



cutting through complexity™

Developing an effective strategy for mutuals

Association of Financial Mutuals

24 April 2013



Mid-19th Century – the birth of financial mutuals

1841:

Members of the

Wesleyan

Methodist Church
form the society to
help people overcome
financial problems

1843:

A group of dock
managers create

Liverpool

Victoria

Legal Friendly
Society

1861:

Royal London

formed to help
people provide for
their future



The opportunity for mutuals

The Guardian
9 August 2012

Financial crisis,
five years on:
**trust in banking
hits new low**

The Daily Mail
24 September 2012

Lib Dems
back **Mutual
businesses**

The Guardian
13 April 2013

Post Office to
launch '**value for
money**' current
account

Mutuals face significant headwinds

Scale

Regulation

Capital



What is an effective strategy?



Agenda

1

What can we learn from overseas?

2

How do these lessons apply to the UK mutual sector?

3

What is the role of NEDs in developing an effective strategy?

Agenda

1

What can we learn from overseas?

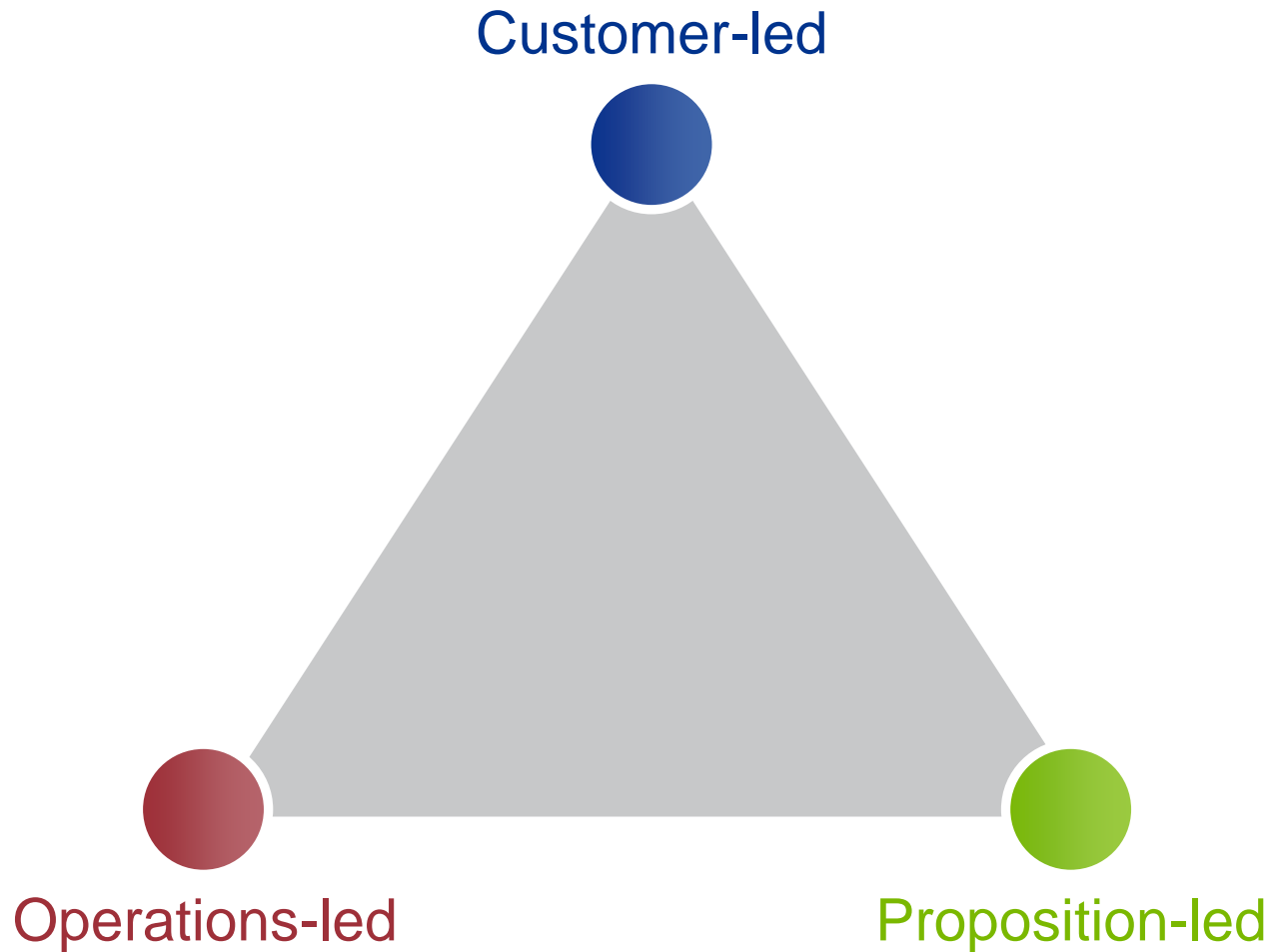
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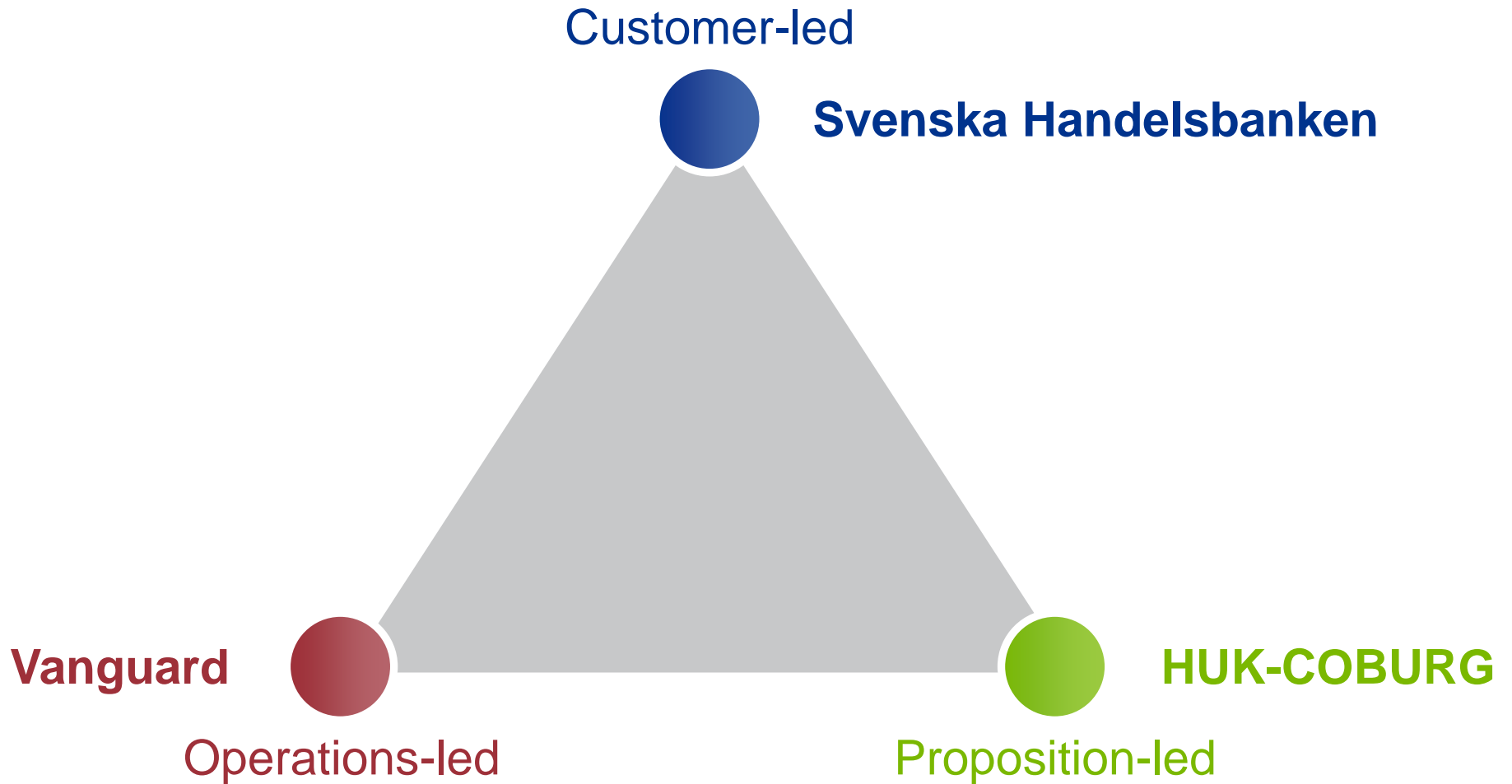
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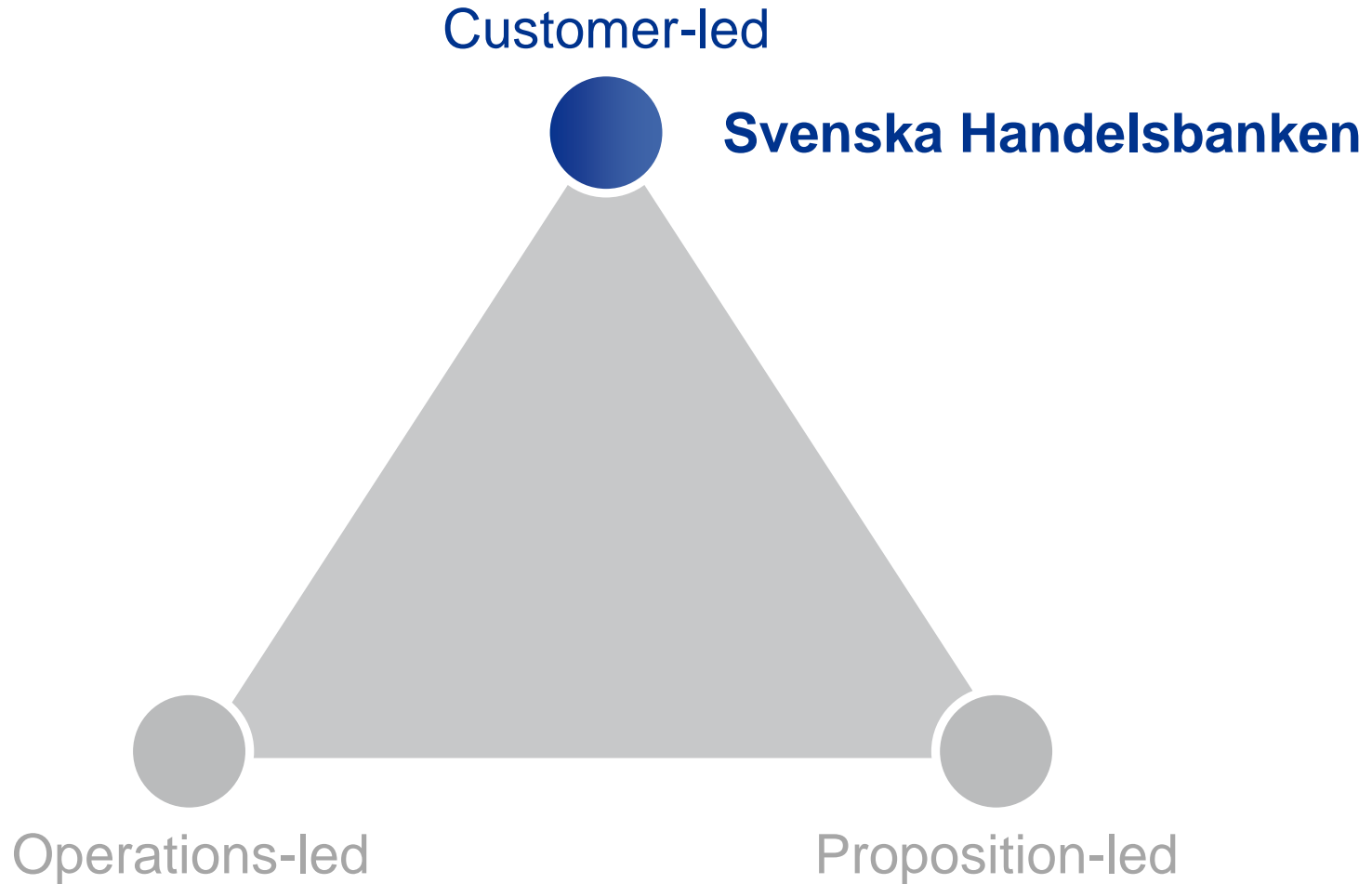
Sources of competitive advantage



