Building a More Financially Self-Reliant Society

A manifesto for financial mutuals, 2019

In the UK, one in three of us is already a member of a mutual organisation and individuals are almost three times more likely to be a member-owner of a mutual than a shareholder in a company. Mutuals are recognised as being trustworthy and working in the best interests of their customers. So maintaining a strong financial mutual sector will do more to share prosperity and self-reliance, and to democratise our economy.

Whatever happens next in the United Kingdom, the challenges for the next Government will include ensuring communities feel safe and fairly treated, that the economy prospers, that public services and particularly the NHS meet increasing demands, and that individuals can benefit from a sense of purpose and financial self-reliance.

The financial mutual sector stands ready to support the Government in meeting these challenges, while protecting consumers, as it has done for over 100 years.

We call on the next Government to commit to actively supporting financial mutuals by:

- Recognising the value to consumers of mutuals, by requiring legislators and Government departments to ensure rules are fit for purpose;
- Removing barriers to the creation of new mutuals, and better enable existing mutuals to raise capital from new sources;
- Embracing new opportunities for mutual insurers to support Government policy in healthcare, and in delivering a fairer and more resilient society.

WE ENCOURAGE YOU TO RESPOND TO THE ACTIONS WE'VE PROPOSED, AND WILL PUBLISH YOUR RESPONSE ON OUR WEBSITE.

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This manifesto is produced by the Association of Financial Mutuals, and seeks to highlight how the values of our members are aligned with the changing values of society today and the opportunity for the next Government to deliver a good deal for consumers.

The members of AFM include friendly societies, mutual insurers and indemnifiers, and not-for-profit healthcare providers. These organisations were first established before the Welfare State, to enable people of limited means to take responsibility for their own financial situation and to provide for an uncertain future. Since the financial crisis, mutuals have doubled market share and are once again providing a core role in helping people become more financially self-reliant.

Recognising the value to consumers of mutuals, by requiring legislators and government departments to ensure rules are fit for purpose

Regulators often talk about being 'business model agnostic', but often this is a convenience, and avoids a careful appreciation of the way rules affect different business models in different ways. Whilst Government has added requirements for regulators to recognise corporate diversity, we frequently need to highlight the unintended consequences of new rules, and the potential detriment to mutuals and their customers of requirements that are a bad fit with our sector.

Legislators suffer from the same limitations: the Friendly Societies Act was last updated in 1992, and this has imposed significant limitations on the growth prospects of friendly societies, where the rules fail to fit the business environment today. As a result, consumers are limited by the degree to which they can build up a nest egg, or find appropriate protection against ill-health from their friendly society.

Mutual insurers suffer from the absence of a clear definition in legislation. When Government passed the Mutuals' Deferred Shares Act in 2015, it was not possible to bring forward secondary legislation as the structure proved incompatible with HMRC's interpretation of the tax treatment of mutuals, as set out in case law rather than legislation.

Not-for-profit health cash plan providers offer low-cost support to millions of people, to help them better manage the personal costs of healthcare and wellbeing, alongside the care they receive from the NHS. The discretionary model within the medical indemnity market protects doctors and dentists from Insurance Premium Tax, while the current rate of IPT has made health cash plans less affordable and risks employers removing this valuable benefit and consumers facing challenges to pay for healthcare services, such as prescriptions, or dental and optical care.

Actions needed include:

- Regulators should report annually, in their public report and accounts, on what actions they have taken to enhance corporate diversity.
- HM Treasury and other relevant departments should complete a mutuals' impact assessment as part of new policy proposals.
- A proper legislative definition of 'mutual insurer' and a modernisation of legislation for friendly societies will help the sector better service its customers.
- Treasury should explore the opportunity to exempt health cash plans from Insurance Premium Tax, where the incremental benefits to the NHS and welfare state exceeds the tax loss to the exchequer.

Removing barriers to the creation of new mutuals, and better enable existing mutuals to raise capital from new sources

Mutual insurers face a 'capital conundrum': they need capital to meet regulatory thresholds but can only secure it through contributions from members, but can't sell policies without a high level of capital. This capital constraint also affects the capacity of existing mutuals to grow quickly or acquire other businesses, given the main source of new capital is via retained profits which are only generated slowly.

The last friendly societies to be created were in 1995, and the aged nature of the legislation (as mentioned above) means it is too difficult to establish a new mutual through this route. The significant increase in (mainly unmet) demand for Islamic Finance could be met by a Takaful (Islamic insurance) model soldered onto an existing friendly society. This is because Takaful relies on strong mutually-shared values and principles to produce an ethical and fair outcome.

There has been renewed interest in the mutual insurance model, particularly through the public sector and professions that are poorly served by incumbent insurers. Often these new models have adopted a discretionary model, which provides a flexible and targeted approach, and which also avoids the high regulatory barriers to forming a traditional mutual.

Actions needed include:

- Treasury should re-activate the mothballed Mutuals' Deferred Shares Act, and refine in order to resolve HMRC concerns. The focus has also been on institutional investors, whereas there is an opportunity to broaden appeal to smaller mutuals, by offered the product to suitably-informed retail consumers.
- Engagement between Treasury and the sector on unmet demand for Takaful from 3 million UK Muslims, and how friendly societies can help provide new solutions in a market estimated to be worth US$3.8 trillion by 2022.
- The UK regulators to consider how new insurers looking to form in the UK, might find it easier to establish as a mutual, by developing a start-up regime similar to the lower tier rules for small credit unions.

Embracing new opportunities for mutual insurers to support Government policy in healthcare, and in delivering a fairer and more resilient society

Mutual and not-for-profit insurers have a long and proud record of helping people in all walks of society, and in supporting government policy to raise people's living standards and wealth and their capacity to contribute meaningfully to society.

Mutuals help raise productivity in the economy: AFM members complement rather than compete with the NHS and Welfare State, by incentivising wellbeing in the workplace, bolstering income when employees and the self-employed are unable to work, and providing financial support to families for healthcare costs that may not be covered by the NHS (such as optical and dental care, physiotherapy and rehabilitation, and prescriptions).

When the Child Trust Fund was created, it was mutuals that most actively supported the initiative and who now manage the majority of the six million policies that begin maturing in 2020. Mutuals can continue to support Government in creating a savings culture and in helping young adults in particular plan for their financial future with confidence.

Actions needed include:

- DWP should reform Universal Credit regulations, to incentivise more self-reliance, and to ensure that hardworking families, that protect themselves against ill-health or incapacity, do not see their benefits entitlement reduced on a pound for pound basis against any insurance payment received.
- Extend the 'win while you save' initiative, recently launched to promote savings via credit unions, to financial mutuals, to target more of the 11.5 million adults with savings of less than £100 (source: Money Advice Service, 2019).
- The Office for National Statistics should adopt the recommendation, by the Financial Resilience Task Force, to develop a financial resilience index.

About the Association of Financial Mutuals

We represent insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff.

The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.

We constantly seek ways to raise standards amongst members, for example with a new and extensive corporate governance code, and with a focus on planning for climate change. We will shortly be launching the AFM Charter, designed to demonstrate our members' commitment to their customers in the four areas that matter most to our customers: