About Association of Financial Mutuals and its members

The Association of Financial Mutuals (AFM) was established on 1 January 2010. Financial Mutuals are member-owned and not-for-profit organisations, many of which have operated for over 100 years, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.

AFM currently has 49 members and represents mutual and not-for-profit insurers, friendly societies and discretionary mutuals in the UK and Ireland. Between them, UK mutuals manage the savings, protection and healthcare needs of over 30 million people, and have annual premium income of around £16 billion. For more, go to www.financialmutuals.org.
The Loyal Company

INTRODUCTION

Conventional wisdom says that customer loyalty is a key ingredient of most companies’ success. In insurance, measurement of persistency is often a proxy for loyalty, and is a long-established basis for understanding future profitability, and for a long time the Financial Services Authority published reports on lapse rates in life and pensions products, as an indicator of quality.

However, the conventional approach to customer loyalty takes the rather corporate-centric view that customer loyalty is directly controllable by the provider, and that companies have a right to expect loyalty from customers (where they run their business well). But in reality there is no automatic right to expect customers are loyal, so the convention confuses cause and effect, and does not reflect the more transitory nature of today’s consumers.

What companies should be thinking about is how loyal they are themselves; this should include: to their customers, their owners, their employees, their suppliers and to the wider community in which they operate. The quality of these relationships is, at least partly, within the control of a company, and getting the balance right across these areas will contribute to creating the right operating environment, by which:

- Customers enjoy a long and fruitful relationship
- Owners receive regular and growing value
- Employees are motivated and stay in post for the long-term
- Suppliers and business partners provide productive support
- The community, and society at large, recognises the contribution the company makes to general prosperity and well-being.

For small organisations, where Corporate Social Responsibility is often difficult to describe, the loyal company provides a framework for demonstrating commitment to doing the right thing. Moreover, as a way of revitalising the brand image of companies, to appeal to a younger and more values-orientated audience, the loyal company is an attractive way of demonstrating a commitment to stakeholders.

We explore these concepts further by reference to the mutual insurance sector, drawing on case studies from our members. In each context, we will explore what mutuals can or might do to demonstrate that they are a loyal company.
CUSTOMERS

In the UK, over 60% of all general insurance products are purchased via a price comparison website. In contrast, the Nordic countries by comparison, where there is equal access to comparative data, less than 20% of consumers use comparison sites, with most consumers more inclined to stay with the same insurer for a number of years. According to Sollers Consulting, this represents at least in part, a concerted effort on behalf of insurers to explore what they need to do to demonstrate to their customers the value they are providing.

In the UK, the FCA responded to fears that some longstanding customers get a bad deal by introducing rules in 2016 for insurers to disclosure the previous year’s price in its renewal offering. In support, ABI and BIBA have sought to address the problem that new policyholders are often provided with more advantageous terms than existing ones, though a set of Guiding Principles and Action Points, launched in May 2018. In part this responds to growing criticism in the media and from regulators about the so-called ‘loyalty tax’:

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Recent and extensive research by Bain and Company recognises the challenges of building a relationship with insurance policyholders, where they may have bought from a price comparison site and may not have needed direct contact with their insurer. In response, Bain suggest many insurers are creating “an interconnected array of services” beyond insurance, in order to build loyalty:

Bain’s research confirms that customers are prepared to pay higher premiums to providers that offer valuable services beyond insurance, and that extra services increase net promoter scores significantly, whilst increasing profitability for the insurers and the data retained on their policyholders. Amongst the more popular extra services were:

- For motor insurers, breakdown cover and rewards for safe driving,
- For health insurers, health check-ups, expert guidance during treatment and recovery, and digital access to health records,
- For life insurers, expert guidance during treatment and recovery, as well as health check-ups and preventative tests.

Only a few mutuals use price comparison sites, these include some income protection providers, who appear on intermediary comparisons, and LV=, who extensively (and invariably favourably) feature on consumer comparison sites for its motor insurance. Others stress the desire to build long-term relations and consider that comparison sites tend to focus too overtly on price and in a way that may compromise fairness. There also seems to be less evidence from mutuals that they quote significantly different rates in the first year compared to subsequent renewals. In addition, we see many mutual products in healthcare and protection that do not price differently by age or other factors.

Part of the reason for this is that as a customer-owned business, the management of a mutual have a responsibility to maintain and create value for future generations of customers. And there is a range of evidence that mutuals are delivering better outcomes to customers, including:

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• AFM claims statistics on income protection products indicate nearly all valid claims are paid: in 2017 AFM members paid 93.7% of claims, compared to 87.2% by ABI members.