Sources of competitive advantage

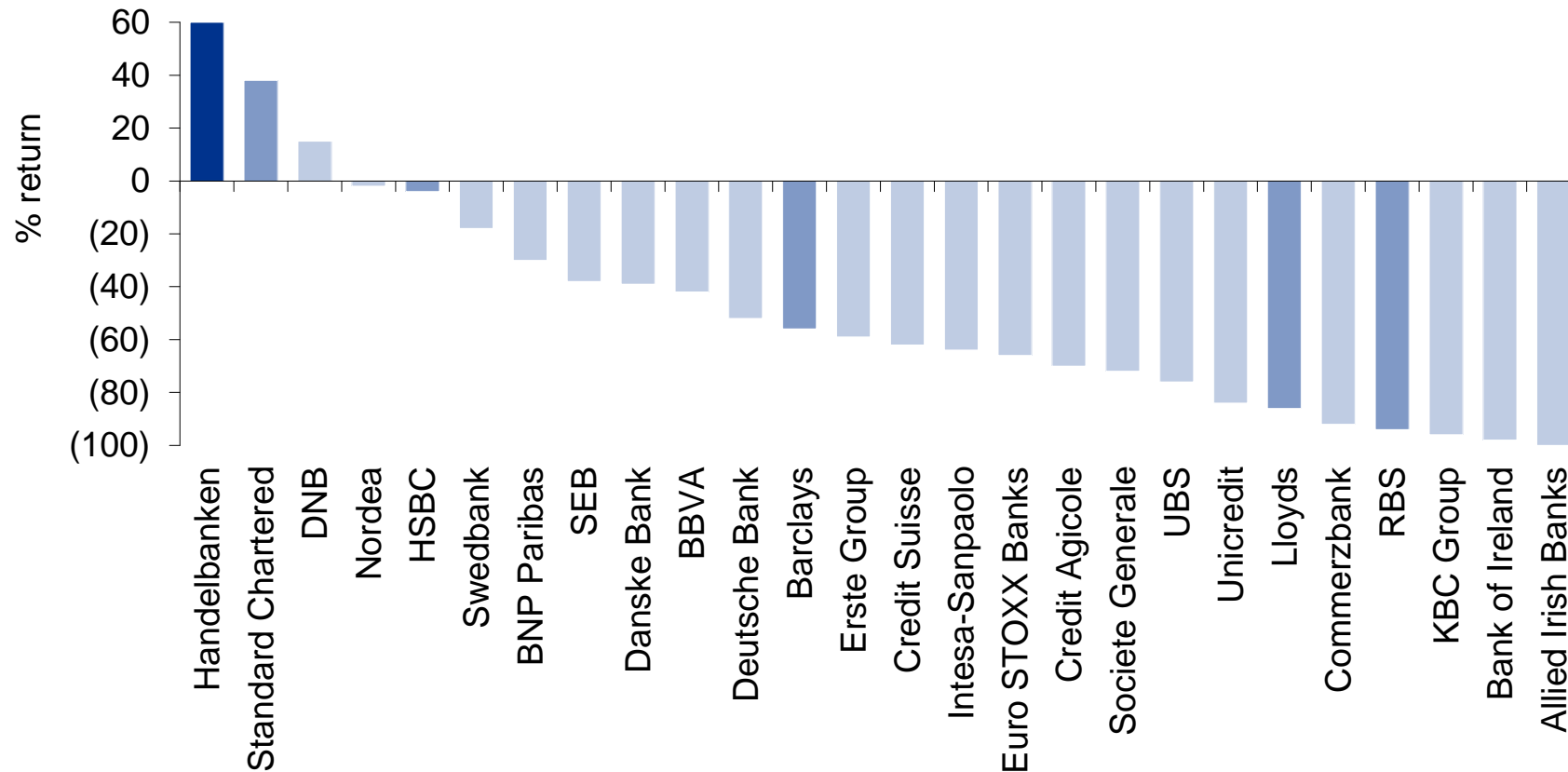


Sources of competitive advantage



Case 1: Customer-led Svenska Handelsbanken

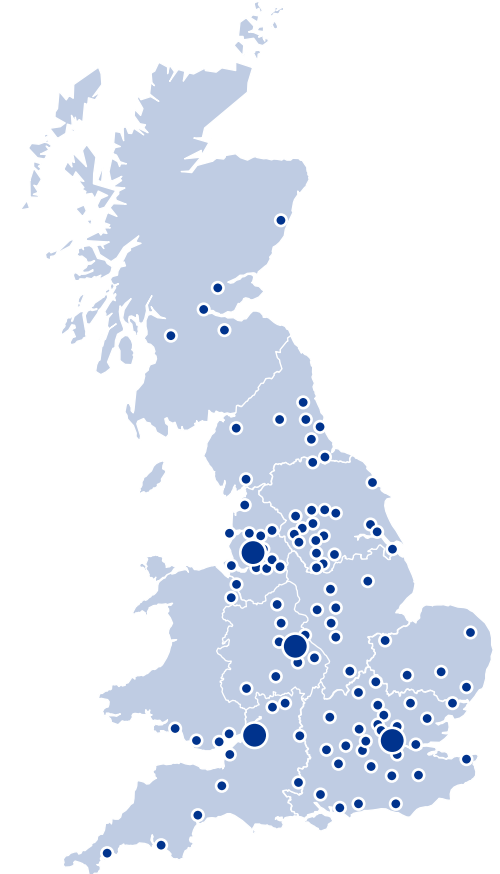
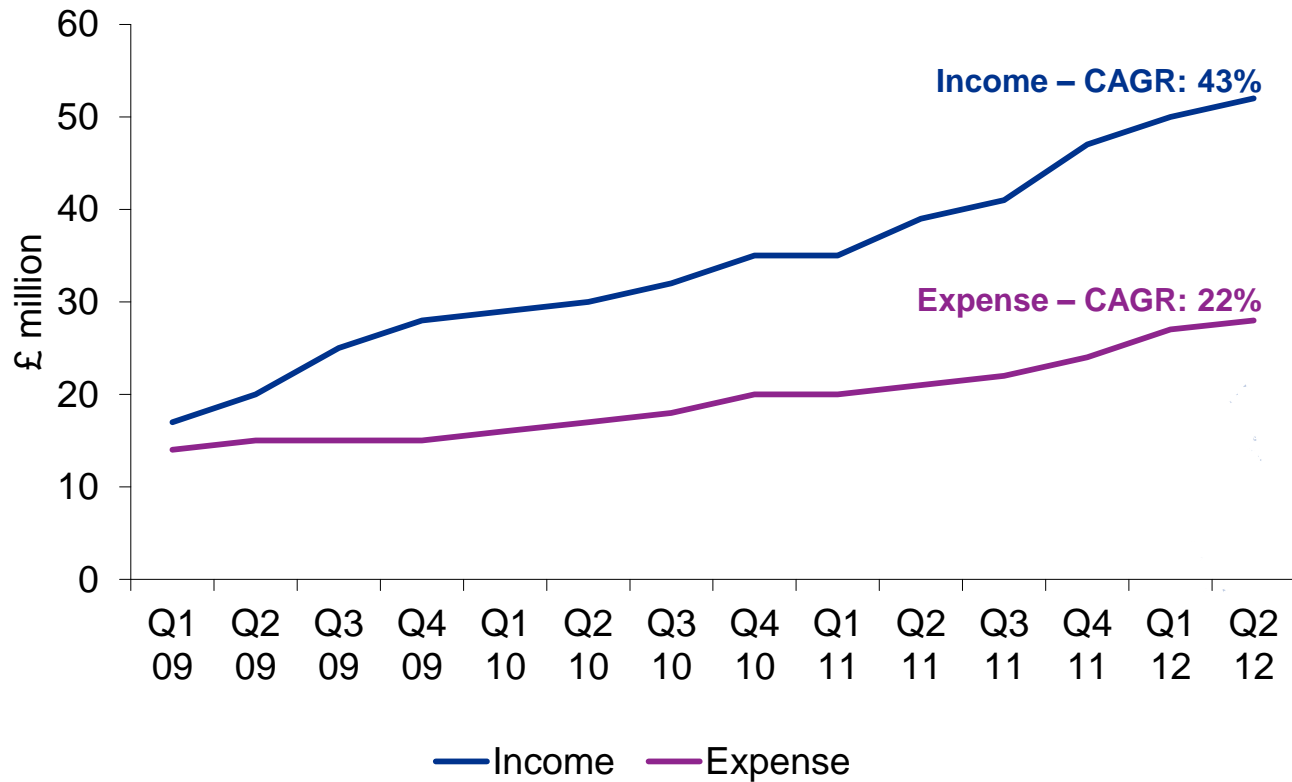
European bank stocks – Total return in last 5 years



