

The strategic landscape for **MUTUAL INSURERS & FRIENDLY SOCIETIES**

November 2021



afm association
of financial
mutuals

Altus
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Whitecap Consulting

Established in 2012, Whitecap Consulting is a regional strategy consultancy headquartered in Leeds, with offices in Manchester, Milton Keynes, Bristol, Newcastle and Birmingham.

Whitecap typically works with boards, executives and investors of predominantly mid-sized organisations with a turnover of c£10m-£300m, helping clients analyse, develop and implement growth strategies.

The firm works with clients across a range of market sectors, with strong experience in the financial services and technology. Over recent years, Whitecap has worked with a number of mutual societies in relation to business strategy, technology strategy and partner selection, digital and FinTech engagement, and marketing strategy.

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Foreword



Martin Shaw, CEO, AFM

A brave new world for mutuals?

As the world begins to slowly emerge from the Covid-19 pandemic, the opportunity to consider how our sector remains relevant to consumers and to the society we emerge into, is compelling. Our members rightly took great pride at their capacity to support customers in the extreme conditions of lockdown, just as they have during several national emergencies over the last 200 years or more.

But what emerges from the report is a recognition from the sector that, rather than rest on our laurels and assume the world will adjust to its pre-pandemic state, the forces shaping financial services, and the needs and expectations of consumers, are changing profoundly.

Mutuality has been a source of strength in the past, and during the 2008/9 financial crisis the sector saw market share double in a short space of time, because of a 'flight to quality', and a desire to move to a more trusted mutual provider. But our latest consumer research indicates that the winners in the current environment are likely to be the financial providers who have deep reserves, wide brand awareness, and strong digital capabilities. Ethics that align with the interests of their customers, are more significantly valued than ever before.

I'm very pleased that this report uncovers many of these issues, and also finds a growing appetite from AFM members to confront any limitations, and to explore new opportunities.

We're launching this report just before the end of a year in which regulators have called for a growing commitment from insurers to planning for climate change, enabling diversity and inclusion, delivering on a duty to customers, and to pricing products fairly and delivering fair value.

Little surprise therefore that those themes permeate through the report. What is important though is that our ESG agenda is driven by our unique business model and capabilities, as well as by the needs of our customers, and not simply by regulatory requirements.

Mutual values translate into a compelling and ethical proposition for consumers, and an authentic commitment to serving the needs of the communities we operate in. Those values have served us well for over 200 years, and whilst the future landscape will feature digitisation, AI, automation and open finance, there is every reason to expect those can be delivered just as effectively within a mutual mindset.

The themes in this report give us a roadmap to adopt to ensure the future insurance landscape retains a strong and vibrant mutual presence.

I'd like to thank everyone that contributed to the report, by completing surveys, undertaking interviews, and in particular in sponsoring the project. It offers powerful insight into our sector, only because the sector was prepared to actively contribute.

My special thanks go to the team at Whitecap Consulting for their hard work and rigorous commitment to understanding the current landscape for our sector, and for exploring themes that resonate, and in offering tangible actions for us to take forward.

Executive summary

In a world where computers and technology driven systems and processes are increasingly defining and determining customer and service interventions and outcomes, the people focused mutual organisations have a greater opportunity and capability to deliver a more personalised service for their members; one member at a time. This is, arguably, the difference that mutual organisations can deliver compared to many larger corporate competitors pursuing efficiency over personal engagement. The key for mutual organisations is to leverage this differential and use digital technologies to support their quality focus and not lose this advantage. These mutual organisations value people over profit.

Over the course of recent months, an analysis of the competitive landscape and market forces for financial mutuals and friendly societies has been conducted, involving interviews with 31 CEOs of AFM member organisations, interviews and discussions with other key stakeholders, an online survey, and a programme of desk research and data analysis.

The analysis showed the overall financial resilience of the AFM membership remains strong, and organisations have withstood the challenging Covid-19 environment, whilst continuing to support their customers/members in times of need.

Key observations from this analysis are:

- There is a diverse AFM membership which demonstrates resilience in terms of member/customer numbers and financial performance. In some cases, there are examples of AFM members that have higher premium growth than the average premium growth of the wider market that they operate in.
- The purpose-led nature and mutual ethos of the organisations is well aligned to the direction that society appears to be moving towards in terms of conscious consumerism and seeking to engage with organisations that offer more than just a transactional exchange.
- Commonalities exist across the AFM members, in areas such as the heritage and the ongoing belief in the ethos of mutuality, appetite for collaboration and knowledge sharing, developing importance of the ESG agenda and addressing future challenges to be faced.
- Clusters within AFM membership can be seen in areas such as technology priorities, perception of sources of competitive advantage, and also future trends within the market sectors the AFM members operate in.

Consequently, a number of strategic considerations are recommended for the AFM as a group, and for the individual member organisations to consider. These focus on the following themes, all of which support the future proofing of the AFM members and the wider set of financial mutuals across the UK and Ireland:




- Promoting the mutual ethos
- Strategic focus for growth
- Adoption of digital technology
- Non-competitive collaboration
- Embracing ESG

To help drive future prosperity and success, whether this is measured in terms of growth, benefits to members/customers, or elements of the organisation's purpose, mutual insurers and friendly societies should focus on three key strategic areas:



- **Stay focused on the member/customer** by assessing their understanding of the value delivered by the organisation relative to alternative offerings and don't assume that the benefits members receive are understood by all. Conduct and/or refresh a structured analysis of customer insight, decision making and satisfaction criteria (with benchmarked performance) as a priority.
- **Make mutuality work for each organisation** by evidencing a people focused approach and quality of engagement that gives people a reason to choose the mutual option. Specifically, use the member/customer insight generated to identify key value drivers identifying the benefits that customers truly value about mutual organisations.
- **Take away the reasons why people might choose not to use the organisation** by taking actions such as: providing for digital needs; amplifying relevant customer experience through case studies and testimonials; using digital capability to enhance the people-centric ethos and approach; and providing meaningful links to social purpose and ESG.

Additionally, AFM's members must ensure they focus on nurturing talent and supporting the wellbeing of their colleagues, who understand and deliver the value mutuals offer, and play such a critical role in the delivery of their purpose-led propositions. Throughout this report, a series of strategically orientated questions are posed of the leadership of the AFM members. Tackling these questions will enable AFM members to derive bespoke actions, in addition to the broader set of recommendations.

Key themes and suggested priority actions

Theme	Actions for AFM	Priority actions for AFM members
 <p>Promoting the mutual ethos Championing mutuality in a way that resonates with current and future members/customers by articulating the benefits and value they receive as a member of a mutual and following through with delivery of these benefits: People over profit.</p>	<ul style="list-style-type: none"> • Further develop 'The Mutual Way' communication concept, making it as widely applicable as possible for ease of adoption by AFM members. • Ensure 'The Mutual Way' concept is representative and encompasses offerings from all AFM members so that it can gain support and traction across the broad membership base. • Align 'The Mutual Way' concept to the wider mutual movement in UK and Ireland, so it resonates with other mutual organisations beyond AFM. 	<ul style="list-style-type: none"> • Engage with members/customers to understand what mutuality means to them, and what they perceive the material and differential benefits to be. • Be clear on the role mutuality plays for the organisation specifically and how it will aid in delivering its purpose and enhance member/customer outcomes. • Support 'The Mutual Way' initiative and work together with other AFM members to champion mutuality and the 'people before profits' ethos, in a way that resonates with current and future members. • Ensure the organisation is continuing to follow through with delivering these benefits by actively seeking feedback from members/customers and adapting the offering accordingly, whilst also assessing the lessons that can be learned from other mutual sectors.
 <p>Strategic focus for growth Understanding why members/customers choose the mutual option or not for profit organisations over shareholder owned competitors, and how these drivers might change over time.</p>	<ul style="list-style-type: none"> • Support the member organisations by continuing to provide insight, guidance and engagement to help inform the strategies adopted upon which their future success is built. • Focus on the macro market, customer, competitor, and disruptive factors and trends which will impact AFM members, the market and consumer decision making processes. 	<ul style="list-style-type: none"> • Clearly articulate the organisation's competitive advantage over profit orientated competitors, how this advantage can be sustained and developed, and how it can support future growth and/or performance aspirations. • Utilise technology enhancements and processes to support with a people-centric and service focused delivery. However, ensure that the personal element associated with dealing with a mutual organisation is not lost with technology and efficiency gains as this the core asset for mutual organisations.
 <p>Adoption of digital technology Ensuring the organisation is clear about what role digital technology investments will play with regards to enhancing member/customer engagement, delivering specific benefits and efficiency gains, taking into account evolving member/customer needs and the wider competitive landscape.</p>	<ul style="list-style-type: none"> • Extend the remit and attendance of the IT managers roundtable, to become a broader Digital Technology Forum, to share knowledge and best practice across AFM members and from organisations outside the AFM. • Ensure topics are addressed in a sequential order relevant to the priorities of the AFM members and the needs of their members/customers. • For example, supporting the collective exploration by AFM members of the potential benefits of digital developments focusing on front-end engagement, middleware integration and/or connectivity to legacy systems. 	<ul style="list-style-type: none"> • Align technology strategy to the business strategy, to ensure IT investments and technology options meet specific needs. • Consider technology opportunities for collaboration with other AFM members, for example the potential of collaborating on data analysis, AI and selected process automation. • Identify member/customer expectations in areas such as user experience and self-service capability and prioritise technology investments accordingly. • Consider both current member needs/wants but also the trends in the wider competitive landscape as although it may not be an immediate imperative to improve digital capability, it could present a threat and/or opportunity for the organisation.

Key themes and suggested priority actions

Theme	Actions for AFM	Priority actions for AFM members
 <p>Non-competitive collaboration</p> <p>Being open to and actively seeking the benefits of knowledge share, shared learnings, collaboration and potentially outsourcing, to support mutual values, service quality, operations and digital acceleration to ensure future survival and competitiveness.</p>	<ul style="list-style-type: none"> • Continue providing opportunities for AFM members to meet and share knowledge and best practice given the experience and challenges faced across the member organisations. • Encourage and facilitate open dialogue amongst AFM members proactively exploring opportunities for learning, information share and potential collaboration opportunities, this may include engaging with potential partners and external specialists. 	<ul style="list-style-type: none"> • Be open to the potential benefits of collaboration (and outsourcing), to support operational efficiency, digital acceleration and ensure future competitiveness. With the caveat that collaboration will not be appropriate for all AFM members given the difficulty that arises when trying to align such diverse initiatives and organisations. • Evaluate the specific areas where collaboration would add most value. For example, knowledge sharing on specific topics and potentially exploring joint project design. • Consider the opportunities to develop a value creating 'ecosystem', by exploring potential referral relationships with AFM members and other providers working to a mutual ethos.
 <p>Embracing ESG</p> <p>Proactively engaging with the broad spectrum across the ESG agenda as a strategic discipline:</p> <ul style="list-style-type: none"> • Environmental – proactively reducing environment impact through energy use and CO2 footprint. • Social – leveraging social and human capital across the business model, including diversity and inclusion. • Governance – providing leadership, governance, and risk management with current and prospective members. 	<ul style="list-style-type: none"> • Continue to support and educate AFM members in engagement with the broad ESG agenda and transitioning to the new executive and regulatory requirements. • Explore the relationship between ESG, social purpose and mutuality, as these will be increasingly important for society as a whole. • Monitor regulatory developments on ESG and other consumerist issues, to support members and seek proportionately. 	<ul style="list-style-type: none"> • As member/customer focused organisations, mutuals are well placed to provide enhanced societal and environmental outcomes. There is the opportunity for mutuals to articulate this more explicitly and position offerings and services more positively to members/customers. • Consider how aligned the organisation is with the ESG agenda, and explore any improvements that could be made, throughout the organisation. • Link ESG to the business strategy by looking beyond the regulatory reporting requirements, and clearly define the strategic role that ESG will play in delivering the organisational goals. • Actively engage with a breadth of ESG activities that align with the purpose of the organisation as this sentiment fits well with mutuality and purpose driven organisations.

These actions are explored in more detail later in the report (see pages 54-57)



Facts & figures about AFM

Association of Financial Mutuals

43 member organisations, including financial mutuals, friendly societies, and not-for-profit organisations

69% of AFM members have reported premium growth since 2016

5.8% CAGR premium growth since 2016

2,500 employees

8,000,000 members / customers

£1.1 billion annual premiums

UK Financial Mutual Sector

30,000 employees

30,000,000 members

£20 billion annual premiums

Key products

- Savings
- Pensions
- Protection
- Healthcare

Key sectors

- Life insurance & savings
- Non-life/General Insurance
- Health & Protection

Mutuality

71% of AFM members believe that mutuality is acknowledged but not understood by their members.

90% of AFM members believe that mutuality is less about the title and more about our culture, values and actions.

Over **1/3** of the CEOs see a clear link between mutuality and the type of employee it attracts.

Collaboration

71% of AFM members would be interested in collaboration on tech solutions with other AFM members.

ESG

61% of AFM members revealed they have a dedicated plan for ESG and 37% stated that they plan to have one in the future.

73% of AFM members believe that ESG will help the AFM membership to thrive in the future.

Technology

88% of AFM members believe that digital technology is required to keep pace with other providers & customer needs.

63% of AFM members plan to evolve their current systems as part of their future tech plans rather than replace them.

Future challenges

76% of AFM members ranked regulatory cost / change as one of the biggest future challenges.

68% of AFM members ranked digital transformation as one of the biggest future challenges.

Summary of report headlines

Diverse & Resilient AFM Membership

- The AFM membership has performed strongly over the past 5-years, withstanding the challenging Covid-19 environment and reporting healthy growth.
- When looking at the AFM membership, all are very distinct purpose-led organisations with, in many cases, heritage that dates back hundreds of years.
- The size of different AFM members and the breadth of sectors they are active in appears to correlate to some degree with premium growth and in, some cases, asset growth.
- Over the past 5 years, the average Solvency Ratio has fallen, mainly due to the impact of Covid-19, but still remains well above the average required whilst the overall risk exposures have remained broadly constant.¹

Comparisons with the Building Society sector

- Organisations across both groups adopt a range of different strategies and business models, but are purpose driven organisations with, in many cases, a longstanding history and heritage.
- The mutual ethos allows for decision making to be more considered and long-term, with the interest of members being placed at the centre of all strategic decisions.
- Communication and relationships between organisations within the AFM membership and the building society sector are strong, but collaboration on joint business initiatives, especially those that involve technology, is extremely limited.
- Successfully navigating the requirement for digital transformation is a key challenge that AFM members and building societies must address going forward.

Mutuality

- Communicating the benefits of mutuality received by members in a way that resonates with current and prospective members is a challenge for the sector.
- The way members/customers experience the benefits of mutuality can vary slightly depending on the market segment they operate in; however, all organisations focus on doing right by their members.
- There appears to be a clear link between mutuality and the influence it has on company culture and the type of employee that AFM members tend to attract and retain.
- Mutuality appears to align well with the direction that society is moving in, and the values that mutuality is based upon appear to have increasing resonance with society today, especially post-Covid.

Collaboration

- Communication and engagement between AFM members appear to be strong, although collaboration on technology is limited.
- There appears to be more openness towards the opportunity of knowledge and resource sharing, for non-competitive activities such as an actuarial resource with a number of AFM members already outsourcing similar key skills.
- The Regis Management Model provides an interesting example of collaboration in the form of shared services within the sector.
- There are examples of AFM members that have product referral/ introducer relationships with other organisations within the AFM membership.

¹RLAM, 2021. AFM Conference. The current financial profile of the AFM sector and maintaining future resilience.

Summary of report headlines

ESG

- The primary driver behind current ESG activity has to date largely been regulatory driven, rather than a response to immediate customer demand for ESG focused products.
- There is a sense across the sector that mutuals may be well positioned to lead the way on the ESG agenda because of the long-term focus and its alignment to ESG considerations as well as the values that mutual organisations hold in that they act in the best interest of their members, employees and the communities they serve.
- For those offering insurance and savings, ESG is becoming an increasingly prominent topic of discussion with regards to their investment activities.
- There are signs of ESG activity within the development of products and services from AFM members that offer savings and investments.

