 to the Act.
- 1.8. It is not, however, for the Authority to consider the merits of proposals which 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. Section 86(2)(b) of the Act requires that, in order to transfer its engagements, a friendly society must resolve to do so by special resolution.

- 2.2. Paragraph 7(1) of Schedule 12 to the 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.
- 2.3. Paragraph 7(2) of Schedule 12 to the 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 ballot.
- 2.4. Paragraph 1(3) of Schedule 15 to the Act states that a friendly society must send the Member 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.
- 2.5. Notice of the special general meeting and the information pack about the Transfer, including the Member Statement, were posted on 24 October 2024, ahead of the special general meeting held on 16 November 2024, and therefore arrived no later than 14 days before the resolution was moved.
- 2.6. 9% of the Society's eligible members to whom notice of the meeting was sent voted on the special resolution in respect of the Transfer. 95% of the members who voted, voted in favour to approve the Transfer.
- 2.7. The Transferee's board also approved the Transfer on 6 September 2024 after being given permission by the Authority under section 86(3)(b) of the Act.

### **3. THE AUTHORITY'S CONCLUSIONS**

- 3.1. Paragraph 8(1) of Schedule 15 to the Act provides that the Authority must confirm the Transfer **unless** it is precluded from doing so on any of the grounds specified in the 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.

#### **"The Successor Factor"**

- 3.3. Paragraph 8(2) of Schedule 15 to the 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 to it.

- 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 doing so.
- 3.5. The Authority was not aware of any reason why the Transferee would be unable to lawfully carry out the engagements to be transferred. The Transferee holds the necessary Part 4A permissions (considered in Preclusion Ground 5). There is no evidence that the transferring business significantly differs from the business that the 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 businesses.
- 3.7. The Authority noted the Transferee’s 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 overseas to countries in the European Union (EU) and elsewhere. The Authority noted that the competent authorities in the relevant EU jurisdictions had indicated that they either complied with or intended 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).<sup>1</sup> The Authority further noted the Society’s confirmation that no objections had been received by it from any overseas authority to its servicing of the relevant policies.
- 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.**

#### **“The Requirements Factor”**

- 3.10. Paragraph 9(1)(c) of Schedule 15 to the 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.

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<sup>1</sup> [https://www.eiopa.europa.eu/content/recommendations-insurance-sector-light-united-kingdom-withdrawing-european-union\\_en](https://www.eiopa.europa.eu/content/recommendations-insurance-sector-light-united-kingdom-withdrawing-european-union_en)

### *Non-fulfilment of a rule of the Society*

- 3.11. The Authority identified that the Society did not give notice of the special general meeting to industrial branch members following the method prescribed in its rule 27.3: by publishing a notice of the meeting in a newspaper circulating in the area in which industrial branch policies had been sold and by displaying a notice of the meeting at its registered office. The Society notified industrial branch members who are paying premiums by sending them notice of the meeting (and also sent them the Member Statement).
- 3.12. The Authority noted the evidence provided by the Society about when industrial branch policies were sold. Over 60% of industrial branch policies were sold in the 1920s, 1930s and 1940s; over 90% were sold before the 1970s and more than 98% before the 1990s. The last industrial branch policy was sold in 2002. Only a small number of industrial branch members are still paying premiums; the remaining policies are paid up. The Authority noted the Society's explanation that, given the period when these policies were sold, many of the holders of industrial branch policies will have died without a claim having been made on the policies, and that the Society could not know how many were living and how many were dead. The Authority noted that the Society holds addresses for only a small proportion of those to whom paid up industrial branch policies had been sold, and that the Society has had no correspondence from the vast majority of these for many years and considers that a sizeable majority of the addresses held would not be current addresses of members.
- 3.13. The Authority noted that the small number of industrial branch members who are paying premiums were sent notice of the meeting (and the Member Statement). The Society confirmed that no members visit the Society's registered office (to pay premiums or for any other purpose) and so no members would have seen a notice displayed there. The Authority considered the Society's view that, even among those still living and residing in the local area in which the policies were sold, the probability of their seeing a notice of the meeting in a local newspaper would have been very low. The Society confirmed that when it had previously advertised Annual General Meetings (AGMs) in accordance with rule 27.3, there had been no engagement from members with paid up industrial branch policies to request voting packs and attend meetings.
- 3.14. The Society and the FCA did not consider this failure to fulfil rule 27.3 to be material to the members' decision about the Transfer. The FCA, noting the low level of engagement among paid up industrial branch policyholders and the low probability of a member seeing a notice published or displayed in accordance with the Society's rule 27.3, did not consider that the failure to comply with the rule should lead it to object to the Transfer.

