

December 1989

MT

Confidential Filing

Friendly Societies Legislation

ECONOMIC

POLICY

December 1989


Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.1.90							
7.12.90							
27.9.91							
7.10.91							
CLOSED							
		PREM		19/3593			

PART DECEMBER 1989 ends:-

LPC to MS/HMT

7.10.91

PART _____ begins:-



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20/10/91

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

7 October 1991

Dear Gillian,

FRIENDLY SOCIETIES BILL

You will have seen from the minute of the Cabinet on 3 October that it has now been agreed that the Friendly Societies Bill should be finalised and held in reserve for introduction in the fifth Session of Parliament if time permits, and that I will tell the lobby on the day of State Opening that the Bill is ready and may be introduced if the main elements of the programme make good progress during the Session.

Clearly if there is to be any prospect of enacting the Friendly Societies Bill in a fifth Session it must be ready for introduction as soon as possible, so that the business managers can use any flexibility that emerges to slot it in to the timetable. I understand that the Bill cannot be ready for LG Committee before the Session starts. Our objective must be to bring the Bill to LG Committee by 26 November at the very latest, so I would be grateful if you would ensure that the outstanding work is done to meet that deadline, or better still earlier if that can be achieved.

I am copying this letter to the **Prime Minister**, to other members of FLG Committee and to Sir Robin Butler, First Parliamentary Counsel and First Scottish Parliamentary Counsel.

Yours etc,
JMG

JOHN MACGREGOR

Mrs Gillian Shephard MP
Minister of State
HM Treasury
Parliament Street
London SW1A 2AS

DOMINIC MORRIS

27 SEPTEMBER 1991

FRIENDLY SOCIETIES' BILL

I do not think that the Friendly Societies' Bill has much hope of finding space in the fifth session and the Treasury would presumably settle for a firm promise to introduce it in the first session of the new Parliament. But could I just underline one point which you will have seen in Mrs Shephard's letter to the Lord President on 16 September?

She talked about the risk of a "prudential accident". The last thing which the societies themselves want to offer as a reason for legislation is the risk that one might go bust but, on the basis of some personal conversations, I think there is genuine anxiety that accidents are possible. In all probability, they would be on a very small scale and the voluntary investor protection scheme would probably cope - but not all the societies belong to it.

We have been very slow to devise a new regulatory system for the societies and I think Mrs Shephard is right to say that the Government would have some explaining to do if there were to be an accident. The sooner we can legislate the better.

H. H. H.

HOWELL HARRIS HUGHES

73.HHH

CCFV.



Secretary of State

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

John Maples Esq MP
Economic Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Maples

12 December 1990

Dear John,

FRIENDLY SOCIETIES BILL: REVISIONS TO GREEN PAPER PROPOSALS

Thank you for copying to me your letter of 28 November to
John Redwood on proposed revisions to the Green Paper proposals on
Friendly Societies.

*will request
required*

I am content with the changes being proposed. There are no special
Northern Ireland implications to which I need draw attention.

There is separate Northern Ireland legislation governing Friendly
Societies. It normally follows the GB legislation and I shall
consider amending it following the passage of the Bill.

I am copying this letter to recipients of yours.

Leon

*Pr
Pim*

PB

Elon Bu: Friendly

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Dec 87



John Maples Esq MP
Economic Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Copies to:
Prime Minister
E(A) and H
Committees
Mr Mellor
Sir Robin Butler
First Parliamentary
Counsel

Direct line 071-215 4417
Our ref BK5.253
Your ref
Date 11 December 1990

Dear John,

FRIENDLY SOCIETIES BILL: REVISIONS TO GREEN PAPER PROPOSALS

Thank you for your letter of 28 November. *with request required*

I have no difficulty with the technical changes from your Green Paper proposals. However I am concerned with the proposal that the further consultation planned would leave open the possibility of a joint Friendly Society and Building Society Commission. Our view is that friendly society regulation should move closer to that of insurance which in the case of larger societies is already required by European legislation. Floating the possibility of a joint commission would underline the existing alignment of supervisory authorities despite the greater powers being provided to friendly societies in relation to the sale of financial products. A joint commission would suggest convergence with building societies rather than insurance.

I was pleased though to see that you are not proposing machinery for appeals to a tribunal against regulatory decisions. Our existing insurance system works well, and there would be difficult interface problems if we took regulatory actions against the insurance subsidiary of a friendly society who then had a right of appeal to a Friendly Society Tribunal. Moreover an appeal mechanism could be expensive and bureaucratic and be used to delay commercial decisions.

I understand that you are still working up ideas for applying the Policyholders Protection Scheme to friendly societies. I think you know that the Insurance Bill for which we are bidding would be seeking to remedy some of the anomalies in this scheme and we need to keep in touch on this.

ELON POL: *Frankly Louder*, Dec 89.

dti

the department for Enterprise

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Otherwise I am content with your proposals.

I am copying this letter to the recipients of yours.

Your ever

dr

JOHN REDWOOD



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 Mr. Williams
 Nym
 ✓ CPU
 PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

7 December 1990

Dear John,

FRIENDLY SOCIETIES' BILL: REVISIONS TO GREEN PAPER

I have seen your letter of 28 November to John Redwood reporting progress on the preparation of the Friendly Societies' Bill, and seeking colleagues' agreement to a written Parliamentary answer announcing the changes, and your consultation with the Friendly Societies' Liaison Committee and others on draft instructions to Counsel. *- will request if required*

I have no comments on the substance of your proposals. I wonder, however, whether the terms of the draft answer might give an impression that it would be possible to introduce a Bill later in the current Session, which is plainly not the case. It might be better, for the avoidance of doubt, for the final sentence of the first paragraph of the draft answer to "A Bill will be brought forward in a future Session, when the Parliamentary timetable permits".

I am copying this letter to the Prime Minister, colleagues on EA and HS Committees, Tim Renton, and Sir Robin Butler and First Parliamentary Counsel.

A handwritten signature in cursive script, appearing to read 'George Lamball'.

PP. JOHN MACGREGOR

John Maples, Esq. MP
 Economic Secretary
 Treasury Chambers
 Parliament Street
 London SW1P 3AG

From: THE PRIVATE SECRETARY

cyd



mm

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

6 December 1990

Dear Minister of State,

FRIENDLY SOCIETIES BILL: REVISIONS TO
GREEN PAPER PROPOSALS

*will request
j required*

The Home Secretary received a copy of your predecessor's letter of 28 November to the Minister of State at the Department of Trade and Industry, Mr Redwood, about the revisions proposed to this year's Green Paper. To meet your deadline for comments, I have been asked to reply in the Home Secretary's absence abroad.

The Home Secretary's interest is in those societies which are registered under the Friendly Societies Act 1974 which are also charities. He has no comments on the changes proposed, but he would be grateful if your officials would bear in mind the Home Office interest.

This letter is being copied to the recipients of Mr Maples' letter.

Yours sincerely,

MISS H J WILKINSON

Mrs Gillian Shepherd, MP.
Economic Secretary
Treasury Chambers
Parliament Street
LONDON, S.W.1.



n.b. PM
BHP
18/12

CCP/K



Treasury Chambers, Parliament Street, SW1P 3AG

John Redwood Esq MP
Minister of State
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H 0ET

28 November 1990

Dear John.

FRIENDLY SOCIETIES BILL: REVISIONS TO GREEN PAPER PROPOSALS

As you know, we published a Green Paper in January setting out our proposals for the reform of the legislation governing the regulation and powers of friendly societies. We have received advance drafting authority for a Bill and agreement to consult interested parties. This will minimise the need for amendments to the Bill after introduction and facilitate a smooth and speedy passage through Parliament.

The Green Paper proposals received a warm welcome from all sides. However, in the light of the responses to the consultation exercise and further advice on the implications of the relevant EC legislation in this field, we have concluded that certain changes should be made to the proposals.

Technical Changes

Most of the changes are of a technical nature and will have the effect of simplifying the primary legislation. The most significant of these changes are as follows. We have decided not to proceed with the requirement that friendly societies should stand behind their subsidiaries as this is incompatible with the provisions of the EC Life Insurance Directive which applies to the larger friendly societies. The Bill will, however, provide a discretionary power for societies to discharge the liabilities of their subsidiaries. For similar reasons we do not now intend to establish, in primary legislation, a specific limit on societies' investments of funds in subsidiaries. Instead there will be provisions to ensure that the funding of subsidiaries is transparent both to the societies' members and to the regulator and cannot deplete the insurance funds below a prescribed margin of solvency. There will also be provisions to prevent the scale

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of the diversified activities of a society developing to an extent which would compromise the basic concept of a friendly society.

We have also concluded that there should be a more flexible approach to solvency requirements. Rather than applying the same regime to all societies there will be different requirements for different classes of society according to the nature of their activities and powers of investment. Finally, we propose to simplify the voting requirements for societies which wish to take powers to form or acquire subsidiaries. The Bill will, however, contain provisions to ensure that societies must take all reasonably practicable steps to inform all of their members entitled to vote on a proposal to diversify.

Friendly Societies Commission

We are also proposing that the Bill should contain provisions to establish a Friendly Societies Commission to regulate the activities of friendly societies. The new prudential powers of regulation are best vested in a Commission rather than just the Chief Registrar as at present. The new legislation will provide very wide-ranging powers of regulation and, given that friendly societies will be diversifying into new areas, a Commission will be able to bring a greater breadth of experience to the supervision of their activities. The Building Societies Commission has certainly proved its worth in this respect.

We do not consider that the creation of a Friendly Societies Commission will preclude the transfer of responsibility for regulating friendly societies to an Insurance Commission at some future date if it is decided this is the right way forward. The legislation establishing the Insurance Commission could make the necessary provisions for the winding-up and transfer of functions of the Friendly Societies Commission. We plan to consult on the basis that a Friendly Societies Commission should be established but leaving open the possibility of there being a joint Commission. I understand that your officials are content with these proposals.

The draft Instructions to Counsel have been seen and discussed with your officials and copied to other Departments with a particular interest in this area. If you and colleagues are content with the revisions to the Green Paper proposals, we will consult the Friendly Societies' Liaison Committee and others on the draft Instructions and announce the changes by means of the attached Parliamentary Answer. We should like to get the draft Instructions to the Liaison Committee before Christmas so I would be grateful for responses by 7 December. I am copying this letter to the Prime Minister, colleagues on E(A) and H Committees, David Mellor, and to Sir Robin Butler and First Parliamentary Counsel.

Yours ever

John

JOHN MAPLES

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Q. To ask the Chancellor of the Exchequer what progress is being made on implementing the proposals in the Green Paper "Friendly Societies: a New Framework"

A. Preparations for the proposed legislation are well in hand. The bulk of the Instructions to Counsel have been drafted and are today being sent to the Friendly Societies Liaison Committee and other interested parties for consultation. We also plan to consult on the draft clauses when they are available. A Bill will be presented to the House when other pressures on the Parliamentary timetable permit.

