Annual Report and Financial Statements

For the Benenden Healthcare Society Limited
for the year ending 31 December 2020

Contents

Who's Who

The Board

Bob Andrews – Chief Executive Officer
Ian Blanchard – Board-nominated*
Mike Bury – Board-nominated*
Helen Chamberlain – Chief Financial Officer
Paula Clark – Board-nominated*
Brian Eaton – Branch-nominated
David Fletcher – Branch-nominated
Louise Fowler – Board-nominated*
David Furniss – Board-nominated* Chairman
Angela Hays – Branch-nominated
Ken Hesketh – Branch-nominated
Adrian Humphreys – Board-nominated*
Deryck Lewis – Branch-nominated
Les Philpott – Branch-nominated

Chief Executive Officer

Bob Andrews

Society Secretary

René Fraioli

Deputy Secretary

Deryck Lewis

Company Secretary

Richard Johnston ACG

Medical Adviser

Mr Rowan Connell MD, FRCOG

* Board-nominated directors are those directors considered by the Board to be 'independent' as defined by the Society's own rulebook and as required by corporate governance best practice.

The term is used throughout this Annual Report with that meaning.

External Auditors

Deloitte LLP

Internal Auditors

RSM UK Group LLP

Bankers

NatWest Group
Barclays

Solicitors

Addleshaw Goddard LLP
Brachers LLP
Pinsent Masons LLP
TLT LLP

Investment Managers

Janus Henderson
Ruffer LLP
Legal & General Group plc

Registered Office

Holgate Park Drive, York,
YO26 4GG

Business Address

Holgate Park Drive, York,
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Telephone: 0800 414 8500
Website: www.benenden.co.uk
Friendly Society Number: 480F
Financial Services Register Number: 205351

From our Chair, David Furniss

Rising to the challenge of COVID-19

In a year when the COVID-19 pandemic dominated our thoughts and our work, we adapted to support our members as fully as possible, despite the obvious restrictions. We also continued to plan for our future to put in place all we need to be a modern mutual.

This will forever be known as the year of COVID-19. I hope it will also go down as a year when The Benenden Healthcare Society showed its flexibility to respond to one of the biggest challenges of its 116-year existence.

No organisation has been left untouched by the COVID-19 pandemic. For us in the healthcare field the difficulties have been even closer to home. Our purpose is to improve the nation's health, and never has that felt more essential than during 2020. We've responded in four main ways by:

- Doing all we can to carry on serving our members, meeting their need for care and offering value for money in difficult circumstances
- Working hard to keep our business running smoothly, despite two lockdowns
- Keeping our members engaged by enhancing communication
- Supporting the national effort to combat the pandemic through our Benenden Hospital

Our hospital was given over to the NHS between March and July after the service purchased all available private sector hospital capacity to help it deal with the pandemic. We also continued to support the NHS until the end of 2020, and beyond.

In the past few years, we've reported helping more and more of our members with their healthcare needs. In 2020, of course, it wasn't possible to keep up this level of activity. For a considerable part of the year, treatments weren't available through our hospital, or others in our network, as they devoted resources to supporting the NHS. Also, many of our members were reluctant to expose themselves to the increased risk of contracting COVID-19.

Clearly, the disruption of COVID-19 has been considerable. In 2020, we helped you, our members, 82,944 times, this compares to 97,313 in 2019. We ended the year with far more 'open' cases than usual.

Demand for services fell sharply early in the year, returned to 90% of pre-COVID-19 levels by August, but fell again later when restrictions returned. Overall, the year finished at 80% of 2019 levels.

Through the year, we've looked for ways to carry on being there for members and enhancing value for money. That's included:

- Continuing to authorise diagnosis and treatment throughout the pandemic
- Extending the usual six-month authorisations for services until 30 June 2022
- Usage of our phone based GP 24/7 and mental health services increased by 25% over 2019 levels
- Offering specific COVID-19 support through GP 24/7 and a COVID-19 help and support hub on our website
- Launching virtual wellbeing sessions and a remote physio service, which we'll continue to offer
- Suspending contribution payments for members in financial difficulties

Also through our partners we've been able to support members who hold additional Benenden Wellbeing products. This has included cash plan customers having increased time limits to submit claims, and travel insurance policyholders being able to alter their travel dates for up to 12 months or take a pro-rata refund on premiums. Elsewhere our home insurance has ensured cover is in place for anyone whose home has also become an office and members who have booked Health Assessments have been able to reschedule appointments, take a refund or opt for a brand new 'at home' health test kit.

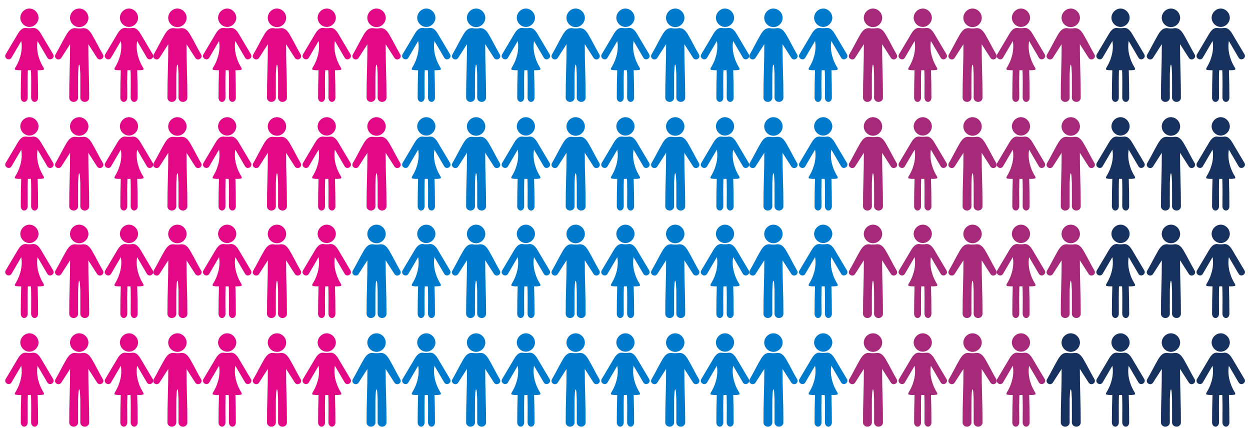
The disruption to normal services in 2020, and the lower level of claims, means we end the year with an operating surplus* of £26.5m. But we do expect a sharp increase in demand as things return to normal in 2021, and these funds will help us absorb this cost.

* Operating surplus is an alternative performance measure used by the group. This is defined on page 47.

How we helped our members in 2020

as of 31 December 2020

We helped our members 82,944 times



30%
Diagnostic services

38%
24/7 advice and support

19%
Surgical procedures

13%
Physiotherapy

Diagnostic services used in 2020

30%
Physiotherapy

14%
Orthopaedics

6%
Dermatology

6%
Ear, nose and throat

The above accounted for 56% of the diagnostic services provided in 2020. The remainder covered a variety of services including dermatology, gastroenterology and gynaecology.

Surgical procedures carried out in 2020

5%
Dermatology

7%
Gynaecology

8%
Ear, nose and throat

13%
General surgery

19%
Ophthalmology

25%
Orthopaedic surgery

The above accounted for 77% of all surgical procedures completed in 2020.

Staying adaptable to change

As well as coping in the face of upheaval, we've also been able to keep our eyes on the future.

One of the pandemic's big lessons to us is that we must always be ready to cope with unexpected circumstances and shocks. Our resilience and plans for handling immediate, acute crises have been put to the test. We acknowledge too, that the pandemic isn't over yet, and we must be prepared to adapt again as its trajectory changes. On the basis of what I've seen during 2020, I'm confident that we're up to the task.

47,781 new members

Attrition fell from 6.4% to 5.8%

Trustpilot ratings increased from 4.5* to 4.6*

82,944 members helped

140 businesses selected Benenden Health as their healthcare provider

Keeping ourselves sustainable

Of course, we must always be alive to the longer-term challenges that face us. For this reason, we've continued to work on our plans to develop what we offer, so we can meet the needs of even more people, and do it in a way that keeps us financially sound well into the future.

In 2019, we achieved something special in reversing the steady decline in our membership numbers. The disruption we've seen in 2020 has paused that story, though until March and the first national lockdown, there were strong signs that it would continue. Before the second lockdown, our sales were returning to pre-pandemic levels with member growth annualising at 10,000 in the final quarter, and more new memberships being opened than the same time last year. So while the upheaval of COVID-19 is frustrating for everyone, we're also seeing signs that our offer will find a receptive audience as we go into 2021.

The reduction in member benefits claimed has resulted in a surplus of £26.5m. This has been prudently invested to ensure we can support the expected increase in member demand created by the pandemic from increased NHS waiting times.

Although the group and the Society aren't subject to the requirements of Solvency II regime, the Board has adopted its approach for measuring capital. A capital coverage of 149% (2019: 139%) gives the Society a significant capital buffer to absorb adverse market conditions.

Broadening our offer, broadening our community

Health has become steadily more important to people in the last few years, and 2020 has accelerated that trend. The NHS is under more strain than ever, with runaway growth in the numbers of people waiting over a year for treatment. Time will tell how this situation develops after the pandemic passes, but the problems the NHS faces are deep-rooted.

So, it's not surprising that interest in private healthcare is growing. This makes people more likely to turn to us, but also, of course, to our competitors. We must make sure we're well positioned with a compelling offer that's distinctive and affordable, and meets people's biggest needs.

Our 'one product, one price' offer of today is simple, and excellent value. These are two powerful selling points that enable us to attract new members and hold on to our existing ones. But we've been aware for some time that we need to vary our offering to appeal to as many people as possible. Our potential audience ranges from young professionals and couples to empty-nesters and active retired people. Reaching them all and developing long-term relationships with them means tuning our product to their varied needs.

The research and testing we've done in recent years will bear fruit in 2021. We plan to launch a new app that gives our members digital access to key features of our product – like 24/7 GP and mental health helplines, and the ability to order private prescriptions. Our research in 2020 told us that both consumers and would-be corporate members value choice and personalised products. From studying what motivates people to invest in healthcare, we also know that their concerns centre heavily on major illnesses like heart disease and cancer. They need to know there's a good-value service that will support them and their families if they develop these illnesses. That's why we'll continue to develop and test new parts of our offering in 2021.

Investing in our business

In 2020, we invested in making our IT infrastructure more robust to protect our business continuity, and upgraded cyber security to keep data secure. Our ability to work remotely on a large scale without serious issues underlines the value of this investment.

In 2021, we'll also continue to invest in our business to make sure today's and tomorrow's members carry on getting a first-rate experience. We'll upgrade parts of our IT, including systems to bring communication channels together. It will let members get in touch with us in whatever way they like, whether it's phone, email or chat. It will make us able to help them more quickly, as well as analyse data to pick up trends in the reasons why they're contacting us. It all adds up to us being a responsive organisation able to live up to the promises we make to our current and future members.

Supporting our democracy

I've mentioned that 2020 has posed challenges for one of the things that's fundamental to who we are as a Society – our democracy. Despite the restrictions imposed on us by the COVID-19 pandemic, we kept our members engaged through virtual events, including our annual Conference, held later in the year than usual.

It was a great effort from both Benenden Health employees and hundreds of our members to make this work. It looks likely that we'll have to continue in this vein for a considerable part of 2021 to keep everyone safe. Meanwhile, our efforts continue to find new ways for members to engage with their Society, so that as many of them as possible are directly involved in our decision-making.

Managing our climate risks

Like many other organisations, we're conscious of the risks we face associated with climate change. In fact, regulations say we have to be, and that we must pinpoint what those risks are and how we'll mitigate them. We might not face the same issues as insurance firms having to factor extreme weather into their calculations. But we do have a responsibility to contribute to the government's aim of net-zero carbon emissions by 2050. Like others, we want to report on our carbon footprint, from emissions and waste to paper consumption and single-use plastic.

This year, we've focused on how to make this possible, so we can be transparent about efforts to minimise our environmental impact. This also makes us more attractive to would-be members and employees, who rightly expect organisations to make a conspicuous effort to limit climate change.

As a friendly society, we're exempt from the Streamlined Energy & Carbon Reporting (SECR) regulations. But we've decided to opt in, by providing as much data as we can. This helps us focus our efforts to define metrics, set targets and gather the data we need to show progress towards meeting what we see as our obligation to cut our emissions.

Marking changes to the Board

In 2020, I've had tremendous support from the Society's Board, as usual. Rotation of members means we said farewell to Gwenda Binks and Andy Tucker, and I'd like to thank them for their service. We also welcomed David Fletcher and Brian Eaton, and I look forward to working with them.

Backing the national fight against COVID-19

Normally, I take this opportunity to round up our activities to support the community. Because of COVID-19, our efforts have taken a somewhat different form in 2020. In August, we donated £50,000 to fund research into the virus at Royal Brompton and Harefield Hospitals. Our grant helped create a new post for a research manager to co-ordinate the study of the virus's effects based on national data. The work is vital in helping the NHS prepare to cope with COVID-19 alongside winter flu. We're proud to have been able to contribute to the national effort in this way, as well as by making our hospital available to treat non-COVID-19 NHS patients.

Thank you

In this of all years, it's been a time of pulling together to overcome obstacles and stay focused on our purpose.

At such a trying time, maintaining service to our members, adapting our internal operations and keeping members engaged have been notable achievements. Each is down to the dedicated work of Society and Hospital colleagues, whose efforts I want to recognise and commend. They're the reason we've been able to respond to the challenges before us in the way we have.

I'd also like to thank the Branch Officers and members who have had to adapt and change to the new virtual environment.
They're a key part of who we are and by adapting to the very different circumstances of 2020, the Society's democratic processes could continue.

It's taken an extra-special effort to do this and keep us on course. I'd like to thank colleagues, Branches and fellow Board members for all they've contributed.

From our Chief Executive Officer, Bob Andrews

Uniting to face a unique test

This was a year when our collective purpose shone through to enable us to stand alongside our members and support our people, as they in turn showed their resilience. Our culture, our brand and our business rose to the challenge. That showed we have a powerful platform on which to build our future.

The test of an organisation's culture isn't just how it supports and enables success, but how it copes with adversity. This was undoubtedly a year when Benenden Health was put to the test. I'm proud to say our people have responded magnificently, whether that's been at our York head office or at our hospital in Kent.

I'd like to begin my overview of this year by rounding up how we've dealt so far with one of the biggest challenges in our recent history. I want to pay tribute to what every single person in Benenden Health and Benenden Hospital has done to make us so adaptable and, above all, resilient in looking after our members. I believe this collective strength gives us a launchpad to tackle more challenges in the future as we progress to becoming a mutual for tomorrow.

Adapting to handle the pandemic

It's no small thing to switch nearly 300 colleagues to remote working almost overnight. But this is what happened in March as the UK's first national lockdown came into effect. Thanks to the flexibility and commitment of our people, and the ingenuity and commitment of our IT team, it happened smoothly and with no dip in productivity. We also maintained service to our members throughout the year and, significantly, we didn't furlough any of our colleagues.

Our business continuity planning worked as we'd intended, and we made sure our people got the support they needed. Not everyone finds it easy to work away from their colleagues, and perhaps even in total isolation. So we've helped our people make the adjustment with regular support from their managers and our mental health first-aiders – daily for those who need it. We've accelerated training for managers to help them spot early signs that someone needs help. Forming a new health and wellbeing group has helped us share and use the best ideas and information for staying positive, and keeping people connected.

2020

in numbers

£142m

Group member funds (2019: £124m restated)

£111m

Society member contributions (2019: £100m)

£20.1m

Society expenses (2019: 21.4m)

£129m

Group income (2019: £116m)

£77m

Group member benefits (2019: £89m)

£26.5m

Group operating surplus (2019: £1.2m deficit)

814,712

Member number (2019: 817,412)

Third-party services through Benenden Hospital contributed £15.1m (2019: £11.5m) to group income in the year, reflecting the support to the NHS for COVID-19 related activities.

The large operating surplus reflects lower member demand for benefits in the face of COVID-19 restrictions. This demand is expected to return strongly in 2021 as the vaccine roll-out reduces restrictions, life moves back to normal and member needs return to pre COVID-19 levels or more, given pressure on the NHS.

Backing our people

Our people clearly still feel positive about Benenden Health. The Best Companies survey gave us a 2-star rating (out of 3), across issues like values, leadership, management and job satisfaction. This score puts us in select company. As we mentioned last year we moved up from 45th to 16th place in the Sunday Times Best Companies rankings for not-for-profit organisations. This survey will be updated later this year due to delays from COVID-19. Also, very few of our people left the Society during the year, and sickness absence was well below the national average. This reinforces what earlier surveys have told us: our people care about what we do, and they want to work together to help us succeed.

As government guidance changed, we made it possible for some of our people, including contact centre colleagues, to come back to the office by making work areas COVID-19 secure, complete with screens, sanitiser and hand-washing stations. We also developed e-learning for people who came back to the office, to make sure they kept themselves and everyone else safe.

The success of remote working means we'll now explore how we can make it a more formal part of our working arrangements for those who want to build it into their routine. Despite the upheaval of COVID-19, we've also brought in a new package of employee benefits, including full health assessments and discounted gym membership. This keeps us attractive as an employer and helps us hold on to our valued people.

The COVID-19 situation has created opportunities, through remote working, to expand the diversity within our workforce and improve the gender split. During 2021, we'll be thinking about how we can develop a more diverse workforce and how we harness this diversity to improve business performance and better support our members' needs, now and in the future.

We'll also be reviewing how we recruit and develop our people, building on earlier work including our family-friendly policies, e-learning for our managers on how to build an inclusive culture and recruitment training on issues like unconscious bias.

I'm also proud to report that our Hospital has continued providing care and support during this difficult year. It played its part in the national COVID-19 crisis and also supported the membership when it was able to do so.

Supporting our members

While there were challenges to providing face-to-face services for much of the year, we could still run many of them virtually. We worked with our partners to build our digital capability to make diagnostic consultations, physiotherapy and mental health counselling appointments possible.

Our online wellbeing sessions, provided with our partners at Vita Health, covered Pilates, healthy eating and mindfulness, among others. Feedback showed the work has really given our members a lift during a trying year, and we intend to build on it in 2021 by making the virtual class experience even better.

From March to July, Benenden Hospital was given over to supporting the NHS in handling the pandemic, with all elective work on hold as the health service braced for extra COVID-19 cases. Private and NHS elective diagnosis and treatment began again in summer, with measures in place to keep patients safe as they moved around the hospital, and more deep cleaning of equipment. Inevitably, these changes mean longer waits for care across the country. So we're extending our authorisations for diagnosis and treatment beyond the usual six months to 30th June 2022. We also anticipate a rise in demand for self-pay services as the NHS works to restore its equilibrium.

Our members have appreciated the efforts we've made to support them. Even though we've seen delays in helping them with many of the usual treatment services in particular, we've still been able to support them in other ways.

We've been here for members all the way through the year, engaging with them in the empathetic way we're known for, and which they value. The result is that in 2020, 52% of members told us they valued their Benenden Health membership even more than the previous year, while 43% felt that value was the same as they had before.

The depth of our bond with members showed in other ways. In 2020, despite a restricted array of services and fewer claims, we still helped our members 82,944 times. Our Trustpilot rating rose to 4.6*. This is an important measure of how attached people feel to our brand.

Building our brand

Even though much of 2020 has been about coping with the here and now, we've continued to think and plan for our future. For our brand, that's meant rethinking how we connect with members and engage with would-be members, whether they're consumers or corporate decision-makers.

TV advertising helps us build general awareness of the brand. This means we're part of people's thinking when they come to research and choose healthcare providers. Other channels – from email and press, to web campaigns and social media – help us target audiences more specifically.

We've focused our messages on how we offer 'private healthcare for everyone'. During the year, we also tailored our TV advertising to add the line 'here for you, not for profit'. This emphasised one of our brand's strengths – its roots in our mutual ethos. At a time when people value brands which clearly look after their customers, this message resonated strongly. When our TV advertising returned after a break in the summer, we saw an immediate spike in new memberships. At the same time, we've been losing members at a slower rate than in previous years.

We'll build on this in 2021 with TV ads to raise awareness of our brand. Online business remains as important as ever, so we'll also carry on investing in ways to make ourselves more visible to people looking for healthcare. As well as that, we'll make it easier for new members to join us with better navigation and more speed on our website to make users' journeys smoother and simpler.

In 2020, 140 businesses chose Benenden Health to provide cover for their workforces. With employees' health and wellbeing more important to businesses than ever, we have an opportunity to build our corporate membership base in 2021.

We'll do this by strengthening partnerships with employee benefit consultants that play a growing role in shaping businesses' decisions.

Preparing to meet extra demand

This time last year, we were facing up to the reality of an operating deficit as the increasing costs of providing our benefits hit home. This year, it's a dramatically different story. A drop in activity, especially treatment, and fewer claims, together with operational cost control, has left us with a surplus of £26.5m. But the underlying challenges to our financial sustainability are still very much with us, and we expect claims levels to rise dramatically.

Pressures on the NHS mean our members are ever-more likely to turn to us, and pent-up demand for our services is likely to translate into considerably higher spending on benefits in 2021 and beyond. Research told us that 38% of members felt they were more likely to ask for Society support after the pandemic began. In addition, there are extra costs to treatment, for example better PPE. So as well as relying on this year's boost to member funds, we'll also need to increase the monthly contribution rate to £11.90.

Our Branches agreed with the thinking behind this measure. I'm sure our members, like me, see the product is still excellent value for money, given the cost of private medical insurance. We'll also be adding more Member Services colleagues in 2021 to make sure we're able to take higher demand in our stride.

The financial realities around us, and competition that remains ever keen, mean we must continue to find new ways to make ourselves appealing to an ever-more diverse audience.

Increasing interest in private medical cover suits us, as we're a lower-cost alternative to out-and-out insurance. But we must make sure that what we offer chimes with what people expect of a provider like us.

That means choice and the ability for people to personalise what they get from us. It also means being able to support them in coping with major illnesses.

We'll be exploring other ways to add to our product offer in 2021.

66% increase in new members joining through the website

300 Benenden Health colleagues received training and 19 colleagues received funding for professional qualifications

Currently 16th in the rankings of The Sunday Times Best Company scheme for not-for-profit organisations

Looking ahead with confidence

Our goals up to 2021 have been to:

- Make sure our members know how good our product is, building on our successful marketing campaigns
- Use Benenden Hospital to the full
- Make our systems and culture as good as they can be
- Put our money into the right things

Despite the disruption we've faced in 2020, we've made good progress. Members still value us, and our plans to evolve our brand and products position us well to be there for people increasingly concerned with their health. Our self-pay and private GP services will increase demand at Benenden Hospital. Our people remain the engine room of our success, united by a common purpose, and our investment in IT continues to set us up to go from strength to strength.

This puts us in a good position to focus on building our future around:

- **A product for tomorrow** that offers choice and value for members while being commercially sound for the Society, and true to our mutual ethos
- **A brand for tomorrow** that reflects a diverse target audience and a growing corporate membership, while staying rooted in mutuality
- **A business for tomorrow** that's completely in sync with its members and able to deliver on our promises
- **A democracy for tomorrow** that engages members fully in the Society's running and its big decisions

We must hope that normality begins to return in 2021. But we know that we're well-placed to thrive when it does.

Strategic Report

Our business model – creating value for our members

We want to give our members the best possible value, with an affordable service that complements the NHS. We want to do it in a sustainable way, so that we're here for you not just today, but tomorrow as well.

Here we describe our business model, look at how our market is developing, and focus on our strategy and plans.

What we do

Benenden Health's purpose is to improve the nation's health. To achieve this we offer medical and wellbeing services to our members across the UK. By the end of 2020, we had 814,712 members, a slight fall from the previous year (817,412), caused by reduced new member recruitment in the first few months following the initial lockdown in March 2020 in response to the COVID-19 pandemic. Our members rely on us for both diagnosis and treatment, as well as other services including 24/7 phone access to a GP and a mental health helpline.

We strive for simplicity, which includes our business model. Our income is mainly from our members' monthly contributions, which go into a mutual fund that also includes income from investments and other products. We use this fund to pay for medical services, or 'benefits', when our members need our help. The fund also covers the cost of running our business.

Drawing on our strengths

We believe access to healthcare should be affordable, inclusive and fair.

Several things combine to make us unique in the healthcare and wellbeing sector. First, we're a mutual. This means we're here purely for our members' benefit, not for shareholders. Our members have a say in our future and how we're run through our annual Conference.

We're also a not-for-profit organisation. We reinvest as much of our income as we can in services for members. Our proposition for members and would-be members is simple: we offer everyone access to private medical services. This simplicity runs through our product offer.

Our members all pay the same monthly amount and have access to the same services. This makes us straightforward compared to many other providers.

We're also different to private medical insurance because we:

- Keep the monthly contribution the same if someone has a pre-existing medical condition
- Don't ask for an excess when members use our services
- Don't vary our monthly contribution based on age
- Don't ask for a higher contribution if someone uses our services

Our services

People can become members of Benenden Health as private individuals or through an employer that offers membership as an employee benefit.

We offer members a wide range of services, from quicker diagnosis and treatment than they'd get through the NHS, to help with mental health worries and wellbeing advice through virtual classes. We offer our services through a national network of partners and our own Benenden Hospital in Kent.

Members can also opt to pay discounted prices for treatments not funded by monthly contributions. This self-pay service is available at four hospitals, including our own. Benenden Hospital also offers a private GP service.

GP 24/7 Helpline

Access to a GP 24 hours a day, 7 days a week and 365 days per year. Appointments available via phone or video consultation.

24/7 Mental Health Helpline

Help with mental health issues triggered by conditions such as anxiety, depression, bereavement or relationship problems. Experienced counsellors are available 24 hours a day.

Mental Health Counselling Support

Help including face-to-face therapy and guided self-help for conditions like stress, depression, anxiety and bereavement.

Physiotherapy

Face-to-face physiotherapy or self-managed exercises backed by telephone support can be provided based on clinical need.

Medical Diagnostics

Diagnosis support up to the value of £1,800, available from over 500 facilities around the UK.

Medical Treatment and Surgery

Support for more than 250 common procedures in areas including orthopaedics and general surgery, available from our approved hospitals.

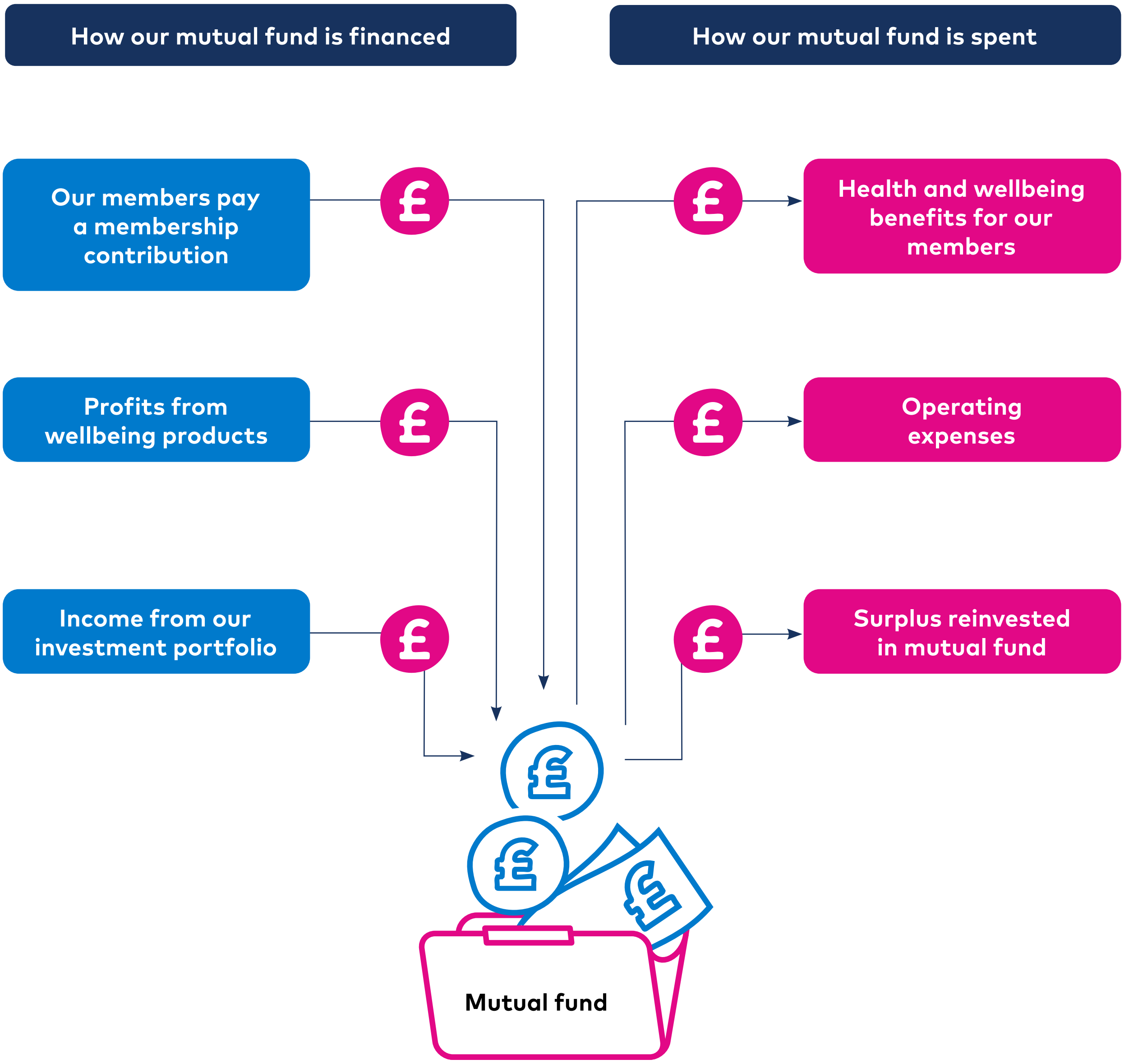
Care Planning and Social Care Advice

Information and guidance about getting home and residential, convalescent or respite care for the long or short term.

Financial Assistance

Help with buying items for members diagnosed with cancer or tuberculosis.

Business model



How we're different to medical insurance

At Benenden Health, we believe access to healthcare should be affordable, inclusive and fair. That makes us different, along with discretion, to many medical insurance products in several ways:

- We don't exclude pre-existing medical conditions on joining. That means anyone who lives in the UK can join us, regardless of their medical history.
- Our members don't have to pay any excess when they use Benenden Health services.
- The price of Benenden Health membership is significantly lower than the average private medical insurance policy.
- All Benenden Health members pay the same rate. The price of membership doesn't depend on age. Nor does it go up if members need to call on our services.

Other products

Health cash plan

An affordable way to manage the cost of routine healthcare, including dentistry, eye-care and therapies.

Health assessments

In-depth tests not available from an NHS check-up.

Travel insurance

Cover for all ages that's comprehensive and flexible, and caters for pre-existing conditions.

Home insurance

Personalised buildings and contents cover.

Self-pay

On-demand medical treatment for a guaranteed fixed cost.

Restrictions resulting from the COVID-19 pandemic have impacted this product range in 2020 and into early 2021. For example it's not been possible to deliver health assessment services during periods of lockdown. As restrictions ease, services are returning to normal; full details of restrictions and how products can provide support are available by each service directly using the contact details at **www.benenden.co.uk/contact-us**

How we stay financially sustainable

The biggest single cost to Benenden Health is providing benefits to our members. This cost varies each year, depending on how many members ask for our help.

