

Working together for a stronger Society: **The future of the Mutual Sector**

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Introduction

Contents:

- The current working environment – challenges and opportunities
- What the future may hold
- Opportunities from current environment
- Working together for a stronger society

Introduction

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The current working environment:
*Challenges and opportunities
faced by mutuals*



The challenge:

Big is beautiful in today's insurance market

- Scale and expense efficiencies
- Mature markets and undifferentiated products
- Deep pockets needed to fund new product developments/ funds transfers/ meet capital requirements
- Complex regulatory environment

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But mutuals and friendly societies are seen as:

- Typically small/ mono-line and inefficient
- Constrained by capital and their governance model
- Operating in markets with limited growth prospects

Example: 1. value in today's market

- Competitive pricing may be difficult, or it may rely on drawing on historic reserves
- Innovation often means significant investments in IT/ new product development/ new routes to market
- Consumers mistake value for price
- Many products are commoditised and/ or any mutual benefits are not apparent

Example: 2. with-profits

- Many friendly societies/ mutual insurers have membership that is tied to With-Profits products.
- Supply-side challenges:
 - the impact on capital,
 - the costs of guarantees,
 - continued regulatory scrutiny
- Demand-side:
 - sales of conventional with-profits are typically small and contracting.
 - existing customers are taking on more of the risk and costs, and expect a positive return on new business and diversification.

Key advantages of the mutual model

No shareholders	<ul style="list-style-type: none">• Less focus on profits• Profits retained in the business or shared amongst Members
A stronger sense of social purpose	<ul style="list-style-type: none">• May be compelling• Needs to be clearly articulated and tangible
The wider benefits of mutuality	<ul style="list-style-type: none">• As evidenced from claims statistics, investment returns, service delivery• Beyond a vote at the AGM, how material are benefits?



What the future may hold!

Potential solutions and opportunities

- Close and transfer to/ merge with 3rd party
- Strategic partnership
- Growth
- Industry solution - meeting societal need

Transactional backdrop

- Transactions (historically) not all that frequent
- Commercials v complexity of implementation
 - Size of business
 - Synergies between target and acquirer
 - Administration and IT systems integration
- No “one size fits all”
 - Different business models
 - Different legal routes
- Business, fund and legal structure – simplification?
- Directors’ duties (for Companies Act mutuals)

Is Covid-19 a catalyst for consolidation?

- C-19 – highlighted all firms' strengths & weaknesses
- Drivers for consolidation remain
 - Low yield environment
 - Scale
 - Operational efficiency
 - New business volumes not straight-forward
- Strategic actions
 - defensive
 - accelerate key actions

Close to new business and transfer

- Closure
- Manage business in run-off in short term
- Then sell/transfer to 3rd party who can administer business more cheaply once diseconomies bite

	Transfer of engagements?	Part VII?	Scheme of arrangement?
Friendly Society	✓	✗	✗ (Would require conversion to company)
Industrial and Provident Society	✗	✓	✗ (Would require conversion to company)
Companies Act Mutual	✗	✓	✓

Recent developments

- Police Mutual / Royal London
 - Transfer of engagements under Friendly Societies Act 1992
- Kingston Unity / Oddfellows
 - Transfer of engagements under Friendly Societies Act 1992
- CS Healthcare / Bupa
 - Transfer of engagements under Friendly Societies Act 1992
- Equitable Life / Utmost
 - Scheme of arrangement (product conversion)
 - Part VII
- LV=
 - Conversion to company limited by guarantee

Process

- How can the path be made easier?
 - Simplification
 - Pre-emption of regulatory issues
- Others
 - Model form transaction documents?
 - Legislative change?
- Different legal routes
 - But the tools are there

Opportunities from the current environment



Challenges and Opportunities

Challenges

Consolidation

Rate of growth given inability to access capital markets in same way as proprietary firms

Growing membership/ demonstrating wider value to membership
Chrysalis challenge
New business propositions

Cost base e.g. Board cost as % premium income, property costs, IT costs etc

Opportunities

Consolidation

Strategic Partnership to exploit niche market?

Arguably stronger sense of social purpose?
Wider value-add of membership
New business proposition – participation by profit-share, capital-lite?

Industry-wide solutions?

