



FRIENDLY SOCIETIES COMMISSION

FACT SHEET

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THE FRIENDLY SOCIETIES COMMISSION

CONTENTS

| | |
|---|----------------|
| INTRODUCTION | Page 3 |
| DEFINITION OF A FRIENDLY SOCIETY | Page 3 |
| DIRECTIVE SOCIETIES | Page 4 |
| THE COMMISSION | Page 5 |
| REGISTRATION | Page 7 |
| SUPERVISION | Page 8 |
| REGULATION | Page 11 |
| INVESTOR PROTECTION | Page 13 |
| FUTURE OF THE COMMISSION: FINANCIAL SERVICES AUTHORITY | Page 13 |
| ANNEXE A: FURTHER INFORMATION | Page 14 |
| ANNEXE B: HISTORICAL BACKGROUND | Page 15 |

THE FRIENDLY SOCIETIES COMMISSION

INTRODUCTION

1. There are 293 registered friendly societies subject to the supervision of the Friendly Societies Commission. They are voluntary, mutual organisations, whose main purpose is to assist their members financially during sickness, unemployment and retirement, and to provide life insurance. Collectively they make up a considerable proportion of the United Kingdom's insurance sector with funds amounting to £12 billion and with a membership of several million.

2. Until the Friendly Societies Act 1992, friendly societies were regulated by the Chief Registrar of Friendly Societies. In recognition of changing social patterns and increased competition within the personal finance sector, the 1992 Act conferred wider powers on societies, including the right to become incorporated bodies and to set up subsidiaries providing a wider range of financial and other services. At the same time the 1992 Act provided a new framework for prudential supervision and regulation and established a new body to carry it out - the Friendly Societies Commission. Further background to the history of friendly societies and the 1992 Act is in Annexe B.

DEFINITION OF A FRIENDLY SOCIETY

3. A friendly society is a mutual organisation which exists to provide its members (or their relatives) with benefits such as life and endowment assurance and with relief or maintenance during sickness, unemployment and retirement. Some societies provide not only contractual benefits but also discretionary benefits to members who find themselves in financial difficulties.

4. There are three main categories of friendly society:

- Centralised societies, whose business is conducted directly by the society
- Orders, societies with separately registered and semi-autonomous branches
- Collecting societies, who conduct industrial assurance business

5. There are 263 centralised societies with more than two and a half million members. Of these 35 are incorporated under the 1992 Act representing more than 85% of the assets of the sector.

6. There are 14 Orders with a total membership of more than 200,000.

7. There are 16 collecting societies who write industrial assurance policies and employ representatives to collect premiums from members' homes. Nearly four million industrial assurance policies are held by these societies.

DIRECTIVE SOCIETIES

8. The First Council Directive on life insurance (79/267/EEC) required friendly societies to be authorised in order to continue to conduct insurance business. The Friendly Societies (Long Term Insurance Business) Regulations 1987 implemented the Directive which was first introduced for friendly societies on 1 January 1988. In practice, these regulations applied to the larger friendly societies which conducted long term insurance business. There are 40 of these so called Life Directive Societies. When the 1992 Act was implemented provision was made for these societies to be deemed to be authorised under the Act for the classes of business for which they were previously authorised.

9. Larger societies which conduct general insurance business (for example accident, sickness, short-term contracts and miscellaneous financial loss) are subject to the EC Non-Life Directives.

THE COMMISSION

10. The Friendly Societies Commission was formally constituted on 1 October 1992 and assumed supervisory and regulatory powers for friendly societies on 1 April 1993. It is a body corporate, acting on behalf of the Crown and answerable to Parliament. It must consist of between four and ten members appointed by the Treasury. The present membership is:

Martin Roberts (Chairman), Director Insurance and Friendly Societies Division, Financial Services Authority

Felipe da Rocha, Manager, Insurance and Friendly Societies Division, Financial Services Authority

Anthony Geddes, actuary, former partner, R Watson & Sons

Brian Richardson, chartered accountant, former director, Provident Mutual Life Assurance Association

Ms Sarah Brown, former senior civil servant at the Department of Trade and Industry.

Ms Pat Triggs, former partner KPMG

11. The Commission membership of Mr Roberts and Mr da Rocha contributes to the integration of the Commission's supervisory philosophy and practice with the FSA ahead of the eventual transfer of its functions. The other four Commissioners are people with long experience in the fields of accountancy, insurance and the civil service.

