

Your flexible friends

Friendly societies are shaking off their Victorian origins by embracing 21st century tactics such as strategic alliances and product innovation. But there's still an image problem that needs tackling, as Amy Duff discovers

According to the Treasury, the financial services sector will be essential to increasing the flexibility and dynamism of UK business and the wider economy. Competition among banks and other institutions to win new business remains fierce, with the newest kids on the block, the supermarkets, offering life insurance alongside root vegetables. So where does this leave the friendly societies, those mutual institutions with hundreds of years of tradition, whose main purpose has been to assist their members (usually financially) during sickness, unemployment or retirement? Is there any place for these hoary organisations with their "one for all and all for one" principles?

Of the 27,000 that were registered in the 1800s only around 200 remain. But after last year's collapse of Christmas-savings firm Farepak, and at a time when the government is committed to widening the saving opportunities for those on low to moderate incomes, friendly societies offer a large swathe of the population an opportunity to save through low-premium or tax-exempt products.

They're also an alternative for socially responsible investors—the wealthy and the not so well off contribute to a fund and share the return—and those who are disenchanted with bigger institutions. Survey figures released by factoring firm Venture Finance in December 2006, for instance, revealed banks are losing favour with many small and medium-sized enterprises due to high charges and an unsatisfactory, impersonal service. Although most friendly societies don't offer banking, they do provide a range of retail services, including the management of unit trusts, OEICs (open-ended investment

company) and investment trusts, health insurance and life assurance, and investment products. Their future is not so much under threat as full of promise.

Friendly societies were originally formed by communities that would pay a regular sum, no matter how small, into a common fund that could be drawn on in times of need. Members felt a duty to assist their fellow fund members if they fell ill, or were unable to work. It resulted in an "industrious, working-class self-help movement," observes Professor Paul Palmer, professor of voluntary sector management at Cass Business School.

They celebrate their mutual status (there are no shareholders). Whether they're large, like Liverpool Victoria, which manages around £7.4bn of customers' money, or small, like Druids Sheffield Friendly Society, which only has two full-time employees, they all claim to have preserved the "friendly" principles of their benevolent founders.

The more successful ones have extended their shelf life through modernisation, acquisition or consolidation. The Child Trust Fund (a long-term savings account for children) is a good example, explains Colin Paskell, president of the Association of Friendly Societies (AFS) and chief executive of Druids Sheffield: "Friendlies have grasped the nettle and made the Child Trust Fund work for them. Forty seven per cent of the CTF market is run by friendly societies; it proves that we can adapt to modern products. We take members from all walks of life. As long as we adapt to new products, that's an advantage."

Mutuals still have something of an image problem, though. They're often regarded as outdated, stuffy or inefficient, because they don't have shareholders to



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Making sure bobbies get more

Who: Police Mutual Assurance Society

When: Founded 1922

Survival tactic: Affinity partnerships

Chief executive: Graham Berville

Among the list of members registered with the Association of Friendly Societies are those organisations dedicated to serving trades people, from foresters to pharmacists. The Police Mutual Assurance Society is one of them, established in the early part of the 20th century to provide a service to police officers. Today, it offers a range of financial services to retired officers, police staff and their families and has around £1.3bn funds under management.

Graham Berville has been chief executive since 2001. Before that, he was director of UK life business at Aviva, a division of around 9,000 people. A number of factors encouraged him to leave for the top job at a small friendly society.

"As well as some great advantages there were also frustrations; it became difficult to really feel that you had a sense of what was happening," recalls Berville. "Coming to an organisation of 170 staff, you can respond to market changes and customer needs quickly."

There was also an altruistic reason for his decision—he liked the concept of individuals helping one another. "The organisation has done a lot of worthy things in terms of financial education and financial welfare. You feel you've got a connection with your customers and you're doing something other than sell them products. If individuals have got a common cause, it's much easier to do that."

How does that sit with the type of commercial institution it also has to be to remain relevant? The two aren't mutually exclusive, says Berville: "Our standard of customer service is unsurpassed—that's a real source of competitive

advantage. Our products are always among the best-priced. But because we're a mutual, we do things because it's right for the police service."

Financial education remains high on the Society's list of priorities. "The insurance market as a whole has gone off chasing high net-worth individuals and left the population as a whole behind," says Berville. "Our role is meeting the needs of the average person and giving basic guidance on what they should do in terms of financial arrangements."

Innovation and diversification will be key going forward, adds Berville. The Society has already developed and launched an affordable housing product. It offers services in association with Anglo Irish Bank and Bristol and West, among others. "We'll be a provider of a broader range of financial services, if necessary, developed in partnership or on a white label basis," he explains.

Keeping it in the family

Who: Family Investments

When: Founded 1975

Survival tactic: Focused on a niche product

Chief executive: John Reeve

One of the younger friendly societies, Family Investments was launched in 1975 as Family Assurance Friendly Society selling the Family Bond, a tax-exempt 10-year savings plan. Today it has around 800,000 members and £1.6bn under management. John Reeve joined from Deloitte in 1982 as the Society's second employee and became chief executive in 1992.