The draft Instructions reflect a number of modifications to the proposals in the Green Paper, in the light of the responses received. Most are technical, but the main policy changes are:

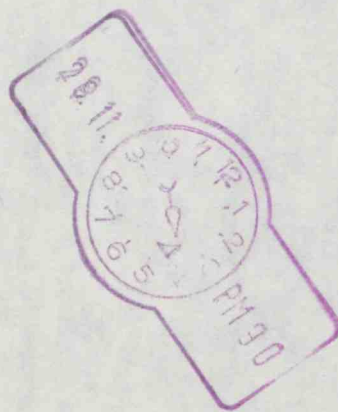
(1) the proposed legislation will not include a statutory requirement for friendly societies to stand behind their subsidiaries, but it will include a power for them to meet the liabilities of a subsidiary;

(2) the voting requirements for a decision to set up subsidiaries will be significantly modified. Only a special resolution of the society will be needed, but there will be provisions to ensure that all reasonable steps are taken to inform members of the vote in good time beforehand;

(3) there will be no statutory limit on the proportion of its funds a society can invest in its subsidiaries. But there will be provisions to ensure that the financing of subsidiaries is transparent to members and to the regulator and does not deplete the insurance funds below a prescribed margin of solvency;

(4) there will be a more flexible approach to solvency requirements, with different requirements for different classes of society according to the nature of their activities and powers of investment;

The legislation will also contain enhanced prudential powers for the regulator to intervene where the interests of members are at risk. In preparing the Instructions to Counsel, we have concluded that it would be more appropriate for these and other prudential powers to be vested in a Commission rather than the Chief Registrar, and will be consulting the friendly societies on that proposal.



dti

the department for Enterprise



John Redwood MP
Parliamentary Under Secretary of State for
Corporate Affairs

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Department of
Trade and Industry

Richard Ryder Esq MP
The Economic Secretary
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

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Our ref
Your ref
Date

215 4417

NBA
ARC
19/1

18 January 1990

Dear Minister at first

Thank you for your letter of 13 December addressed to
Nicholas Ridley.

My office has already told yours that we do not object to the
publication of the Green Paper. We accept the case for wider
powers for friendly societies. The removal of outdated
restrictions accords well with our general policy of promoting
competition. I also agree on the need for increased
prudential powers. I have however noted that the text does
not make explicitly clear that insurance subsidiaries of
friendly societies should be supervised by the DTI under
Insurance Company Act powers with the friendly society
regulator being the lead regulator. While I am content that
this should not necessarily be spelt out in the Green Paper,
if that is your judgement, I hope that it is firmly agreed
between us.

There is however a connected question of how to deal with some
defects in the Insurance Company Act provisions which we need
to remedy as soon as possible. As this Act stands at present
a good part of the insurance business conducted in London on a
service basis by unauthorised foreign companies is probably
illegal. If this were to be exposed this would lead to
disruption of the London insurance market and severe
international embarrassment. Enforcing the Act by requiring
authorisation would make it appear that we were closing an
open market. We are also concerned at the lack of graduated
powers of intervention by the Department, and anomalies in the
Policyholders Protection Act and flaws in our powers to
protect policyholders in takeover situations. Nicholas Ridley
has bid for a separate Bill to remedy these defects, but if QL
feel unable to include this Bill in the programme I hope you
would agree that the most sensible and expeditious way of
proceeding is to include some clauses in your Bill. Inclusion
of these clauses would surely sit well with your objective of
strengthening the prudential supervision of friendly societies
engaged in insurance and any Company Act subsidiaries



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the department for Enterprise

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Company Act subsidiaries established by them. Such a step might also be helpful in getting the best reception of your proposals from the insurance industry. They may not necessarily welcome the emergence of friendly societies as real competitors under a slightly different regulatory regime. The proposed extension of the Policyholder Protection Scheme to friendly societies and the threat of a statutory ombudsman scheme are also points of possible difficulty.

I am copying this letter to the Prime Minister, colleagues on E(A) and H Committees, Richard Luce, the Chief Whip and Sir Robin Butler and Bernard Ingham.

Your sincerely

*David Hill
(Private Secretary)*

Mr JOHN REDWOOD

*(Approved by the Minister
and signed in his
absence)*



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~~CCFO~~



QUEEN ANNE'S GATE LONDON SW1H 9AT

MBM
PCG
10/1

9 January 1990

Richard

GREEN PAPER ON FRIENDLY SOCIETY LEGISLATION

file with PG
JAN 15 1990

Thank you for copying to me your draft Green Paper on revised Friendly Societies legislation.

My interest stems primarily from the fact that some benevolent societies registered under the Friendly Societies Act 1974 are also charities. These societies are covered in section 8 of the draft.

I am content for the draft to be published. I should be grateful, however, if your officials could inform mine of any subsequent developments which might have a bearing on these societies' charitable status or supervision. Administrative arrangements may also need to be made to inform the Charity Commission when a charitable benevolent society is removed from the Register of Friendly Societies.

I am copying this letter to the Prime Minister, colleagues on E(A) and H Committees, Richard Luce, the Chief Whip and to Sir Robin Butler and Bernard Ingham.

Richard

Richard Ryder, Esq., MP.
Economic Secretary
Treasury Chambers
Parliament Street
LONDON, S.W.1.

ECON POL: Friendly Soc Legislation
Dec 89



FROM THE RIGHT HONOURABLE THE LORD MACKAY OF CLASHFERN

ccp



HOUSE OF LORDS,
SW1A 0PW

NBR
REC
8/1

January 1990

Dear Richard,

GREEN PAPER ON FRIENDLY SOCIETIES LEGISLATION

file with Pa

Thank you for copying to me your letter of 13 December to Nicholas Ridley with a copy of your draft Green Paper on Friendly Societies Legislation.

I think the Green Paper sets out very clearly the difficulties currently facing many friendly societies, which still have an important role to play for large numbers of people. For my part, I welcome the steps you are taking to seek to provide a better framework for their development and supervision, and I am content that the proposals in the Green Paper should be given a fair wind.

I am copying this letter to the Prime Minister, the Secretary of State for Trade and Industry, colleagues on E (A) and H Committees, Richard Luce, the Chief Whip and to Sir Robin Butler and Bernard Ingham.

Yours ever,
James

Richard Ryder Esq MP
Economic Secretary to the Treasury
HM Treasury
Parliament Street
London
SW1P 3AG

Encompa: Anandam Societas, Dec 89.





DEPARTMENT OF SOCIAL SECURITY
 Richmond House, 79 Whitehall, London SW1A 2NS
 Telephone 01-210 3000

ccp

From the Secretary of State for Social Security

Richard Ryder Esq OBE MP
 Economic Secretary
 HM Treasury
 LONDON SW1.

NR

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9/1



J. Ryder

8th January 1990

GREEN PAPER ON FRIENDLY SOCIETIES LEGISLATION

with PG.

I am content with the proposals in the draft Green Paper circulated with your letter of 13 December which affect occupational pensions. The ability of a Friendly Society to set up a subsidiary to provide fund management for pension schemes will be beneficial in principle by increasing the number of providers and, by the operation of competition, thus helping to keep down administration costs.

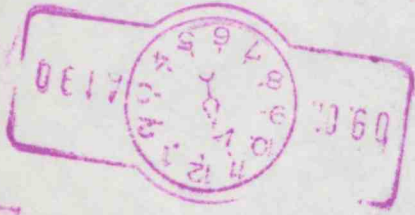
I am copying this letter to the Prime Minister, colleagues on E(A) and H Committees, Richard Luce, the Chief Whip, and Sir Robin Butler and Bernard Ingham.

W. L. L. L.
Tony

TONY NEWTON

Ewan Pol, Friendly Societies

12/89



PM



file

ce HH-Hyges

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 January 1990

Dear Ish,

FRIENDLY SOCIETIES

I have written to Gina Haskins about the Economic Secretary's letter of 13 December concerning the proposed Green Paper on Friendly Societies' legislation. I am writing to you about a separate point the Prime Minister has raised in the context. She has noted that the Friendly Societies' traditional tax exempt savings product is a policy limited to an annual premium of £100. She understands that figure has not been raised since 1984 and she wonders whether there would be a good case for raising the tax exemption limit to, say, £250.

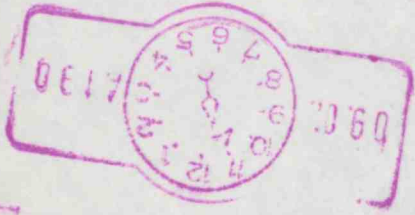
Yours,
P

PAUL GRAY

John Gieve, Esq.,
H.M. Treasury.

Ewan Pol. Friendly Societies

12/89



PM



file

cc HH - Hughes

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 January 1990

Dear Ish,

FRIENDLY SOCIETIES

I have written to Gina Haskins about the Economic Secretary's letter of 13 December concerning the proposed Green Paper on Friendly Societies' legislation. I am writing to you about a separate point the Prime Minister has raised in the context. She has noted that the Friendly Societies' traditional tax exempt savings product is a policy limited to an annual premium of £100. She understands that figure has not been raised since 1984 and she wonders whether there would be a good case for raising the tax exemption limit to, say, £250.

Yours,
P

PAUL GRAY

John Gieve, Esq.,
H.M. Treasury.

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PMR

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 January 1990

Dear Gina,

GREEN PAPER ON FRIENDLY SOCIETIES

The Prime Minister has seen the Economic Secretary's letter of 13 December to the Secretary of State for Trade and Industry and the attached draft Green Paper. Subject to the views of colleagues, she is content with the proposed approach set out in the Green Paper and for the timing of any legislation to be considered in due course by 'L' Committee.

I am copying this letter to the Private Secretaries to members of E(A), 'H' Committee, Martin Le Jeune (Office of the Arts and Libraries) and Sonia Phippard (Cabinet Office).

*Yours,
Paul Gray*

PAUL GRAY

Miss Gina Haskins,
Economic Secretary's Office,
H.M. Treasury.

ls

PRIME MINISTER /

FRIENDLY SOCIETIES

You will wish to be aware that the Treasury are proposing to issue a Green Paper early in the New Year setting out proposals for changes to the legislation governing Friendly Societies. These proposals are summarised in Richard Ryder's minute at Flag A and the draft Green Paper at Flag B.

The essence of the proposals is to widen powers of the larger Friendly Societies (ie mainly Building Societies) via a form of incorporation which would give the advantages of corporate status while preserving their special identity as Friendly Societies. At the same time, improvements would be made to the regulatory regime to cope with the prudential concerns, which are potentially a serious problem for some of the smaller societies.

The Policy Unit (Flag C) support the proposed Green Paper approach. They also recommend - on a separate point - that you urge the Treasury to consider lifting the £100 tax exemption limit on Friendly Societies' savings products to £250.

Conclusion

- i. Content with the proposed Green Paper approach, and for the timing of legislation to be settled in due course by 'L' Committee?
Yes
- ii. Do you want me to ask the Treasury to consider raising the tax exemption limit from £100?
Yes - this is very out-dated
mf

Recg.