In 2020, we spent £77.2m on member benefits. This was £11.8m less than in 2019 and £6.3m less than 2018. The difference was down to the disruption caused by COVID-19. This made some members more reluctant to ask for help. Also, some of our services weren't available at various points in 2020, either because private hospitals were given over to boosting NHS capacity, or because elective work was halted.

We assume that as normality slowly returns during 2021, levels of demand will rise again. To be able to meet members' needs, we have to stay financially strong despite our market being unpredictable. We do this by:

Controlling the price of our product
Each year, we review the monthly contribution rate that our members pay. This helps us make sure we can cover our costs and continue to be there when members need us. In 2020, Conference agreed that the Board should set the contribution rate for the following year due to the pandemic. Following consultation, the Board agreed a rise to £11.90 per month from April 2021.

Discretionary benefits
The Board uses its discretion to provide benefits, subject to the resources available through membership contributions. A set of predefined principles are used to ensure that discretion is exercised in a manner that is fair to all our members. This makes us different to insurers as it provides greater flexibility to adapt to changing environments, and allows us to manage our funds to keep helping our members.

Controlling our costs
We have to spend a proportion of our funds on running our business, or 'Society expenses'. But we keep this to under 24% of our income. In 2020, Society expenses were £20.1m or 18% of relevant income.

Income from investments
We receive rental income from our property portfolio, as well as dividends and interest from financial investments. In 2020, our investments stood at £130.3m. Income and gains from these investments were £7.4m. Our investment strategy is to maintain a diversified portfolio, so we spread risk across different types of investments.

Watching our capital
Our capital coverage is a measure of how financially strong we are. We need to have enough capital available to let us implement our strategy and invest in benefits for our members, and to be able to handle any economic shocks that could affect our business.

We're not an insurer, but we've chosen to treat ourselves like one when it comes to judging how much capital we need. Since 2019 we've followed a capital measure based on the Solvency II regulation that's compulsory for insurance firms. The Board use this measure when they make decisions about our strategy or how we run the Society day to day.

At the end of 2020, the Society's capital coverage was 149% of the minimum we need to cover our activities. This was up from 139% in 2019 due to the surplus generated in the year, offset by a higher capital requirement for the potential for adverse development in the level of member benefits arising in the next 12 months.

Our strategy – evolving our offering and our business

People are more concerned about their health and wellbeing than ever before – a trend accelerated by COVID-19. But with the NHS under pressure, and private medical insurance more expensive than many household budgets allow, it can be hard for them to know where to turn. This gives us the chance to play a vital role in our members' lives, broaden our appeal and improve the nation's health.

We want to make sure the Society can carry on giving its members the healthcare they need, but in a way that keeps us financially sustainable. Doing that means continuing to evolve our offering and our operation to make ourselves a modern mutual.

Offering innovation and choice

Our goal is to make our appeal as broad as possible, so we meet the needs of people from different socio-economic backgrounds and age groups.

We want to be in a position where students, young professionals and families see value in us just as much as empty-nesters and active retired people. This is how we'll grow our membership and have long-lasting relationships with members through different life stages.

The simplicity and affordability of our 'one product, one price' model is attractive, but we must constantly be on the lookout to evolve what we offer and keep in step with people's needs and expectations. Digital technology, for instance, is becoming more and more important to delivering health and wellbeing services. So, in 2021 we'll be launching an app giving our members access to our GP 24/7 service and mental health helpline, plus the ability to order private prescriptions.

In 2020, research told us that people look for choice and personalisation in healthcare products, just as they increasingly do in other sectors. We offer good value with our services, but consumers and would-be corporate members might want flexibility beyond a fixed array of benefits.

We also found that people increasingly want cover for major illnesses like heart disease and cancer, and are prepared to pay extra for this. Our not-for-profit status, partnership with Bupa and in-house medical expertise, plus our reputation for empathy, make us stand out. But adding to our offering with a critical illness add-on product will make us even more competitive, and in 2021 we'll use these research findings to test ways we might do that in the future.

We must also preserve our reputation for value. Although 2020 has been a challenge because COVID-19 has restricted demand for our services and made them less available, we've found ways to adapt and carry on offering value for money. We've offered virtual wellbeing sessions with our partner Vita Health on everything from Pilates and healthy eating to mental health. They've had very positive feedback from many of the 5,713 members who used them, so we plan to carry on offering them in 2021. We've also increased our digital capability to be more available to members, whether that's through our mental health helpline, or dealing with requests for diagnosis and treatment.

It's this instinct to be there for our members that must stay at the heart of how we reshape our offering.

Building our brand to reach new members

More and more people are interested in private health cover. But the market remains highly competitive, so a strong brand is essential to keep us visible and in the minds of people choosing a healthcare provider.

In 2021, we'll continue to build our Benenden Health 'masterbrand' to increase overall awareness of who we are and what we do among both consumers and businesses. TV advertising has been successful for us in building this general awareness, based on our 'private healthcare for everyone' proposition. Significantly, when our TV advertising returned after a break in the summer, the effect was an immediate hike in demand for new memberships, which rose by 33% in September and 48% in October. This suggests underlying awareness of Benenden Health is strong.

Going beyond general awareness, we use other channels to talk to particular audiences with more targeted messages. We reach consumers through social media, consumer media and press, and business decision-makers through industry press and websites like LinkedIn. In 2021, we'll focus on building relationships with employee benefit consultancies who shape businesses' decisions about which medical cover will best suit them and their people. With the wellbeing of employees rising up the corporate agenda, this work will become even more important. Our corporate membership grew by 11% in 2020, and we want to maintain this momentum.

For consumer and corporate audiences, online campaigns like banner advertising, sponsored links and pay-per-click remain important ways to maintain our visibility as people get closer to making their decision.

Once that decision is made, it's just as important to make the user journey on our website as simple and seamless as possible through better navigation and more speed.

A good reputation is the core of a good brand, and in 2020 our Trustpilot rating rose to 4.6*. This is a valuable tool in building trust among prospective members and keeping existing ones loyal. This year, 52% of our members told us that their membership was more valuable to them than before the pandemic, while 43% said they felt the same way as before. We want to maintain a strong Trustpilot rating in 2021.

In 2020, we developed and launched a member experience programme which gives us feedback shortly after members interact with us, along with detailed insights into how satisfied they are. We'll use this data in 2021 to pinpoint improvements to members' experience.

Evolving our business

We can only succeed in the long term if the systems, processes and technology underpinning our business are good enough to deliver on the promise we make to members. We also need the right skills and capabilities among our people to help us operate and compete effectively.

In the coming years, we'll invest consistently in systems, infrastructure and technologies to make sure our members get the best possible experience. This is doubly important for a business like ours, which is built on service and interaction between people. Investing in technology keeps efficiency high and costs down. It means we can help members as much as possible when they get in touch, and it gives us data for well-informed decisions.

Through 2021 and beyond, we'll continue with projects to strengthen the backbone of our business. This includes systems to handle:

- Policy administration and keep renewals and changes running smoothly
- Telephony and communications to improve members' experience and gather data about every interaction so we can anticipate their needs
- Customer relationship management to make our service better by bringing email and the member app together, and running more efficient marketing campaigns. It will also make us more effective at engaging with members, which will help us retain them. We'll move on from slow manual processes

Increasingly, business success rests on insights about people's needs from analysing data. We'll be investing to automate access to our data through an analytics capability. This will give teams and decision-makers access to real-time data on sales, member experience, income, people management and more. In turn, we'll be able to track our performance more closely and make better-informed decisions. We'll be able to combine internal and external data to spot patterns in business and member issues and tackle them.

Backing our people

A motivated, engaged workforce with a strong culture and shared commitment to a common purpose is the key to success for an organisation like ours. In 2020, we've been put to the test by the COVID-19 pandemic and successive lockdowns. Our people coped very well with an almost instant change to remote working and carried on supporting members. This shows us how strongly they're committed to what we do.

At the same time, we've offered plenty of help to overcome the challenge of working in isolation. This has included support from line managers – daily for those who need it – as well as virtual wellbeing sessions and fortnightly updates to keep everyone connected to the latest developments.

In 2020, we kept our Best Companies' two-star rating, and achieved a ranking of 16th in the survey's top 100 UK not-for-profit organisations. This is an important measure of how engaged our people feel, and how they rate us on key issues like leadership, culture and values.

In 2021 we'll being thinking about how we recruit and manage our people to develop a more diverse workforce.

Contributing to environmental sustainability

We have a regulatory responsibility to know what our risks are associated with climate change, and to know how we'll mitigate them. Clearly, we also have a responsibility to play our part in achieving the government's aim of net-zero carbon emissions by 2050. That means reporting on our carbon footprint, whether it's waste energy consumption or the paper and plastic we use.

In 2020, we set out to define our metrics, set our targets and collect data so we could be transparent about the progress we make. To help with this, we opted into the Streamlined Energy & Carbon Reporting (SECR) regulations, even though we're exempt from them as a friendly society. As well as making us more accountable, this work makes us more attractive to would-be employees and members, who increasingly identify with organisations doing all they can to curb climate change.

We're already making efforts to minimise our impact on the environment. We've made our offices greener with measures like sustainably sourced or recycled paper, recycling bins and lower-power LED lighting, as well as encouraging our people to use their own coffee cups instead of plastic ones.

For many colleagues, we expect a more flexible working pattern post the pandemic, between office and home working, and this is underpinned by our flexible working policies. This will help to reduce the number of work journeys. However, when our people do return to the office, we'll continue to encourage car sharing to further reduce the number of journeys. We have electric car charging points, as well as offering our people a cheaper way to buy bikes through the government's Cycle to Work scheme. Our climate change team looks for more ways to shrink our carbon footprint and measure the results.

Evolving our democracy

Our democratic process is part of what makes us unique in our sector. We want as many of our members as possible to be engaged in that process. During the pandemic, we've moved key events like our annual Conference online, and while members have responded positively, it's likely to be some time before we can go back to normal. Even so, we're already exploring what this normality could look like for our democracy.

A working group drawn from our Branches has been looking at how to make our democracy as representative as possible, and suitable for a modern mutual. The group is still formulating proposals, and we'll consult with members on them in 2021. But it's possible they'll include:

- New ways for members to engage, beyond going to meetings
- Elected regional communities to gather views from members through events and online
- A Member Council to engage directly with the Board throughout the year
- A direct member vote at Conference, to make members more directly involved in big decisions
- A new format for our Conference, making it more participatory and an opportunity to discuss the Society's strategy and direction, as well as health and wellbeing

We also have the opportunity to turn our Rule Book into a high-level, constitutional document by moving details of our products into 'Your Guide to Benenden Healthcare'. The current Rule Book also includes details of how members can get involved, and to make the document for fit-for-purpose, we'd cover this elsewhere.

Summary of environmental performance

2.6 fewer tonnes
of CO_2e from gas in 2020 compared to 2019

64.96 tonnes
of CO_2e saved on travel since 2019

806.7 fewer tonnes
of CO_2 emissions from electricity compared to 2019

1/3 less waste
generated in 2020

412 m^3 water
used, down from 893 in 2019

0.17%
tonnes CO_2 per FTE

CO_2 emissions from energy have halved since 2019

4.47% waste
recycled in 2020

50% less water used
in 2020

Our market

UK economy – an unprecedented downturn

In 2020 the UK economy shrank by 9.9%[1], the deepest annual slump in over 300 years. The strong summer rebound slowed towards the end of the year; however, despite the reintroduction of lockdown measures, the economy in the final quarter recorded small growth, thereby avoiding a double-dip recession.

Increased COVID-19 testing and contact tracing has boosted output[2], and many businesses are now in better positions to adapt to changing conditions than they were at the start of the pandemic. However, with restrictions continuing through to 2021, the road to recovery will be long, with analysts predicting that the UK economy may not bounce back to pre-pandemic levels until 2023[3].

NHS – overview

Under enormous pressure, the NHS and its staff have responded well to the COVID-19 pandemic. Patient satisfaction with the NHS increased considerably[4] and the public showed its appreciation through the 'clap for carers' movement and fundraising that raised millions of pounds for health charities.

As the virus hit the UK, the NHS suspended all non-urgent elective operations. Routine activity resumed in the summer, but the number of patients the NHS has been able to treat has fallen because of changes to how it delivers care. Lower productivity, forecast to decline again in 2021–22[5], will increase financial burdens on the NHS and lengthen waiting lists. Waiting times were already at record levels before COVID-19, and they've lengthened dramatically during the pandemic.

Finance

COVID-19 added billions to UK spending on health in 2020[6]. Even as the vaccine is rolled out across the UK, there will be ongoing COVID-19 costs, including maintaining the Test and Trace system, and sustaining infection control and prevention measures.

In 2021–22, the Department of Health and Social Care budget is due to increase by 29% on pre-COVID-19 levels[7]. This includes an extra one-off £3bn of capital for the NHS to cut backlogs built up during the pandemic, support mental health services and ease existing pressures on the health service[8].

The increase in funding is welcome, but some health groups have claimed it will take three times as much to clear the treatment backlog[9]. Also, despite the big budget rise, spending on health still lags behind other advanced nations.

Waiting times

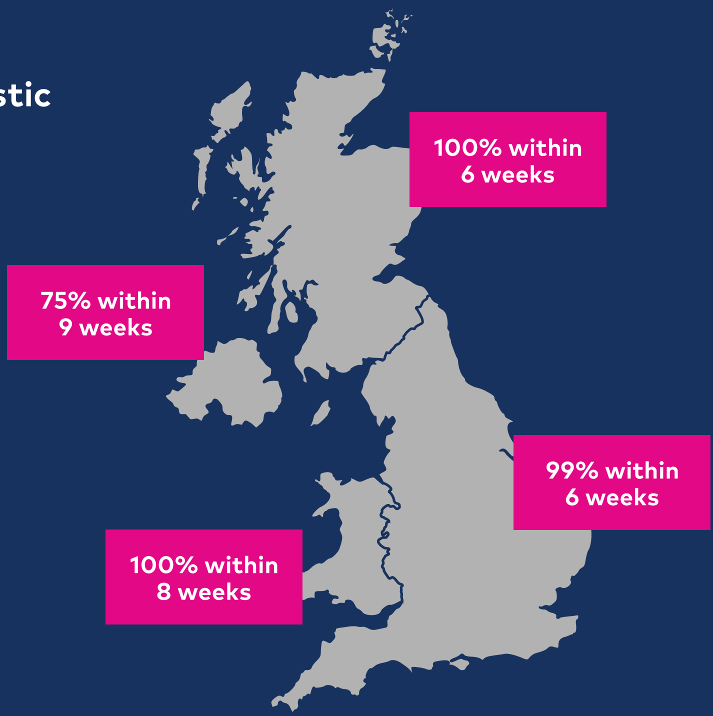
Elective care has been severely affected during the pandemic. Although most of the delayed activity involved non-urgent procedures, many operations would have improved conditions significantly, affecting patients' quality of life.

Also, data has shown that in some areas urgent operations for non-COVID-19, time-critical conditions like cancer are being cancelled because of the number of COVID-19 patients being treated.

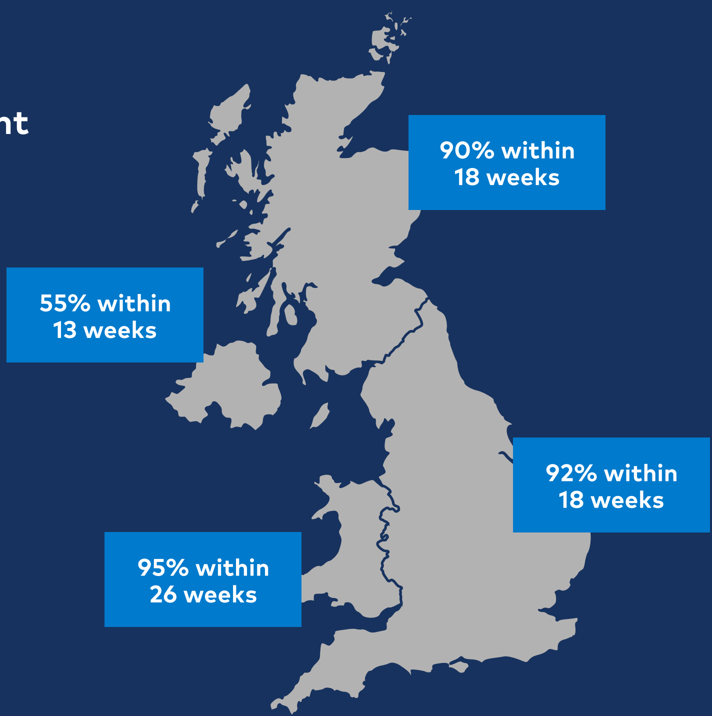
Hospitals have upped productivity on spring 2020 levels, when the first-wave infection and death rate were at their peak. But levels are still well below what they were pre-pandemic across all UK nations.

NHS waiting time targets by country

Diagnostic tests



Treatment



England

The last NHS annual report said that at the end of November 2019, against a target of 92%, 84.4% of patients were waiting up to 18 weeks for treatment. Fast-forward to December 2020 and this figure has dropped to 68.2%[10]. Figures were even lower for specialities with higher referral volumes, including orthopaedics (59.3%) and ENT (57.4%).

A record high of nearly 8% (4.46m) of people were waiting to start treatment in this period. The treatment standard target has now not been met for five years.

Referral-to-treatment figures are worsening. This is despite referrals for outpatient consultations falling by 41.9% per working day in November 2020 compared with November 2019[11].

With diagnostic productivity decreasing by 12%, 27.5% of patients referred for a key test were waiting six weeks or more. This figure has dropped significantly since May 2020, when more than half (58.5%) were waiting longer than the target. But, compared with November 2019, the proportion of patients waiting six weeks or more has risen by 24.6%[12].

Scotland, Wales and Northern Ireland

Scotland's referral-to-treatment performance closely mirrored England's, with the latest figures (September 2020) showing 66.9% of patients receiving their procedure within 18 weeks. Although a slightly lower percentage of patients were treated within target in Scotland than in England, the drop in performance compared with the same month the previous year was less pronounced (78.6% in September 2019)[13].

Just over half of Scottish patients referred for a test were seen within the six-week target (53.3%), a decrease of 29% on the previous 12 months[14].

In Wales, the number of patients waiting more than 36 weeks to start treatment has grown 748% on pre-pandemic levels, from 27,314 in January 2020 to 231,722 at the end of November 2020. This figure represents nearly 44% of all patients currently on the treatment waiting list[15]. NHS Wales' official target stipulates that 95% of patients should get treatment within 26 weeks. In November 2020, 51.4% of patients were seen within that time, compared with 84.6% in the same month in 2019[16].

Just over 53% of Welsh patients received a diagnostic or therapy service inside the eight-week target. But the number waiting more than 24 weeks has increased by a staggering 7,075% since the start of the pandemic. In March 2020, 337 patients were waiting over 24 weeks for such services, and by the end of November this figure had risen to 24,180[17].

Northern Ireland had severe problems with diagnostic and treatment waiting time performance even before COVID-19. As with other UK nations, the pandemic has made things considerably worse.

At the end of September 2020, just 16.4% of patients in Northern Ireland were admitted for treatment within 13 weeks, against a target of 55%[18]. Also, close to half of patients (46.5%) are now waiting over a year, compared with 28.9% in 2019.

At the end of September 2020, 34.6% of patients received a diagnostic test within nine weeks, against a target of 75%[19], with 44.8% waiting over 26 weeks. Long test waits are particularly common for ultrasound specialities.

GPs

The pandemic has also greatly affected primary care. Social distancing meant care was rapidly transformed, with face-to-face appointments significantly scaled back.

In autumn 2020, 44% of GP appointments happened by phone or online video. This trend is expected to continue after the pandemic. A survey of doctors by GP Online[20] predicted over half of appointments will be remote.

Many patients also believe there will be a revolution in the relationship with their GP practice. Nearly a third expect to be speaking with their doctor online rather than face to face by 2030[21].

GPs are playing a crucial role in the COVID-19-vaccination programme, with over 1,000 sites helping in the rollout. Participating practices will be prioritising vaccines; but the NHS has said routine care provided by GP surgeries will continue unless instructed otherwise.

Private healthcare – overview

About 6.8m people, or 10.3% of the population, currently have private health cover. The latest industry data for the end of 2018 estimated a small rise of 0.4% in private health subscribers[22]. Over three-quarters of private health policies are company-paid, and growth primarily came from an increase in demand from businesses with under 250 employees (SMEs).

Despite the economic fallout of the pandemic, employers are looking out for their employees' health more than ever. Research in January 2021 revealed that 63% of UK business leaders now 'feel more responsible for their employees' health and wellbeing'[23]. The same proportion also recognised that expectations around employer-provided health support have changed since the beginning of the pandemic, particularly when it comes to mental health.

Employers' continued commitment to their employees' health was demonstrated by a November 2020 study. 46% of businesses expected to invest more in health and wellbeing, while 49% were going to maintain their spending[24].

Employees' expectations around health provision are also increasing. More than half of UK workers believe their employer should be spending more on health benefits and resources. Also, close to two-thirds (63%) of employees said working for an employer that provides mental health support is now more important than it was a year ago[25].

Private health cover enquiries are increasing, and research has shown that employers are looking to do the right thing in providing health support to their employees. But the recession means many businesses might not be able to turn to expensive private medical insurance, a market where demand has been stagnant for several years.

It's over ten years since the individual health cover market saw annual growth. Hikes to insurance premium tax have made insurance unaffordable for many people. That's borne out by the fact that individual policies make up only 22.4% of the private health cover market[26].

Research by Which? in November 2020 found that nearly three in ten private medical insurance policy holders were struggling to keep up with their premiums[27]. The average individual policy is estimated to cost £2,011 a year[28].

The Benenden Health benefit package, which meets both individuals' and businesses' health needs, coupled with an affordable price, means we're well-placed as interest in private health products grows.

Technology and innovation

Lockdowns have seen people increasingly turning to digital channels. In 2020 alone, internet usage doubled in the UK[29].

Medicine is also shifting online, a trend predating the pandemic. Interest in online primary care services in particular is growing. For example, our GP 24/7 helpline provider Health Hero reported a 300% increase in demand at the peak of the pandemic, despite less than 5% of enquiries being COVID-19-related[30].

The strong demand for remote health services means our GP 24/7 helpline will remain a key benefit. Unlike other providers, Benenden Health doesn't charge extra for consultations or limit the length of appointments, so members get as much time with the GP as they need.

The pandemic has seen a surge in interest in digital tools that help consumers manage their health, with demand for wellness apps rising by 29% in 2020[31].

Benenden Health is proactively helping members improve their physical and mental wellbeing with complimentary online wellbeing classes. Feedback from members has been very positive and this initiative will continue through 2021.

Self-pay

Hospital revenue streams were growing through self-pay business before the COVID-19 pandemic. With private medical insurance viewed as increasingly unaffordable, interest in on-demand health services has been rising. Also, with waiting lists for NHS elective treatment growing exponentially in 2020, demand for self-pay services is expected to carry on growing.

Enquiries are rising for self-pay services at Benenden Hospital in Kent, and other sites offering discounted procedures for Benenden Health members. In 2021, activity and income at Benenden Hospital are expected to grow, and members can expect to see the hospital continue promoting its services.

There will be more discounted self-pay procedures at a wider range of hospitals, in addition to Benenden Hospital. Currently, members can get discounted hip and knee replacement services in Belfast, St Helens, Newport and Peterborough. Both the range of services and locations are set to grow in 2021, assuming the impact of the pandemic eases as the vaccination programme takes effect.

Benenden Hospital provided a significant proportion of its capacity to support the NHS reacting to COVID-19 between April and December

£15.1m
income generated from third-party hospital activities, up from £11.5m in 2019

£36.4m
was spent on member benefits at the hospital, £2.4m lower than 2019

6.1% increase
in referrals for private patients despite the impact of COVID-19

OUTSTANDING
we continue to focus on maintaining our CQC rating of outstanding

2020 Financial Review

The year was heavily impacted by COVID-19, which resulted in reduced demand for services from members. The lower spend on member benefits contributed to an operating surplus of £26.5m. The surplus cash generated has been prudently invested for future use by members.

£77m

Spend on member benefits has reduced in response to lower demand from members during the COVID-19 lockdown periods. It was 13% lower than 2019, but this is expected to recover quickly as members seek support in 2021.

814,712

Membership volumes held steady in the year. Down 0.3% overall after falling in the first months of the COVID-19 period before growing again in the last four months of the year.

£142m

Group member funds up due to lower demand in the face of COVID-19 restrictions.

£26.5m

Group operating surplus recorded in 2020 reflecting the lower demand during the COVID-19 lockdown periods. This will be carried forward to support member benefits in the next few years as confidence returns with the vaccine roll-out allowing members to safely take up benefits.

18%

Cost of running the Society remains well within the 24% limit.

£15.1m

Third-party services through Benenden Hospital up 30% on 2019, reflecting the support provided to the NHS to meet the challenges of COVID-19.

The group has managed to come through the worst of the pandemic, maintaining services to members and supporting the NHS in its response to the biggest challenge in its history. The significant surplus generated in 2020 will be used to fund the increase in the cost of member benefits in the next few years as people respond to the safer conditions of a vaccinated population. We believe members will need more help than before given the severe backlogs that will be a drag on the NHS for several years to come.

Group member funds increased by £18.5m in 2020 (2019: decrease of £7.6m). This was down to:

- An operational surplus of £26.5m (2019: deficit of £1.2m). This came from changes in members' behaviour because of government COVID-19 restrictions and the Society not being able to offer all of the services due to restrictions in the hospital network. Members didn't ask for treatment or other services as much as usual during lockdown periods, which lowered demand for some services for substantial parts of the year
- Returns on the group's investment funds of £7.4m (2019: £4.5m).
  These factors were offset by:
- A reduction of £11.2m in the value of our property portfolio; primarily a decline in the value of the hospital following a market valuation (2019: £0.5m gain)
- An increase in the defined benefit pension scheme deficit of £4.2m, as bond yields are still falling (2019: £11.4m increase in deficit)

We've reinvested the surplus cash generated in the year. We've chosen various short-term secure financial instruments to reduce counterparty risk. This will generate modest returns in interest income before we need the funds to cover the increasing cost of member benefits and reduce other liabilities in 2021.

Operational surplus for the year

The Board believes the operational result for the year gives a clear view of the group's underlying performance. This is an alternative performance measure which represents the net income excluding the impacts of asset revaluations of the group's property and investment portfolios. It's different to the statements of income on page 144, which are prescribed by accounting standards.

Group	2020 £m	2019 £m
Excess of income over expenditure after tax (page 144)	16.1	1.1
Less gain on investments	(0.9)	(1.8)
Less change in investment property valuation	(0.0)	(0.5)
Add loss on operational property valuation	11.3	0.0
Operational surplus/(deficit)	**26.5**	**(1.2)**
Change in investment fund (realised and unrealised gains)	7.4	4.5
Net impact of property revaluations	(11.2)	0.5
Actuarial loss on pension scheme	(4.2)	(11.4)
Increase/(decrease) in members' funds	**18.5**	**(7.6)**

The operational surplus of £26.5m for 2020 (2019: £1.2m deficit) was mostly down to the large reduction in member benefits we incurred. This was due to COVID-19 restrictions suppressing demand significantly in spring and early summer. The year-on-year increase of £27.7m reflects:

- Increases in member contributions, and hospital income offset by a reduction in investment income, giving a net rise of £14.5m to £128.0m (2019: £113.5m)
- Member benefits reducing by £11.8m to £77.2m (2019: £89.0m)
- A 6% reduction in expenses of management, non-recurring costs, investment expenses and interest costs of £1.5m to £22.9m (2019: £24.4m)

Our investment fund performed well in 2020, with an underlying return of £7.4m compared to £4.5m in 2019. As surplus cash has been generated during the year, we've invested £31m in the fund, bringing the total fund investments to £130.3m at the end of 2020 (2019: £91.7m).

The group's largest liability is still the defined benefit pension scheme deficit. The increase in the pension deficit in 2020 was caused by a reduction in corporate bond yields which reduces the discount rate applied the pension scheme liabilities. This was partially offset by favourable investment returns on scheme assets and deficit contributions paid to the scheme. The overall pension scheme deficit at 31 December 2020 was £47.3m.

Group income

Group	2020 £m	2019 £m	Change £m
Member contributions	111.1	100.0	**11.1**
Third-party income from the hospital	15.1	11.5	**3.6**
Investment income	0.6	0.9	**(0.3)**
Commissions and other	1.2	1.1	**0.1**
Gains on investments and property valuations	0.9	2.3	**(1.4)**
Total	128.9	115.8	**13.1**

Total group income has increased by 11.3% to £128.9m in 2020 (2019: £115.8m), driven by higher member contributions and third-party income at the hospital.

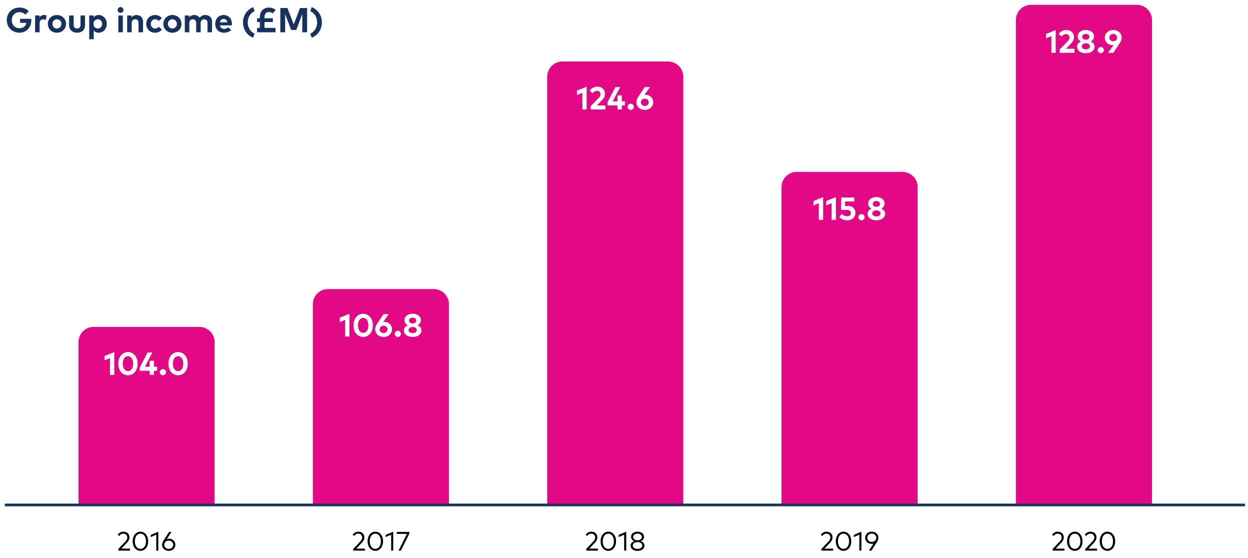
There was a small reduction in investment income after the sale of Catherine Place in February 2020. Commissions rose by £0.1m, but gains on investments and property at £0.9m were £1.4m lower than last year, as the 2019 figure included a one-off gain on realisation of a property fund.

Member contributions rose £11.1m to £111.1m after the 12.2% rate rise in January 2020. We increased the rate to fund the expected rise in member demand and absorb inflationary pressures. The increase in income is offset by a small reduction in average membership volume during 2020.

