Windfalls or Shortfalls?
The true cost of Demutualisation

Short Inquiry
The All-Party Parliamentary Group
for Building Societies & Financial Mutuals

March 2006
A Statement from The All-Party Parliamentary Group for Building Societies & Financial Mutuals

The purpose of the Group is to discuss and support building societies and financial mutuals.

The Short Inquiry report was prepared solely in the interest of financial consumers. Mutuo and ACCA have not been paid to produce this Report; the cost of the inquiry transcripts and printing the Report is merely charged to the organisations that support the Group.

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Last year, the APPG received support of £7,374 from the Building Societies Association and £819 each from the Association of British Credit Unions, Association of Friendly Societies, Co-operative Financial Services, MGM Assurance, NFU Mutual Insurance Society and the Royal London Insurance Society.

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The All-Party Parliamentary Group for Building Societies & Financial Mutuals Inquiry Panel

The All Party Building Societies and Financial Mutuals Group consists of 170 Members from both Houses of Parliament.

The Purpose of the Group is to discuss and support building societies and financial mutuals.

Listed below are all the Members of the Group who sat on the Inquiry.

Adrian Bailey MP – Chair
Sarah McCarthy-Fry MP
Andy Love MP
Susan Kramer MP
David Drew MP
David Taylor MP
Mark Lazarowicz MP
Charlotte Atkins MP
Rt Hon the Lord Carter

West Bromwich West
Portsmouth North
Edmonton
Richmond Park
Stroud
North West Leicestershire
Edinburgh North and Leith
Staffordshire Moorlands
Introduction

Have consumers been well served by demutualisation?

Adrian Bailey MP, Chairman
March 2006

The All Party Group has one of the largest memberships in Parliament with 170 members from both the House of Commons and the House of Lords.

Following 2004’s successful Inquiry into the contribution mutual businesses make to the economy and society, the Group decided to pursue a number of outstanding questions. For example, have consumers been well served by demutualisation? – Indeed, did their windfalls reflect the true value of their mutual membership? We agreed unanimously that a further inquiry into these questions was necessary.

Evidence was taken in select committee style in three sessions. Invitations were extended to witnesses from the existing financial mutual sector, previously demutualised societies, and interest groups. All oral evidence was recorded verbatim. We also invited organisations to submit written evidence; a list of witnesses is recorded in the appendix to this report. This Report was produced solely in the interest of financial consumers with Mutuo and ACCA producing it for no financial gain.

I would like to thank all those organisations and individuals who gave evidence to our Inquiry and to members of the Group, many of whom were able to draw on their considerable financial expertise. I would like to pay tribute to Ian Welch from ACCA who authored the Report. The Inquiry makes a number of recommendations and we will pursue these with Government and Regulators.

Adrian Bailey MP, Chairman
March 2006
The Terms of Reference for the Inquiry were:

- Are former mutuals better than remaining mutuals at providing financial services?
- Is there any evidence to suggest that demutualisation has improved the performance of former societies?
- What effect has demutualisation had on the remaining mutual sector?
- How has demutualisation affected consumer choice?
- Have consumers benefited from demutualisation?
- Did the level of windfalls reflect the economic value of members’ interests?
Executive Summary — conclusions

Are former mutuals better than remaining mutuals at providing financial services?

Is there any evidence to suggest that demutualisation has improved the performance of former societies?

The balance of the evidence (both verbal and written) received by the Inquiry was that mutuals, both in the building society and life assurance sectors, performed better than their plc rivals in a variety of financial performance indicators. It was also shown that they pass these cost advantages onto consumers in terms of better rates. This was clearly backed up by any study of ‘best buy’ tables.

The Inquiry also found there had been substantial increases in remuneration enjoyed by directors of those institutions which had demutualised in the 1990s, but no corresponding improvement in performance. It should be pointed out, however that the strategic direction chosen by an institution’s board, particularly one pursuing corporate growth, may push it towards the plc model. This is especially so in the life sector, where some mutuals have sought extra capital.

What effect has demutualisation had on the remaining mutual sector?

How has demutualisation affected consumer choice?

Have consumers benefited from demutualisation?

Diversity has been a strong feature of the UK financial services sector and demutualisations have weakened this, to the detriment of British consumers. The remaining mutuals appear to have responded well to the competition in terms of keeping market share but whether they have rallied to the cause of mutuality is more open to debate.

The Inquiry concluded that the previous demutualisations have restricted consumer choice, as the mutual sector has acted as a check on the plcs both in terms of value and on ‘non-financial’ issues such as branch closures and charges on ATM machines. But it also found that competitive pressures are putting increasing strain on the mutual model.

Did the level of windfalls reflect the economic value of members’ interests?

There was a widespread view amongst those giving evidence to the Inquiry that members in previous demutualisations lacked a full understanding of what they were voting for. A combination of the media’s focus on ‘free’ windfalls, strong campaigning for acceptance by directors of the converting institutions, and the noisy urgings of the “carpetbaggers” led to one-sided debates.

The Inquiry heard evidence that the impact of subsequent higher charges had, over time, outweighed the benefits of the pay-outs for many members. Others meanwhile, gained pay-outs which were disproportionately large given the level of their interests. It can be convincingly argued that there should be an independent expert analysis of the pros and cons of a demutualisation, and that this should be available, by law, for the members in such a case, before the vote.
Are former mutuals better than remaining mutuals at providing financial services?

Is there any evidence to suggest that demutualisation has improved the performance of former societies?

**Introduction**

It could be argued that establishing whether one sector is ‘better’ at providing services than another can be done only by assessing a wide number of performance indicators. The Inquiry looked largely at relative costs, prices and growth rates as evidence of efficiency.

**‘Best buy’ tables**

Consumers nowadays increasingly shop around for the best deal, rather than staying with one supplier. This has given rise to an industry providing regular comparisons between products, as illustrated by the so-called ‘Best Buy’ tables in the financial and specialist press. Like any league tables, these have often been dismissed as oversimplification of complex issues, but nonetheless are closely scrutinised by the sector and provide a good place to start an analysis.

The Inquiry heard, and accepted, that the myriad Best Buy tables consistently place mutuals higher than plcs on a variety of issues ranging from savings and mortgage rates on one hand to annual premium with-profits policies for insurers on the other. A look in any Best Buy section of the weekend press will confirm this.

**Evidence taken**

In the January 2006 Moneyfacts bi-annual survey of mortgage providers, mutuals together with direct lenders, dominated the higher placings for best value on standard variable rate mortgages. Moneyfacts said: “this survey continues to underline the competitiveness of the mutuals, who occupy over half of the top 25 positions.”

Portman Building Society provided the Inquiry with the results of a pricing comparison of the top ten mutuals and the nine converted societies in September 2005. These found that:

The average Standard Variable Rate mortgage of the former mutuals was 6.58% compared to the remaining mutuals’ 6.37%. In three other areas examined, (5-year fixed rate mortgage, instant access mini cash ISA and instant access account) the best available rates were from one or more of the building societies. The building societies now accounted for 37% of the ISA market, double what they might be expected to have, given their size in the market for all deposits.

Money Management surveys of annual premium with-profits policies also show mutual insurers, over a ten-year period claiming a near clean-sweep of the top ten ratings. Of the ten in the last, April 2005 survey, only Ecclesiastical was now a proprietary office.

And analysis of endowment returns by the same publication last year showed the returns generated by mutuals on 25-year plans as nearly 25% higher than those given by other providers. This was equivalent to over £12,000 in cash terms.

Mick McAteer, Senior Policy Advisor, Which? told the Inquiry:

“I think the most interesting figures to look at, when you want to compare building societies against banks, are the Bank of England figures. If you look at the net interest margin, it shows you the average interest rates paid out on savings accounts and cash ISAs. When you look at
average rates over ten years on a mortgage, you find the building societies will charge about half a per cent a year less than the banks. The long-term average on a cash ISA is about 0.2% or 0.3% higher on savings rates as well.”

And just as this report was being written, in January 2006, Nationwide raised the interest rate on its current account to 4.25%, significantly higher than the banks. The Daily Mail (18 January) described this as a definite Best Buy, which followed a previous solid track record of good performance by the building society, and which should act as a ‘wake-up call to the complacent banking industry’.

What is the reason for the league table placings? Analysis of cost ratios

Having accepted that best buy tables consistently placed mutuals higher than non-mutuals, both for building societies and life assurers, the Inquiry was keen to find out why this was. Does this reflect a structural cost superiority in the mutual model, from which consumers benefit? The Inquiry heard a preponderance of evidence pointing to a lower cost base among mutuals in the building society sector and overwhelmingly so in the life sector.