PAUL GRAY

22 December 1989

GREEN PAPER ON FRIENDLY SOCIETIES LEGISLATION

1. Mr Ryder's draft Green Paper for new Friendly Societies legislation will be widely welcomed. Schedule 1 of the 1974 Act is basically a re-statement of an Act of 1846, and the powers which it gives Friendly Societies are, as Mr Ryder notes, "very limited and anachronistic". The range of financial products and services which they can offer is small and in the last 12 months this has become an acute problem because many financial intermediaries have 'tied' themselves to insurance companies which offer a wide product range and high commissions. The Societies simply cannot compete by increasing commissions out of their limited tax-exempt policies. At the same time, the Societies must meet the cost of complying with the Financial Services Act and the bigger ones must also conform to the EC Life Assurance Directive. In other words, their traditional market is shrinking whilst their costs rise. In 1988, 129 Societies (out of 428) gave notice to the Chief Registrar to dissolve or amalgamate.

2. The solution which the Friendly Societies have sought is incorporation which is the basis of the Green Paper. Its corollary is a new regulatory regime for which there is now a pressing need because, as the Economic Secretary says, there are quite a lot of small Societies in rapid decline with potentially serious prudential worries. We should support Mr Ryder's wish for legislation in the 1990/91 Session. The Green Paper proposals will not be politically contentious.

3. There is a related issue in which the Prime Minister might be interested. The Friendly Societies traditional tax-exempt savings product is a policy limited to an annual premium of £100. That figure has not been raised effectively since 1984 and the Societies have again asked the Chancellor to adjust and index it. These policies have always been aimed at the less well off and financially sophisticated and, whatever else we do to foster the Societies, there are good reasons for wanting to make them more commercially viable as ways of encouraging savings in that area of society. An increase in the annual policy limit from £100 to, say, £250 need not wait for the Green Paper to become law.

Howell Harris Hughes

HOWELL HARRIS HUGHES

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A

Rt Hon Nicholas Ridley
Secretary of State for Trade
and Industry
Department of Trade and Industry
Victoria Street
LONDON SW1

13 December 1989

Dear Secretary of State,

GREEN PAPER ON FRIENDLY SOCIETIES LEGISLATION

As you may be aware, I have been considering the possibility of future legislation to provide a better framework for the development and supervision of friendly societies. This has been a lengthy task since it will cover a wide range of mutual societies from the equivalent of small insurance companies, through small benefit societies and branches of orders, which have largely social and philanthropic functions, to members' clubs (including some of our own Conservative and Unionist clubs). However the pressing need for legislation is to cater for those societies which carry out long term insurance business very similar to insurance companies which are supervised by your department. Friendly societies, which are generally small in comparison, are supervised by the Registry of Friendly Societies.

The problem being encountered by many friendly societies is that their legislation is, in essence, almost a century out of date. At the top end, the larger, more commercial societies are unreasonably constrained by very limited and anachronistic powers. They also lack incorporated status (being merely unincorporated associations of individuals) which has led to constitutional difficulties in the recent past and is essential for a financial institution providing long term insurance benefits today. At the other end, where there is a long tail of small moribund societies in long term decline, there are potentially serious prudential worries. As the premium income of the society declines, its management expenses rise proportionately thereby reinforcing the decline. Such societies also tend to be faced with problems of replacing management and committees as the average age of membership increases. Although the sums involved are relatively small compared to the larger societies and especially to insurance companies, the benefits under threat may be very important to the member, typically on a low income, who made provision for them.

The Friendly Societies Liaison Committee submitted a memorandum to Peter Lilley in July 1988. They suggested that one way to reverse the decline of societies would be to expand their powers and the range of financial services they could offer, to enable them to

compete on a more reasonable basis. I have decided to accept their case in full. The main powers which they will be granted are the management of unit trusts and personal equity plans, the ability to grant loans, the transaction of agency business in non-life insurance and writing reinsurance contracts for other friendly societies. These will be subject to tight prudential restrictions. I also propose that societies offering the new powers should incorporate and form subsidiary companies to exercise these powers, but the Green Paper offers a simple, cheap way of doing so into a new separate class of body under the Industrial and Provident Societies Acts. This would allow them the advantages of corporate status without losing their special identity as friendly societies.

I also intend to take the opportunity to update the regulatory regime for friendly societies. In particular, I believe we need provisions to allow the supervisor greater powers when a society goes into decline to allow a transfer of the society's business while it still has a net worth. It will be necessary to bring the prudential requirements on systems and direction up to a standard which investors now expect. My officials have discussed the details of the regulatory regime with those in your department responsible for insurance companies. I appreciate that there may be presentational difficulties with the read-across to insurance companies, and we would not wish to pre-empt any future review of insurance companies' legislation. It is intended that any legislation which follows from my proposals would be capable of amendment, by order, to assimilate, where necessary, future insurance company legislation. In addition, I do not preclude eventual integration at some future date of either the supervisory systems for friendly societies and insurance companies or the body responsible for supervision. However, because of their constitutional and other differences from insurance companies, friendly societies would probably continue to need specific legislation.

I believe there will be considerable support for these proposals on both sides of the House. The friendly societies are aware that our review of their legislation has been underway for some fifteen months. The publication of a Green Paper setting out the Government's proposals is expected and should be generally welcomed. If we do not publish it early in the New Year I believe that we will come under increasing pressure from the societies and their lobby.

I attach a copy of a draft Green Paper setting out the Government's proposals. I would be grateful for your clearance, and that of colleagues, by 8 January, to publish this paper. My intention would be to publish it towards the middle of that month. The timing of any legislation will clearly be for L Committee to decide, but I hope to bid for a slot to allow for legislation during the 1990-91 Session.

est.to/RRyder/11.13.12

I am sending a copy of this letter and the enclosure to the Prime Minister, colleagues on E(A) and H Committees, Richard Luce, the Chief Whip and to Sir Robin Butler and Bernard Ingham.

Yours sincerely,
Gina Haskins

RP

RICHARD RYDER

(agreed by the Economic Secretary and signed in his absence)





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PM 89

FINAL DRAFT: 12.12.89

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PROPOSED NEW FRIENDLY SOCIETY LEGISLATION

GREEN PAPER

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INTRODUCTION

1.1 The Government intends to amend the legislation governing friendly societies to provide a more appropriate framework for their future development and to strengthen the protection of funds of members saving with them.

1.2 This paper outlines the rationale for, and extent of, the proposals for new friendly society legislation as a basis for consultation on its form. It does not cover the taxation of societies: that will be reviewed after the decisions have been taken on the friendly society legislation and, if changes are thought appropriate to the taxation of friendly societies generally, they will be introduced in a Finance Bill.

1.3 The Treasury and Registry of Friendly Societies will be consulting the representative bodies of friendly societies, and of the actuarial and accounting professions over the next few months. Individual friendly societies and other interested parties who wish to comment are asked to send their comments not later than 31 March 1990 to: Alec Wilson, c/o FIM1 Division, Room 58/1, HM Treasury, Parliament Street, London SW1P 3AG.

1.4 The timing of the introduction of any Bill based on these proposals must depend on the availability of Parliamentary time.

2. DEVELOPMENT OF SOCIETIES

2.1 A friendly society is an unincorporated voluntary association of individuals, registered under the Friendly Societies Act 1974 ("the 1974 Act"), making mutual provision for contingencies which may face individual members - sickness, retirement, death and burial. In recent decades such provisions has been increasingly through long term life insurance. Most societies provide not only contractual benefits, but also discretionary benefits to members who find themselves in financial difficulty.

2.2 The origins of friendly societies can be traced back at least to the craft guilds of the Middle Ages. The word "friendly" rarely appeared in the name of the earliest societies and only came into common use during the eighteenth century. The societies grew rapidly in the nineteenth century when they were effectively the only means by which the majority of the working population were able to protect themselves against loss of income through sickness or unemployment, or to make provision for retirement, for their widows and orphans, and for a decent burial.

2.3 In the twentieth century both the state and the commercial insurance companies have taken up much of the role which friendly societies performed in the nineteenth century. In 1908 Lloyd George introduced the state retirement pension scheme. In 1911, the National Insurance Act provided for state sickness benefits under the National Health Insurance Scheme. But approved friendly societies were amongst the organisations who distributed payments under the state health scheme: in consequence, those societies were able to recruit members by offering policies to top up the state benefits to those registered with them for the purpose of the latter. That arrangement came to an end with the legislation of the late nineteen-forties to implement the Beveridge Report.

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2.4 Societies were then faced with a marked change in the scope for playing their traditional role, and so needed to adapt to changed circumstances. Some societies have done so successfully: they are growing, even allowing for inflation, and now account for the majority of the business and funds of the movement. But those societies which have not done so, the majority by number, have experienced a slow but seemingly inexorable decline, the slow rate reflecting the long-term nature of their business. That decline continues. The varying experience of different groups of societies, and of different societies within those groups, is brought out in the statistics in Table 1.4 in Appendix 1.

2.5 In recent years the ability of the more progressive societies to compete successfully with insurance companies and others has been increasingly hampered by the limited range of business which is legally open to a friendly society, at a time when the majority of financial institutions are seeking to widen the range of products which they offer, and so their ability to "cross-sell".

2.6 At the end of 1988, societies had about 3 million members: in addition there were the members of the "collecting societies", that is those friendly societies which write industrial assurance policies, and which keep their records by policy rather than by member. That membership of societies other than collecting societies of about three million, compares with the peak of some 8.7 million reached in 1945. The total number of societies fell from 2740 in 1945 to 467 at the end of 1988; of those remaining, some 126 have ceased taking new business.

2.7 The total funds of all societies (including the collecting societies) amounted to £4.1 billion at the end of 1988. Over 95% of all long-term insurance business carried on by friendly societies is now concentrated in the hands of the 37 societies which are authorised under regulations (in this paper called "The Life Directive Regulations") made in 1987, which gave effect to the European Communities Directive 97/267/EEC ("the EC Life Directive"): under it, 37 societies, whose annual premium income exceeds a threshold of 500,000 ecu, are subject to similar solvency requirements to those applicable to insurance companies in the United Kingdom, and in other EC member states.

3. LEGISLATION

(a) Existing Legislation

3.1. Friendly societies were first recognised in statute in 1793, but the current legislation derives mainly from the Friendly Societies Act 1875. That Act followed the report of the Royal Commission on Friendly and Building Societies set up in 1871. Since then, the legislation has been amended from time to time, but its basic structure remains intact. The law was consolidated in the Friendly Societies Act 1974, "the 1974 Act".

3.2. The 1974 Act requires the rules of a friendly society to limit its activities to some or all of those specified in Schedule 1 of that Act. A copy of that Schedule is at Appendix 2.

3.3. At present, a society can only properly extend its activities beyond those in Schedule 1 by converting into an insurance company. The 1974 Act provides for such conversion of a friendly society into either a proprietary or mutual company. But such conversion requires a radical change in the nature and objectives of the organisation - even if the conversion is to a mutual company rather than a proprietary one. Only a handful of societies have taken this route in the past twenty or so years.

3.4. There have been a number of further changes in the legislation directly affecting the powers and regulation of friendly societies in the last five years or so:

(i) The Friendly Societies Act 1984 put beyond doubt, retrospectively, the validity of some 300,000 contracts which had been issued in good faith by certain friendly societies: the need arose because of doubts about the validity, or otherwise, of contracts entered into by a friendly society which are outside the powers specified in its rules, but which are explicitly agreed to by all members.