Source: Macrobond 17 September 2012, Svenska Handelsbanken

Case 1: Customer-led Svenska Handelsbanken

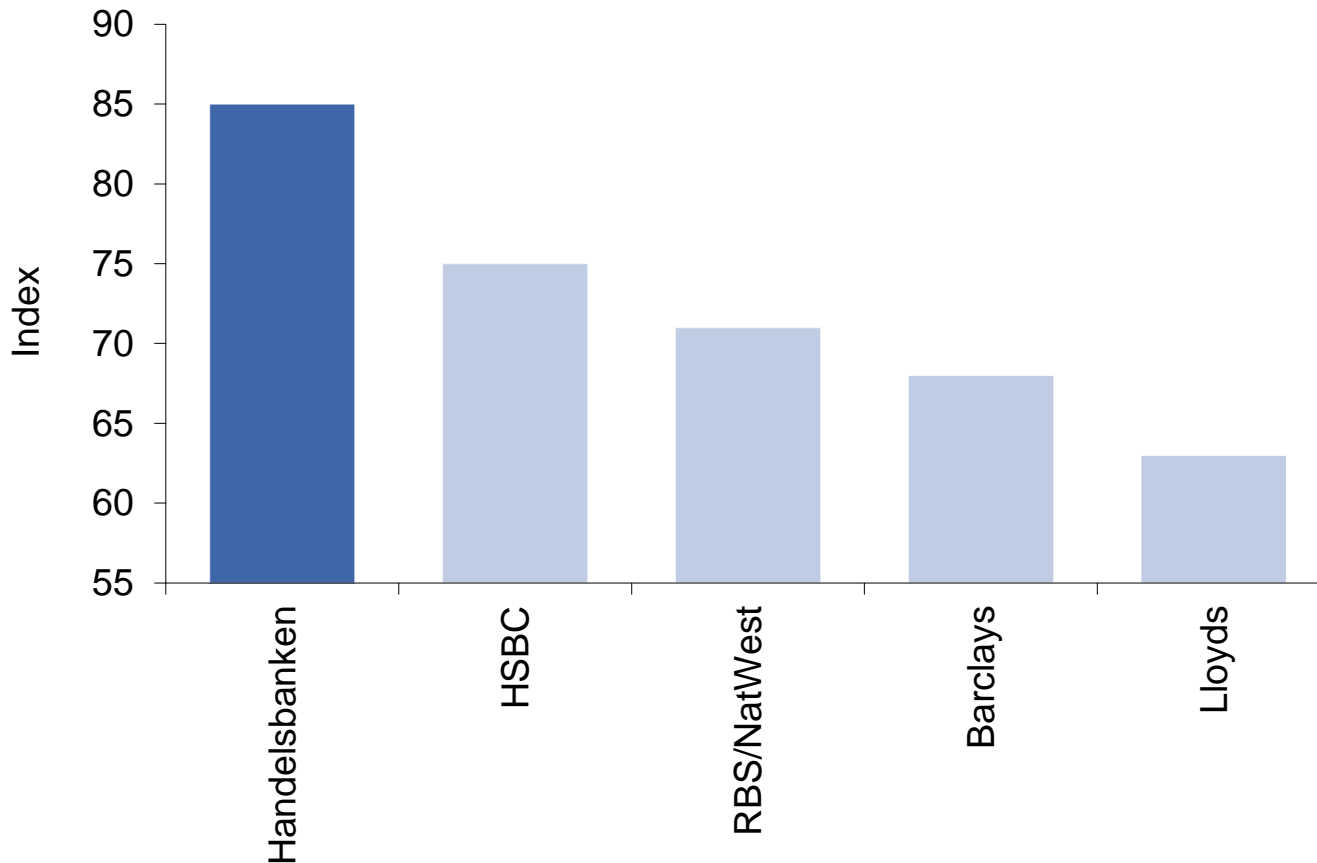
Income and expenses trend, branches in UK



Source: Svenska Handelsbanken

Case 1: Customer-led Svenska Handelsbanken

Customer satisfaction

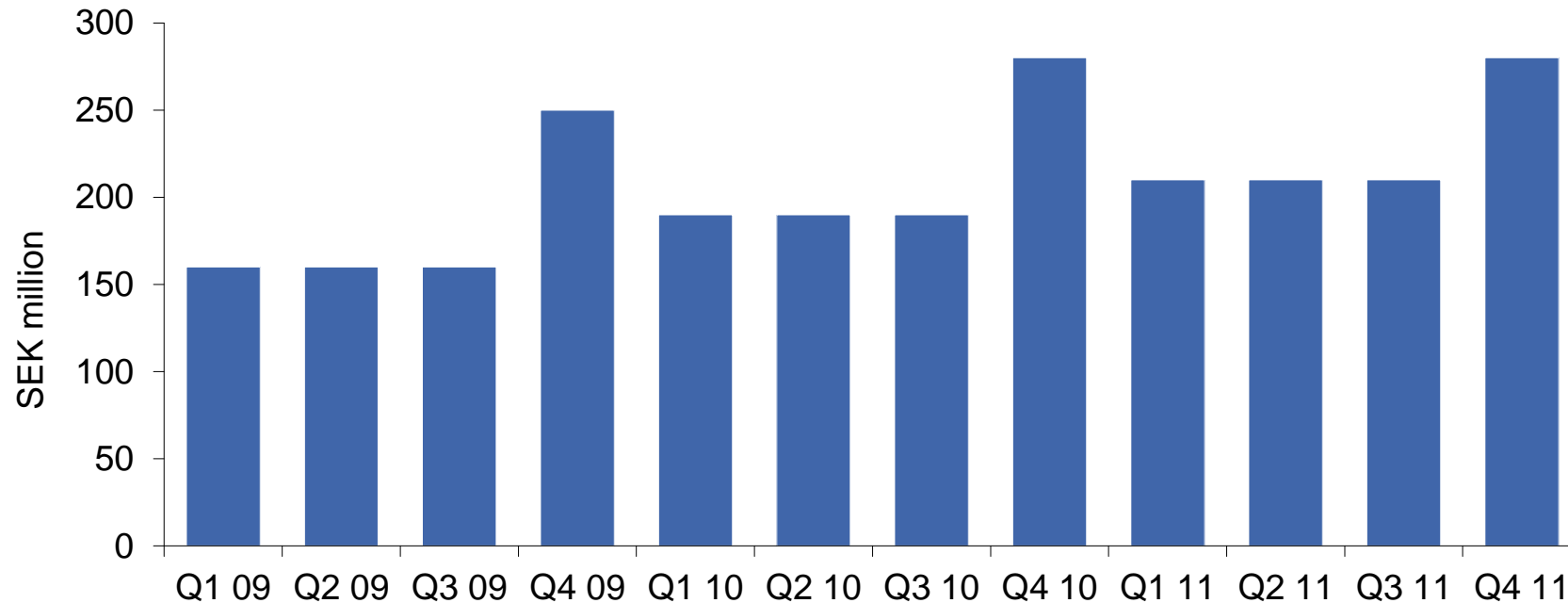


“Head and shoulders above its UK high street competitors, both for satisfaction and loyalty”

Source: EPSI

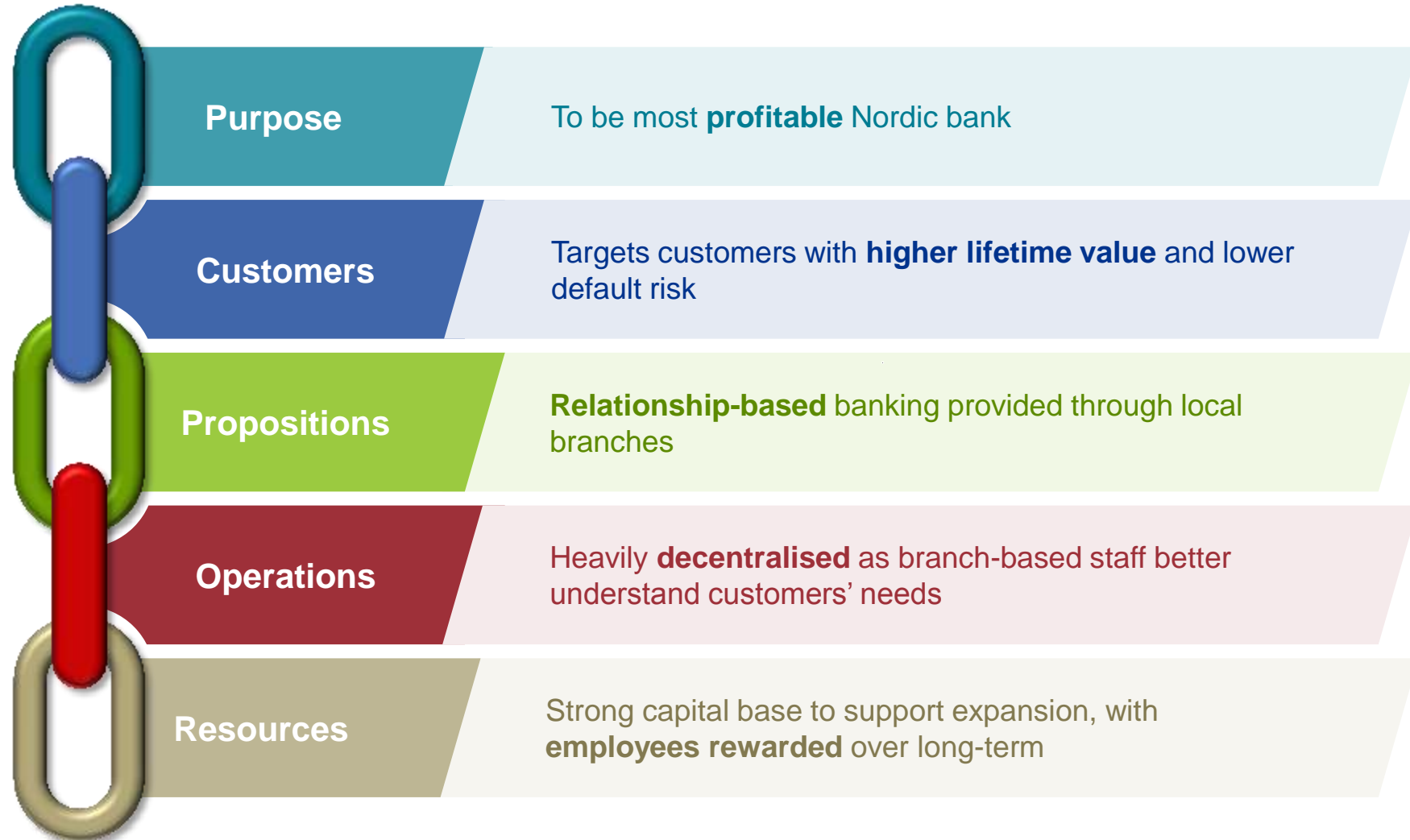
Case 1: Customer-led Svenska Handelsbanken

