Law Commission

Reforming the law

Review of the Friendly Societies Acts 1974 and 1992

Summary of Report

What this review is about

See Chapter 1 for a general introduction to our review and Chapter 14 for a list of all our recommendations.

This is a summary of our final report reviewing the legislation governing friendly societies: the Friendly Societies Act 1974 ("1974 Act") and the Friendly Societies Act 1992 ("1992 Act").

In the report, we make recommendations to simplify and update the law, informed by responses to our March 2025 consultation paper and our own research. The report is accompanied by a draft Bill showing how our recommendations could be implemented (the Friendly Societies (Amendment) Bill).

The 1974 and 1992 Acts apply UK-wide. As the Law Commission of England and Wales, we make recommendations for this jurisdiction alone, but the Government may decide to extend reforms more widely, for example to Scotland and Northern Ireland.

This document does not summarise every recommendation. Instead, it gives an overview of the project, including the key issues and recommendations. It explains what friendly societies are, why they matter, the main difficulties caused by the current law, and how our key recommendations would modernise the legal framework.

What are friendly societies?

Friendly societies are mutual organisations. They are owned by their members and funded mainly by member contributions.

Friendly societies have been recognised in statute since 1793. They have a distinguished history as organisations based on mutual aid. People have used them to manage the financial risks associated with illness, unemployment, old age and death. The sector is now much smaller than it once was, but friendly societies still hold significant assets and serve many members across the United Kingdom.

Friendly societies differ from companies in that they may only be established for certain statutory purposes. Under the 1992 Act, they may provide insurance for members or connected persons, and discretionary benefits, such as grants to help with funeral costs or hardship payments.

The sector is diverse. Some friendly societies carry on regulated insurance business and are subject to stringent financial services regulation. Others provide only discretionary benefits and are not regulated in the same way. Some provide both insurance and discretionary benefits.

Distinctive features of friendly societies

The core function of friendly societies has remained largely unchanged for centuries. Four features distinguish them from non-mutual insurers.

Reach and financial inclusion. Friendly societies often provide for financially underprivileged groups. Their mutual model can lower barriers to access and allow cover that commercial insurers may decline due to low profit margins. As member-owned bodies, friendly societies can focus on meeting claims and providing benefits to policyholders, rather than generating returns for external shareholders. For instance, where a society has funds remaining after meeting its obligations, those funds can be used to reduce costs for members, improve services or strengthen the society for the future.

Long-term focus and business ethos. With no external investors to satisfy, friendly societies can adopt long-term strategies and grow through retained profit. This supports cautious risk-taking and has contributed to their resilience. Many also emphasise responsible, sustainable investment approaches, making them an attractive option for individuals who are seeking alignment with, for example, environmental, social and governance standards.

Democratic ownership. Friendly societies are owned by their members, who have a say in how the society is run through a "one member, one vote" model or a representative voting structure (for example, using elected delegates). In practice, member engagement varies. Some societies have low levels of member participation at meetings, while others have active, community-minded memberships. The mutual ownership model has traditionally limited access to external investment, although some argue for controlled investor involvement. Shared ownership is also said to reduce the incentive for dishonest claims, because members have a collective interest in the society's funds.

Social and community role. Historically, friendly societies offered rituals and social gatherings that strengthened community bonds. Although this aspect of friendly society life declined from the late 19th century, some societies still maintain strong social programmes. For some members, these "fraternal" activities are as valuable as financial benefits.

Existing law

The legislative framework is often described as patchwork and difficult to understand. It is split across the 1974 Act and the 1992 Act.

The Friendly Societies Act 1974

Despite its name, the 1974 Act applies not only to friendly societies, but also to other types of society. These include cattle insurance societies, benevolent societies, working men's clubs, old people's home societies and specially authorised societies.

There are currently 706 societies registered under the 1974 Act, including 88 friendly societies.[1] Around half of those friendly societies carry on regulated insurance business. Since the 1992 Act came into force, no new societies have been able to register under the 1974 Act. The 1974 Act is therefore "run-off" legislation.

Friendly societies registered under the 1974 Act are governed partly by that Act and partly by the 1992 Act. This overlap makes the legal framework more difficult to navigate.

The Friendly Societies Act 1992

The 1992 Act applies only to friendly societies and introduced incorporation. Incorporated friendly societies are bodies corporate with limited liability. This means that members' liability is limited to unpaid subscriptions, and the society can hold property, sue and be sued in its own name, rather than relying on trustees as societies do under the 1974 Act.

1 FCA, "Mutual societies registration function: 2025/26" (May 2026, updated June 2026).

At present, there are 26 incorporated friendly societies,[2] the vast majority of which engage in regulated insurance business.