Functions of the Commission

12. The 1992 Act lays down the following general functions of the Commission:

- to promote the protection by each friendly society of its funds;
- to promote the financial stability of friendly societies generally;
- to secure that the purposes of each friendly society are in conformity with the Act and any other enactment regulating the purposes of friendly societies;
- to administer the system of regulation of the activities of friendly societies; and
- to advise and make recommendations to the Treasury and other Government departments on any matter relating to friendly societies.

13. The Commission fulfils its functions under the Act through a mixture of supervision and regulation. Supervision is based on contact with individual societies and the issue of guidance in the form of Commission Practice Notes and other documents. Regulation takes place partly through the enactment of secondary legislation, in particular, Statutory Instruments, and also through the exercise of powers under the 1992 Act.

14. The Commission meets every two weeks. Business transacted at these meetings includes making, or advising the Treasury upon, further statutory instruments, guidance to societies on matters relating to prudential management, the development of regulatory practice in the financial sector and the strategic planning of the Commission's regime of supervision of societies.

Organisation

15. The staff of the Commission, numbering about 20, work in the Insurance and Friendly Societies Division of the FSA. They include a secretariat and monitoring staff.

Financing the Commission

16. The Friendly Societies Act 1992 provides that the Commission's expenses shall be met from money voted by Parliament and for a general charge to be levied on societies which, together with fees for specific activities, "shall be such as to produce an annual revenue of the Commission sufficient to meet its expenses properly chargeable to revenue account, taking one year with another". It was agreed with the Treasury that full cost recovery through fees and charges would be phased in over a number of years.

REGISTRATION

17. Registration with the Registry of Friendly Societies as a friendly society confers a number of tax advantages. In particular, exemptions are obtainable from income and corporation taxes in respect of certain profits from:

- life and endowment business;

- profits from other business where the society was registered before June 1973

18. Societies must register the Memorandum and rules governing their constitution and operation and these Memoranda and rules must conform with the legislation. No rule, or amendment of a rule is valid until it is registered.

SUPERVISION

19. The prudential supervisory regime applying to friendly societies aims to ensure that societies remain solvent and are able to meet both their contractual obligations to their members and their members' reasonable expectations. To assist that objective the 1992 Act requires, among other things, that each friendly society is prudently managed.

Criteria Of Prudent Management

20. The 1992 Act places responsibility on each society's committee of management to act prudently. Section 50 prescribes the criteria of prudent management which committees are expected to meet. These are:

- i) maintenance of any margin of solvency required by section 48 of the 1992 Act;
- ii) maintenance of liquid assets sufficient to meet the liabilities of the society as they become due;
- iii) maintenance of the requisite accounting records and systems of control of business and of inspection and report;
- iv) direction and management:
 - a) by a sufficient number of persons who are fit and proper to be members of the committee of management, or, as the case may be, other officers in their respective positions;
 - b) conducted by them with prudence and integrity in the interests of the members of the society;

v) in relation to insurance business, direction and management which, in addition to satisfying the other requirements as to direction and management, is such as to fulfil the reasonable expectations of members of the society as to the conduct of such business;

vi) conduct of the society's activities with adequate professional skills;

vii) supervision of the activities of:

a) any subsidiary of the society or of any body of which the society has joint control; and

b) any registered branch of the society;
with due care and diligence in the interests of the members of the society and without detriment to the conduct of the society's activities.

viii) in the case of the Directive societies, direction and management, which, in addition to satisfying the other requirements as to direction and management, is such as to secure compliance with any obligation imposed on the society by any provision (whether of the law of any part of the United Kingdom or the law of another European Union member State) giving effect to any of the general insurance or life Directives.

System Of Prudential Supervision

21. The Commission's system of prudential supervision concentrates on the examination of accounting, actuarial and other information submitted by societies under the terms of the 1992 Act. Societies must keep proper books of account and adequate systems of control must be in place. Annual accounts must be prepared and audited and sent to the Commission. A society must also, unless exempted, allow for periodic actuarial valuations of its insurance business by qualified actuaries. For the Life Directive societies and any incorporated societies

the actuarial investigation must be carried out annually by an actuary appointed as actuary to the society.