(ii) The marketing of most life, endowment and long term health insurance business of societies is 'investment business' which is regulated under the Financial Services Act 1986. The Life Assurance and Unit Trust Regulatory Organisation has been designated as a 'self regulatory organisation for friendly societies'. By 22 August 1989, 230 societies were members of it. That Act included two transitional provisions for friendly societies:-

(a) societies which are issuing no new policies or contracts are treated as exempt persons, so that they do not have to be authorised under that Act solely in respect of taking premiums in relation to existing policies;

(b) societies whose contribution income from members in 1985 did not exceed £50,000 were allowed a grace period of three years to decide whether:

to cease to accept new business, and so to be exempt under (a) above;

to merge with another society; or

to seek authorisation.

In the meantime such a society may only write without authorisation under the Financial Services Act 1986 new business within the current limit on tax exempt business - that is, in the case of life or endowment business, contracts with an annual premium of £100 or less.

(iii) Section 141 of the Financial Services Act 1986 provided that societies could join a voluntary investors protection scheme, approved by the Chief Registrar. Such a fund has been established: by 15 August 1989, 154 societies with more than 95% of the funds of the movement had joined it, and 42 applications for membership were under consideration.

(iv) The Friendly Societies (Long Term Insurance Business) Regulations 1987, "the Life Directive Regulations" made under section 2(2) of the European Communities Act 1972, applied to friendly societies with contribution income over 500,000 ECUs for three consecutive years, the solvency and other requirements of the EC Life Directive, already applied to life insurance companies.

(v) The Finance (No2) Act 1987 permits friendly societies to establish approved personal pension schemes. The Personal Pension Scheme (Appropriate Schemes) Regulations 1988, provide that a friendly society may also establish an 'appropriate' personal pension scheme if (in effect) it had contribution income in 1986 and 1987 of a level which would require it to be authorised under what are now the Life Directive Regulations.

(b) The need for change

3.5. The Government accepts the case put to it by the Friendly Societies Liaison Committee, on behalf of the four representative organisations, that friendly societies, with their unique combination of

insurance business based on the principles of thrift and self help;

recognition of a responsibility to care for members going beyond contractual provisions;
and

a mutual constitution,

can continue to make a valuable contribution to society at large, but that they need to be able to offer a wider range of services if they are to compete successfully. The Government therefore proposes to introduce legislation to enable societies to exercise a wider range of powers, if they so choose, while retaining their distinct characteristics as a friendly society.

3.6. The Government considers that it is a necessary concomitant of this extension of powers that the framework of prudential supervision to protect investors should be brought up to the standards now applied to similar organisations holding other peoples' money - building societies and insurance companies are the closest analogues. It is also desirable in the case of friendly societies to provide specifically for the problem of the declining society which, if left to drift, can reach the situation in which its management costs are making unacceptably high inroads into the funds intended to provide the benefits for members. Such a society can have difficulty in recruiting a manager to replace one who is retiring.

3.7. It is also desirable to put the investor protection scheme onto a statutory basis, so that it applies to all societies offering monetary benefits.

3.8. The remaining sections of this paper outline, as a basis for consultation, the way in which the Government proposes that these changes should be made.

4. INCORPORATION

(a) The need to provide for incorporation

4.1. The EC Life Directive prohibits, with very limited exceptions, an institution providing long term life insurance from engaging directly in other activities. The institution may, however, offer other services through separately managed and financed subsidiaries. But an unincorporated association, such as a friendly society under the present law, is effectively unable to own such subsidiaries. Legislation conferring wider powers on societies therefore not only has to confer those powers, but also has to enable societies to incorporate, so that a society wishing to exercise some or all of those powers can establish one or more subsidiaries through which it can exercise them.

4.2. There already exists a suitable legislative framework for incorporated member-based mutual societies in the Industrial and Provident Societies Acts. At present three types of society can be registered under those Acts: a bona fide co-operative society, a society conducted for the benefit of the community, or a credit union. But a friendly society cannot do so. The new legislation will permit a fourth category of industrial and provident society: an incorporated friendly society, and will make it possible for an unincorporated friendly society at present registered under the 1974 Act, to incorporate by registering in this new category of societies under the Industrial and Provident Societies Acts.

(b) The option to incorporate

4.3. While those societies which wish to exercise some or all of the wider powers to be made available will need to incorporate in order to do so, it will be open to any unincorporated friendly society to incorporate. The Government would expect most societies doing new business to choose to do so in order to gain the advantages which follow from incorporation. For example, an incorporated society will be able to own its assets directly, rather than through

trustees. An incorporated society will avoid the risk of entering into contracts whose enforceability is in doubt, as some societies did unwittingly in the early 1980's, creating the need for the Friendly Societies Act 1984 to remove the resultant doubt in the particular cases. Once the legislation has taken effect, all further registrations of new friendly societies would be as incorporated societies.

4.4. On the other hand, it is likely that some of those societies which are doing no new business will consider that the advantages of incorporation during their remaining years would not justify the work involved, and the Government sees no need to require them to incorporate. Unincorporated societies will probably continue to exist in parallel with incorporated ones for some time to come.

4.5. The legislation will however include provision for an order to be made, subject to affirmative resolutions by each House of Parliament, to repeal the 1974 Act and to end registration under it, when it is clear that it is no longer required.

(c) Effects of incorporation on members

4.6. The existing members of a friendly society which chooses to incorporate will continue to be members on incorporation. Future members will be those joining as such, to take out some new contract of insurance with the society. The voting power of members will continue to be on the mutual principle of one member, one vote, regardless of the number of shares of financial or other interest in the society of the member.

4.7. The existing rights and liabilities of the society will similarly continue through incorporation. The rules of the society which form a contract, or part of a contract, between each member and the society will continue, subject only to the changes necessary to reflect that the society is incorporated. In many societies, the rules are indeed the

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only such contract, including the terms of the various benefits for which members subscribe; in these cases there are not separate policy documents for the contract of insurance. The terms as to contributions and benefits set out in the rules will be unaffected. The amount due to members on policies will continue to rank behind ordinary creditors of the society. The main differences in practice will be:

(a) the property of the society will be vested in it, rather than being held by trustees acting on its behalf;

(b) the society will be able to have subsidiaries if it chooses;

(c) it will be able to exercise a wider range of powers than is present open to it, through such subsidiaries, again, if it so chooses.

(d) Procedure

4.8. Since, in normal circumstances, incorporation as such will have little, if any, practical effect on the financial position of members, or of their membership rights in relation to the governance of the society, the power of decision on incorporation will be given to the same body in a society as at present has power to vary the rules under the existing rules of the society. This is at present determined by the rules, rather than the Act: in some cases it rests with the members in general meeting, in some in a delegate conference, in others in the committee of management, subject to ratification by a general meeting of members or a delegate conference. Rather different considerations would arise on a proposal to set up subsidiaries to exercise wider powers - that aspect is returned to in the next section.

(e) Relationships with subsidiaries

4.9. Although subsidiaries would have the legal form of Companies Act companies, with limited liability, the need to maintain the good name of a friendly society as a financial institution of standing and repute would require it to stand behind any subsidiary, and not rest on that limited liability. The legislation will enable a society to do so. Moreover, there would appear advantage in making the duty explicit in the same way that the comparable duty of a building society is provided for under Section 22 of the Building Societies Act 1986. A society would have to stand behind its subsidiaries, and also have to ensure that, insofar as they were conducting insurance business, they met the appropriate solvency requirements. The duty would not, of course, extend to companies in which the society held a small stake as part of the investment portfolio for its funds.

(f) The orders

4.10. The Government wishes to consider further with the societies concerned how the approach to incorporation outlined in this section will be applied to the "orders". These are societies with a federal structure, the totality being registered as one society, but with the branches also having some legal recognition - with separate registration as branches, their own rules, their own funds and often their own premises. The branches have a more or less explicit liability under the rules of the order to subscribe to a central fund to support any branch in difficulty. At present both the central organisation of the order and its branches may carry on insurance business. But, in the case of the two largest orders, progressively more of the business is being channelled through their central body, including all taxable business. It is likely that this existing trend will eventually leave the branches with just social and charitable functions and to act as the lowest tier in the democratic

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structure of the governance of the order. The order as a unity is authorised for the purpose of the Life Directive Regulations and the Financial Services Act; individual branches are not able to be separately authorised.

4.11. It would be consistent with this for it to be open to the order, but not separately to the branches, to incorporate, and for the additional powers to be exercised by subsidiaries of the order.

4.12. It would also be desirable, (as a corollary of putting the investor protection fund onto a statutory basis, which is discussed in Section 7 below) to put on to such a basis the requirement for mutual support within an order - if a branch, or a district, of an order gets into financial difficulties it should continue to be for the rest of the order, in the first instance at least, not the general investor protection fund, to secure the interests of the members of the branch through some mutual support arrangement.

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THE POWERS OF FRIENDLY SOCIETIES

(a) Rationalising the existing definition of primary business

5.1. The Government consider that as a starting point the existing powers of societies should be redefined. The language in Schedule 1 of the 1974 Act is archaic, which is hardly surprising since it dates from some 125 years ago. More importantly, it is not easy to read across from that to other legislation, notably the EC Life Directive, the regulations to give effect to it, and the Financial Services Act. It is accordingly proposed to redefine the powers available to all friendly societies, whether incorporated or not.

5.2. Appendix 3 sets out for consultation the proposed redefinition. Apart from the style, it differs from the existing schedule in that:

(i) the specifications of classes of insurance business correspond to those in the EC Life and Non-life Insurance Directives, and so in Schedules 1 and 2 to the Insurance Companies Act 1982: they do not go as wide as those in that Act, reflecting the more limited character of friendly societies;

(ii) whilst in general the extent of the proposed new powers corresponds to those of the 1974 Act, a number of minor restrictions which are anomalous in current conditions have not been continued: for example, a society cannot at present write life insurance for an unmarried couple taking out a mortgage, who wish to insure each other's life.

5.3. A society which carries out any of the classes of life business would not be able to carry on in its own right any of the non-life categories, except accident and sickness business which it was already transacting when the EC Life Directive was formally notified, on 5 March 1979, or which is supplementary to a long-term business contract.

5.4. The powers of societies would be extended to enable reinsurance of business of the types open to societies. Many smaller friendly societies reinsure part or all, of their risks. At present they can only do this with an insurance company: the Government accept that it is anomalous that the risks cannot be reinsured with a larger friendly society.

(b) Investment of insurance funds

5.5. The powers of investment available to a friendly society currently depend on whether it comes within the scope of the Life Directive regulations. The trustees of a society outside their scope have only the powers of investment available under the general law of trustees - the Trustee Investments Act 1961. That limitation is removed for societies within the scope of the EC Life Directive. Instead, the valuation provisions of the Life Directive Regulations regulate the pattern of investment by a society by limiting the types of asset and, in some cases, the scale of investment in specified classes (eg in one building), whose value can be taken into account in calculating a society's margin of solvency. The effect of this is that a society's trustees can invest more widely, or in excess of the limits, to the extent that its assets are more than is necessary to meet the solvency requirements.