Future Challenges

- Increasing regulatory costs appear to be a key concern across the sector with a number of AFM members highlighting the need to scale up in order to cover an increasing cost base.
- There is a general acceptance across the sector that consolidation will occur in the future. However, if the sector can overcome the digital challenge and educate consumers on the benefits of being with a mutual, there could be an increase in member numbers.
- Educating current and prospective members/customers on the benefits of being with a mutual will remain a challenge for the sector, particularly when trying to attract younger members/customers who have little knowledge or experience of mutuals.

Competitive Advantage & Growth

- AFM members in health and protection appear to manifest their core proposition through their product offering; however, communicating the benefits that are received as a member is a challenge.
- Specialist providers are clearly purpose led and have limited direct competition, their focus appears to be more around member service and retention rather than growth, scale and member acquisition.
- Mass market providers have evolved from their original purpose and are often operating in a more competitive market, so their focus is more around member acquisition and ensuring commercial viability.

Technology

- The majority of AFM members appear to have adopted one of the following three approaches to their tech: inhouse, hybrid or outsourced.
- The key influencers behind an investment in digitisation that can be seen across the AFM members include product type, size of organisation and customer demographic.
- The degree to which AFM members have embarked upon their digital transformation journey varies.
- Most AFM members have prioritised the consumer journey before efficiency gains when it comes to modernising their tech. However, of those that have made improvements to both, they tend to be the larger organisations.

Financial Mutuals & Friendly Societies

This infographic visualises AFM's ecosystem of members and associate members, plus organisations that are actively engaged via other initiatives.



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Definitions used in this report:

AFM Membership – When the AFM membership as a collective is referred to in the report, it includes all 43 full members of the AFM.

“Mutuals” or “Mutual insurers and friendly societies” – includes all mutual organisations as well as the organisations that are not-for-profit within the AFM membership as they all operate according to the mutual ethos whereby members are at the centre of all strategic decision making and behaviours.

Sectors – The three key areas that AFM members are active in including:

- Health & Protection
- Investments
- General Insurance

Product Line – The individual products that are provided to members/customers. I.e., income protection, ISAs, Life Cover etc.

Thank you to the organisations for their support and sponsorship of this project:





DIVERSE & RESILIENT AFM MEMBERSHIP

The member organisations of AFM have been analysed through a number of different lenses, including:

The commonalities with the building society sector

Diverse and resilient AFM membership

The AFM membership has performed strongly over the past 5-years, withstanding the challenging Covid-19 environment and reporting healthy growth.

When looking at the AFM membership, all are very distinct purpose-led organisations with, in many cases, heritage that dates back hundreds of years.

The size of different AFM members and the breadth of sectors they are active in appears to correlate to some degree with premium growth and in, some cases, asset growth.

Over the past 5 years, the average Solvency Ratio has fallen, mainly due to the impact of Covid-19, but still remains well above the average required whilst the overall risk exposures have remained broadly constant.²

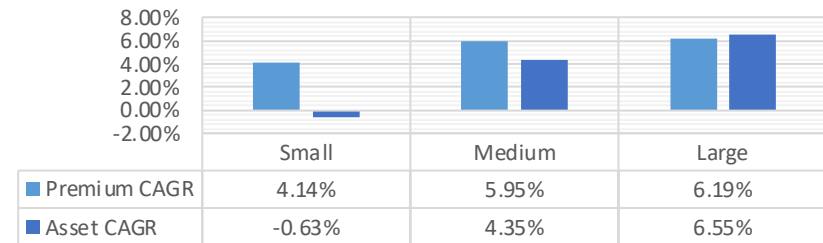
AFM Membership Overview

A financial mutual is an organisation that supplies financial services products, and which is owned by its customers, or members. The Association of Financial Mutuals (AFM) is the trade body that represents mutual and not-for-profit insurers, friendly societies and other financial mutuals across the UK. In total, the AFM represents 43 insurance and healthcare providers that are owned by their members/customers or established to serve a defined community. Mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK, collecting an annual premium income of approximately £20 billion. However, the large-scale demutualisation that has occurred in the UK has contributed to significant shrinkage of the mutual sector, and today there are fewer than 75 financial mutuals operating in the insurance market.³

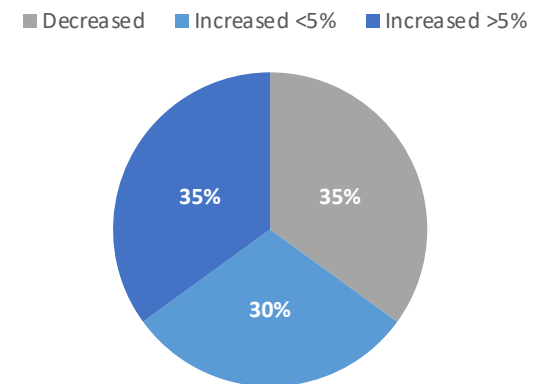
Recent Performance

According to data analysis conducted for this report, collectively, the AFM membership has performed strongly since 2016 with 65% of providers reporting growth in their premiums and 35% reporting a Compound Annual Growth Rate (CAGR) of more than 5%. More specifically, premiums and total assets have achieved an average CAGR of 5.26% and 2.70%, respectively. The strength of performance in premiums and total asset growth appears positively correlated with organisation size.

AFM Member Premium & Asset CAGR By Size Category (2016-2020)



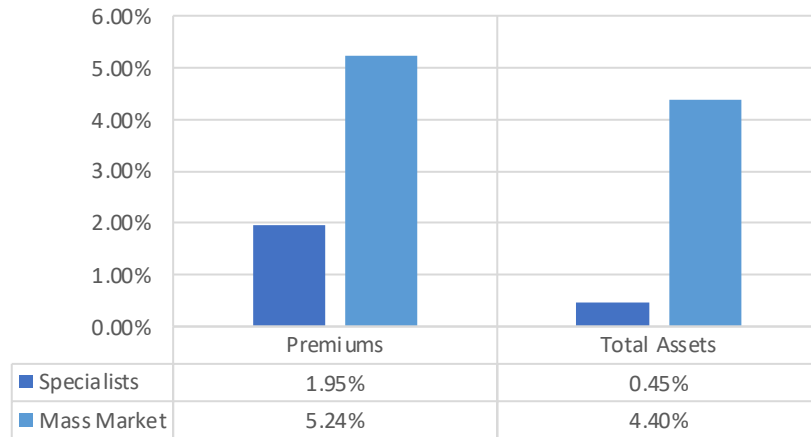
Proportion of AFM Membership: Premium Growth CAGR (2016-2020)



²RLAM, 2021. AFM Conference. The current financial profile of the AFM sector and maintaining future resilience.

³Association of Financial Mutuals, 2021. History of Mutuals. <https://www.financialmutuals.org/owned-by-you/mutuals-a-history/>

Premium & Total Asset CAGR: By Customer Focus (2016-2020)



Specialists: Providers that serve a very specific/ niche target market, often a profession or trade.

Mass: Providers that are not limited to a specific target market but who serve multiple customer groups.

In the data analysis, where the top 10 and bottom 10 AFM providers in premium growth have been analysed, due to a number of organisations operating across multiple sectors such as Health & Protection and Life and Savings, the overlap causes the percentages to total more than 100%.

Broadly, members in the Life & Savings and Health & Protection markets are performing strongest in premium and asset growth with 70% of the top 10 AFM members in premium growth being active in these sectors, whereas they account for fewer than half of the 10 lowest performing AFM members (in terms of premium growth).

However, there is still strong performance amongst the general insurance members, particularly when looking at asset and capital growth. For example, 40% of the top 10 AFM members in asset growth and 70% in capital growth are active in general insurance.

Analysis by Organisational Size

The data analysis has classified the size of the AFM members as follows:

- Small: <£5m premiums (18 members or c42% of AFM membership)
- Medium: £5m - £50m premiums (18 members or c42% of AFM membership)
- Large: <£50m premiums (7 Members or c16% of AFM membership)

The size of different AFM members and the breadth of sectors they are active in appears to correlate to some degree with premium growth and in, some cases, asset growth. For example:

- Small providers that operate in two sectors report the strongest premium growth and those operating in only one sector have been outperformed, in premium and asset growth, by all other size categories across all breadth of sectors.
- AFM members classified as medium in terms of their size that are active in only one sector have been outperformed in premium growth by large societies and by large and medium AFM members active in two sectors.
- Large AFM members that are active in only one sector are performing most strongly in premium growth when compared with other large providers active in two sectors.

These findings show that different strategies are being successfully deployed across different sizes of organisations. They also highlight that diversification is not necessarily a product of scale and can be a viable strategy for smaller financial mutuals.

⁴RLAM, 2021. AFM Conference. The current financial profile of the AFM sector and maintaining future resilience.

Solvency Ratios & Risk

According to Royal London's Asset Management analysis of insurers within the AFM membership (2021), the average Solvency Ratio has fallen over the period of 2016 to 2020, from 221% to 204%, mainly due to the impact of Covid-19. The overall risk exposures have remained broadly constant over the last 5 years with the AFM average Solvency Ratio being lower on average than non-AFM UK mutuals and European mutuals. However, this is slightly higher than the overall average for UK insurers. AFM members also on average take more market risk than other UK mutuals and insurers with this remaining the dominant risk driver for most members apart from General Insurance. There are significant variations in market risk taking in Health and Protection (min 16% and max 86%) and Life Insurance (min 32% and max 92%).

Purpose-Led Propositions

When looking at the AFM membership, we found all organisations to be very distinctly purpose-led organisations with, in many cases, heritage that dates back hundreds of years. Many of the AFM members were originally set up to represent specific trades and professions; in order to receive benefits or support in times of need, people would contribute to a mutual fund. Although, for a number of the friendly societies and mutual insurers their core proposition has evolved to serve a broader market, they still appear to be extremely clear about why they exist and for whose benefit. This is directly linked to the mutual ethos that AFM members display, which puts the needs of their customers/members at the centre of every decision that is made. Not-for-profit organisations, which have a different structure, still appear to behave according to mutual values. The 'people before profit' culture is so deeply embedded into the organisations that it influences every part of the business and the experience that members receive which in turn, is what ultimately differentiates them from shareholder owned businesses.

A further observation of the AFM membership is that for the majority of the organisations included in this research, rather than being geographically focused which can be seen in other mutual sectors such as with building societies, their proposition is either strongly customer-led, in that their strategic decisions are based primarily on the customer segment that they serve, or they are product led, with their strategic decisions being primarily based on their current and future product offering.

Throughout this report, we explore in more detail how financial mutuals compete in the current and evolving competitive landscape, and the extent to which factors such as mutuality, technology and emerging requirements such as ESG can play a part in helping organisations compete effectively.

Stakeholder quotes - AFM membership

"We focus on people who are not able to rely on an employer to pay sick pay and who also do not have the financial resources to fall back on."

Paul Hudson, CEO, Cirencester Friendly

"There are two main purposes: the first is to provide good financial returns and security from financial products and the second is to focus on our benevolent and social offerings through our local communities. The Society is here to make profit to enhance member benefits."

Rachel Hardy, CEO, Foresters Friendly Society

"Your purpose is where you can differentiate, and our purpose has been defined by looking at our customers' needs and finding solutions wherever we can."

Stuart Tragheim, Chief Executive, Holloway Friendly Society

"Our focus is to meet the insurance needs of our members and to maintain our financial strength. We strive to provide sufficient product offerings to protect all their insurable risks as well as their emerging risks."

Michael Garvey, Chief Executive, IPB Insurance

"Although it has to be commercially viable, we don't feel as though the insurance side of the business really makes a difference to people's lives and so this is something we'd like to change about our future offering."

Peter Beaumont, Managing Director, Cornish Mutual Assurance

"Our core purpose is to be an ethical provider of ethical savings products."

Peter Green, Chief Executive, Healthy Investment

"Our purpose is really clear: we provide financial peace of mind for police officers, police staff and their families, offering savings, investments and protection products."

Annette Petchey, CEO, Metropolitan Police Friendly Society

"Unity Mutual is the brand under which our financial services business operates where the focus is providing financial piece of mind through the product range and Oddfellows is the benevolent side of the business where the focus is on supporting our members."

Jane Nelson, CEO, The Oddfellows Friendly Society

"Our core purpose is to serve the underserved."

Teddy Nyahasha, CEO, OneFamily

"Our core purpose is to make people happier and healthier but we're a non-profit rather than a mutual, so we don't have members."

Kevin Rogers, CEO, Paycare

"We were set up in the 1865 for railway workers to provide cover in case they were unable to work or if they passed away. We've evolved over time to allow railway workers to save with us through a variety of different products."

Marc Bicknell, Chief Executive, Railway Enginemens Friendly Society

"The mutual was started by a group of mill workers to protect their income in the case of sickness. The world has changed since then but our purpose remains the same, if any of our members are ill, then we're there to protect them and their income."

Ann-Marie Odea, Chief Executive, Shepherds Friendly Society

"Our purpose is to serve a gap in the market for protection products, life insurance, funeral costs and savings."

Phil Carey, Chief Executive, Tees Mutual Society

"We were founded with the purpose of providing appropriate cover for Livery Companies, principally their Halls and contents."

Shaun Fyson, CEO, Livery Companies Mutual

Comparisons with the Building Society sector

Organisations across both groups adopt a range of different strategies and business models, but are purpose driven organisations with, in many cases, a longstanding history and heritage.

The mutual ethos allows for decision making to be more considered and long-term, with the interest of members being placed at the centre of all strategic decisions.

Communication and relationships between organisations within the AFM membership and the building society sector are strong, but collaboration on joint business initiatives, especially those that involve technology, is extremely limited.

Successfully navigating the requirement for digital transformation is a key challenge that AFM members and building societies must address going forward.

Mutual insurers, friendly societies and building societies have much in common, and AFM and the Building Societies Association (BSA) enjoy a collaborative relationship. This has included joint lobbying activity such as a joint manifesto for financial mutuals, which was proposed after mutuals performed strongly in the aftermath of the 2008/2009 financial crisis.⁵

A number of similarities can be identified across this research and a comparable analysis of the building society sector published earlier this year.⁶ Key commonalities include the successful deployment of a range of strategies and business models; organisations being extremely purpose driven; and the importance of mutuality but also evidence of the associated challenges surrounding tangibility and member benefits; the appetite for collaboration, especially on technology and lastly, the challenge of navigating digital transformation in order to stay relevant to current and prospective members.

The key characteristic the AFM membership has in common with the building society sector is that the organisations are extremely purpose driven and, in many cases, have a longstanding history and heritage that their core purpose remains aligned to. Both the AFM membership and building society sector reflect divergence across the organisations when looking at their strategies and business models.

Additionally, a distinctive characteristic of the mutual/not-for-profit structure that applies to all AFM membership and all building societies means that unlike shareholder owned organisations, there is considerably less need and pressure to achieve continuous, perpetual growth. Although growth is desirable to help ensure long-term sustainability, it is not the key driver in the way it is for privately owned organisations where there is an expectation of maximising shareholder returns.

The role of mutuality across the AFM membership appears to run even deeper than it does in the building society sector, with the mutual ethos being a dominant feature in the purpose, culture, product design and service delivery of organisations of all sizes.

⁵AFM & BSA (2014). A Manifesto for Financial Mutuals.

⁶Whitecap Consulting (2021). Building Society Sector Analysis.

The most prominent common thread between the AFM membership and building societies relates to mutuality, and specifically to the challenge surrounding the concept's lack of tangibility. Due to this, it can be difficult to illustrate mutuality in a way that resonates with current and prospective members which has led to a lack of understanding, a concern for both AFM members and the building society sector. In order to make mutuality more tangible, organisations provide benefits to members that manifest in different ways, such as stable savings rates/investment returns, free GP access and loyalty rewards.

One commonality that can be seen with member benefits is through the way that organisations deliver customer service and interact with their members as they naturally adopt a personal and empathetic approach, ensuring that they support vulnerable members and communities in times of need.

The second common feature of mutuality is the over-riding importance it has on internal decision making, both with regards to putting members' interests first as well as on making decisions that are more long-term and consumer centric than that of a shareholder driven organisation. Lastly, there is a common potential opportunity for mutuality to act as a differentiator for AFM members and building societies in the future, considering the direction that society is moving towards. The increasing focus on purpose-led organisations and conscious consumerism lends itself to the values that underpin the mutual ethos, a competitive advantage that both AFM members and building societies may be well-positioned to adopt.