Evidence for mutuals – Building Societies

Adrian Coles, for the Building Societies Association (BSA), supported by its largest member, Nationwide, told the Inquiry that mutuals had a natural advantage because they did not have to pay dividends to shareholders. This, the BSA said, increased total costs by 35% and explained why building societies were able, as the Best Buy tables proved, to pass on the savings to members. It added that the margin between mortgage and savings rates - a ‘very important indicator of the efficiency of an institution in providing financial services to customers’ - was typically 0.9% for mutuals whereas it averaged 1.5% for plc banks. Nationwide told the Inquiry that the mutual pricing benefit it enjoyed as a result of not having to put shareholders ahead of members totalled over £3.7bn over the last decade – all of which was passed directly onto members in terms of cheaper prices. Coles pointed out that the Skipton Building Society’s recent figure was 0.71%.

McAteer added: “We put that [the net interest margin differential shown by the Bank of England figures] down to the dividend advantage the building societies have over the banks. There is a demonstrable margin advantage. People supporting conversions used to say: ‘fair enough, we will have to pay dividends to shareholders but the plcs are more efficient than building societies therefore we can recoup the dividends.’ There was no evidence that banks were more efficient than building societies so societies could retain that dividend advantage.”

KPMG, in its annual survey of the Building Societies sector, confirmed in September 2005 that there had been a reduction in the annual net interest margin for the largest 22 societies over the previous twelve months to 1.01%, which the firm said represented a “sound performance” by the sector. It added that the last five years had been “good for building societies”.

Evidence against mutuals

The case for demutualisation was given strongly by Northern Rock, which had converted to plc status in 1997. The company told the Inquiry that its subsequent high growth and continually falling cost ratios had enabled it to price its products more competently. The most important metric, it said, was its net interest margin – the difference between the average rate paid by savers and the average rate charged to borrowers. This, Northern Rock said, had been cut from 1.86% to 0.82% during 1997-2004. It insisted that its success over
the past eight years would not have been possible under the old mutual model. By being able to access external capital (75% of which is now raised abroad) it could grow quickly and therefore keep unit costs down.

Northern Rock said its cost income ratio was now 30.4% compared to an average of over 53% for building societies and argued that this proved it was “clear that mutual status does not encourage efficiency. We gained our cost efficiency by rapid growth and ensuring our costs increased below the rate of income growth and half the rate of asset growth” it told the Inquiry.

And the Inquiry’s attention was also drawn to "Mutuality Matters", a study by Mercer Oliver Wyman, financial risk management and actuarial consultants, in 2003, pointed to a 20-30% reduction in cost/asset ratios of UK mutual banks two years after demutualisation.

Philip Middleton, a partner at Ernst & Young and author of the 2002 report ‘Returning to Radicalism – Mutuality in the 21st Century” confirmed to the Inquiry that Northern Rock had the lowest cost income ratio in the mortgage business in the whole of Europe. But he also pointed out that with the exception of Nationwide, in the mortgage markets the building societies were a lot smaller, hence simpler, organisations than the pls, so a simple comparison of costs between the two sectors was not necessarily meaningful. “They [mutuals] are not, by and large, running current accounts, they are not running ATM networks, they are not running branch networks and they have not got the whole panoply that you often find [with banks]. I do not think it is necessarily surprising that in the big pls the costs income ratios are higher because they are more complex risky organisations”.

Evidence for mutuals – Life Assurance

There was considerable evidence given to the Inquiry which suggested that performance and cost/expense ratios were better among UK mutuals than non-mutuals. Professor Nigel Waite, director of the Financial Services Research Forum (FSRF) at Nottingham University Business School, told the Inquiry that research by FRSF from 1977-2003 had showed mutuals operating more cost effectively than pls in a number of key areas.

As a snapshot, net expenses in the last year, 2003, showed comparative figures as follows: Net expenses to net assets: mutuals 1.25%, non-mutuals 1.56%; net expenses to net premiums 17.44% v 18.40%; and renewal expense ratio 13.01% to 18.76%.

Across Europe, this was reflected in a survey by the Association des Assurers Cooperatifs et Mutuels Europeens which found that expense ratios were 13.2% for mutuals compared to non-mutuals in the life sector and 19.6% compared to 24.2% in the non-life sectors. That survey also showed premium growth among mutuals in the life sector was 15.6% compared to 8.6% among pls, though in the non-life sectors pls edged slightly ahead.

Professor Waite’s FRSF research also showed that in terms of persistency, mutuals considerably outperformed proprietary companies.Persistency is a key measure in life business as it reveals how much of the new business a provider writes remains in force – in other words, whether the customer keeps up regular payment of premiums. The study concluded: “the past research has been consistent in finding that, in the UK, mutuals have, on average typically had higher pay-outs than proprietary life insurers.”

There was also evidence given by Shaun Tarbuck, Chief Executive of the Association of Mutual Insurers (AMI), who said his research on expense...
ratios for the UK over an eight-year period showed that while plc life offices’ expense ratios had fallen from 19.5% to 16.1%, the reduction among the mutuals had been larger - from 16.8% to 12.7% over the same period, which left the mutuals with a near 25% advantage as a percentage of premium. For the non-life sector the expense ratio difference was even more pronounced – 26.8% to mutuals’ 19.7%.

Direct costs of demutualisations
The BSA estimates that the direct costs – on legal, accounting and public relations fees etc - of the UK’s previous demutualisations was £550m for the building society sector. When the insurers, including the estimated £100m cost for Standard Life, are added in, the BSA believes the overall cost will top £1bn. This assessment is closely supported by House of Commons research figures for the societies which converted into independent plc’s. The costs identified by that research ranged from £32.7m for Northern Rock in 1997 to £171m for Halifax in 1995. (See Appendix 2(b))

The BSA also gave the Inquiry its research on the substantial increase in salaries and remuneration enjoyed by directors after demutualisation, details of which are in Appendix 3.

For international comparison purposes, the Inquiry’s attention was drawn to a study to Conning & Co, part of Swiss Re, of the ten big US life office demutualisations from 1997-2001. The estimated costs there were an average of $200m, which approximated to 2.2% of overall premiums. These figures also appear in Appendix 4b.

Performance
Having accepted that costs and expense ratios among non-mutuals were generally higher than mutuals, the Inquiry wanted to discover whether subsequent improved performance had justified the increased costs associated with demutualisation. Yet there was little evidence to support this.

Tarbuck, for the AMI, pointed to his association’s research from 1995-2002, which showed that in addition to lower costs, the UK mutuals had also enjoyed superior growth figures over non-mutuals in the same period – 23% to 9% in life, and 10% to 4% in non-life. And KPMG figures for the 2004/5 year showed a 10% increase in assets for the building society sector – its third successive year of double digit growth.

The Conning research had also provided a damning indictment of the US demutualisations, revealing that the collective performance of the demutualisers lagged behind those of their rivals on almost all financial metrics. It said that while the “supporting arguments are persuasive for the benefits of turning private life insurers into public entities, people processes and technology are not necessarily changed, nor are products or distributors.”

In the UK, there had been several cases of converted institutions giving back capital to their shareholders rather than using it. And the BSA pointed out that most of the demutualisers had since been taken over. (see appendix 2)

Northern Rock appears to be the principal success story of the demutualisers, achieving excellent growth and competitive new products – yet even it is essentially a straightforward savings institution and wholesale-funded mortgage lender.
Access to external capital – life assurance

Having established that relative costs and performance showed mutuals in a better light than plcs, the Inquiry now wanted to analyse the arguments given – particularly prevalent in the life sector, but also as Northern Rock has shown, in the building society field – about how important the access to external capital is. This is one of the main reasons given by Standard Life for its intended demutualisation.

Ned Cazalet, financial commentator, and CEO of Cazalet Consulting, insisted to the Inquiry that in the life assurance sector, access to external capital was essential because that industry was a “voracious consumer of capital.” He estimated the UK industry spent £7bn a year on commission and other acquisition costs alone, which totalled £30bn from 2000-04. These years are significant because while in the year 2000, Standard Life rejected a course of demutualisation; in 2004 it announced that changed circumstances meant it intended to pursue such a course.

Cazalet supported the move. Standard Life he said, now had no alternative but to pursue a course of demutualisation because of the damage done to its capital base after four years of stock market losses incurred by its with-profits funds, when the company had remained exposed to equities for too long in a bear market. “The company was dominated by with-profits. That is a risky business because what you are doing – and they were perhaps doing it more than others – is giving quite juicy guarantees to customers...regulatory guarantees that were mismatched. Mutual status was not the cause of the problem, but having got into that, the solution meant the mutual status had to go”.