Employee profit sharing – Oktogonen scheme

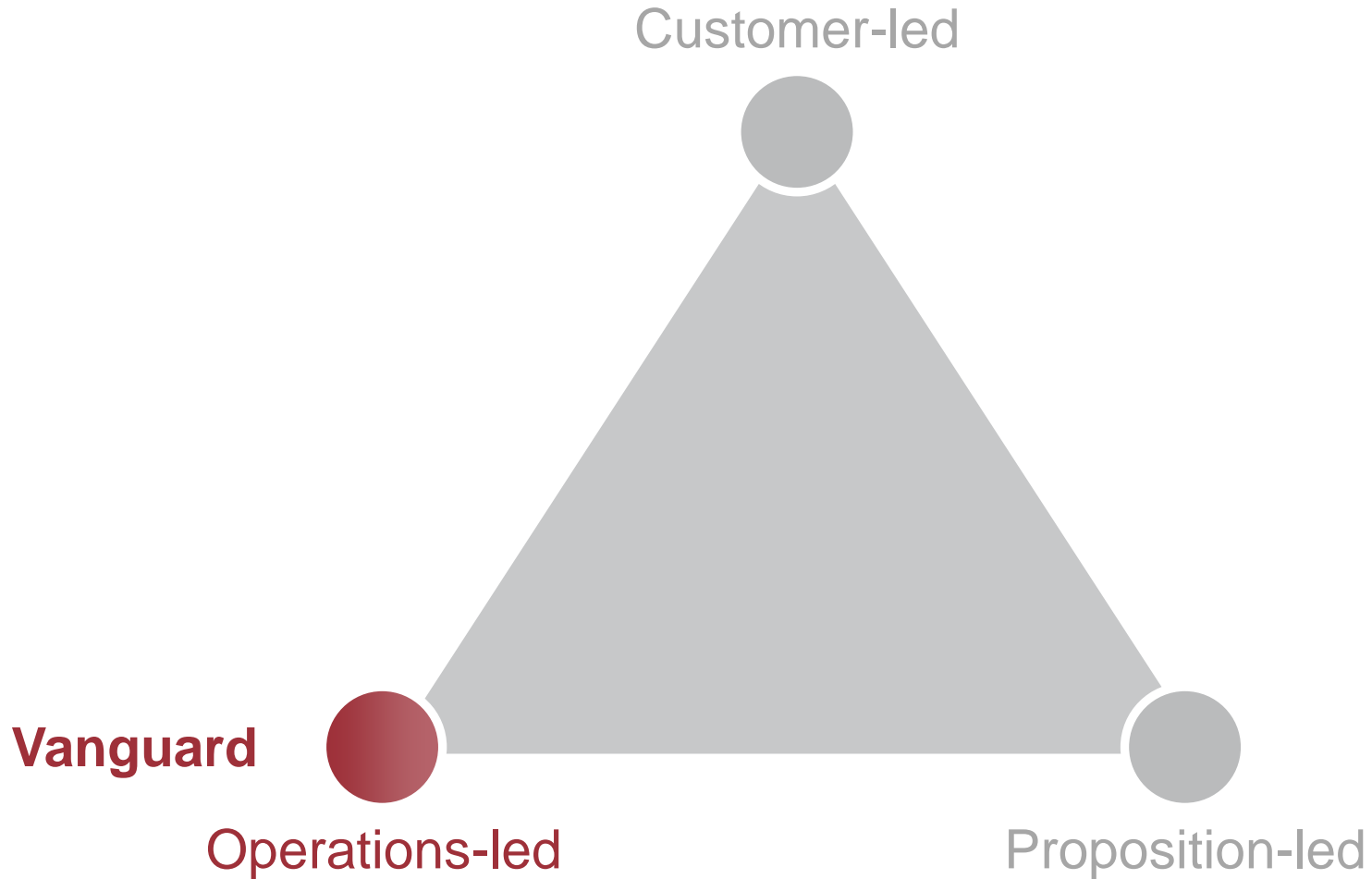


Source: Svenska Handelsbanken

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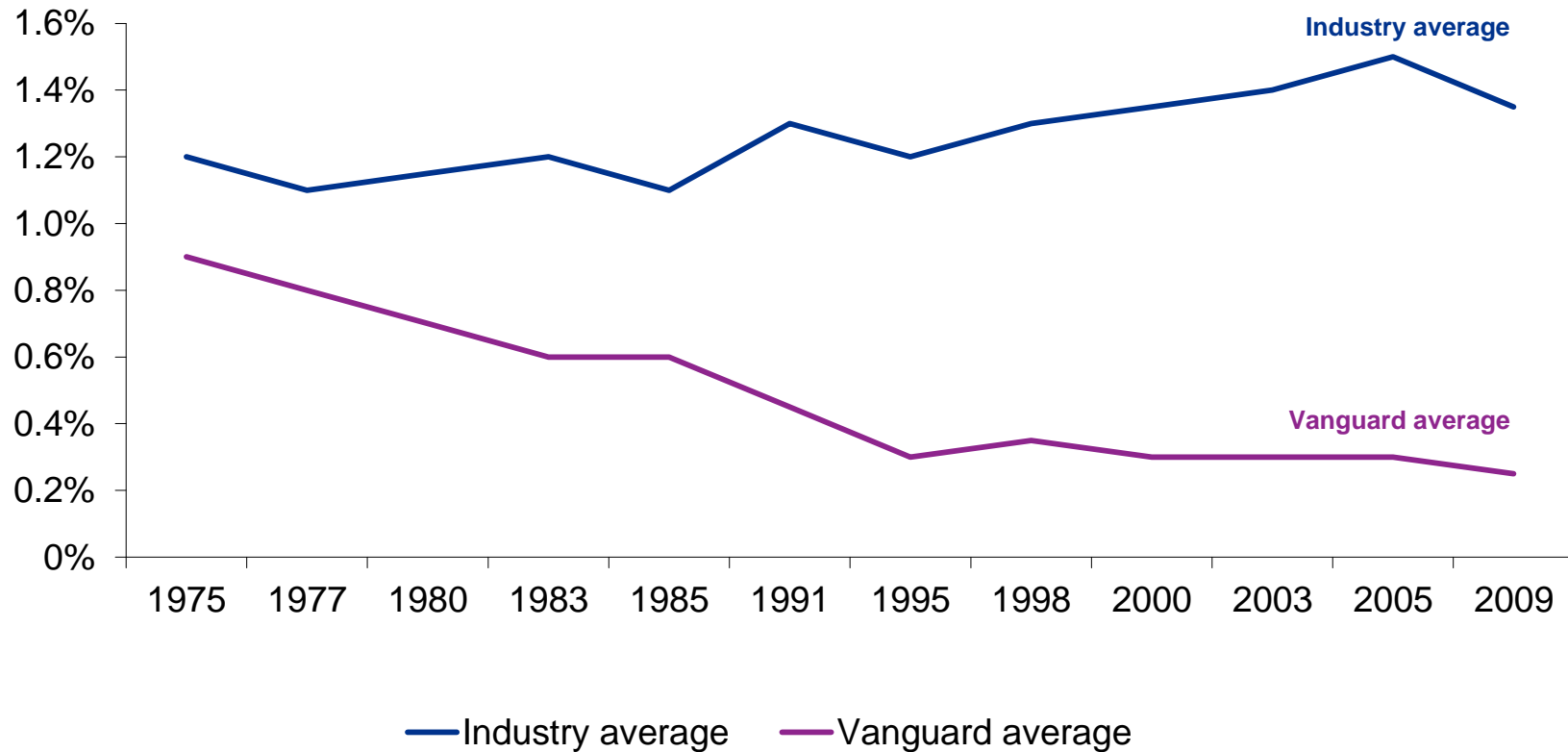


Sources of competitive advantage



Case 2: Operations-led Vanguard

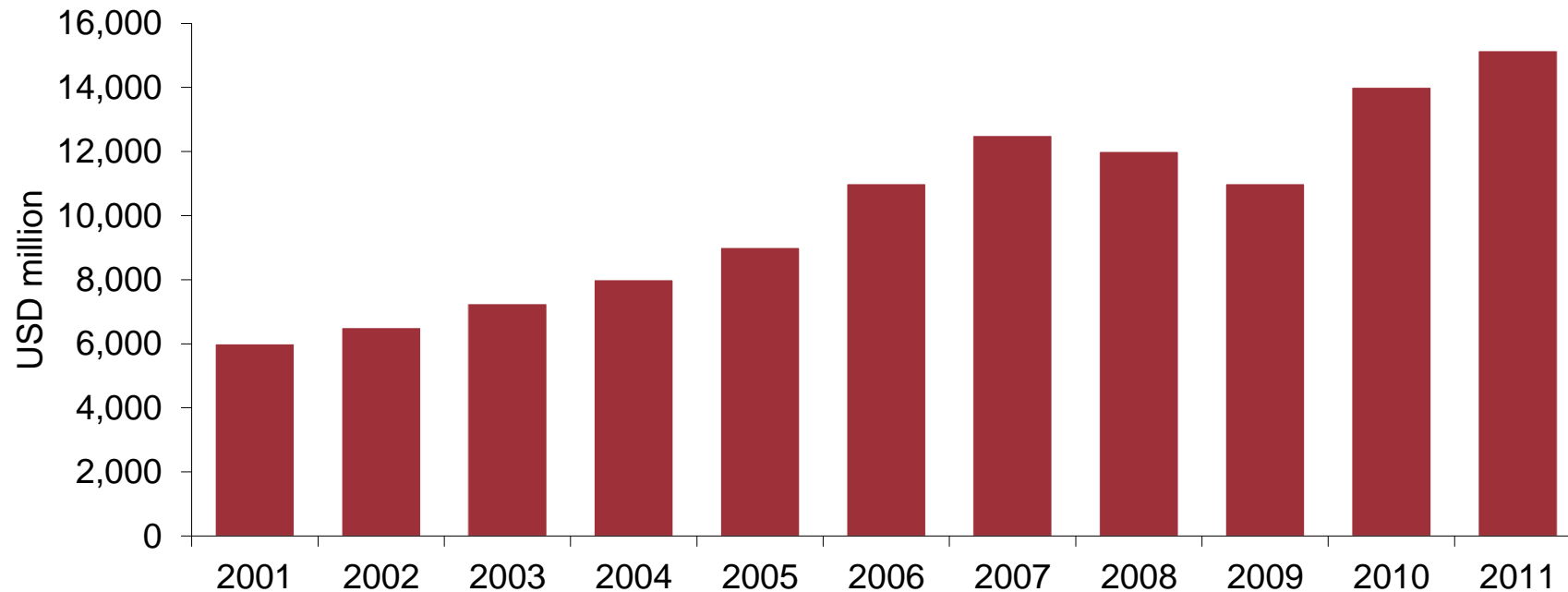
Expense ratios



Source: Vanguard

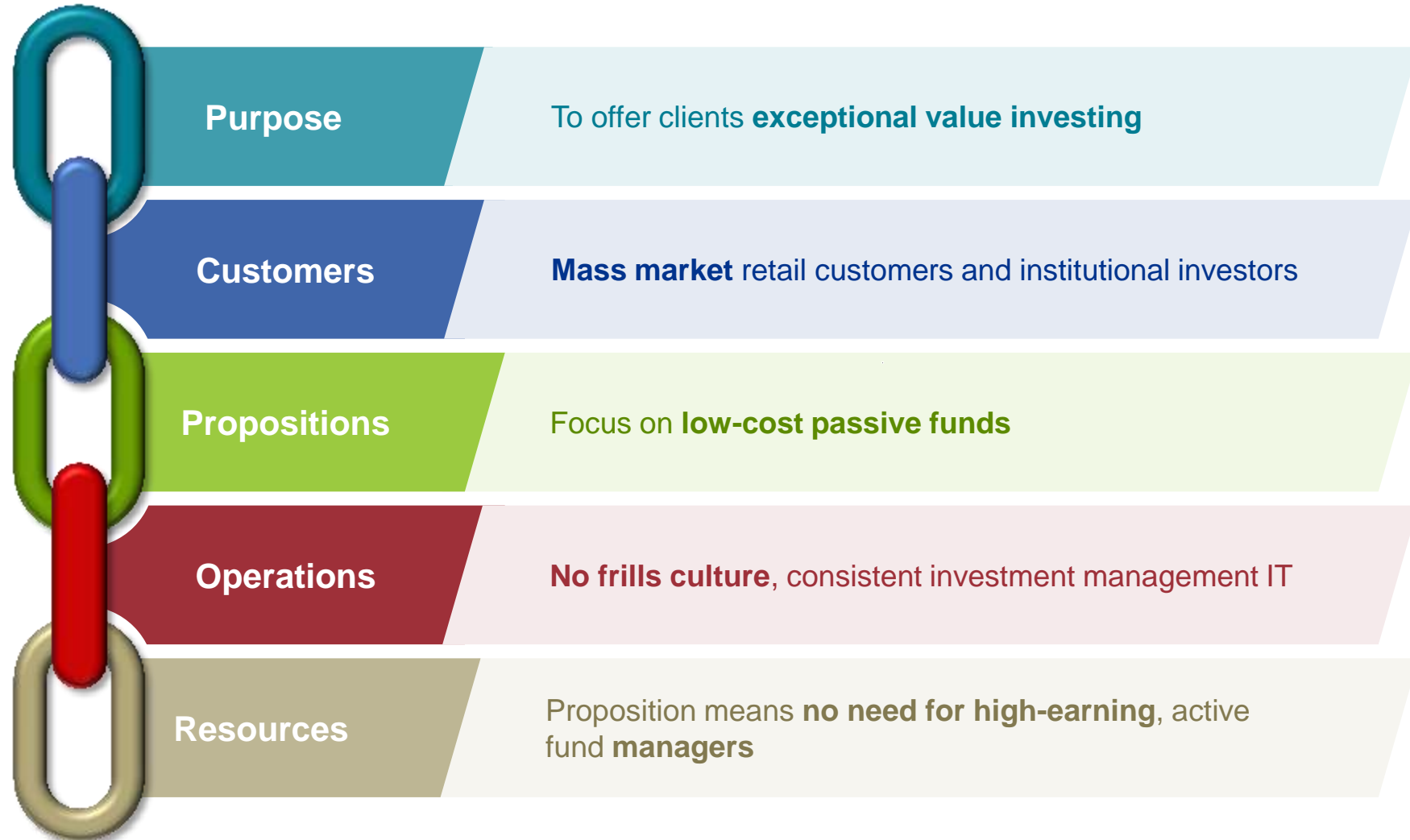
Case 2: Operations-led Vanguard

“The value to clients of our low costs”