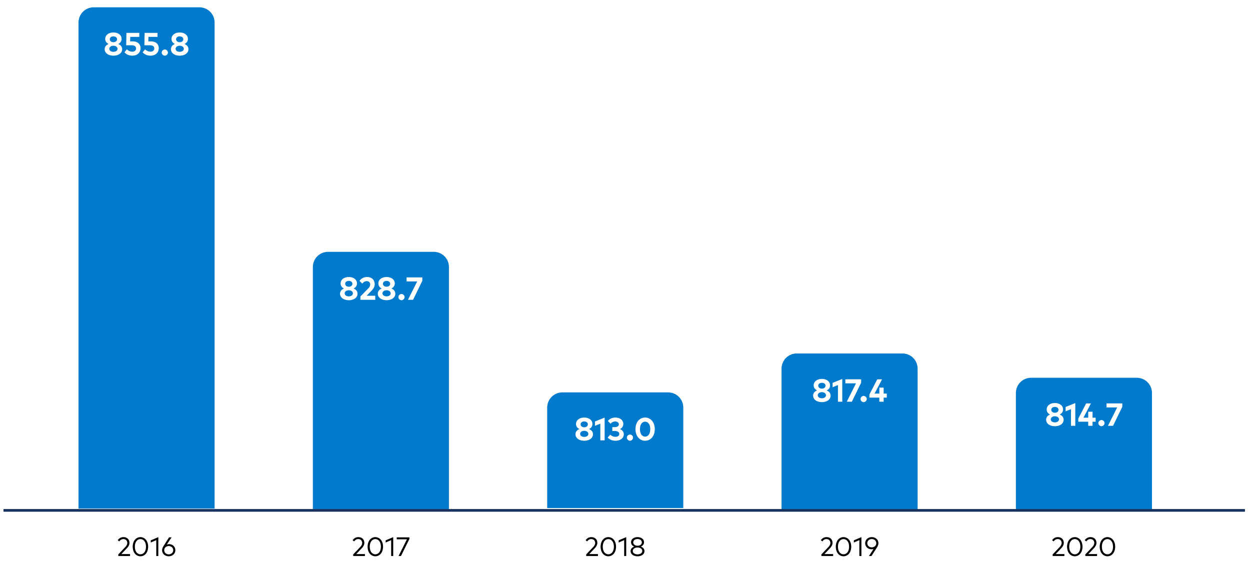
The number of members reduced in the first three months of the pandemic, because of COVID-19 uncertainty, before rising again by 4,000 from the end of summer and finishing the year at 814,712. This was 2,700 lower than 2019 (817,412), but membership volume returned to growth at an annualised rate of 10,000 in the final few months of the year.

Third-party income at the hospital increased by 31.3% to £15.1m (2019: £11.5m) because of the significant support we provided to the NHS in response to COVID-19. Although other private pay income was affected in the middle of the year, it returned strongly and ended 2020 £0.1m ahead of the 2019 figure.

Group income (£M)



Society membership numbers ('000)



Over the last five years, group income has grown by 23.9%, with rises in the member contribution rate used to fund higher demand for services from our members, plus increasing third-party income at the hospital.

The 2018 figure includes the recognition of investment gains of £10.2m when we placed funds with new investment managers.

After 10 years of falling membership numbers, there was modest growth in 2019. The membership has stayed stable in 2020, with falls in the first half of the year because of uncertainty triggered by COVID-19, and growth returning from August reaching an annualised rate of just over 10,000 in the final months of the year.

Member benefits and operating costs

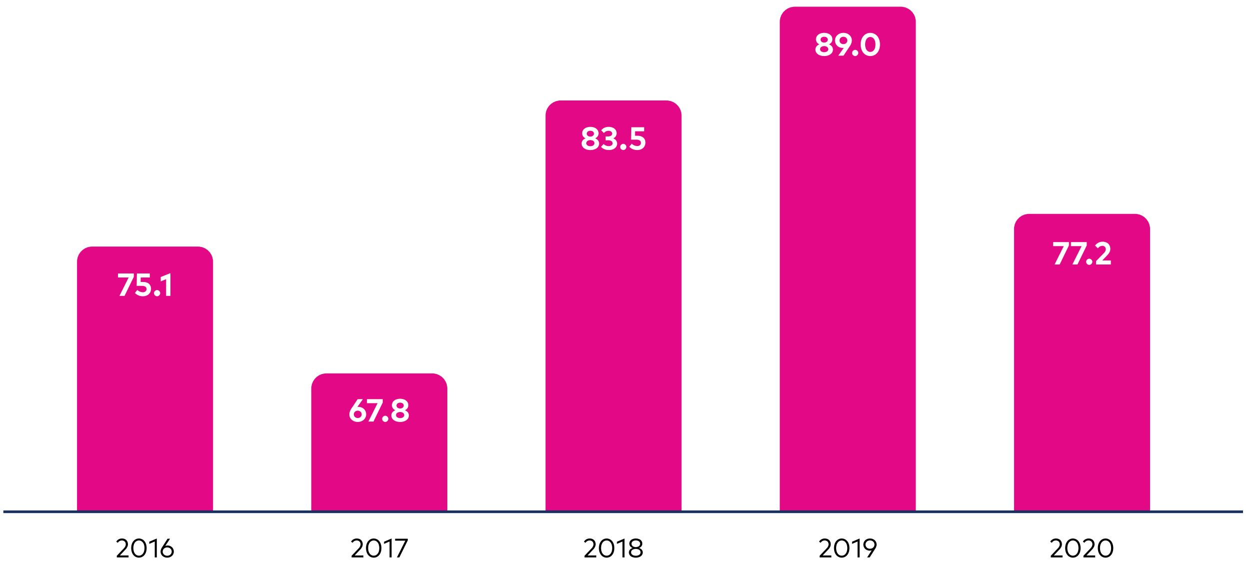
The member benefit costs in 2020 of £77.2m were substantially lower than we expected, and 13.3% lower than 2019 (£89m). This was down to much lower demand for services from members in the months following the first lockdown at the end of March 2020.

Demand for diagnostic and treatment services fell by 65% in the second quarter of the year, before returning to around 90% of pre-COVID-19 levels from July onwards.

Spending on member benefits had been increasing in recent years and started the year matching our expectation of another increase in 2020. But COVID-19 lockdowns suppressed member demand significantly for three months, before returning to a level below the recent trend.

We anticipate these 'missing' or deferred claims for member benefits will come in the near future when members' confidence returns.

Member benefit spend (£m)

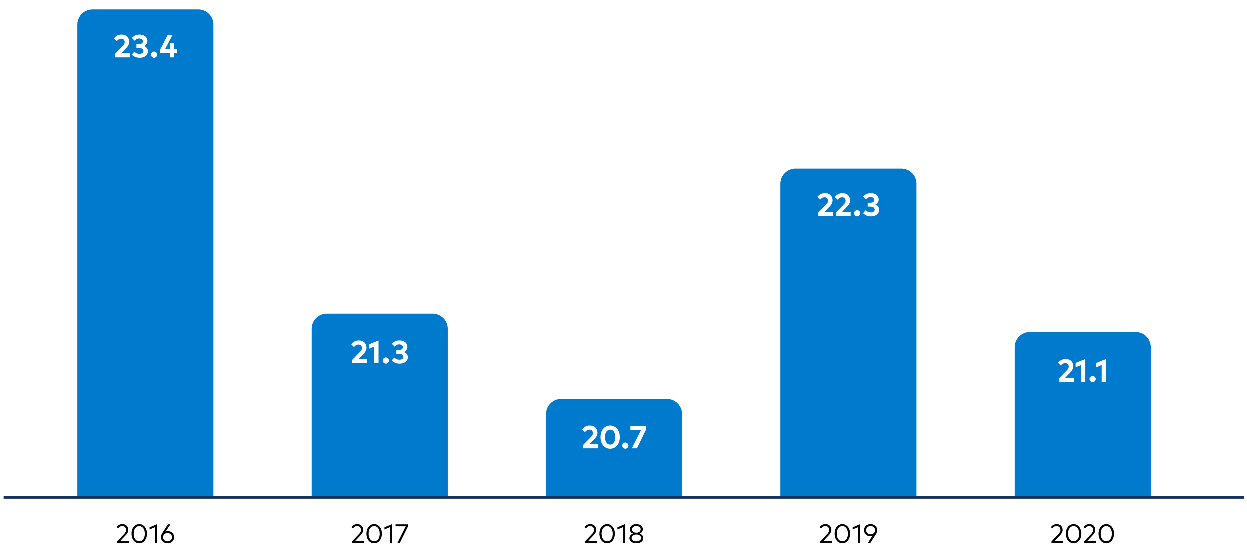


Expenses of management were £21.1m – 5.4% lower than last year (2019: £22.3m). The key change was lower marketing spend, as we wound down activities in response to COVID-19.

Employee costs increased in line with slightly higher headcount and the annual pay increase. Other costs reduced due to lower Branch expenses and the saving from not running the annual Conference, offset by increases in project costs associated with progressing the change agenda with the various programmes for the Society for tomorrow set out in the Chief Executive Officer's report on page 23.

Expense of management	2020 £m	2019 £m	Change £m
Employee costs	11.1	10.8	**0.3**
Marketing	4.6	5.6	**(1.0)**
Other	5.4	5.9	**(0.5)**
Total	21.1	22.3	**(1.2)**

Group expenses of management (£m)



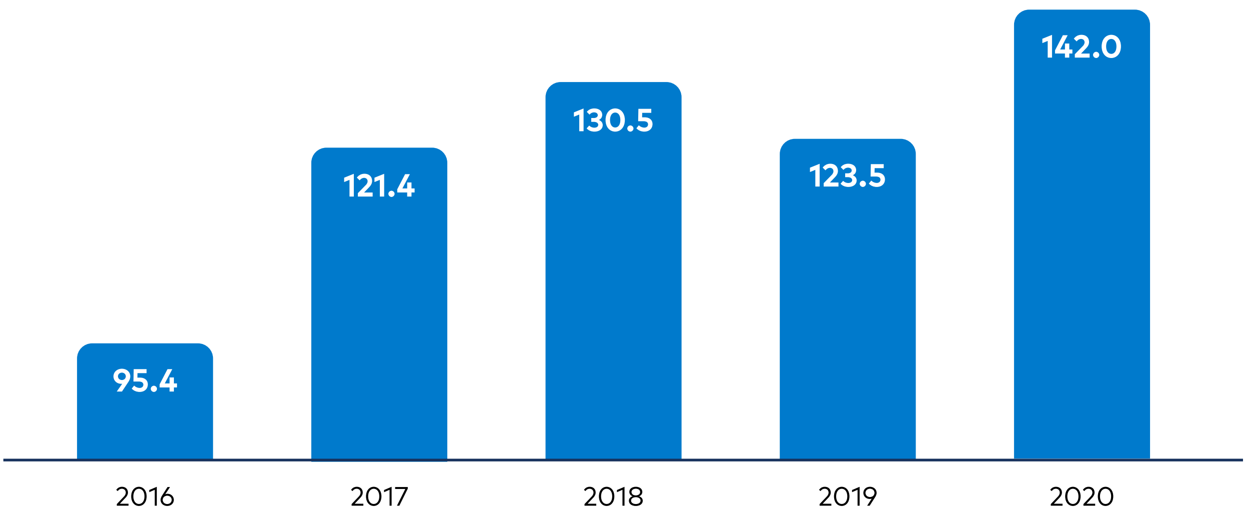
We pay close attention to expenses to make sure we spend member funds wisely. The costs we incurred in 2016 were higher than normal because of legal and professional expenses to deal with issues arising from management and control issues from 2016 and prior.

Statement of financial position

During 2020, group membership funds increased by £18.5m to reach £142.0m (2019 [restated] £123.5m). The restatement of 2019 member funds reflects a £0.5m increase for the recognition of clinical stock within the Hospital. This hadn't previously been reflected in the accounts of Benenden Hospital Trust. This voluntary change in accounting policy has no impact on the reported income and expenditure accounts for 2020 and 2019. Further explanation of this amendment to accounting policy at the Hospital can be found in the Basis of Preparation note within the Financial Statements on page 149.

The Board is ever vigilant to make sure we protect member funds and manage them for growth over the long term. The increase in 2020 reflects the high operational surplus of £26.5m, combined with the net investment gains in the financial investments of £7.4m. These were offset by the reduction in property valuations of £11.2m, primarily due to the hospital, together with a deterioration of £4.2m in the pension deficit due to actuarial losses.

Group membership funds (£m)



Property investments

The unprecedented impact of the COVID-19 pandemic led us to carry out a revaluation of the Society's property investment assets before the year-end. This saw a fall in the value of our development land in Kent and the hospital, alongside modest gains in the residential portfolio.

The valuations are included in the financial position at year-end to reflect current market conditions based on professional valuations.

Investment funds

During 2020, the investment funds performed well, with gains on the core fund of £7.6m. Also, the Society invested funds generated from operating cash surpluses and the sale of Catherine Place. We've chosen low-risk investments and term accounts which provide security on the capital and modest returns on the funds.

The investment funds are disclosed in more detail within the Other Investments note 12 of the Financial Statements on page 166. We expect to draw on a meaningful proportion of these surplus funds when member claims start to rise. Also, in 2021 we'll use funds to repay the outstanding loan for redeveloping the hospital and to make higher deficit payments to the pension scheme in 2021.

Investment fund	£m	Investment rationale
Core fund 1 January 2020	91.7	
Gain on Ruffer fund	3.7	Diversified investment aimed at financial gain while limiting the risk of capital loss
Gain on Legal & General fund	3.3	Secure stable investment to specifically hedge against changes in the defined benefit pension scheme deficit
Gain on Janus Henderson fund	0.6	Secure and stable diversified credit investment generating steady growth
Core fund 31 December 2020	**99.3**	
Surplus cash from operating activities and the sale of Catherine Place	**31.0**	Invested in cash funds and term accounts to generate returns until we need the funds to cover higher demand for member benefits and other payments in 2021
Total investment fund	**130.3**	

Provision for outstanding member benefits

One of the significant liabilities in the statement of financial position is the provision for member benefits. This reflects the estimated outstanding cost for member benefits approved, or pending approval, but not yet fully paid. This has increased by £9.8m to £23.4m (2019: £13.6m). Some services provided by our hospital and clinical network were limited because of government COVID-19 restrictions after the first lockdown. So although we've approved service packs, the service itself and the billing for the work are delayed. Since hospital restrictions have eased, suppliers are gradually catching up with the backlog of work.

We expect this will take some time to return to normal, given the continuing uncertainty over government lockdown arrangements and members' willingness to ask for treatment. The Society's cash balances have increased and the short-term benefit is part of the increased funds we now hold in investments. The cash we've retained because of slower payments for services is matched by the higher provision we've set aside to pay for outstanding member benefits.

The impacts of COVID-19 and related government-directed lockdowns have resulted in significant changes in member activity and some delays when certain clinical and medical services were delivered in 2020. In addition, in order to provide members with the flexibility to overcome concerns with COVID-19 on their safety and to reflect possible delays in securing services as all healthcare providers deal with some backlogs, the Society has extended the period for which members can take up their benefits. This has increased from the normal six month period from approval to a much longer period of between 18 to 30 months ending on 30 June 2022. These issues have combined to delay member benefit development with some erratic patterns compared to past experience. This means our usual methods of estimating the level of outstanding member benefits are less reliable due to the longer and later development of costs compared to the consistent short-tail development patterns of all prior years. The Society is also meeting the incremental costs of COVID-19 tests that are required before certain treatments and some diagnostic services can be delivered.

We've considered different scenarios that could influence how the outstanding member benefits will develop before the costs mature and are settled over the extended take up period. Given this uncertainty, we've applied judgement based on prior year member benefits data and applied some increases in take-up rate and average cost to reflect the extended period for members to fully take-up their benefits. This is a prudent approach to maintaining the provision and it will take longer than usual for the final costs of 2020 to be known with complete certainty. The work on our scenarios indicate that the ultimate cost of the 2020 member benefits could develop favourably by up to £3.2m or adversely by up to £4.2m, depending on how the number and severity of member benefits finally settle.

Further detail is provided in the Key accounting estimates and assumptions on page 157-158 and within the Provisions note 18 on page 177 of the Financial Statements.

Pension scheme deficit and action taken

The value of the defined benefit pension scheme deficit, which was closed to future accrual in 2018, fluctuates and the scheme actuary revalues it quarterly. In 2020 the deficit increased to £47.3m (2019: £44.2m). This is because the estimated value of the liabilities increased by more than the gain in the scheme's assets.

We've discussed the funding level of the deficit with the scheme trustees and agreed extra deficit repair contributions. This includes a single contribution of £7.5m paid by 31 March 2021 and an increase to the regular monthly contributions, which will rise from £2.0m to £3.0m a year from 1 April 2021. This will make a meaningful difference to the funding level of the scheme, and we expect it to reduce the deficit over a period of time that's acceptable to the trustees and the employers. The group will review the funding again with the scheme trustees in 2022.

Capital

The Society and its regulated subsidiary aim to maintain enough capital, consistent with the group's risk profile and regulations. The Group Risk Committee monitors the capital position on a quarterly basis, and it stayed at adequate levels of capital surplus throughout the year.

The Society maintains its best-practice approach to monitoring its capital requirement based on the Solvency II regime for insurance companies. This is designed to make sure organisations can survive a one-in-200-year risk event.

The solvency capital requirement at December 2020 was £83.9m (2019: £77.5m). The Society's net assets were 149% of this, which gives us a substantial capital buffer to absorb adverse market conditions or other major capital shocks.

Benenden Wellbeing Limited is subject to FCA-regulated minimum capital requirements, which were met throughout 2020.

Cashflow

The group's cash position has improved by £7.8m in the year, to reach £17.7m (2019: £9.9m). This is after making transfers of £31m into the investment fund.

Cashflow category	2020 £m	2019 £m
Net cashflows generated from operating activities	40.7	(0.1)
Net cashflows from investing activities	3.9	(2.5)
Funds transferred to investment fund	(31.0)	-
Net cashflows used in financing activities	(5.8)	-
Net increase/(decrease) in cash and equivalents	**7.8**	**(2.6)**
Closing cash and cash equivalents	17.7	9.9

The operating cash generated mostly reflects the operating surplus for 2020, together with the £9.8m increase in the member benefits provision. Net cash generated from investment activities reflect the proceeds from the sale of Catherine Place of £6.7m and other investment income of £0.4m offset by capital expenditure of £3.2m. We invested surplus cash funds of £31.0m and paid another £5.8m to reduce the hospital redevelopment loan.

In response to COVID-19 during 2020, we spent £0.2m on additional IT equipment to enable remote working as well as changes to office configuration and screening to provide appropriate social distance and protection for office working.

Key group statistics		
Members	DOWN	0.3%
Member contributions	UP	11.1%
Group income	UP	11.3%
Member benefits	DOWN	13.3%
Total expenditure	DOWN	1.7%
Member funds	UP	15%

Risk Management Report

For the UK, 2020 has been a challenging year, fraught with uncertainty due to the COVID-19 pandemic and whether or not the government would agree a post-Brexit trade deal.

Having an effective risk management framework has helped us make better decisions about how we deliver our strategy and make the most of our members' funds.

This report sets out the Society's approach to risk management, what action we've taken to improve the control environment and the key risks the group is exposed to.

Our approach to risk management

The Society has established a culture where everyone is conscious of risk and their role in controlling it. This in turn reduces the chances of us overlooking risks.

The risk management framework has seven key elements that together create robust mechanisms to make sure we understand what could go wrong, and the impact it would have on our strategy and members.

It also allows us to identify adverse trends and monitor the effectiveness of controls so that we can continuously improve. We summarise the key elements on pages 62-69.

Risk Management Framework

The Board is ultimately responsible for setting the risk appetite and making sure we mitigate risks to the group's business model and strategy as far as possible. It delegates the oversight of risk management to the Group Risk Committee (GRC), which oversees the risk management framework and monitors its effectiveness, as well as the overall control environment.

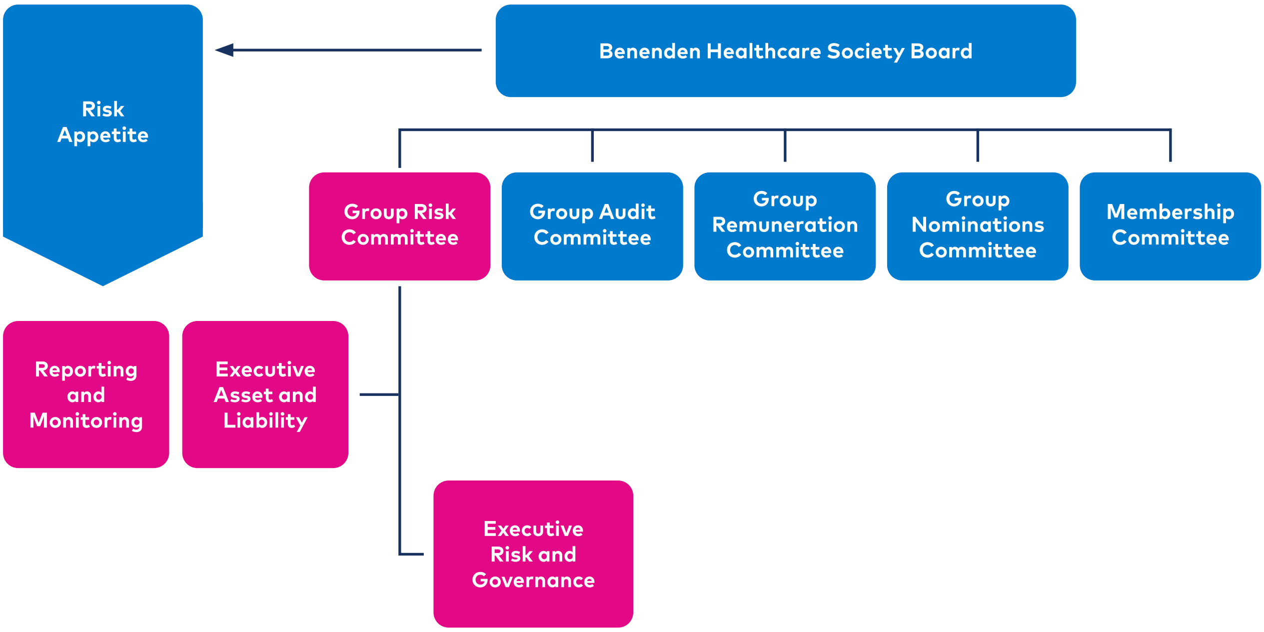
While the Board generally takes a prudent approach to risk management, it recognises that things do go wrong from time to time, and accepts that we need to take some risks to be able to grow. The risk management framework is designed to give a clear view of our risks and make sure we're not exposed to them unnecessarily. This means that if risk becomes reality, we reduce the impact.

We've also incorporated the impact of climate change and the move to a greener economy into the risk framework. We're starting to measure the environmental impact of our business so we can set targets for reducing our carbon emissions and waste, and the amount of water we use.

All colleagues are responsible for managing risks so we can carry on improving our controls and giving our members a great service. Effective risk management makes for informed decision-making and helps us deliver on our business objectives.

Risk governance

This diagram sums up our risk governance arrangements:



The Board is ultimately responsible for managing risk and approving the risk appetite statements, but delegates much of the oversight of risk to the GRC.

The Group Risk Committee (GRC) is responsible for advising the Board on risk management strategy, current and potential risk exposure and defining the risk appetite. The committee operates within a term of reference which is reviewed annually and includes oversight of:

- Compliance with the group risk management policy
- Effectiveness of risk management for all the group's entities
- Capital management strategy – making sure the Society maintains a healthy capital position
- Management of Society assets and liabilities – protecting member funds for the long-term benefits of members

The GRC works closely with the **Group Audit Committee (GAC).** The Chair of the GAC is a member of the GRC and the GRC Chair attends the GAC. The committees oversee risk management by reviewing risk reports to assess how we're managing risks or risk events, reviewing the effectiveness of the control environment and tracking performance against the agreed risk appetite statements.

These non-executive directors were members of the GRC during 2020:

- Ian Blanchard (Chairman)
- Mike Bury
- Andy Tucker (until September)
- Angela Hayes (until September)
- David Fletcher (from October)
- Brian Eaton (from October)

Members of the Executive also attend GRC meetings, including the CEO, CFO, CRO and Benenden Hospital Director.

For details of members' backgrounds, see pages 72-77.

The GRC met four times in 2020. Its key activities included:

- Reviewing actions to mitigate the impact of COVID-19 on the group
- Overseeing the capital management strategy and recommending cash investments to the Board
- Enhancing the risk appetite statement and recommending it to the Board
- Overseeing the sale of Catherine Place (London) and recommending that the Board agree to sell part of the derelict estate in Kent
- Reviewing the pension scheme deficit position and recommending a revised pension deficit recovery plan to the Board for pension trustees' approval
- Agreeing to develop an environmental, social and governance (ESG) strategy for the Society, which will include setting targets for reducing carbon emissions

All meetings were attended (as appropriate) by GRC members and relevant executive directors.

The Executive Risk and Governance Committee (ERGC) is responsible for overseeing day-to-day risk management. This includes, among other things, reviewing the effectiveness of the group's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions, and to approve or endorse risk acceptance within defined levels. This committee reports to the GRC.

The Executive Asset and Liability Committee is responsible for overseeing the day-to-day investment and property portfolio strategy, including buying and selling investments in line with the Delegated Authority Limits. It also makes recommendations to the GRC and Board for decisions falling outside of the Delegated Authority Limits. The committee reports to the GRC.

Risk appetite

The Board risk appetite is a series of statements setting out the amount of risk that the Board is prepared to accept to deliver its strategy. We've designed the statements to:

- Reflect the Board's focus on maintaining the long-term sustainability of the Society and delivering value for members
- Articulate the amount of risk we're willing to take to deliver our strategic objectives
- Discharge our corporate governance responsibilities
- Articulate how we strike a balance between taking risks and exercising control

The Board reviewed and updated the risk appetite statement in December 2020. The result was a series of quantitative and qualitative risk appetite statements covering these broad categories:

- Financial and markets
- Operational and technology
- Strategic and stakeholders
- Legal and regulatory

The statements include a set of operating parameters for managing risks. We've also developed forward and backward-looking key risk indicators to monitor the risk profile of the business and drive risk-based decisions. Where we see that a risk falls outside the risk appetite, we implement risk treatment strategies, monitored by the GRC.

Risk management process

We operate an enterprise risk management framework, supported by a policy framework with clearly articulated minimum standards for operating effective risk management and a robust control environment.

The risk management process lets the Society constantly review its risk profile so we understand what could go wrong and how effective our controls are, and can take action to mitigate the risks where we need to.

We've created a risk universe to capture all the different types of risks that the Society is exposed to. There are sub-categories for each of the four broad risk categories to make sure we identify all financial, non-financial and conduct-related risks. We use a software system to capture, assess and monitor risks, and the effectiveness of risk controls. The system also facilitates reporting to management, the ERGC and the GRC, giving insight into the effectiveness of the risk management process.

Three lines of defence

The three lines of defence model is an integral part of our risk management framework.

First line – functions that own and manage risks. The Board delegates day-to-day risk management to the Chief Executive and to business managers through a system of delegated authorities and limits. Business managers and frontline colleagues are responsible for identifying events that have happened, or that might happen in the future. They make sure the right controls are in place to manage risks and that they're effective.

Second line – functions that oversee risks. The Chief Risk Officer oversees risk, supported by the Group Risk Management function. The Group Risk Management function is responsible for developing an appropriate risk management framework, monitoring the risk control improvement plans and reporting on the risk environment to the ERGC and the GRC.

Third line – functions that give independent assurance. We outsource our internal audit function to an independent professional services firm, who verify the adequacy and effectiveness of our internal risk and control management systems. The internal auditors are supervised and challenged by the GAC.

Risk control self-assessment

We operate a self-assessment programme to test the effectiveness of our controls. The first line is responsible for completing the assessments and taking action where necessary. This builds a culture of continuous process improvement and helps each area of the business properly define their risks and understand the control environment. The second line is responsible for defining the risk control self-assessment process and overseeing first line outputs and reporting.

Training

We hold risk workshops with management and the GRC to keep a consistent standard for identifying and managing risk that enables wider engagement across the business.

Management information and reporting

We extract data from the risk management system about managed or active risks, risk events and effectiveness of controls. The risk team, overseen by the Chief Risk Officer, analyse the data and report their findings to the ERGC and the GRC. The Chair of the GRC or the Chief Risk Officer report any material issues to the Board.

Key risks and uncertainties

This table summarises the key risks the group faces.