- 3.15. The Authority noted that it was unlikely that fulfilment of rule 27.3 would have resulted in more than a small number of, if any, additional industrial branch members becoming aware of the meeting and the proposed resolution. The authority noted the very substantial majorities in favour of the Transfer among all members who participated in the vote and among the industrial branch members who participated in the vote.
- 3.16. The Authority concluded that the failure to fulfil the Society's rule 27.3 could not have been material to the members' decision about the Transfer and accordingly **directed that this failure is to be disregarded for the purposes of paragraph 9 of Schedule 15 to the Act, pursuant to paragraph 9(3) of Schedule 15.**

*Non-fulfilment of relevant requirements of the Act*

- 3.17. The Authority identified that the same failure to comply with the Society's rule 27.3 also meant that the Society did not fulfil the requirement of section 86(2)(b) of the Act. Paragraph 7 of Schedule 12 sets out conditions that must be met for a special resolution to be validly passed, including that notice is given to members in such manner as is prescribed by the Society's rules. This condition was not met, as notice of the meeting was not given to industrial branch members in the manner prescribed by the Society's rule 27.3. Consequently, the requirement in section 86(2)(b) of the Act to resolve to transfer the engagements by special resolution was not fulfilled.
- 3.18. The Authority noted that the failure to fulfil the requirement in section 86(2)(b) arose specifically because of the failure to fulfil the Society's rule 27.3 and that in other respects the Society had taken the steps required to resolve to transfer the engagements by special resolution. The Authority considered the matters set out in paragraphs 3.12 to 3.15 above.
- 3.19. The Authority concluded that, in the circumstances, the failure to fulfil the requirement of section 86(2)(b) (arising from the failure to fulfil the Society's rule 27.3) could not have been material to members' decision about the Transfer and accordingly **directed that this failure is to be disregarded for the purposes of paragraph 9 of Schedule 15 to the Act, pursuant to paragraph 9(3) of Schedule 15.**
- 3.20. The Authority identified that the Society did not fulfil the requirement in paragraph 1(1) of Schedule 15 of the Act to send the Member Statement to all members eligible to vote.
- 3.21. The Authority noted that the Society sent the Member Statement to ordinary branch members aged 18 and over (and therefore eligible to vote) for whom the

Society holds a current address and to the small number of industrial branch members who are paying premiums.

- 3.22. The Society confirmed that it did not send the Member Statement to ordinary branch members shown as 'gone away' in its system or to those filtered as 'gone away' by the mailing house used by the society. The Society did not send notice of the meeting to those members (and pointed out that, having removed non-current addresses from its register of members, it was not required by its rules to do so). The Authority noted that the Society had carried out historical tracing with limited success.
- 3.23. The Society did not send the Member Statement to members who have paid-up industrial branch policies for whom the Society does not hold an address. The Society also did not send the Member Statement to the approximately 14% of paid-up industrial branch policyholders for whom the Society holds an address. The Authority noted that the Society has had no correspondence from the vast majority of these for many years and considers that a sizeable majority of the addresses held would not be current addresses of members.
- 3.24. The Authority noted the age profile of paid-up industrial branch policies and the historical lack of engagement from policyholders where a premium was no longer being paid. It further noted very substantial majorities in favour of the Transfer among all members who participated in the vote and among the industrial branch members who participated in the vote.
- 3.25. The Authority noted the views of the FCA, including that (based on the information provided) it seems that the likelihood of further advertising and notification making a significant difference to the number of voters is low, and that due to the nature, age profile and high level of disengagement of the paid-up industrial branch book, it is unlikely that further addresses would be identified.
- 3.26. The Authority concluded that the failure to fulfil the requirement of paragraph 1(1) of Schedule 15 to the Act could not have been material to members' decision about the Transfer and accordingly **directed that this failure is to be disregarded for the purposes of paragraph 9 of Schedule 15 to the Act, pursuant to paragraph 9(3) of Schedule 15.**

#### **"The Material Information Factor"**

- 3.27. Paragraph 9(1)(a) of Schedule 15 to the 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.

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

3.29. The Authority is satisfied based on statements and assurances from the Society that the Member Statement contained all necessary information in accordance with the requirements of the Act.

3.30. The Authority noted that the information provided in the document with the Member Statement included the rationale for 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 Appropriate Actuary and With-Profits Actuary and details for requesting a copy of the full actuarial report.