Cazalet added that he did not believe mutuals had been much more risk-averse than the others in the life sector. He said organisations such as Scottish Widows, Scottish Equitable, Scottish Mutual and Norwich Union had all been active in the with-profits sector before demutualising. "I don't think there is any evidence that the former mutuals have been doing one thing and the others have been doing the other... I think it ought to have been the case that if you valued mutuality you might have said, 'if this goes wrong, there is no shareholder'... the risks that life companies have been exposed to have been very challenging. The thing about mutuals is, if it does go wrong, then where does the money come from?"

For Which?, McAteer said that he believed the problems for Standard Life and the demutualised life companies had been caused by them being in the with-profits sector, rather than because of their mutuality. He called for a full inquiry into that sector, though some commentators believe that the most acute of the problems is over with the improved performance of the stock market over the last twelve months and an increased sense of realism among consumers over the likely pay-outs from endowments and pensions. But actuaries are still warning (Daily Mail 18 January 2006) that final bonuses paid out when a with-profit policy matures will still fall for the next few years, so the sector still has major issues to address.

McAteer believed mutuals still had a competitive advantage over plcs, even in the more complicated life sector, and that they passed this onto consumers. He said that while mutuals passed on the savings gained through their dividend advantage to consumers, Norwich Union was in discussions with the FSA over its orphan asset ratio. As government policy had always been that 90% of these should go to policyholders and 10% to shareholders the only reason for discussions could be to try to increase the proportion for shareholders. This was in the nature of the plc beast, and there was no evidence that plcs were any more efficient than mutuals – so the
dividend advantage remained, as Which?'s league tables have consistently shown.

John Goodfellow, Chief Executive of the Skipton Building society, added that as a Standard Life policyholder, he would vote against the demutualisation because he believed "you lose more on the swings than you gain on the roundabouts".

The AMI gave a written submission to the Inquiry, in which it showed a decline in with-profits returns among demutualised institutions. This is summarised in Appendix 4a.

The Conning research pointed out that the external capital argument for demutualising had not been justified in reality in the US. The US demutualisers had "infrequently accessed the capital markets". As a result of their performance, and given the "high expense in terms of dollars and time associated with the demutualisation process" Conning believed there would be greater scrutiny of future demutualisations.

Corporate governance/trust

Ever since the Equitable Life debacle and the subsequent Penrose and Myners reports, the quality of corporate governance in mutuals has come under the spotlight. The inquiry was keen to know whether governance issues were having an effect on the efficient provision of financial services.

Problems for mutuals

Cazalet, who worked on the Myners report, told the Inquiry that he believed that mutuals had been lacking in this area.

"I think it is fair to say that if you are running a mutual, the span of control over you can be less burdensome than if you are in a plc. As a CEO of any sort of plc you have got countless hours, visits and a very public position. It is a reality. If you are in a mutual there is this big disconnect between the management and the members".

This was also referred to in a report by Beachcroft Wansbroughs Consulting, for the Liverpool Victoria Friendly Society in October 2005, which advised mutual societies that they must "recognise that, as a broad generalisation, members of mutuals may play a less active role in the governance of the organisation than is (sometimes) played by shareholders of proprietary companies. Accordingly self-discipline through the involvement of regularly-rotated non-executive directors and other appropriate checks and balances from the Combined code will be essential."

While those building societies who made submissions to the Inquiry insisted this was no problem for them, it does seem to be an on-going problem area for mutuals. As Cazalet said, "it boils down to – given there is a natural lack of membership interest unless there is an Equitable or Standard Life controversy – who is on the boards of these mutuals? You have seen, certainly in the last year or so, issues about who is on the board of life companies and mutuals and what are the governance and skill sets these people bring."

Support for mutuals

The BSA’s Coles argued, that, on the contrary, member needs were better protected under mutuality.

"If you look at say Barclays Bank, do you think they would have campaigned for charges to be introduced on ATMs, do you think they would have such a generous share option scheme for senior staff if the depositors had a vote on those things, or do you think that would have concentrated minds and made the directors more responsive to consumer needs than shareholder needs? The fact is that if you convert a building society into a
plc, the corporate governance mechanisms that force that building society to look after customer needs are weakened,” he said.

He added, further, that the UK was the only country where demutualising building societies did not tend to use the word ‘bank’ in their title and made no effort to correct opinion formers if they were still referred to as building societies. He also pointed out that the Woolwich had referred openly to the need to change its staff focus from customer service to sales after it had demutualised.

Andrew Love MP suggested that legislation should be strengthened to require institutions never to hold themselves out as being building societies, if they were not, or if they had demutualised. The Inquiry supported this as a fair and reasonable step.

Professor Waite also told the Inquiry he believed that anecdotal and empirical evidence showed building societies were trusted and held in greater esteem than banks among the general public. Yet a recent survey by Britannia Building Society showed that nearly half of adults did not know the difference between a bank and a building society. So despite the good performance of the mutual sector, it can be questioned just how significant the support is among members for the mutual ideal.

**Regulation**

Although regulation is often mentioned as an area of concern for mutuals, the Inquiry heard that this was more down to the relatively smaller size of many societies compared to plcs, rather than the nature of the regulations per se. The BSA confirmed that in its view the regulator, the Financial Services Authority treated the sector fairly, and that regulation had not been a key factor in instigating previous demutualisations.

Coles supported the Miles report’s recommendation that the 50% limit on wholesale funding for building societies should be increased to 70% and called for this to be implemented.

**Recommended action point:**

The wholesale funding restraint should be removed from legislation, and put in the hands of the regulator the FSA to make a judgement on whether it was appropriate for individual societies to be able to raise more money from the wholesale markets. Having this limit in primary legislation, given the difficulties involved in amending primary legislation, seems unnecessarily inflexible.
What effect has demutualisation had on the remaining mutual sector?

How has demutualisation affected consumer choice?
Have consumers benefited from demutualisation?

Having assessed the relative financial costs, rates and performance the Inquiry now wanted to look at other areas of performance that impacted on consumers and how this had been changed by the previous demutualisations.

Branch closures/local support

In their submissions to the Inquiry, the BSA and Nationwide pointed to branch networks and ATM charges as key issues of interest for consumers. Between 1995-2000, when all the conversions were taking place, the demutualising institutions axed 24% of their branches, compared to a tenth of that figure by mutuels. Portman, in its submission to the Inquiry, referred to Mintel research which broke these figures down and showed that Northern Rock had closed 51%, Halifax 33% and Abbey 24% of their branches, respectively. Alliance & Leicester and Bradford & Bingley had also closed significant numbers of branches since demutualising.

During the four years after all the demutualisations, 2000-2004, the pace of branch closures slowed, and the gap in closure rates between the sectors narrowed, though the banks still cut a further 7.2% of their networks, compared with the building societies’ 2.7%. But the scale of the cuts over nine years have not only meant considerable cost savings for the banks – at the expense of many communities – but also huge additional competitive pressure for mutuels, which now face a tough choice over their own less profitable branches. This is illustrated by the Portman’s own recent ‘use it or lose it’ campaign to its members.

The Inquiry’s attention was drawn to Birmingham Midshires, the former mutual which is closing 48 of its branches by March 2006, with the remaining 19 converting to the Halifax brand. The BSA’s Coles told the Inquiry that other West Midlands-based building societies were reporting high levels of customers switching out of Midshires. He also pointed to the first case of ‘re-mutualisation’ in 2005 – where Bristol & West’s savings business and branch network were bought by the Britannia Building Society.

On the issue of charges for ATM withdrawals, one of the contentious developments in retail banking in recent years, the Inquiry heard that no mutual institution charges consumers in this way, whereas Halifax plc, for example, sold off many of its ATMs to charging companies after demutualisation. Nationwide said it had campaigned against this development which would soon see the public paying £250m a year, to access their own money. Coles also pointed to the key role played by the UK’s 63 building societies regionally, with all but 2 being based outside London, and being driven by local needs, not those of shareholders or international capital markets. This point was emphasised in a February 2006 Report by Nottingham University (A Leyshon et al).

In terms of support for local communities, Northern Rock told the Inquiry that it was covenanted to give 5% of its annual gross profits to local North East charities. But it did not refer to its branch closure programme. In this area, the demutualisations seem unquestionably to have worsened services for consumers and increased pressure on the remaining mutuels.
Defence of the mutual ideal?

It is commonly asserted by the building societies that the demutualisations of 1995-2000 and the forthcoming Standard Life vote have galvanised the remaining mutuals into better performance and a more trenchant defence of the values of mutuality. But despite the opportunity given to mutuals by frequent criticism of the banks over branch closures and ATM charges, the evidence for this claim was sketchy.

The Beachcroft Wansbroughs report suggested that mutuals could grow their share of the financial services market if they followed a genuinely mutual strategy that sought to continuously enhance members’ benefits. The report confirmed that mutuals did better than plcs in terms of delivering value to members through lower net expenses, and premiums, and higher persistency rates in the life sector. But it suggested that future success of mutuals depended wholly on continuous reaffirmation of the value of mutuality by the societies to their members and it was easy to see how this could be allowed to wither, over time.

