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Small Friendly Societies – how are they surviving?

David Lechmere



08 November 2013

Definitions and Terminology

- **Directive Society**

A Society within the scope of the European Life Directive
(currently €5m of premium income)

- **Non-Directive Society**

Any other Society

- **Incorporated Society**

A Society which chose to incorporate under the 1992 FS Act

- **Registered Society**

Any other Society



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Terminology

- Small Society is one with assets of less than £150m
- Holloway Society is a Society with permission to write with-profits sickness business

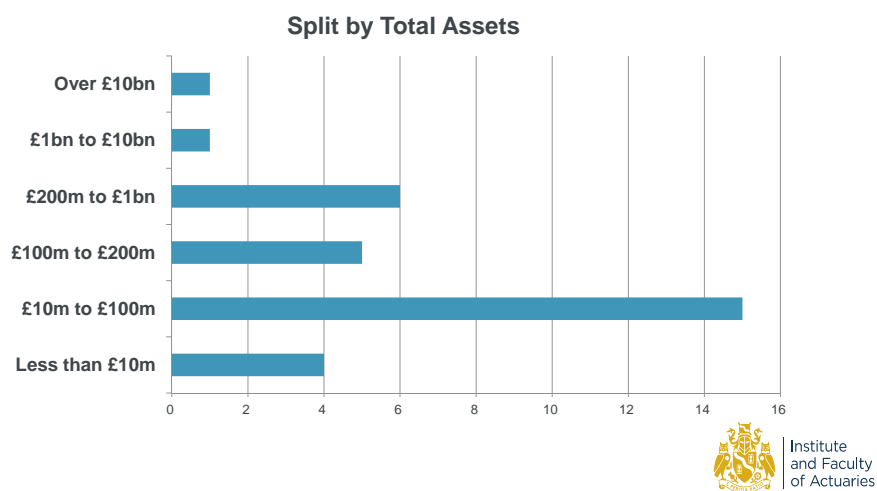


The Market Place

- Roughly 30 Societies which transact long term business (sickness, savings or both)
- LV= is the biggest (bigger than all others combined!)



Distribution by Asset Values



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Typical Structure

- Board of 8 – 10 Directors
- Chief Executive
- Sales/Finance Manager
- 4 – 6 Clerical Staff
- Dog



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Professional Services

- Actuarial Function will be outsourced
- Internal Audit function may be outsourced
- External Auditor may produce the accounts
- Investment Function will usually be outsourced
- Compliance Function may be outsourced



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Typical Products

- Holloway Societies
 - Holloway Sickness business
 - Other Protection business
- Other Societies
 - Residual “sick and death” policies
 - With-profits endowments
 - Death benefits
 - ISA’s (unit-linked or with-profits)
 - Child Trust Fund (Mainly unit-linked)



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Tax Advantages

- Holloway business is effectively tax-exempt
- Life policies – £25pm is tax-exempt

(Limit has remained unchanged since 1995 and there are no plans to increase it)

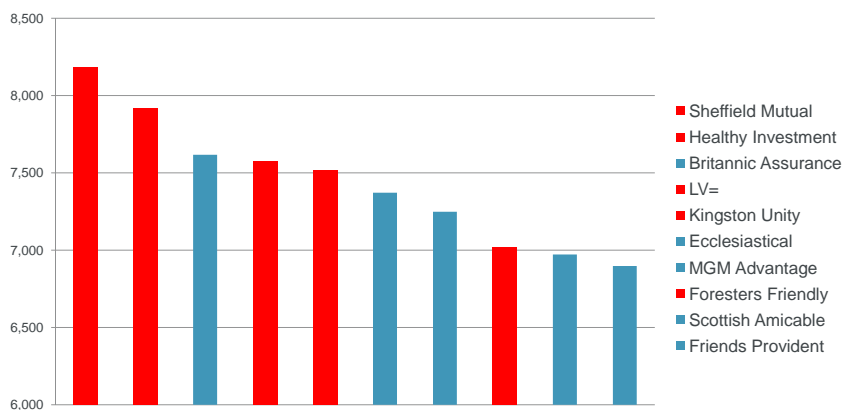


Why invest in a Friendly Society?

- Tradition
- Performance
- Tax advantages
- Niche Products
- Membership Benefits
- No shareholders



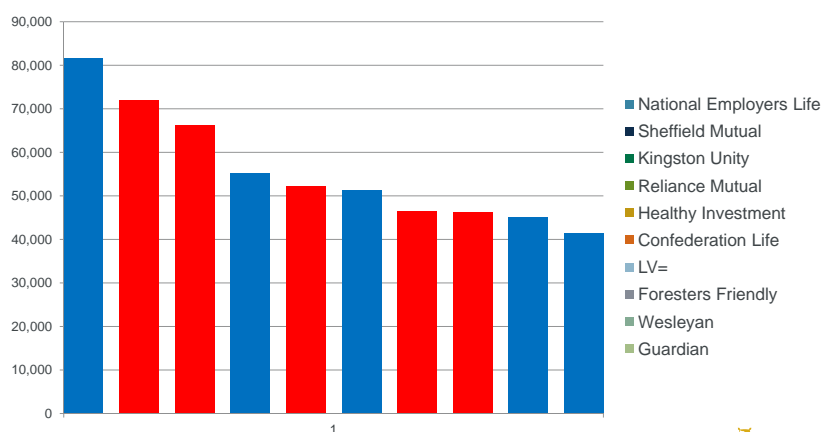
10 – year payouts (Money Management)



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25 year payouts (Money Management)



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What are the challenges?

- **Regulatory Challenges**
- **Selling Challenges**
- **General Challenges**



Regulatory Challenges

- Keeping up with all the changes
- Meeting ever-increasing requirements
- Writing with-profits business in a hostile regulatory environment
- Coping with the demands of Solvency 2



Selling challenges

- Selling in a market where commission is mostly banned
- Selling in a market where few are buying
- Selling in an online world



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General Challenges

- Keeping costs down
- Keeping expertise up
- Finding sympathetic, competent non-Executive Directors



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How are they surviving? - Regulatory

- Trying to meet regulatory requirements in a proportionate manner
- Membership of trade body to lobby for sensible regulatory approach
- Some still under the Solvency 2 thresholds



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How are they surviving? - Sales

- Expanding product range to include protection products which can be sold through IFA's
- Making more use of introducers
- Emphasising affinity groupings
- Local sponsorship
- Encourage IFA's to "top up" by offering charitable donations
- Holloway Societies still have a unique product



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How are they surviving? - General

- Child Trust Fund
- Tight cost control
- Sharing of resources
- Active recruitment of NED's with the right skills



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What is the outlook

- Some Societies will close to new business
- There are likely to be some transfers of engagements
- Some will continue to thrive in niche markets



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