• Our analysis of AFM healthcare providers indicates that 84.1% of net premiums (excluding Insurance Premium Tax) are paid out in claims, implying a greater efficiency than health insurers as a whole (excluding AFM members, 81.8% of net premiums were paid in claims).

• Data from the Financial Ombudsman Service for 2017 reported very low volumes of actual complaints about AFM member companies, and significantly fewer decisions made by AFM members were overturned.

• Long-term investment performance tables from Money Management have traditionally shown a significant difference between with-profits payouts by mutuals compared with non-mutuals.

• AFM research on trust in financial services in 2013 and 2015 indicated that there was a significantly greater level of trust amongst consumers of mutuals compared to non-mutual providers (the net trust score for mutuals was +32% against -8% for non-mutuals).¹

On the face of it therefore, mutuals are already actively taking steps to enable consumers to enjoy a successful relationship with them. Evidence from some AFM members indicates this leads to higher levels of persistency.

OWNERS

A great deal of communication from companies is directed towards their owners- either as shareholders (in listed companies), members (in mutuals), or the general public (in state owned organisations).

The nature of ownership continues to evolve, and for PLCs in particular, a proportion of their shares is now traded globally and with great rapidity. In these cases, loyalty is not a factor the company can influence. There may though be a significant number of long-term investors, such as pensions firms and people who hold shares through employment or through denationalisations.

Becoming a part-owner of a mutual is often a by-product of purchasing a product. Where the product was purchased as part of an employer’s group arrangement, or through an intermediary, it may not be immediately apparent that that the customer has become an owner. Many mutuals write to customers shortly after their purchase to emphasis the rights

¹ http://www.financialmutuals.org/files/files/AFM%20research%20round%20up%20300915.pdf
they have gained by becoming a member including, where appropriate, the opportunity to participate in key decision-making as part of the AGM.

Engagement in the AGM process is low for most mutuals: amongst AFM members for example, the average proportion of eligible member customers participating in the AGM is below 4%. In most cases therefore, membership may not be a compelling enough reason to retain their custom. In the past, AFM held workshops focused on increasing turnout at the AGM, through the adoption of simpler and clearer communication, as well as the introduction of incentives for voting. Some members found that this helped to boost voting significantly, with some indicating turnout rates above 10%, though maintaining progress requires ongoing commitment.

There is a growing trend amongst mutuals to develop more tangible benefits of membership. Examples of member benefits include dividends paid out of profits, non-contractual benefits and a range of support services. These actions help to add value which, in turn, would be expected to extend the product relationship.

Not-for-profit organisations, such as mutual health cash plans, have a different ownership structure. They have neither shareholders nor members, so the board members act as trustees, to ensure the organisation creates value for the long-term, and that its performance is aligned with its corporate purpose. In many cases, the purpose statement includes a commitment to generating support for the community they operate in.

**EMPLOYEES**

Companies carefully measure their employee retention, and often conduct exit interviews when someone leaves the organisation. With ‘jobs for life’ a thing of the past, companies are increasingly taking active steps to give employees good reasons to stay.

Companies also recognise that keeping employees happy and motivated has a direct impact on their sales and profitability. This is nothing new; the January/February 1998 edition of the Harvard Business Review published an article on “The Employee- Customer- Profit Chain at Sears”[2]. The research showed that a precondition to increasing profit was an increase in both customer and employee satisfaction.

AFM undertook an extensive survey of the staff of its member companies in 2018 (repeating a 2016 exercise). The research produced over 600 responses, and identified that 93% of staff considered that their employer had a clear statement about the importance of being a

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mutual/ not-for-profit, and that the way it operates was consistent with that. Also, 83% stated that there was “every opportunity to grow my capabilities to be the best I can be”.

Whilst this portrays a positive working environment, a recent survey amongst board members of AFM member organisations found that 75% of companies held staff meetings to communicate their strategy, and half of these (37%) actively consulted staff in the setting of the strategy. The same survey found that whilst 55% sought feedback on the culture of the organisations from their members, less than half (44%) sought employee feedback.³

Some examples of activity by AFM members include:

- one AFM member recently polled staff on whether they would prefer an increase in pay, or training to help them develop their career: overwhelming staff voted for career development.
- AFM members also help client employers set up group schemes, to provide health or financial benefits. Recent research indicates that healthcare is a highly valued benefit of employment.