Communication and relationships between organisations within the AFM membership and the building society sector are strong, but collaboration on joint business initiatives, especially those involving technology, or in joint product development, is extremely limited. Views from outside the mutual sector are also aligned as there is a sense that there may be missed opportunities with regards to collaboration on tech, preventing organisations from modernising their customer journeys and improving their operational efficiency. However, the need to evolve digitally and remain relevant to current and potential members of all ages is acknowledged as a priority by the majority of CEOs across AFM members and building societies. Therefore, successfully navigating the requirement for digital transformation is a key challenge that AFM members and building societies must address in their strategic thinking going forward.



COMMONALITIES ACROSS THE AFM MEMBERSHIP

This section of the report looks at the AFM membership through the lens of the commonalities that have been identified across the friendly societies and mutual insurers and the different market sectors that they are operating within.

Specific areas of commonality discussed are:

Mutuality

Collaboration

ESG

Future challenges

Mutuality

Communicating the benefits of mutuality in a way that resonates with current and prospective members is a challenge for the sector.

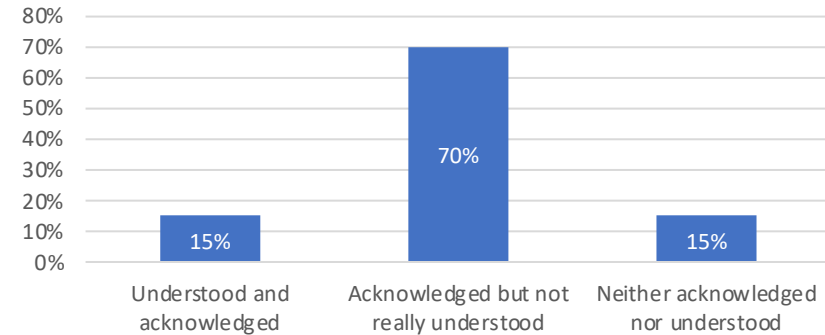
The way members/customers experience the benefits of mutuality can vary slightly depending on the market segment they operate in; however, all organisations focus on doing right by their members.

There appears to be a clear link between mutuality and the influence it has on company culture and the type of employee that AFM members tend to attract and retain.

Mutuality appears to align well with the direction that society is moving in, and the values that mutuality is based upon appear to have increasing resonance with society today, especially post-Covid.

AFM members highlighted the challenge of communicating the benefits of mutuality in a way that resonates with current and prospective members. For example, 71% of AFM member respondents to our online survey believe that mutuality is “acknowledged but not understood” by their members. This is by no means unique to the mutuals within the AFM membership, as a previous survey⁷ revealed 70% of building societies to have the same view.

To what extent do you think mutuality is understood by the members of your organisation?



Mutuality can be abstract and lack tangibility, which makes it a difficult concept to define and illustrate for consumers. This may explain why over half of AFM respondents do not believe that members/customers see the benefits of mutuality and 40% do not agree that mutuality provides a competitive differentiation for their organisation. Thus, suggesting that the lack of understanding surrounding mutuality appears to be preventing AFM members from being able to take advantage of the opportunity for differentiation that it could provide. According to the AFM’s most recent consumer research,⁸ a leading factor in attracting someone to a mutual organisation is their perceived value which is made up of many facets including showing respect to members/customers via clear, concise, and transparent communication whilst also demonstrating safety and security.

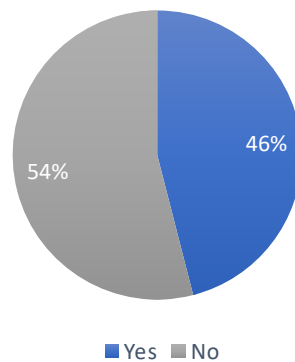
⁷Whitecap Consulting, 2021. Building Society Sector Analysis.

⁸AFM, 2021. AFM sponsored research by Teamspirit

An additional challenge that a number of AFM members face with regards to mutuality is distribution through intermediaries as it raises the question of who needs to understand and communicate the benefits of mutuality, the end consumer/member or the intermediary that the mutual directly deals with. A further insight gained from the CEO interviews was that there appears to be more awareness of the benefits of mutuality amongst the older demographic of members which can in part likely be attributed to the fact that pre-1995, over half the UK insurance industry was in mutual ownership. Since then, large scale demutualisation has contributed to shrinkage of the sector which has resulted in younger demographics being largely unfamiliar with mutual organisations and the values behind them. As well as this, older demographics are likely to recognise mutuality from the building society sector as most of the marketing efforts in the past have been targeted at this age group which is reflected in a large proportion of their member base.⁹ This finding is also supported by recent consumer research conducted by the AFM which found 46% of Gen Z and 29% of Gen Y had “never heard of” mutual organisations.¹⁰

When discussing the benefits that members receive as being a part of a mutual, there were clear consistencies amongst the CEOs. Most commonly mentioned were benefits such as the claims handling procedure being both efficient and empathetic and the fact that the mutual organisations can provide a very personal experience for members when they want to contact them, which often is not the case when dealing with large corporate insurers.

Do you think your customers/members see the tangible benefits of mutuality?



⁹Whitecap Consulting, 2021. Building Society Sector Analysis. ⁹AFM, 2021. AFM sponsored research by Teamspirit

¹⁰AFM, 2021. AFM-sponsored research by Teamspirit

¹¹AXA, 2020. The new face of health insurance. <https://www.axa.com/en/magazine/The-new-face-of-health-insurance>

¹²Financial Times, 2021. Preventive and proactive lifecare is the new healthcare. <https://www.ft.com/partnercontent/htsi/bupa-private-client/preventive-and-proactive-lifecare-is-the-new-healthcare.html>

Interestingly, there were some distinctions made with regards to the benefits members receive across the different sectors that AFM members are active in. For example, for providers who offer health and protection products, becoming more preventative and proactive in their approach to healthcare by introducing elements such as free health assessments, appears to be seen as a key benefit of being a member. As well as this, creating apps for members which allow them to access their health data, book appointments and even check for illnesses such as skin cancer were also mentioned as key member benefits by health and protection providers. This is in line with the direction of the wider competitive landscape, as large health insurance providers such as AXA have been using health data and digital tools to work alongside customers to prevent diseases before they require treatment. The insurer is also offering health coaching platforms to their employees, who can follow fitness and health programs or access health advice in order to prevent illnesses (AXA, 2020).¹¹ Similarly, Bupa describes its provision as proactive “lifecare”, rather than healthcare and offers a wide range of mental health services and natural therapies in order to try and improve their customers’ overall wellbeing (Financial Times, 2021).¹²

Whilst communicating the concept of mutuality to consumers can be a challenge, the influence that it has on company culture and internal decision-making means that employees of AFM members not only understand it but strongly believe in the value of mutuality and the benefits it provides for their members. Over one third of the CEOs interviewed explicitly highlighted a clear link between mutuality and the type of employee that it attracts, with one AFM member stating, “mutuality is engraved in all our employees, it’s really part of who we are and what we do.” The survey data supports this as 90% of AFM members agree or strongly agree that mutuality is less about the title and more about the culture, values and actions of the organisation. A finding echoed by the building society sector, of which 99% also agreed with this statement.

As well as the impact it has on culture, the mutual structure and the absence of shareholders means that mutual insurers and friendly societies can make more considered and long-term decisions that are for the benefit of their members and the sustainability of the organisation, with 90% of AFM members agreeing that mutuality influences strategic and operational decision making. CEOs appear to see themselves more as custodians of their organisation with the role of ensuring that it is still around for the generations to come rather than having a focus on profit maximisation or perpetual growth. For many of the AFM members, and for building societies too, their mutual structure means that growth is often not the primary indicator of success in the way it is for shareholder owned organisations where there is an expectation to continually increase shareholder value.

The final observation that relates to mutuality is regarding the direction that society is heading towards and the increasing resonance that mutuality may have going forward. According to the Global Human Capital Trends survey by Deloitte (2018),¹³ society is taking an intense look at the impact that organisations have and their expectations for good corporate citizenship are rising. They report that 77% of respondents to their survey cited “good corporate citizenship” as important and issues such as diversity and inclusion, income inequality and global warming are all at the forefront of people’s minds. Corporate citizenship has moved way beyond a CSR marketing tool and should now be a CEO-level business strategy, defining the organisation’s very identity. According to Affinity (2019),¹⁴ 87% of millennials and 94% of Gen Z expect companies to address pressing social and environmental issues, highlighting the increasing importance amongst younger generations.

The shift toward purpose-driven brands was already happening pre-pandemic and has exponentially accelerated since. Social purpose provides an over-arching, broader social “meaning” to business practice. It is part of the organisational DNA and must be aligned with the business model to bring together employees, members/customers, suppliers, and the communities within which it operates. According to Harvard Business Review,¹⁵ brands that have integrated social purpose into their business models from the start are called “social purpose natives”. The societal benefit of these organisations is so deeply entwined with the product or service that it’s hard to see the brand surviving intact without it.

Executed well, social purpose places “purpose” at the centre of the organisational rationale and should encompass strategic and operational decisions and actions throughout the organisation. The authenticity with which a mutual can pursue its social purpose is difficult to match for PLCs, due to the potential for a conflict of interest when seeking to maximise shareholder wealth. For mutual organisations, their core purpose and doing right by their members is at the heart of their decision-making and an integral part of their identity, suggesting they too should be considered social purpose natives.

Questions for CEOs and Leadership Teams: Mutuality

1. Are you clear about the role that you want mutuality to play when delivering the core purpose of your organisation?
2. How do you demonstrate the benefits of mutuality tangibly through each of the different parts of your business?
3. What targeted audiences of your business do you think currently do not fully understand mutuality?
4. What are the most prominent channels that your business could potentially use to interact with these audiences?
5. Have you undertaken research to understand which benefits of being a member with you they value most?
6. Have you considered getting involved with The Mutual Way initiative in order to drive momentum behind getting the message of mutuality out there and understood?
7. Could you develop a continuous feedback loop between your members and your organisation with the sole purpose of further crystallising the meaning and manifestation of mutuality?

¹³Deloitte, 2018. Citizenship and social impact: society holds the mirror. <https://www2.deloitte.com/us/en/insights/focus/human-capital-trends/2018/corporate-citizenship-social-impact.html>

¹⁴Affinity (2019) Why CSR is essential in 2021.

¹⁵Harvard Business Review, 2017. Competing on social purpose. <https://hbr.org/2017/09/competing-on-social-purpose>

Stakeholder quotes - mutuality

"I don't think our members really understand how mutuality benefits them and they deal directly with their agent so they are often a bit removed from Kensington Friendly and mutuality."

Phil Carey, Chief Executive, Tees Mutual Society

"Member benefits include trust, the paying out of claims and the fact we pick up the phone immediately, all the time. These could be considered the tangible benefits of mutuality."

Peter Beaumont, Managing Director, Cornish Mutual Assurance

"We have a very strong internal culture and ethos that drives what we do. We have a team built around a shared passion for our members."

Stuart Tragheim, Chief Executive, Holloway Friendly Society

"Mutuality can often be perceived as something from days of old but is increasingly relevant in today's more socially aware world. So whilst it can be difficult to get everyone to engage in mutuality, especially younger generations who might not know what a mutual is, there is most certainly an opportunity to talk to them about a modern day mutual in a context they'll understand."

Bob Andrews, CEO, The Benenden Healthcare Society

"Our members get a free health assessment which helps them understand how their current lifestyle is affecting them. We've also added enhanced bonus cover in case of death, GP 24/7 access and mental health counselling into our offering. These are considered additional benefits and values of being a member of a mutual."

Mike Perry, CEO, PG Mutual

"Mutuality really sucks you in and it's engraved in all our employees, it's really part of our DNA and has been since 1810 it is who we are and what we do."

Jane Nelson, CEO, The OddFellows Friendly Society

"We do communicate the fact we're a mutual but how much interest members take, I don't know. I think our long-term members understand mutuality and the benefits it brings more than some of our members who only join for a short-period of time."

Ali Ramezankhani, CEO, Transport Friendly

"Everything that mutuality stands for resonates with the market of today. In fact, it's never been better placed to suit the market, but for some reason, there's a massive disconnect between those values and recognition of the word 'mutuality'. The challenge is about getting the relevance understood and communicating it."

Chris Kenny, CEO, MDDUS

"We engrain in our employees that we don't own this business, we're custodians of it and it is our responsibility to leave it better than we found it for the next generation."

Russ Piper, CEO, Sovereign Health Care

"Being in protection, I think the benefits that you get as a member are less obvious compared to other mutuals so it can be difficult to communicate."

Isobel Langton, CEO, Exeter Friendly Society Ltd

"For some people mutuality is definitely a differentiator. Many of our members seem to understand the benefits of long-term goals rather than short-term profits. I would say it's a differentiator for people who understand the message."

Jamie Bellamy, Chief Executive, Sheffield Mutual Friendly Society

"We are transparent and endeavour to pay all claims, but our values are where we fundamentally differentiate. They govern how we work and deal with people. Trying to make mutuality tangible is a challenge though, when it is such an intangible subject to talk about."

Paul Hudson, CEO, Cirencester Friendly

"We will elevate our not-for-profit status in our future messaging because looking after the society we live in is a great fit for the way society is moving towards."

Sue Weir, Chief Executive, Medicash Health Benefits Ltd

"Mutuals have a long-term focus and that long-term focus means they can beat the forefront of change, differentiating themselves from a company's short term shareholder views."

Richard Trimmer, Associate Director, UK Institutional

Collaboration

Communication and engagement between AFM members appear to be strong, although collaboration on technology is limited.

There appears to be more openness towards the opportunity of knowledge and resource sharing, for non-competitive activities such as an actuarial resource with a number of AFM members already outsourcing similar key skills.

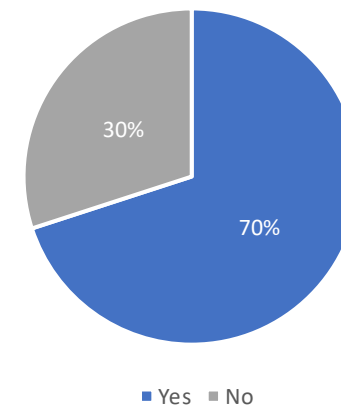
The Regis Management Model provides an interesting example of collaboration in the form of shared services within the sector.

There are examples of AFM members that have product referral/ introducer relationships with other organisations within the AFM membership.

With regards to collaboration, the interviews conducted with CEOs throughout this research have highlighted that communication and engagement between AFM members appears to be strong. One CEO stated, "we do talk and share ideas within the membership, it's good for everyone to take an interest and be involved." However, the appetite for working together on technology solutions currently appears to be limited. One third of the CEOs interviewed explicitly stated that they would not be open to collaboration that involved technology or IT systems due to it being a competitive activity. As well as this, a number of AFM members perceive themselves to be so distinct in terms of their IT systems, they do not think it would be feasible to find solutions that satisfy all the needs of the parties involved.

Interestingly, data from the online survey contradicts this finding with 71% of AFM respondents stating that they would potentially be interested in collaborating on technology solutions in the future. However, only 45% of respondents believe that collaboration on technology will actually happen. Thus, suggesting that although there may be some interest from AFM providers to collaborate, in reality, perhaps due to failed attempts in the past, less than half believe that it would come into fruition.

Would you be interested in collaborating with other AFM members on Tech solutions?



Views from outside the AFM membership are generally in support of the potential benefits of tech collaboration with one tech supplier stating, “they should be coming together and collaborating, they really are missing a trick.” Further comments from the survey state “tech solutions should be an obvious area for collaboration given costs and operational burdens that they face.” There is also a sense from outside the sector that AFM members may perceive their tech needs to be more distinct than they actually are, particularly for those operating in the same market segments. According to Deloitte¹⁶, “mutual insurers will need to collaborate, both within the sector and externally, to find a collective path through the challenges faced.” However, due to failed attempts to collaborate in the past and the cautiously competitive nature of the AFM membership, CEOs do not appear to prioritise this in their strategic thinking for the future when considering how to remain competitive in their wider markets.

