

RESTRICTED



FROM: ECONOMIC SECRETARY
DATE: 26 October 1984

CCND
BI

Prime Minister ①

Agree, subject to colleagues?

AT 26/110

Yes not

PRIME MINISTER _____

FRIENDLY SOCIETIES BILL

In his letter of 30 May, my Private Secretary explained the urgent need to announce that the Government would introduce legislation to validate some 300,000 insurance contracts issued by friendly societies.

QL have agreed to a short validating Bill at the beginning of this session. This Bill is limited to those measures which are necessary and which are not proper to a Finance Bill. Further provisions will be in the Finance Bill 1985.

I now seek policy authority from ES Committee.

Briefly, the need for urgent legislation arose when Treasury Junior Counsel advised that the enforceability of certain life assurance contracts issued in good faith by 11 of the (post 1966) "commercial" friendly societies was in serious doubt. This was because although the terms of the policy itself were in order on their own, when combined with promotional literature they constituted an endowment contract, which the societies were not allowed to issue. In Counsel's view it was also probable that certain unit-linked policies were of doubtful validity as the statutory limits had unwittingly been exceeded.

I announced on 31 May that the Government would legislate to remove these doubts about existing contracts, and to make sure the problem did not recur. In general, the aim of the legislation would be to restore the state of affairs which the societies and their members had believed to apply when the contracts in question were concluded. It would resolve the problem in ways which tended to help the societies. I did, however, make it clear that we should be explicitly closing one route around the lower limits on tax exempt business announced in the Budget which the "new" societies had hoped would be legally available to them (but which Treasury Counsel advised was not). Some of the "new" societies reacted strongly to this, and the Opposition made some play of their complaints at the committee stage of the 1984 Finance Bill.

The draft Bill provides that:

- (i) those provisions of the "new" society contracts which Treasury Counsel considered might cause doubt, should be disregarded in determining any question of the validity of these contracts;
- (ii) the benefits derived from unit-linking should be treated in the same way as bonuses on with-profits policies, both retrospectively and in future. This provision merely confirms what had been widely believed, before Treasury Counsel advised that this was not a legitimate interpretation

of the existing law.

(iii) the limits on taxable policies are abolished retrospectively.

(iii) gives effect to an undertaking given by Peter Rees, when Minister of State at the Treasury, that the limit would be abolished as soon as an opportunity arose. Retrospective abolition is the most convenient way of dealing with unwitting past breaches.

This short Bill will have four clauses, of which only two are substantive. It takes four pages of typescript. Its contents should in themselves be uncontroversial. Unfortunately, however, it will be in order to table amendments to restore the reduction in the limit on tax exempt business from £2,000 to £750, which was made in this year's Finance Act and which the Opposition attacked in Committee. The Manchester Unity and some of the more vocal "new" societies will no doubt be lobbying on this point again. So I would expect a committee stage debate and division on it. The Chancellor and I are clear that we must resist such an amendment, which would enable the tax exemption enjoyed by Friendly Societies to continue to be exploited for purposes quite different from those for which it was intended.

As soon as policy approval is given, I will arrange for consultation with the Friendly Societies as promised on the draft clauses, and then bring the Bill to Legislation Committee.

I am sending copies of this minute to the members of ES, and to Sir Robert Armstrong.

IS

IAN STEWART

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Budget

26 OCT 1984

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CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

29 October 1984

FRIENDLY SOCIETIES BILL

The Prime Minister has seen the Economic Secretary's minute of 26 October and, subject to the views of colleagues, is content for legislation to be introduced to validate certain insurance contracts issued by Friendly Societies.

I am copying this letter to the Private Secretaries to the members of E(S) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Adrian Ellis, Esq.,
Economic Secretary's Office,
H.M. Treasury.

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Secretary of State for Trade and Industry

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8 November 1984

A M Ellis Esq
Private Secretary to the
Economic Secretary
HM Treasury
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LONDON
SW1P 3AG

Dear Adrian,

FRIENDLY SOCIETIES BILL

Your Minister sent a copy of his minute of 26 October to the Prime Minister to my Secretary of State. In Mr Tebbit's absence, Mr Fletcher has asked me to confirm our agreement to the legislation to validate certain insurance contracts issued by a number of Friendly Societies.

2 We also agree with the view that amendments to restore the reduction in the limit on tax exempt business should be resisted. The so-called "tax exempt" friendly societies are no longer restricted from offering non tax-exempt business with sums assured in excess of the tax exempt limits, and, if they were to develop into this area, it is difficult to see how they could sustain an argument that the operation was not viable - they have simply lost a tax exemption which was not available to insurance companies and which therefore gave them a strong competitive edge.

3 I am copying this letter to the Private Secretaries to the Prime Minister and to the members of ES and to Richard Hatfield at the Cabinet office.

Yours sincerely,
Ruth Thompson

RUTH THOMPSON
Private Secretary

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