Key risks	Risk management and mitigation plans	Change from 2019
Investment markets – pension deficit Risk that adverse market conditions increase the group's defined benefit pension scheme deficit.	The pension deficit increased in 2020 because of falling bond yields. The Society is funding the pension deficit through a one-off payment and regular contributions, and is in line with the agreed deficit recovery plan. Also, the pension deficit is hedged through investments in a deposit and bond fund. So as the deficit increases, the value of the Society investments increases to offset the situation and protect member funds.	**Stable**
Investment markets – member funds Risk that adverse market conditions could lower the value of member funds and leave the group with less capital.	We implemented a new investment strategy in 2019 to preserve capital and give above-inflation returns through a diversified investment portfolio. While this has worked for us and the investment portfolio has performed well, we've revalued our property portfolio and its value has fallen by £11.2m. We'll continue to monitor the situation, given ongoing global economic uncertainty.	**Stable**
Member benefits Risk that the cost of claims is more than the contributions we get from members, and that we have less capital.	The cost of member benefits fell by £11.8m compared to 2019 as a direct result of the pandemic. While member benefits reduced in 2020 compared to 2019, we anticipate that they'll materially increase when COVID-19 restrictions ease and normality returns. There will also be more demand for our services as a result of pressures on the NHS as it struggles to tackle growing waiting lists. The pandemic is creating an unprecedented level of uncertainty. We continue to analyse claims to understand any adverse trends and assess what action we need to take, if any, to manage them more effectively and produce the best outcomes for members. We also regularly review our service providers' member benefits performance and whether there are any opportunities to boost efficiency.	**Unstable**
Critical outsourcing failure Risk of losing member services and suffering reputational damage if a critical supplier either fails to deliver the agreed service to the right standard or goes out of business.	Critical suppliers are subject to initial and ongoing due diligence to assess their financial position and understand their processes and controls. They're also subject to relationship management to monitor performance against the contract terms. Critical suppliers have also been subject to additional monitoring to understand the impact of COVID-19 on their financial and operational performance. No suppliers have failed as a result of the pandemic. Bupa provide the diagnostics and treatment services for members outside the Benenden Hospital catchment area.	**Stable**

Key risks	Risk management and mitigation plans	Change from 2019
Information technology Risk that the IT infrastructure can't support our strategic objectives.	We constantly review and update our technology base to make sure it's fit for purpose and right for the Society's needs. In 2020, we've: • Progressed as planned on replacing the SMS member benefit system with technology that precisely matches our needs • Continued to move to cloud-based technology wherever we need to, with a plan in place for more improvements • Carried out a major technology upgrade to extend the life of the Phoenix membership maintenance platform by a minimum of three years • Completed migration of all reporting platforms to third-party data centres. We've also started the second phase of migration to the Azure Cloud. We're working to identify the long-term replacement for Phoenix in 2021.	**Improving**
Cyber security Risk of a material incident that means we lose data, or a ransomware attack.	To protect against the increased risk of cyber threats, we encrypt data we store. We've upgraded web and perimeter firewalls, and enhanced active threat-monitoring tools and capabilities. We've implemented a new security information and event management (SIEM) platform which provides constant security monitoring and threat response by an external cyber security partner. We renewed our government Cyber Essentials Plus accreditation despite the enhanced threat from COVID-19 lockdown and extensive remote working. Cyber security is also subject to internal audit.	**Improving**
Change delivery Risk that we can't deliver on our business plan or strategic objectives because we lose key colleagues or don't have the capacity to deliver change programmes.	We review our resources regularly to spot pressure points, and we assess our activities to make sure our priorities are right. As a result of the pandemic, most of our colleagues have been working from home since March 2020. We've offered extra support to maintain colleague welfare and engagement, and we continue to the monitor the situation.	**Stable**
Business strategy Risk that we incur losses by having the wrong business strategy and/or objectives.	The Board agrees our strategy and business plan in line with the risk appetite statement. We monitor performance against the business plan through the year. Data analytics gives us evidenced-based insight into business performance and factors which could lead to adverse trends. The processes for developing the business strategy and financial planning are subject to internal audit.	**Stable**
Regulatory challenge Risk of regulatory scrutiny because of systemic regulatory breaches or widespread customer detriment resulting in regulatory censure or fines.	We have systems and controls to keep us compliant with regulations, make sure our risk management processes and controls are effective, and to identify adverse trends. We've implemented conduct risk metrics to monitor the Society's key conduct risks and give assurance that outcomes for members are fair. All employees complete conduct risk and regulatory training as part of their induction, and then once a year.	**Stable**

Key risks and uncertainties (Continued)

Key risks	Risk management and mitigation plans	Change from 2019
Climate change Risk that the changing climate and increase in extreme weather events has a financial impact on our business.	We're assessing the risks associated with climate change to understand the impact on our business. We're monitoring both changes in policy and in what members and consumers want and expect. We're also monitoring how technologies develop as we transition to a greener economy. We're developing an environmental, social and governance (ESG) strategy, which will include targets for reducing carbon emissions, a key driver of climate change. We have business continuity plans to prepare us for any extreme weather events. When investing and managing member funds, we and our professional advisers consider underlying investments and asset allocations to mitigate the transition risks associated with moving to a cleaner, greener economy. We're also developing our processes for supplier onboarding and management to understand how they're responding to climate change and what they're doing to mitigate its risks. We're insured against loss or damage to our property from extreme weather, and we also have business interruption insurance.	**Stable** ⟷
Brexit Risk that Brexit will have a financial or operational impact on our business.	We're monitoring our supply chain to understand any extra costs passed on to us by suppliers because they do business in the EU. Leaving the EU means the UK needs to satisfy the European Commission that it has a level of data protection that is equivalent to that provided within the EU. This is known as the adequacy decision and a draft decision is currently awaiting approval. While we anticipate that the adequacy decision will be approved, we'll amend our supplier contracts in the unlikely event that this doesn't happen. This will ensure that any of our suppliers transferring personal data between the EU and UK will be able to carry on without interruption to services.	**Stable** ⟷
Democratic structure Risk that we can't be agile in delivering our strategy because of constitutional constraints.	As our Branches represent members and vote on rule changes and motions at Conference, we regularly engage with them to share information about our performance, the challenges we face and our strategic plans. We're also supporting a Branch working group looking for ways to modernise the democratic structure so that more of our members have a say in the organisation.	**NEW**

Impact of coronavirus (COVID-19)

The COVID-19 crisis continues to create a high level of uncertainty that affects not just members' demand for services, but also how we operate and engage with all our stakeholders. Virtual meetings now dominate our lives and have become the norm, along with working remotely. Adjusting to this new way of working has been challenging for some of our stakeholders, but we've worked with them to make it a success.

Our key priorities have been to maintain services for our members, and support our people. For members, we've maintained service standards and enhanced our healthcare product by adding online support for physiotherapy, mental health and wellbeing, as well as introducing online fitness classes through our partner Vita Health. For our people, we've invested in a COVID-19-secure working environment, and provided help and initiatives to support their mental health and wellbeing.

While there are challenges with the new working environment, like increasing cyber threats and having to rely on variable broadband speeds, there are also benefits. We're travelling less, so our carbon emissions are down, and we have more opportunities to engage with more stakeholders.

Emerging risks

COVID-19

We're unlikely to understand the full impact of COVID-19 for some time, but it's clear that unemployment is increasing, and the UK economy is in recession. The NHS is under enormous pressure, with waiting times for routine operations increasing throughout the pandemic. Demand for our services is likely to increase as the COVID-19 vaccine is rolled out and life returns to some form of normality, and this could last for a number of years.

Costs may also increase if social distancing measures result in diagnosis and treatment services being less efficient than before the pandemic. There could also be additional pressures on the supply chain because of the economic environment, resulting in some parts of our supply chain merging with other businesses, or failing.

Attendance at meetings

The record of attendance at Board and major Board Committee meetings during the year ended 31 December 2020 is stated in the table below:

Name	Board		Group Audit		Group Risk		Group Remuneration		Group Nominations		Membership	
	Called to	Attended	Called to	Attended	Called to	Attended	Called to	Attended	Called to	Attended	Called to	Attended
Bob Andrews	10	10	-	-	-	-	-	-	4	4	-	-
Gwenda Binks MBE (to 23/09/2020)	8	8	-	-	-	-	3	3	-	-	-	-
Ian Blanchard	10	9	3	3	4	4	-	-	-	-	-	-
Mike Bury[1]	10	6	6	5	4	3	-	-	-	-	-	-
Helen Chamberlain	10	10	-	-	-	-	-	-	-	-	-	-
Paula Clark	10	10	-	-	-	-	4	4	-	-	-	-
Brian Eaton (from 23/09/2020)	2	2	-	-	1	1	-	-	-	-	1	1
David Fletcher (from 23/09/2020)	2	2	2	2	1	1	-	-	-	-	-	-
Louise Fowler	10	10	6	5	-	-	-	-	-	-	5	5
David Furniss	10	10	-	-	-	-	4	4	4	4	-	-
Angela Hays	10	10	4	4	3	3	-	-	-	-	-	-
Ken Hesketh	10	9	-	-	-	-	1	1	-	-	5	5
Adrian Humphreys	10	10	-	-	-	-	-	-	4	4	-	-
Deryck Lewis	10	10	-	-	-	-	-	-	4	4	5	5
Les Philpott	10	10	6	6	-	-	4	4	-	-	-	-
Andy Tucker[1] (to 23/09/2020)	8	6	-	-	3	2	-	-	-	-	4	2

Attendance is recorded in terms of numbers of meetings. Therefore, a meeting taking place over multiple days has been recorded as one meeting. Some members of the Board of Directors are also directors of the Society's subsidiary companies and controlled bodies. Attendance at meetings of active subsidiary Board meetings (The Benenden Hospital Trust, The Benenden Charitable Trust and Benenden Wellbeing Limited) is included in the annual report of each company.

[1] Meetings missed due to a period of ill-health.

Senior Management – Society Executive

The Society Executive (SE) focuses on delivery of the Society's business plan and corporate strategy (including HR strategy, corporate services, regulatory liaison, commissioning and funding) and comprises the Chief Executive Officer (CEO) and the CEO's direct reports. The IT Director also attends all SE meetings. At 31 December 2020, SE members were:

Chief Executive Officer
Bob Andrews*

Chief Financial Officer
Helen Chamberlain*

Chief Operating Officer
Andrew Barker

Chief Risk Officer
Stella Croot*

Group Business Development & Commercial Officer
Andy Wiggans*

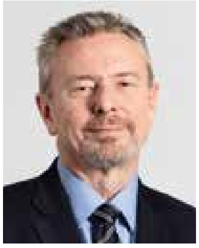
Chief Nurse and Hospital Director
Jane Abbot

Group IT Director
Mike Cowling

*Members of Benenden Wellbeing Board.

Board Biographies

(As at 31 December 2020)



David Furniss
Board-nominated, Chairman

N CH | R

Board involvement:
Elected to the Board in June 2017 and Board Chairman since July 2017.

Business skills:
Experienced Group CEO with excellent leadership skills, strong analytical skills, with a pragmatic approach to strategic positioning and problem solving, sound commercial judgement underpinned by a strong mutual ethos.

Background and experience:
A Chartered Insurer and Member of the Chartered Institute of Marketing, and a director with over 37 years' experience of regulated Financial Services, 34 years of which have been in the mutual and friendly society sector. Wide experience of corporate governance issues and current regulatory compliance experience. David is a non-executive director of Bournemouth University, chairing the Finance & Resources Committee and a member of the Remuneration and Nominations Committees and is also a non-executive director and Chairman Designate of The Ancient Order of Foresters Friendly Society Limited.

Committee/Board membership:
Nom (Chair), Rem

Bob Andrews
Executive – Chief Executive Officer

BH | N | W

Board involvement:
Appointed in December 2017, co-opted to the Board January 2018 and elected to the Board in June 2018.

Business skills:
A wealth of experience at main Board level, having held senior roles in financial services. Also experience of leading businesses and large operational, support and customer-focused teams.

Background and experience:
Over 30 years in financial services operating at senior levels, most recently as CEO at Capital Home Loans and Landmark Mortgages Ltd. Previous roles include Chief Operating Officer at HML (part of Skipton Building Society) and senior operational roles with NatWest Bank and Direct Line Group.

Committee/Board membership:
BH, Nom, Wellbeing

Ian Blanchard
Board-nominated

GR CH

Board involvement:
Co-opted to the Board in February 2018 and elected in June 2018.

Business skills:
An experienced Chief Financial Officer and a Fellow of the Institute & Faculty of Actuaries with wide experience of risk management, investment strategies and mergers and acquisitions.

Background and experience:
Over 40 years' experience in regulated financial services, much of it in the mutual and friendly society sector. An independent non-executive member of the With Profits Committee and the RNPFN Supervisory Board of Liverpool Victoria Financial Services Limited.

Committee/Board membership:
GRC (Chair)

Mike Bury
Board-nominated

GA CH | GR

Board involvement:
Appointed and co-opted to the Board in November 2017 and elected in June 2018.

Business skills:
Considerable experience of partnerships between businesses, many of which have been mutual organisations. A charity volunteer (principally with the Prince's Trust) where he uses his skills to train and mentor young people setting up their own businesses.

Background and experience:
A Chartered Treasurer and Chartered Accountant, with 30 years' experience as Chairman, Chief Executive or Chief Financial Officer of banks, insurance companies and investment companies in the UK, Ireland and New Zealand. Mike is currently serving as a director for the Royal Voluntary Service and Market Harborough Building Society, the latter as Chairman of the Board.

Committee/Board membership:
GAC (Chair), GRC

Helen Chamberlain
Executive – Chief Financial Officer

W

Board involvement:
Co-opted to the Board in November 2017 and elected in June 2018.

Business skills:
Experienced CFO, leading on business strategy, transformation and assurance programmes. Sensible pragmatic approach to problem solving, good communicator.

Background and experience:
A Chartered Accountant with a wealth of senior finance experience predominantly gained in large financial services organisations. Helen has also led large teams through extensive operational and regulatory change. Previously Finance Director for a regulated legal services organisation.

Committee/Board membership:
Wellbeing

Paula Clark
Board-nominated

B CH | R | BH

Board involvement:
Elected to the Board in June 2019.

Business skills:
Strategic planning, Corporate and Clinical Governance, NHS Commissioning and Service Provision/Service Improvement.

Background and experience:
Over 20 years' experience in the NHS as CEO in both commissioning and challenging hospital settings. Having led turnarounds for three hospital trusts and with other key stakeholders and partners in health and care systems, she has an in-depth understanding of the workings of the NHS and policy.

Committee/Board membership:
BCT (Chair), Rem, BH

Brian Eaton
Branch-nominated

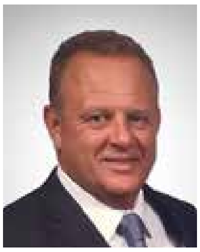
GR | M

Board involvement:
Elected to the Board in September 2020.

Business skills:
Brian holds an MBA and is a qualified teacher working in the University sector. He has a depth of understanding of leadership, improvement and governance, and an ability to scrutinize and challenge so as to influence policy formation.

Background and experience:
Currently working in University Business Schools in the UK and overseas. A trustee of Eden Special Multi-Academy Trust since 2018, with experience of Finance Committee, Audit Committee and Remuneration Committee. He has a special interest in South East Asia.
Previously FSA-approved with Royal Liver, Chair of Governors of James Rennie School and was for six years a member of the Children's Services Scrutiny Board of Cumbria County Council.

Committee/Board membership:
GRC, Mem



David Fletcher
Branch-nominated

GA | GR

Board involvement:
Elected to the Board in September 2020.

Business skills:
A qualified accountant and internal auditor with strong people and communication skills, a track record of leading and delivering change, implementing systems and also delivering large complex projects.

Background and experience:
Commencing in the health sector, qualified as a certified accountant and spent time with the National Audit Office, then held Senior Finance Manager roles: including ECGD and a member of the Valuation Office Agency Audit Committee. 10 years as Head of Local Taxation in Wales, carrying out the very sensitive council tax revaluation of 1.3 million homes. Senior Private Secretary for a Cabinet Minister and finally Head of Science at the Welsh Government. Previously Chair of St Martins High School for 8 years.

Committee/Board membership:
GAC, GRC

Louise Fowler
Board-nominated

GA | M

Board involvement:
Co-opted to the Board in December 2017 and subsequently elected in June 2018.

Business skills:
Leadership, strategy, marketing, digital transformation, sustainability and culture.

Background and experience:
More than 25 years' senior experience in consumer services, leading brands from First Direct and the Co-Operative Group to British Airways and Barclays. Sits on a number of boards across business, the arts and education. Owner of Davenport Strategy, advising clients on their strategic customer proposition.

Committee/Board membership:
GAC, Mem

Angela Hays
Branch-nominated & Vice-Chair

BH CH | W

Board involvement:
First elected to the Board in June 2017.

Business skills:
Experienced Senior Finance Leader. Strong commercial and strategic acumen, change management, transformation programmes, articulate communicator, relationship management of external advisors and third-party service providers, corporate governance.

Background and experience:
A Chartered Accountant with significant experience including external and internal audit supporting an extensive knowledge of controls and processes. Manage and develop successful teams for global organisations covering all areas of finance from tax and treasury to payroll. Operate in private and public environments across a broad range of sectors. Company Director.

Committee/Board membership:
BH (Chair), Wellbeing

Ken Hesketh
Branch-nominated

M CH | R

Board involvement:
First elected to the Board in June 2016.

Business skills:
Strategy development, change management, human resource management, clinical services management.

Background and experience:
Healthcare management, including hospital director, NHS Health Authority general manager, NHS Trust chief executive, Director of Hospital Management (private healthcare company), Chief Executive (Benenden Healthcare). Currently serving as a trustee of two charities.

Committee/Board membership:
Mem (Chair), Rem

Adrian Humphreys
Board-nominated

W CH | BH | N

Board involvement:
Co-opted to the Board in December 2017 and elected in June 2018.

Business skills:
Extensive knowledge of the health and insurance markets (particularly in the not-for-profit sector).

Background and experience:
17 years' experience in the not-for-profit healthcare insurance business, latterly as Managing Director of Corporate Business at WPA. A non-executive director of the Holloway Friendly Society, and chairman of their Investment Committee. Also a member of the trustee board of a charity.

Committee/Board membership:
Wellbeing (Chair), BH, Nom

Deryck Lewis
Branch-nominated

N | M | P CH

Board involvement:
First elected to the Board in June 2015.

Business skills:
Operations management, project planning and stakeholder management, leadership, risk management, performance management and data analysis using Continuous Improvement and Agile principles.

Background and experience:
19 years' Civil Service experience, leading large, medium and small teams to deliver organisational priorities and with over 10 years' experience in the use of Continuous Improvement tools. Working with internal and external stakeholders to deliver national projects and build capability in the organisation. Two years' experience with delivery partners in delivering an end-to-end recruitment process.

Committee/Board membership:
Nom, Mem, Lord Plant (Chair)

Les Philpott
Branch-nominated

R CH | GA

Board involvement:
First elected to the Board in June 2017.

Business skills:
Board director in executive and non-executive capacities: strategic, financial and change leadership across the public, private and voluntary sectors, including leadership of public health and safety regulatory bodies; corporate governance; audit, assurance and risk management.

Background and experience:
A Benenden Health member for more than 30 years, Les formerly held the role of Chief Executive of the Office for Nuclear Regulation and had previously held senior roles in the Health and Safety Executive. In addition to Benenden Health, his non-executive experience also includes being Chair of a commercial educational charity and NED roles in the NHS and central government.

Committee/Board membership:
Rem (Chair), GAC

Key for Committee membership / active subsidiary directorships

N Nom – Group Nominations Committee	R Rem – Group Remuneration Committee	GA GAC – Group Audit Committee	M Mem– Membership Committee	BH Benenden Hospital
GR GRC – Group Risk Committee	B BCT – Benenden Charitable Trust	W Benenden Wellbeing	CH Committee Chair	P Lord Plant

Board Timeline

Activity	Jan	Feb	March	April	May
Board Meeting	15th London	26th York		8th Virtual	5th Virtual
Board Committees	w/c 20th York (5)	w/c 3rd York (5)		w/c 21st (4) w/c 27th (1) Virtual	
Conference (inc Board elections)					
Board Strategic Seminar					
Training/ Briefing			Quarterly e-learning due		
Board/Board Committee Effectiveness exercise		Board Committee Effectiveness Exercise			

(-) Number of Board Committee meetings that happened in that week

June	July	August	Sept	Oct	Nov	Dec
4th Virtual	**9th** Virtual	**12th** Virtual	**10th** Virtual	**15th** Virtual		**2nd** Virtual
w/c 1st (1) Virtual	**w/c 27th** (3) Virtual	**w/c 3rd** (2) Virtual			**w/c 9th** (5) Virtual	**w/c 7th** (2) Virtual
			23rd Virtual			
				13th - 15th Virtual		
Quarterly e-learning due			**Quarterly e-learning due** **10th** NHS, CQC and Wider Healthcare Market (Virtual)	**13th** Public & Private Healthcare in North-ern Ireland (Virtual)		**Quarterly e-learning due** **2nd** Conduct & Culture (Virtual)
→			**Board Committee Effectiveness Exercise**	→	→	→

The Board's Report 2020

Electing new Board members

The Society's Board comprises six Board-nominated non-executives, six Branch-nominated non-executives and two executive members.

Board-nominated non-executive Board members aren't Society members and are nominated by the Board for election. The other six non-executive Board members are Society members nominated by our Branches.

At our 2020 Conference – held virtually for the first time because of the COVID-19 pandemic – Andy Tucker (Branch-nominated non-executive Board member) stood down. Andy was a valued member of the Board having first been elected in 2016. Two other Branch-nominated non-executive Board members (Gwenda Binks and Ken Hesketh) stood for re-election because they'd reached the age of 70, in line with the Friendly Societies Act 1992.

Ken Hesketh was re-elected on that basis, with the Board's full support documented in the Conference agenda papers. Gwenda Binks wasn't re-elected. Having been elected to the Board in 2013, Gwenda served as Chairwoman from 2016-2017 and latterly as Chairwoman of the Board of Governors at Benenden Hospital. The Board welcomed two new Branch-nominated non-executive members, Brian Eaton and David Fletcher.

The names and biographies of Board members at the end of 2020 are on pages 72-77.

Accounting as a going concern

The Board has assessed the Society's financial position, net assets and prospects, as well as its strategy and the potential impact of risks and uncertainties. Based on this, the Board is confident that we have the financial resources to carry on operating for the foreseeable future, or at least 12 months from the date of this report. For this reason, the Board continues to adopt the going-concern basis in preparing the accounts. Further information on going concern is provided in note 2b of the financial statements on page 150.

Longer-term viability

The Board has reviewed the Society's future cash requirements, earnings projections and capital projections. The Board believes these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. Following the emergence of the COVID-19 pandemic in the past year, the Board continue to undertake further reviews to assess the financial and operational impacts of COVID-19 up to the date of approval of the financial statements.

The actions in this review include:

- The operation of a risk management framework and business continuity plan to support the ongoing provision of core in-house services
- Frequent monitoring of the company's key suppliers who are critical in terms of the delivery of ongoing services to members, including The Benenden Hospital Trust
- Daily monitoring of the investment fund and working capital of the Society
- The completion of the 2021–2025 budget and forecast, together with stress testing covering several severe scenarios

The Board has concluded that the Society will be able to operate without requiring additional external funding and has a reasonable expectation that the Society will remain viable and able to meet its liabilities over the five years to 31 December 2025.

Charitable and political donations

In 2020, the Society made a donation of £50k to the Royal Brompton & Harefield Hospital Charity to fund research into treatments for COVID-19. A further £8.4k was contributed in funding awards to local charities through our Benenden Health Community Fund (2019: £8k).

Combatting modern slavery

We know slavery, servitude, forced labour and human trafficking (modern slavery) is a growing global issue that no sector or economic area can consider itself immune from. We won't tolerate modern slavery of any kind in our business and supply chain. We'll also take seriously any allegations about human rights being abused.

In our key contracts, we demand that suppliers:

- Comply with the Modern Slavery Act
- Run regular modern slavery risk assessments of their own supply chains
- Bring in controls to prevent modern slavery
- Tell us immediately if they find any modern slavery in their supply chains

If suppliers break these obligations, we could end their contracts.

We don't use forced, bonded or compulsory labour: all our people are free to leave their jobs after giving notice. We don't ask our people to deposit money or identity papers before we employ them.

We've developed an e-learning package to raise awareness of the issues involved in modern slavery, and our legal responsibilities. New starters complete this, and so do all colleagues as an annual refresher.

Supporting the community

In spite of national lockdowns hindering some of our community initiatives, we've still supported our local community through partnerships in our home city of York through the Benenden Health Community Fund.

COVID-19 restrictions meant we couldn't take part in the highly popular 'Turn up and Do' challenges. But we worked with York Cares to create 'A day in the life of' videos for school children as part of their career-planning guidance. In these videos, our people talked about their jobs, any training and experience they needed, and what a normal day looks like for them. This work earned a Golden Moments Award from York Cares, and we continue to be proud of the work we do in this partnership.

At Christmas, our people took part in two festive charity activities. At our annual winter event, which went virtual for the first time, they donned festive jumpers, dressed up and donated to Save the Children on Christmas Jumper Day, raising the highest fundraising total for this charity day.

Our people also donated Christmas gifts to Refugee Action York, who work with refugees, asylum seekers and migrants in and around York. They provide a safe meeting point to get information and support, learn new skills and languages, and form lasting friendships.

Through the Benenden Health Community Fund, we gave funding awards to local charities and project groups in the York area, supporting initiatives to help our community. These included counselling sessions, wellbeing groups, at-home activity projects for blind and partially-sighted children, and setting up a forest school. These projects will happen throughout 2021 and we look forward to finding out more about the positive impact our Fund has had on our community.

Through our sponsorship of York City Football Club Foundation, we supported their Sporting Memories group, creating a community of support with participants, many of whom were shielding. These sessions maintained social connections for the group and supported their wellbeing during the pandemic.

Earning recognition

We were delighted to be shortlisted for awards at the prestigious CIPD People Management Awards and the Personnel Today Awards, for Health and Wellbeing, and Employee Experience respectively. Although we didn't take home the top prizes, to be nationally recognised by these schemes is a great tribute for us.

Our people

Throughout national lockdowns we've kept focusing on our people's wellbeing. We adapted our health and wellbeing strategy, 'Working Well, Living Better', with renewed emphasis on mental wellbeing, recognising the challenges the pandemic has created for our people, and working on initiatives to support them.

We've continued to offer training and development opportunities through the year, including an online career hub with resources and tools for everyone.

We also still offer regular opportunities for our people to give us feedback, either through formal surveys or meetings with our leadership team. This gives us the insights we need to keep improving our organisation and make sure we're an employer that our people are proud to work for.

Insuring our officers

The Society has officers' liability insurance to cover officers when they're carrying out their duties.

Principal activity

We aim to give our members affordable healthcare services on a discretionary and non-discretionary basis, in a spirit of mutuality.

Disclosing information to our auditor

The Board in office when this report was approved confirms that, as far as it knows, there's no relevant audit information that our auditor doesn't know about. The Board also confirms that each of its members has done all they can to make themselves aware of any relevant audit information and to make sure the Society's auditor knows about it too.

Taxation

As a Society, we're not liable for corporation tax, income tax or capital gains tax. Our subsidiary companies might not all be eligible for the same tax exemptions as the Society.

Regulated status

We're authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

We're a non-directive friendly society. That is, we're a friendly society restricted to providing benefits which vary according to the resources we have available, and where members contribute on a flat-rate basis.

We're classed as a 'small NDF' (non-directive firm) and we fall outside the scope of Solvency II because we carry out 'Solvency II excluded operations'. In other words, we're a mutual whose insurance business is restricted to providing benefits which vary according to the resources available, and in which members' contributions are determined on a flat-rate basis.

Solvency and actuarial valuation

Although we're subject to Prudential requirements, as a friendly society conducting flat-rate benefits business, we don't have to maintain a margin of solvency or carry out an actuarial valuation. But we recognise the importance of having a robust capital management strategy, so we monitor our capital position based on Solvency II methodology.

Benenden Healthcare pension plan

The assets and management of the Benenden Healthcare pension plans are totally separate from the Society's assets and management.

Pension plan assets are invested through independent fund managers. To comply with pension regulations, pension scheme members nominate at least one third of the pension plan trustees.

The defined benefit section of the pension plan closed to new accruals on 31 December 2018. Active members of the scheme were enrolled into the defined contribution section of the plan from 1 January 2019.

Subsidiary companies and controlled bodies

The Society directly controls:

- Benenden Wellbeing Limited: a wholly owned subsidiary company limited by shares, and authorised and regulated by the Financial Conduct Authority
- The Benenden Charitable Trust: a registered charity and a company limited by guarantee
- The Benenden Hospital Trust: a registered charity and a company limited by guarantee
- The Friendly Healthcare Organisation Limited: a wholly owned subsidiary company limited by shares. The subsidiary was dormant throughout 2020
- Best Health Limited: a wholly owned subsidiary company limited by shares. The subsidiary was dormant throughout 2020

Statement of the Board's responsibilities

The Board is responsible for preparing the Annual Report and financial statements in line with the applicable laws and regulations.

Friendly Society law says the Board must prepare financial statements for each financial year. Under that law, the Board has chosen to prepare financial statements in line with UK accounting standards and law (UK Generally Accepted Accounting Practice, or GAAP), including FRS 102, the financial reporting standard that applies in the UK and Republic of Ireland.

By law, financial statements have to give a true and fair view of the state of affairs at the end of the financial year, along with income and expenditure for the financial year. In preparing financial statements, the Board has to:

- Choose suitable accounting policies and apply them consistently
- Make reasonable and prudent judgements and estimates
- Say whether we've followed UK accounting standards, and say if we've departed from them, and why
- Prepare the financial statements on a going-concern basis, unless it's not appropriate to presume the organisation will stay in business

The Board is also responsible for:

- Keeping proper accounting records that disclose the organisation's financial position with reasonable accuracy. These records also let the Board make sure the Financial Statements comply with the Friendly Societies Act 1992 and its regulations
- Preparing a report in line with the Friendly Societies Act 1992 and its regulations
- Keeping the corporate and financial information on the Society's website up to date. UK laws on preparing and disseminating financial statements may be different from legislation elsewhere
- Doing anything reasonable to protect the Society's assets, and to prevent and detect fraud and other irregularities

In the spirit of good practice, the group is disclosing a section 172(1) statement although, as a friendly society, it doesn't have a legal requirement to do so. The statement requires company directors to describe how they've complied with their duties to promote the long-term success of the company under section 172 of the Companies Act.

The Directors recognise the best practice outlined in section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole and, in doing so, have regard to:

a. The likely consequences of any decision in the long term.	This is noted in the strategy section of the report, in particular, the capital reporting and the requirements to have capital coverage ratios in the range of 125–175% (see page 31 of the strategic report). Directors attend meetings with our active members to engage on the Society's strategic direction and understand member feedback on strategic decisions. During 2020, these meetings have been conducted virtually due to the COVID-19 pandemic.
b. The interests of the company employees.	See page 35 of the strategic report describing how we support our people. Directors spend time with our colleagues to develop knowledge of specific areas of the Society's operation and understand colleague feedback. Increased support has been offered to all employees through the COVID-19 pandemic to help protect their wellbeing through changed working practices. Through the Group Remuneration Committee, the Board has access to the outcomes of the Best Companies' questionnaire responses.
c. The need to foster the company's business relationships with suppliers, customers and others.	See page 33 for how we focus on strong partnerships, page 34 for how we attract and retain our members, and pages 102-107 for a description of our member engagement, including a timeline. Via regular reports from the CEO, Directors are kept updated on key supplier relationships. Progress with recruitment and retention are discussed at each Board meeting. Through the Membership Committee and member engagement events (held virtually during 2020), the Board is able to work closely with active members. The Board has developed a Stakeholder Map to enable it to further understand the impact of business decisions on the Society's stakeholders.
d. The impact of the company's operations on the community and environment.	See page 36 for an overview of how we manage our impact on the environment and how we support our community. Via regular reports from the CEO, Directors are kept updated on initiatives to support our community. The Board is mindful of the Society's impact on the environment and in particular climate change. The management of financial risks in relation to climate change is discussed by the Group Risk Committee.
e. The desirability of the company maintaining a reputation for maintaining high standards of business conduct.	This is noted in the corporate governance report on pages 90-105. The Board has set a strong values framework, promoting high standards of behaviour and a positive culture throughout the Society. The Board reviews the Society's performance against corporate governance best practice on an annual basis, including identifying areas for improvement.
f. The need to act fairly as between members of the company.	See the corporate governance report on pages 90-105. The Board considers conduct risk – the risk that firm behaviour will result in poor outcomes for consumers – as a central part of each item it discusses. In doing so, Directors demonstrate at all times their commitment to the avoidance of creating unfairness or detriment to our members.

The Board has decided to prepare a Directors' Remuneration Report in line with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the Society.

The Board has prepared its Corporate Governance Report against the requirements of the Association of Financial Mutuals' Corporate Governance Code, while also taking account of the requirements of other corporate governance codes and statements of best practice. More information about the Society's governance arrangements is in the Corporate Governance Report on pages 90-105.

We believe the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and give members the information they need to assess the Society's position and performance, business model and strategy.

For and on behalf of the Board

René Fraioli
Society Secretary

Corporate Governance Report

The Society's Board is committed to a high standard of corporate governance and, as a member of the Association of Financial Mutuals (AFM), complies with the AFM Corporate Governance Code.

The AFM asks members to show, in their annual reports, how they've applied the Code's six high-level principles and how that's contributed to improved corporate governance.

While the Board reports against the AFM Code's requirements, it also believes we can learn from governance codes in other sectors, and will continue to look at wider best practice. In particular, the Society's Board regards the requirements of the UK Corporate Governance Code as good practice, particularly where they aren't reflected in the AFM Code.

To demonstrate its commitment to good corporate governance, the Board asked for a benchmarking exercise in 2020 to consider where the Society could implement best-practice guidance from other sources. This highlighted the strength of the Co-Operative Governance Code's guidance on stakeholder engagement. So we've assessed our performance on stakeholder engagement against the Co-Operative Code's requirements. For more information on this, see the Member Engagement section on page 102-107.