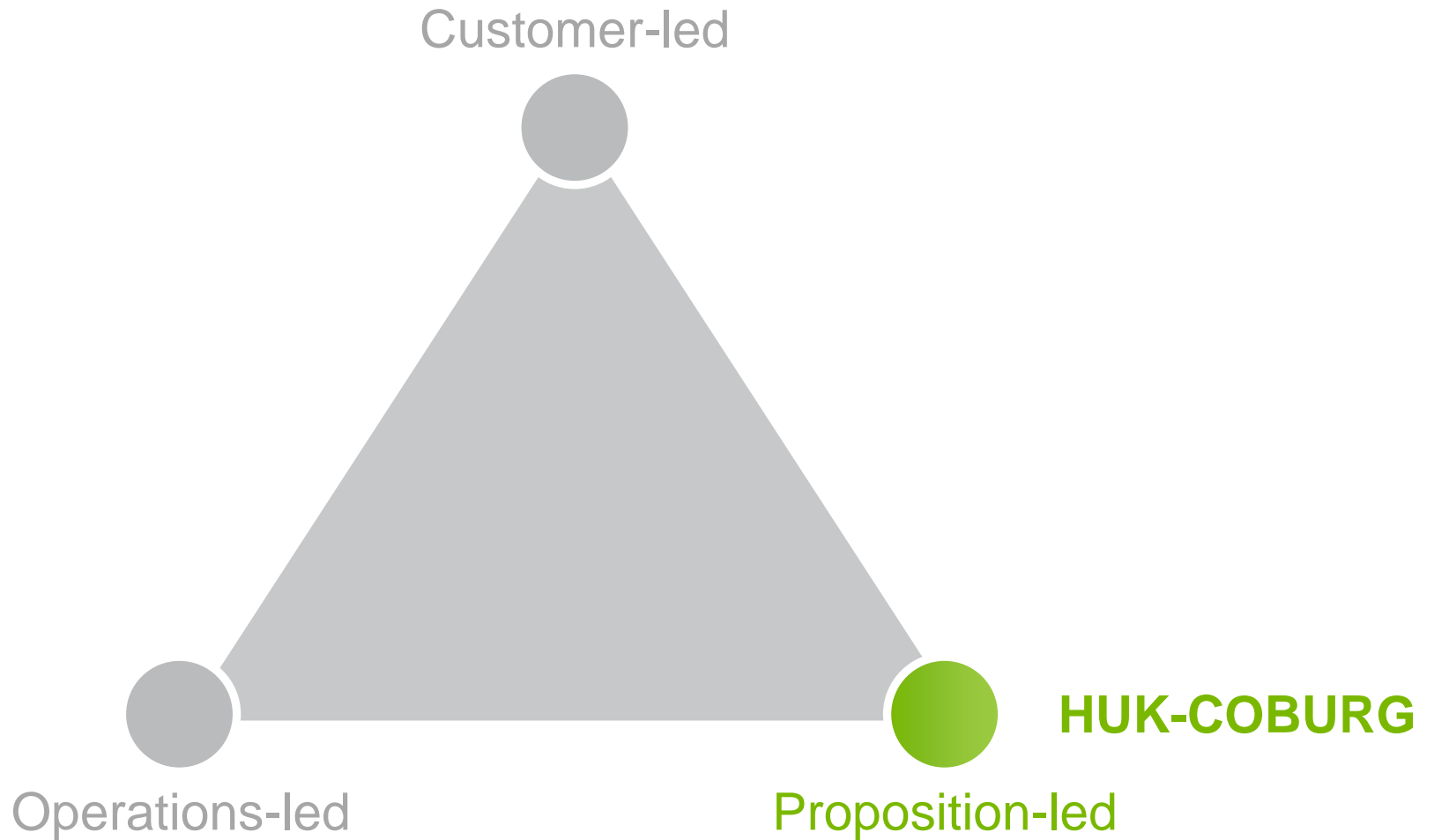


Source: Vanguard

Case 2: Operations-led Vanguard

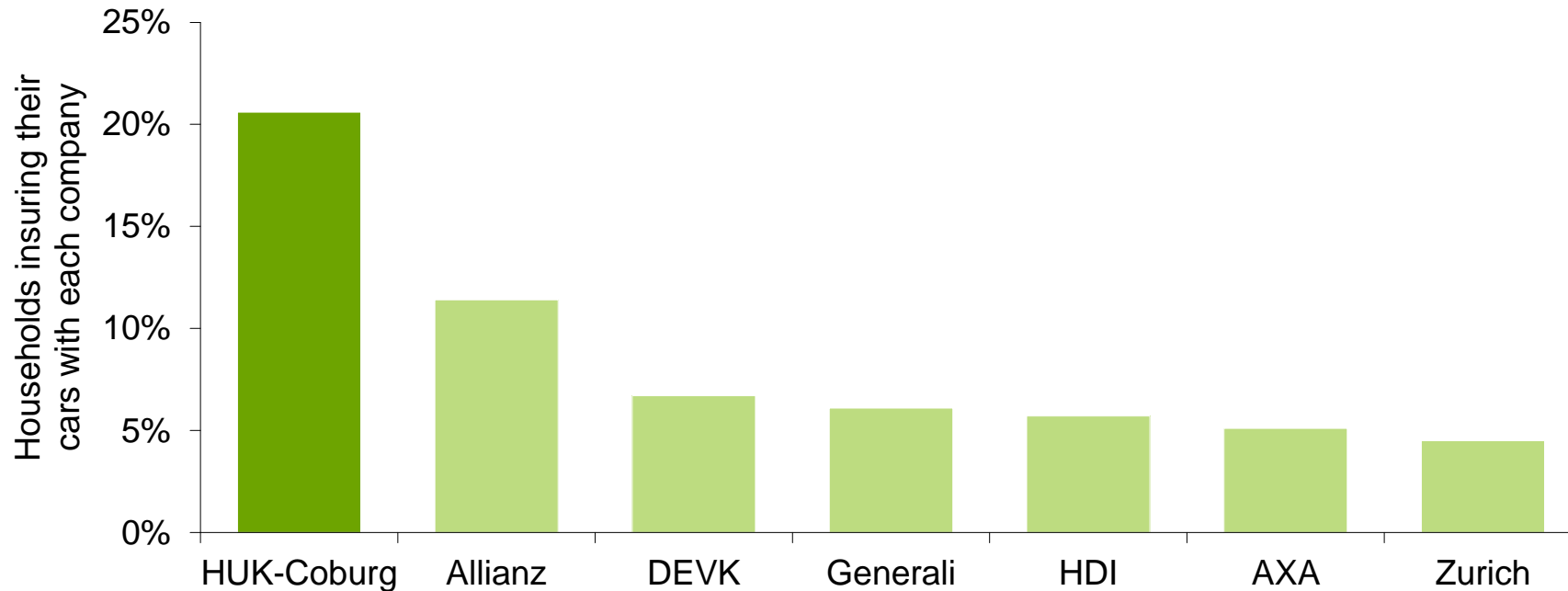


Sources of competitive advantage



Case 3: Proposition-led HUK-COBURG

Displaced Allianz as leader in motor insurance

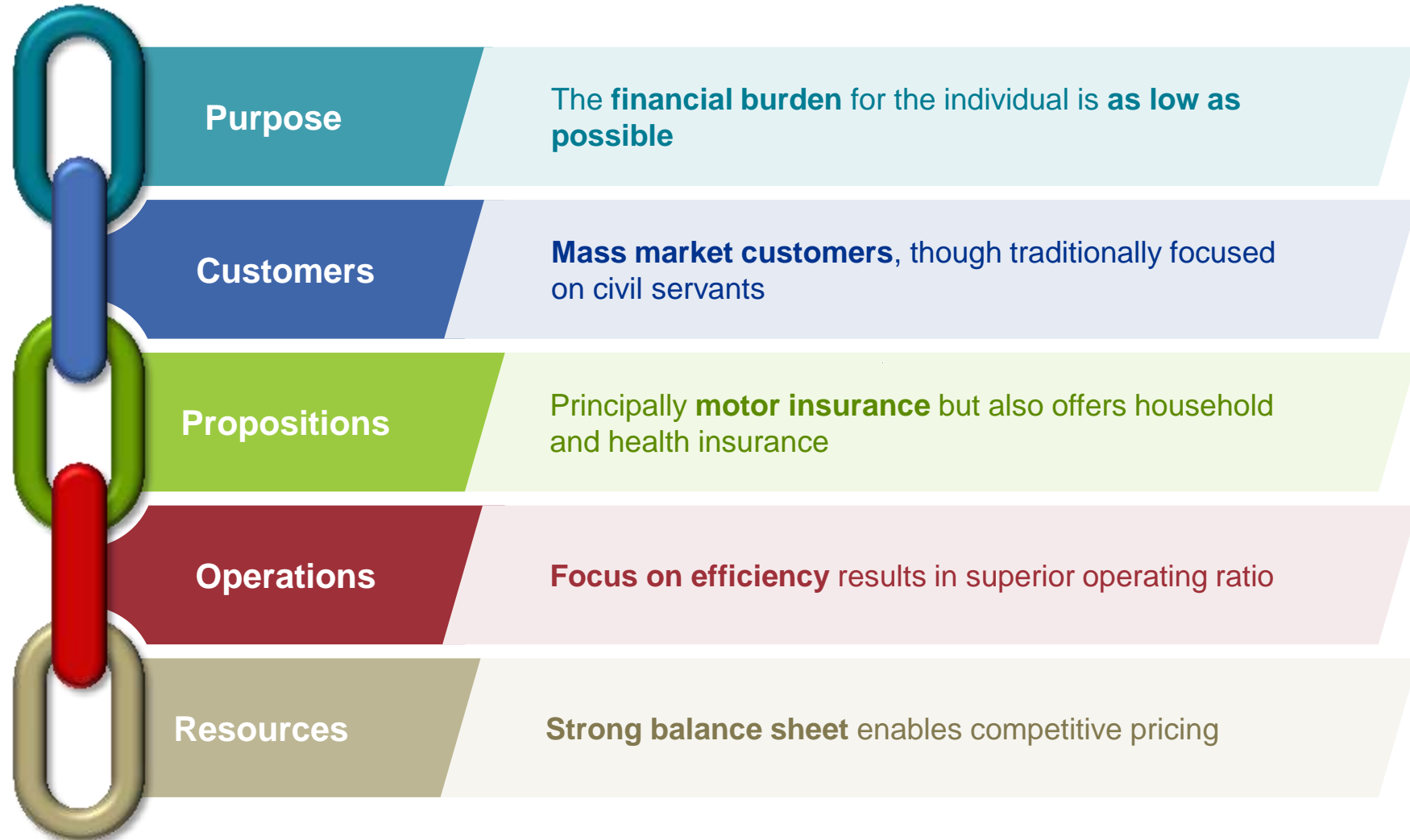


Source: GFK Financial Research, 2010

*“We strongly believe in the **principles of mutuality**,
and consider them to be one of
the **fundamental factors of our success**”*