Consolidation

Rationale

- a. Acquire for scale
 - a. pure scale play to reduce unit costs
 - b. Diversification
- b. merge with dominant party - akin to closure and selling the business
- c. Join forces – both parties provides source of capital and expects share of future value in return

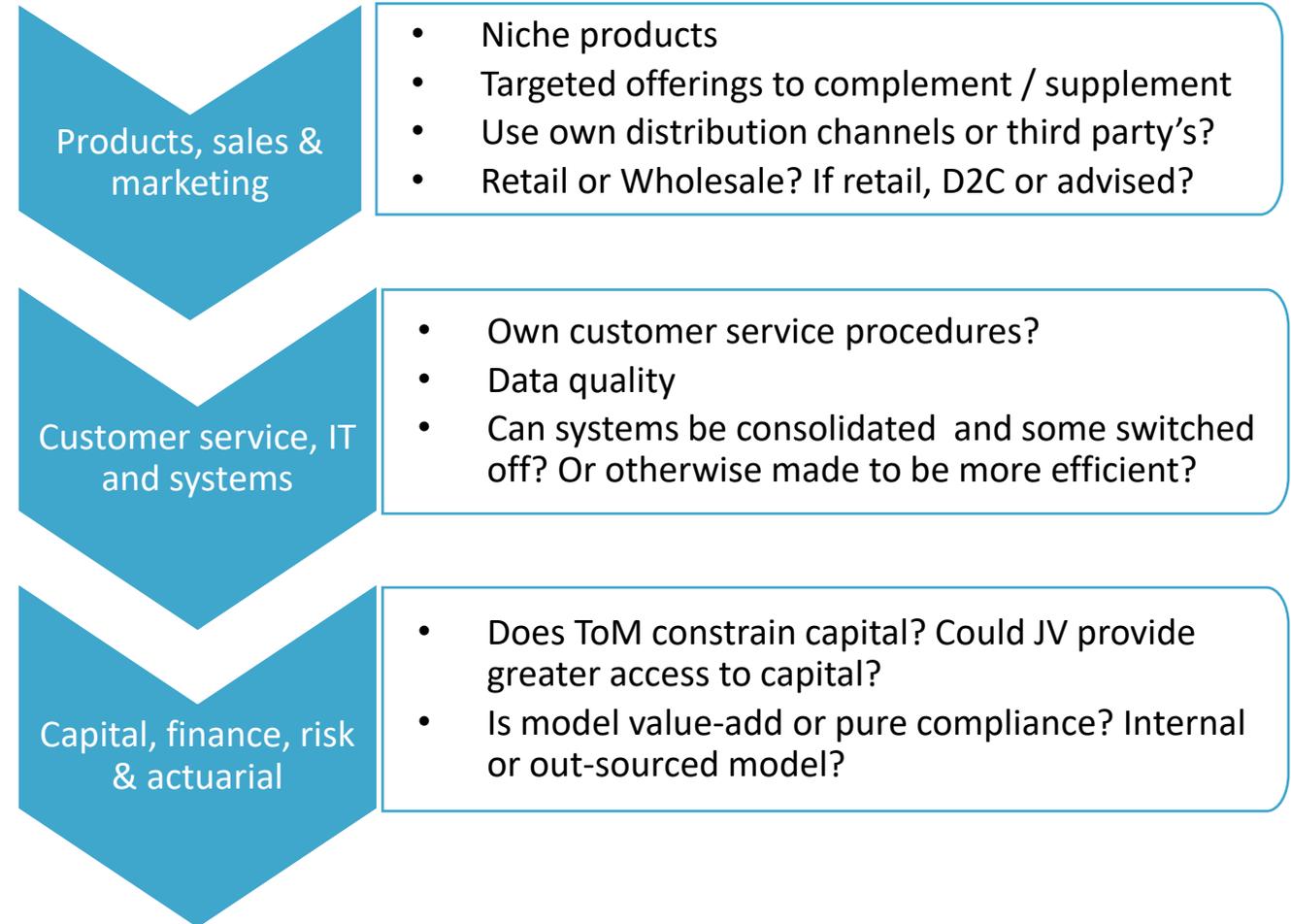


Strategic partnerships – catalyst for growth

Strategic Partnership could act as a catalyst for growth where

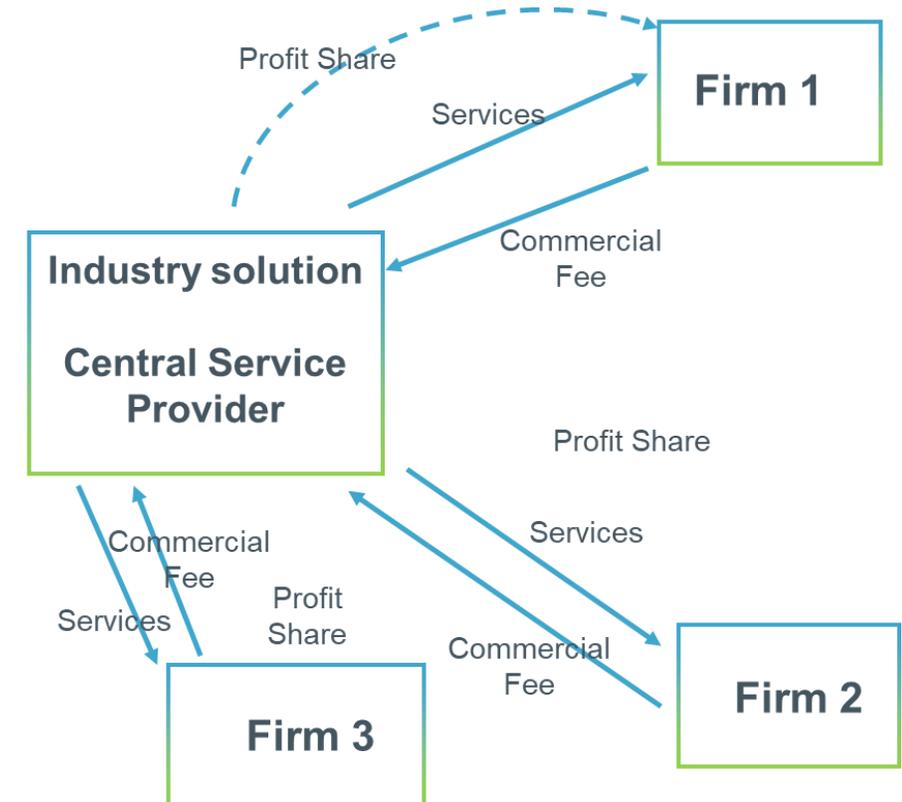
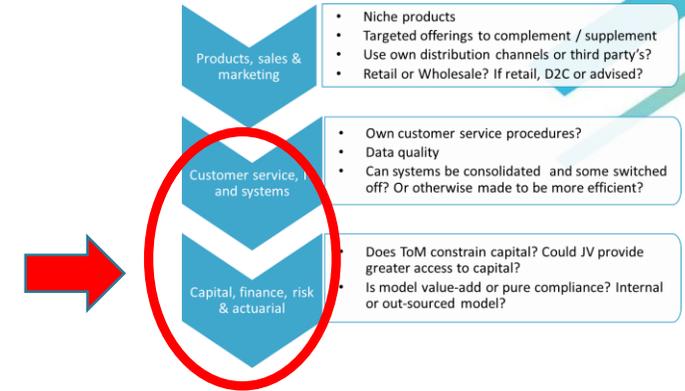
- symbiotic features exist
- both parties have clearly defined interest in success
- Value chain interaction makes sense

Illustrative value chain for life insurer



Stronger Society – Industry solution

- Central service provider to provide high-quality low-cost core services to several/many smaller firms
- Possibly also skilled to provide bespoke services
- Charge a commercial basis for services
- Profit share mechanism paying in proportion of service use
- Board/governance & oversight costs as % of premium? Low cost running? Property/Office costs?



Membership

Membership often linked to participation

- so developing a new participating product has potential to transform Membership

What features would this product have?

- Satisfy policyholder / market need
- Appropriate costs to develop and cost recovery period e.g. IRR & DPP criteria met to demonstrate benefit to current v future membership

Which products have greatest growth potential?

- Protection – how to participate – e.g. Mutual dividend – future discount to premiums? Other?
- Pensions & Savings – how to participate – e.g. additional units / rebate of charges

Other considerations

- Implications for and fairness of sharing existing surplus (retained capital) ?
- Suitable unit-costs
- **What to do with existing business?**
 - Convert to new form product or risk churn?
 - Would it be possible to convert to
 - facilitate new business growth;
 - reduce capital intensity of existing business;
 - reduce administration costs:



Working together for a
stronger society

Summary - Stronger Society

- Returning to our roots
- Reinventing what Mutuality means for the 21st century
 - Without losing the value of mutuality in 20th century
- Seeing Society as wider stakeholder
 - Environment
 - Community
 - Corporate citizen

Thank you

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