There does appear to be more openness within the AFM membership towards the opportunity for knowledge transfer and resource sharing as operational activities such as actuarial and risk and compliance are considered to be non-competitive. This finding is supported by comments made by one AFM survey respondent “there is an opportunity to share some elements of administration activities to provide efficiencies while allowing individual mutuals to maintain their brand, proposition and front-end distribution.” This is particularly relevant for smaller AFM members that lack the resources to do this internally or the scale to outsource to third parties that only serve larger organisations. That being said, there are multiple examples across the AFM membership of outsourcing non-competitive utilities to third-party providers with one CEO stating, “we outsource the majority of our key functions such as investment, actuarial, risk and compliance.” It is also important to note that collaboration in the form of knowledge transfer may be more appropriate and just as beneficial for some AFM members than collaborating on project delivery as the difficulties in trying to align the objectives and satisfy the different boards may be unattainable.

The Regis Mutual Management Model provides an interesting example of collaboration within the AFM membership. As a limited company, Regis offers a fully integrated service to their clients from creating mutuals to day-to-day management. Each Mutual has a designated Mutual Manager appointed from the Regis team. The Mutual Manager provides the link between the Mutual and each of the functions that Regis carries out for the Mutual. Functions that Regis provides include finance and accounts, insurance and reinsurance programmes, IT solutions, marketing services, claims handling, governance and compliance and risk management. Of the AFM membership, Regis manages Activities Industry Mutual, The Retail Mutual and The Livery Companies Mutual.

A final observation with regards to collaboration involves a number of AFM members that are engaged in introducer/ referral relationships. For example, Sovereign Assured Partners, a wholly owned subsidiary of Sovereign Health Care acts as an introducer to PG Mutual for income protection. Cases such as this provide a further demonstration of the collaborative relationships within the AFM membership whereby both parties experience mutual gain but are not engaging in competitive activities.

In a joint report¹⁷ by the two leading trade bodies representing the financial mutual sector (AFM & BSA), the potential for inter-firm collaboration is discussed with particular reference to how mutuals could openly share knowledge and coordinate activities so that individual organisations can share the benefits and no single organisation is disadvantaged. According to the report, one of the most significant tasks involved in establishing and sustaining such cross-sector collaborations would be to agree on a set of values and principles which is where mutuality is viewed as a resource which the sector could utilise and deploy in establishing values-based governance, developing integrated leadership and co-creating a new business model. Barriers that were identified in the report to inter-organisational collaboration centred on mutuality include the UK’s regulatory environment being increasingly focused on the individual organisation as an object to be regulated, and preferred Plc ownership. At the same time, management and members/customers of financial mutuals may be keen to preserve operational independence of their mutual as there may also be trust issues between management of different financial mutuals as to their motives for collaboration.

Questions for CEOs and Leadership Teams: Collaboration

1. Have you considered coming together within your market segments to evaluate the extent to which your IT requirements differ, in order to explore the possibility of clusters sharing parts of their IT solutions?
2. To future proof your organisation, have you considered the benefits of pooling non-competitive resources to mitigate rising costs such as regulation?
3. Have you explored all the potential opportunities to engage in referral/ introducer relationships with other AFM members for products/ services that complement your current offering or better serve the needs of your target market?

¹⁶Deloitte, 2011. Future proofing the UK mutual insurance sector. <https://financialmutuals.org/files/files/Future%20proofing%20the%20UK%20mutual%20insurance%20sector.pdf>

¹⁷AFM & BSA, 2016. Collaboration as a source of competitive advantage. <https://www.financialmutuals.org/wp-content/uploads/files/collaboraton%20report%20summary%20190416.pdf>

Stakeholder quotes - collaboration

"There's an opportunity for working together within the sector; if I had a choice, I would rather partner with a mutual than a non-mutual."

Jane Nelson, CEO, The OddFellows Friendly Society

"There is very little collaboration between the societies because we always perceive our differences to be greater than our similarities. We all try to do similar things on the platforms we use but rather than having one common platform, we create our own distinct platforms, so we have a lot of waste in the sector."

Teddy Nyahasha, CEO, OneFamily

"We outsource all our IT, compliance and actuarial activities but these are all areas we could collaborate on. Although IT is difficult because on the surface our products are similar, but we have very distinct differences in how claims are dealt with."

Kevin Rogers, CEO, Paycare

"Mutuals could come together and collaborate, but AFM members want to retain control of their IT infrastructure and so may be missing out on the opportunity to cut costs and advance their tech."

Will Watling, Director, Life & Pensions, Altus

"In theory we could look at sharing key resources such as an actuarial resource then we wouldn't need to hire a fulltime actuary ourselves but it's not something we've fully looked at."

Annette Petchey, CEO, Metropolitan Police Friendly Society

"The smaller AFM members should look at pooling their infrastructure and resources so that they can achieve more. We feel that there are material benefits to AFM members collaborating on technology solutions given the often-high costs and operational burdens of initial and ongoing implementation."

**Andrew Epsom, Insurance Client Solutions Director,
Royal London Asset Management**

"It would make sense for some of the smaller societies to be part of an umbrella that had one board managing them, one actuarial resource and one investment manager but where they were able to continue with their specialisms, that could work."

**Phil Carey, Chief Executive,
Tees Mutual Society**

"In principle yes, in practice we haven't found ways we can do it but that's mainly because we're so unusual. You have to think about your own USP and your own IP but it's definitely a conversation that will happen within the sector."

Chris Kenny, CEO, MDDUS

"The sector is very close knit and communication between members is strong - something that has clearly been fostered and encouraged by AFM. The strong community ethos amongst members is clearly a strength for the sector which must provide scope for continuing success through further collaboration."

David Barber, Relationship Director, Fidelity International

"If something appropriate came along, we'd absolutely be open to it. We've considered partnering with other mutuals before but because our primary distribution strategy has been through financial advisers it would be difficult to approach investors directly with third party products."

Peter Green, Chief Executive, Healthy Investment

"We'd be open to most things as long as our IP and commercially sensitive information is protected. There have definitely been exploratory conversations, we have had conversations about outsourcing for example."

Rachel Hardy, CEO, Foresters Friendly Society

"The Mutuals managed by Regis Mutual Management Ltd have a small number of full-time employees to do marketing and underwriting but we use shared actuarial and risk and compliance resources."

Sophia Reed, Mutual Manager, Activities Industry Mutual

"Some AFM members are starting on the journey to explore how true machine learning based AI can deliver benefits to their organisations. This is an area that would suit collaboration amongst the technology executive of the membership very well."

Will Watling, Director, Life & Pensions, Altus

ESG

The primary driver behind ESG activity has to date largely been regulatory driven, rather than a response to immediate customer demand for ESG focused products.

There is a sense across the sector that mutuals may be well positioned to lead the way on the ESG agenda because of the long-term focus and its alignment to ESG considerations as well as the values that mutual organisations hold in that they act in the best interest of their members, employees and the communities they serve.

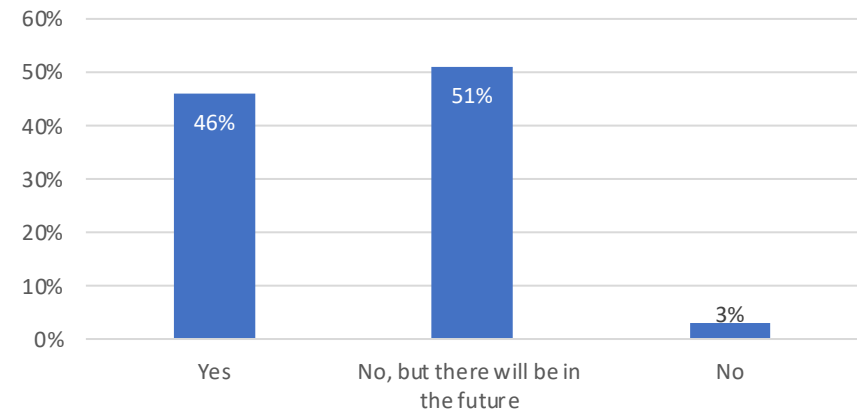
For those offering insurance and savings, ESG is becoming an increasingly prominent topic of discussion with regards to their investment activities.

There are signs of ESG activity within the development of products and services from AFM members that offer savings and investments.

According to the Consumer Intelligence Series survey on ESG conducted by PwC (2021),¹⁸ the Covid-19 crisis has shifted consumer behaviour and enlarged the pool of conscientious consumers willing to pay more for healthier, safer, more environmentally and socially conscious products and brands. However, whilst some AFM members are reporting increasing interest from members/customers in the ethics and ESG priorities of the business, the majority are not seeing an immediate customer demand for ESG focused products despite the shift towards conscious consumerism. This finding is supported by the results of the online survey conducted for this report, which revealed over half of AFM respondents agree that there is not yet a customer demand for ESG focused products, but they do believe there will be in the future.

Interestingly, AFM consumer research (2021)¹⁹ indicated that by a factor of three, people are more likely to expect a mutual to actively reduce their carbon footprint, than a non-mutual.

Do you think that there is a tangible customer demand for ESG focused products today?

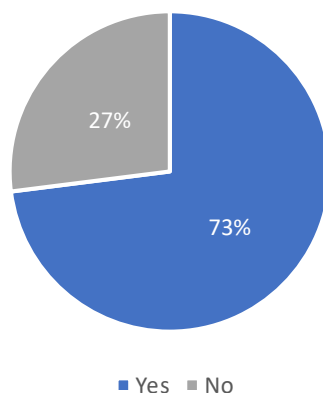


A further finding from the PwC research revealed that consumers are sceptical about the ESG efforts of companies as they believe that consumer pressure, brand image and regulatory standards are driving companies toward ESG action rather than companies genuinely wanting to do the right thing. This is a concern that AFM members could be well positioned to address as the value of mutuality lends itself to doing the right thing, with one CEO stating “mutuals look after their members and employees which is an important part of ESG, mutuality and ESG fit nicely together.” Leading the way on the ESG agenda could provide a means of remaining competitive in the future for a number of AFM members, a sentiment echoed by the survey data which revealed that 73% of AFM respondents believe that ESG will help the sector to thrive in the future.

¹⁸PwC, 2021. Beyond compliance: consumers and employees want business to do more on ESG. <https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html>

¹⁹AFM, 2021. Consumer Research.

Do you think ESG will help the sector to thrive in the future?



A further observation with regards to ESG from this research is that the primary driver behind current activity appears to be regulation and the pressure to satisfy the increasing climate change disclosure and risk management requirements. The PRA has said its priorities will include three key areas: technology, diversity and inclusion and climate change.²⁰ More specifically, these three focus areas aim to ensure the sustainability and competitiveness of the mutual sector through setting standards for cognitive diversity and proportionate metrics on climate change depending on the size of the organisation.

In an attempt to accelerate the climate change objective, the FCA and PRA established the Climate Financial Risk Forum (CFRF) which aims to help financial firms understand the risks and opportunities that arise from climate change, and provide support for how to integrate them into their strategy, risk mitigation and decision-making process.²¹

However, currently the Forum lacks proportionality and representation from smaller firms and mutual organisations and so the challenge for AFM members will be around interpreting the recommendations in order to make them more achievable for the scale of their business.

For AFM members that provide insurance or savings products, the conversation around ESG appears to be primarily led by investment activity and how ESG factors are allowed for in the investment policy and implemented by asset managers. With regards to ESG, there appears to be a trusting relationship and open dialogue between AFM members and their asset managers. Regular reviews are a core requirement in order to ensure the investment parameters are being met and AFM members appear to show a very active interest in the activities of their investment partners. However, there is a sense that going forward, the traditional exclusionary stance, (avoiding investing in activities that are considered unethical, such as alcohol, tobacco, gambling, adult entertainment or weapons), may not be sufficient once the pressure on organisations to be aligned with the ESG agenda starts to increase from the consumer perspective.

This is a sentiment echoed by a number of the AFM members, with one CEO stating “we will need to understand in the future whether members are satisfied with us not investing in bad, or whether they will want us to be proactive with investing in good.” According to PwC (2021), consumers will want to see businesses play an even bigger role in accelerating progress on ESG concerns by proactively shaping ESG best practices, not just reacting and adjusting.

²⁰FM Conference, 2021. PRA Speech.

²¹Climate Financial Risk Forum Guide, 2020. <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-summary.pdf>

That being said, there are some signs of early activity with regards to the development of ESG focused products. For example, Shepherds Friendly has launched a Sustainable Stocks and Shares ISA as well as a Sustainable Junior ISA, while Transport Friendly has launched its World Friendly Stocks and Shares ISA. According to research conducted by Aviva (2021)²², two-thirds (67%) of consumers believe that it is important to consider ESG factors before choosing where to invest their money, and sustainable bank Triodos²³ found that 94% of 18-34-year-olds asked in a survey said they have moved, or are looking to move, their ISA holdings to an ethical provider.

The most recent consumer research conducted by the AFM (2021)²⁴ also found that two factors amongst the top five factors that consumers consider most when buying a financial product are that the provider “gives back to society”, and “has a strong ethical record”. As the wider savings and investment market appears to be moving towards the direction of offering ESG focused products to satisfy increasing consumer interest, it is unsurprising to see the early signs of ESG activity coming from Shepherds and Transport Friendly as they are looking to compete in the wider savings and investment landscape.

Questions for CEOs and Leadership Teams: ESG

1. Will your approach to investment activities going forward take an exclusionary or proactive stance considering the consumer and regulatory pressures of ESG?
2. Have you reflected on how aligned your organisation is to the ESG agenda in terms of the environmental impact, diversity & inclusion, and governance standards that are already in place?
3. Going forward, are you planning to prioritise all the three elements of ESG in balance or do you have plans to prioritise parts of the agenda?
4. Are you clear on what the ESG reporting requirements will be for your organisation and have you factored this into your strategy going forward?
5. Have you considered the potential opportunity to lead the way on the ESG agenda given its natural link to mutuality, by not only developing ESG focused products where possible, but also by taking a proactive stance to ESG investments and ensuring your organisation is well aligned to all elements of the ESG agenda?

²²Aviva, 2021. ESG considerations in investing. <https://www.aviva.com/newsroom/news-releases/2021/08/72-percent-of-consumers-with-pensions-consider-esg-factors-important-when-investing/>

²³Triodos, 2021. Demand for ethical ISAs is way up among millennials. https://www.altfi.com/article/7713_demand-for-ethical-isas-is-way-up-among-millennials

²⁴AFM, 2021. AFM sponsored research by Teamspirit

Stakeholder quotes - ESG

"At RLAM we feel there is a significant opportunity for AFM members to work with their customers in building purpose-driven and customer-led organisations. We are finding there is a deep and growing desire to further integrate ESG factors into investment decisions, and to ensure their financial future is aligned with positive long-term social and environmental trends."

Hans Georgeson, CEO, Royal London Asset Management

"The messaging to younger markets appears to be a need for strong ESG credentials as part of the product offering but also well priced so that it suits their needs. We are also starting to see an increase in members enquiring about our investment activities."

Jamie Bellamy, Chief Executive, Sheffield Mutual Friendly Society

"ESG wouldn't necessarily be a big objective for our current membership but as an organisation we're aligned to the agenda."

Phil Carey, Chief Executive, Tees Mutual Society

"We've just launched a green stocks and shares ISA, we think that's a big step towards aligning our values with our young investors who are very interested in ESG."

Ali Ramezankhani, CEO, Transport Friendly

"ESG is not having a huge impact at the moment but going forward it will be absolutely an essential part of the strategy. You can't argue with the ethics of it, and we'll take the extra effort to make sure we're on top of it rather than a reluctant follower."

Graham Singleton, CEO, National Friendly

"In the future, mutuals could see greater demand for their product if they are aligned with ESG."

Sue Weir, Chief Executive, Medicash Health Benefits Ltd

"How AFM members evolve their products and investment activities to align with the ESG agenda and the regulatory requirements will be a key challenge for them. We know mutuals already struggle with the burden of solvency II and the increased regulatory reporting."

Richard Trimmer, Associate Director, UK Institutional

"I'd consider ESG to be a hygiene factor as younger generations expect it from you. If you can't tick that box for them, you might be giving them a reason not to choose you."

Rachel Hardy, CEO, Foresters Friendly Society

"Historically we've had an exclusionary stance on unethical investments such as tobacco, weapons, pornography etc. but we're in the process in developing our stance on ESG to become a lot more proactive in investing in good."

Peter Green, Chief Executive, Healthy Investment

"As a Society we are working with our Investment Managers in terms of ESG reporting but of course, climate change and ESG go beyond that. This will evolve over time but the 2021 Accounts across the sector will give a good indication of where firms are on their journey."