AFM Corporate Governance Code: principles and supporting statements

Principle	Supporting statement
Purpose and leadership	An effective Board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.
Board composition	Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.
Director responsibilities	A Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.
Opportunity and risk	A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.
Remuneration	A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.
Stakeholder relationships and engagement	Directors should foster effective stakeholder relationships aligned with the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

This is the Board's report on how we've followed the AFM Code:

Purpose and leadership

How we apply the principle	This contributes to good governance because...
The Board holds a two-day strategic seminar each year.	The 2020 event (held virtually) gave the Board an opportunity to take time out from standard agenda items to focus on strategy, purpose and business model.
We have a strong values framework and work hard to make sure a positive culture pervades our Society.	Colleague pay awards are linked to both objectives and to acting in line with our values. 89% of colleagues achieved a bonus payment in 2020. We retained our two-star status in the 2020 Best Companies colleague survey and climbed to 16th position in the not-for-profit list in The Sunday Times 2020 Top 100, demonstrating that our people feel involved and engaged in the business. Our consequences framework means there are implications for colleagues, members, Branch officers and directors who behave in ways that aren't in line with our values or the regulatory code of conduct, or which might bring the Society into disrepute. This framework underlines how important a positive culture is to us.
We've continued to review our systems and controls to make sure we have a strong control framework. In 2020, we've worked on defining our risk appetite more tightly and on consolidating our policies and supporting procedures.	Keeping our policy framework, risk framework and procedures up to date leads to more transparency and accountability.

Board composition

How we apply the principle	This contributes to good governance because...
We continuously review the size and composition of our Board.	Having the right people, and the right number of people, around the boardroom table is key to effective decision-making. The Board continues to consider how appropriate its size and composition are, and had planned to put rule changes to our 2020 Conference. But it decided to delay those proposals to reduce the amount of business at what was a virtual Conference. The Board will propose these changes to a future Conference.
We appoint people to Board-nominated Board positions through open competition, using professional recruitment consultants.	This lets us consistently identify appropriate candidates for Board-nominated Board positions, which means we get the best blend of experience and skills for the Board. No Board-nominated Board positions became vacant in 2020.
We publish Board competencies and aim to help Branches identify appropriate candidates for Branch-nominated Board positions by telling them about the skills they'll need.	By doing this, and giving potential candidates as much information as possible about the role, we can make the most of the skills and experience of members who want to get involved in running our Society. We couldn't hold our usual seminar for potential Board candidates in 2020 because of COVID-19 restrictions.
We publish information to Branches about all candidates for election to the Board. As Branches couldn't meet candidates face-to-face this year, we held virtual 'Meet the Candidate' sessions for candidates to talk to Branch representatives and answer questions before the elections.	Giving our Branches as much information as possible about the candidates means they can make an informed decision when casting their votes.
Our Board members complete a skills-gap analysis.	This helps the Nominations Committee identify appropriate candidates for future Board-nominated Board positions, and lets the Board be clear with Branches about the skills we're looking for as they decide who to nominate for Branch-nominated Board positions. This leads to a Board with the appropriate skills to lead our Society.

How we apply the principle	This contributes to good governance because...
All directors are elected at the first AGM after their appointment and are subject to a two-year term, with a maximum tenure of eight years.	This makes sure our members have the opportunity to vote for all directors, and that we can refresh the Board progressively. To reduce the amount of business at our virtual 2020 Conference, the Board postponed proposing changes to our rules to introduce a three-year term of office and a maximum nine-year tenure, alongside a process of rotation. The Board intends to take this to a future Conference. It believes planned rotation will make the Board more stable by removing the risk of a whole Board being replaced in one election, while still allowing us to refresh Board membership continuously.
Succession planning is a priority for management continuity, so it's a regular item on the Nominations Committee agenda.	This supports our decision-making processes, allowing us to identify candidates for Board-nominated Board positions in good time to replace Board-nominated directors retiring under the eight-year maximum tenure.
Each Board member has an annual appraisal with the Chair.	It's important to us not just to recruit the right people for our Board, but to help them stay fit for the role. Our annual appraisal process lets each Board member work with the Chair to pinpoint their continuing professional development needs.
We evaluate the Board and its Committees once a year.	Action plans from each evaluation let us improve processes. We used the same questionnaire format for 2019 and 2020, which has let us compare results. Implementing action plans from Board evaluations helps make the Board more effective.

Board composition (continued)

How we apply the principle	This contributes to good governance because...
We held Board development sessions in 2020 and included group sessions on culture and conduct risk and the healthcare environment, as well as e-learning.	Along with regular compliance and governance updates, training like this helps with Board members' ongoing professional development by keeping their knowledge up to date and relevant.
We have a Board diversity policy. The proportion of women on our Board has fallen to 28%, slightly below the averages reported in the 2019 Hampton-Alexander Review (32.4%, FTSE 100 and 29.6%, FTSE 250). In our senior leadership roles below Board level, 40% are women. This exceeds the FTSE target of 33%, although it's fallen since 2019.	Board diversity encourages challenge, reducing the risk of 'group think'. We're very aware that gender balance has deteriorated at Board and senior management level, but we believe it's most important to have the right people in these posts, regardless of gender.

Director responsibilities

How we apply the principle	This contributes to good governance because...
We have corporate governance documents that we review annually, including a responsibilities map, a scheme of delegation, statements of responsibilities, conflicts of interest policy and processes, a Board handbook, and Board and Committee terms of reference.	Maintaining up-to-date documents keeps governance arrangements clear, especially around lines of accountability and responsibility. Each time we review these documents, we have the opportunity to think about whether they're still relevant or whether there might be better ways of doing things.
We have a balance of Board-nominated and Branch-nominated Board members and the Board Chair is one of our Board-nominated directors.	This makes sure there's independent challenge at Board and Board Committee meetings.
We have a standardised Board paper template.	We review the Board paper template regularly and last updated it at the end of 2020. The new and consistent format is helping the Board see quickly what's expected of it for each paper, and giving Board members the right balance of detail to make an informed decision.

Opportunity and risk

How we apply the principle	This contributes to good governance because...
We have an effective risk management framework.	We've done a significant amount of work to develop a mature and appropriate risk management system that both identifies emerging risks facing the Society and our stakeholders, and lets the Board make informed and robust decisions to: • Set the Society's risk appetite • Agree how to manage or mitigate the principal risks to make them less likely and/or reduce their impact • Establish clear internal and external communication channels to identify risk factors • Agree a monitoring and review process. For more information about our work to develop our risk management processes, see page 64.

Remuneration

How we apply the principle	This contributes to good governance because...
Our Remuneration Committee defines our remuneration strategy and oversees our gender-pay gap reporting.	Appropriate and fair levels of remuneration help us attract and retain high-quality directors and senior managers. We don't lose sight of our not-for-profit status, making sure we link remuneration to our strategy, values and long-term success. For more about our Remuneration Committee, see page 114 and also the directors' remuneration report on page 118. Our gender-pay gap report is available at www.benenden.co.uk

Stakeholder relationships and engagement

How we apply the principle	This contributes to good governance because...
We engage regularly and effectively with our principal stakeholders (our members, Branches and colleagues) in various ways. For more information on how we've engaged with each this year, see Member Engagement (page 102-107) **and Engagement with our People** (page 35)**.**	Building good relationships with our stakeholders is important to us – we recognise that the success or failure of any policy or product starts and ends with the stakeholders they affect. Engaging effectively helps us learn what our members want or need, and test any assumptions we might have. Understanding our Branches' views helps us build credibility and trust ahead of asking Branch delegates to make important decisions at our Conferences. To engage with our colleagues, we've developed formal and informal channels for colleagues to share ideas and concerns with senior management. Many ideas for process improvements have come through these channels.
When it comes to our wider stakeholders, we're particularly proud of our levels of engagement with our community (see page 83)**.**	Positive engagement with our community goes a long way to attracting and retaining colleagues as well as members, and building our culture and brand values. Our Best Companies questionnaire responses showed that colleagues really value the opportunities we give them to contribute to our community through volunteering with organisations like York Cares.

Performance evaluation

In 2019, we reported on the outcomes of the external review of Board effectiveness and noted that it had highlighted areas where changes might improve performance. The Board is happy to say that we've made significant progress. Where we haven't completed work yet, we have documented action plans and trackers in place.

Area for change	Progress made
Reducing the size of the Board while keeping necessary skills, experience and diversity.	The Board deferred proposals to change the Society's rules to reduce the size of the Board and introduce a three-year rotation for non-executive Board members to reduce the amount of business at our virtual 2020 Conference. The Board still intends to propose these changes to a future Conference.
Reviewing the balance between matters reserved for Conference, the Board and the Society Executive.	This is part of an ongoing review of the Society's rules and the delegation by Conference (through changes to the Rule Book) and by the Board (through changes to internal policies).
Improving oversight of subsidiary companies.	Work continued in 2020 to clarify oversight arrangements. Improved reporting continues through a 'subsidiary dashboard'. The Board has continued to work with The Benenden Hospital Trust to set out the responsibilities of the Society and the hospital, make pricing transparent and implement a group-wide risk management framework.
Establishing more effective Board and Board Committee processes.	We reviewed Board Committee terms of reference towards the end of 2020, to give assurance that Board Committees were giving the Board the right support, letting it focus on strategic issues. We've introduced revised Board paper templates, and we're streamlining the information in them.

In 2020, we ran a Board performance evaluation using a supported software package.

Each Board member has also had an individual appraisal meeting with the Chair. The Vice Chair led the Chair's appraisal.

Board training in 2020 has included:

- **Mandatory e-learning packages:**
  - Anti-financial crime
  - Senior managers and certification regime and conduct rules
  - Conduct risk
  - Conflicts of interest
  - Gifts and hospitality
  - Diversity
  - Health and Safety at registered office
  - Information security
  - Modern slavery 2020
  - Product knowledge
  - Three lines of defence
  - Whistleblowing
  - Working from home
- **Facilitated Board workshops:**
  - NHS, CQC and wider healthcare environment
  - Culture and conduct

We also maintain an electronic continuing professional development folder, containing regulatory updates and newsletters, which all Board members can access.

Member engagement

We're proud of our mutual status, and central to that is our members' ability to have a say in how we're run. So it's important that we make sure they know how to do that.

We allocate each member to one of our 45 Branches, where they can influence the way the Society is run by attending Branch meetings and electing delegates to represent them at the Society's Annual Conference.

Our normal round of Branch meetings includes:

- **Branch AGM, which:**
  - Elects a Branch Committee
  - Agrees propositions to submit to Annual Conference
  - Elects delegates to Conference
  - Nominates members to stand for election to the Board or the Standing Orders Committee
- **A Mandating meeting, which instructs (or 'mandates') Branch delegates to Conference how to vote on each Conference proposal**
- **Other meetings Branches might hold to hear Conference feedback or host a guest speaker**

Of course, 2020 hasn't been without its challenges when it comes to running this type of representative democracy, because our usual processes rely on face-to-face meetings. While the majority of Branches could hold their annual general meetings in the first quarter of 2020, they haven't been able to hold member meetings for the rest of the year.

This situation will continue into 2021. Instead of holding meetings in the usual way, our Branch network will rely on our Branch engagement team and IT department to run virtual Branch meetings, as they have in 2020. To do this, we've had to work quickly and flexibly to establish virtual processes.

In our democratic structure, the Society engages with members through other face-to-face events to engage with members, including:

- Branch officers' meetings
- Annual Conference, attended by up to 300 Branch delegates who vote on the proposals put forward and elect members of the Board and Standing Orders Committee.

These events, too, have become virtual in 2020 and, using technology, we were able to hold:

- A series of Branch community engagement events, starting in June
- A virtual pre-Conference session, where delegates debated Conference business
- An online Conference, which took votes on the business debated two days before, held Board elections and heard presentations from the Chair, Chief Executive and Chief Finance Officer

To make these activities virtual, we first had to make sure all our Branch committee members had access to devices compatible with Microsoft Teams. Our IT department supported Branch representatives, suggesting devices and helping to set these up, while we met the cost of new devices from the Society's Branch funds.

To keep our members informed about changes to usual processes, we've used our member magazine, 'Be Healthy', and the Society's website.

A working party of members is reviewing our democratic processes, looking for ways to get members more involved and engaged. This 'Democracy for Tomorrow' review is likely to share its proposals in 2021.

Co-Operative Code: stakeholders

As we mentioned earlier, we've benchmarked our member engagement approach against the guidance in the Co-Operative Governance Code.

Co-Operative Code requirement	Society performance
Members have clearly defined democratic rights and responsibilities, and should collectively and pro-actively hold the Board to account.	The democratic rights of our members through the established Branch network are well documented in the Society's Rule Book, our Guide to Benenden Healthcare and on the Society's website. Through Branches, members can and do hold the Board to account, particularly through debate at our Annual Conference.
The Board should promote a vibrant democracy and should communicate with members in ways that encourage active, democratic member participation.	We communicate with our members individually by letter or email, encouraging them to attend their Branch meetings, and with all members through our magazine 'Be Healthy'.

Co-Operative Code: stakeholders (continued)

Co-Operative Code requirement	Society performance
All Boards should ensure that: **i. a variety of voting methods have been considered including postal and electronic** **ii. a variety of methods have been considered to enable attendance at meetings, including those which enable members to participate remotely** **iii. participatory tools, such as consensus and deliberative decision making, have been considered in order to inform key decisions for the co-operative** **iv. provision is made for members with specific needs** **v. appropriate notice of any general meetings and forthcoming elections is communicated in a timely manner, using a variety of methods** **vi. processes are in place to ensure that elections, including canvassing activity, are fair and transparent and free from fraud and undue influence** **vii. members can participate outside of formal governance processes, for example, through member groups, social media, questionnaires and attendance at events**	Until COVID-19 forced us to revisit our voting procedures, all voting was in person by delegates elected by Branch members. In 2020, a face-to-face Conference event wasn't possible, so voting happened remotely. Remote Branch meetings will happen in 2021, though we haven't attempted this before. Both have given us the confidence to pursue changes to our democratic processes, with a view to enabling more remote participation, and this will be a feature of our 'Democracy for Tomorrow' project. It will also make it possible for all members to take part no matter what their needs. For items v to vii, we're confident that our processes support the guidance. We communicate Conference deadlines and business based on the deadlines in our Rule Book. We share that information with members through our Branch network and website. Our Board election processes are transparent and, again, documented in our Rule Book. We publish information about all candidates to Branches through the Conference agenda, as well as giving Branch delegates the opportunity to meet the candidates before each election. Members also have opportunities to participate outside the formal Branch structure, through member focus groups and social media.

Co-Operative Code requirement	Society performance
The Board should monitor and evaluate all activities and efforts designed to maximise member participation. In monitoring member participation, the Board should take note of the following: • **The number of members joining and leaving the co-operative** • **The number of members attending members' meetings** • **The turnout at elections to ascertain whether the electoral turnout is representative of the membership**	The Board is well-informed on Society membership, both new joiners and leavers, through monthly management information packs. A modest number of our members attend Branch meetings, which we want to improve. Again, we hope our 'Democracy for Tomorrow' project will lead to more member participation in our Society. Branches delegate representatives to vote at elections. The opportunity to extend this by giving all members a vote, not only in elections but also on the Society's business, will also be part of the 'Democracy for Tomorrow' project.
Any uncontested elections for positions on the Board should be documented in the annual report, along with the efforts made by the Board to enhance member participation in the co-operative's elections.	The Board and the Society Secretary make every effort to encourage Branches to nominate members for election to the Board. Those efforts are usually successful – for example, in 2020 there were seven candidates for three Board positions. Should there be an uncontested election in the future, the Board will document it in that year's Annual Report and reconsider what it can do to boost member participation.

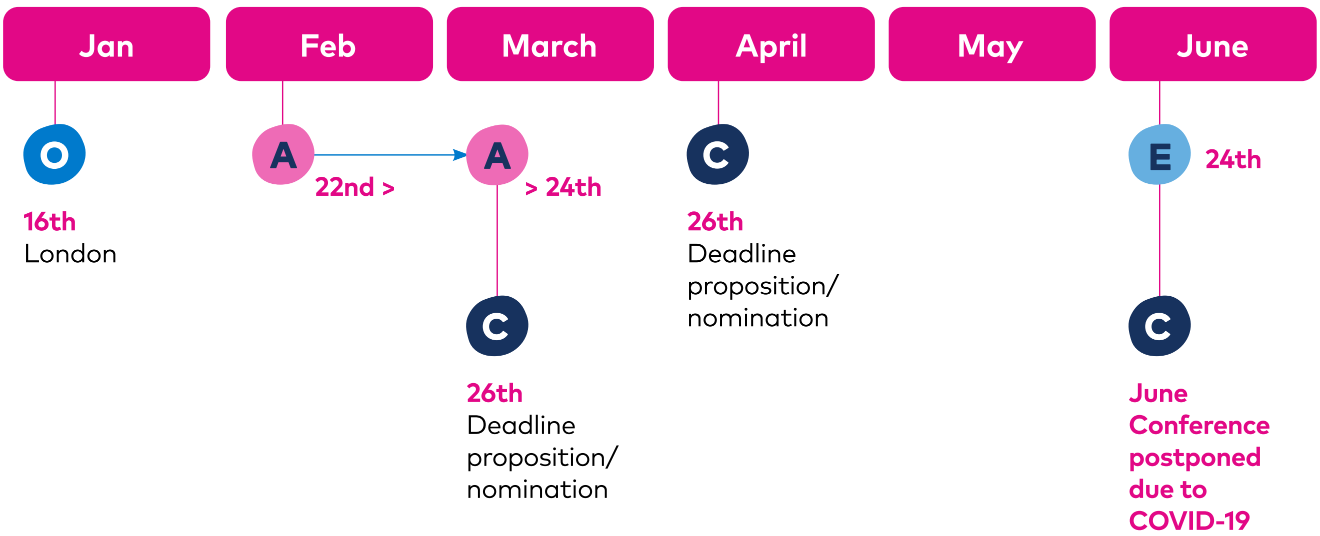
Our performance compares favourably with the Co-Operative Code, though there are one or two areas we could develop further. For instance, we'd like to increase the number of members who choose to get involved in running the Society, and explore ways members can have their say through voting. These issues are part of our 'Democracy for Tomorrow' review of our democratic processes. For more about this, see the Strategy Report on page 36.

Keeping in touch

As always, members who can't get involved through their Branch can still keep up to date through our quarterly magazine, 'Be Healthy', and our website's member area. Any members who can't submit questions and comments through their Branch can email the Society Secretary at thesecretary@benenden.co.uk

To find out more, go to www.benenden.co.uk and choose 'Login'.

Member Engagement Timeline



Key

- O Branch Officers' Meeting
- A Branch AGMs
- C Conference
- E Branch Community Engagement Meetings**

Mandating meetings were cancelled due to the COVID-19 pandemic, with members encouraged to send their views in for consideration by Conference delegates.

**Remote meetings, added to facilitate communication during COVID-19 pandemic restrictions.

July

E — **30th**

August

E — **25th**

C — **26th** Conference agenda distribution

Sept

C — **21st** Pre-Conference debate session held via Microsoft Teams

23rd Hybrid Conference (Virtual)

Oct

E — **28th**

Nov

E — **25th**

Dec

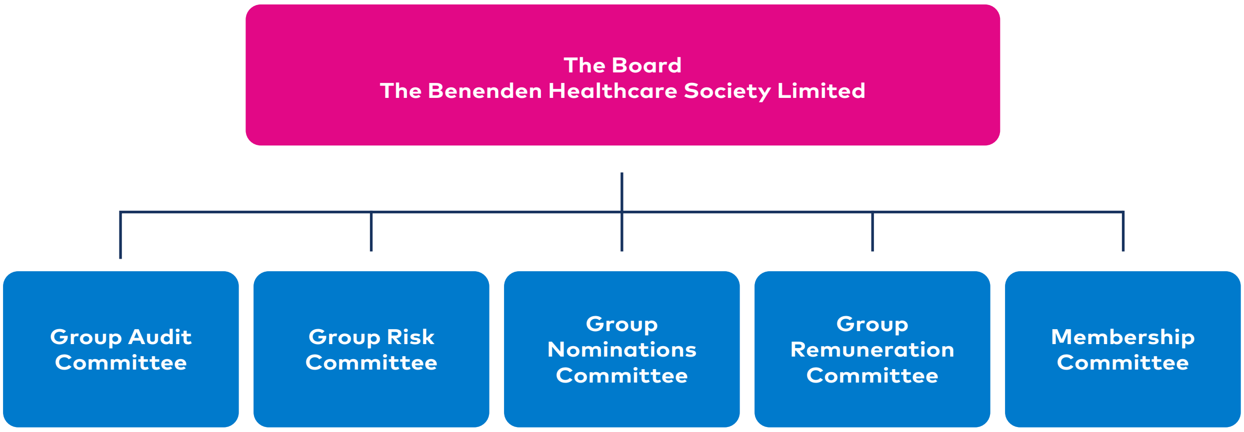
Board Committees

We've held our Board committee meetings virtually since March 2020 because of the restrictions caused by the COVID-19 pandemic. Each committee adapted quickly to this way of working and has successfully managed its responsibilities.

All Board committees reviewed their own effectiveness and terms of reference in the fourth quarter of 2020. The terms of reference are available in the member area of the website (www.benenden.co.uk) and from the Society Secretary.

All Board committee meeting minutes go to the Board, with the Chair of each committee also giving a written update to the next available Board meeting.

Board committee structure at 31 December 2020



Group Audit Committee (GAC)

Members:

Mike Bury (Chairman)

David Fletcher

Louise Fowler

Les Philpott

During 2020, the GAC was chaired temporarily by Angela Hays (for one meeting) and Les Philpott (for three meetings) while the Chairman was away because of ill health. While the Chairman was away, Ian Blanchard was co-opted to the GAC for three meetings.

For details of members' backgrounds, see pages 72-77.

Members of the Society Executive, including the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO), attend GAC meetings. So do the Chairman of the Group Risk Committee, the Company Secretary, and the Society's internal and external auditors.

The GAC is a Board committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust.

The Benenden Hospital Audit Committee (HAC) provides a quarterly report to the GAC. The GAC also works closely with the Group Risk Committee (GRC) to make sure the risk management framework is operating effectively across the business.

The GAC has written terms of reference covering its role and responsibilities, which include:

- Providing independent assurance to the Board of the adequacy and effectiveness of the Society's systems of financial reporting, through supervision of the quality, independence and effectiveness of the internal and external auditors
- Monitoring the adequacy of the Society's systems of internal control
- Reviewing arrangements for compliance with regulatory and financial reporting requirements
- Making sure we have clear whistleblowing arrangements for raising and investigating concerns about possible wrongdoing

The GAC met six times in 2020, with its agenda split into standing reporting sections: external audit; internal audit; routine reporting; and items for decision and discussion.

The GAC's key activities during the year included:

- Monitoring the effectiveness of the internal and external auditors
- Approving the 2019 year-end papers
- Approving the 2019 Annual Report and financial statements
- Considering the financial support required by The Benenden Hospital Trust from the Society
- Monitoring the Society's arrangements to respond to the COVID-19 pandemic

The GAC assesses the effectiveness of internal control systems to give the Board confidence that its strategic objectives are achievable, and that member funds are appropriately safeguarded. The GAC also monitors the status of issues raised in reports from the second and third lines of defence to make sure we deal with them promptly, and in the right way. The volume and profile of control issues has stayed within tolerable limits.

Internal audit and internal controls

RSM UK LLP has been the Society's internal auditor for the whole of 2020.

The internal auditor reports to the CEO and, after each audit, distributes the report to the GAC, the CEO and the CRO. The internal audit plan is developed using a risk-based methodology for a rolling three-year period covering the Society and its subsidiaries. The internal audit plan is a core part of assessing operational risks and the effectiveness of the group's internal systems and controls. Senior management and the internal auditors agree a draft plan, with final challenge and approval made by the GAC.

The GAC reviewed several internal audit reports during 2020, including:

- Risk management (Benenden Hospital)
- Secure remote working and operational resilience (Society)
- Data governance (Society and Benenden Hospital)
- Procurement (Benenden Hospital)
- Quality assurance (Society)

As a standing agenda item for all GAC meetings, the committee receives reports on any instances of fraud, whistleblowing and internal control deficiencies, and any action to deal with them.

The committee tracks all internal audit and compliance monitoring actions until they're complete. This assures us that management has taken, or is taking, the action needed to put right any failings or weaknesses in the Society's controls.

External audit and financial reporting

Deloitte LLP has been the Society's external auditor for the whole of 2020. The GAC considers the financial information published in the Society's Annual Report, in particular the key judgements that management have made in preparing the financial statements.

The GAC gets updates throughout the year from both the external auditors and the Finance department. This includes:

- Tracking the observations from the 2020 management letter regarding controls through to completion
- Reviewing the external auditors' audit strategy
- Reviewing and approving the wording for the audit sections of the Annual Report

The GAC has received 'judgement' papers (papers describing the basis for preparing the Annual Report and financial statements). These include the valuation of properties, the investment fund valuation and the estimate of provisions for outstanding member benefits. This meant the GAC (and then the Board) could review and challenge the content to make sure the 2020 Annual Report was fair, easy to understand and balanced, so that members can assess the Society's strategy and performance.

The GAC regularly considers the balance between audit and non-audit services to keep in line with best practice on independence and objectivity. The ratio of non-audit fees to audit fees for the period up to 31 December 2020 was nil for our current auditor (2019: 11%). This is highlighted in Note 6 of the financial statements.

The GAC is satisfied that the 2020 Annual Report and accounts are fair, balanced and understandable.

Group Risk Committee (GRC)

Members:

Ian Blanchard (Chairman)

Mike Bury

Brian Eaton

David Fletcher

For details of members' backgrounds, please see pages 72-77.

Members of the Society Executive (including the CEO, CFO and CRO) attend GRC meetings. The GRC is a Board committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust. The GRC consults with the Audit Committee of The Benenden Hospital Trust on managing hospital-related risks. It has written terms of reference covering its role and responsibilities, which include:

- Reviewing the effectiveness of the Society's risk management policy and related procedures, providing assurance to the Board
- Advising the Board on the Society's risk appetite, tolerance and strategy
- Advising the Board on proposed strategic transactions, including acquisitions or disposals, before the Board takes a decision
- Advising the Board on the Society's capital and investment strategy
- Liaising with the GAC where appropriate

The GRC met four times in 2020, with its agenda split into standing reporting sections on risk reporting, control environment, and items for decision and discussion.

The GRC's key pieces of work during 2020 included:

- Regular reviews of the CRO report
- Decisions on the marketing of the South East Quadrant of the Hospital and Cleveland Farm Barns
- Assessing the financial support needed at the hospital
- Assessing the pension deficit
- Decisions on the cash reserves after the sale of Catherine Place
- Reviewing and monitoring risks relating to the COVID-19 pandemic

Risk management

The Board recognises how important sound risk management, systems and controls are in delivering its objectives. Also, effective controls should make us more efficient and effective, based on reliable management reporting. Senior management, through the Society Executive, is responsible for designing the internal systems and control framework, and implementing policies the Board approves.

The GRC regularly receives reports on our principal risks and uncertainties, including strategic, financial and operational risks, and the actions we're taking to mitigate these risks. The committee receives more detailed reports on any risks and issues that materialise.

For more about our approach to risk management, see page 58-71.

Group Nominations Committee

Members:

David Furniss (Chairman)

Bob Andrews (CEO)

Adrian Humphreys

Deryck Lewis

For details of members' backgrounds, please see pages 72-77.

The Company Secretary attends Group Nominations Committee meetings. The Chief Operating Officer (COO) and the Head of HR attend for agenda items relating to their responsibilities.

The Group Nominations Committee is a Board committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust, and communicates with the Nominations Committee of The Benenden Hospital Trust as appropriate.

It has written terms of reference covering its role and responsibilities, which include:

- Reviewing the balance of skills, knowledge and experience needed on the Board. This includes the core competencies, diversity and time commitment, as well as the Board's size, structure and composition, and succession planning
- Recommending processes to help identify candidates for Branch-nominated members of the Board
- Recommending candidates for executive and Board-nominated non-executive members of the Board
- Overseeing the process for evaluating the Board's performance
- Evaluating the balance of skills, knowledge and experience of senior management, including diversity and succession planning, and approving appointments to the senior management team

The Group Nominations Committee met four times in 2020 and its key activities during the year included:

- Society Executive and non-executive director succession planning
- Reviewing the Board effectiveness action plan and report
- The Board development programme
- The Board candidate process for 2021

Group Remuneration Committee

Members:

Les Philpott (Chairman)

Paula Clark

David Furniss

Ken Hesketh

For details of members' backgrounds, see pages 72-77.

The CEO, COO, Head of HR and Company Secretary attend Group Remuneration Committee meetings.

The Group Remuneration Committee is a Board committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust, and communicates with the Remuneration Committee of The Benenden Hospital Trust as appropriate. It has written terms of reference covering its role and responsibilities, which include:

- Setting the directors' remuneration at a level that's appropriate for the role they perform and the results they achieve. It should also be set at a level that means the Society can attract, retain and motivate the right calibre of colleague
- Setting up an appropriate reward structure and framework for remunerating all our people
- Developing all remuneration policies for the Society and making sure it follows them

The Group Remuneration Committee takes external advice and guidance from professional remuneration consulting firms when it needs to. It has continued to use Willis Towers Watson during 2020 for executive pay guidance. The Society currently use CIPD's HR-Inform salary search and job evaluation tools to benchmark all other roles.

In November 2020 the Remuneration Committee decided to commission Korn Ferry Hay Group for an external benchmarking exercise of executive salaries, which was presented at the February 2021 committee meeting.

The Remuneration Committee held five meetings in 2020. They focused mainly on reviewing and monitoring:

- Changes to the senior management structure
- Society Executive remuneration review, bonus scheme and objectives
- Improvements to the directors' remuneration report
- Monitoring the effectiveness of the sales incentive scheme, and approving an account growth and retention incentive scheme
- Total reward strategy

Reward approach

The Committee agreed the remuneration policy statement. This sets out Benenden Health's approach to total reward (the combination of financial and non-financial rewards), aims to make sure our pay and grading structure matches our organisational values, and helps us achieve operational and strategic objectives. The policy statement sets out principles including:

- Managing risk – we make sure our remuneration approach is consistent with, and promotes, effective risk management. Alongside our risk management framework, we manage conduct risk through a 'three lines of defence' model
- Rewarding colleagues – we believe in rewarding our people according to the contribution they make
- Reflecting the market – we set pay levels at the market rate consistent with our ability to recruit and retain colleagues at that rate
- Preserving internal equity – through our evaluation process, we strive to preserve internal equity, while still reflecting market rates where we need to
- Reporting on equal pay and gender pay – we believe in equal pay for work of equal value. So as much as possible, our policy is to keep pay gaps to a minimum. We've reported on gender pay since 2018
- Staying flexible – we believe we should manage pay structures in a reasonably flexible way to cater for changing circumstances
- Staying transparent – we keep all processes supporting our reward strategy transparent and available to all employees. The only exceptions are individual pay details, or where it wouldn't be appropriate to disclose the information
- Following total reward – we believe in an approach that combines financial and non-financial rewards
- Staying diverse – we aim to sustain a diverse workforce and an inclusive environment that respects and shows care for all our people. We offer all our people equal opportunities in recruitment, career development, promotion, training and rewards
- Maintaining quality – we monitor all business departments and use assurance controls across the customer and sales journey

A performance development review process sees that individual and team objectives help to deliver the business plan.

In line with our reward principles, we've made sure we have a transparent reward framework. This includes introducing salary ranges and job 'families', and reviewing all aspects of financial reward as well as non-financial reward.

For the Group Remuneration Committee's report on directors' remuneration, see page 118-129.

Membership Committee

Members:

Ken Hesketh (Chairman)

Brian Eaton

Louise Fowler

Deryck Lewis

For details of members' backgrounds, please see pages 72-77.

The Society Secretary, the Company Secretary, the CEO and the COO are invited to attend Membership Committee meetings.