3.31. The Authority is not aware of any material information that has come to light subsequently.

3.32. The Authority noted that the Society's failure to fulfil the requirement in paragraph 1(1) of Schedule 15 of the Act to send the Member Statement to all members eligible to vote also meant that some information material to the members' decision about the Transfer was not made available to all members eligible to vote. However, having directed that the failure to fulfil paragraph 1(1) of Schedule 15 should be disregarded for the purposes of paragraph 9 of Schedule 15, the Authority considered that it was not precluded from confirming the transfer as a result of this.

3.33. The Authority therefore finds that **this Preclusion Ground does not apply.**

#### **"The Representative Vote Factor"**

3.34. Paragraph 9(1)(b) of Schedule 15 to the 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.

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

3.36. The Authority acknowledged the high number of uncontactable members and the failure to give notice of the meeting to a number of industrial branch members. It noted the FCA's considerations which included the historical tracing exercises conducted to date with limited success, the nature of the industrial branch

policies and that non-profit policyholders should not be adversely affected by the Transfer.

3.37. The FCA confirmed it had not identified any aspect of the process for approving the special resolution that it would consider to be materially unfair and/or inconsistent with the FCA's rules or objective of ensuring an appropriate degree of protection for consumers.

3.38. It was further noted that, following the members' vote the opportunity to make representations to the Authority was advertised on the Society's website, in national newspapers and in the London, Edinburgh and Belfast Gazettes, and that no representations had been made to the Authority.

3.39. The Authority found no reason to consider that the vote to approve the Transfer does not represent the views of the members eligible to vote and so finds that **this Preclusion Ground does not apply.**

#### **"The Permissions Factor"**

3.40. Paragraph 11 of Schedule 15 to the 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 which it will have as a result of the transfer.

3.41. 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', 'linked long term', 'permanent health' and a number of other classes.

3.42. 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.

3.43. 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.**

#### **"The Eligibility Factor"**

3.44. Paragraph 12(a) of Schedule 15 to the 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 Act.

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

3.46. Paragraph 1 of section 86 of the 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.

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

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

#### **“The Members Factor”**

3.49. Paragraph 12(b) of Schedule 15 to the 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.

3.50. The Authority noted the challenges the Society faced in improving its capital position as set out in the Appropriate Actuary’s report, and the fact that the Appropriate Actuary considered the Society’s only alternative option, in the absence of the Transfer, would be to wind up.

3.51. The Authority’s assessment of whether the Transfer is in the interests of members therefore considered the benefit security, benefit expectations, service standards and membership rights of both societies. For the Society’s members, the Authority compared the outcome of members under the Transfer, against alternative options such as dissolution and if no Transfer took place.

3.52. The Authority noted that the Appropriate Actuary of the Society concluded in their report that overall, the Transfer was in the interests of the members of the Society, as member benefits are expected to be higher and more secure than if no Transfer took place.

3.53. The Authority noted the Appropriate Actuary’s conclusion that the alternative scenario of winding down would be a relatively adverse outcome for a large number of the Society’s members compared to the Transfer.

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

3.55. 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.

3.56. The Authority acknowledged a reduction in voting rights after the Transfer for Child Trust Fund policyholders. 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.

3.57. The FCA confirmed it was in agreement with the Authority's conclusions above.

3.58. The Authority finds that the Transfer is in the interests of members of each of the Society and the Transferee and that **this Preclusion Ground does not apply.**

#### **“The Solvency Factor”**

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

3.60. The Authority noted the expected Solvency Coverage Ratio of the Transferee before and after the Transfer and that it possesses the necessary margin of solvency after taking the proposed transfer into account and issued a certificate of solvency on 13 January 2025.

3.61. The Authority is accordingly satisfied that the Transferee will possess the necessary 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 notice of any intention to make an oral representation.

#### **5. DECISION**

**The Authority has considered the application by The Red Rose Friendly Society Limited for confirmation of the transfer of its engagements to The Rechabite Friendly Society Limited, 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 to the Act:**

**(a) directed that failures to comply with the Society's rule 27.3, section 86(2)(b) of the Act, and paragraph 9(3) of Schedule 15 to the Act are to be disregarded for the purposes of paragraph 9 of Schedule 15 to the Act; and**

**(b) confirmed the Transfer on 5 February 2025.**

**Redacted**

For and on behalf of the Prudential Regulation Authority

**24 February 2025**

**Prudential Regulation Authority**

**20 Moorgate**

**London EC2R 6DA**