When the Child Trust Fund was launched in 2005, Reeve took the decision to focus on the product and in doing so turned around the company's fortunes. Part of his strategy was to offer Family Investment's expertise to banks and supermarkets: "The big players wished to be involved with the CTF but didn't want to necessarily run the back office," explains Reeve. "We were used to handling small amounts of money efficiently so we went out to the big brands and said, 'we'd be very good at that, we'll be your back office.'" Barclays Bank, Post Office and Sainsbury's Bank (among others) have since become partners.

Reeve chooses to ignore any image crisis friendly societies have, concentrating

instead on seizing opportunities within the financial sector. "Friendly societies are relatively small organisations and that presents a challenge of perception. But we've been able to get over that through the CTF—we run it better than most. Being small makes us flexible. We're able to change strategy quicker than some of the bigger players and we're able to spot new trends a lot easier."

He doesn't think friendly societies' original principles are obsolete, but believes they're good at finding niche markets for their skills. "Look at the CTF: it's a long-term project designed to help everybody in the country start a savings habit," says Reeve. "It's a bold venture, but it's the friendly societies who have really picked up the ball and run with it. There are lots of areas where niches are appearing and new opportunities arise."

Reeve sees expansion and acquisition as a possible answer to the question of where the society is going. "One of the opportunities we have is to acquire some of the businesses that are no longer relevant to life companies and to rationalise and focus our business that way. Whether you're a mutual or a shareholding company, you've always got to be relevant to your marketplace," he says.

hold them accountable. According to Shaun Tarbuck, chief executive of the Association of Mutual Insurers (AMI), all this should change now that the Combined Code on Corporate Governance for Mutual Insurers is applied across the board. "I'm reasonably confident that this piece of self-regulation is going to get rid of the one factor that we have been criticised for—transparency. It will give us the same level of corporate governance as a PLC," he says.

But Tarbuck believes friendlies can steal a march on their competitors by accentuating their differences. He claims mutuals are already more efficient: "We have researched this, our expense ratios and our efficiency, as a sector, are better than the PLC market." Tie that in with the mutual ethos, he says, and you've got an alternative for the disenfranchised investors who don't trust the big financial services providers. "We're putting the words trust, friendly and stability to the fore. Low premium savings plans aren't of interest to PLCs because they can't make a fast buck quickly,"

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MARTIN BURTON

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says Tarbuck. Friendly societies offer a more inclusive option for savers, agrees Paskell, but he would like to see restrictions on the investor and the funds lifted. The Inland Revenue sets a maximum limit on the amount that can be paid in to tax-free savings plans at £25 a month. That hasn't been increased for 10 years, he says. "The PLCs have to make a profit for their shareholders, they're not interested in the kinds of premiums we operate in, where members pay in what they can afford. We've got systems in place which means we're used to servicing the less affluent members of society. But we think it's got to a stage where the tax exempt limit should be lifted, even if it's just with inflation."

The AFS and the AMI are lobbying the government accordingly. Meanwhile, the sector is attracting a growing number of directors who are committed to mutuality. "New directors are coming in because they've bought in to the concept," says Tarbuck. "All my board directors at AMI are very dynamic, could grace the board of any PLC and get paid a lot more money. But they think, 'this is worthwhile, I can make a difference and not rip someone off'. You become passionate about it very quickly."

Professor Palmer is confident that friendly societies will continue to play an important role as the self-help principle continues to be promoted. "PLCs aren't necessarily the answer to everything," he adds. "Although they offer a comprehensive service, people don't always want a one-stop shop. Friendlies offer diversity and choice." ■

The best of both worlds

Who: Scottish Friendly Assurance

When: Founded 1862

Survival tactic: Acquisition

Chief executive: Fiona McBain

Originally the City of Glasgow Friendly Society, Scottish Friendly Assurance changed its name in 1992 to its acquisition target and has assets under management of £520m. Fiona McBain left Prudential to become finance manager, then finance director, before taking the role of chief executive in January 2006. She says she was interested in joining a smaller organisation, particularly a mutual. "For me there's no comparison," she says. "If you want to react to what your customers need at somewhere like Prudential it's like trying to steer an oil tanker. We're a speedboat at Scottish Friendly. We engage with customers, we're flexible. And we've got hundreds of years of tradition, which means we identify with the lower socio-economic groups. That's still true today—I would see us as a socially responsible body with an established framework of trust."

Because friendly societies have historically offered low-cost, small-premium savings plans but share the same overheads as larger organisations, McBain says her strategy has been to seek further economies of scale. She has done that

through keeping costs low, seeking out partnerships to grow the business and through the acquisition of other friendly societies. "We did two in 2006 [Rational Shelley Friendly Society and Preston Operative]. It's a very long process. As a friendly society, it has to be approved by the regulator, by an independent actuary and because we're a mutuality, it has to be approved by the policyholders. But it emphasises our credibility and our profile."

She says by improving efficiency and modernising products, Scottish Friendly is starting to attract wealthier individuals, but that the "friendly" principles of the founders still apply. "There's a big chunk of the population that aren't choosing to go with the multinationals that are seen to be ripping you off," says McBain. "We're finding it's really important for people that they can drip in savings as and when: they don't have to commit to regular deposits or bigger premium amounts. I'm firmly committed to the principal of mutuality and delivering savings to people that are currently disenfranchised."

She says the successful societies will seize opportunities that are opening up. "If organisations can demonstrate that they have all the disciplines of a shareholder environment, plus the traditional values, then that's a period of opportunity."