Rolf-Peter Hoenen, CEO 1991-2009

Case 3: Proposition-led HUK-COBURG



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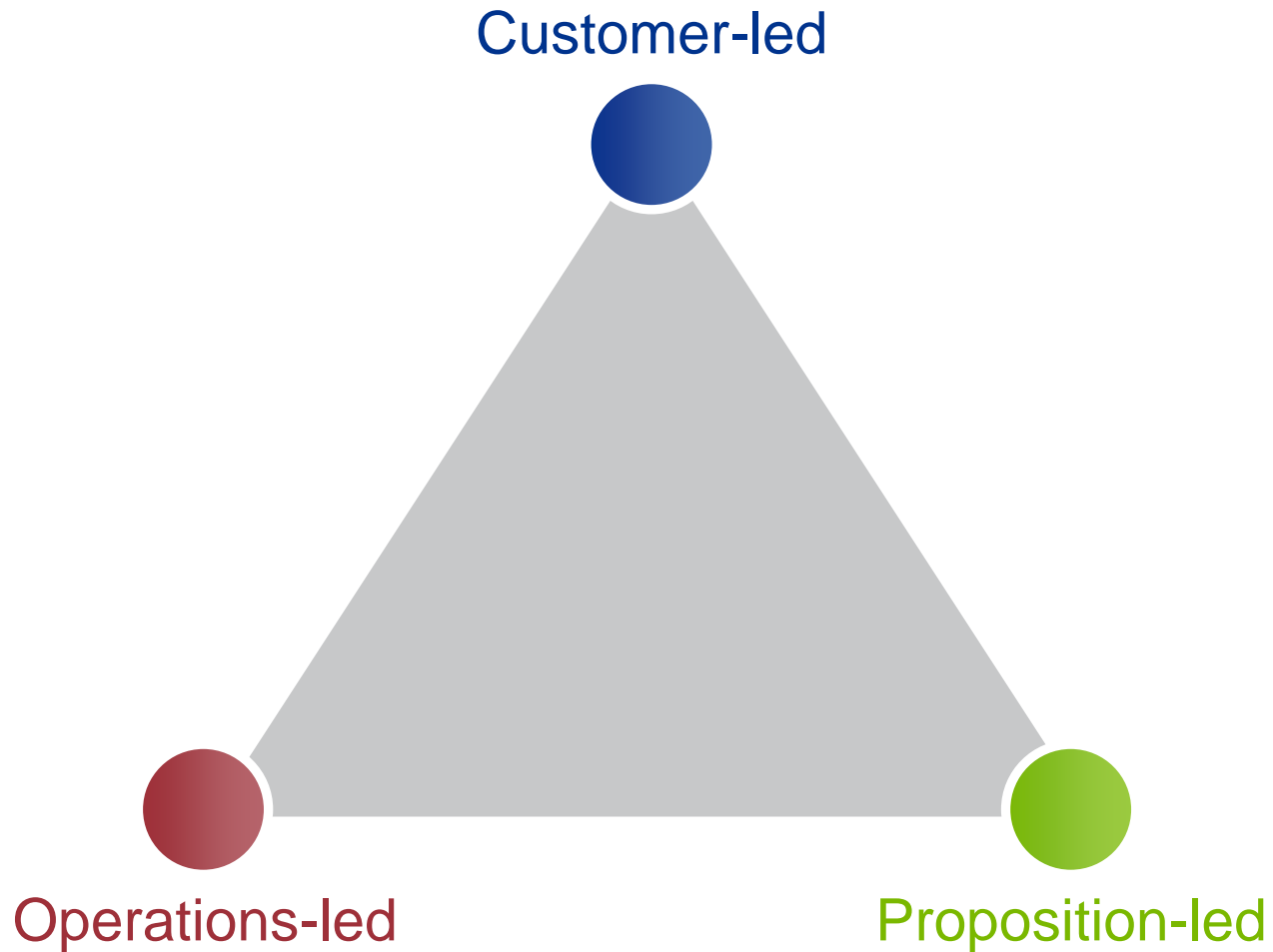
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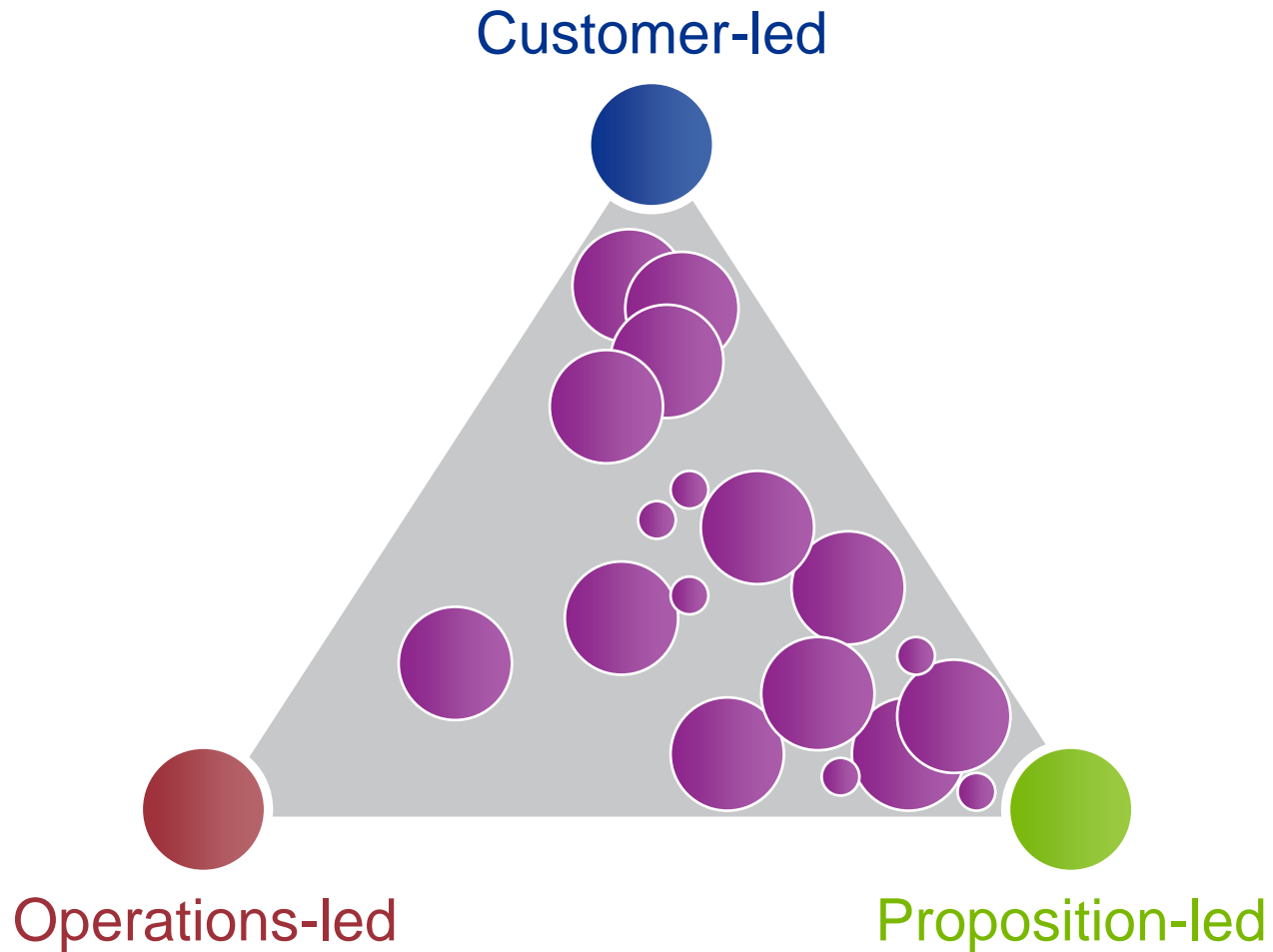
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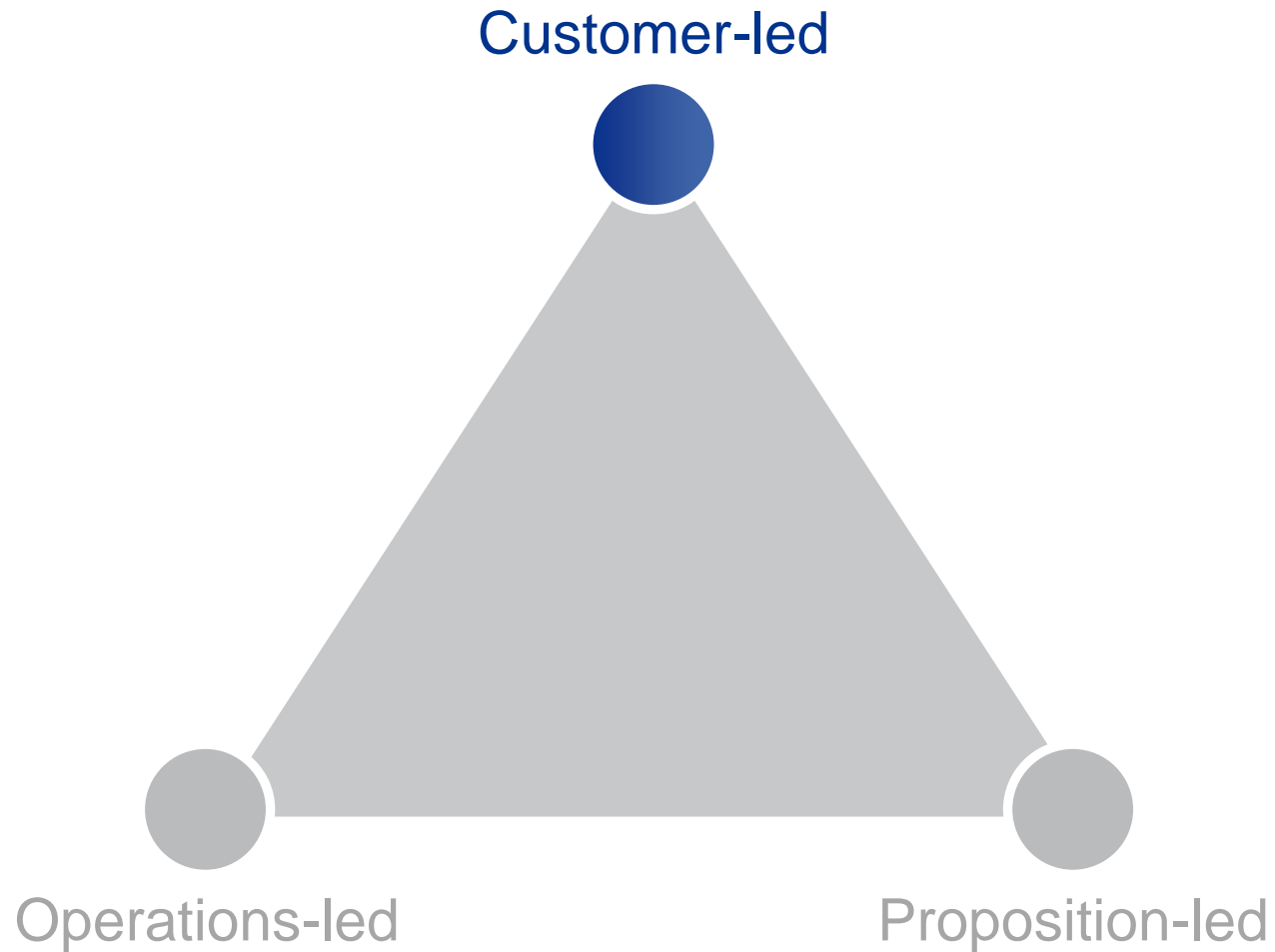
Sources of competitive advantage