The Beachcroft report also suggested that growth, per se, should not be a principal aim of mutuals (contrary to Northern Rock’s assertions) but should happen naturally as a result of customer satisfaction through good service. It added though, that from its reviews of mutuals’ websites, it found this was not the case on many of them – instead they were concerned with advertising products rather than the values of mutuality.

Professor Waite told the Inquiry that while he valued the diversity of the UK’s financial services structures, and reiterated their cost-efficiency as indicated in his report, he nonetheless felt the key to the mutual movement in the UK lay in Nationwide’s continuing commitment to mutuality. Any change of heart by that single institution would be a “serious blow” to mutuality.

Philip Middleton said that he believed the mutual movement had suffered a “loss of collective self-confidence over the past half-dozen years”. He recounted a recent anecdote where a mutual chief executive had been told by an irate member “you keep banging on about member benefit, where’s my cheque?” Middleton said that the truth was that these days people commonly moved mortgages every five years or less and simply sought out the best deals, which mean mutuals had an uphill struggle trying to communicate the benefits of mutuality.

However the Inquiry heard that the Britannia Building Society, for example, has placed a financial value on membership; since 1996 Britannia Building Society has returned to its members a share of its profits through an annual cash reward scheme.

Competitive pressures/size

Middleton told the Inquiry that ferocious competition for mortgages engendered by demutualisations meant that the margins were far less comfortable than they used to be. This meant that while the biggest and the very smallest building societies were safe, he felt the mid-tier ones would struggle to maintain their independence, caught in a pincer movement of higher regulatory costs and tougher competition.

Size does appear to be an issue. Respondents to the Inquiry, even Northern Rock, were universal in their view that at a local or regional level, mutuals played a valuable role in providing financial services, and the lack of any need to pay shareholder dividends gave the potential for allowing a clear focus on delivering value to members. The key question is, does the model become over-stretched once the institution grows beyond a certain level? At that stage, does the need for easier access to external capital (separate from the arguments on the need for capital in the life assurance sector examined in chapter 1) prove compelling?
Some mutuals insisted that external capital is not an issue. The Skipton’s Goodfellow told the Inquiry that there was nothing to stop a mutual diversifying, and that “there is not a huge need in a well-run mutual to raise capital because a well-run mutual will generate its own capital that it needs to match its business plans.” The BSA’s Coles added that often the demutualised banks often ended up giving capital back to shareholders anyway.

But Northern Rock was adamant that its success was only achieved through growth, facilitated by external capital. It told the Inquiry: “the key to being able to grow quickly after we demutualised was the access we were given to new funding and capital markets. The previous ‘building society’ model depended primarily upon retail deposits to fund mortgage lending. The UK retail deposit market is not able to generate sufficient new funding at an economic rate for our growth in mortgage lending. Since 2000 we have been able to tap into residential mortgage backed securitisation markets to fund a growing proportion of our lending. These funds have been raised increasingly in Europe, USA and the Far East.”

The mutual sector does appear to be quite reliant on Nationwide to prove how sustainable the mutual model is on a larger scale. Even the Beachcroft report, commissioned by Liverpool Victoria, concluded that in many cases of demutualisation the community of interest or “common bond” had become harder to maintain and so mutuals might be ready to “recommend a change in status to their members if this becomes appropriate”. The larger the body and the further away from its original local roots it grows, the more easily this can happen, unless a new common bond can be forged.

Diversity

The mutual model does appear to be under considerable pressure to maintain its current status. Yet the Inquiry heard that consumers would undoubtedly suffer if the remaining larger building societies gave up the battle as there is considerable evidence to show that mutuals have a positive effect on the overall market.

Previous research carried out by Which? in 2001, estimated that if every remaining building society converted, the overall costs in terms of higher fees and charges would approximate to £30bn over ten years.

This point was taken up by Andrew Love MP, who asked the Financial Services Authority delegation that since it produced comparative tables – and there was no reason to doubt that they would tally with all the media’s best buy tables and show mutuals performing very well – then did it not have a duty, in its role as protector of the financial consumer, to highlight to consumers the dangers that a disappearance of the mutual sector would mean for them? The FSA replied it had no remit to campaign for one sector against the other – but certainly did not deny the assertion that mutuals would be over-represented at the top of those tables.

Nationwide said in its submission: “we believe that not only do mutuals have a natural advantage in their ability to provide good value financial services to their own members, but that all consumers benefit from the participation of the remaining mutuals in the personal financial services market. Not only does our presence in the market, challenging the banks in savings, mortgages and retail banking, help provide a competitive benchmark, but we also believe we champion the interests of all consumers and keep the banks under scrutiny to ensure transparency and fairness.”
Studies tend to back up these assertions. A PA Consulting international study in 2003 entitled “Mutually assured destruction?” found that the size of the mutual sector in most countries had a direct influence on the size of banks’ profits, – finding that the “profitability of the banking sector is inversely proportional to the market share of mutuals within the banking sector”.

And a Mercer Oliver Wyman report in the same year found in a comparison of mortgage pricing across Europe that low prices were largely associated with a strong mutual share of the market. For each 10% of the market taken by mutuals, the average customer was found to receive a benefit of around 10 basis points per year.

The BSA pointed out that earlier demutualisations had led to the disappearance of a large number of providers (through subsequent mergers and takeovers – see Appendix 2a) thus reducing competition and choice. It was also noticeable, it said, that building societies tended to fill niches in the market for consumers with particular interest, such as Ecology Building Society, as well as having a superior knowledge of local housing markets and more of a willingness to lend outside normal lending criteria. There is also no question that along with friendly societies, building societies have done much more to address the challenges of the lower-paid and financially-excluded than banks with shareholders to satisfy, can do.

Overall, the Inquiry concluded that mutuality has been extremely beneficial for competition in financial services, which acts in the public interest. Diversity benefits the consumer.
Did the level of windfalls reflect the economic value of members' interests?

Bearing in mind Standard Life’s imminent demutualisation vote, this was possibly the most topical issue addressed by the Inquiry. But it was also the most difficult area on which to reach a clear conclusion.

The AMI’s Tarbuck told the Inquiry that despite being a strong advocate of mutuality, for some policyholders such as those with products close to maturity, demutualisation would be in their financial interest.

But he said: “What we want to see in every case is a fair and balanced discussion with the policyholders, understanding all of the issues so that they can make an informed decision and it is not a decision based purely on ‘that’s the cash you are going to get, or you get nothing.’ They have to understand what the long-term costs are of this particular change and they have to understand what the long-term implications are in terms of the management, how much they are going to get what are the increases in remuneration, who else is going to benefit from this demutualisation.”

This sums up the nub of the problem – do members of mutuals faced with a vote know if they are being offered a good deal or not? On the face of it, being offered ‘free’ shares of £500, £1,000, or even £2,000+ as happened in some of the past demutualisations, in return for a technical-sounding change in society structure seems like a “no-brainer”. But the Inquiry heard there were strong arguments against this view.

Extra charges
The BSA told the Inquiry that its estimation was that, on average, it had taken the previous demutualised plcs four years to claw back from their customers the money they had paid out in windfalls, in terms of higher mortgage and lower savings rates for building societies and via higher expense ratios and reduced bonuses for life companies. For the individual consumer it would depend on how much he had been paid, and in the case of insurance companies, how close to maturity was the policy. The closer the better in terms of payout for the member.

Which?’s McAteer agreed with the BSA. He said: “We have gone out there and told consumers: “Look, you may think this is a windfall, but there is no such thing as a free lunch in financial services’. We have always maintained that you will pay that back over time through higher charges, or reduced bonuses or lower interest rates and so on”.

Assessing windfall levels
The experience of previous demutualisations, said the BSA, had varied widely. In the case of the Halifax collective economic value of the members interests was arguably appropriate, in so much as the market assessed the value of the future dividend streams and invested accordingly. But it did not value an individual’s interests accurately as there was only a shallow relationship between, on one side, the size of balance in an investor’s savings account and the number of shares received. So some enjoyed shares far in excess of the value of business they did with the organisation, whereas large mortgage borrowers received a windfall which was far lower than the true economic value of their interests.

In cases like Alliance & Leicester, the BSA argued, there was even less correlation between members stakes and the shares they received, so votes were effectively ‘bought’. But in cases like Birmingham Midshires and Bristol & West, members received far less than was merited.
Information for members

McAteer said the problem was that members were not given even-handed information by the boards to allow them to make an informed decision. "If experience is anything to go by, it is unlikely that an objective case will be put to the policyholders of Standard Life. When you look back at the big demutualisations in the bank and building society sector, we think the evidence that was presented in front of the members was not objective – it was designed to ensure a conversion took place."