5.6. It is proposed to extend this latter arrangement to all incorporated societies transacting long-term insurance business. The few societies not carrying on long-term insurance business, and thus not subject to solvency requirements, will continue to be restricted to the investment powers applicable to trustees generally.

(c) Additional powers

5.7. The representative bodies for friendly societies have stressed that, in order to remain effective, they must be able to broaden their activities into a wider range of financial services without losing their status as friendly societies. The Government proposes, therefore, that an incorporated friendly society should have power to establish

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subsidiaries registered under the Companies Act to provide one or more of a range of financial services to individuals, complementing the services which friendly societies have traditionally provided to their members. Such subsidiaries could be wholly or partly owned by the society.

5.8. The Government also accepts the suggestions of the representative bodies on the initial scope of those powers. It proposes that, initially, the powers would be available in respect of subsidiaries formed to carry on one or more of the following activities:

- (i) management of unit trusts;
- (ii) management of Personal Equity Plans;
- (iii) marketing and/or administration on an agency basis of classes of insurance business (life or general) not provided by the society itself, or provided to people other than the members of a society. For example, such a subsidiary could administer and provide fund management for company pension schemes;
- (iv) marketing and/or administration on an agency basis of personal loan business for another financial institution (this could include mortgage loans made by the parent society as part of its investment portfolio).

5.9. It would be open to a society to carry on its reinsurance business through a subsidiary, rather than just as a separate fund.

5.10 It is intended that the list of powers available to societies in the revised Schedule 1, and the list of those available through subsidiaries, would each be extendable by a statutory instrument, made by the Chief Registrar with the consent of the Treasury.

RESTRICTED**(d) Members' approval**

5.11 The only source which would be available to a friendly society to fund the capital requirement of such a subsidiary (or its element of that requirement in the case of joint ownership) is the society's reserves, at least until such time as the subsidiary had profits to plough back. This could potentially affect the ability of the society to provide members with the benefits which they expect, both because of the initial and late calls for capital, and because of any payments from the society's obligation, be it moral or legal, to stand behind the subsidiaries.

5.12 It would accordingly be appropriate for a friendly society to establish or acquire one or more subsidiaries only if the members have explicitly endorsed the principle of the society doing so. It is proposed therefore that the legislation will provide that:

(i) the power of a society to invest in subsidiaries, or to carry on any business through subsidiaries, shall be explicitly provided for in its rules;

(ii) the total amount which a society may invest in this way shall be limited to a percentage, specified in the rules, of the amount by which its funds exceed those required to meet the solvency requirements;

(iii) the percentage must not be more than 50%;

(iv) the rule change to establish that percentage, and any subsequent amendments to raise it, must be passed by members voting either by a postal ballot or at a general meeting with the use of proxies, on a special resolution defined as a minimum of 75% voting in favour, with at least 20% of the eligible members voting - irrespective of the normal provisions for changes in the rules of the society;

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(v) the capital of any subsidiary (whether provided by the society or other shareholders) must be sufficient for carrying on its business, and in particular to meet any regulatory requirements of the appropriate supervisor for that business;

(vi) before investing in a subsidiary, the society must satisfy the Chief Registrar, who will consult any other regulatory authority involved, that the investment, with any others already undertaken, will not exceed the 50% limit, and that it is reasonable to expect that any further calls for capital of all the subsidiaries so far established or proposed would not lead to the limit being broken;

(vii) the Chief Registrar may grant a temporary dispensation from the limit in the rules of the particular society (whether it is 50% or lower) in order to permit an unexpected need for additional capital of a subsidiary, required by its regulator, or to meet the commitment to stand behind the obligations of a subsidiary to third parties on winding up. But, in that event, the Chief Registrar must then approve, or impose, a plan for bringing the ratio of the total holdings to the surplus capital back within the limits.

(e) Principal purpose of a society

5.13 It will also be necessary to ensure that the scale of parallel activities does not develop to an extent that it compromises the basic concept of a friendly society existing to provide a service to its members, and with those members controlling it, by vesting its management in a committee elected by them. While initially many of the customers of a subsidiary may be members of the society, that will not necessarily continue. Moreover, some of the wider powers will, of their nature, not be for members - notably reinsurance and the administration of company pension schemes.

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5.14 It is accordingly envisaged that:

(i) the legislation will define the principal purpose of a society in terms of providing some or all of the services in the revised equivalent of Schedule 1 to the 1974 Act to its members;

(ii) as now, it will be open to the Committee of Management of a society to propose to the membership that it should convert into a company. It would be expected that any Committee proposing diversification beyond the point where it is consistent with the primary purposes of a friendly society would seek its members' authority for conversion;

(iii) it will be open to the Chief Registrar, if he considers that a society is no longer behaving in a way consistent with the primary purpose (being the statutory purpose), to give the society notice that it must either bring its activities within that primary purpose, or convert into a company. If the society fails to act on the notice within a specified period of, say, one year, it would be open to the Chief Registrar to seek a direction from the Court winding up, restructuring or converting the society or, alternatively, it would be open to the society to seek the approval of the Court to an alternative scheme.

(f) Concept of vires

5.15 The general doubts about the validity of transactions by a friendly society outside the scope of its rules, which led to the 1984 Act in order to deal with a particular case, will be resolved on the following basis:

(i) unincorporated friendly societies have power to do things not provided for in their rules, provided they are endorsed by all their members (which is equivalent to a rule change), and are within the scope of activities permitted by statute to unincorporated societies;

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(ii) other actions outside an unincorporated society's powers, and any action by an incorporated society outside its powers, are void from the outset and unenforceable by any party;

(iii) if a subsidiary acts outside its powers, third parties will enjoy the protection of Section 35 of the Companies Act 1985 (as substituted by Section 108 of the Companies Act 1989), as they would with any other company, but the Chief Registrar will be able to direct that the society should divest itself of its interest in that subsidiary, within a specified period.

In this respect the regime for incorporated societies, outlined in (ii) and (iii), would be essentially the same as that for building societies under the Building Societies Act 1986.

RESTRICTED**6. PRUDENTIAL FRAMEWORK**

6.1 The Government's main concern in drawing up the new prudential regime for friendly societies to protect members investing in them has been:

(i) to provide a regime which fits the needs of friendly societies and their members, at the inevitably risky time of societies taking up new powers; and which makes good the shortcomings in the present legislation, drawing on experience with legislation for other groups of financial institutions - the 1974, 1981 and 1982 Acts for insurance companies, the 1979 and 1987 Acts for banks and 1986 Act for building societies;

(ii) to provide specifically for the problems of declining friendly societies.

This section deals with the choice of the Chief Registrar as supervisory authority, and the duties be put on the committees of management of societies, or boards. It concludes with an outline of the proposed powers of intervention of the Chief Registrar.

(a) The supervisory authority

6.2 The present supervisory authority for friendly societies is the Chief Registrar of Friendly Societies, and under him the Central Office for England and Wales, and the Assistant Registrar for Scotland. Although initially concerned in the first half of the nineteenth century with the certification and the registration of rules, and with arbitration in disputes between members and their societies, the office has over the years become increasingly involved with prudential supervision of friendly societies: in this it has been supported by the staff of the Government Actuary.

6.3 It is intended that the regulation of insurance business carried on by friendly societies should be broadly the same as that conducted by insurance companies. This will be achieved over a period. Regulation is a matter of

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constant vigilance and, in accordance with this general principle, the regulation of friendly societies' insurance business will follow closely any future changes in the regulation of the insurance business of insurance companies. The present proposals will bring the statutory provision for supervision of friendly societies considerably closer to those for insurance companies that at present. This inevitably raises the question of whether the supervision of these two groups should be brought under one authority. However, as the rest of this section brings out, the regime for friendly societies will be significantly different in some respects from that for insurance companies; the main area of near identity between the two will be in respect of solvency, where the Government Actuary's department will have a major role, whatever the lead authority. Over the next few years there will also be the specific role in respect of friendly societies, of supervising the process of incorporation and adoption of new powers.

6.4 The Government has accordingly decided that the preferred course would be for the Chief Registrar and the Registry to continue to be the supervisory authority for friendly societies for at least the main transitional period of some years after the new legislation comes into effect. This would not preclude bringing the supervision of insurance companies and friendly societies under one authority once the transition was complete.

6.5 The rest of this section is accordingly in terms of the Chief Registrar being the supervisory authority.

(b) Coverage

6.6 The prudential regime will apply to all friendly societies carrying on insurance business, which will be required to be authorised under the Act.

6.7 Authorisation to carry on long term business would be in terms of one or more classes of insurance business as specified in Appendix 3. A society wanting to take on a new type of business would need to apply for its authorisation to be extended. Transitional provisions would cover:

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(i) the automatic renewal of the authorisation of societies covered by the Life Directive Regulations, for the classes of business covered at the time of transition;

(ii) deemed authorisation of a society below that threshold in the Life Directive Regulations for those classes of business in respect of which it satisfied the Chief Registrar it was currently taking new business;

(iii) societies which are operating as closed funds, ie which are closed to all new long term business, would not be entitled to authorisation for new business.

6.8 A solvency regime based on that in the Life Directive Regulations will apply to all friendly societies conducting insurance business whether incorporated or unincorporated. It will apply to societies doing new business and to those only operating closed funds, although in the latter case it will be appropriately modified. Those industrial and provident societies which are registered under the two existing heads of the Industrial and Provident Societies Acts (bona fide co-ops and benefit of the community societies) which transact insurance business, will continue to be supervised as insurance companies and by the Department of Trade and Industry under the Insurance Companies Acts.

(c) **Financial Services Act**

6.9 The present arrangements for friendly societies under the Financial Services Act 1986 will continue. Friendly societies, like insurance companies, do not need separate authorisation under the Financial Services Act. But they are required to adhere to the conduct of business rules of either the SIB or a self-regulating organisation. But many of the subsidiaries will require separate authorisation under that Act either by the SIB or by the appropriate SRO. In such

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cases, the Chief Registrar would be the "lead supervisor" for the society and its subsidiaries, responsible for taking an overview of the group headed by the society, as well as for supervising the main business of the society itself.

(d) General duty

6.11 The legislation will recognise the general principle that it is the duty of each society's committee of management to ensure that the society is directed and managed in the best interests of members, and in particular to ensure that it is in a position to pay at the due date (whether specified or contingent) to each member, his dependants, or the persons otherwise entitled, either the amount due, or an amount in line with his reasonable expectations, depending on whether the contract is for a specified, or an otherwise determinable, amount or of the "with profits" type. The powers of intervention of the Chief Registrar will be to protect members in circumstances in which societies have not satisfied him that they can secure that.

6.12 More specifically, the legislation will require the society to satisfy the Chief Registrar that it is observing certain specified criteria of prudent management. The criteria will be:

(i) there is an adequate margin of solvency, and there is an appropriate range and spread of investments to maintain an adequate margin of solvency;

(ii) the society's portfolio includes sufficient liquid assets to meet obligations as they become due;

(iii) the society has adequate systems for management and control;

(iv) the committee of management or board, and officers of the society, are conducting and have the capacity and intention to continue to conduct, the business of the society

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- (a) with prudence and integrity, and
- (b) with sufficient professional skills;

(v) each member of the committee of management, and of the senior management of the society, is a fit and proper person for the position which he holds.