The Membership Committee is a Board committee which carries out its duties for The Benenden Healthcare Society Limited. It has written terms of reference covering its role and responsibilities, which include:

- Taking the lead on engagement with the Society's members
- Overseeing the administration of the Society's Branch structure
- Leading debate on proposals to make changes to the Society's democratic processes
- Monitoring Branch correspondence received by the Society Secretary
- Getting feedback from members and Branches, including from member surveys and focus groups
- Overseeing the delivery of Branch training sessions
- Overseeing arrangements for the Society's Conferences

The Membership Committee held five meetings during the year, with standing agenda items including: Conference arrangements; Branch communications; quarterly updates; and items for decision and discussion.

Key pieces of work for the Committee during 2020 included:

- Overseeing alternative mechanisms for delivering Conference and engaging with members during the pandemic
- Board rule amendments
- Member experience updates
- 'Democracy for Tomorrow' consultation

Lord Plant Travelling Fellowship Committee

Members:

Deryck Lewis (Chairman)

HMRC Branch member

Relative of Lord Plant

The Lord Plant Travelling Fellowship Committee reviews proposals from candidates applying for funding for research projects. The award is open to Society or Benenden Hospital Trust colleagues. The projects, and the travel that goes with them, give colleagues a personal development opportunity and the chance to contribute to the work of the Society or the Hospital.

A Lord Plant award wasn't made during 2020 because of the restrictions surrounding the COVID-19 pandemic.

Benenden Hospital Healthcare Support Workers Sarah Woodman and Katherine Jenner, who won a 2019 award, have postponed their visit to the Tufts Medical Centre teaching hospital in Boston until 2021.

The other winners of a 2019 award, Registered Office IT Solutions Analysts Jo Sbragia-White and Sophie Anderson, made their trip to Sri Lanka, returning just before the UK's national lockdown in March 2020.

The Directors' Report on Remuneration

In 2020, the Group Remuneration Committee carried out its responsibilities in line with its terms of reference. Election votes at our 2020 Conference required the Board to appoint a new Chair for the Committee, and to make further changes to its membership. The newly constituted Remuneration Committee reviewed and proposed revisions to its terms of reference to ensure they were fit for purpose and reflective of the Society's needs.

The key revisions were to ensure a proper balance in remuneration decisions between recruiting, retaining and motivating the Society's colleagues at all levels, while at the same time paying full attention to the need to 'spend members' money wisely' commensurate with 'Be Smart' in the Society's Values set.

The Remuneration Committee and main Board decided it was important to show restraint on key aspects of remuneration, 2020 having been a most challenging year for everyone due to the exceptional circumstances of COVID-19. In so doing, the strength of the performance of the Society, as demonstrated by this Annual Report, wasn't in question.

The Committee recognises that reward is a key part of keeping people engaged and should reflect their contribution, as well as taking account of wider factors such as market rates. In 2019, we reviewed the reward strategy, looking at base pay, discretionary bonus and benefits. The Committee will continue to focus on enabling the business to drive performance, and make sure the Society has the skills and behaviours to help us reach our long-term business goals in the interests of all our members.

How we decide how much to pay our people

Our approach to total reward reflects our values and strategic objectives. It takes into account our mutual status and our commitment to spend our members' money wisely. We make sure we have a competitive total reward framework, which recognises performance and contribution to the business, as well as how well the Society itself is performing.

The Remuneration Committee has had independent data and advice on salaries and bonuses for our people from employee benefits consultant, Willis Towers Watson. After a period of instability and an ad hoc approach to reward, we introduced a robust, more systematic reward framework and transparent discretionary bonus scheme in 2018 – this has enabled the Committee to take reasoned decisions on a structured basis, including taking account of independent benchmarking evidence.

We look at several factors in benchmarking data to help us decide on a fair comparison for the Society, including comparisons with financial services and other mutuals, turnover, geography and complexity. We evaluate each role against a relevant dataset.

We complete a Society-wide benchmarking exercise every three years to make sure we've taken market changes into account. We last benchmarked all roles in 2019 against the comparative dataset, with only a few amendments required. This means we'll next complete the process in 2022.

In 2021, Korn Ferry Hay Group, appointed by the Remuneration Committee in 2020, ran a fresh, independent benchmarking process for executive positions. The Remuneration Committee will turn its attention to this matter in 2021.

The annual pay award of 1.8%, made in April 2020, was based on indicators including the Consumer Price Index and owner-occupiers' housing costs (CPIH). This was applied to all eligible Society employees.

All our people have the opportunity to receive a discretionary bonus, including executive directors. This varies depending on the overall performance of the Society and the individual's contribution to the Society's success. We measure someone's contribution against performance goals, set at the start of the financial year, as well as measuring conduct and behaviour in line with Benenden Health's organisational values. The average discretionary bonus paid to Society colleagues (excluding the executive) was 2.5% and the maximum paid was 7% (excluding the executives). The discretionary bonus paid to the Board Executive Directors was 15% and the discretionary bonus paid to the Society Executive (excluding the Board Executive Directors) was 10%. A discretionary bonus is common practice among our competitors, and it keeps our people's rewards in line with those comparable organisations.

Reward principles

Rewarding colleagues

The business believes that colleagues should be rewarded according to their contribution

External relativities

The business will set pay levels at the market rate consistent with its ability to recruit and retain colleagues at that rate

Reward principles

The business will strive, through its evaluation process, to preserve internal equity, subject to the need to respond to market rate pressures when this is unavoidable

Equal pay and gender pay reporting

The business believes in equal opportunities and the principle of equal pay for equal work of equal value. So, as much as possible, its policy is to keep pay gaps to a minimum, and audit and report on gender pay from 2018 onwards

Flexibility

The business believes that it should manage pay structures in a reasonably flexible way to cater for changing circumstances

Transparency

The business will keep all processes supporting its reward strategy transparent and available to all employees (except individual pay details, or where it wouldn't be appropriate to disclose the information)

Total reward

The business believes in a total reward approach, providing financial and non-financial rewards

Executive remuneration

The Committee realises the importance of its role in setting remuneration for the executive at a level that promotes the long-term success of the organisation. But it also recognises that, as a mutual organisation, the Society needs to be prudent with members' money. Hence, the initiative the new Remuneration Committee took to revise its terms of reference.

The Remuneration Committee strives to ensure that the system for executive reward is kept simple, avoiding complex long-term incentive plans (LTIPs) used by many organisations. Reflecting corporate best practice, the Society publishes the ratio of the Chief Executive Officer's pay to that of the wider employee population. Executive salaries are benchmarked against similar roles in other broadly comparable organisations, and we use remuneration consultants to aid the review. Even so, such comparisons, while important, are difficult because of Benenden Health's uniqueness in the private healthcare sector, resulting in the need for all remuneration decisions to be weighed not just on bench-marking data alone, but also across a wide range of factors, including investing members' contributions in our people judiciously. As with all our people, a review was undertaken of our executive pay in April 2019 by Willis Towers Watson.

The Committee is confident that recent work on executive remuneration is robust, transparent and sensible, and it will repeat this process in 2021, along with the external executive remuneration benchmarking by Korn Ferry Hay Group. The Society's remuneration approach has helped us keep the skills and experience we need, and stay competitive in attracting new people to support our plans for growth.

A proportion of the overall remuneration for executive directors – bonus – depends on how they perform against key measures. The variable element is discretionary and has two tiers: tier 1 relates to contribution to collective objectives and tier 2 relates to delivery of an executive's individual objectives. When considering any discretionary payment, we also look at executives' conduct and behaviour.

The discretionary element of reward has a maximum payment of 50% of individual executive salaries for a truly formidable personal performance. The opportunity is designed to drive the best we can for the Society and all our members on a sustainable basis. There hasn't been an award at this level since the opportunity was introduced. In the exceptional circumstances arising from COVID -19, the Remuneration Committee decided that, even though the Society's performance in 2020 was strong, it was nevertheless important to demonstrate restraint in remuneration and therefore that the maximum bonus payment should be restricted to 15% of salary. This resulted in substantially lower payments than in recent years.

The impact of performance on the executives' discretionary pay

In considering the discretionary element of the executives' pay, the Committee assesses the performance of the Society and each executive's contribution. Payments under the plan are made at the Committee's discretion in April, following the audited accounts. There's a 'clawback' provision for any audited activity that, after year-end, turns out not to have been delivered to the expected level or standard.

The Committee must be satisfied that there's no significant conduct risk, or any reputational, financial, operational or other reason not to make awards. It makes this judgement based on input from the Group Risk Committee and Group Audit Committee.

Although the Committee had established annual targets for the executives, these were overtaken by the COVID-19 pandemic. The Society has recorded a surplus this year, but the directors recognise that a significant proportion of this arises from lower demand from members in the middle of the year, which they anticipate will rise as demand for the fuller range of NHS services intensifies after the pandemic and our members rightly turn to Benenden Health for their healthcare needs. As well as recognising whether executives deliver objectives, the Committee has also assessed how executives have dealt with long-term issues and risks facing the group. It has made sure it carries on supporting members and safeguarding stakeholders' interests in these uncertain times. To assess the right level of award, the Committee has considered several factors alongside how the Society has treated key stakeholders.

They include:

Treating the workforce fairly

We took swift and effective action to protect colleagues' safety and wellbeing at the start of the pandemic and through the uncertainty that followed. This let us continue to deliver services to members seamlessly, working with partners in a careful and co-ordinated way. The Society quickly implemented a strategy for remote working for colleagues as the pandemic emerged and continued. A combination of flexible arrangements, swift technology refinement and new ways of working have made sure all colleagues can contribute to the Society's support and services for members. The Society didn't furlough any colleagues.

Maintaining support and services for members

Even given the challenges of the pandemic, we maintained and broadened services for members throughout the COVID-19 period. Although there were some restrictions because of government requirements, such as private hospital capacity (including Benenden Hospital) being used for NHS services during the pandemic, members could nevertheless access services throughout the year 2020, including virtual consultations where appropriate. The Society continued to process claims and GP referrals, and encouraged members to ask for medical help if they needed it. The Society advised members about extending the validity of claims until 30 June 2022, to make sure no member lost out. For members facing financial difficulties because of the pandemic, the Society gave support through contribution payment holidays.

Not drawing on government support

The Society hasn't accessed any financial support available from the government through deferred taxes, corporate funding schemes or furlough arrangements under the government's Job Retention Scheme.

Monitoring members' satisfaction

Satisfaction surveys on members' views on the support and service they received improved during 2020, with 52% of members saying they valued their Benenden Health membership even more than the previous year, and 43% feeling that the value was the same as they had before. In 2020, despite a restriction in services, our Trustpilot rating rose to 4.6. Although the membership declined in the first few months of the year because of uncertainty amid the pandemic, it stabilised and then returned to growth from August, maintaining an upward trajectory for the rest of the year and into 2021.

All this leaves the Society well placed, as the country moves out of the pandemic, to shift its focus back to work that was underway before COVID-19 took hold. This includes increasing our membership base and broadening our offering while staying financially stable and safeguarding member funds.

Non-executive directors' remuneration

The non-executive fees in 2020 were at the same rate as in 2019. Thus, the Chair's remuneration for 2020 was the same as 2019: £65,000 per year. For other non-executive directors, the basic remuneration was paid at £27,000. A further £6,000 goes to three roles with extra responsibilities: the Board of Directors' Vice-Chair, and the Chairs of the Audit and Risk Committees.

Looking ahead, on the recommendation of the Remuneration Committee, the Board of Benenden Health has decided that these fee levels won't be increased in 2021 because of the importance the Board attaches to showing restraint on remuneration in the context of the COVID-19 pandemic.

Members of the Board's detailed emoluments for 2020

This table shows all directors' rewards for 2020.

	Salary/ Fees £000	Additional responsibility	Pension contributions £000	Benefits £000	Annual bonus payable £000	Total 2020 £000	Total 2019 £000
Executive							
Bob Andrews	247		-	37	38	322	331
Helen Chamberlain	207		20	11	32	270	248
Non Executive							
Gwenda Binks	20	5*	-	-	-	25	32
Ian Black	-		-	-	-	-	12
Ian Blanchard	27	6	-	-	-	33	32
Mike Bury	27	6	-	-	-	33	32
Paula Clark	27		-	-	-	27	14
Brian Eaton	7		-	-	-	7	-
David Fletcher	7		-	-	-	7	-
Louise Fowler	27		-	-	-	27	29
David Furniss	65		-	-	-	65	63
Angela Hays	27	3*	-	-	-	30	26
Ken Hesketh	27		-	-	-	27	26
Adrian Humphreys	27	6	-	-	-	33	26
Deryck Lewis	27		-	-	-	27	26
Les Philpot	27	1*	-	-	-	28	26
Andy Tucker	20		-	-	-	20	26

*Pro-rata total.

Executive pension entitlement

Bob Andrews has chosen not to participate in the employer pension scheme as he's reached the lifetime allowance. As part of his remuneration package, he receives his pension contribution as an allowance from the employer equivalent to 10% of his basic salary.

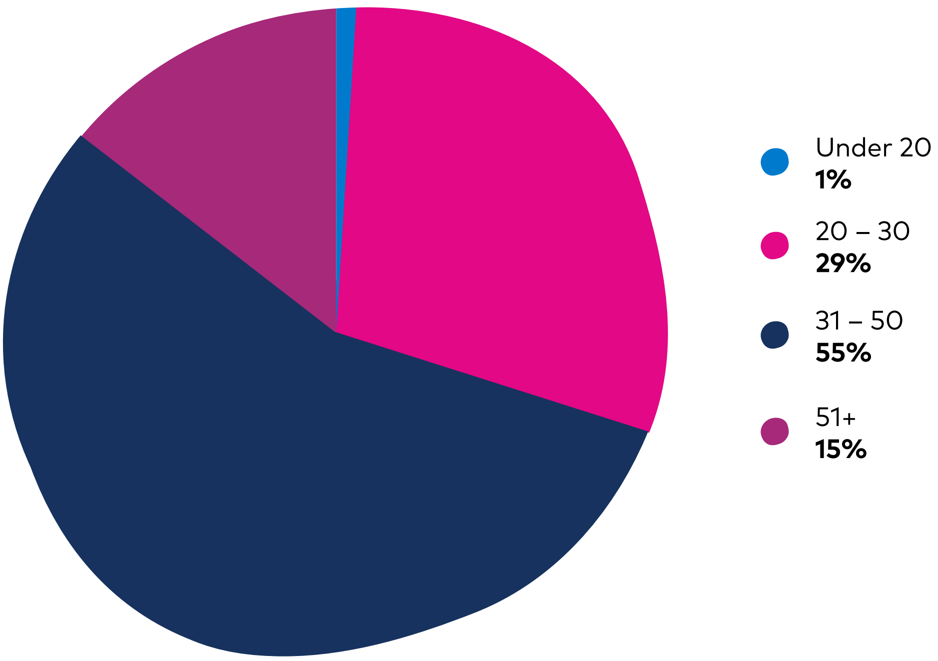
This is consistent with the contribution arrangements for employees who are members of the Defined Contribution Pension Scheme. The allowance is included in the benefits figure in the emoluments table.

Helen Chamberlain is a member of the Defined Contribution Pension Scheme, and employer contributions are on the same terms as for all employees in the scheme.

Workforce profile

Benenden Health has a diverse, multi-generational workforce (see figure 1). Our people cover the age range from under 20 to over 50. Length of service also varies – 116 colleagues have less than two years' service and 47 employees have over ten years.

Fig. 1. **Age Ranges**



We're committed to promoting diversity, inclusion and gender equality throughout our recruitment and people processes. Our employee profile is 65% female and 35% male, and 20% of our workforce work part-time or compressed hours. This shows that we promote flexible working by offering part-time and varied roles, including job-shares and alternative working patterns.

Of our 32 senior leaders – the Board, Society executives and the senior management team – 47% are female and 53% male. Excluding the non-executive directors and Society Secretary, on 5 April 2020, the gender split for the executive and senior management of 19 people was 58% female and 42% male.

Gender-pay gap reporting

The gender-pay gap is the difference between the average pay of all men and the average pay of all women in an organisation. Benenden Health believes in equal opportunities and equal pay for work of equal value. We're pleased to report that our mean gender-pay gap has fallen from 19.8% to 17.8% in 2020. Our transparent grading structure and role evaluation supports this equal pay requirement.

As much as possible, our policy is to keep pay gaps to a minimum, and we've been reporting on gender pay since 2018. This table summarises the trend in pay and bonus gaps.

Gender reward gap	2020	2019	2018
Pay – mean	17.8%	19.8%	20.3%
Bonus – mean	27.6%	29.4%	7.9%

The mean gender-pay gap is the difference in average hourly rates of pay for male and female employees. This gives an overall indication of the gender-pay gap by taking all hourly rates of pay and dividing by the total number of people in scope. A gender-pay gap of 17.8% is a broad measure of the difference between the average earnings of men and women at Benenden Health, across all roles and at all levels in our organisation. The national average is 14.6%, and in the financial and insurance sector the average is 29.5%.

The gender-pay gap at Benenden Health isn't a result of equal pay issues but arises due to having a predominately female workforce. We have a gender-neutral approach to deciding pay for roles at all levels and we regularly monitor this to make sure we continue to meet legal and moral obligations.

For more information on the gender-pay report, see the Society's website at www.benenden.co.uk/about-benenden/gender-pay-statement

Diversity and inclusion, including flexible working

We're proud of the flexible working environment we provide for our colleagues, and from 2020 we've introduced equal occupational parental pay for men and women. Several of our colleagues have already benefited from this.

We continue to partner with recruitment agencies who commit to sourcing diverse candidates, and we've reviewed all the agencies we work with. We support internal mentoring, and rolled out a mentor training programme in 2020. We offer financial support for self-development where appropriate and use our Levy fund for new apprentices and people furthering their career in higher educational courses. Everyone in the organisation has access to flexible and 'on-time' learning and development through our 'Be Aspirational' career hub. Our focus in 2020 was to support managers and their teams working remotely, and to adapt our training so it could happen virtually.

In 2020 we launched a new flexible benefits platform, with the emphasis on health and wellbeing products like health assessments and gym discounts. In 2021 we'll underline our commitment to a culture of reward and recognition, including flexible benefits, by offering even more choice and flexibility to our diverse workforce.

We support flexible working options, part-time working, compressed hours, home working and study leave. We promote vacancies internally and ensure succession planning and development opportunities. We support employees coming back to work after extended leave, whether through flexible working or phased returns. We also support extended family leave and sabbatical leave.

CEO pay ratio reporting

The Pay Ratio Regulations make it a legal requirement for UK listed companies with more than 250 employees to annually disclose the ratio of their CEO's pay to the median, lower quartile and upper quartile pay of their UK employees. In the spirit of the transparency of our reward approach, we welcome the opportunity to share the pay ratio of our CEO using salaries at 5 April 2020. Median FTSE chief executive pay is 117 (117:1)* times higher than that of the median UK full-time worker. At Benenden Health, the ratio of CEO salary to the median workforce salary is 9:1.

Pay ratios†
Assuming full-time equivalent salaries as at 5 April 2020:

CEO to average FTE salary	**7:1**
CEO to average actual salary	**8:1**
CEO to median salary	**9:1**
CEO total remuneration to 50th percentile	**11:1**
CEO total remuneration to 25th percentile	**16:1**
CEO total remuneration to 75th percentile	**8:1**

* Source: CIPD website, February 2020: www.cipd.co.uk/about/media/press/ftse-ceo-pay-falls

† The salary figures are post-salary sacrifice. Employer's pension contributions aren't included.

The year ahead

The Group Remuneration Committee's purpose is to help and advise the Board on the remuneration of the Board and Society Executive.

The Committee will operate in line with these principles:

1. Focus on recruiting, retaining and motivating a high-quality and high-performing workforce
2. Be as transparent as we can and make decisions based on evidence
3. Use members' money wisely.

The Committee will carry on working to make sure our remuneration structure supports the right culture, conduct and behaviours, and helps us perform well. Key priorities for 2020–21 include making sure the total reward framework and opportunity is right for the Society, including members' interest in how their money it utilised productively, and agreeing the basis of future executive remuneration. This will reflect the Society's strategy and mutual status, as well as wider market developments.

Auditors' Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BENENDEN HEALTHCARE SOCIETY LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of The Benenden Healthcare Society Limited (the 'Society') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements which comprise:

- the Group and Society statements of income and expenditure;
- the Group and Society statements of other comprehensive income;
- the Group and Society statements of financial position;
- the Group and Society statements of changes in members' funds;
- the Group and Society statements of cash flows; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the valuation of the provision for outstanding members' benefits. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £1.3m, which was determined on the basis of member contributions.
Scoping	In addition to the Society, the Group comprises five other components, two of which are dormant entities. Our Group audit covered all non-dormant entities and as such, 100% of Group income and 100% of Group net assets.
Significant changes in our approach	There have been no significant changes to our audit approach from the prior period, although the nature of the key audit matter over the valuation of the provision for outstanding members' benefits has changed following changes in the Group's approach to calculating the provision in light of the impact of Covid-19. In comparison to the prior year, we have not identified a separate Key Audit Matter for the current year relating to the appropriateness of the COVID-19 post balance sheet event disclosures, as these are no longer relevant.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's judgement paper, identifying the assumptions applied in the going concern assessment and testing the mechanical accuracy of the underlying forecast;
- assessing the historical accuracy of forecasts prepared by management;
- assessing the consistency of the forecast assumptions applied in the going concern assessment across other forecasts used within the Group; and
- reviewing the disclosures in relation to going concern to assess their consistency with our understanding of the Group's forecast performance and position.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of provision for outstanding members' benefits

Key audit matter description	The valuation of the provision for outstanding members' benefits is the key judgement within the Group's financial reporting. As at 31 December 2020, the provision stood at £23.4m (2019: £13.6m). The significant increase is due to a back-log in services provided by the Society's supply chain. As such, it is taking longer for members to access treatment as the sector emerged from the lockdown restrictions. In response to this, management has extended the period for members to take up any treatments for which they have been approved. This period was six months in prior years however, all member claims made in 2020 have an end date of June 2022. Given the level of disruption to development patterns across the year, management's approach has been to use an annual average method and cohort methodology based on 2019 experience of claims development and apply manual overrides to the key assumptions in order to calculate the 2020 provision. Furthermore, management has included a 'Covid-19' provision, to provide for cases that require specific Covid-19 tests prior to treatment. We risk assessed the methodology used in the calculation of the provision, noting that it is not inherently complex and therefore we focused our audit effort around the reasonableness of the management overlays that are posted due to the trend disruption caused by the pandemic. The overlays applied are based on the historical average from 2019, including judgemental increases in take-up-rate and average cost, and applied to all months from 2020. The critical accounting judgement and key accounting estimates disclosure for the provision for outstanding members' benefits is set out in note 3 and the financial disclosures are set out in note 18.
How the scope of our audit responded to the key audit matter	In response to this key audit matter, our procedures included: • reviewed management's judgement paper and challenged the key assumptions used such as the take up rate and average cost assumption through obtaining corroboratory or contradictory internal/external evidence; • assessed and tested the relevant controls over the calculation of the provision, including management's review of assumptions used in the calculation and the manual adjustments made by management to the calculation; • reconciled the number of service packs and amounts paid per calculation to

	the totals in SMS; • tested the underlying data used in the provision calculation by agreeing a sample with third party data sheets to policy administration system; • obtained management's calculation and recalculated it to assess the mathematical accuracy against stated methodology; • challenged the average take up rate and average case cost assumptions to understand if these are reasonable given any specific events in the year or emerging trends; • performed sensitivity analysis around the key assumptions used within the model including take up rate and average cost; • assisted by our internal actuarial specialists, we compared the methodology applied to peers to understand if it is appropriate; • analysed the run-off of the 31 Dec 2019 reserve to the actual development in 2020; • assessed the impact of the pipeline provision on the total provision and determined whether it is reasonable by performing a recalculation of the balance and agreeing the underlying data back to the source system; • assessed the impact of the Covid-19 provision and determined whether it is reasonable; • assessed whether post year end the provision is running off as would be expected, comparing to the typical run-off curve observe in previous periods.
Key observations	Based on the procedures performed above, we concluded that the valuation of the provision for outstanding members' benefits, including the manual adjustments that were made with regards to the valuation of the provision, was reasonable.

6. Our application of materiality

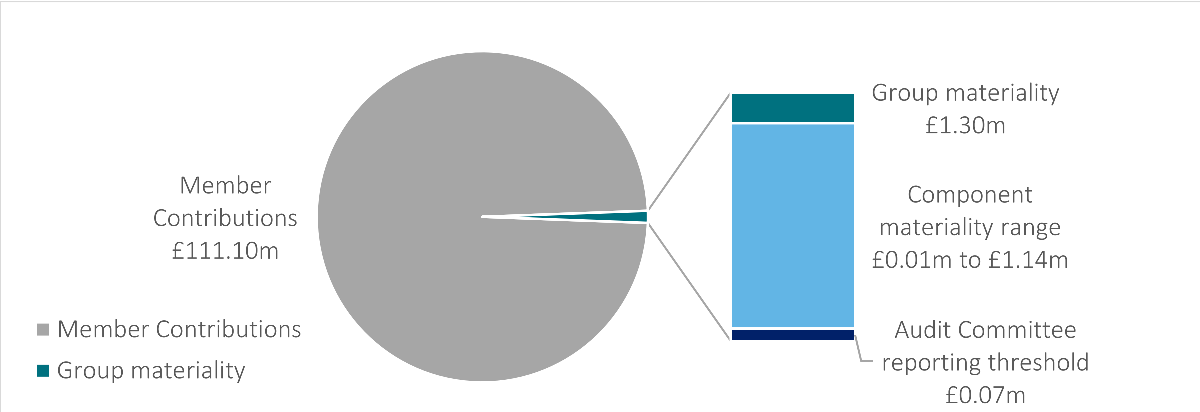
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£1.3m (2019: £1.3m)	£1.14m (2019: £1.14m)
Basis for determining materiality	Approximately 1.2% of member contributions (2019: Approximately 1.2% of member contributions)	Approximately 1.2% of member contributions, which is capped at 95% of Group materiality. (2019: Approximately 1.2% of member contributions)

Rationale for the benchmark applied	We deem member contributions to be the most suitable measure for both the Group and the Society given that the size of the membership, and in turn the quantum of membership contributions, is a key focus area for users of the financial statements and management. It is also a more stable measure year on year than the excess of income over expenditure.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Society financial statements
Performance materiality	80% (2019: 80%) of Group materiality	80% (2019: 80%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and b. our risk assessment, including our assessment of the Group's overall control environment and that we considered it appropriate to rely on controls over a number of business processes.	

6.3. Error reporting threshold

We agreed with the Group Audit Committee that we would report to the Committee all audit differences in excess of £0.07m (2019: £0.07m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit primarily on the operations and results of the Society and also The Benenden Hospital Trust, the Group's second largest trading entity. We also perform full scope audits on the Group's two other non-dormant entities: Benenden Wellbeing Limited and Benenden Charitable Trust and as such, our audit covered 100% of income and net assets. All entities are audited to an individual materiality level determined on their individual financial statements which range from £0.01m to £1.14m.

7.2. Working with other auditors

The consolidation and all entities within it were audited by the Group audit team, with the exception of The Benenden Hospital Trust. The Group team held regular calls with the component audit team, attended key audit related meetings and also reviewed the audit work performed at various stages throughout the audit process.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Group Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including pensions, and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in valuation of the provision for outstanding members' benefits. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Friendly Societies Act and pension legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the Financial Conduct Authority and the Care Standards Act.

11.2. Audit response to risks identified

As a result of performing the above, we identified the provision for outstanding members' benefits as the key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to this key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Group Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such as the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Board report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Board report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Board report.

13. Opinion on other matters prescribed by our engagement letter

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 as if those requirements applied to the Society.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15. Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we

David Heaton

David Heaton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, UK

20th April 2021

Financial Statements

Statement of income and expenditure

for the year ended 31 December 2020

		Group		Society	
		2020	**2019**	**2020**	**2019**
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Income					
Contributions		**111,129**	99,962	**111,129**	99,962
Investment income	4	**587**	885	**3,800**	4,026
Gain on the realisation of investments		**893**	1,856	**893**	1,856
Gain on investment property revaluation		**65**	450	**65**	450
Commissions receivable		**994**	844	**-**	-
Third party income from hospital activities		**15,069**	11,525	**-**	-
Other income		**199**	303	**198**	295
Total income		**128,936**	115,825	**116,085**	106,589
Expenditure					
Members' benefits	5	**(77,219)**	(89,035)	**(66,358)**	(80,448)
Expenses of management	6	**(21,054)**	(22,257)	**(20,097)**	(21,362)
Non-recurring costs	8	**(63)**	(55)	**(63)**	(55)
Investment expenses and charges		**(801)**	(839)	**(801)**	(839)
Impairment of investment in subsidiary		**-**	-	**(150)**	(600)
Depreciation and impairment of operational property		**(12,631)**	(1,349)	**(12,631)**	(1,349)
Interest and other similar costs		**(1,031)**	(1,201)	**(1,031)**	(1,201)
Total expenditure		**(112,799)**	(114,736)	**(101,131)**	(105,854)
Excess of income over expenditure before tax		**16,137**	1,089	**14,954**	735
Tax on excess of income over expenditure	23	(5)	-	(5)	-
Excess of income over expenditure for the financial year		**16,132**	1,089	**14,949**	735

Statement of other comprehensive income

for the year ended 31 December 2020

		Group		Society	
		2020	**2019**	**2020**	**2019**
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Surplus for the financial year		**16,132**	1,089	**14,949**	735
Unrealised gain on investments		**6,515**	2,676	**6,515**	2,676
Unrealised gain on operational property		**60**	50	**60**	50
Pension scheme actuarial loss		**(4,197)**	(11,379)	**(4,197)**	(11,379)
Lord Plant travelling fellowship expenditure		**(3)**	(2)	**(3)**	(2)
Total gains/(losses) of other comprehensive income		**2,375**	(8,655)	**2,375**	(8,655)
Total gains/(losses) recognised since the last annual report		**18,507**	(7,566)	**17,324**	(7,920)

Statement of financial position

as at 31 December 2020

		Group		Society	
		2020	**2019** (restated)	**2020**	**2019**
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Assets					
Intangible Assets					
Computer intangibles	9	**3,037**	1,692	**2,067**	1,629
Investments					
Land and buildings	11	**15,372**	21,597	**15,372**	21,597
Other financial investments	12	**130,269**	91,662	**130,269**	91,662
Investment in subsidiary	13	**-**	-	**1,750**	1,900
Debtors					
Members' contributions receivable		**1,344**	1,425	**1,344**	1,425
Debtors	16	**5,754**	7,534	**5,031**	5,442
Other assets					
Tangible assets	10	**51,713**	66,150	**40,711**	53,964
Stock	15	**534**	536	**-**	-
Cash and cash equivalents		**17,710**	9,886	**14,487**	6,879
Prepayments and accrued income					
Other prepayments and accrued income		**3,213**	1,579	**1,052**	1,234
Total Assets		**228,946**	202,061	**212,083**	185,732
Liabilities					
Capital and reserves					
Members' funds		**141,958**	123,451	**125,224**	107,900
Gross technical provisions					
Provision for outstanding members' benefits	18	**23,394**	13,602	**23,394**	13,602
Provision for liabilities and charges					
Other provisions	18	**-**	84	**-**	84
Defined benefit pension scheme liability	20	**47,265**	44,199	**47,265**	44,199
Creditors					
Creditors	17	**2,163**	2,492	**3,234**	3,014
Loans to fund the hospital development	19	**4,167**	10,000	**4,167**	10,000
Accruals and deferred income					
Accruals and deferred income		**9,999**	8,233	**8,799**	6,933
Total Liabilities		**228,946**	202,061	**212,083**	185,732

The notes on pages 149-185 form part of these financial statements.
The financial statements on page 144-185 were approved and authorised for issue by the Board on 19 April 2021 and were signed on their behalf by:

Rene Fraoli, Society Secretary
The Benenden Healthcare Society Limited, Friendly Society number 480F

Statement of changes in members' funds

for the year ended 31 December 2020

Group

	General Fund 2020 £'000	Operational Property Reserve 2020 £'000	Investments Reserve 2020 £'000	Lord Plant Fund 2020 £'000	Total Members' Funds 2020 £'000
Surplus for the financial year	**16,132**	**-**	**-**	**-**	**16,132**
Unrealised gains on investments	**-**	**-**	**6,515**	**-**	**6,515**
Release of unrealised gains on disposal	**905**	**(905)**	**-**	**-**	**-**
Unrealised gains on operational property	**-**	**60**	**-**	**-**	**60**
Pension scheme actuarial loss	**(4,197)**	**-**	**-**	**-**	**(4,197)**
Lord Plant Fund movement	**-**	**-**	**-**	**(3)**	**(3)**
	12,840	**(845)**	**6,515**	**(3)**	**18,507**
Balance at 1 January	**119,872**	**905**	**2,629**	**45**	**123,451**
Balance at 31 December	**132,712**	**60**	**9,144**	**42**	**141,958**
	2019 £'000	**2019 £'000**	**2019 £'000**	**2019 £'000**	**2019 £'000**
Surplus for the financial year	1,089	-	-	-	1,089
Reclassification of prior period investment losses	1,899	-	(1,899)	-	-
Unrealised gains on investments	-	-	2,676	-	2,676
Unrealised gains on operational property	-	50	-	-	50
Pension scheme actuarial loss	(11,379)	-	-	-	(11,379)
Lord Plant Fund movement	-	-	-	(2)	(2)
	(8,391)	50	777	(2)	(7,566)
Balance at 1 January (restated)	128,263	855	1,852	47	131,017
Balance at 31 December (restated)	**119,872**	**905**	**2,629**	**45**	123,451

The group seeks to hold a long-term surplus which is available to support requests for assistance that are likely to arise from current and future members.