Many of the respondents to the Inquiry agreed with him.

Cazalet agreed that most people were "not equipped to make a really incisive judgement" about whether to vote for conversions – particularly the more complicated life companies where the issues for policyholders were trickier. "What happens to the with-profit fund after it is demutualised can be quite complex. There is usually restructuring to it, and therefore you may have to share some of the pot with a shareholder...these are quite complex things even for financial experts to get their heads round", he said.

But Cazalet also argued that once boards had made a decision to demutualise, then they had to campaign strongly for it and try to convince the members of this wisdom of doing so. He did not see how it was possible for them to stay neutral or impartial on their own preferred course of action.

Independent expert/balanced arguments

So how can members be given a balanced view of the arguments? Cazalet observed that in the life demutualisations there was a process which involved an independent expert, not connected to the demutualising company, who gave a verdict on the assumptions and methodologies used in their proposals to members. McAteer, however, countered that experience had shown it was very rare for actuaries to oppose the large companies that gave them work or to 'bite the hand that feeds'. He also criticised the FSA for not being robust enough to ensure objectivity in these cases.

The Inquiry heard strong arguments in favour of a revision of the current rules to ensure members received an even-handed argument over the costs and benefits, rather than just an exhortation from the board to vote 'yes'.

<table>
<thead>
<tr>
<th>Institution</th>
<th>No. of free shares per member</th>
<th>Offer price at demutualisation (pence)</th>
<th>Approximate value of average windfall at demutualisation per member (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbey National</td>
<td>100</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>Alliance &amp; Leicester</td>
<td>250</td>
<td>533</td>
<td>1,333</td>
</tr>
<tr>
<td>Bradford &amp; Bingley</td>
<td>250</td>
<td>248</td>
<td>620</td>
</tr>
<tr>
<td>Halifax</td>
<td>200-1381</td>
<td>733</td>
<td>2,423</td>
</tr>
<tr>
<td>National &amp; Provincial*</td>
<td>-</td>
<td>-</td>
<td>1,300</td>
</tr>
<tr>
<td>Northern Rock</td>
<td>500</td>
<td>451</td>
<td>2,250</td>
</tr>
<tr>
<td>Woolwich</td>
<td>450-2900</td>
<td>315</td>
<td>2,194</td>
</tr>
</tbody>
</table>

*Offered in cash but could be taken as Abbey National plc shares

Sources: Investors’ Chronicle (March 2000), annual reports in year after demutualisation, various press articles.
Did the level of windfalls reflect the economic value of members’ interests?

Coles proposed legislative change to enable members opposed to demutualisation to circulate their arguments to the members. And Tarbuck called for an independent report stating what the benefits were for the members before or after a demutualisation, which he believed Paul Myners had alluded to in his December 2004 report.

The principal Myners recommendation was that there should be a separate report on the potential remuneration of management and board before and after conversion, separate from the recommendation to demutualise. This, Myners argued, would avoid potential conflicts of interest. Whether this would change the attitude of members voting themselves a windfall is a moot point, but it could certainly be argued that the members of Halifax, Bradford & Bingley, Alliance & Leicester and Northern Rock should have been made aware the directors’ salaries and bonuses would rise by between 26 and 40% in the first year after demutualisation (see appendix 3) – and this even before share options were taken into account. This might have put their own windfalls into a different perspective and made them question whether the directors exhorting them to vote yes were doing so with only the best interests of the organisation in mind.

Recommended action point:

Building societies legislation should be amended so that members opposed to demutualisation should be allowed to send these arguments to the membership before a vote. It would be unreasonable to expect a board, once it has decided on a course of action such as demutualisation to have to present arguments against its own decision, but the alternative view on such contentious issues should be heard. This should include an independent expert, paid for by the company but chosen by members, to give a valuation of the true economic interest of the members’ interests, so that they would have a clearer view on whether the proposed payout figure is satisfactory.

There is also the issue that some have dubbed ‘intergenerational theft’. The value that the societies represent has been built up over generations, and the previous non-payment of dividends has contributed to this. By selling off the accumulated capital held in trust for future members and cashing in now, it could be convincingly argued that this is fundamentally unfair. Once again, it is a moot point as to how many members would let their consciences be so pricked when faced with a windfall, but it can certainly be argued that they should be presented with this fact before voting.

The role of the media is also crucial. Until and unless the rules are changed and the ‘no’ campaigners can directly contact members, the information they receive from the boards will be one-sided. Most members will not read the lengthy proposal documents they receive – but they will read the financial press, which means a fair hearing for both sides of the argument is of prime importance.

Ultimately, whether a ‘yes’ vote makes sense for an individual depends on his/her particular circumstances. Mutuals have learned from the previous experiences and have either introduced charitable assignment clauses whereby new policyholders cannot benefit personally from conversions, or have insisted that voting rights are only acquired after three to five years of holding a policy – both anti-carpetbagging measures. But that still leaves the existing members, and even the building society representatives agreed that for some people, a yes vote will always make sense.
Examination of witnesses

First examination of witnesses: - 15th November 2005
Adrian Coles, director-general, Building Societies Association
John Goodfellow, Chief Executive, Skipton Building Society

Second examination of witnesses – 22nd November 2005
David Strachan, Director, Retail Firms Division, Financial Services Authority
Jonathan Fischel, Head of Department, Retail Firms Division, Financial Services Authority
Shaun Tarbuck, Chief Executive, Association of Mutual Insurers
Jon Dick, Strategy Manager, NFU Mutual

Third examination of witnesses – 29th November 2005
Ned Cazalet, Chief Executive, Cazalet Consulting
Mick McAteer, Senior Policy Advisor, Which?
Professor Nigel Waite, Financial Services Research Forum, Nottingham Business School
Philip Middleton, Head of Retail Banking, Ernst & Young

Written evidence:
Moneyfacts bi-annual SVR mortgage survey – January 2006
Northern Rock plc submission to the Inquiry
Portman Building Society submission to the Inquiry
Nationwide Building Society submission to the Inquiry
Money Management Aril 2005 survey of with-profits policies
KPMG Building Societies Database – September 2005
‘Modern Mutuality’ report by Beachcroft Wansbroughs Consulting – September 2005
‘Mutuality Matters’ report by Mercer Oliver Wyman – June 2003
‘Mutual life offices – a contribution to the governance debate’ - CRIS Research report for the Financial Services Research Forum (FRSF) – December 2004
Building Societies Association (BSA) submission to the Inquiry
‘Life Insurance Demutualisation – an interim report card’ by Conning Research & Consulting Inc, part of Swiss Re – March 2003
Myners review of the governance of life mutuals – December 2004
PA Consulting Group – “Mutually assured destruction?” international study - 2003

Glossary

APPG | All Party Parliamentary Group
ACCA | The Association of Chartered Certified Accountants
BSA | Building Societies Association
AMI | Association of Mutual Insurers
ACME | Association of European Co-operative and Mutual Insurers
FSA | Financial Services Authority
NFU Mutual | National Farmers Union Mutual Insurance Society
Appendix
ACCA survey
The Association of Certified Chartered Accountants (ACCA) is the world’s largest professional international accountancy body, with 110,000 members and 260,000 students in 170 countries. Of its 53,000 UK members, 5,500 work in the financial services sector.

In December 2005, ACCA carried out a 'snapshot' survey among some of its UK members who work in financial services to ask their views on demutualisation. ACCA received 116 replies. Almost 60% were members of mutuals, just under half were shareholders of demutualised institutions while 16% were employed by mutuals and 8.3% advised them professionally.

The answers were as follows:

<table>
<thead>
<tr>
<th>Customer satisfaction</th>
<th>Better</th>
<th>Worse</th>
<th>No effect</th>
<th>Response Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16% (18)</td>
<td>53% (62)</td>
<td>31% (36)</td>
<td>116</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product range (and depth)</th>
<th>Better</th>
<th>Worse</th>
<th>No effect</th>
<th>Response Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>53% (62)</td>
<td>16% (19)</td>
<td>30% (35)</td>
<td>116</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial performance – gross return on assets; cost:income ratios etc</th>
<th>Better</th>
<th>Worse</th>
<th>No effect</th>
<th>Response Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55% (63)</td>
<td>19% (22)</td>
<td>25% (29)</td>
<td>114</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Growth of institution</th>
<th>Better</th>
<th>Worse</th>
<th>No effect</th>
<th>Response Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>64% (74)</td>
<td>13% (15)</td>
<td>23% (26)</td>
<td>115</td>
</tr>
</tbody>
</table>

1. Interestingly, over half believed the performance of the demutualised societies had successfully grown and improved not only their range of products, but also their financial ratios and returns. But most also believed that customer satisfaction had declined. Was this down to a natural human inclination to knock the bigger company, or genuinely poorer customer service levels?