Jane Nelson, CEO, The OddFellows Friendly Society

"With ESG, the challenge is about definition, and how we justify the choices we make. Our investments exclude adult entertainment, and tobacco, but we'd like to get into more proactive investment if possible."

Chris Kenny, CEO, MDDUS

"We're starting to think about rather than using the financial markets as our only form of investment, could we invest for good in activities such as forest regeneration?"

Peter Beaumont, Managing Director, Cornish Mutual Assurance

"We get the sense that most AFM members are generally satisfied with their asset managers' ESG activity. However, it's become much more of an open dialogue now, with organisations engaging more heavily with their asset managers to ensure that they are doing the right thing for the organisation."

Lindsay Unwin, Milliman

"As the topic of ESG and sustainability become more of a focus in our day-to-day lives, there is a growing opportunity for AFM members to further differentiate themselves beyond their well-established social purpose and community ethos, to embrace growing concerns for the environment and climate-change. This can be achieved in all aspects of their work - through ongoing transformation of their business practices, their communications with customers and the products and services they provide."

David Barber, Relationship Director, Fidelity International





Navigating the sustainable investment landscape

In August 2021, the United Nations' Intergovernmental Panel on Climate Change (IPCC) issued a stark report warning of unprecedented and irreversible damage to the environment, triggered by human activity, calling climate change a code red for humanity.²⁵

Over the next decade, we will see pressure to meet sustainability goals intensify from businesses, regulators and wider society. To drive future wealth creation, businesses will need to embrace the opportunities that a more climate-aware and socially responsible investment strategy can offer long-term, sustainable growth.

Regulators, including the Prudential Regulation Authority (PRA), are focusing attention on the financial risks associated with climate change. The PRA's April 2019 supervisory statement 3/19²⁶ explored the types of risks institutions such as banks and insurers are facing. Given ss3/19's focus on disclosure and setting appropriate metrics, it is likely that we will see further scrutiny from the PRA over the coming years.

Individuals and society as a whole are also recognising the importance of addressing climate change. In 2020, the United Nations' Development Programme research, The People's Climate Vote²⁷ asked 1.2 million people from 50 countries about their views on climate change. Almost two thirds (64%) said that they believed climate change is a global emergency, with 81% agreeing with this in the UK.

Where do we go from here?

The scale of climate change and consumers' appetite to address it is very clear. So why has there been such limited progress to date from mutuals and others in financial services when it comes to climate-aware investment practices?

Perhaps part of the issue is terminology. There is an alphabet soup of acronyms and abbreviations that can make this already complex area even harder to understand. With such a bewildering range of terms, it can be difficult for any investor to understand the purpose of sustainable investment and how it is being implemented by asset managers.

However, working with the right investment partner is key to ensure Mutuals and Friendly Societies are well positioned to support ambitions to move to a climate-aware and socially responsible investment approach. The approach to sustainable investment is evolving, from a traditional approach where there is no or limited ESG focus, through to impact where investments have a measurable, positive social and environmental effect.

We would expect to see most managers move to the ESG integrated stage over the coming years. There are also managers taking more sophisticated approaches, such as sustainable funds that follow a high standard of socially conscious principles, and thematic approaches which identify and follow themes that address global sustainability.

It is important to have support from the right asset manager to set suitable sustainability goals, gain access to climate-aware investment opportunities and realise the potential business benefits of sustainable investment. Businesses that take a proactive approach now, rather than waiting for future regulation, will be at the forefront of good practice.

Over time, consumers' beliefs will influence their buying decisions and the choice of organisations that they opt to buy from. Mutuals that develop climate-aware strategies and goals, work with an asset manager to realise those beliefs and communicate how they are positively impacting society and the environment to potential customers, will put themselves in a strong position to drive future growth.

²⁵<https://news.un.org/en/story/2021/08/1097362>

²⁶<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319>

²⁷<https://www.undp.org/publications/peoples-climate-vote>

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Future challenges

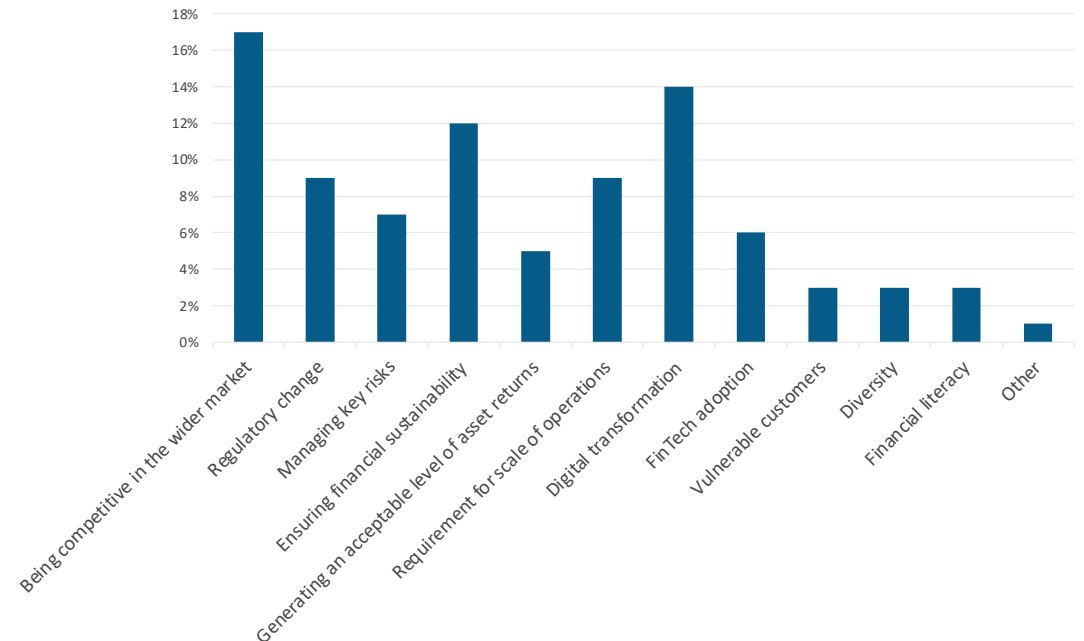
Increasing regulatory costs appear to be a key concern across the sector with a number of AFM members highlighting the need to scale up in order to cover an increasing cost base.

There is a general acceptance across the sector that consolidation will occur in the future. However, if the sector can overcome the digital challenge and educate consumers on the benefits of being with a mutual, there could be an increase in member numbers.

Educating current and prospective members/customers on the benefits of being with a mutual will remain a challenge for the sector, particularly when trying to attract younger members/customers who have little knowledge or experience of mutuals.

A widely acknowledged challenge across the AFM membership is the increasing cost of regulation, particularly for those who lack scale, with two fifths of CEOs and 76% of AFM survey respondents citing this as a concern for the future. Regulatory requirements create a large overhead for the sector, with one AFM member stating “regulation appears to be getting heavier in our sector and it is disproportionate considering our risk profile.” There was also a sense from the CEO interviews that there is a lack of proportionality with regards to regulation as a number of AFM members that lack scale are still subject to the same significant regulatory overheads as larger organisations who are better resourced to cover costs. This is supported by one CEO who stated “it can be difficult to keep on top of regulation, we’d welcome more proportionality.” That being said, regulation and solvency requirements do also appear to be widely accepted as a cost of doing business and so the source of the challenge appears to be more around ensuring the organisations are sustainable and scaled enough to cover the rising regulatory costs, rather than expecting any considerable changes to the regulatory environment in the future.

Future challenges faced by AFM members



A second common concern that was identified from the research is regarding the view that there is likely to be more consolidation in the mutual sector in the future, primarily due either to organisations wanting to grow the business or their requirement to cover the increasing overhead costs. This is a notion that appears to be broadly accepted by the CEOs, with the main objection being the longstanding heritage and history of many of the organisations and the unrest that this would cause with the current members. As well as the predicted consolidation, there is also widespread belief that member numbers could continue to increase, so long as the digital challenge is addressed appropriately by ensuring their digital strategy is consistent with the needs of the business, members and the wider competitive landscape. One CEO stated, “if the digital challenge can be overcome, then there’s an opportunity for member numbers to grow.”

An additional challenge identified through the CEO interviews was in relation to mutuality and the challenge of communicating the benefits and value of being a member in a way that resonates with current and future members. This is particularly relevant when trying to attract younger members, who unlike older generations have generally formed the core of their memberships²⁸, have little experience or awareness of mutual organisations. AFM’s consumer research²⁹ reinforces this, with only 14% of Gen Z respondents indicating they are a member of a mutual, compared to 37% of baby boomers. Additionally, a large proportion of AFM members have concerns over the lack of understanding from members surrounding mutuality, with over two thirds believing that members do not understand the concept. Therefore, educating people on the ethos of mutuality is likely to remain a challenge for the AFM membership. However, careful consideration around how AFM members can work together, using the Association of Financial Mutuals as a potential vehicle, to collaboratively improve education and communication around the benefits that members receive as being part of a mutual, may potentially provide a resolution to this concern.

Questions for CEOs and Leadership Teams: Future Challenges

1. For those organisations that lack scale, have you explored the option of pooling non-competitive resources with other AFM members in order to reduce costs?
2. Do you need to grow in order to cover increasing costs, if so, do you have a clear idea of how you will achieve this and what needs to be put into place in order to achieve this? (Investments in technology, targeting a new target market etc.) Even if you can absorb increasing costs without growing, would the best interests of customers be served by a higher cost per policy?
3. If your organisation could continue operating under its current brand, serving the needs of the current members, would you consider the option of a transfer or merger? If so, have you entered into any exploratory conversations with other AFM members?
4. How are going to compete with non-AFM members in the wider competitive landscape?

²⁸LinkedIn, 2016. Mutuals: a natural home for Generation Y? https://www.linkedin.com/pulse/mutuals-natural-home-generation-y-ed-pugh/?trk=portfolio_article-card_title

²⁹AFM, 2021. AFM-sponsored research by Teamspirit.

Stakeholder quotes - future challenges

"Increasing regulatory costs is a potential risk for the sector."

Sophia Reed, Mutual Manager, Activities Industry Mutual

"For many mutuals, the biggest challenge is changing legislation and regulation. Solvency II was such a large cost to set up, especially for smaller providers."

Peter Green, Chief Executive, Healthy Investment

"For mutuals, access to capital is a challenge and I believe as mutuals we should consider working as a purchasing group to negotiate better reinsurance cover and pricing and possibly access to new capital arrangements. We have the same regulatory regime as any other insurance company but we may not have their scale, as a consequence our regulatory cost are disproportionate and growing and could challenge our ability to stay in business."

Michael Garvey, Chief Executive, IPB Insurance

"Insurers such as AFM members have additional constraints when investing such as the need to recognise the Solvency Capital Requirement (SCR) associated with the investments and other regulatory requirements such as detailed reporting requirements and the need to comply with the Prudent Person Principle around their investments."

Hans Georgeson, CEO, Royal London Asset Management

"Individual societies lack brand recognition but the AFM has a really big opportunity to bring everyone together to help the sector."

Rachel Hardy, CEO, Foresters Friendly Society

"Regulatory costs are increasing and it's becoming more difficult for the small members to absorb these, whilst also maintaining the day-to-day BAU of running organisation."

Will Watling, Director, Life & Pensions, Altus

"Where does the education responsibility fit with providers working via brokers? Will they be educating the broker and if they do, perhaps more sales will come to the mutual sector rather than PLCs. I do understand this may be a long process, however it is probably best to start now before it's too late."

Mike Perry, CEO, PG Mutual

"We need to help customers develop their knowledge, so they see the value and need for health protection but also get the pricing right and be aligned to the ESG agenda. We're all being asked to do more and more from a regulatory point of view and scale is definitely an issue within the sector."

Russ Piper, CEO, Sovereign Health Care

"As far as the sector as a whole is concerned, the AFM is doing a great job at promoting mutuality, but we need to do more awareness on it. All societies need to promote mutuality to members and non-members."

Ali Ramezankhani, CEO, Transport Friendly

"The regulatory world is asking businesses to assess both their business and investment portfolios and to determine impacts of climate-related risks."

Richard Trimmer, Associate Director, UK Institutional

to resonate with the public will be a challenge for the sector. In theory, mutuality is a really good thing, but I'm not sure if potential customers/members take into account whether an organisation is a mutual or not when choosing a provider."

Mark Sedgley, Chief Executive, Red Rose Friendly Society

"Consumer needs and wants will be a challenge as people want to be able to do things easily now. It's a hygiene factor for members being able to contact their provider 24 hours a day however they want to whether that be by social media, phone or through the website."

Ann-Marie Odea, Chief Executive, Shepherds Friendly Society

"We're like the trustees of a family heirloom, we have an inherited estate that was built generations before us. We need to be able to leave behind an estate that serves the needs of the future, to do that you can't ignore the digital change."

Teddy Nyahasha, CEO, OneFamily

"There are several reviews going on around Solvency II but because it's out of the AFM members' direct control, it might not be high on their agenda to consider right now. It would be useful for AFM members to ask their actuaries what the potential outcomes of the reviews could mean for them."

John Jenkins, Milliman

CLUSTERS & AREAS OF DIVERGENCE

During the course of this analysis, areas of overlap across different organisations were explored. This highlighted some clustering and also some areas of divergence, which are explored in this section.

Competitive advantage

Technology

Future Market Trends

Competitive advantage & growth

AFM members in health and protection appear to manifest their core proposition through their product offering; however, communicating the benefits that are received as a member is a challenge.

Specialist providers are clearly purpose led and have limited direct competition, their focus appears to be more around member service and retention rather than growth, scale and member acquisition.

Mass market providers have evolved from their original purpose and are often operating in a more competitive market, so their focus is more around member acquisition and ensuring commercial viability.

When discussing the sources of competitive advantage that can be identified across the AFM membership, our research also highlighted divergence across the sector, particularly when looking at the different market sectors through the lens of competitive advantage and growth ambitions.

Competitive Advantage

Health Cover

Firstly, when discussing the competitive advantage of the AFM members that operate within the health and protection market, they are extremely purpose driven in that their strategic decisions and product offerings appear to be primarily based around their core purpose, which in turn is often aligned to the heritage of the organisation. For example, one health and protection provider stated, “your purpose is where you can differentiate, and our purpose has been defined by looking at our customers’ needs and finding solutions wherever we can”.

A further observation that has been made from this market is that the premium price of AFM members offering health cover is often considerably lower than that of PLCs, with the average premium for UK private health cover being £120 per month³⁰ compared to the health cover offered by AFM members which is less than a tenth of that price. Although there is a clear distinction in value proposition with regards to the level of health coverage a customer receives, the primary challenge here is the ambiguity around what the benefits are when being a member of a mutual health and protection provider, versus a PLC. For many of the AFM health cover providers, their benefits appear to be less understood than those offering income protection products, with one CEO stating, “the benefits that you get as a member are less obvious compared to other organisations.”

³⁰Bought by many, 2019. What does private health insurance cost? <https://boughtbymany.com/news/article/private-health-insurance-cost-uk/>

Income Protection

For income protection providers, the benefits of being with a mutual are often associated with the claims handling process, as AFM members are committed to dealing with claims as promptly and efficiently as possible in order to limit the stress and anguish for their members. As well as this, their mutuality also results in them having a different disposition to PLCs when it comes to paying out claims: historically, mutuals pay out on a significantly higher proportion of claims compared to PLCs, with 94% of income protection claims being paid out in 2020, much more than for non-mutuals, and only a little down on the record of 95% in 2019. The relatively small number of claims rejected was typically as a result of the misrepresentation of information at the point of application or claim, highlighting the need for members/customers and intermediaries to provide full and frank information as early as possible when submitting a claim.

Investments

For savings and investment AFM members, the challenge is how they position themselves in the market with undifferentiated products and a lack of brand awareness, which makes marketing via intermediaries very challenging. Mutuals therefore tend to market direct, through their own sales team or introducers, where the value of the mutual proposition can be more clearly demonstrated.

Since AFM members providing life insurance and savings cannot always compete on premium and savings rates against PLCs, mutuals therefore tend to focus on utilising mutuality as a differentiator by ensuring that they offer members a level of customer service that would be difficult for large corporates to replicate. Aspects such as being able to speak to an empathetic member of staff when needed, is valued by members. AFM providers of life insurance and savings often target a specific demographic that prioritise these benefits over premium and savings rates. This finding is supported by the AFM's 2021 consumer research³¹ which found 'quality of service' to be ranked above 'competitive pricing', when asked what the most important factors are when selecting an insurance or savings provider. Having relatable and personable staff was also cited as important when appealing to members, along with clarity of communication.