The 1992 Act did not replace the 1974 Act. Instead, it created an alternative regime for friendly societies, closed the 1974 Act to new registrations, and required existing friendly societies registered under the 1974 Act to alter their rules to conform with both Acts before the end of a "transitional period". No end date was ever prescribed. The 1990 Green Paper that preceded the 1992 Act envisaged that the 1974 Act would ultimately be repealed when it was no longer required.

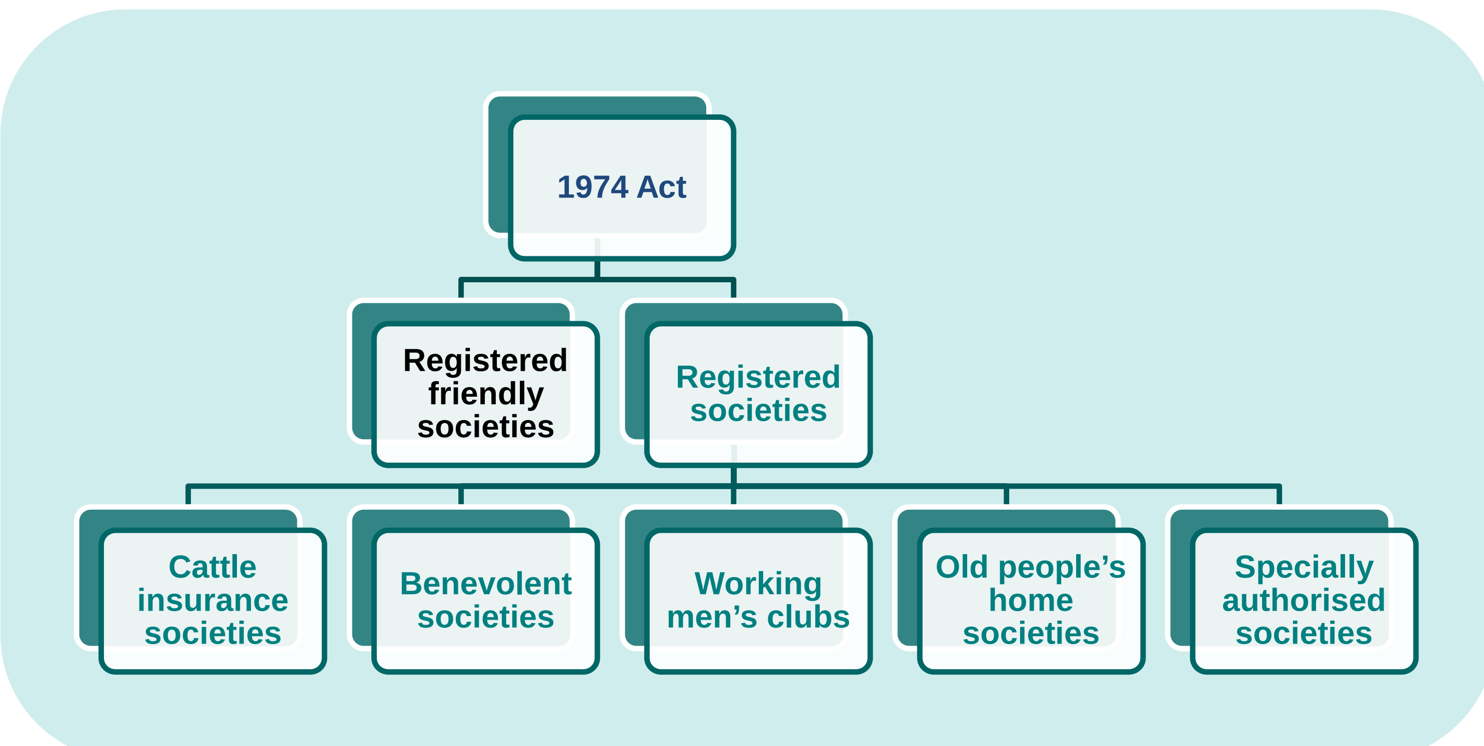
RELEVANT TERMINOLOGY

Registered societies are societies registered under the 1974 Act other than friendly societies, such as working men's clubs and benevolent societies.

Registered friendly societies are friendly societies registered under the 1974 Act.

Incorporated friendly societies are friendly societies registered and incorporated under the 1992 Act.

Depending on the kind of business the friendly society undertakes, it will be regulated either by the Financial Conduct Authority ("FCA") or the Prudential Regulation Authority ("PRA"). Although the 1992 Act and the Bill refer in various places to the "**appropriate authority**" (see Chapter 3 of the report for more detail), this document refers throughout to "**the regulator**" for ease.



[2] FCA, "Mutual societies registration function: 2025/26" (May 2026, updated June 2026).

The case for reform

The case for reform is strong. The law is complex, fragmented and, in places, outdated. It has not kept pace with modern governance standards or the current regulatory architecture for financial services firms.