Some sample responses:

Customer service:
- the perception is that customers generally consider there has been a service deterioration over recent years, which is partly as a result of greater focus on cost and profitability born from demutualisation.
- most customers of financial institutions feel they are all the same, offering the same products – only the introduction of on-line banking has made a difference to customers perceptions.
- customer support costs have often been the first to be targeted in the drive for improved shareholder value. More customer contact is with call centres, often abroad, leaving customers feeling less involved.
- Inevitable change of ethos to maximising shareholder value over servicing members
Product range:

- demutualisation has brought about a need to compete aggressively for new business, resulting in better product range across the industry
- incentivised management has striven to maximise share of customer wallet and extend brand franchise, so more products are added
- mutuals have traditionally concentrated on a small range of products. Demutualisation has led to more diversification within the entity.

Financial performance:

- focus on shareholder value should lead to discontinuation of products which may be desired by former members but do not sufficiently recover costs of capital
- Often improved due to more professional management and increased focus on financial metrics used for measuring business performance
- the organisation’s financial performance is likely to improve through the pressure to deliver shareholder value. Customers’ own financial returns are often perceived to suffer as a result.

Growth:

- Increased access to deep liquid capital markets previously untapped to a large degree by mutual organisations. This is often engendered through parent group treasury function. Larger investment.
- listed companies by their nature have innate tendency to seek to grow in size while mutual societies are by their nature focused on needs of membership for whom they were established.
- whilst a number have been successful, many have become targets for takeover by more established organisations

| Yes | 43.1% | 50 |
| No | 43.1% | 50 |
| Shouldn’t need to do it | 9.5% | 11 |
| Proportion who commented further | 30.2% | 35 |

2. Despite the perceived improved performance (though poorer customer satisfaction) given in question 1, less than half believed that the previous demutualisations have been justified by the reasons given – such as the need for more capital, or to provide a better product range. There was a considerable body of opinion that the conversions had been carried out with a large element of self-interest by directors.
Sample responses:

- having a detailed knowledge of two demutualisations, I am more and more convinced that the main driving force is pure corporate greed at board level – where individuals are likely to benefit most in financial terms.
- these are always the reasons given but the reality is that most have not had any need, or use, for this excess capital they so craved! The real reason is to become a plc with the resultant compensation benchmark as well as the flotation benefits.
- in the insurance business you cannot grow at any pace without additional capital.
- services provided have increased with more competition in the industry, which will lead to better choice for customers. I think this is reflected very clearly in the mortgage business.
- demutualisation is contrary to the objectives of the founders and deprives future members from benefiting. Consent from the current members is obtained by appealing to their basest instincts to make a fast buck – having received the benefits of membership they sell off what should properly be the benefits of future members.
- mutual organisations were a product of a specific time and answered a specific market requirement. They are not an efficient way to compete in a global market place.
- Nationwide is a good example of why mutual societies should continue to exist – they hold greater values than profit-chasing and this comes across in the dealings I have had with them.

<table>
<thead>
<tr>
<th>Do you consider that members have been given a balanced argument when asked to vote on previous demutualisations?</th>
<th>Response Percent</th>
<th>Responses Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td>27.2%</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>67.8%</td>
</tr>
<tr>
<td>Proportion who commented further</td>
<td></td>
<td>37.7%</td>
</tr>
</tbody>
</table>

3. Two-thirds of ACCA members agreed with the Inquiry’s conclusions - that members were not given a balanced argument when asked to vote on demutualisations. And they believed that members were not in a position to know whether they were being offered a good deal or not.

Sample responses:

- Standard Life is now in favour of demutualisation, whereas before (in the 2000 vote) it was against. Heavy emphasis is given to the cash benefits and not enough on the longer-term picture. Most members do not understand the mutual concept, and ignorance of financial products is widespread so the majority voted for something they did not understand. So a balanced argument could not be held.
- Once a board has decided to back demutualisation, the argument is unlikely to be balanced. Inevitably all the pro- arguments will be emphasised. Failure to gain support at a member vote would probably lead to board resignations, which itself would be damaging.
- The ‘against’ camp should be given more access to the members to state their case. The mutuals should have been obliged to state what their plans would be if the vote had been ‘no’. The members were basically being asked if they wanted a payment upfront without being aware of the long-term consequences.
Members generally appear to be easily enticed by the offer of immediate cash benefits. The value of continued mutuality is harder to comprehend.

Carpet-baggers get too high a profile and balanced debate is lost.

4. Despite agreeing that members were in no position to judge (Q3) the ACCA survey was undecided on whether the previous windfalls were in fact good economic value for their interests.

Sample responses:
- the asset shares calculation means that those nearest to maturity gain disproportionately.
- the beneficiaries of the ‘windfall’ – if they stay with the company – effectively pay back the ‘windfall’ in higher costs in no time at all.
- they often appear to be set at a level that will please most of the members and have not truly reflected customer lifetime values.
- depends on the state of the global financial markets at the time of demutualisation.
- these windfalls are calculated at a point in time – therefore it is not likely to match the market conditions when the policy matures.
- in the case of some insurance demutualisations, because of orphan funds and actuarial smoothing of funds it was impossible for the outsider to establish a price.
- the methodology for allocation of shares between members will always distort the picture since there is no way to ensure allocation according to value and still ensure the voting requirements of the legislation are met.
- It would not be in the companies’ financial interest to pay out the true value to the customers. Customers are not always aware how the windfalls are calculated, they can be easily persuaded to take lower payments.
- difficult to say, as it is only with hindsight that ‘true economic value’ can be determined. For some, the initial windfalls would appear very good when viewed against the subsequent performance of the organisation.
Appendix 2(a)

Previous demutualisations – subsequent loss of independence

Seven of the ten building societies that converted are no longer independent, making assessment of comparative performance, before and after conversion, difficult.

- National & Provincial Building Society – taken over by Abbey National in 1995
- Cheltenham & Gloucester Building Society – became part of Lloyds Bank, now Lloyds TSB, in 1995
- Abbey National, which steadily lost market share during the 1990s, following its demutualisation in 1989 (the first society to do so). It lost money on its diversification into capital markets and agreed to be taken over by Banco Santander in 2004
- Woolwich, which converted in 1997, was taken over by Barclays in 2000, and has been a brand name of that bank since 2003.
- Birmingham Midshires was bought by Halifax plc in 1999.
- Halifax plc itself decided to acquire Bank of Scotland to become HBOS in 2002. HBOS has recently announced it is closing all the Birmingham Midshires branches.
- The business of Bristol & West Building Society was acquired by Bank of Ireland in 1997, which subsequently sold the savings business to Britannia Building Society in 2005, in the UK’s first case of ‘re-mutualisation’.
- Northern Rock (1997), Alliance & Leicester (1997) and Bradford & Bingley (2000) are the only converted building societies to remain independent.
### Appendix 2(b)

**Direct costs of previous demutualisations where the converted institution remained an independent plc** *(source: House of Commons research)*

<table>
<thead>
<tr>
<th>Institution</th>
<th>Cost £</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbey National</td>
<td>£80m</td>
<td>1989</td>
</tr>
<tr>
<td>Alliance &amp; Leicester</td>
<td>£54m</td>
<td>1997</td>
</tr>
<tr>
<td>Bradford &amp; Bingley</td>
<td>£83.7m</td>
<td>2000</td>
</tr>
<tr>
<td>Halifax</td>
<td>£171m</td>
<td>1995</td>
</tr>
<tr>
<td>National &amp; Provincial</td>
<td>£61m</td>
<td>1996</td>
</tr>
<tr>
<td>Northern Rock</td>
<td>£32.7m</td>
<td>1997</td>
</tr>
<tr>
<td>Woolwich</td>
<td>£68.7m</td>
<td>1997</td>
</tr>
</tbody>
</table>
Appendix 3

Directors’ Remuneration in Demutualised Building Societies – analysis by BSA

Analysis of the annual reports of demutualised building societies shows that in each case Board remuneration increased following demutualisation. In addition, directors have benefited from substantial issues of share options that are not available to directors of mutual societies.

Even before share options and medium to long-term incentive schemes are taken into account, directors’ remuneration increased substantially following demutualisation. This is shown in Table 1 below.