As well as this, some life insurance and savings AFM members also compete by targeting niche or specialist target markets, e.g., the Railway Enginemens offers savings and protection products to rail company employees and their families, and Metfriendly offers savings and protection products to serving or retired police officers and their families.

General Insurance

When looking at general insurance providers within the AFM membership, competitive advantage appears to manifest slightly differently. For example, premiums tend to be either higher, or at least in line with the competitive market with one CEO stating, "you can't compete with the PLCs for customers who are driven by price of premium." Although on the surface this may be surprising given that the mutual structure of many AFM members means that they do not have the cost of paying dividends to shareholders, their lack of scale and financial resource compared to the wider insurance markets means that they are often unable to significantly invest in efficiency gains which in turn, impacts on premium price. Thus, preventing it from being a key differentiator for most general insurance AFM providers. However, there are a small number of exceptions to this when looking at the AFM business insurance providers that cater to a specialist/ niche market like The MDU whose premiums are around 30% lower than corporates and the Livery Companies Mutual which was established due to the high cost of cover available in the wider market.

The key challenge here, linking back to the difficulty regarding communicating the tangible benefits of being a member of a mutual, is that there appears to be a lack of understanding from current and prospective members as to why the premium price of a mutual insurer is more than that of PLCs. As well as a lack of economies of scale, AFM members also offer a personal level of service and often go above and beyond to support their members and communities, especially those most vulnerable, all of which have financial implications which lead to higher premium pricing. However, the question remains regarding whether members associate these benefits with the value of mutuality and whether they choose a mutual insurer over a PLC, despite the premium price, due to these benefits.

Therefore, in order for general insurance members to compete in general insurance, they appear to either utilise the benefits and value of mutuality in order to differentiate the level of service that they can provide to members which PLCs cannot match or they focus on meeting the needs of a specific affinity group, for whom the broader market fares very poorly.

³¹AFM, 2021. AFM sponsored research by Teamspirit

Growth

Specialist Providers

When looking at AFM insurance and savings providers that target niche/ specialist markets, it is apparent how they position themselves and develop their competitive advantage. Providers such as Transport Friendly Society and Cornish Mutual were both set up over 100 years ago to serve a purpose very similar to the purpose they serve today. They have an extremely specific target market, and their primary focus has been to continually serve the needs of this market by nuancing their product offering in order to adapt accordingly. Therefore, their priority is more around member service and retention rather than perpetual growth, scale and member acquisition. These organisations also often have an available flow of new members from their target market, mainly from established relationships with institutions such as universities and trade unions who appreciate the history and heritage of the AFM providers and have a longstanding loyalty to them. An example of this can be seen from the medical indemnity providers who have an ongoing pipeline of relationship building with medical students who then join the organisations and stay with them throughout their careers. Thus, reducing the pressure on member acquisition and shifting the focus towards member retention. This is supported by one CEO's comment "zero growth in members wouldn't be an issue, but if a member left us then that would be an issue."

The data analysis also suggests this to be the case as the growth trajectory of the AFM members that serve specialist markets show that on average, they have a lower premium and asset growth (1.95% and 0.45%, respectively), after excluding an outlier member with significant growth in premiums (>50%) compared to the AFM membership as a whole (5.26% and 2.70%, respectively), after excluding outlier members with significant growth in premiums (>50%). It is important to reinforce that this does not indicate inferior performance, but rather a business focus that is aligned to the competitive position of these organisations. Again supported by the data which shows the majority of specialist providers do not sit in the top or bottom 10 for premium and asset growth, but rather are in the middle, which would suggest that they are achieving financial sustainability by actively making the strategic decision to focus on serving the needs of their current members over rapid growth.

As well as the focus on member retention, rather than acquisition, specialist AFM providers also have a very noticeable competitive landscape. Livery Companies Mutual, Transport Friendly Society, IPB Insurance and the medical indemnity providers are just a number of examples whereby the organisations are operating in a market with very limited direct competition. For those specialist providers offering business insurance and savings products, their competition could be considered the wider insurance and savings markets outside the borders of the AFM membership. However, specialist AFM members serve such niche target markets and have such familiarity with the complex needs of their members who often have high associated risks, the reality is that large PLCs are unlikely to find this an attractive market proposition, at least for now.

Although this puts the specialist AFM members in a strong competitive position, there is also the consideration of the risks associated with being highly concentrated in one particular area or market segment, a sentiment that appears to be echoed by the Prudential Regulation Authority (PRA). In order to remain resilient as a highly concentrated provider, it will be paramount to maintain awareness of the market conditions so that AFM members can spot changes and risks early on and make strategic decisions accordingly, whether that be to exit the market, transfer engagement or diversify into a new target market.

Mass Market Providers

For AFM providers serving products to mass markets, we observe a somewhat different competitive position. As these mutual insurers and friendly societies have often evolved significantly from their original purpose and heritage, both in terms of target market and product offering, it can be less obvious how they differentiate in the wider market context. They are often operating in a more competitive and saturated market against non-AFM members and so their focus is more around member acquisition, achieving scale and ensuring commercial viability.

This finding is also supported by the data analysis which shows mass market providers have driven both stronger premium (5.24%) and asset (4.40%) CAGR for the period of 2016 – 2020, over and above the AFM membership as a whole (4.03% and 2.95%, respectively) after excluding an outlying member with significant growth in premiums (>50%). As well as this, 70% of the top 10 AFM members in premiums and 80% in asset growth are providers that are focused on a mass market proposition. Interestingly but perhaps unsurprisingly, many of both the top and bottom 10 AFM members in asset and premium performance are made up of mass market providers which could be expected due to the more pressing need to be commercially viable which ultimately lends itself to taking more high-risk decisions which are not based solely on member retention and maintaining financial sustainability. It is also worth noting that these AFM members are less concentrated because of their diversified offering and so could be considered more resilient to adverse market conditions, particularly in the eyes of the PRA.

Taking the divergence across the AFM membership into account, the common thread running through all of the organisations is their mutual ethos. Different to the mutual structure, which includes only those owned by their members and so would exclude the not-for-profit organisations included in the AFM membership, the mutual ethos appears to be more about the actions, values and behaviours that the organisations demonstrate which differentiates them from their PLC counterparts. The ethos focuses on putting the member or customer at the centre of all strategic and operational decisions, rather than aiming to generate profit for shareholders with one CEO stating, "Mutuality might be the new buzzword but actually, it's what we've always done, it's in our DNA so it's not something we have to work at."

Questions for CEOs and Leadership Teams: Competitive Advantage

1. If asked to deliver a 5-minute presentation on your business' competitive advantage over other mutuals and privately owned competitors, what characteristics would you include and why?
2. Of the range of characteristics you reference in this presentation, what are the strategies you are currently deploying, or could deploy, to emphasise these characteristics to your members?
3. Are you clear on your position in the market in terms of whose needs you serve and how you serve them?
4. If you can't compete on price, do your members understand the reasons for your higher premiums and the extra benefits they receive as being a member?
5. For specialist providers, given the concentration risk, how will you future proof your organisation? (Expand your target market, diversify product offering, maintain awareness of wider market trends?)
6. Will your focus remain on member retention, member acquisition or both going forward and what strategies do you have in place to achieve these objectives?
7. How critical to the organisation's survival is scale and growth and how will you ensure you achieve these growth ambitions?



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Stakeholder quotes - competitive advantage & growth

"We have to generate enough to be able to finance our ambitions, be sustainable and invest back into the business. There are a number of moving parts and we want to be able to say we're a good business and we're financially sustainable."

Paul Hudson, CEO, Cirencester Friendly

"Mutuality is our life blood. It's why we do what we do, day in day out. But sometimes some of our members don't understand the true value of being a member. There will always be some people who choose us based on price and our value proposition, rather than because we are a mutual."

Bob Andrews, CEO, The Benenden Healthcare Society

"We've been around for 120 years, and the core purpose or fundamental offering of the business hasn't changed 120 years on."

Chris Kenny, CEO, MDDUS

"We're now looking at how we stay relevant through digitalising. Our pricing model allows us to serve a range of socio-economic groups through capping the amount we contribute towards treatment."

Sue Weir, Chief Executive, Medicash Health Benefits Ltd

"By tightening our niche, it gives us more purpose. We were set up by farmers and are an agricultural mutual, but we are looking at how we can solve a wider set of problems for our members."

Peter Beaumont, Managing Director, Cornish Mutual Assurance

"We operate in a niche market but offer a range of products to this specific market."

Annette Petchey, CEO, Metropolitan Police Friendly Society

"The strategy to date has been about growth so that we can achieve our objectives."

Isobel Langton, CEO, Exeter Friendly Society Ltd

"Our strategy is focused on growing members, assets and the brand and ultimately creating something that is difficult for large commercial players to copy."

Stuart Tragheim, Chief Executive, Holloway Friendly Society

"We are not driven by growth in market share or profitability, our goal is to provide a world class customer service and value for money insurance protection for our members."

Michael Garvey, Chief Executive, IPB Insurance

"There are external pressures on us to grow as markets move so fast. If we grow, then we can invest back into the business and remain competitive."

Ann-Marie Odea, Chief Executive, Shepherds Friendly Society

"The brand and the consistency of price are more important to us than securing new members. We welcome new members with similar risk profiles, but we are more focused on making sure that existing members value their membership."

Shaun Fyson, CEO, Livery Companies Mutual

"Our key competition tends to be the larger players within the mutual sector rather than PLCs because their overheads mean they can't match us on price."

Sue Weir, Chief Executive, Medicash Health Benefits Ltd

"The company's purpose is about keeping the safe practice of medicine and dentistry and the well-being of practitioners. It's not about commercial growth as an end in itself. The commercial growth is a by-product."

Chris Kenny, CEO, MDDUS

Technology

The majority of AFM members appear to have adopted one of the following three approaches to their tech: inhouse, hybrid or outsourced.

The key influencers behind an investment in digitisation that can be seen across the AFM members include product type, size of organisation and customer demographic.

The degree to which AFM members have embarked upon their digital transformation journey varies.

Most AFM members have prioritised the consumer journey before efficiency gains when it comes to modernising their tech. However, of those that have made improvements to both, they tend to be the larger organisations.

The first observation from this research in relation to technology is that unlike the Building Society sector, the technology provider landscape is a lot less competitive. While there are a large number of tech providers in the markets that AFM members operate in more broadly, there are only a small number of providers that appear to be active amongst the AFM membership. As well as this, many of the organisations build and maintain their own IT systems, a characteristic unique to the AFM membership. This finding is supported by the online survey which revealed that 63% of AFM members plan to internally evolve their current systems as part of their future tech plans rather than replace them and only 15% of AFM members plan to outsource IT capabilities to third party providers. Three approaches are utilised by AFM members with regards to their IT infrastructure:

1. members that have built and maintained their own IT systems generally use inhouse resource.
2. members that have adopted a hybrid approach, use both inhouse resource and third-party providers to build and develop their IT infrastructure.
3. members that have completely outsourced their IT solutions to a third-party provider.

When looking at which organisations have adopted which approach, we found that as a broad trend, the medium to large AFM members appear to be more likely to either build and maintain their own IT systems or adopt a hybrid approach to modernising their tech, whilst a number of the smaller AFM members outsource their IT solutions to third-party providers. However, there are exceptions to this.

We also observed that the degree to which AFM members have embarked on their digital transformation journey varies significantly. Encouragingly, a mix of both large and small organisations are well-advanced with modernising their IT infrastructure, suggesting that despite the financial resource constraint that some AFM members experience, progressing with their digital capability still remains a priority. PG Mutual provides one example of a small friendly society that is making significant progress on the journey of modernising its tech. With internal IT systems that have Application Programming Interface (API) capability and an online self-service quote function, PG Mutual continues to invest in improving both their operational efficiency and customer experience, despite having less financial resource than some of the larger providers.

Further developments in technology have been observed across the AFM membership. These include: The Oddfellows which has developed a seamless digital system that allows members to access their matured Child Trust Funds without having to endure a

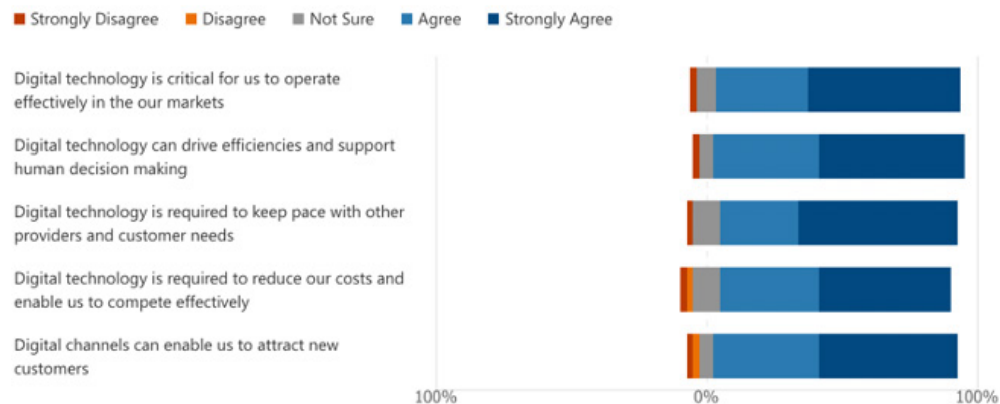
long paper-based process; Cirencester Friendly which is undertaking a complete end-to-end digital transformation project, that will result in a more efficient back-end and an improved user experience for the Advisers that sell its Income Protection products; and Cornish Mutual which is developing an in-house digital tool that measures land more accurately in order to prevent the issue of underinsurance.”

Regardless of how advanced each AFM member is along their digital transformation journey, the data from the online survey reveals a consensus around the future role that technology will play for the organisations. Particularly when trying to attract a new generation of members who perceive digital as a way of life. According to Capgemini (2019)³², 52% of insurance customers placed high importance on mobile, internet, or website channels for conducting insurance transactions and with Generation Z having never experienced a world without smart digital technology, organisations will need to provide seamless omnichannel access to meet the expectations of the new generation. A sentiment supported by the survey which reveals that 90% of AFM members agree or strongly agree that digital technology will be critical for operating effectively in their markets and 88% believe that digital technology will be required to keep pace with other providers and customer needs going forward, suggesting that there is a strong awareness and acceptance from the AFM membership that modernising their tech will need to be an investment priority in order to maintain competitiveness and continue attracting a new generation of members.

Questions for CEOs and Leadership Teams: Technology

1. Can you clearly articulate how your technology strategy is supporting your business strategy and are there any areas where the link is somewhat obscure?
2. Are you clear about which approach your organisation will take to developing tech going forward, considering the evolving needs of current and future members? (in-house, hybrid or outsourced)
3. Are you clear on the expectations of your members in terms of offering a modern user experience and self-service capability, and do you have a plan as to how you will meet them?
4. Are you clear about where you are on your technology roadmap and what your investment priorities are going forward?
5. Have you considered introducing automated workflow process to improve the user experience and also remove multiple data entry and inefficient workflow?
6. How are you ensuring that you are aware of the technological innovations being utilised and adopted by key players within the sector(s) that you operate in? Are you exploring the potential opportunities that these innovations could provide to your business and your members?

To what extent do you agree with the following statements about the role digital technology will play for your organisation over the next 3 years?



³²Capgemini, 2019. Raised in a digital world, Gen Z will require truly digital insurance offerings and new demand-generation techniques. <https://www.capgemini.com/2019/10/raised-in-a-digital-world-gen-z-will-require-truly-digital-insurance-of-ferings-and-new-demand-generation-techniques/>

Stakeholder quotes - technology

"We're in the process of replacing our old technology with new, not just the front-end, but a complete process that will involve migrating a lot of the back-office into new systems."

Paul Hudson, CEO, Cirencester Friendly

"We build our systems in-house by picking up bits of open source, pulling them apart and rebuilding them to suit our needs. We use API architecture and open-source data and we're working on greater automation."

Peter Beaumont, Managing Director, Cornish Mutual Assurance

"We have our own inhouse systems which are outdated, but they're built really well. The issue is that we can't build on it or add to it because no one builds in the same code. Going forward, some of our code is being rewritten so that we can evolve our system and introduce APIs."

