

Mutuals moving together towards tomorrow

-AFM Conference 2016 targets the issues to tackle in Brexit Britain-

“At a time when uncertainty is the only certainty across the financial services industry and broader economy, never has there been a more opportune moment for financial mutuals to join together to embrace the opportunities and to tackle the challenges the financial industry as a whole is facing.”

Martin Shaw, Chief Executive, The Association of Financial Mutuals

The AFM annual conference 2016 kicked off yesterday (10 October) with members directly tackling the impact of Brexit – and closed today with members discussing how the sector can plan for the future with confidence.

The opening day of the conference saw commentary from industry experts* discussing with members the wider economic and political landscape for mutual insurers. Issues included: Brexit, regulation, working together, learning from each other, developing strong leadership, the impact of the changing global political landscape and the best way for mutuals to manage their members' money.

At the end of the first day of the Conference, 10 key themes emerged from member discussions, which AFM will take forward with its members during the winter months [Martin Shaw is available to comment on these topics. See notes to editors for details].

- 1. Brexit hasn't even started** - We are only 81 days into Theresa May's premiership. Rather than focus on the unknown, we know that until at least 2019 mutuals will be held to EU regulations and compliance. So forecast accordingly.
- 2. When it comes to Brexit, there is no ready-made rubric to follow** – Despite murmurings around whether we use the Swedish or Norwegian model, in fact we will be creating a completely new British model.
- 3. The financial sector is not one homogenous group** – different types of financial institutions want different outcomes for their members or their customers from the EU negotiations. What the investment banks want is very different from the big retail banks want; insurance companies, asset managers and mutuals also have different agendas.
- 4. Fall in value of Sterling** - in the short term this will benefit exporters, however looking at the longer term impact, bearing in mind that 62% of UK GDP is made up of household consumption, the value of disposable income for consumers is falling, particularly those on a fixed income. Add to this, the UK's twin deficits and Sterling is looking increasingly vulnerable.
- 5. Resilience of the mutual sector** – Mutuals have been good at taking a long-term view, they survived the last 2007 financial crisis and Brexit is the next storm that they will weather. The insurance industry as a whole has seen a 20% decline in premiums since 2007, but within the mutual sub-sector there has been a 40% increase. As mutuals are smaller and more nimble they have not had to address the

short-term market demands in the same way as the larger competitors. The absence of shareholders together financial mutual products being geared for the long term encourages financial mutuals to work to a long-term strategy.

6. **House prices** - have been weaker over the last six months but the positive is that there is no forecast for them to decline. This is largely due to the shortage of supply. In addition to this, we will not see such steep increases in house prices as we have historically, current forecasts are still indicating around a 2-3% increase year on year rather than around 20% as we have previously seen. In the Brexit aftermath many deals fell through and demand has significantly decreased.
7. **Lack of a forceful opposition party** – There is the lack of an effective opposition holding our leading party to account. The lack of parliamentary scrutiny could have dangerous consequences for the financial services industry at a critical time.
8. **The role of the second EU life directive in UK insurance regulation** – will a new two-tiered industry come into action? And how will this address the lack of proportionality in return of Solvency II? There are currently transfer mechanisms in place for mutuals operating in other EU member states, mechanisms that should be activated to the benefit of mutual insurers who could end up facing less regulation and red tape. The Directive harmonised insurance regulation and permitted insurers to operate across national borders, and in the UK this triggered the convergence of insurance company and friendly society regulation. Brexit gives the opportunity to allow them to diverge once more.
9. **US Presidential Election** – depending on the outcome, the immediate market effect could make Brexit pale in comparison. Also important to consider is the possibility that the next president makes drastic changes to current trade deals, could impose tariffs and quotas and ultimately impact the entire global economy.
10. **The most important upcoming events to look out for** which will have an impact on EU growth:
 - The Italian Referendum: if Matteo Renzi is forced to step down we can expect to see market turbulence return.
 - The Dutch Referendum will see a coalition come to power; although there are no concerns that they will leave the EU as it is illegal to hold a referendum on the matter.
 - The French and German General Elections are coming at a critical time – currently the opinion polls are clear that though the far right parties are increasing in their influence, it does not appear that they will not gain power.

Martin Shaw, CEO of the Association of Financial Mutuals commented, *“The UK is going through a period of great change. Mutuals are an obvious solution as they are small and nimble and have very clear priorities – and most important they work in the best interest of their members who own them.”*

“This week’s conference marks a new chapter in the history of AFM, which now has a clear mandate to champion the advantage that smaller financial financial mutuals bring, not just in terms of their agility, but their closeness to members and the local communities

where they are actively involved. In the months ahead, it is imperative that the smaller financial mutuals and not-for-profit insurers work together to navigate their way through the constantly changing economic and political climate we are all confronting. Along the way, we will be faced with both challenges and opportunities, but together we will move forwards and ensure financial mutuals our sector remains a choice for consumers and delivers long term strategies their members members can have confidence in.”

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For more information on the AFM Conference, topics covered, announcements made and for audio comments from members contact:

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