Table 1: Directors’ Salaries, Bonuses and Benefits

<table>
<thead>
<tr>
<th>Date of demutualisation:</th>
<th>Abbey</th>
<th>Alliance &amp; Leicester</th>
<th>Bradford &amp; Bingley</th>
<th>Halifax</th>
<th>Northern Rock</th>
<th>Woolwich</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>1,164,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>1,080,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>1,467,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>1,874,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>2,258,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>2,277,951</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>2,371,302</td>
<td>1,891,000</td>
<td>1,840,000</td>
<td>1,048,000</td>
<td>1,428,000</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>3,413,202</td>
<td>1,711,000</td>
<td>1,931,000</td>
<td>1,316,000</td>
<td>1,664,000</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>4,768,497</td>
<td>2,170,000</td>
<td>2,674,000</td>
<td>1,742,000</td>
<td>1,619,000</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>3,493,106</td>
<td>2,367,000</td>
<td>1,093,910</td>
<td>3,510,000</td>
<td>1,627,000</td>
<td>1,675,000</td>
</tr>
<tr>
<td>1999</td>
<td>3,763,784</td>
<td>3,528,000</td>
<td>1,519,164</td>
<td>3,656,000</td>
<td>1,732,000</td>
<td>1,905,000</td>
</tr>
<tr>
<td>2000</td>
<td>4,828,617</td>
<td>3,594,000</td>
<td>2,129,311</td>
<td>3,043,000</td>
<td>1,903,000</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>6,246,598</td>
<td>3,237,000</td>
<td>2,297,168</td>
<td>1,811,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>8,556,855</td>
<td>3,464,000</td>
<td>2,314,718</td>
<td>2,210,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>6,682,898</td>
<td>3,389,000</td>
<td>2,413,459</td>
<td>2,607,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>7,872,690</td>
<td>3,517,000</td>
<td>2,972,424</td>
<td>2,623,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average yearly salary growth:

<table>
<thead>
<tr>
<th></th>
<th>Pre demutualisation</th>
<th>Conversion year</th>
<th>Post demutualisation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-9.5%</td>
<td>-26.8%</td>
<td>13.6%</td>
</tr>
<tr>
<td></td>
<td>38.9%</td>
<td>40.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td></td>
<td>4.9%</td>
<td>38.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td></td>
<td>25.6%</td>
<td>32.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td></td>
<td>16.5%</td>
<td>-2.7%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: Annual Reports

The largest step-up in the salary and bonuses was seen in the year in which the society converted. For example, the salary and bonuses of the Halifax directors increased by 38.5% from 1996 to 1997 when it demutualised. Similarly, Northern Rock’s directors benefited from a 32.4% increase on demutualisation, Bradford and Bingley directors’ remuneration increased by 40.2% and Alliance & Leicester’s gained by 26.8%. The number of board members did not change significantly during demutualisation of these firms.
the Woolwich, there were six fewer non-executive directors after demutualisation. Adjusting for the salaries and bonuses of these directors, there was a 14.0% increase in the Woolwich directors’ remuneration in the year in which it demutualised (not shown in Table 1).

In the years following the year of demutualisation, the average annual increases in the cost of directors to converted societies have all been substantial. The average yearly growth in remuneration across the demutualised societies was over 8% per year. The biggest increases were at Abbey where the average rate of growth was 13.6% per year. These increases were therefore well in excess of the rate of inflation.

Many of the demutualised lenders also issued considerable numbers of share options to their directors, in addition to their increased salaries, as shown in Table 2 below.

Table 2: Share Options Granted

<table>
<thead>
<tr>
<th>Date of demutualisation:</th>
<th>Abbey</th>
<th>Alliance &amp; Leicester</th>
<th>Bradford &amp; Bingley</th>
<th>Halifax</th>
<th>Northern Rock</th>
<th>Woolwich</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>44,696</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>703,945</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>367,590</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>139,694</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>198,708</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>370,023</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>312,539</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>2,840</td>
<td>289,819</td>
<td></td>
<td>20,301</td>
<td>16,731</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>3,669</td>
<td>104,065</td>
<td></td>
<td>-</td>
<td>19,416</td>
<td>256,465</td>
</tr>
<tr>
<td>1999</td>
<td>371</td>
<td>169,896</td>
<td></td>
<td>-</td>
<td>-</td>
<td>1,259,628</td>
</tr>
<tr>
<td>2000</td>
<td>9,082</td>
<td>472,138</td>
<td></td>
<td>2,362</td>
<td>24,706</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>6,037</td>
<td>231,432</td>
<td></td>
<td>347,917</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>850,573</td>
<td>160,137</td>
<td></td>
<td>337,493</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>1,999,211</td>
<td>254,722</td>
<td></td>
<td>515,487</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>279,239</td>
<td></td>
<td></td>
<td>2,202</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Annual Reports

The BSA has not been able to calculate the value of these options, but recent research indicates that the value of share options and long-term incentive plans make up a substantial component of directors’ remuneration at demutualised societies.

Shiwakoti\(^1\) examined the average remuneration of chief executives at four demutualised building societies over the period 1993-2000, compared to a sample of 15 building societies that remain mutual. This looked at total remuneration which included annual salary, annual bonus, medium term bonus, long-term incentive plans, employee share options and other benefits such as health insurance and contributions for company cars.

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\(^1\) Shiwakoti, R K (2005) Building Societies’ Demutualisation and Managerial Private Interest.
http://www.kent.ac.uk/KBS/research-information/working-papers/Shiwakoti-No-94.pdf
The study found that between 1993 and 2000, the total remuneration of chief executives in demutualised firms increased by 293% compared to an increase of 65% in mutual societies. This is a difference of 228 percentage points.

In the period before demutualisation, chief executive remuneration at societies that later converted was 94% greater than the societies that retained their mutual status. In the period after demutualisation, the chief executive remuneration at converted societies was 323% greater than at continuing building societies.

Furthermore, the study shows the substantial rises in chief executive compensation are not due to improved performance at the newly listed companies. This is despite the considerable incentive-based components of the compensation packages. The study finds that the rate of return on assets, the rate of growth of total assets and the rate of growth of profits did not change significantly after demutualisation, so the increased director compensation cannot be explained by improved performance.
With Profits Endowment Returns

The Performance of Former Mutual Life Companies - an analysis by the AMI

1. Introduction
   a) The demutualisation of Scottish Mutual in 1991 launched a wave of such moves over the subsequent ten years.
   b) This report looks at the performance of those life offices that demutualised ('former mutuals') through analysing with-profits endowment returns. We have undertaken two pieces of research:
      i) To compare the performance of the former mutuals before and after demutualisation.
      ii) To compare the performance of the former mutuals, after demutualisation, with the remaining mutual sector.

2. Methodology
   a) Money Management publishes regular data on with-profits endowment pay-outs. Our research analysed the performance of all those companies that have pay-out data, detailed in the last main Money Management survey, for the last twenty years. We used this information to create a consistent peer group of companies with which to compare the pay-out performance of former mutuals.

Table 1: Former Mutuals and Peer Group Companies

<table>
<thead>
<tr>
<th>Former Mutuals</th>
<th>Peer Group Companies³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clerical Medical</td>
<td>Britannic</td>
</tr>
<tr>
<td>Friends Provident</td>
<td>Childrens Mutual(M)</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>CIS(M)</td>
</tr>
<tr>
<td>Scottish Amicable</td>
<td>Ecclesiastical(M)</td>
</tr>
<tr>
<td>Scottish Mutual</td>
<td>Guardian⁴</td>
</tr>
<tr>
<td>Scottish Provident</td>
<td>Legal &amp; General</td>
</tr>
<tr>
<td>Scottish Widows</td>
<td>NFU Mutual(M)</td>
</tr>
<tr>
<td></td>
<td>Prudential</td>
</tr>
<tr>
<td></td>
<td>Refuge</td>
</tr>
<tr>
<td></td>
<td>Royal London(M)</td>
</tr>
<tr>
<td></td>
<td>Scottish Friendly(M)</td>
</tr>
<tr>
<td></td>
<td>Scottish Life(M)</td>
</tr>
<tr>
<td></td>
<td>Wesleyan(M)</td>
</tr>
</tbody>
</table>

b) The analysis looked at the pay-outs of the former mutuals compared to the average of the peer group companies over a twenty year time horizon for three endowment terms - 10, 15 and 25 years.

Appendix 4(a)

With Profits Endowment Returns

The Performance of Former Mutual Life Companies - an analysis by the AMI

1. Introduction
   a) The demutualisation of Scottish Mutual in 1991 launched a wave of such moves over the subsequent ten years.
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<tbody>
<tr>
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</tr>
<tr>
<td>Friends Provident</td>
<td>Childrens Mutual(M)</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>CIS(M)</td>
</tr>
<tr>
<td>Scottish Amicable</td>
<td>Ecclesiastical(M)</td>
</tr>
<tr>
<td>Scottish Mutual</td>
<td>Guardian⁴</td>
</tr>
<tr>
<td>Scottish Provident</td>
<td>Legal &amp; General</td>
</tr>
<tr>
<td>Scottish Widows</td>
<td>NFU Mutual(M)</td>
</tr>
<tr>
<td></td>
<td>Prudential</td>
</tr>
<tr>
<td></td>
<td>Refuge</td>
</tr>
<tr>
<td></td>
<td>Royal London(M)</td>
</tr>
<tr>
<td></td>
<td>Scottish Friendly(M)</td>
</tr>
<tr>
<td></td>
<td>Scottish Life(M)</td>
</tr>
<tr>
<td></td>
<td>Wesleyan(M)</td>
</tr>
</tbody>
</table>

b) The analysis looked at the pay-outs of the former mutuals compared to the average of the peer group companies over a twenty year time horizon for three endowment terms - 10, 15 and 25 years.