Annette Petchey, CEO, Metropolitan Police Friendly Society

"We have a combination of in-house and third party systems which link to our CRM system which allows us to build customer relationships and streamline processes across our financial services and fraternal business."

Jane Nelson, CEO, The OddFellows Friendly Society

"Many of our members want to deal with us digitally and self-serve so we need to give them that option."

Mark Sedgley, Chief Executive, Red Rose Friendly Society

"We want to allow members to choose how they engage with us whether that be through the phone or digitally. We want them to be able to do it easily and efficiently."

Dr Christine Tomkins, CEO, The MDU

"We have a blend between in-house and outsourcing. Where its specialist application or high-end digital we use externals, if it's running the fabric of the organisation, we do that domestically. All the infrastructure will eventually be replaced with modern tech."

Graham Singleton, CEO, National Friendly

Understandably, AFM members tend to be cautious of expensive business transformation costs, as they have limited resources to invest in tech programmes. Most of the members are either transitioning from legacy systems to more modern ones or they are still reliant on their inbuilt internal systems, some of which are very good."

Will Watling, Director, Life & Pensions, Altus

"We have an online quick quote and application solution which enables applicants to bespoke the right cover for their needs. Once a member they have a member area to update personal details at their convenience, however we also take pride in making sure if a member wants to speak with us their call is answered promptly."

Mike Perry, CEO, PG Mutual

"We launched a Benenden Health app for members where, amongst other things, they can book a GP appointment, access 24/7 support from our Mental Health Helpline and call to speak to our Member Services team to request access to private diagnosis, treatment and physiotherapy as well as manage their accounts. We're constantly adding more value to our app to give our members even more flexibility in how they interact with us."

Bob Andrews, CEO, The Benenden Healthcare Society

"We've built a new website on a new infrastructure, and we need to build better online functionality to attract more members, but it's a large investment for us."

Jamie Bellamy, Chief Executive, Sheffield Mutual Friendly Society

"We now have a generation that has to be sold to in a different way and technology cannot be ignored just because you have customers who appreciate the manual processes."

Teddy Nyahasha, CEO, OneFamily

"We have a portal where customers can submit their claims online and the next move for us will be producing paperless policy documents so customers can log in and see all their documentation online."

Russ Piper, CEO, Sovereign Health Care

"The use of data within insurance is a massive opportunity because it enables insurers to build a richer picture of the customer at an individual level. Insurers often have fragmented customer data across multiple systems including CRM, policy administration and claims management. Complex and duplicative technology estates have resulted from years of acquisition-based growth. Going forward, they need to bring all their data together, enrich the view using the wealth of external data sources that are now available, and manage it as a strategic asset."

Simon Hull, Head of Financial Services, BJSS

Future market trends

As part of analysing the future competitive landscape for the financial mutuals and friendly societies that make up the membership of AFM, this work also assessed the key developments across the wider markets within which the members operate.

In this section of the report we reflect on the product markets that are directly relevant to the AFM membership, and highlight the key points for the member organisations to consider.

Healthcare/ Insurance

Market growth expected to continue

Increased demand for lower-cost health cover is anticipated

Technology and data increasingly key as sector moves towards personalisation and prevention

Health cover has become the highest public priority and according to the Association of British Insurers (2021)³³, 1.7 million people in the United Kingdom have private medical insurance with the average premium being £1,435 per year. Medical cover subscribers comprise of 11% of the population and the health and medical insurance market is expected to register a healthy CAGR of 5.05%, during the forecast period (2021-2026). As a result of the recent coronavirus pandemic, the total market is projected to reach £10.13billion by 2025 as the rise in NHS waiting times and referrals to the private sector continue to increase.

The market concentration is considered high, as it is dominated by four companies, BUPA, AXA PPP, Aviva, and Prudential, which contributed a cumulative market share of greater than 90% in 2016. Despite the intensified need for healthcare, the demand for lower-cost policy coverage could see an increase in popularity along with the availability of cheaper healthcare cash plans, and self-pay options for one-off treatments.

In terms of technology advancements, predictive data analysis, AI, and machine learning present exciting new opportunities for health cover companies aimed at improving performance and forecasting customer

behaviour. IoT, big data, and AI are also growing forces. Whilst currently primarily accessible by larger organisations, over time these new technologies will offer all insurers the opportunity to personalise their services and reach new markets, should they wish to do so. These technology-enabled advances will also provide the opportunity for the sector to become more preventative and proactive with regards to healthcare, reducing the likelihood of illness and the need for policyholders to claim on their health cover.

Considerations for AFM Members

- Increased demand and growth can be expected post-covid as people prioritise their health but seek more affordable cover options.
- The cost of premiums from operators in the wider market is expected to rise as the demand for private healthcare services increases due to the NHS facing significant backlog of required treatments.
- AFM members should consider investing in technology that can help to personalise product and service offerings, and play a role in preventing the need for treatment.
- AFM members will need to review the future competitive landscape, including dynamics such as personalisation, personal tech, and the use of technology in health support and diagnostics, and how this will impact their future strategy.

³³Business Wire, 2021. UK Health and Medical Insurance Market Report. <https://www.businesswire.com/news/home/20210708005650/en/United-Kingdom-Health-and-Medical-Insurance-Market-Report-2021-Growth-Trends-COVID-19-Impact-and-Forecasts-to-2026---ResearchAndMarkets.com>

Income Protection

The income protection market has suffered as a result of economic uncertainties caused by Covid-19.

Growth is expected once economic conditions improve and people try to avoid financial vulnerability.

There is an opportunity for income protection providers to adapt offerings to the self-employed and offer more comprehensive cover.

The income protection market contracted in 2020. There were 171,457 contracts sold in 2020, and new business premiums totalled £59.3m, representing contractions of 1.7% and 10.1% respectively since 2019.³⁴ Aviva, the leading provider of IP, experienced a 6.2% contraction in market share in 2019, and now accounts for 26.1% of the market. However, the top three leading providers have remained unchanged. Cancer, musculoskeletal conditions, and mental illness accounted for 63.6% of IP claim costs in 2020. Due to an increase in remote working, isolation, and the suspension of NHS health screenings, payouts for these conditions are expected to rise.

The short-term prospects for the market are unknown, with the economic uncertainties thanks to furlough, job loss and loss of income meaning many consumers are expected to be unwilling to purchase discretionary products such as income protection. Despite the contraction in 2020, new business premiums and contracts were forecast to return to growth for 2021, with 10% and 11% increases respectively, primarily driven by an increased awareness over financial vulnerability.

GlobalData's (2020)³⁵ UK Insurance Consumer Survey indicated that one in ten consumers' top financial concern was being able to pay their mortgage or rent. Given that job security has become increasingly unstable due to the economic consequences of the Covid-19 pandemic, this concern will likely remain if not worsen. However, this does create an opportunity for

many income protection brands to tap into a previously inaccessible market, tailoring new product development to help the self-employed who often are more in need of the service. GlobalData's findings indicate that there has been a shift towards broader protection with comprehensive cover (unemployment and sickness or accident protection) in 2020, with 47% of policies purchased being of this style, an increase of 5% when compared to 2019. Protection against unemployment also increased in popularity in 2020, accounting for 17% of policies during the year, compared to 14% the year before.

Considerations for AFM Members

- AFM members may experience reduced demand for income protection in the short-term.
- If they can broaden their offering into unemployment and sickness cover, they may see an increase in demand as people look for affordable options to reduce their financial vulnerability.
- AFM members may also see an increase in claims related to mental illness due to the extended periods of isolation that people have had to endure through multiple lockdowns.

Life Insurance

Despite declining revenues over the past five years, healthy growth is predicted for the next five years.

This is mainly attributed to an increased demand for life cover as a result of the Covid-19 pandemic.

AI, automation and advanced data analytics will play a key role in improving efficiency for this sector going forward.

Over recent years, life insurers experienced revenue declining by 2.3% annually, on average, from 2016 to 2021.³⁶

Looking at the current picture, excluding annuities, the life insurance sector reported a total revenue of £12.2bn for 2021.

Alongside the increased demand for life cover due to Covid-19, growth is expected to be driven across both individual and commercial clients with personalised/tailed policies expected to rise in popularity. According to Deloitte (2021)³⁷, life insurers are rethinking their strategies, business and operating models as the market is set to go through some substantial changes over the coming years.

To take advantage of this disruption, insurers need to be proactive, leveraging their strengths in six key areas, including M&A to reposition the business portfolio, digitisation and updating operating models to build retail marketing and risk management skills. With regards to technology advancements in this sector, AI, automation and advanced data are reported to have delivered strong potential to the sector. Aviva's release of Quantum, an automated underwriting solution, is an example of one of the sector's largest players aligning to this trend.

Considerations for AFM Members

- AFM members should expect moderate growth driven by market drivers such as the Covid-19 pandemic.
- However, pure life insurance policies may remain under pressure evidenced to some degree by some larger insurers suspending or putting limits on their life cover.
- AFM members are likely to experience the effects of large-scale disruption in the industry with technology allowing for efficiency gains and more personalised/tailed policies.

³⁴Business Wire, 2021. UK Income Protection Insurance Market Report. <https://finance.yahoo.com/news/uk-income-protection-insurance-market-124900741.html>

³⁵Life Insurance International, 2020. Income Protection Market. <https://www.lifeinsuranceinternational.com/comment/income-protection-market-looks-set-for-a-positive-year-as-covid-19-sparks-interest/>

³⁶BIS Report, 2021. Life insurance Market Report.

³⁷Deloitte, 2021. UK Life insurance futures. <https://www2.deloitte.com/uk/en/pages/financial-services/articles/uk-life-insurance-futures.html>

Investments

Household savings have been at an all-time high due to the heavy restrictions imposed on society through the Covid-19 pandemic and it is expected that people will spend 5 – 10% of this over the coming year.

Interest rates for investment products such as ISAs are starting to recover and have not dropped month-on-month for the first time since October 2020.

Technological advancements are disrupting this industry with customers becoming more digitally demanding when it comes to managing their money.

Covid-19 lockdowns have led to a huge increase in savings, with many opportunities to spend being either stopped or heavily restricted. For example, the percentage of disposable income saved between April and June last year rose from 9.6% to 29.1%, more than double the previous record of 14.4% set 27 years ago.³⁸ However, according to Financial Times (2021),³⁹ standard economic theory suggests that people will spend 5% to 10% of any unexpected windfall over the following year, but some experts said the figure could be markedly higher. This would indicate that cash savings may see a sharp decline. In relation to the increase in household savings, there also appears to be a reawakened acknowledgement of financial awareness and its importance for ensuring society has the resources to cope with an economic crisis similar to the one we are experiencing now. As a consequence of this, there is a sense amongst the sector that going forward, those in society that have been less affected by job losses, may be more encouraged to save.

Low interest rates on short-term investment products have continued to be a challenge for this industry with customers only seeing very limited returns on their cash savings. According to Mintel (2021), two thirds of savers report being dissatisfied with their savings, with a substantial minority of those on a higher income looking to invest their money elsewhere to generate better returns.

However, Money Facts (2021)⁴⁰ has found that recently, average rates across the savings spectrum (both variable and fixed) have not reduced month-on-month for the first time since October 2020. The average notice rate, one-year fixed bond and longer-term fixed bond rates rose month-on-month, and the average easy access, easy access ISA, notice ISA and one-year and longer-term fixed ISA rates were unchanged month-on-month. Therefore, suggesting that people may be more encouraged to invest their money in long-term savings products.

As consumers look for alternative places to invest and keep their money, organisations will have the opportunity to innovate, offering different product features and benefits rather than focusing on the headline rate. Improving digital services is also a key strategy, making online investment spaces more accessible and functional for customers. Digital savings developments that will disrupt the market include automation and roundups which can offer a method to save with minimal customer input as users can create automatic rules that instruct the app to set aside small amounts of money on their behalf; goals and pots which create a subsection or ring-fenced area within a customer's main account that separates savings from spending money and marketplaces, also known as savings platforms and they give customers access to a wider choice of products from a more varied set of providers.

Considerations for AFM Members

- Although AFM members are likely to have been experiencing high levels of savings from members, if the low interest rates continue, members may look for alternative ways to invest their money.
- In order to retain members, AFM providers will need to ensure their offering is focused on the benefits that their members receive aside from savings rates, such as the ethos of mutuality.
- AFM members will likely see the effects of the technological disruption and innovation that is occurring in the wider savings landscape. As members' /customers' expectations evolve in terms of tech capabilities, AFM members will have to invest and adapt accordingly, especially when looking at member acquisition of younger demographics.

³⁸Nixon, G. 2020. Britain becomes a nation of savers. <https://www.thisismoney.co.uk/money/saving/article-8790533/Household-saving-hit-time-high-coronavirus-lockdown.html>

³⁹Financial Times, 2021. Britons prepare to spend their savings as lockdown eases. <https://www.ft.com/content/5e7b5c88-937c-445f-859c-2f9653332afe>

⁴⁰Money Facts, 2021. Savings & ISA deals 'finally see stabilisation' as interest rates rise: How to find offers. <https://www.express.co.uk/finance/personalfinance/1449583/savings-isa-deals-interest-rates-rise-find-offers>

General Insurance

Revenue has been declining over the past five years.

There is likely to be growth in demand for property insurance premiums going forward due to housebuilding targets.

The main trend in technology is the migration of platforms to allow for online interaction with clients.

Overall, industry revenues are expected to have declined by 0.4% annually over the past five years and a total revenue of £72.4 billion is forecast for 2021.⁴¹ Although the industry is not estimated to be in the decline phase of its lifecycle, it has been affected by weak revenue as a result of regulatory changes and poor investment returns over the past five years, which have distorted its performance. According to JP Morgan Asset Management, almost all investment asset classes returned losses during the year 2018-19.

Operators have responded to these changes by increasing the level of gross written premiums ceded to reinsurance which has constrained industry profitability. However, revenue is expected to grow at 2.9%, on average, from 2022 to 2026 to reach £83.4 billion.

Mainly attributed to a rise in business confidence, housebuilding targets have increased which in turn will result in an increase in demand for property insurance premiums. The main technological change that can be seen in this industry is from investments in computer software, hardware and system design as well as the entrance of InsureTechs to the market. These can provide cost advantages; facilitate new product development; improve product support for sales staff, agents and brokers; and assist the delivery of strategic information to customers.

The main trend in technology is the migration of platforms to allow for online interaction with clients which in turn, enables cost savings by reducing the amount spent on call centres and verifying information. With the market becoming increasingly competitive, investment in online distribution and other e-commerce solutions will be critical for insurers. Larger players in the market are also beginning to utilise machine learning to help identify trends such as fraudulent claim activity and to increase the efficiency of operational processes.

Considerations for AFM Members

- AFM members should expect moderate growth, particularly those offering home insurance.
- There is likely to be increased technological disruption in the market from the entry of insurtechs which AFM members will need to show awareness of in order to remain competitive.

⁴¹IBIS Report, 2021. General Insurance Market Report.

RESPONSES & RECOMMENDATIONS



Responses and recommendations - summary

Summary observations

As outlined in more detail in the sections of this report, the key observations from the analysis of the competitive landscape for financial mutuals and friendly societies can be summarised as follows:

- There is a diverse AFM membership which demonstrates resilience in terms of membership numbers and financial performance. In some cases, there are examples of AFM Members that are outperforming the wider competitive landscape that they operate in.
- The purpose-led nature and mutual ethos of the organisations is well aligned to the direction that the world is moving towards in terms of conscious consumerism.
- Commonalities exist across the AFM members, in areas such as the heritage and potential future role of mutuality, appetite for collaboration, growing importance of the ESG agenda and future challenges faced.
- Clusters can be seen in areas such as technology priorities, perception of sources of competitive advantage, and also future trends within the sectors the AFM members operate in.

Consequently, a number of actions are recommended for the AFM as a group, and for the individual member organisations. These actions focus on the following themes, all of which support the future proofing of the AFM member organisations, and the wider set of mutual insurers and friendly societies across the UK and Ireland.