22. The examination of the annual information is conducted in stages so that all societies have an annual scrutiny of fundamental aspects (ranging from their acceptability for the public file of the Registry and general compliance with the statutes to identifying cases of potential prudential concern) and further in-depth analysis of a society's performance and future viability is undertaken on a rolling programme, usually coinciding with the availability of the periodic valuation returns.

23. The consideration of the actuarial valuations is assisted by expert advice from the Government Actuary's Department which scrutinises all valuations.

24. The Commission also advises on the registration of rules of societies where there is a financial or actuarial aspect involved. As necessary, consideration is given to information supplied by societies in support of any proposal to undertake business of a new class which requires an extension to existing authorisation or to significantly expand existing activities.

25 The Commission conducts a rolling programme of Periodic Review Meetings with the committees of management of Directive and Incorporated societies. These meetings complement the relationship between the Commission and societies, thereby enhancing the effectiveness of its supervision.

26. Other supervisory activities include:

- reviewing return forms from time to time to ensure the information required stays up to date and relevant for the Commission's needs;
- liaising with other regulatory bodies to ensure that the Commission keeps abreast of societies' observance of other statutory obligations, the non-compliance of which may have an implication for the viability of a society;
- advising on the appropriateness of financial statements in merger cases or terminations; and
- recommending the use of statutory action where appropriate.

Prudential Guidance

27. The Commission makes known its views or requirements to friendly societies by means of prudential guidance in the form of Commission Practice Notes and Chief Executive Letters.

28. Commission Practice Notes set out what the Commission expects from societies in order to meet particular aspects of governing legislation in the day to day conduct of their business. Some notes are on general topics such as prudential management; others relate to more specific activities such as relationships with subsidiaries. Chief Executive Letters are brief and non-technical; and usually address a single topic, such as the potential impact of the Year 2000 computer problem on societies.

REGULATION

29. The Commission regulates societies through a combination of statutory instruments and powers it has under the 1992 Act.

Statutory Instruments

30. The 1992 Act required detailed implementation in the form of secondary legislation. Since the Act was passed about 30 Statutory Instruments have been made by the Commission with Treasury consent, or by the Treasury on the advice of the Commission.

Powers of the Commission

31. The Commission has a number of powers under the 1992 Act to deal with societies not meeting their statutory obligations. These include the power to:

- direct that a society may not take on new members or enter into any new contracts with existing members;

- impose conditions on authorisation of a society;

- require a society to implement a scheme to rectify any failure to meet the solvency thresholds;

- prosecute societies for breaches of the 1992 Act such as failing to submit accounts or actuarial reports;

- appoint an inspector to inspect the affairs of a society;

- petition for the winding up of a society; and

- require information.

INVESTOR PROTECTION

32. Before the 1992 Act registered friendly societies were able to join a policyholders protection scheme approved by the Chief Registrar under the Financial Services Act 1986. This scheme, the Friendly Societies Protection Scheme, was a voluntary arrangement which closely followed that set out under the Policyholders Protection Act 1975.

33. Under the 1992 Act the voluntary element was removed and registered and incorporated friendly societies are now required to be covered by the Policyholders Protection Board as set out under the 1975 Act.

FUTURE OF THE COMMISSION: FINANCIAL SERVICES AUTHORITY

34. The Government announced in July 1997 that the functions of the Commission would transfer in due course to a new single regulator for all financial services in Britain - the Financial Services Authority. The transfer of functions is likely to take place in 2000 following the enactment of the Financial Services and Markets Bill, due to be introduced into Parliament in 1999. Meanwhile Commission staff transferred to the FSA in January 1999 and now provide supervisory and support services to the Commission under a Service Level Agreement. The Agreement will operate for the interim period until the Commission as an organisation ceases to exist on final transfer of its functions.

ANNEXE A: FURTHER INFORMATION

1. More information can be found in:

i) Friendly Societies Commission Annual Report 1997-98. Published by the Friendly Societies Commission. Price £5.00.

ISBN 0-9522088-7-3.

ii) Report of the Chief Registrar 1997-98. Published by the Registry of Friendly Societies. Price £10.00.

ISBN 0-9522583-7-4.

2. The Friendly Societies Commission's Annual Report contains details of prudential guidance issued. Copies of the Report and further information about the work of the Commission can be obtained from the Secretariat at the address shown below.