6.13 The criteria will apply to the business of the society as a whole, present and proposed, conducted by the society itself, by its subsidiaries and, in the case of the orders, by its branches.

(e) Committee of Management and board

6.14 There tends to be a conceptual difficulty in a mutual organisation in reconciling the requirements of democratic control by members and the prudential requirements to have effective direction and management. In practice this has not yet led to serious problems in a building society. If a board has explained to the society's members why it wants members of the board with particular skills or experience they have responded and either all, or at least the majority, of those proposed by the board have been elected.

6.15 The democratic tradition has, however, evolved somewhat differently in friendly societies - and between societies. Many have annual delegate conferences, the delegates coming from local groups of members, which both consider the business of the society and elect the committee of management. The elected committee of management tend to have less experience of management in other fields or relevant professional skills than their opposite numbers in building societies, or the directors of insurance companies of comparable size. One way forward might be for the committee of management to be responsible for appointing the board of the society, the duty of the committee being to ensure that there is a board with an appropriate range of experience, and an appropriate mix of executives and non-executives, rather

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than to have the fit and proper test applied to the committee and its members. Some of the non-executive members of the board might be members of the committee, but others might not be members of the committee or, indeed, of the society.

6.16 The Government would welcome comments on how the legislation might both leave some scope for each society to develop its own solution to the task of reconciling democratic control and ensuring effective direction and management, and to ensure that the latter was achieved.

6.17 The following paragraphs deal with some particular aspects of the application of particular criteria to friendly societies.

(f) Solvency

6.18 There will be no change in the solvency requirements for those societies carrying on long term business, which are subject at present to the Life Directive Regulations. The solvency requirements will be extended to all societies carrying on long term life business, subject to two modifications:-

(i) there will be a taper for small societies in the size of the minimum guarantee fund;

(ii) there will be appropriate modifications for societies not entering into any new contracts, ie only operating closed funds.

(g) Systems

6.19 Experience in recent years with friendly societies, as with some other groups of financial institutions, has reinforced the need for adequate systems of control and inspection, and for the provision of management information and for ensuring that decisions are implemented. Friendly societies have been under a legal obligation to have adequate systems since 1966: this is now incorporated in section 29 of the 1974 Act.

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6.20 It is proposed to revise this requirement to bring it into line with comparable provisions in other recent prudential legislation. In particular:-

(i) the degree of the requirement will be extended to require documentation of systems, and the scope of the requirement will be extended to cover the systems for management information and control, for information supplied to the actuary for the valuation and solvency reports, and for information provided to the Chief Registrar;

(ii) the committee of management will be required to report annually to the Chief Registrar on the adequacy of such systems;

(iii) the external auditors will be required to make a similar report, sending it through the board or committee of management to the Chief Registrar.

(h) Actuary

6.21 The actuary should play an important part in the direction and management of a society engaging in insurance business, not only providing valuations, and solvency reports based on them, but also giving advice to management on potentially dangerous trends and, more generally, on alternative strategies for developing the business which may be under consideration. In insurance companies, this task is performed by the "appointed actuary", who is himself frequently a member of management. Some friendly societies have their own actuary, or actuaries. But many rely on consulting actuaries to provide valuations and solvency reports. A consulting actuary may have the advantage of being able to take a detached view of the situation of the society, because of his independence, and may cost less in the case of a small society than having a full time actuary on the staff. But he is less able to provide advice on management proposals at the formative stage than an actuary who is a full-time and a member of the committee of management and the board.

6.22 The Government intends to consult the representatives of societies and the actuarial profession on the form for the extension to friendly societies of a requirement analogous to that of the appointed actuary for insurance companies. Three elements are seen as essential -

(i) valuation for solvency purposes by a professionally competent actuary with a sufficient degree of independence;

(ii) the availability of the actuary to advise the society on critical decisions affecting its financial position;

(iii) the right of the actuary to go to the Chief Registrar and the Government Actuary if he is concerned that the society is not acting in a way which gives reassurance.

How this is achieved may vary from society to society. The larger societies may have their own "in-house" appointed actuary; the smaller ones may appoint a consulting actuary.

(i) Other duties on boards

6.23 The proposed legislation will place a number of duties on committees of management of all authorised friendly societies, whether incorporated or not. Many of these are already provided for in the Friendly Societies Act 1974 and the Industrial and Provident Societies Acts. They will include the duty -

(i) to produce the annual report and accounts;

(ii) to secure audit of accounts by professional auditors;

(iii) to issue an annual summary financial statement to all members - copies of the underlying audited accounts to be provided on demand, and to be filed at the Registry;

(iv) to establish and maintain a register of interests of members of the committee or board.

(j) **Statutory Powers**

6.24 The statutory powers of a supervisor should be rarely used. But their existence, the form which they can take, and the criteria which have to be met before they can be used, are all important because they affect the way in which both supervisor and institution behave short of the use of the powers.

6.25 It is intended that,

(i) the Chief Registrar's powers of intervention should be available in each case if he considers that it is expedient in order to reduce the risk that the society will not be able to make the payments which are due to members, whether specified in or otherwise determinable by the contract, or are otherwise not able to make payments in line with the reasonable expectations of members;

(ii) if the committee of management or board of a society fails to satisfy the Chief Registrar that it is meeting one of the criteria of prudent management specified in the legislation, he may regard that as prima facie evidence that such a risk exists, and that his powers are exercisable.

6.26 The specific control powers available would be:-

(i) to impose conditions on authorisation: this would include the existing power to require a society not meeting its solvency requirement to submit plans for correcting the position, but would also extend, for example, to meeting management and systems requirements;

(ii) to refuse authorisation in the case of new applications or revoke authorisation in respect of taking new business in some or all of the classes authorised;

(iii) to revoke authorisation in respect of taking contributions or premiums under existing contracts;

(iv) to petition the Court to wind up the society, on the ground that it is in the best interests of members.

6.27 These would be supported by powers -

(i) to obtain information from a society, either on a regular basis - monitoring returns - or ad hoc;

(ii) to require reports from the society on specific subjects, to be supported if appropriate by a report or reports from an actuary or an accountant acceptable to the Registrar;

(iii) to appoint a person or persons to make an investigation and report on the business of the society, or part of it - such reports would be confidential;

(iv) to appoint a statutory inspector, analogous to a full Companies Act inspection.

(k) Appeal Procedure

6.28 The powers of intervention of the Chief Registrar, like those of any other supervisor, have to be relatively draconian in relation to the institution if they are to be effective to protect the investor. But this means that there needs to be some protection for the institutions against the abuse of power by the supervisor, or some ill-judged action.

6.29 It is therefore proposed that, in the case of those powers mentioned in paragraphs 6.26(i), (ii) and (iii) above, protection for the society and its officers would be provided in the first instance by a procedure requiring:

(i) the Chief Registrar to give notice of his intention to take action, with a statement of the grounds for it;

(ii) the society to have an opportunity during the period of the notice to make written representations and to be afforded a hearing if it so requests; and

(iii) the Chief Registrar, if he decided to proceed, to have to give his grounds, based on the results of his consideration of the representations made in respect of the original notice;

thereafter the Chief Registrar's actions will continue to be subject to judicial review. The Chief Registrar must, however, have the ability to act swiftly to protect members' interests should circumstances appear to warrant it. It would therefore be normal practice to exercise powers of inspection and investigation without notice.

7. DECLINING SOCIETIES AND THE INVESTOR PROTECTION SCHEME

(a) Declining Societies

7.1. A high proportion of societies by number, but not by assets, are now in decline. In 1988, the first full year to which the transitional provisions for friendly societies of the Financial Services Act 1986 applied:

126 societies still took premiums but offered no new business, ie they were operating as closed funds;

115 societies only did business below the tax-exempt thresholds, and had total premium income of less than £50,000.

The total funds of these societies amount to £71.6 million, 1.75% of the total funds of the movement.

7.2. The risks for the members of such a declining society include:-

(i) that the relatively fixed management costs of the society rise as a proportion of income, to the point where they begin to erode the payments expected by members;

(ii) that the committee of management and secretary find it hard to recruit replacements when senior staff retire or die, so risking a management void.

7.3. Some steps have been taken in recent years to help to avoid this. The periodic valuation report by an actuary has specifically to consider the reasonableness, or otherwise, of the assumptions for the management fund and so to draw the attention of the committee, and then of the Registry (and through it of the Government Actuary), to any risk emerging of management expenses rising disproportionately and so putting members benefits at risk. The Investor Protection Scheme includes provisions for the managers of the scheme to appoint an "advisor" to help the committee of management of a society which appears to be getting into difficulty.

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7.4. If a society is in terminal decline, or a management void appears, the interests of the members may be better served by a transfer of engagements to another society willing to accept them, as soon as practicable, than either by allowing the decline to continue, or by winding up. The members are looking for benefits later, not cash now. Winding up may itself be expensive.

7.5. It is accordingly intended to amend the 1974 Act provisions and the Industrial and Provident Societies Act provisions on transfers of engagements to facilitate voluntary transfers -

(i) by providing for transfers from an unincorporated friendly society to an incorporated one;

(ii) by giving the Chief Registrar power to reduce the voting threshold for transferring a society's engagements;

(iii) by enabling a society to accept a transfer of engagements by resolution of its committee of management rather than by special resolution or otherwise as its rules provide, as at present.

7.6. But there may be circumstances when there either remains no management capable of putting the proposal to the members, or the management is not willing to do so because of the personal interests of members of the Committee. It is accordingly proposed that in circumstances where the Chief Registrar is satisfied that a transfer of engagements is the best way of protecting the interests of members, and there exists a society willing to accept the transfer on terms specified by it, the Chief Registrar may give a direction that the transfer should take place.

RESTRICTED**(b) The Friendly Societies' Investor Protection Scheme**

7.7. One of the main limitations of the present Investor Protection Scheme is that it is voluntary. Many of the smallest societies whose members are arguably most at risk from the problem of the declining society just described have not joined. It is accordingly desirable to replace it with a statutory scheme which is mandatory on any society which gives its members contractual rights, (including rights under the rules) to cash benefits at a specified time or in specified circumstances.

7.8. It would be possible to establish a statutory scheme just for friendly societies, incorporated and unincorporated. But it seems difficult to justify creating a statutory scheme for such a small group of institutions, when there already exists a suitable statutory scheme, namely that under the Policyholders Protection Act 1975. Historically, the record of friendly societies needing this kind of protection has been extremely good. No claim has been made under the existing voluntary scheme and, so far as is known, no member has suffered comparable loss through failure of a friendly society, in at least the last twenty years. It is considered highly desirable, however, that the protection afforded to friendly society investors should at least equate to that of insurance company policyholders and be safeguarded statutorily. It is accordingly proposed to amend that Act so that investors in friendly societies are covered by it, and that societies contribute to it.