Summary actions

To help drive future prosperity and success, whether this is measured in growth, benefits to members, or another element of the organisation's purpose, mutual insurers and friendly societies should focus on three key actions:

1. **Stay focused on the customer**, and not assume to know the benefits and value that members get from the organisation. Conduct or refresh a structured analysis of customer selection and satisfaction criteria (and benchmark performance against them). We recommend refreshing the insight and understanding as a priority.
2. **Make mutuality work for each organisation** and give people a reason to choose the organisation. Specifically - use the insight generated (above) to identify which are the things that customers truly value about mutual organisations.
3. **Take away the reasons why people might choose not to use the organisation**, such as customer experience, digital capability, and ESG.

Responses and recommendations



Promoting the mutual ethos

Actions for AFM:

- Further develop 'The Mutual Way' concept, making it as widely applicable as possible by mutual and not for profit societies who take a 'people ahead of profit' approach.
- Ensure 'The Mutual Way' concept is representative and encompasses all AFM members so that it can gain support and traction across the whole membership.
- Align 'The Mutual Way' concept to the wider mutual movement, so it resonates with other mutual organisations beyond AFM.

Actions for AFM members:

- Engage with members/customers to understand what mutuality means to them, and what they perceive the benefits to be.
- Take action to understand exactly what members perceive as benefits of mutuality, because they differ across the sectors. For example, is it the claims handling disposition and procedure or the free GP access your members value most?
- Support 'The Mutual Way' initiative and work together with other AFM members to champion mutuality and the 'people before profits' ethos, in a way that resonates with current and future members.
- Collaboratively strengthen 'The Mutual Way' concept so that it delivers a powerful message as to what the mutual ethos means for AFM members in a way that is representative of all.
- Ensure the organisation is continuing to follow through with delivering these benefits by actively seeking feedback from members and adapting the offering accordingly.
- Look at what lessons can be learnt from other mutual sectors such as the building society sector in terms of how they champion mutuality and how they are trying to overcome similar challenges faced by the AFM membership.



Strategic focus for growth

Actions for AFM:

- Support the member organisations by continuing to provide insight, guidance and engagement to help inform the strategies adopted upon which their future success is built.
- This may continue to include the creation of reports like this one, the commissioning of market research, obtaining legal and regulatory advice for the membership, and the facilitation of events and forums.
- It could also include exploring new ways to engage and share information with members, generating cross-member datasets, and providing access to external resources and expertise to help member organisations address common strategic challenges.

Actions for AFM members:

- Clearly articulate the organisation's competitive advantage over shareholder owned competitors, how it will be developed, and how it can support future growth aspirations.
- Be clear on the role mutuality plays for the organisation specifically and how it will aid in delivering its purpose.
- Utilise technology where appropriate to support with enhancing customer service and efficiency gains. However, ensure that the personal element associated with dealing with a mutual organisation is not lost as this is often a significant differentiator from shareholder owned organisations.



Adoption of digital technology

Actions for AFM:

- Set up a Digital Forum, to share knowledge and best practice across AFM members and from organisations outside AFM.
- This could be an evolution of the existing IT Managers Group, with a revised focus that encapsulates broader digital considerations.
- Use the Digital Forum and other AFM platforms to explore potential opportunities for collaboration across the membership.

Actions for AFM members:

- Ensure that the digital strategy of the organisation is consistent with the needs of the business, members/customers, and the wider competitive landscape.
- Explore the opportunities that collaboration on technology could provide both in terms of an improved customer journey and efficiency gains and consider engaging in these conversations with other AFM members, for example the potential of collaborating on data, AI and automation.
- Ensure the expectations and digital needs of future members have been considered and factored into the digital strategy going forward.
- Identify member/customer expectations in areas such as user experience and self-service capability and prioritise tech plans accordingly.
- Consider both current member needs/wants but also the trends in the wider competitive landscape as although it may not be an immediate imperative to improve digital capability, it could present a threat to the business model if these macro structural trends in markets and consumer living are discounted.

Responses and recommendations



Non-competitive collaboration

Actions for AFM:

- Encourage and facilitate open dialogue amongst AFM members proactively exploring opportunities for collaboration by engaging with potential partners for such collaboration.
- Continue providing opportunities for AFM members to meet and share knowledge/best practice as there are major benefits from this type of collaboration.

Actions for AFM members:

- Consider collaboration opportunities relating to technology and other operational requirements, including sharing best practice.
- Explore opportunities to share resources that are considered non-competitive such as actuarial, risk and compliance and other administration duties in order to reduce the individual cost for each organisation, with the caveat that collaboration will not be appropriate for all AFM members given the difficulty that arises when trying to align such diverse organisations.
- Evaluate what specific areas collaboration would add value to. For example, other collaborative opportunities such as knowledge sharing may add more value than project sharing.
- Consider the opportunities to develop a value creating 'ecosystem', by exploring potential referral relationships with AFM members and other providers working to a mutual ethos, such as building societies and social enterprises.
- Take advantage of opportunities to meet with other AFM members to knowledge share and learn from one another. Collaboration in the form of sharing best practice and discussing shared challenges can provide major benefits.



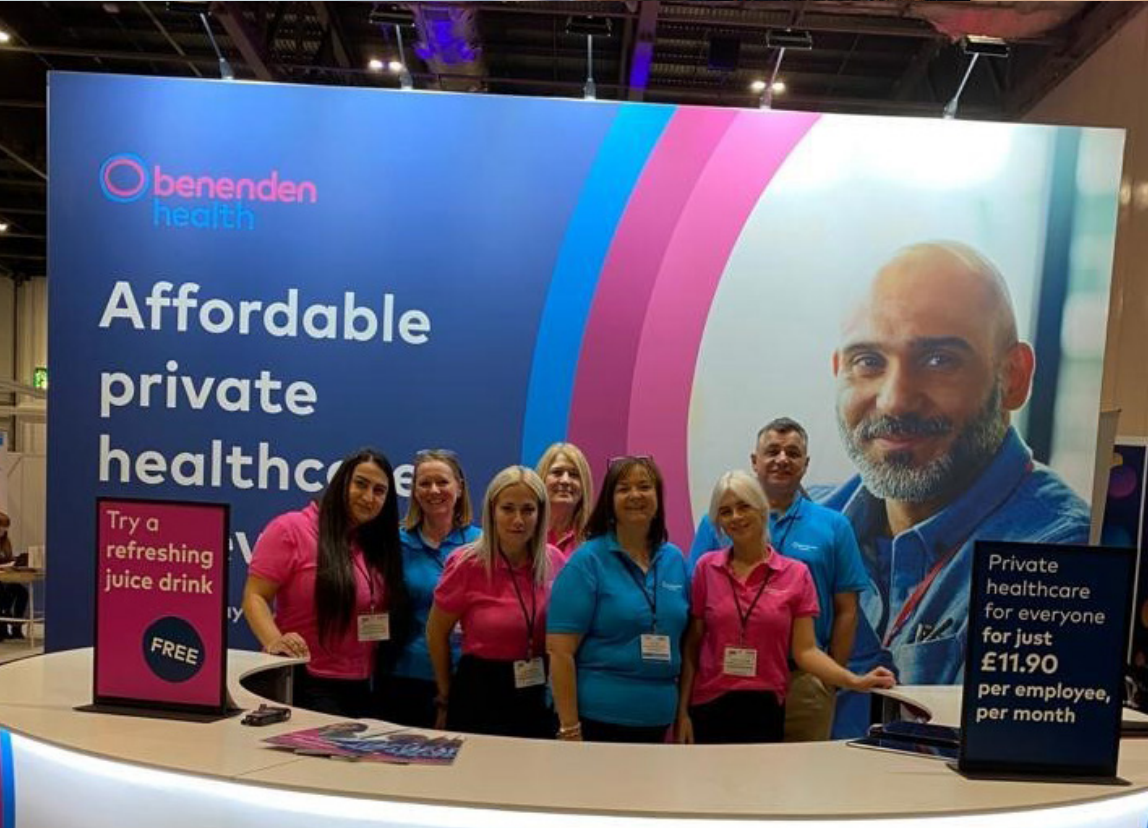
Embracing ESG

Actions for AFM:

- Continue to support and educate members in transitioning to the new regulatory requirements for climate change and ESG, and aligning activities to the future expectations of society.

Actions for AFM members:

- As member/customer focused organisations, mutuals are better placed to provide enhanced societal and environment outcomes. There is the opportunity for mutuals to articulate this more explicitly and position offerings and services more positively to members/customers.
- Consider how aligned the organisation is with the ESG agenda in terms of its current environmental, social and governance standards and explore any improvements that could be made, throughout the whole member organisation.
- Explore the opportunity to emphasise the social (S) element (which is core to the purpose of a mutual organisation) across all brand communications and member engagement points.
- Looking beyond regulatory requirements, clearly define the strategic role that ESG will play in delivering against organisational goals.
- Start to think about how ESG could be incorporated into the development of products and investment strategies and consider taking a more proactive rather than reactive stance.
- Ensure you are aware of the disclosure and risk management requirements on climate change and diversity from the PRA and factor them into strategic thinking going forward.
- Don't look at the environmental, social and governance factors of ESG in isolation. Actively engage with a breadth of ESG activities that align with the purpose of the organisation, not only because it is what members/customer want, but because it's the right thing to do, a sentiment that aligns well with mutuality and purpose driven organisations.









FURTHER
INFORMATION

CEO Interviews






Sophia	Reed	Activities Industry Mutual	Kevin	Rogers	Paycare
Bob	Andrews	Benenden Healthcare Society Ltd	Mike	Perry	PG Mutual
Paul	Hudson	Cirencester Friendly	Marc	Bicknell	Railway Enginemen's Assurance Society Ltd
Peter	Beaumont	Cornish Mutual Assurance	Mark	Sedgley	Red Rose Friendly Society Limited
Susan	White	Cmutual	Jamie	Bellamy	Sheffield Mutual Friendly Society
Isobel	Langton	Exeter Friendly Society Ltd	Ann-Marie	Odea	Shepherds Friendly Society Limited
Rachel	Hardy	Foresters Friendly Society	Russ	Piper	Sovereign Health Care
Peter	Green	Healthy Investment	Jane	Nelson	The Oddfellows Friendly Society
Stuart	Tragheim	Holloway Friendly	Ali	Ramezankhani	Transport Friendly Society Ltd
Michael	Garvey	IPB Insurance	Jon	Craven	UIA (Insurance) Ltd
Stuart	Bell	Lady Grover's Fund	Martyn	Hopkins	WHA Healthcare
Shaun	Fyson	Livery Companies Mutual	Jon	Gratland	Wiltshire Friendly Society Limited
Chris	Kenny	MDDUS			
Dr Christine	Tomkins	MDU, The			
Sue	Weir	Medicash Health Benefits Ltd			
Annette	Petchey	Metfriendly			
Graham	Singleton	National Friendly			
Jon	Taylor	The Retail Mutual (The NFRN Mutual)			
Teddy	Nyahasha	OneFamily			

Interviews were conducted with CEOs. Where an organisation does not have a CEO, the Mutual Manager was interviewed.

Sponsor profiles

	<p>The Association of Financial Mutuals is the trade body that represents mutual and not-for-profit insurers, friendly societies and other financial mutuals across the UK. We promote the concept of mutuality by helping our members identify with, remain committed to and contribute significantly to mutuality, through the promotion of best practice and a commitment to working together and in the interest of members, customers and other stakeholders.</p>	<p><i>financialmutuals.org</i></p>
	<p>Altus was founded in 2005 with a mission to speed up financial services through insightful consulting advice and superior technology. Altus supplies specialist consultancy services and market-leading automation software to clients in the insurance, investment, pensions and wealth management sectors. Altus became part of Equisoft in July 2021.</p>	<p><i>altus.co.uk</i></p>
	<p>Benenden Health offers high quality, private healthcare at the same affordable cost for everyone. This includes round the clock care such as 24/7 GP and Mental Health helplines, plus access to physiotherapy, medical diagnosis and treatment. We're a mutual, here for our 800,000+ members and not for profit.</p>	<p><i>benenden.co.uk</i></p>
	<p>As a long-established specialist Income Protection provider, we have been protecting our Members for over 130 years. We continuously work with our Members' interests at the heart of everything we do, by providing affordable protection insurance and a wide range of free supporting benefits. Our results speak for themselves, with at least 94% of all claims paid over the last 10 years.</p>	<p><i>cirencester-friendly.co.uk</i></p>
	<p>Cornish Mutual has been putting farmers and the rural community across the South West at the heart of all it does since 1903. Our insurance services are tailored to the needs of over 24,000 members using regional experience, local knowledge and rural connections to protect what's important and in the right way.</p>	<p><i>cornishmutual.co.uk</i></p>
	<p>Fidelity International offers world class investment solutions with over \$787bn in total assets. Our clients include central banks, sovereign wealth funds, large institutions, insurers, friendly societies and private individuals. ESG and sustainability is fully integrated into our investment process. We offer fundamental active, index and factor-based equities, active fixed income, multi-asset, real estate and alternatives.</p>	<p><i>fidelity.co.uk</i></p>

Sponsor profiles

	<p>Holloway Friendly has been here for our members for over 130 years. Our founder, George Holloway, created the first income protection plan to help workers safeguard their way of life should they become unable to work due to illness or injury. Our members sit at the heart of our decision making when it comes to underwriting and claim handling, and we always try to see things from their perspective.</p>	<p>holloway.co.uk</p>
	<p>Milliman serves life insurance, financial services, health insurance and property/casualty insurance clients. It is one of the market leaders in the UK in the provision of outsourced actuarial functions and independent review services. Our mission is to serve our clients to protect the health and financial well-being of people everywhere.</p>	<p>uk.milliman.com/en-gb</p>
	<p>The Oddfellows is one of the UK's oldest and biggest friendly societies, with 404,000 members. Unity Mutual, our financial services brand, offers savings, investment and protection products, including a market-leading Lifetime ISA. The Oddfellows' branch-based memberships improve the quality of members' lives by providing access to social events, financial benefits, welfare support and a travel club.</p>	<p>oddfellows.co.uk</p>
	<p>PG Mutual is a not-for-profit membership organisation specialising in providing income protection for professionals. As a Friendly Society, PG Mutual do not have outside shareholders and return profit to its members through a profit share scheme. Policyholders also have FREE current access to a Member Benefits Scheme, a 24/7 GP App and a confidential Telephone Counselling.</p>	<p>pgmutual.co.uk</p>
	<p>Royal London Asset Management (RLAM) is one of the UK's leading investment companies, having built a strong reputation as an innovative manager, investing across all major asset classes. RLAM manages over £153 billion of assets (as at 30/06/21), split between equities, fixed interest, multi asset investing, property and cash, with a market leading capability in sustainable investing.</p>	<p>www.rlam.co.uk</p>
	<p>Russell Investments is a global investment solutions partner, dedicated to improving people's financial security. Russell Investments offers actively managed multi-asset portfolios and services that include advice, investments and implementation. Russell Investments has £244.8 billion in AUM and works with over 1,800 clients* globally, independent distribution partners and individual investors in 31 countries globally. All data at 30.09.21. *Data at 31.12.19</p>	<p>russellinvestments.com/uk</p>

Participating Organisations

Activities Industry Mutual

Adiemus Consulting

AFM

Altus

Benenden Health

BJSS

Bus Employees Friendly

Cirencester Friendly

ClearGlass Analytics

Cmutual

Compass Friendly Society Limited

Cornish Mutual

Exeter Friendly Society Ltd

Fidelity International

Foresters Friendly Society

FTI Consulting

Healthy Investment

Holloway Friendly

Investec Wealth & Investment

IPB Insurance

IPipeline

Lady Grover's Fund

LGT Vestra

Livery Companies Mutual

London & Capital

M&G Advisory Services Limited

MDDUS

MDU, The

Medicash Health Benefits Ltd

Metfriendly

Milliman

Morrison Govan LLP

Mutual Vision Technologies Limited

National Friendly

Neil Williams IT Consultancy Ltd

OneFamily

Paycare

PG Mutual

PKF Littlejohn

Railway Enginemen's Assurance Society Ltd

Red Rose Friendly Society Limited

Royal London Asset Management

Russell Investments

Sheffield Mutual Friendly Society

Shepherds Friendly Society Limited

Sovereign Health Care

Telos Solutions

The Oddfellows Friendly Society

The Retail Mutual (The NFRN Mutual)

The veterinary defence society

Transport Friendly Society Ltd

Tred

UIA (Insurance) Ltd

Unity Mutual

VDS

WellHouse Consulting

WHA Healthcare

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