Included in members' funds are £17,201k (2019: £16,415k [restated]) of net assets (after consolidation adjustments) held by The Benenden Hospital Trust and The Benenden Charitable Trust. Both are registered charities and must apply these funds solely in the pursuit of their charitable objectives, consequently these funds are not available for the general purposes of the group.

The Lord Plant Fund was established following the death of Cyril Thomas Howe Plant to allow colleagues the opportunity to travel within the United Kingdom or overseas to develop personally and bring improvements in all aspects of care for our members and patients.

The reclassification in 2019, relates to losses on financial investments initially recognised in General Fund that should be recorded in Investments Reserve.

Society

	General Fund 2020 £'000	Operational Property Reserve 2020 £'000	Investments Reserve 2020 £'000	Lord Plant Fund 2020 £'000	Total Members' Funds 2020 £'000
Surplus for the financial year	**14,949**	**-**	**-**	**-**	**14,949**
Unrealised gains on investments	**-**	**-**	**6,515**	**-**	**6,515**
Release of unrealised gains on disposal	**668**	**(668)**	**-**	**-**	**-**
Unrealised gains on operational property	**-**	**60**	**-**	**-**	**60**
Pension scheme actuarial loss	**(4,197)**	**-**	**-**	**-**	**(4,197)**
Lord Plant Fund movement	**-**	**-**	**-**	**(3)**	**(3)**
	11,420	**(608)**	**6,515**	**(3)**	**17,324**
Balance at 1 January	**104,558**	**668**	**2,629**	**45**	**107,900**
Balance at 31 December	**115,978**	**60**	**9,144**	**42**	**125,224**
	2019 £'000	2019 £'000	2019 £'000	2019 £'000	2019 £'000
Surplus for the financial year	735	-	-	-	735
Reclassification of prior period investment losses	1,899	-	(1,899)	-	-
Unrealised gains on investments	-	-	2,676	-	2,676
Unrealised gains on operational property	-	50	-	-	50
Pension scheme actuarial loss	(11,379)	-	-	-	(11,379)
Lord Plant Fund movement	-	-	-	(2)	(2)
	(8,745)	50	777	(2)	(7,920)
Balance at 1 January	113,303	618	1,852	47	115,820
Balance at 31 December	**104,558**	**668**	**2,629**	**45**	**107,900**

The Society seeks to hold a long-term surplus which is available to support requests for assistance that are likely to arise from current and future members.

Statement of cash flows

for the year ended 31 December 2020

		Group		Society	
	Notes	2020 £'000	2019 (restated) £'000	2020 £'000	2019 £'000
Cash flows from operating activities					
Surplus for the year		**16,132**	1,089	**14,949**	735
Adjustments for:					
Depreciation and amortisation		**4,551**	4,412	**2,308**	2,406
Net impairment/(gains) on property revaluations		**11,213**	(450)	**11,213**	(450)
Impairment of investments in subsidiary		**-**	-	**150**	600
Profit on sale of assets		**(893)**	(1,747)	**(893)**	(1,847)
Investment income	4	**(587)**	(885)	**(3,800)**	(4,026)
Interest on pensions		**869**	949	**869**	949
Pension adjustment		**(2,000)**	(1,941)	**(2,000)**	(1,941)
		29,285	1,427	**22,796**	(3,574)
Decrease/(increase) in debtors		**227**	(605)	**674**	426
Decrease/(increase) in stock		**2**	(7)	**-**	-
Increase/(decrease) in creditors		**1,353**	(1,806)	**2,002**	699
Increase in provisions for members' benefits		**9,792**	922	**9,792**	922
		11,374	(1,496)	**12,468**	2,047
Lord Plant fund movement		**(3)**	(2)	**(3)**	(2)
Net cash flows generated from operating activities		**40,656**	(71)	**35,261**	(1,529)
Cash flows from investing activities					
Proceeds from sale of fixed assets		**6,700**	380	**6,700**	380
Dividends received		**164**	360	**164**	360
Interest and other income received		**423**	525	**3,636**	3,666
Proceeds from sale of investments	12	**25,763**	36,752	**25,763**	36,752
Acquisition of investments	12	**(56,796)**	(36,965)	**(56,796)**	(36,965)
Acquisition of property and equipment		**(3,253)**	(3,640)	**(1,287)**	(1,345)
Net cash flows used in investing activities		**(26,999)**	(2,588)	**(21,820)**	2,848
Financing activities:					
Loans to fund hospital development		**(5,833)**	-	**(5,833)**	-
Net cash flows used in financing activities		**(5,833)**	-	**(5,833)**	-
Net increase/(decrease) in cash and cash equivalents		**7,824**	(2,659)	**7,608**	1,319
Opening cash and cash equivalents		**9,886**	12,545	**6,879**	5,560
Closing cash and cash equivalents		**17,710**	9,886	**14,487**	6,879

Notes to the financial statements

for the year ended 31 December 2020

1. General information

The Benenden Healthcare Society Limited ('the Society') is a friendly society conducting flat-rate benefits business, and in addition together with its subsidiaries ('the group') provides a range of general insurance products to its members and the wider public.

The Society is a mutual incorporated in England (Friendly Society no. 480F). The address of its registered office is Holgate Park Drive, York, YO26 4GG.

Statement of compliance

The financial statements of the Society and the group have been prepared in compliance with United Kingdom Accounting standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994'. The Society has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), as per paragraph 11.2(b) of FRS 102.

2. Summary of significant accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(a) Basis of preparation

These separate and consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value (namely investment properties, land and buildings and listed investments).

During the year The Benenden Hospital Trust ('Hospital') elected to change its accounting policy with regard to the recognition of medical stock, this change in accounting policy has resulted in the group restating its prior year results in the 2020 financial statements:

Society – the recognition of medical stock does not impact the Society's financial statements and therefore there is no adjustment required in the current or prior period as a result of this accounting policy change.

Group – the group has elected to recognise medical stock in its Statement of financial position rather than expensing this through the Statement of income & expenditure. The purpose of this change is to more accurately reflect the Hospital's asset position as well as the cost of stock movements in the period. This change in accounting policy has resulted in the group restating its prior year results as presented in these 2020 financial statements. Medical consumables stock with a value of £492k has been introduced which resulted in total stock value of £536K as at 31 December 2019. The equivalent stock at the start of the previous year as at 1 January 2019 was £435k. The balances of the General Fund and Total Members' Funds at 31 December 2019 are now £119,872k and £123,451k respectively having been previously recorded as £119,380k and £122,959k. Similarly, the balances of the General Fund and Total Members' Funds at 1 January 2019 are now £128,263k and £131,017k respectively having been previously recorded as £127,771k and £130,525k. The prior period Statement of financial position and the Statement of cashflows have been amended to reflect the movement in stock between 31 December 2018 and 31 December 2019.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and Society's accounting policies. Management estimates are based on subjective as well as objective factors and, as a result, judgement may be required to estimate an amount at the date of the financial statements. Management's judgement is based on its knowledge and experience about past and current events, its assumptions about conditions it expects to exist and courses of action it expects to take.

Judgements made by management in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed under 'Significant accounting estimates and judgements'.

(b) Going concern

The consolidated financial statements are prepared on a going concern basis. In considering the going concern basis, the Directors have reviewed the group's and Society's future cash requirements, earnings projections and capital projections. The Board of Directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. Following the emergence of the COVID-19 pandemic in the year, the Board of Directors continue to undertake further reviews to assess the financial and operational impacts of COVID-19 up to the date of approval of the financial statements. The actions in this review include:

- The operation of a risk management framework and business continuity plan to support the ongoing provision of core in-house services;
- Frequent monitoring of the company's key suppliers who are critical in terms of the delivery of ongoing services to members, including the Hospital and BUPA.
- Daily monitoring of the investment fund and working capital of the Society; and
- The completion of the 2021-2025 budget and forecast, together with stress testing covering several severe scenarios.

The Board of Directors has concluded that the group and Society will be able to operate without requiring additional external funding and therefore believe it's appropriate to prepare consolidated financial statements of the group and Society on a going concern basis.

The Society trades exclusively in the United Kingdom and therefore the impact of Brexit isn't expected to have a material impact on the group's trading position.

(c) Basis of consolidation

The consolidated financial statements include the results of the Society and its subsidiary undertakings made up to 31 December each year. A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiary undertakings are included in the consolidated statement of income and expenditure from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Benenden Charitable Trust and the Hospital are controlled bodies of the Society under the provisions of the Friendly Societies Act 1992 and are fully consolidated accordingly.

The amounts in the consolidated financial statements all arise from continuing operations made up until 31 December each year.

(d) Functional and presentation currency

The group financial statements are presented in pounds sterling and rounded to the nearest thousand.

The Society's functional and presentation currency is pounds sterling as this is the currency of the United Kingdom in which the Society exclusively trades.

(e) Revenue recognition

(i) Contribution income
Revenue is recognised at the fair value of the consideration received with the main source being member contributions. Contributions are recognised on a monthly basis as and when certainty of membership is confirmed.

Revenues are included in the financial statements and represent the income payable by the active membership in the year either:

a) by amounts advised as being deducted from members' payroll by employers or pension providers in the year; or

b) on payments received directly from members in respect of the year; or

c) less refunded contributions paid to members.

(ii) Investment income
Income from rental properties and investments includes dividends from the investment portfolio, together with any associated tax credit and interest from bank deposits and is shown in the statement of income and expenditure on an accruals basis.

(iii) Commission income
Commission income comprises commission earned by Benenden Wellbeing Limited on travel insurance, health assessments and health cash plans.

Commission income is recognised at fair value on a monthly basis in line with contractual obligations with the respective third parties.

(iv) Third party income from Hospital activities

Third party income from Hospital activities represents the invoiced value of goods and services supplied. Included within this, is income due from the National Health Service England ('NHSE') COVID-19 contract for the period 21 March 2020 to 24 December 2020, which paid for Hospital capacity on a cost recovery basis. The income recognised in the period is receivable in line with the contract, however the final true-up position is subject to detailed scrutiny by auditors working on behalf of NHSE. This review is on-going and is expected to be completed in the summer of 2021.

(v) Other income
Charitable donations, profit shares, legacy and other income are credited to the statement of income and expenditure when there is adequate certainty of receipt.

(f) Employee benefits

The Benenden Healthcare Pension Plan (the 'Scheme') is funded by the Society, the Hospital (the 'employers') and employees of both entities through their respective contributions.

(i) Group Defined Benefit Plan
The Society recognises the cost and net obligation of the group-wide defined benefit pension plan. One of the Society's subsidiaries (the Hospital) also participates in the Scheme. There is no contractual agreement or stated policy for charging the net defined benefit cost between the Society and the Hospital. In light of this, the Society recognises the full cost of the Scheme, including the Hospital portion of the FRS 102 Scheme liability

The Society's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service; that benefit is discounted to determine its present value. The fair value of plan assets is deducted from the total liability to arrive at the net asset or obligation.

The net interest expense is determined on the net defined benefit liability for the period by applying the discount rate (as determined at the beginning of the annual period) to the net defined benefit liability, taking account of changes arising as a result of contributions and benefit payments. The Scheme assets and liabilities are recognised in full in the accounts of the Society on a net basis. FRS 102 requires that the discount rate should reflect the current rate of return available on high quality corporate bonds (typically AA-rated or equivalent) of equivalent currency and term to the plan liabilities.

The Society's defined benefit pension scheme closed to future accrual on 31 December 2018. Previously the rates of contribution paid were determined by the Pension Trustees on advice of the Scheme Actuary.

A triennial valuation is undertaken by a professionally qualified actuary. Actuarial gains or losses are recognised under the heading 'Pension scheme actuarial gain/loss' within the statement of other comprehensive income.

(ii) Group defined contribution plan
A defined contribution plan is a pension scheme under which the group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase.

The Society operates a defined contribution pension plan for the auto-enrolment of all new and any existing employees. The Society's principal subsidiary, the Hospital, participates in this Scheme. The Society and Hospital makes guaranteed fixed contributions on a regular basis relative to the level of the employee contribution. The future benefits are not guaranteed, and the Society and Hospital have no legal or constructive obligation to pay further amounts.

(g) Taxation

The Benenden Hospital Trust and The Benenden Charitable Trust are exempt from corporation tax.

(i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end in the financial statements.

(ii) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. In general, deferred tax is recognised in respect of all timing differences between taxable profit and total comprehensive income at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

(h) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are separable from the entity or arise from contractual or legal rights. An intangible asset is recognised if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost or value can be measured reliably. Intangible assets are measured using the cost model, which takes into account accumulated amortisation and all impairment losses. The valuation is based on the predicted future cash flows of the intangible asset using an appropriate discount rate.

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Computer intangible 3 years

(i) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses or revalued amount. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

(i) Property, plant and equipment
The hospital asset is valued at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses by both the group and Society.

Other property is recognised initially at cost and is revalued periodically using market-based evidence. Gains on revaluation in excess of losses previously recognised on individual assets, are credited, through the statement of other comprehensive income. Losses on revaluation in excess of gains previously recognised on individual assets, are debited through the statement of income and expenditure.

Plant and equipment are recognised at cost, including all costs necessary to prepare the asset for its intended use, an estimate of the costs of dismantling and removing the item and restoring the site if required.

Revaluations are made with sufficient regularity to ensure that the carrying value does not differ materially from fair value.

(ii) Depreciation
Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Fixtures and fittings	15 years
Furniture and equipment	5-7 years
Computer equipment	3-7 years
Motor vehicles	3 years

Assets held under the revaluation model are depreciated in the period when they are not revalued, with the accumulated depreciation being reversed at each revaluation date to the extent required to meet the updated valuation.

(j) Borrowing costs

Borrowing costs are recognised in the statement of income and expenditure in the period in which they are incurred.

The total amount of borrowings is recognised in the statement of financial position as 'Loans to fund hospital development'. The Society has a term loan maturing in 2021 backed by a floating charge over the Society's assets.

(k) Leased assets

At inception the group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases and are charged to the statement of income and expenditure on a straight-line basis over the period of the lease. All other leases are classified as finance leases. Finance leases are recognised at the present value of the minimum lease value, neither the group nor Society held any finance leases in 2020.

(l) Impairment of non-financial assets

At each balance sheet date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit, 'ACGU') may be impaired. If there is such an indication the recoverable amount of the asset (or ACGU) is compared to the carrying amount of the asset (or ACGU).

The recoverable amount of the asset (or ACGU) is the higher of the fair value, less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or ACGU) continued use.

The cash flows are derived from the business plans for the next three to five years and does not include any activities that the group is not yet permitted to undertake or significant future investments that will enhance the asset's performance.

If it is not possible to determine the recoverable amount of the asset, then it is based on the recoverable amount of the income-generating unit to which it belongs.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the statement of income and expenditure as an impairment loss. Assessment of impairment is carried out at each reporting date, where there are indicators of impairment of individual assets. Management performs impairment tests based on the recoverable amount.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or ACGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of income and expenditure.

(m) Investments in subsidiaries

Investments in subsidiaries are measured at cost on initial recognition and subsequently subject to impairment review. Any impairment loss is recognised in the statement of income and expenditure. Assessment of impairment is carried out at each reporting date, where there are indicators of impairment of individual investments. Management performs its impairment test by comparing the carrying value of the investment with the recoverable amount. The cash flows are derived from the business plans for the next five years and does not include any activities that the group isn't yet permitted to undertake or significant future investments that will enhance the asset's performance.

If it is not possible to determine the recoverable amount of the asset, then it is based on the recoverable amount of the income-generating unit to which it belongs.

(n) Investments

(i) Investment properties
Investment property is property held to earn rentals or for capital appreciation or both. Investment property is measured at cost on initial recognition. Subsequently, investment property is measured at fair value at the reporting date with any changes recognised in the statement of income and expenditure.

(ii) Other investments
Other investments held by the Society (excluding term deposits with a maturity date of more than three months) are classified as being available for sale ('AFS') and are stated at fair value. Other investments are initially recognised at cost in the statement of financial position and are revalued on a quarterly basis at quoted price, with any gain or loss recognised in the revaluation reserve within the statement of other comprehensive income. On disposal, cumulative gains and losses that have arisen as a result of changes in fair value in AFS financial assets are recycled in full in the statement of income and expenditure.

Term deposits with a maturity date of more than three months are stated at initial investment plus any accrued interest and are classified as loans and receivables.

All of the Society's other investments are quoted in an active market. The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis, and use the source which the Society's investment advisors consider most appropriate for the market and investment concerned. The quoted price is usually the current bid price.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined below, net of outstanding bank overdrafts.

(o) Debtors

Member contributions outstanding and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost.

Provision is made when there is objective evidence that the group will not be able to recover balances in full, with the charge being recognised in the statement of income and expenditure.

(p) Stock

Stock is valued at the lower of cost or estimated selling price less selling costs (net realisable value) and includes Hospital medical goods.

(q) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with a current maturity date of three months or less.

(r) Financial instruments

The group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at fair value or amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment.

If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate.

The impairment loss is recognised in the statement of income and expenditure.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of income and expenditure.

Other financial assets which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the statement of other comprehensive income except investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price, and represent the total change in fair value since an investment was acquired and is calculated using the average cost method.

Movements in unrealised gains and losses on investments represent the difference between the fair value at the statement of financial position date and their purchase price or their fair value at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Dividends on equity instruments are included as investment income on the date the equity shares are quoted ex dividend and are stated net of any withholding tax.

(ii) Financial liabilities
Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Provision for outstanding member benefits represents the anticipated cost of all cases that have been either authorised and expected to commence treatment or have started treatment and the costs are yet to be fully charged and are thereby accrued in line with FRS 102 section 21.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they're included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(s) Related party transactions

Balances due to or from other group companies are initially recognised at fair value, and subsequently held at amortised cost, less any provision for impairment.

(t) Members' benefits

Consists of all the directly attributable costs of delivering services to the membership such as medical services, costs related to the Hospital (including costs for third party treatment), information-based services, the cost of running the Member Services function as well as movements in the outstanding Member Benefits provision.

(u) Expenses of management

The expenses of management are recognised as the non-medically related costs incurred by the group, and consist of all the running costs of the group excluding those categorised as 'members' benefits' in the financial statements. Included within expenses of management are staffing (e.g. salaries, pension, recruitment, training), operational costs (e.g. utilities, stationery, systems support and maintenance), recruitment of members, cost associated with running the Branch network, Conference, the Board, depreciation and delivery of strategic objectives.

(v) Total members' funds

Reserves are the accumulated unrestricted surpluses of the Society, its subsidiaries and controlled bodies, added to the unrealised gains on investments.

Reserves are available for use at the discretion of the Board and increases (or decreases) the organisation's ability to absorb or respond to temporary changes in its business environment.

3. Critical accounting judgements and estimation uncertainty

In the preparation of these financial statements, the group is required to make estimates and judgements that affect items reported in the group and Society statement of income and expenditure, statement of financial position, and other primary statements and related notes. The key areas involving a degree of judgement or complexity, or areas where assumptions are significant to the financial statements are listed below.

Critical judgements in applying the group's accounting policies

(a) Provision for outstanding members' benefits

Management deem FRS 102 section 21 to be the appropriate accounting standard to follow when assessing what provision is required for its obligations in respect of outstanding members' benefits. This provision, at the reporting date, represents the anticipated cost of all cases that have been or are expected to be authorised and expected to commence treatment, or have started treatment and the costs are yet to be fully charged.

(b) Investment in subsidiary

It is management's view that the value of the Society's investment in subsidiary should be reviewed each year for evidence of impairment. Management exercises its judgement in determining whether indicators of impairment exist.

(c) Property valuation

The group and Society hold investment property and operational property. Property is held at depreciated cost or fair value, dependent on its asset class. Where property is held at fair value, management has undertaken a external valuation at the year end to ensure the accuracy of this fair value.

Key accounting estimates and assumptions

(a) Provision for outstanding members' benefits

The valuation of the outstanding members' benefits provision is based on the expected future costs of settling cases that have been or are expected to be authorised, by reference to past experience and trends seen in the preceding months. The provision uses average take-up rates and average case costs to estimate the liability of all open cases at 31 December each year that were not settled at that date. The assumptions used are sensitive to fluctuations in demand and cost, however, the trends are analysed over the preceding months using a cohort methodology to extrapolate the underlying data (see note 18). At 31 December 2020, the provision for outstanding members' benefits was £23,394k (2019: £13,602k).

During the pandemic in 2020 Government guidance and restrictions have resulted in changes in member behaviour and the availability of certain clinical and treatment facilities. The latter led to delays in providing some services resulting in lower billing than normal and consequently a higher level of outstanding member benefits at the year end. Furthermore, given the unprecedented restrictions facing the population at large, the Society has relaxed the usual requirement for members to take up services within six months of approval. All cases approved during 2020 will remain open for take up until 30 June 2022. This significantly lengthens the period of claims exposure and uncertainty for the Society.

The combined impact of these issues has resulted in wide variability in claims development trends and the development tail has increased. It will therefore be a much longer period than normal before the ultimate costs of these member benefits will be known with a high degree of certainty.

In assessing the level of provision at the year end, Management has considered different scenarios for the development to maturity of take up rate and average cost assumptions for cases opened in 2020. Management has applied judgment in finalising the level of provision for the year end and the cost of member benefits for 2020. Recent guidance from the Financial Reporting Council has requested disclosure of sensitivity analysis or ranges of possible outcomes to be provided for areas subject to significant estimation uncertainty. Management views the provision for outstanding members' benefits as a key estimate and consider that the estimated range of outcomes for member benefits could result in the provision being between £3,150k lower up to £4,150k higher for the year. The lower estimate reflects the potential outcomes for take up rates and average costs being c 3% lower than assumed. The higher estimate reflects the impact of the average take up rate being 8% higher than assumed over the extended period for members to take up benefits.

(b) Investment in subsidiary

The recoverable amount of the cash-generating unit is based on value in use calculations. The calculations are based upon expected pre-tax cash flows. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. At 31 December 2020 the Society's investment in subsidiary was valued at £1,750k (2019: £1,900k).

(c) Property valuation

Management engaged an independent professional valuer to undertake a valuation at 31 December 2020. The methodology for this calculation is detailed in note 11. This revaluation has resulted in a net impairment in the year of £11,153k (2019: £nil). At 31 December 2020 the group's and Society's property was valued at £55,720k (2019: £74,927k).

(d) Pension benefit obligation

The valuation of the pension benefit obligation for the group's defined benefit scheme requires actuarial assumptions relating to discount rates, inflation, longevity and future pension increases. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty. Details of the principal assumptions used for the defined benefit scheme are disclosed in note 20. At 31 December 2020 the pension benefit obligation was £47,265k (2019: £44,199k).

4. Investment income	Group		Society	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Collective investment income	**164**	360	**164**	360
Rental income	**295**	409	**3,510**	3,559
Interest received	**128**	116	**126**	107
Income from investments	**587**	885	**3,800**	4,026

5. Members' benefits	Group		Society	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Treatment services	**12,041**	14,894	**12,041**	14,894
Consultation service	**25,938**	32,528	**25,938**	32,528
Financial assistance	**214**	402	**214**	402
Grants and donations	**-**	-	**25,630**	30,165
Hospital running costs	**36,491**	38,752	**-**	-
Information based services	**2,535**	2,459	**2,535**	2,459
Total members' benefits	**77,219**	89,035	**66,358**	80,448

Regulated activity

Less than 0.1% of the Total members' benefits relates to the regulated activity of provision of approved treatment for tuberculosis or any allied condition.

6. Expenses of management include the following expenditure	Group		Society	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Officers' emoluments and other payments*	**1,078**	1,064	**1,078**	1,064
Auditor's remuneration (including VAT)	**253**	298	**176**	227
Expenses paid to the Board	**14**	94	**14**	94
Operating lease rentals - plant and machinery	**146**	157	**91**	92
Depreciation and impairment	**15,085**	3,729	**12,842**	1,723
Amortisation	**744**	699	**744**	699
Officers' emoluments and other payments*				
Chief Executive Officer	**321**	343	**321**	343
Chief Financial Officer	**271**	257	**271**	257
Secretary	**97**	95	**97**	95
Non-Executive Directors	**389**	369	**389**	369
Total	**1,078**	1,064	**1,078**	1,064
Amount receivable (excluding VAT) by the group's auditor and its associates in respect of:				
Audit of financial report and financial statements				
- fees and expenses in respect of current year	**172**	159	**172**	159
- (over provision)/additional costs in relation to previous year end	**(25)**	7	**(25)**	7
Audit of the financial statements of the subsidiaries	**64**	59	**-**	-
Audit related assurance services	**-**	-	**-**	-
Tax compliance services	**-**	5	**-**	5
Other assurance services	**-**	19	**-**	19
Total	**211**	249	**147**	190

* Officers' emoluments and other payments represent the amounts paid in the year on salaries, bonus (including accrued and not yet paid), car allowance and the employers pension contributions.

The number of remunerated non-executive directors at the end of 2020 was 12 (2019: 12).

The group and Society's key management personnel are the members of the Board.

7. Employee number and costs	Group		Society	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Wages and salaries	**20,925**	20,315	**11,418**	10,228
Social security costs	**1,982**	1,889	**1,216**	1,065
Contributions to defined contribution pension plan	**2,650**	2,401	**1,471**	1,279
	25,557	24,605	**14,105**	12,572
Board	**12**	12	**12**	12
Management	**5**	7	**4**	6
Medical Services	**359**	355	**-**	-
Administration and Support	**431**	369	**308**	273
Number of employees	**807**	743	**324**	291

Senior Management

Full disclosure of the Chief Executive Officer's and Chief Financial Officer's employee benefits are shown in the Directors Remuneration Report on pages 118 to 129.

8. Non-recurring costs	Group		Society	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Legal costs	**63**	55	**63**	55
Total non-recurring costs	**63**	55	**63**	55

The legal costs of £63k (2019: £55k) were incurred relating to the ongoing investigation in relation to issues raised in 2016 about how the Society was run between January 2015 and July 2016. Please refer to note 26.

9. Intangible Assets	Computer Intangible	
	Group	Society
Cost	£'000	£'000
At 1 January 2020	7,551	7,488
Additions	2,089	1,182
Disposals in year	(298)	(298)
At 31 December 2020	**9,342**	**8,372**
Amortisation and impairment		
At 1 January 2020	5,859	5,859
Amortisation charge for the year	744	744
Disposals in year	(298)	(298)
At 31 December 2020	**6,305**	**6,305**
Net book value 31 December 2019	1,692	1,629
Net book value 31 December 2020	**3,037**	**2,067**

10. Tangible fixed assets	Land and buildings		Fixtures and fittings	Motor vehicles	Furniture and equipment	Total
	@Revaluation	@Cost				
Group						
Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	3,229	51,450	10,844	162	18,676	84,361
Additions	-	-	75	-	1,089	1,164
Transfer in from investment properties	260	-	-	-	-	260
Disposals	(670)	-	-	(9)	(6,829)	(7,508)
At 31 December 2020	**2,819**	**51,450**	**10,919**	**153**	**12,936**	**78,277**
Depreciation and impairment						
At 1 January 2020	63	1,286	4,044	104	12,714	18,211
Provided in the year	68	1,287	440	19	1,993	3,807
Disposals	(1)	-	-	(9)	(6,662)	(6,672)
Impairment	-	11,278	-	-	-	11,278
Depreciation reversed on revaluation	(60)	-	-	-	-	(60)
At 31 December 2020	**70**	**13,851**	**4,484**	**114**	**8,045**	**26,564**
Net book value 31 December 2019	3,166	50,164	6,800	58	5,962	66,150
Net book value 31 December 2020	**2,749**	**37,599**	**6,435**	**39**	**4,891**	**51,713**

10. Tangible fixed assets (continued)	Land and buildings		Fixtures and fittings	Motor vehicles	Furniture and equipment	Total
	@Revaluation	@Cost				
Society						
Cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2020	**3,229**	**51,450**	**-**	**-**	**2,818**	**57,497**
Additions	**-**	**-**	**-**	**-**	**105**	**105**
Transfer from investment properties	**260**	**-**	**-**	**-**	**-**	**260**
Disposals	**(670)**	**-**	**-**	**-**	**(1,853)**	**(2,523)**
At 31 December 2020	**2,819**	**51,450**	**-**	**-**	**1,070**	**55,339**
Depreciation and impairment						
At 1 January 2020	**63**	**1,286**	**-**	**-**	**2,184**	**3,533**
Provided in the year	**68**	**1,287**	**-**	**-**	**209**	**1,564**
Disposals	**(1)**	**-**	**-**	**-**	**(1,686)**	**(1,687)**
Impairment	**-**	**11,278**	**-**	**-**	**-**	**11,278**
Depreciation reversed on revaluation	**60**	**-**	**-**	**-**	**-**	**60**
At 31 December 2020	**70**	**13,851**	**-**	**-**	**707**	**14,628**
Net book value 31 December 2019	3,166	50,164	-	-	634	53,964
Net book value 31 December 2020	**2,749**	**37,599**	**-**	**-**	**363**	**40,711**

Tangible fixed assets with a carrying value of £40,711k (2019: £53,964k) are pledged as security for the group's and Society's bank loan.

The group and Society occupied land and buildings for its own use and the use of its members with a value of £40,348k at the year end (2019: £53,330k).