**SUPPLIERS**

Most organisations have a network of suppliers with whom they work. In this paper, ‘suppliers’ is intended to include companies that supply services and goods, as well as business partners, which for mutual insurers often includes actuaries, accountants, fund managers, lawyers, IT providers and consultants, and organisations with which they have a joint venture or other form of collaboration.

There has been a lot of work done on the importance of effective relationships between supermarkets and their suppliers. Farmers for example frequently cite the squeeze that is placed on them by the supermarkets, to support competition amongst retailers.

There are a variety of ways a company can demonstrate that it values its suppliers:

- Always pay on time
- Provide adequate lead times
- Personalise the relationship
- Share information.⁴

⁴ [https://www.entrepreneur.com/article/205868](https://www.entrepreneur.com/article/205868)
In an increasingly interconnected world, the reputation of a company is vitally affected by the conduct of and support it receives from its suppliers. In financial services, the regulators accept that whilst firms might delegate activities to suppliers, they must retain accountability and responsibility themselves: if something goes wrong it is not enough to blame the supplier.

COMMUNITY AND THE ENVIRONMENT

A loyal company should recognise the value of building strong relationships with the communities in which it operates. That community in turn will support them, providing customers and employees.

Companies should also recognise their role in being ‘guardians for future generations’ by understanding the impact they have on the local environment and the local economy. As insurance companies, AFM members have an important role to play in shaping this: as investors in making sustainable investment decisions, as insurers that use risk mitigation techniques to reduce future environmental and climate related risks, and as businesses that plan for the long-term and care about the local community they operate in.

There are many examples of very good community initiatives amongst AFM members, such as:

- One member provides its excess office space free to local charities, and sponsors an accessible lounge at the local premiership football club;
- Cash plan providers provide £ million every year to local health and wellbeing initiatives and to local charities;
- One friendly society sponsors a children’s book tour of Scotland, placing writers and illustrators at events across the country;
- Many mutuals provide sponsorship for local community groups.
CONCLUSIONS AND ACTIONS

Mutual and not-for-profit organisations have a long history of serving customers well and of benefiting from a workforce committed to doing the right thing.

However, they cannot be complacent about their approach: consumers are becoming more demanding, and their experiences of service from online providers challenges conventional models. Low levels of unemployment mean employees will move on if they are not motivated to stay with a company. Suppliers increasingly look to partner with companies that share the same ethics as them.

AFM continues to work with its members to demonstrate the commitment of the sector to delivering high standards of corporate governance. The Loyal Company sits alongside AFM’s principles for corporate governance.

For these and many other reasons, there is a need for a radical evaluation of how loyal a company is to its key shareholders, and how well it demonstrates that it values them. A truly loyal company, in all its facets, is likely to be a successful one.

To join the discussion on Twitter, drop a comment to @AFM_UK, with the hashtag: #loyalcompany.
ANNEX: HOW DOES AFM DEMONSTRATE LOYALTY TO ITS STAKEHOLDERS?

The Loyal Company is a scalable concept, so it should be applicable to small organisations as well as large ones. With that in mind, what is AFM doing to demonstrate loyalty to its key stakeholders?

Customers

We treat members and Associates as our primary customers, though we also get regular enquiries from members of the public (usually about tracing an insurer). We aim to respond to all requests quickly, efficiently and courteously.

A key focus for us is providing value for money to all our subscribers, and we report on the success of this in our Operational Report, which demonstrates fully how we achieve this.

Owners

AFM is a partnership and is owned by its 49 member companies. Our Board is made up entirely of CEOs from members, and are annually elected at our AGM, which features one-member one-vote.

We write regularly to members, and in 2018 have held four CEO forums in Manchester and London, to update members on our work.

Employees

AFM’s two employees are home-based, with contracts and working conditions approved by the AFM Board. Our latest employee has received regular training and support.

Being a very small business, we manage employment issues on an individual basis.

Suppliers and Partners

Most AFM work is delivered in-house, but the aspects we outsource are delivered against clear contracts that reflect the needs of the organisation and those of our members. Where possible, we work with mutual providers to support our work.

We work with a range of other trade associations, to share intelligence and add further value to members.

Community and the Environment

With no formal facilities or premises, we generate little external effect on the environment: we use public transport wherever we can. Being Lincolnshire based we work with the local universities and other organisations to help improve our performance and enhance the reputation of the sector.

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