Friendly Societies Commission

c/o Insurance and Friendly Societies Division

Financial Services Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Tel: 0171-676-9540

Fax: 0171-676-0059

ANNEXE B: HISTORICAL BACKGROUND

HISTORICAL BACKGROUND

History

1. The origins of friendly societies can be traced back to the time of the Roman Empire when associations known as "collegia" were formed for a variety of mutual purposes including the payment of burial expenses of members. These collegia evolved over the centuries into the craft guilds of the Middle Ages. Members of these guilds usually lived in the same community or engaged in the same occupation. Grants were available to members for relief during periods of financial hardship or sickness and to cover the cost of a decent burial. The guilds eventually disappeared and were replaced by sickness or burial clubs. It was out of recognition of the need to regulate and to legitimise these clubs, or "friendly societies", as they became known during the 18th century that the Friendly Societies Act 1793 was born.

2. During the 19th century societies grew rapidly as they were effectively the only means by which the working population was able to protect itself against loss of income through sickness or to make provision for retirement.

3. The introduction of State benefits from the early 1900s saw a continuing role for societies, which were among the organisations approved to distribute sickness benefits. However in 1948 the State took over this role from friendly societies. As a consequence the number of societies has declined from 2,740 in 1945 to 293 in 1998.

The Legislative Framework

4. Friendly societies were first recognised in statute by the 1793 Act. In 1871 a Royal Commission on Friendly and Building Societies was set up; its report led to the Friendly Societies Act 1875. Although the legislation was periodically amended - and consolidated in

the Friendly Societies Act 1974 - this remained the main legislation up until the Friendly Societies Act 1992.

5. The Friendly Societies Act 1974 required the rules of a friendly society to limit its activities to some or all of those specified in Schedule 1 of that Act. These limits dated back to the 1875 Act and were seen as increasingly restrictive.

6. Following representations from the movement, the Government proposed that the range of activities available to societies should be expanded and their prudential supervision brought into line with contemporary thinking on supervision and regulation. The end result was the Friendly Societies Act 1992.

The 1992 Act

7. The Friendly Societies Act 1992 was the most far-reaching change to the law relating to friendly societies for over 100 years. It sought to ensure sound standards of investor protection while enabling societies to engage in new types of business and provide a greater range of services.

8. Until the implementation of the 1992 Act friendly societies were unincorporated associations whose property was vested in their trustees. This meant they were unable to own subsidiaries. In addition, European Community legislation prohibited an institution that provides long-term life or general insurance from engaging directly in other activities. Such activities had to be conducted through separately managed and financed subsidiaries.

9. The 1992 Act provides for an incorporated friendly society to be able to have subsidiaries or to jointly control subsidiaries with another person. Societies that incorporate can now provide a wider range of financial and other services.

10. The 1992 Act also established the Friendly Societies Commission to take over the regulatory and supervisory responsibilities for friendly societies from the Chief Registrar of Friendly Societies.

Other Controlling Legislation

11. Given the wide nature of their business, friendly societies are affected by other legislation. Among the main Acts which impinge on their activities are the:

Industrial Assurance Act 1923 which governs the conduct of industrial assurance business;

Financial Services Act 1986 which regulates the marketing of long term insurance contracts which are also investment agreements (for example, life and endowment contracts undertaken by friendly societies);

Trustee Investments Act 1961 which limits the way in which the trustees of friendly societies which do not meet a prescribed minimum margin of solvency may invest the funds of the society; and the

Income and Corporation Taxes Act 1988 which sets out the tax regime for societies including the conditions to be complied with for the society's business to be entitled to tax exemption.

Incorporated Friendly Societies

12. Friendly societies which incorporate are able to establish subsidiaries to offer financial products and services some of which they were previously unable to offer. Among purposes for which subsidiaries may be established are:

- i. the management of personal equity plans;
- ii. the management of unit trusts;
- iii. the carrying on of long-term or certain kinds of general business;
- iv. arranging for the provision of, or giving advice as to, insurance of any description;
- v. the provision of fund management services for trustees of pension funds and other third parties;
- vi. the establishment and management of investment trusts;
- vii. the establishment and management of open ended investment companies
- viii. the provision of administration services.

13. By 31 December 1998, 35 societies, representing more than 85% of the assets of the movement, had incorporated.