63 Catherine Place was sold on 28 February 2020. This property was both used by the Society and held for its investment potential, as such the property was split between Land and buildings and Investment property. Consequently, there is a disposal of £670k in Land and buildings and £6,030k in Investment property which relates to this property (as seen in note 11).

On 2 October 2020 the lease on Unit 2 Holgate Court expired and the property was occupied by the Society. Consequently the value of this property was transferred from Investment property to Land and buildings.

In the year, the properties owned by the Society were revalued by an independent, professionally qualified valuer as at the balance sheet date. As a result, the value of the operational properties reduced by £11,218k which included an impairment of the hospital of £11,278k. The value of the other operational properties increased by an overall net £60k.

11. Investments - Land and buildings	Investment property (at fair value)
Group and Society	
Cost	**£'000**
At 1 January 2020	21,597
Disposals	(6,030)
Transfer to operational properties	(260)
Unrealised gain to members' funds	–
Realised gain to statement of income and expenditure	65
Balance at 31 December 2020	**15,372**
Accumulated amortisation:	
Balance at 1 January 2020	–
Amortisation charge for the period	–
Balance at 31 December 2020	**–**
Net balance at 31 December 2019	21,597
Net group investments at 31 December 2020	**15,372**

63 Catherine Place was sold on 28 February 2020. This property was both used by the Society and held for its investment potential, as such the property was split between Land and buildings and Investment property. Consequently, there is a disposal of £670k in Land and buildings and £6,030k in Investment property which relates to this property (as seen in note 10).

On 2 October 2020 the lease on Unit 2 Holgate Court expired and the property was occupied by the Society. Consequently the value of this property was transferred from Investment property to Land and buildings.

Investment Property

The group's investment properties are valued annually as at 31 December of each financial year at fair value.

'At 31 December 2020 the fair value of the investment property was determined by an independent, professionally qualified valuer. The independent valuation was undertaken in accordance with Royal Institution of Chartered Surveyors' ("RICS") Valuation – Global Standards 2020 incorporating the IVSC International Valuation Standards (the "RICS Red Book") issued November 2019 and effective from 31 January 2020, and where appropriate the RICS Valuation – Professional Standards UK, January 2014 (revised April 2015), in particular in accordance with the requirements of VPS 3 entitled Valuation Reports and VPGA 2 Valuation of interests for secured lending, as appropriate.

The key assumption in this valuation is the definition of market value (as per Valuation Standard VPS 4 of the RICS Red Book) as being the "estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

A profit on revaluation of investment property of £65k (Society - £65k) has been recognised in the statement of income and expenditure for the year.

If investment property had been accounted for under the historic cost accounting rules, the property would have been measured as follows:

	Group & Society	
	2020	**2019**
	£'000	**£'000**
Historic cost	**5,675**	5,958
Accumulated depreciation and impairments	**(4,728)**	(4,647)
	947	1,311

12. Investments - Other Investments	At fair value			
	Fixed maturity securities	Equity securities	Other investments (including derivatives)	Total Investments
Group and Society	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2020	**71,420**	**13,013**	**7,229**	**91,662**
Additions	**12,125**	**12,085**	**32,586**	**56,796**
Disposals	**(11,248)**	**(10,573)**	**(3,942)**	**(25,763)**
Gain/(loss) to members' funds or income statement	**5,023**	**(130)**	**2,681**	**7,574**
Balance at 31 December 2020	**77,320**	**14,395**	**38,554**	**130,269**
Net investments at 31 December 2019	71,420	13,013	7,229	91,662
Net investments at 31 December 2020	**77,320**	**14,395**	**38,554**	**130,269**

Within investments, there are significant additions and disposals in the year which relate to the Society's investments with Ruffer LLP. Unlike the Society's other fund-based investments, Ruffer invests the funds under their management directly thereby generating a large number of transcations. In line with accounting standards the Society records these investment transactions as additions and disposals in the period, even though no further funds have been invested or disinvested with Ruffer during the year.

In the year, the Society invested surplus cash in two new investments represented in the above, within 'Other Investments'. £23,000k was invested in an L&G Cash Trust and £8,000k was invested in a Barclays savings account- both were invested in line with the Society's investment strategy.

13. Society investment in subsidiary undertakings

	2020 £'000
Cost	
At 1 January 2020	**4,801**
Additional investment in subsidiaries	**-**
At 31 December 2020	**4,801**
Accumulated impairment	
At 1 January 2020	**2,901**
Impairment in the year	**150**
At 31 December 2020	**3,051**
Net balance at 31 December 2019	1,900
Net book amount at 31 December 2020	**1,750**

The accumulated impairment loss bought forward includes the impairment of the Society's investment in The Friendly Healthcare Organisation Limited (FHOL) in 2016 of £2,301k. FHOL ceased to trade in July 2015 following the sale of its trade and assets to Benenden Wellbeing Limited, another group company. FHOL has been dormant since 3 August 2016. The impairment loss brought forward also includes and impairment of £600k in the Society's investment in Benenden Wellbeing Limited.

At 31 December 2020 management reviewed the forecast performance of Benenden Wellbeing Limited. This indicated that the previous net book value was no longer appropriate and the Society has applied an impairment of £150k (2019: £600k) in the year.

Investment in subsidiaries

At 31 December 2020 the group and Society had interests in the following subsidiaries, all of which are included in the consolidated figures:

Company name	Subsidiary of	Business activity	Registered Office Address	Country of Incorporation	Proportion of shares held	Share Class	Shares issued
Benenden Wellbeing Limited	Society	Insurance Intermediary	Holgate Park Drive, York, YO26 4GG	England	100%	Ordinary	2,500,000
Best Health Limited	Society	Dormant	Holgate Park Drive, York, YO26 4GG	England	100%	Ordinary	2
The Friendly Healthcare Organisation Limited	Society	Dormant	Holgate Park Drive, York, YO26 4GG	England	100%	Ordinary	1

These consolidated results include the financial statements of The Benenden Charitable Trust and The Benenden Hospital Trust as they represent controlled bodies, for the reasons below:

The Benenden Charitable Trust

The Benenden Charitable Trust is a controlled body of the Society under the provisions of the Friendly Societies Act 1992. Control is effected by the Charity's constitution allowing the majority of its trustees to be appointed by the members of which the Society is the sole member of the Trust.

Audited financial statements for The Benenden Charitable Trust are publicly accessible from The Charity Commission, Registrar of Companies or directly from The Benenden Charitable Trust, Holgate Park Drive, York, YO26 4GG.

The Benenden Hospital Trust

The Hospital became a controlled body of the Society under the provisions of the Friendly Societies Act 1992 with effect from 1 July 2003. Control was effected by the Hospital's constitution being changed to allow the majority of its trustees to be appointed by the Society and the Society being admitted as a member of the Hospital Trust.

The transfer of control has been treated in accordance with UK Generally Accepted Accounting Practices and as such fair values were assigned to the net assets of the Hospital and its subsidiary undertakings.

No consideration was paid by the Society in respect of the assessed fair value of assets as stated above. The financial results since acquisition have been incorporated into the consolidated financial statements of the Society.

Audited financial statements for the Hospital are publicly accessible from the Charity Commission, Registrar of Companies or directly from The Benenden Hospital Trust, Goddard's Green Road, Benenden, Cranbrook, Kent, TN17 4AX.

Financial Instruments

The group and Society uses financial instruments to invest liquid asset balances and generate income through the return generated by these financial instruments.

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. This note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The tables below analyse the group's and Society's assets and liabilities by financial classification:

14. Carrying values by category	Held at amortised cost		Held at fair value	
Group	Loans and receivables	Financial assets and liabilities at amortised cost	Available for sale	Total
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	17,710	-	-	17,710
Members' contributions receivable	1,344	-	-	1,344
Other assets	-	7,963	130,269	138,232
Total financial assets	**19054**	**7,963**	**130,269**	**157,286**
Non-financial assets				71,126
Total assets	**19,054**	**7,963**	**130,269**	**228,412**
Financial liabilities				
Loans to fund hospital development	-	4,167	-	4,167
Amounts owed to members and suppliers	-	25,222	-	25,222
Other liabilities	-	10,334	-	10,334
Total financial liabilities	**-**	**39,723**	**-**	**39,723**
Non-financial liabilities				47,265
Total liabilities	**-**	**39,723**	**-**	**86,988**

14. Carrying values by category

Society

	Held at amortised cost		Held at fair value	
	Loans and receivables	Financial assets and liabilities at amortised cost	Available for sale	Total
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	14,487	-	-	14,487
Members' contributions receivable	1,344	-	-	1,344
Other assets	-	5,079	130,269	135,348
Total financial assets	15,831	5,079	130,269	151,179
Non-financial assets				60,904
Total assets	15,831	5,079	130,269	212,083
Financial liabilities				
Loans to fund Hospital development	-	4,167	-	4,167
Amounts owed to members and suppliers	-	23,907	-	23,907
Other liabilities	-	11,520	-	11,520
Total financial liabilities	-	39,594	-	39,594
Non-financial liabilities				47,265
Total liabilities	-	39,594	-	86,859

At the year end, the group and Society has loan commitments of £4,167k (2019: £10,000k) measured at cost less impairment.

Derivative financial instruments – Forward contracts

The group and Society enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables within the investment portfolios. At 31 December 2020, the outstanding contracts all mature within 6 months (2019: all mature within 6 months) of the year end. The group and Society are committed to buy €1,308k, US$7,820k and JP¥353,257k and pay a sterling amount (2019: US$13,863k and JP¥93,972k).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD, GBP:JPY and GBP:EUR. The fair value of the forward-foreign currency contracts is £334k (2019: £747k).

Valuation of financial instruments carried at fair value

The group and Society hold certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1
The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2
Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3
Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

The tables below summarise the fair values of the group's and Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the group and Society to derive the financial instruments fair value:

14. Fair Value - Group and Society	Level 1	Level 2	Level 3	Total
Financial assets Available for sale	**£'000**	**£'000**	**£'000**	**£'000**
Other Financial Investments				
Fixed maturity securities	**77,320**	-	-	**77,320**
Equity securities	**14,395**	-	-	**14,395**
Other investments (including derivatives)	**29,919**	**8,635**	-	**38,554**
Other assets held at fair value				
Investment Property	-	**15,372**	-	**15,372**

Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2020 and 2019 is shown in the following table:

14. Collateral	Group & Society	
	2020	2019
	£'000	£'000
Cash and cash equivalents	**14,487**	6,879
Members' contributions receivable	**1,344**	1,425
Other financial assets	**153,474**	121,835
Non-financial assets	**42,778**	55,593

Financial assets are pledged as collateral as part of securities borrowing under terms that are usual and customary for such activities.

Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligations, it also may arise in terms of default or deterioration in a counterparty. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty.

The group's and Society's maximum credit risk exposure is detailed in the table below:

14. Credit Risk	Group		Society	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash and cash equivalents	**17,710**	9,886	**14,487**	6,879
Members' contributions receivable	**1,344**	1,425	**1,344**	1,425
Debtors	**5,754**	7,534	**5,031**	5,442
Investments	**130,269**	91,662	**130,269**	91,662
Total statement of financial position exposure	**155,077**	110,507	**151,131**	105,408

The group and Society does not use credit derivatives, or similar instruments, to manage its credit risk. None of the above assets are either past due or impaired. The group and Society's investments and cash are all held in investment grade assets.

Liquidity risk

Liquidity risk is the risk that the group and Society cannot make payments as they become contractually due because there are insufficient assets in cash form.

The group and Society encounters potential liquidity risk exposures from its different business activities. It principally arises from an unexpected increase in Member benefit payments. Liquidity is maintained to a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to the Hospital. The group Investment and Treasury Policy and associated standards have been set to maintain sufficient liquid assets.

At a group level there is a liquidity risk appetite statement which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions.

The group and Society manage this by:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Maintaining sufficient expected fund levels to be able to settle liabilities as these fall due; and
- Forecasting additional cash demands and management actions to be taken to liquidate sufficient assets to meet the increased demands

Maturity analysis for financial liabilities

The tables below set out the remaining contractual maturities for the group's and Society's financial liabilities. In practice, contractual maturities are not always reflected in actual experience.

14. Liquidity Risk - Group	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	Total
	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Loans to fund hospital development	-	-	4,167	-	4,167
Amounts due to members and suppliers	-	12,645	22,911	-	35,556
Total liabilities	**-**	**12,645**	**27,078**	**-**	**39,723**

14. Liquidity Risk - Society	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	Total
	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Loans to fund hospital development	-	-	4,167	-	4,167
Amounts due to members and suppliers	-	12,645	22,782	-	35,427
Total liabilities	**-**	**12,645**	**26,949**	**-**	**39,594**

Market risk

Financial market risk is defined as the risk that arises from adverse fluctuations or increased volatility in asset values, asset income or interest rates. This includes credit spreads widening. The group manages these risks through aligning the investment strategy, asset allocation and performance benchmarks with the group's risk appetite.

The key types of financial market risk to which the group is exposed are:

Investment Property - The group has a significant exposure to the UK property market through the carrying value of its land and buildings. If there is a sudden down turn in the UK property market this could result in the group and Society booking a significant impairment loss to the statement of income and expenditure. The group manages this risk by monitoring market conditions and utilising a sensitivity analysis as described below.

Market Fluctuations - The group has an exposure to the Stock Market through its investment portfolio, which in turn has a greater exposure to market conditions. Management manages this risk by reference to the group's Investment Managers and by monitoring market conditions. A sensitivity analysis has been provided below.

Interest Rate Risk - Interest rate risk covers two principal areas, firstly as the risk that the cash flows resulting from the group's utilisation of credit facilities will vary as market rates of interest vary. The group and Society has a £4,167k (2019: £10,000k) facility at 31 December 2020. Secondly, the group has an exposure to interest rate risk through its investment portfolio and specifically though the group's fixed interest securities of £12,595k (2019: £10,649k). Also within investments, the Society has cash investments of £31,633k (2019: £2,282k), all of which are exposed to interest rate movements. After consideration by the group, the impact of interest rate movements are immaterial and therefore no sensitivities have been included.

Foreign Currency Exchange Rate Risk - The group solely operates within the UK and therefore does not have significant exposure to the currency markets through its operations. However, the group's investment strategy and policies allow for a level of investment in overseas markets.

14. Market risk sensitivity analysis - Group	Net investment	Change in market price by	Effect on income and on equity	Net investment	Change in market price by	Effect on income and on equity
Percentage change in:	2020	2020	2020	2019	2019	2019
	£'000	%	£'000	£'000	%	£'000
Property market	**55,770**	**10**	**5,572**	74,927	10	7,493
Stock market	**121,639**	**10**	**12,164**	89,380	10	8,938

Capital

The group's members' funds of £141,958k (2019: £123,451k [restated]) less the net assets of The Benenden Charitable Trust and the Hospital £17,201k (2019: £16,415k [restated]) represents the group's available capital. Both The Benenden Charitable Trust and the Hospital are registered charities and must apply their funds solely in the pursuit of their charitable objectives, as such these funds are not available for the general purposes of the group. Consequently the group has available capital of £124,757k (2019: £107,036k) at 31 December 2020.

The Society has members' funds of £125,224k (2019: £107,900k), this represents the Society's available capital at 31 December 2020.

Benenden Wellbeing Limited is subject to FCA regulated minimum capital requirements, Benenden Wellbeing Limited has complied with these requirements in the period.

The Board monitor both the Society's and group's capital position to ensure that both entities are able to meet their commitments as they fall due. The capital position is monitored against benchmarks to ensure that sufficient capital is available to the group and Society, the capital requirements calculations have remained consistent and the entities have complied with these requirements in 2020.

15. Stock	Group		Society	
	2020	2019 (restated)	2020	2019
	£'000	£'000	£'000	£'000
Medical stock	**534**	536	**-**	-
Total stock	**534**	536	**-**	-

Following the accounting policy change, as detailed page 149 of the accounting policies, the prior period stock balance has been restated to include medical stock. The 31 December 2019 balance is now £536k having been previously recorded as £44k.

16. Debtors	Group		Society	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Other debtors	**5,754**	7,534	**5,006**	5,236
Amounts due from group undertakings	**-**	-	**25**	206
Total debtors	**5,754**	7,534	**5,031**	5,442

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Further details of inter-entity transactions can be found in note 25.

17. Creditors	Group		Society	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Trade creditors	**1,828**	2,127	**513**	401
Other taxes and social security	**325**	329	**325**	329
Amounts due to group undertakings	**-**	-	**2,386**	2,248
Corporation tax	**5**	-	**5**	-
Other creditors	**5**	36	**5**	36
Total creditors	**2,163**	2,492	**3,234**	3,014

18. Provisions	Group & Society	
	Outstanding members' benefits £'000	Taxation provision £'000
At 1 January 2020	**13,602**	**84**
Additions dealt with in profit or loss	**23,394**	**-**
Amounts utilised	**(11,962)**	**(84)**
Unused amounts reversed to the profit and loss account	**(1,640)**	**-**
Balance at 31 December	**23,394**	**-**

Outstanding members' benefits

The group estimates the expected cost of future requests for assistance arising from cases that have been notified or expected to be authorised by reference to past experience and projected trends of the potential number and magnitude of these requests. As discretionary benefits are expected to be used within the period specified in Your Guide to Benenden Healthcare, the projections require financial modelling over the expected take-up period. At the end of 2020, management's estimate of this potential future cost was £23,394k (2019: £13,602k). The assumptions used are sensitive to fluctuations in demand and cost, however the trends are analysed over the preceding months using a cohort methodology to extrapolate the underlying data.

Management recognises that changes in take up rates and average cost development patterns in 2020 have been materially impacted by members delaying treatment and service provider availability during several months of the COVID-19 pandemic.

As such judgement has been applied in setting the level of reserves at December 2020 and management has estimated the range of potential outcomes and this is disclosed within the critical accounting judgements and estimation uncertainty on page 157-158.

It is usual that all outstanding cases are paid within 12 months of the period end. However, as the Society has extended the period for members to take up approved cases from 2020 into 2022, some cost may be paid later than 12 months of the period end. This is not expected to be significant so management has included all payments within 12 months. The £1,640k of 2019 reserves reversed in 2020 reflects 3 distinct groups of favourable developments in estimates. The first two are isolated one off changes with the third being normal underlying variability in estimates.

The average cost of member benefits outstanding in 2019 for service packs undertaken in Benenden Hospital were £639k lower than estimated when paid in 2020 due to a change in the cost tariff agreed after the 2019 year end. Secondly, changes to certain business processes in October 2019 required the use of estimates for the movement in some service pack approval rates. As the processes have matured, there has been more favourable development in approval rates which have provided a one off benefit of £547k. The key data trends impacting such approvals have matured during 2020 so current year estimates are based on this now consistent activity. Finally, other net changes in estimated member benefits provided a favourable release of £454k.

Potential costs arising from member benefits not notified at the year-end do not constitute a liability, contingent or otherwise, and are therefore not recognised in the statement of financial position.

Taxation

The 2019 taxation provision represents an estimate of the amounts payable to Her Majesty's Revenue and Customs and was paid in full during 2020.

19. Loans to fund the hospital development	Group & Society	
Loans repayable, included within creditors, are analysed as follows:		
	2020	**2019**
	£'000	**£'000**
Wholly repayable within five years	**4,167**	10,000
	4,167	10,000

The loan is denominated in pound sterling and secured by a floating charge over the Society's assets. During the year the group held a term loan that incurs commitment fees, at market rates, and bears interest at LIBOR plus 1.75%. Total interest charges in the year amounted to £166k (2019: £231k) and the term loan matures in August 2021.

On 17 February 2021, the loan was repaid in full following approval from the Board.

20. Pension obligations		
	2020	**2019**
	£'000	**£'000**
Fair value of plan assets	**88,246**	80,390
Present value of defined benefit obligation	**(135,511)**	(124,589)
Net scheme liability	**(47,265)**	(44,199)
Reconciliation of the opening and closing balances of the defined benefit obligation:		
Defined benefit obligation at 1 January	**124,589**	108,481
Benefits paid	**(4,430)**	(4,509)
Current service cost	**-**	20
Administration costs	**-**	39
Interest cost	**2,448**	3,081
Actuarial losses and (gains)	**12,899**	17,477
Past service cost including curtailments	**5**	-
Defined benefit obligation at the end of the period	**135,511**	124,589
Reconciliation of the opening and closing balances of the fair value of plan assets:		
Fair value of the plan assets at 1 January	**80,390**	74,669
Interest income	**1,584**	2,132
Return on plan assets excluding interest income	**8,702**	5,828
Contributions by employer	**2,000**	2,270
Benefits paid	**(4,430)**	(4,509)
Fair value of plan assets at the end of the period	**88,246**	80,390
Defined benefit costs recognised in the income statement:		
Current service cost	**-**	20
Administration costs	**-**	39
Past service cost including curtailments	**5**	-
Interest on the net defined benefit liability	**864**	949
Defined benefit costs recognised in the income statement	**869**	1,008
Total amounts taken to Other Comprehensive Income		
Actual return on Plan assets - gains and (losses)	**10,286**	7,960
less: amounts included in net assets in net interest on the defined benefit liability	**(1,584)**	(2,132)
Remeasurement gains and (losses) - Return on Plan assets excluding interest income	**8,702**	5,828
Remeasurement (losses) and gains - actuarial (losses) and gains	**(12,899)**	(17,477)
Remeasurement (loss)/gain recognised in Other Comprehensive Income	**(4,197)**	(11,649)

In 2019, the remeasurement loss varied from the amount shown on the Statement of changes in members' funds. The pension disclosures are prepared on a cash received basis whereas these financial statements are prepared on an accruals basis, consequently a £270k difference arose between the note and Statement of Changes in members' funds.

20. Pension obligations (continued)	%	
	2020	**2019**
Assets		
Equity	**19.9**	20.8
Diversified Growth Funds	**25.5**	26.1
Absolute Return Bond Fund	**8.9**	10.0
Multi Asset Credit Fund	**16.9**	18.2
Property	**2.2**	2.5
Real Liability Driven Investment	**25.9**	22.1
Cash and Insured Policies	**0.7**	0.3
	100.0	100.0
Assumptions:		
Discount rate (%)	**1.25**	2.00
Retail Prices Index (RPI) Inflation (%)	**2.90**	2.95
Consumer Prices Index (CPI) Inflation (%)	**2.30**	1.95
Future increases in deferred pensions (%)	**2.90**	2.95
Rate of increase to pensions in payment (%)	**2.85**	2.90
Life expectancy of male aged 65 at balance sheet date	**22.0**	21.9
Life expectancy of male aged 65 20 years after at balance sheet date	**23.0**	22.9
Life expectancy of female aged 65 at balance sheet date	**24.4**	24.2
Life expectancy of female aged 65 20 years after at balance sheet date	**25.5**	25.4

The return on plan assets was a gain of £10,286k, +12.8% (2019: £7,960k, 10.7%). None of the fair values of the assets above included any of the group's own financial instruments or any property occupied by, or other assets used by the group.

The Trustee Board of The Benenden Healthcare Pension Plan ("the Scheme") is required by law to act in the best interest of the Scheme participants and is responsible for setting the investment, funding and governance policies of the Scheme fund. A representative of the employer attends Trustee Board meetings primarily to provide the group's view on investment strategy; however, the decision-making authority rests with the Trustees.

The defined benefit pension scheme is closed to future accrual but remains funded by the employers. One of the Society's subsidiaries (the Hospital) also participates in the Scheme.

There is no contractual agreement or stated policy for charging the net defined benefit cost between the Society and the Hospital. In light of this, the Society recognises the cost of the Scheme, including the Hospital portion of the FRS102 Scheme liability of £40,175k (2019: £37,569k) in line with accounting standards.

On 29 January 2021, the Society and the Hospital Trust have agreed to pay deficit repair contributions of £3,000k a year from 1 April 2021. Furthermore, on 17 March 2021, the Society paid a one-off contribution of £7,500k to the pension scheme to reduce the deficit.

The last full actuarial valuations were carried out as at 31 March 2019, the next one being due at 31 March 2022. The Scheme exposes the group to inflation risk, interest rate risk and market investment risk.

The Society operates a defined contribution pension scheme for the auto-enrolment of all eligible employees. The Society's principal subsidiary, the Hospital, participates in this scheme. The Society makes guaranteed fixed contributions on a regular basis relative to the level of the employee contribution.

The future benefits are not guaranteed and the Society will have no legal or constructive obligation to pay further amounts.

The assets of the defined contribution schemes are held separately from those of the group in independently administered funds. The pension costs and charge represents contributions payable by the group to the funds and amounted to £2,649k (2019: £2,381k).

Details of the cost to the group and Society of the defined contribution and defined benefit pension plans are shown in note 7.

The group and Society had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

21. Leases	Group		Society	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Leases as lessor				
Not later than one year	**37**	186	**3,257**	3,406
Later than one year less than five years	**-**	200	**12,875**	13,075
Later than five years	**-**	-	**54,721**	57,940
Total leases as lessor	**37**	386	**70,853**	74,421
Leases as lessee				
Not later than one year	**59**	95	**43**	92
Later than one year less than five years	**28**	103	**13**	55
Later than five years	**-**	-	**-**	-
Total leases as lessee	**87**	198	**56**	147

At the start of the year, the Society leased commercial office space to third parties in London and York. With the sale of Catherine Place, in February 2020, and the Society's reoccupation of the York office space, in October 2020, the Society no longer leases out any commercial office space.

The group and Society rents out residential property and farmland to staff and other third parties; these leases are on a rolling 6-36 month basis. Contracts are charged at market rates.

The Society leases the Hospital to a fellow group entity, the Hospital. On 12 March 2021, the Society and the Hospital agreed that starting from 1 January 2021, the Hospital will pay £2,300k per annum (2020: £3,219k).

At the year-end there were operating lease commitments of £87k (2019: £198k) for plant and equipment expiring within five years. There are no finance lease commitments within the group.

22. Commitments	Group		Society	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Not later than one year	**2,000**	2,000	**2,000**	2,000
Later than one year less than five years	**8,000**	8,000	**8,000**	8,000
Later than five years	**500**	2,500	**500**	2,500
Total commitments	**10,500**	12,500	**10,500**	12,500

The commitments referred to above include the amounts committed to lease commitments, shown within note 21, and an amount of £10,500k to fund the pension scheme deficit over the next 6 years.

On 29 January 2021, the group entered an agreement with the Trustees of the pension scheme that starting from 1 April 2021, the Group would pay £3,000k per annum until 31 July 2030.

Also following the year end, the Society paid £7,500k on 17 March 2021 to help fund the pension scheme deficit.

23. Taxation	Group	
(a) Corporation tax charge: Current year tax charge:	2020 £'000	2019 £'000
Current year	**-**	-
Adjustment in respect of prior years	**5**	-
Total current tax	**5**	-
(b) Reconcilliation of tax charge:		
Profit for the year	**16,132**	1,089
Total tax credit	**5**	-
Profit excluding taxation	**16,137**	1,089
Tax using UK Corporation tax rate of 19% (2019: 19%)	**3,066**	207
Tax on income not subject to Corporation tax	**(3,061)**	(207)
Release of deferred tax	**-**	-
Total tax credit included within the income statement	**5**	-

(c) Corporation tax liability

An amount of £5k (2019: £nil) is included in Creditors on the face of the statement of financial position. In 2020, of the consolidated entities only the Society and Benenden Wellbeing Limited are subject to corporation tax.

In the year ended 31 December 2020 the tax rate is 19% (2019: 19%).

24. Deferred taxation	Group	
Analysis of deferred taxation temporary differences:	**2020** **£'000**	**2019** **£'000**
Total tax credit - short term timing differences	**-**	-
Recognised deferred tax liability	**-**	-
Losses and other deductions	**(71)**	(107)
Unrecognised deferred tax asset	**(71)**	(107)
Net deferred tax (asset)/liability	**(71)**	(107)

As stated in the Budget announcement on 3 March 2021, the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the group's future tax charge. If this rate change had been substantially enacted at the current balance sheet date the deferred tax asset would have increased by £23k.

25. Related party disclosures

Related party transactions between the subsidiaries and controlled bodies are disclosed within their individual financial statements. Copies can be obtained from the Registered Office by writing to The Secretary, The Benenden Healthcare Society Limited, Holgate Park Drive, York, YO26 4GG.

All of the following transactions between the subsidiaries and the Society were entered into on an arms-length basis:

The Benenden Hospital Trust:

The Society made donations to the Hospital to the value of £20,307k (2019: £29,847k).

Furthermore, properties at Benenden Hospital were leased to the Hospital under a 25-year lease at an annual rental of £3,219k (2019: £3,153k).

At 31 December 2020, the total amounts due from the Society to the Hospital was £2,384k (2019: £2,248).

The Benenden Charitable Trust:

In 2020 the Society made a donation of resources to cover the running costs of The Benenden Charitable Trust equivalent to £78k (2019: £86k).

At 31 December 2020, the total amounts due to the Society from The Benenden Charitable Trust was £nil (2019: £9k).

Benenden Wellbeing Limited:

At 31 December 2020 the amount due to the Society from Benenden Wellbeing Limited was £23k (2019: £135k [restated]).

Trustees of the Benenden Healthcare Pension Plan

The Society paid trustees' insurance for the trustees of the Benenden Healthcare Pension Plan of £3k in the year (2019: £3k).

Some members of the Board of Directors, Society Executive and Hospital Executive have insurance policies through Benenden Wellbeing Limited. These policies are issued under normal business terms and conditions.

26. Contingent liabilities

During the ordinary course of business, the Society could be subject to complaints, threatened or actual legal proceedings, including regulatory reviews and investigations.

There is an ongoing external investigation triggered by concerns raised in 2016 about how the Society's affairs were organised and controlled between January 2015 and July 2016. A full independent internal investigation has been completed and the Board is confident that any necessary corrective action has been taken. The external investigation has been impacted by the pandemic and as a result is not sufficiently progressed to determine whether it will result in any liability to the Society. As the external investigation progresses, should the likelihood of a payment become probable, a provision will be made at that time.

27. Coronavirus ("COVID-19")

Over the last 12 months, the Benenden group has maintained services for members and continued to operate within the confines of Government restrictions and best practice to protect colleagues, members and suppliers from the health impacts of the virus. With the vaccine roll out within the UK underway and the roadmap for emerging from lockdown restrictions being clear, the group is re-orientating to the developing conditions.

The Board remains vigilant to the continuing risk of the pandemic and recognise that the risks will evolve in its aftermath. It continues to monitor the situation and has reviewed severe stress tests on the Society's assets and liabilities to consider the potential adverse impacts of possible re-emergence of COVID-19 or related economic turbulence on its capital. Based on the results of these exercises the Board has a reasonable expectation that the Society's surplus capital together with its high levels of liquidity and cash reserves are adequate to maintain financial strength and operate through the coming period of uncertainty.

Appendix

1 – ONS Q4 2020 Report

2 – Sky News

3 – Bloomberg

4 – EADT

5 – The Health Foundation

6 – The Health Foundation

7 – HSJ

8 – BBC

9 – Central Fife Times

10 – NHS England

11 – NHS England

12 – NHS England

13 – ISD Scotland

14 – ISD Scotland

15 – BBC

16 – Stats Wales

17 – Stats Wales

18 – Health NI

19 – Health NI

20 – GP Online

21 – Health Insurance & Protection

22 – LaingBuisson Health Cover UK Market Report 16th Edition

23 – Cover Magazine

24 – Mansfield Advisors

25 – Cover Magazine

26 – LaingBuisson Health Cover UK Market Report 16th Edition

27 – Which?

28 – LaingBuisson Health Cover UK Market Report 16th Edition

29 – BBC

30 – Cover Magazine

31 – Cover Magazine

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