Map of the UK financial mutual sector



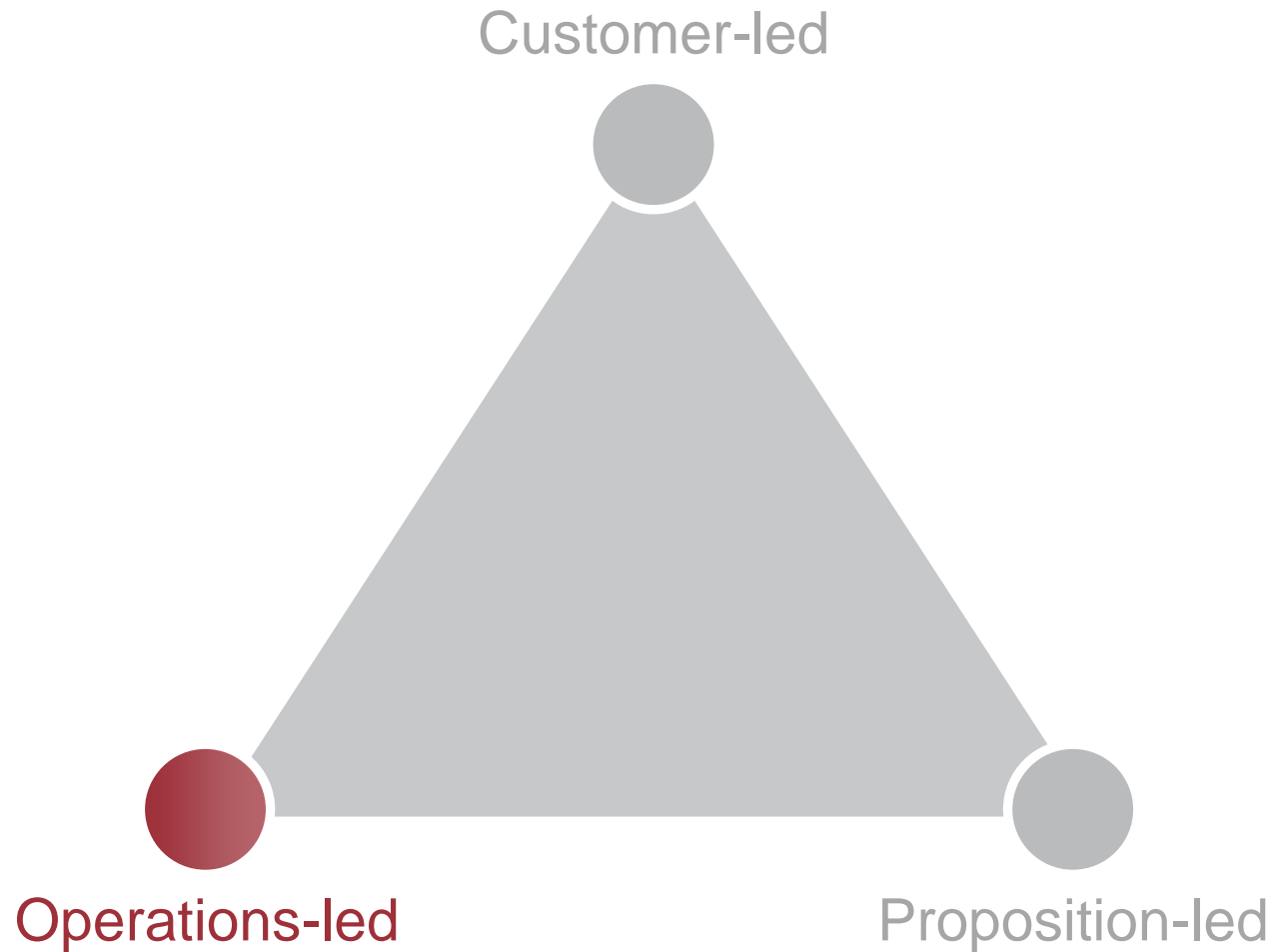
Customer-led strategies



Integrated value chain presents an advantage

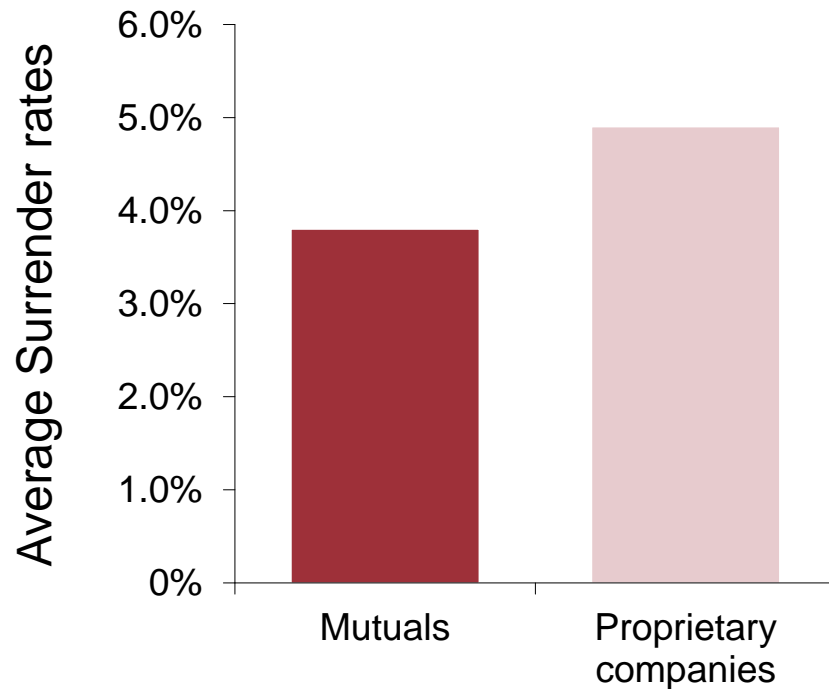


Operational-led strategies

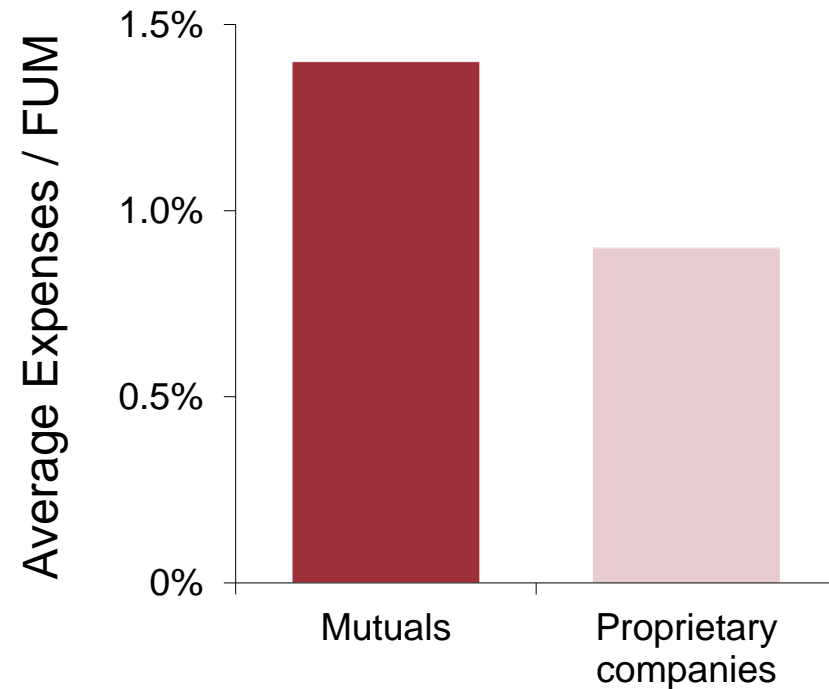


Mutuals have better persistency but higher expenses

Surrender rates

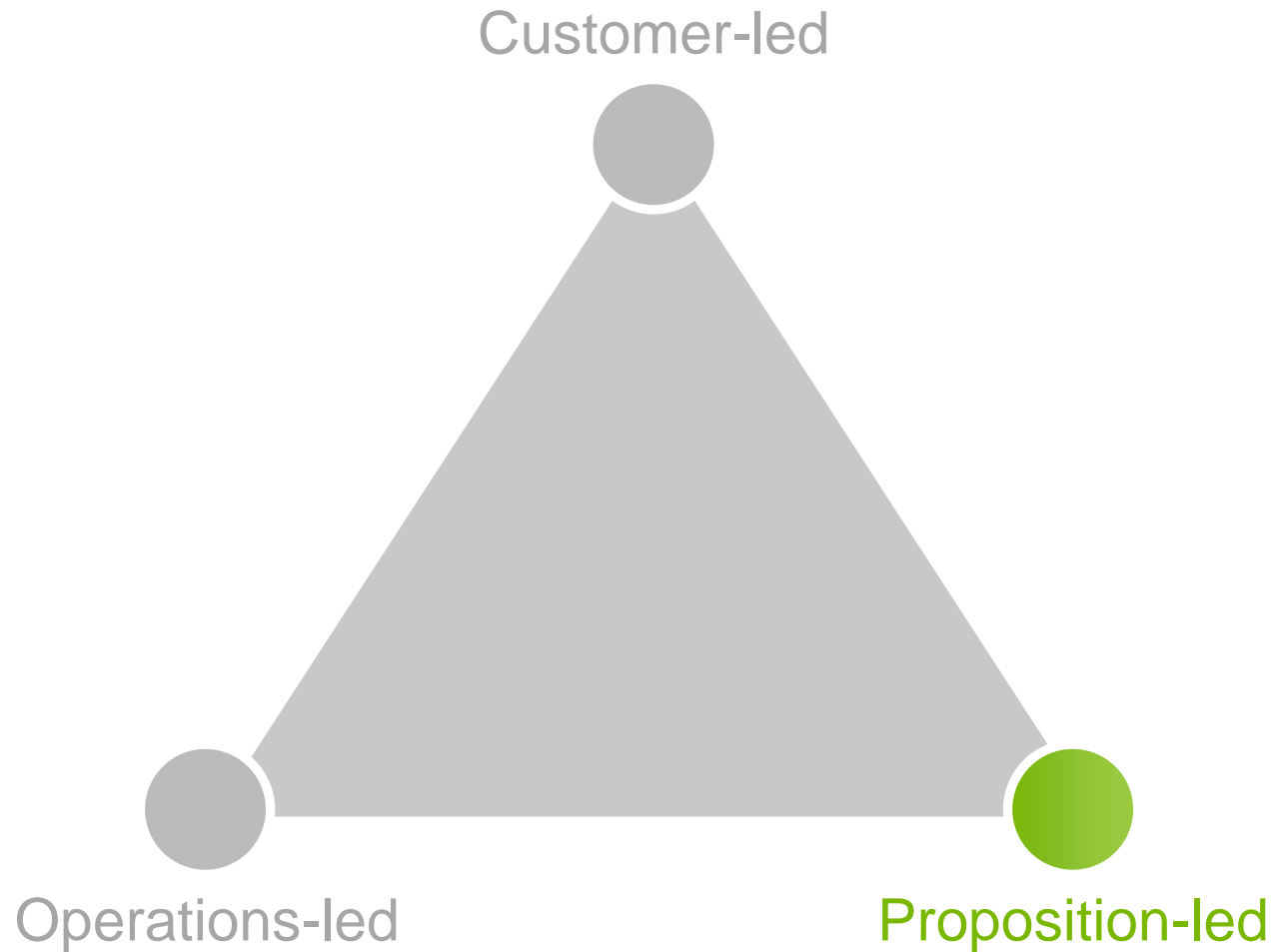


Expense ratios

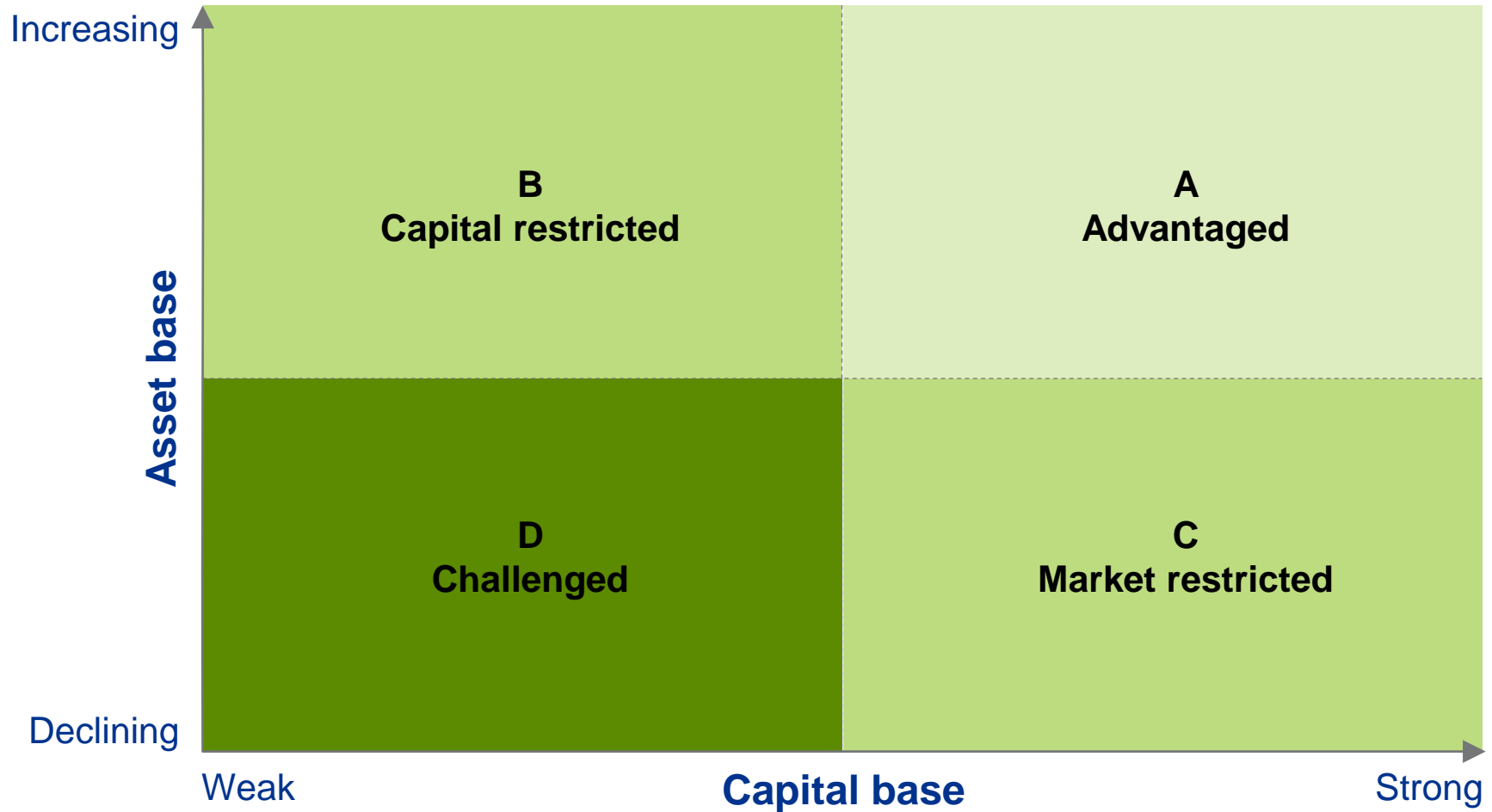


Source: FSA Returns, 2010 and 2011

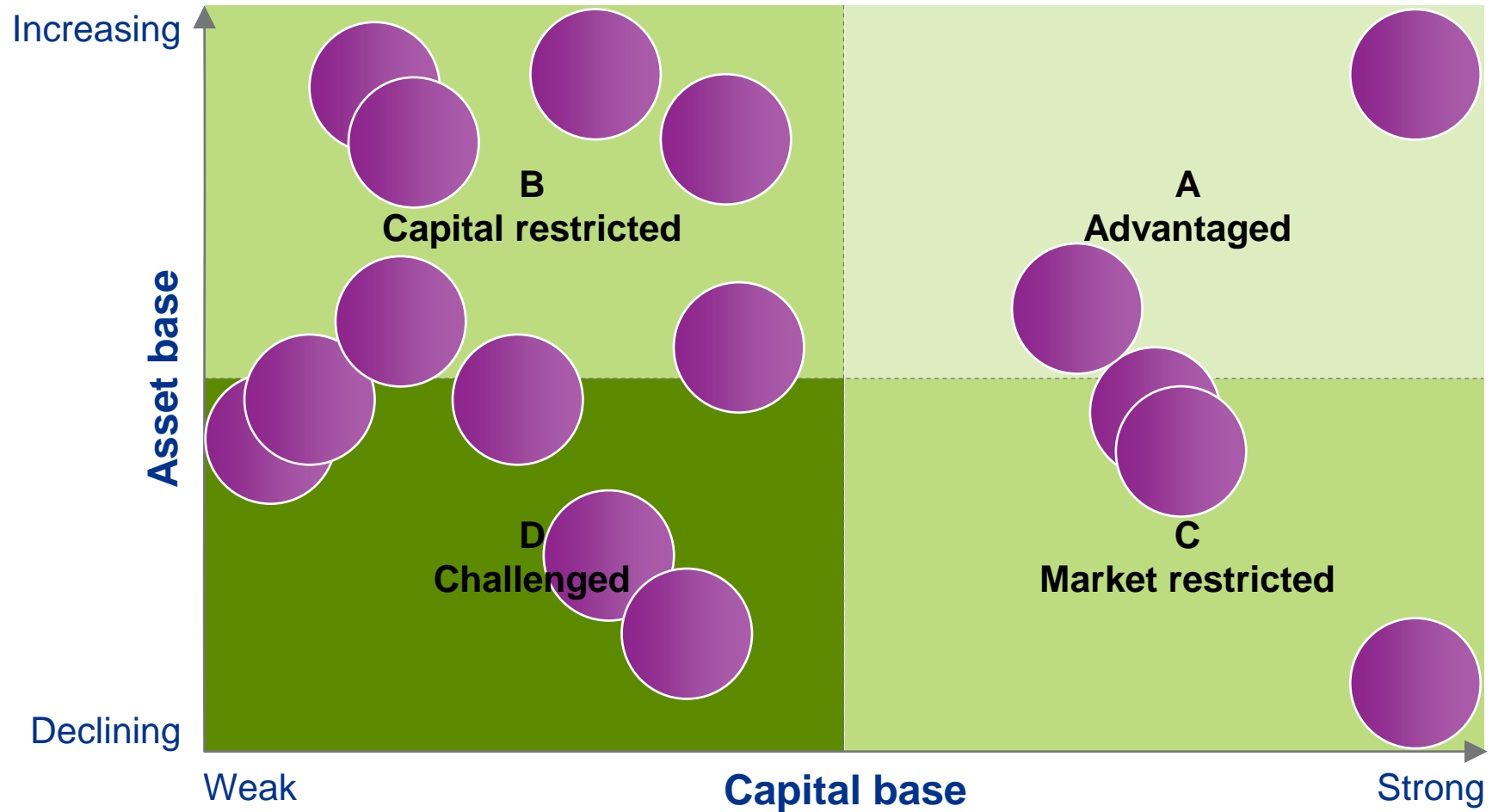
Proposition-led strategies



Access to capital – a key constraint



Access to capital – UK financial mutual sector



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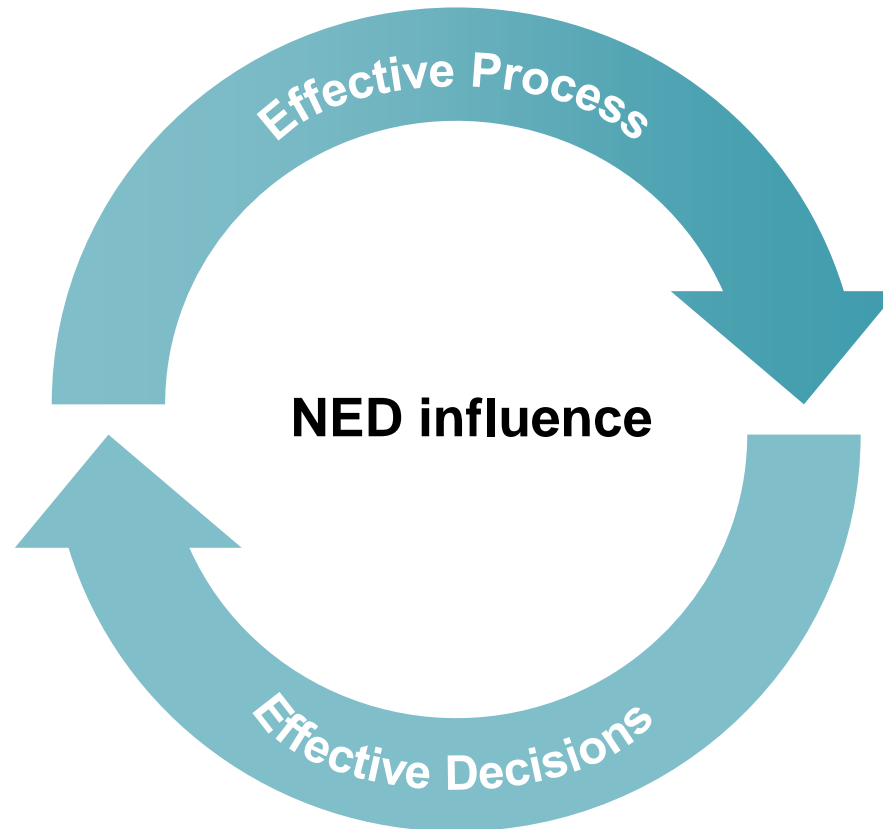
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What is the role of NEDs in developing an effective strategy?

NEDs can influence the process and the strategy itself



Key components of the strategy development process



Key elements of an effective strategy for mutuals



Questions for NEDs

Process

How effective is strategic **decision-making**?

Customers

How well is the society benefiting **customers**?

Sustainability

How **sustainable** is the current business?

Alignment

How **coherent** is the current strategy?

Options

What **alternative options** should be considered?

Key takeaways

Window of opportunity

No better time to make the most of **mutuality**

Strategy development

How robust is your **strategy development process**?

Competitive advantage

Do you have a **coherent approach** across your business model and operations?



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Paul Merrey

Global Strategy Group, Financial Services

15 Canada Square, London, E14 5GL

Tel: +44 (0) 20 7694 5276

paul.merrey@kpmg.co.uk

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