1 Actual results, as at 1st February, for a male life, age 30 next birthday, paying a premium of £30 pm throughout the term for policies maturing in years 1985-1991 inclusive and £50 pm throughout the term for policies maturing from 1992 onwards.
2 Published in Money Management, April 2005.
3 (M) denotes mutual life offices or those companies, like CIS, where the membership/governance structure means it is appropriate, for the purposes of this research, to consider the company as a mutual.
4 Money Management do not provide a full data set for these companies over the 10 year term. The companies have been excluded from the peer group for this term.
3. Results of the analysis

a) The performance of the former mutuals before and after demutualisation.
   i) The following table summarises the average relative pay-out performance for the periods before
      and after demutualisation for each of the former mutuals.

   Table 2: Average former mutual company payouts compared to peer group (pre and post demutualisation)

<table>
<thead>
<tr>
<th>Company</th>
<th>Demutualised in:</th>
<th>Pre D/M Average</th>
<th>Post D/M Average</th>
<th>Pre D/M Average</th>
<th>Post D/M Average</th>
<th>Pre D/M Average</th>
<th>Post D/M Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clerical Medical</td>
<td>1996</td>
<td>101</td>
<td>97</td>
<td>110</td>
<td>94</td>
<td>117</td>
<td>98</td>
</tr>
<tr>
<td>Friends Provident</td>
<td>2001</td>
<td>106</td>
<td>96</td>
<td>109</td>
<td>89</td>
<td>112</td>
<td>89</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>1997</td>
<td>108</td>
<td>97</td>
<td>111</td>
<td>91</td>
<td>113</td>
<td>88</td>
</tr>
<tr>
<td>Scottish Amicable</td>
<td>1997</td>
<td>107</td>
<td>101</td>
<td>109</td>
<td>98</td>
<td>116</td>
<td>90</td>
</tr>
<tr>
<td>Scottish Mutual</td>
<td>1991</td>
<td>102</td>
<td>101</td>
<td>96</td>
<td>101</td>
<td>104</td>
<td>99</td>
</tr>
<tr>
<td>Scottish Provident</td>
<td>2000</td>
<td>97</td>
<td>92</td>
<td>98</td>
<td>91</td>
<td>102</td>
<td>79</td>
</tr>
<tr>
<td>Scottish Widows</td>
<td>2000</td>
<td>107</td>
<td>89</td>
<td>110</td>
<td>86</td>
<td>112</td>
<td>81</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>104</td>
<td>96</td>
<td>106</td>
<td>93</td>
<td>111</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: AMI analysis based on Money Management data

ii) The results of this analysis show that the former mutuals tended to out-perform the peer group in
pay-outs before they demutualised and under-performed afterwards.

iii) This performance differential is particularly marked over the 25 year term, with pay-outs each year
prior to demutualisation being 11% higher on average than the peer group, whilst after
demutualisation the pay-outs were 11% lower.

iv) In 2005\(^5\) in isolation relative pay-outs were even worse, with the seven former mutuals paying out,
on average, 17% less than the peer group.

v) Over the 15 and 10 year terms, the differential is less marked, but still significant. Over the 15 year
term, pay-outs prior to demutualisation were 6% higher on average than the peer group, whilst after
demutualisation the pay-outs were 7% lower. For the 10 year figures the comparable figures were
4% higher prior to demutualisation, whilst after demutualisation the pay-outs were 4% lower.

b) The performance of the former mutuals, after demutualisation, with the remaining mutual sector.
   i) The relative performance of the former mutuals, after demutualising was compared to the average
      of the mutual constituents of the peer group.
   ii) The following table summarises the relative pay-out performance.

\(^5\) Actual results as at 1st February.
Table 3: Average former mutual company payouts compared to mutual peer group constituents (post demutualisation)

<table>
<thead>
<tr>
<th>Company</th>
<th>Demutualised in:</th>
<th>Term (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Clerical Medical</td>
<td>1996</td>
<td>96</td>
</tr>
<tr>
<td>Friends Provident</td>
<td>2001</td>
<td>95</td>
</tr>
<tr>
<td>Norwich Union</td>
<td>1997</td>
<td>96</td>
</tr>
<tr>
<td>Scottish Amicable</td>
<td>1997</td>
<td>100</td>
</tr>
<tr>
<td>Scottish Mutual</td>
<td>1991</td>
<td>100</td>
</tr>
<tr>
<td>Scottish Provident</td>
<td>2000</td>
<td>91</td>
</tr>
<tr>
<td>Scottish Widows</td>
<td>2000</td>
<td>88</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>95</strong></td>
</tr>
</tbody>
</table>

Source: AMI analysis based on Money Management data

iii) The results of this analysis shows the extent to which the pay-outs of the former mutuals have under-performed the mutual peer group constituents after demutualisation.

iv) This performance differential is particularly marked over the 25 year term, with pay-outs each year after demutualisation being on average 15% lower than the mutual peer group constituents.

v) In 20054 in isolation relative pay-outs were even worse, with the seven former mutuals paying out, on average, 20% less than the mutual peer group constituents.

vi) Over the 15 and 10 year terms the differential is less marked but still significant. Over the 15 year term, pay-outs each year after demutualisation were 9% lower on average than the peer group. For the 10 year term the pay-outs were on average 5% lower.
Appendix 4(b)

Conning table on key financial data for US life market

Summary of Conning report financial performance data
US life insurance market

Average % from 1997 to 2001 in 10 Key Performance Indicators

<table>
<thead>
<tr>
<th>Financial measurements</th>
<th>Mutuals</th>
<th>B/M</th>
<th>Mutl% Better than industry</th>
<th>Mutl% Better than demut</th>
<th>Best M or D</th>
<th>Demutualized</th>
<th>B/M</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium growth</td>
<td>13.9%</td>
<td>N</td>
<td>-21.9%</td>
<td>0.5%</td>
<td>M</td>
<td>13.4%</td>
<td>N</td>
<td>17.8%</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>5.8%</td>
<td>Y</td>
<td>81.1%</td>
<td>9.5%</td>
<td>M</td>
<td>-3.7%</td>
<td>N</td>
<td>3.6%</td>
</tr>
<tr>
<td>Asset growth</td>
<td>7.1%</td>
<td>Y</td>
<td>12.7%</td>
<td>4.8%</td>
<td>M</td>
<td>2.3%</td>
<td>N</td>
<td>6.3%</td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating gain</td>
<td>15.0%</td>
<td>Y</td>
<td>311.3%</td>
<td>19.3%</td>
<td>M</td>
<td>-4.3%</td>
<td>Y</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Net income</td>
<td>2.7%</td>
<td>Y</td>
<td>115.5%</td>
<td>8.9%</td>
<td>M</td>
<td>-6.2%</td>
<td>Y</td>
<td>-17.4%</td>
</tr>
<tr>
<td>Return on surplus</td>
<td>7.5%</td>
<td>N</td>
<td>-12.8%</td>
<td>0.8%</td>
<td>M</td>
<td>8.7%</td>
<td>N</td>
<td>8.9%</td>
</tr>
<tr>
<td>Expenses (as percentage of)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>13.2%</td>
<td>Y</td>
<td>5.7%</td>
<td>6.1%</td>
<td>M</td>
<td>19.3%</td>
<td>N</td>
<td>14.0%</td>
</tr>
<tr>
<td>Assets</td>
<td>1.4%</td>
<td>N</td>
<td>-3.5%</td>
<td>0.04%</td>
<td>M</td>
<td>1.53%</td>
<td>N</td>
<td>1.46%</td>
</tr>
<tr>
<td>Net operating gain</td>
<td>232.9%</td>
<td>Y</td>
<td>9.4%</td>
<td>122.3%</td>
<td>M</td>
<td>355.2%</td>
<td>N</td>
<td>248.7%</td>
</tr>
<tr>
<td>Net income</td>
<td>168.5%</td>
<td>Y</td>
<td>34.0%</td>
<td>174.2%</td>
<td>M</td>
<td>342.7%</td>
<td>N</td>
<td>255.2%</td>
</tr>
<tr>
<td>Better than industry</td>
<td>70%</td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average better than industry</td>
<td></td>
<td></td>
<td></td>
<td>90.8%</td>
<td></td>
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