(c) Ombudsman

7.9. Disputes between a member of a friendly society and the society can be referred to the Chief Registrar for arbitration either

(i) under the 1974 Act; or

(ii) in the case of collecting societies, to him in his capacity as Industrial Assurance Commissioner under the Industrial Assurance Act 1923.

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7.10. There would seem to be a good case for replacing these disputes provisions by an Ombudsman scheme. An Ombudsman has greater flexibility in the way in which he handles a dispute than an arbitrator. He has power of investigation and to require the production of papers. He can settle a dispute on a the basis of what he considers just in all the circumstances. Moreover, there can be occasions when the role of arbitrator under the disputes provisions does not sit happily with that of being supervisor of the institution which is one of the parties.

7.11. The Government would accordingly welcome the views of interested parties on the proposals that:

(i) the arbitrator function of the Chief Registrar in respect of friendly societies, whether incorporated or unincorporated, if carrying on insurance or investment business, to belong to an approved Ombudsman scheme, the requirement being structured on a similar basis to that in the Building Societies Act 1986;

(ii) the arbitration function of the Industrial Assurance Commissioner (who is the Chief Registrar under another title) in respect of collecting societies and industrial assurance companies should be similarly replaced.

7.12. The Government would also welcome views on whether a voluntary Ombudsman scheme appears feasible or whether the Ombudsman would need to be set up on a statutory basis in order to be fully effective.

RESTRICTED**8. OTHER SOCIETIES REGISTERED UNDER THE FRIENDLY SOCIETIES ACT 1974**

8.1. The paper so far has been concerned with the 467 friendly societies registered as such at the end of 1988, and to a lesser extent the 2538 branches of orders separately registered as branches. But there are a further 2644 societies registered under the 1974 Act. At the end of 1988 they were:

cattle insurance society	1
benevolent societies	85
working mens' clubs	2409
specially authorised societies	149

8.2. Most of the advantages of being registered as a body corporate with limited liability, would appear to apply as much to other registered societies as to friendly societies: the one exception is that these bodies are, in general, not looking for additional powers. But there is at present no means by which any society registered under the 1974 Act can incorporate as an industrial and provident society. This in particular applies to the working mens' clubs. At present there are some 2,400 unincorporated working mens' clubs registered under the Friendly Societies Acts, and some 3,700 social and recreational societies (which include many working mens' clubs) which are incorporated and registered under the Industrial and provident Societies Acts: which Act a working mens' club registers under appears to be largely an historic accident. But there is no existing provision by which an unincorporated working mens' club can become an incorporated industrial and provident society.

8.3. It is accordingly proposed to provide that -

(i) other societies registered under the 1974 Act may incorporate as industrial and provident societies, again on the same basis, by an amendment of rules: they would do so within one of the existing categories for an industrial and provident society;

(ii) the 1974 Act would ultimately be repealed and registration under it ended, for such societies, as it would be for friendly societies.

8.4. The Registry envisages that to assist this proposal -

(i) there would be model rule amendments for incorporation agreed with the main representative bodies;

(ii) there would be a grace period of say, two years, during which fees are waived for incorporation using the model provisions.

8.5. The legislation will also include a provision to deal with the problem of moribund societies on the register. The Chief Registrar will have power to remove from the register an "other society" registered under the 1974 Act, on the ground that it appears no longer to be carrying on business under the Act, if it fails to file two successive annual returns within three months of the respective due dates. For this purpose, he will be able to take account of failure to submit annual returns under the 1974 Act in respect of the calendar year 1990.

9. RECOVERY OF FEES AND EFFECT ON PUBLIC EXPENDITURE

9.1. The Government believes that it would be appropriate for the Registry to be able to recover its full costs from registered societies, which it is unable to do under existing legislation. The legislation would therefore include provisions for the Registry to charge for:-

(i) supervision of authorised friendly societies;

(ii) registration events in respect of both the 1974 Act and the Industrial and Provident Societies Acts;

(iii) the costs of continuing registration of a society under either Act.

9.2. The legislation would require that the Registry would be given the objective of recovering its costs from fees, taking one year with another, subject to limited exceptions in respect of:-

(i) any remaining disputes function;

(ii) a temporary grace periods to give societies an incentive to switch to incorporated status.

This should eventually provide a net saving of public expenditure of about £2 million.

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10. Conclusion

10.1. The Government considers that the proposals in this paper will, when enacted, provide a framework within which the stronger friendly societies will be able to develop their services to the community, founded on the principles of self-help and mutuality, while the members of all societies - those destined to evolve and develop, as well as those destined to merge with others or wind up - will be better protected.

10.2. It would welcome the views of societies, of the actuarial and accountancy professions, and others, on the way in which it is proposed to give effect to the proposals and in particular on:

(i) the proposed procedure for incorporation as an industrial and provident society (4.08);

(ii) how the approach to incorporation should be applied to the orders (4.10-4.12);

(iii) the form and content of the redefinition of business powers (5.1-5.4 and Appendix 3);

(iv) the proposed extension of investment powers (5.5-5.6);

(v) the proposed additional business powers (5.7-5.10);

(vi) procedure for adoption, and extent, of powers to provide services through subsidiaries (5.11-5.14);

(vii) the concept of vires (5.15);

(viii) the extension of authorisation to carry on new business to all societies carrying on new long term business and the extension of solvency requirements to all societies carrying on insurance business (6.6-6.8);

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(ix) the duties of the committee of management and board (6.11-6.16 and 6.23);

(x) the extension to friendly societies of a system analagous to that of the appointed actuary for insurance companies (6.21-6.22);

(xi) the additional interventionary powers proposed (6.24-6.27);

(xii) the facilitation of transfers of engagements (7.4-7.6);

(xiii) move to a statutory investor protection scheme (7.7-7.8);

(xiv) disputes: replacing the arbitration function of the Chief Registrar and Industrial Assurance Commissioner by an Ombudsman scheme (7.9-7.12);

(xv) the procedure enabling societies other than "pure" friendly societies to incorporate as industrial and provident societies (8.1-8.5).

1.1
Table 2.1: Friendly societies: All societies registered under the Friendly Societies Act 1974—Membership, benefits paid and funds

Year	Orders and branches	Collecting societies	Other centralised societies	Cattle insurance societies	Benevolent societies	Working men's clubs	Specially authorised societies	
							Loan	Others
Number of societies								
1970	6 270	71	692	5	110	2 489	47	170
1975	4 698	64	542	4	104	2 491	31	150
1980	3 818	44	424	3	97	2 514	16	153
1985	3 111	36	367	1	89	2 450	9	144
1986	2 986	33	364	1	88	2 427	9	141
1987	2 818	32	375	1	87	2 408	9	141
1988	2 546	32	412	1	85	2 406	9	142
Number of members (000's) (a)								
1970	891	26 806	3 860	—	366	1 891	40	123
1975	755	23 898	3 505	—	376	2 136	20	117
1980	608	20 973	2 987	—	328	2 331	20	128
1985	514	17 005	2 581	—	327	2 078 (b)	13	115
1986	486	16 343	2 491	—	322	..	13	123
1987	452 (b)	15 753	2 501	—	322	..	14	110
1988	..	15 081	2 633	—	289	..	14	112
Total benefits paid (£000's)								
1970	2 856	41 526	23 970	1	3 659	—	—	—
1975	3 357	52 388	34 912	1	1 986	—	—	—
1980	3 348	74 138	44 652	1	3 106	—	—	—
1985	5 098	122 013	87 924	—	5 326	—	—	27
1986	5 330 (b)	138 748	108 221	—	5 541	—	—	28
1987	6 941 (b)	148 987	116 585	—	5 704	—	—	28
1988	..	160 724	143 194	—	5 225	—	—	34
Total funds (£000's)								
1970	78 452	489 471	249 869	7	5 569	38 471	881	4 860
1975	90 364	604 408	337 326	7	6 772	74 893	606	6 529
1980	103 968	877 246	441 947	8	11 144	122 912	513	10 498
1985	137 854	1 470 102	1 089 336	4	16 986	141 877 (b)	488	12 582
1986	147 588 (b)	1 613 759	1 233 799	4	18 633	..	480	13 400
1987	161 828 (b)	1 754 332	1 509 676	4	18 963	..	489	14 454
1988	..	1 877 956	1 787 899	6	20 377	..	490	14 616

(a) Assurances.

(b) Since publication of the last report figures for 1987 have been compiled. The latest figures available

Source: Registry of Friendly Societies

1.2
Table 2.4: Friendly societies: Collecting societies—Income and expenditure

£000's (except where indicated)

	Number on register	Income			Expenditure							
		Total	of which		Total	Benefits			Other expenditure			
			Premiums	Interest		Total	of which	Surrender values	Total	of which		
					Death	Maturity (a)		Fund expenses	Management expenses			
Industrial business } Other business }	32 (b)	615 288	150 877	165 311	227 678	123 680	42 020	19 928	26 574	103 599	27 295	76 304
		79 337	53 143	23 018	66 872	40 790	3 378	28 145	9 006	26 082	7 224	18 858
Total	32 (b)	694 626	204 019	188 328	294 550	164 471	47 608	76 073	35 579	129 681	34 519	95 162
1970	71	84 141 (c)	53 674	29 793	64 640 (c)	41 528	14 049	18 882	8 527	23 112 (c)	2 232 (c)	20 880
1975	64	119 455 (c)	71 679	45 460	97 272 (c)	52 388	17 031	25 672	9 627	44 884 (c)	10 283 (c)	34 601
1980	44 (b)	218 639 (c)	129 242	88 188	135 052 (c)	74 138	21 840	36 316	15 848	60 914 (c)	3 129 (c)	57 784
1985	36 (b)	341 834 (d)	177 466	158 191	208 377	122 013	32 219	47 112	42 469	86 363	7 305	79 058
1986	33 (b)	379 674 (e)	186 838	173 618	235 503	138 748	37 091	57 797	43 636	96 754	10 681	86 074
1987	32 (b)	410 929	195 417	185 474	270 370 (f)	148 987	40 592	67 284	40 863	121 382	28 181 (f)	93 202
1988	32 (b)	694 626	204 019	188 328	294 550 (g)	164 471	47 608	76 073	35 579	129 681	34 519 (g)	95 162

- (a) Includes cash bonuses.
- (b) Includes one collecting society which is also an order with one branch.
- (c) The figures ignore transfers between the industrial and other funds of collecting societies.
- (d) Includes currency exchange adjustments of £1.6 million for industrial and £0.7 million for non industrial assurance business (1 society).
- (e) Includes currency exchange adjustments of £10.3 million for industrial and £4.3 million for non industrial assurance business (1 society).
- (f) Includes currency exchange adjustments of £7.4 million for industrial and £3.1 million for non industrial assurance business (1 society).
- (g) Includes currency exchange adjustments of £8.6 million for industrial and £3.8 million for non industrial assurance business (1 society).

A
B
C

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D

A

B

C

D

	307 259	151 090	149 836	213 530	119 546	42 091	5 0072	26 493	93 984	17 670	76 314
	99 329	53 415	44 986	74 046	41 177	5 617	26 311	8 493	32 869	13 891	18 978
	406 588	204 505	194 821	287 576	160 723	47 708	76 383	35 486	126 853	31 561	95 292
	406 588	204 505	194 821	287 576 (g)	160 723	47 708	76 383	35 486	126 853	31 561 (g)	95 292

Source: Registry of Friendly Societies

1.3
Table 2.7: Friendly societies: Centralised societies (other than collecting societies)—Income and expenditure

£000's (except where indicated)

Type of society	Number on register	Number of members at end of year		Income			Expenditure								
		Adults	Juveniles	Total	of which		Total	Benefits				Other expenditure			
					Contributions	Interest		Total	of which			Total	of which		
							Sickness	Death	Maturity	Surrender values	Benefit fund expenditure	Management expenses			
1988		000's	000's												
(1) Sickness															
(i) Deposit	23	404	10	60713	29774	22578	35069	21802	5084	573	3463	1240	13266	1974	11292
(ii) Accumulating	91	173	2	20183	7037	10706	16377	14025	5132	391	7060	561	2351	281	2070
(iii) Dividing	4	3	-	167	23	73	150	94	5	6	5	3	56	8	48
	118	581	12	81063	36834	33356	51596	35922	10221	971	10728	1804	15674	2263	13411
(2) Death	58	46	1	860	168	456	413	269	1	214	-	15	144	18	126
(3) Hospital and convalescent treatment	11	228	11	37059	32537	1692	31370	19852	553	1	-	-	11518	8260	3258
(4) Annuity and pension	20	50	-	29401	8919	14444	15731	12179	-	511	8360	780	3552	271	3281
(5) Partnership (a)	129	1	-	7958	6007	949	298	30	-	-	-	-	268	192	76
(6) Endowment	24	1046	27	290617	183163	79001	115865	73795	338	6225	43992	19366	42070	9111	32959
(7) Accident	12	46	-	1274	501	546	721	445	74	28	13	-	276	117	159
(8) Miscellaneous	40	36	1	1975	542	671	988	703	148	202	3	5	285	99	186
Totals (1) to (8):	412	2633	51	450207	268670	131115	216981	143194	11335	8152	63096	21970	73787	20332	53455
1970	692	3741	119	40920	24342	1506	31211	23972	4532	1987	5215	2106	7240	2283	4957
1975	542	3421	83	74743	41103	27010	47100	34912	4307	2385	8685	4047	12187	3248	8939
1980	424	2925	63	122757	67786	46150	67405	44652	5747	3700	12871	3853	22753	5736	17017
1985	367	2528	53	339557	189232	97132	143428	87924	8558	6526	28578	14794	55504	23612	31892
1986	364	2435	52	373473	202561	107584	173363	113299	9995	6592	35801	26172	60064	26466	33598
1987	375	2455	46	431983	224458	130209	192688	116585	10841	8852	40622	16722	76103	36972	39131
1988	412	2633	51	450207	268670	131115	216981	143194	11335	8152	63096	21970	73787	20332	53455

(a) Societies classified as 'Partnership' were classified as 'Annuity and pension' prior to 1987.

Source: Registry of Friendly Societies.

TABLE 1.4: SHAPE OF THE FRIENDLY SOCIETY MOVEMENT ON 30 SEPTEMBER 1989

	Number on 30 September 1989	1988 contribution income	End 1988 total funds
		£ million	£ million
Authorised "directive" societies (a):			
Orders *	2	2.7*	111.1*
Collecting societies	5	203.5	1 855.8
Others registered:			
before 4 May 1966	21	129.8	1 069.3
after 3 May 1966	9	98.4	605.8
	37	434.4	3642.0
Partnership pensions societies (a)	156	4.5	13.2
Other societies taking new insurance business:			
Orders	18	1.6	49.5
Collecting societies	11	1.2	28.4
Others registered:			
before 4 May 1966	92	6.1	60.4
after 3 May 1966	23	0.3	3.1
	144	9.2	141.4
Other active societies not doing insurance business (eg providing benefits in kind)	23	28.8	32.9
Societies which have ceased to take new business (a):			
Orders	-	-	-
Collecting societies	13	0.06	1.3
Others registered			
before 4 May 1966	100	0.7	20.2
after 3 May 1966	13	0.07	0.9
	126	0.83	22.4
TOTAL:	486	477.73	3851.9

NOTE: The 37 "directive" societies include one partnership pensions society and three societies which have ceased to take new business. These four societies are not included elsewhere in the table.

SOURCE: Registry of Friendly Societies, except for Orders' contribution income and total funds (indicated by an asterisk) where the source is the National Conference of Friendly Societies.

FRIENDLY SOCIETIES ACT 1974

SCHEDULE 1

Purposes for which Friendly Societies may provide

The following are the purposes referred to in Section 7(1)(a) of this Act, that is to say

(1) the relief or maintenance of the members of the society, their husbands, wives, children (including step-children), fathers, mothers, brothers, sisters, nephews, nieces, or wards being orphans, during sickness or other infirmity, whether bodily or mental, or at any age after fifty or in widowhood, or for the relief of maintenance of the orphan children (including step-children) of members during minority or at any later time whilst they are receiving full-time education;

(2) insuring money to be paid

(a) on the birth of a member's child, or

(b) on the death of a member, or

(c) to a member on the death of the members husband or wife, or

(d) to a member on the death of a parent (including a stepfather or stepmother) or grandparent of his in any case where, subject to the provisions of any Order in Council under Section 7 of the Industrial Assurance and Friendly Societies Act 1948 (which confers power to extend the application of this paragraph and of certain provisions of that Act originally limited to persons resident in Great Britain), the death in question is that of a person who, at the time of the proposal, is ordinarily resident in the United Kingdom or the Isle of Man, or

Appendix 2

- (e) with respect to persons of the Jewish persuasion, during the period of continued mourning;
- (3) the relief or maintenance of the members of the society when out of employment, or when in distressed circumstances, or in case of shipwreck, or in case of loss or damage of or to boats or nets;
- (4) the endowment of members of the society or nominees of members at any age or on marriage;
- (5) insuring money to be paid to a member of the society on the duration for a specified period of his life or the life of the husband or wife of the member, either with or without provision for the payment of money in the event of his or her death before the expiry of that period;
- (6) insuring against fire, to any amount not exceeding £15, the tools or implements of the trade or calling of the members of the society; or
- (7) guaranteeing the performance of their duties by officers and servants of the society or any branch thereof.

REDEFINITION OF FRIENDLY SOCIETIES' POWERS TO PROVIDE SERVICES

PART I

Financial or other services which a registered friendly society, whether incorporated or not, may provide to its members, subject to any requisite authorisation being first obtained:

- (a) Long term insurance business of one or more of the following classes:

Number	Description	Nature of business
I	Life and annuity	Effecting and carrying out contracts of insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within Class III below).
II	Marriage and birth	Effecting and carrying out contracts of insurance to provide a sum on marriage or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.
III	Linked long term	Effecting and carrying out contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuation in, or in an index of, the value of property of any description (whether or not so specified).

IV Permanent health Effecting and carrying out contracts of insurance providing specified benefits against risks of persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that -

(a) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the persons concerned, or without limit of time, or

(b) either are not expressed to be terminable by the insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract.

V Tontines Effecting and carrying out tontines.

VI Capital redemption Effecting and carrying out capital redemption contracts.

VII Pension fund management Effecting and carrying out -

(a) contracts to manage the investments of pension funds, or

(b) contracts of the kind mentioned in paragraph (a) above that are combined with contracts of insurance covering either conservation of capital or payment of a minimum interest.

(b) General business of one or both of the following classes:

(Where the principal object of a contract is within any class of long term business in (a) above, but the contract contains related and subsidiary provision for insurance business of one or both of the classes specified below, ie "supplementary business"; or where a society was carrying on one or both of the classes specified below, otherwise than as supplementary business, on 15 March 1979).

Number	Description	Nature of business
1	Accident	Effecting and carrying out contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the person insured or, in the case of a contract made by virtue of Section 140, 140A or 140B of the Local Government Act 1972, a person for whose benefit the contract is made -

(a) sustaining injury as the result of an accident or of an accident of a specified class, or

(b) dying as the result of an accident or of an accident of a specified class, or

(c) becoming incapacitated in consequence of disease or of disease of a specified class,

inclusive of contracts relating to industrial injury and occupational disease but exclusive of contracts falling within Class 2 below or within Class IV in Part I of this Schedule (permanent health).

2 Sickness

Effecting and carrying out contracts of insurance providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of the two) against risks of loss to the persons insured attributable to sickness or infirmity, but exclusive of contracts falling within Class IV in Part 1(a) of this Schedule.

(c) Reinsurance of the business of another registered friendly society.

(d) Other business, not falling within the descriptions of insurance business in (a), (b) or (c) above, where money is contributed by members of a society towards their, or their nominees, relief or maintenance:

(i) when out of employment;

(ii) when in distressed circumstances;

(iii) during sickness, where other than pecuniary benefits (eg benefits in kind) are provided;

(iv) for the purposes of their, or their dependants', education.

PART II

Financial or other services which may be provided by a subsidiary company of an incorporated friendly society, subject to any requisite authorisation being first obtained:

- (1) the establishment and management of unit trust schemes;
- (2) the establishment and management of personal equity plans;
- (3) arranging for the provision of insurance of any description (long term or general business) whether as agents of the person affecting or the person providing the insurance;
- (4) giving advice as to insurance of any description;
- (5) arranging for the provision of credit, whether as agents for the borrower or the person providing credit and providing services in connection with current loan agreements to the person providing credit;
- (6) reinsurance of the business of another registered friendly society.

PRINCIPAL RELEVANT LEGISLATION

FRIENDLY SOCIETIES

Industrial Assurance Act 1923, c.8
Friendly Societies Act 1974, c.46 ("the 1974 Act")
Friendly Societies Act 1981, c.50
Friendly Societies Act 1984, c.62
The Friendly Societies' (Long Term Insurance Business)
Regulations 1987 ("the Life Directive Regulation")

INDUSTRIAL AND PROVIDENT SOCIETIES

Industrial and Provident Societies Act 1965, c.12
Industrial and Provident Societies Act 1967, c.48
Friendly and Industrial and Provident Societies
Act 1968, c.55
Industrial and Provident Societies Act 1975, c.41
Industrial and Provident Societies Act 1978, c.34
Credit Unions Act 1979, c.34

INSURANCE COMPANIES

Policyholders Protection Act 1975, c.75
Insurance Companies Act 1982, c.50
Insurance Companies Regulations 1981, SI.1981/1654
Insurance Companies (Accounts and Statements)
Regulations 1983, SI.1983/1811.

EC DIRECTIVES

First Council Directive of 5 March 1979 on the
co-ordination of laws, regulations and administrative
provisions relating to the taking up and pursuit of the
business of direct life assurance.
79/267/EEC ("the EC Life Directive").

First Council Directive of 24 July 1973 on the
co-ordination of laws, regulations and administrative
provisions relating to the taking up and pursuit of the
business of direct insurance other than life assurance.
73/239/EEC ("the EC Non-life Directive").

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