Consultees told us that the framework can be disproportionately complicated. That matters because excessive complexity can make it harder for friendly societies to operate, modernise, transfer business or grow sustainably.

Our task is not to redesign the sector. It is to recommend a clearer and more proportionate legal framework that fits the nature and needs of friendly societies. See Appendix 1 to the final report for the project's terms of reference.

Our recommendations also seek to preserve member protection. Members are the owners of a friendly society and should have a meaningful say in its strategy and business. Simplification must therefore not come at the expense of informed voting, effective oversight or appropriate regulation.

Repealing the Friendly Societies Act 1974

See Chapter 2.

Key recommendations

Recommendation 1: The 1974 Act should be repealed.

Recommendation 2: The 1974 Act should be repealed three years after the Friendly Societies (Amendment) Bill takes effect as law. HM Treasury should be able to extend this transitional period once, for a further three years.

Recommendation 3: A society that has not re-registered or converted by the end of the three-year transition period should automatically have its registration cancelled.

One of the key questions in this project was whether the 1974 Act should continue to form part of the legal framework for friendly societies. We have concluded that it should not. In our view, repeal would simplify the law, remove duplication, and ensure that societies registered under the Act move to other legal forms.

As explained above, the 1974 Act now operates as a legacy regime. No new societies have been able to register under it since the 1992 Act came into force. It also does not apply uniquely to friendly societies, but to other societies that do not provide mutual insurance.

That mixed scope is a historical anomaly. The 1974 Act consolidated earlier legislation, much of which derived from the Friendly Societies Act 1875. Friendly societies legislation was once the only available route to registration for a wider range of mutual and community organisations, at a time when more suitable legal homes did not exist.

The 1974 Act also applies the same broad framework to societies of very different sizes, purposes and risk profiles. Societies registered under it range from small associations to friendly societies carrying on regulated insurance business. We do not think that one statutory regime remains the right fit for such a diverse group.

Beyond these concerns, an additional difficulty is that societies registered under the 1974 Act do not have separate legal personality. Their property is held through trustees. That is unusual for modern financial services firms, which generally operate through incorporated bodies able to hold property and enter into contracts in their own names. It can also make oversight harder where trustee records are not kept up to date.

These problems pointed to a need for reform but did not by themselves dictate the form that reform should take. We considered four possible approaches.

1. **Retaining the 1974 Act in full.**

2. **Retaining the 1974 Act only for registered societies, but not for registered friendly societies.**

3. **Retaining, expanding and updating the 1974 Act.**

4. **Repealing the 1974 Act.**

We concluded that option 4, repealing the 1974 Act, is the clearest and most coherent approach. It would simplify the legislative framework for mutuals and group all friendly societies under the 1992 Act, as originally envisaged when that Act was proposed. All friendly societies would then benefit from incorporation, rather than relying on trustees to hold their property, as well as from the updates we recommend to the 1992 Act.

Registered societies could re-register under legislation that suits their needs, for example by converting into co-operative or community benefit societies under the Co-operative and Community Benefit Societies Act 2014 ("CCBS Act"), or into mutual companies under the Companies Act 2006. Repeal would also reduce the operational burden on the regulators, which currently have to provide guidance across overlapping regimes.

Our recommendation to repeal the 1974 Act in full would avoid treating societies registered under that Act differently in ways that could appear unfair – for example, by allowing registered friendly societies to remain under the 1974 Act while requiring registered societies to find a new legal home. Further, there is little justification for spending public resources updating the 1974 Act to make it suitable for long-term continued use, when the Act poses challenges and its purpose can be fulfilled by other statutes, including the 1992 Act and the CCBS Act.

Transitional arrangements

We recognise that some societies may find change difficult. In our view, this can be addressed through thoughtful transitional arrangements, rather than immediate repeal. Repeal should take effect three years after the Friendly Societies (Amendment) Bill becomes law.

The FCA, as the registering authority, has indicated that, if repeal were taken forward, it would write to affected societies to make them aware of the change and offer support with re-registration or conversion. That support could include template wording and training seminars.

There must also be a clear consequence if a society does not act before the end of the transitional period. We recommend that its registration should be cancelled automatically at that point. The same should apply to any branch still registered under the 1974 Act at the end of the transitional period.

The regulatory and constitutional framework of friendly societies

See Chapter 3.

Key recommendations

Recommendation 6: The FCA should be able to cancel a friendly society's registration under the 1992 Act on two new grounds: the society has wilfully violated any provision of the Act; and the society has fewer than three members.

Recommendation 9: Friendly societies should be permitted to form or control subsidiaries without first having to include that power in their memorandum.

Recommendations 11, 12 and 13: Friendly societies should be required to address the following new matters in their rules: conflicts of interest, delegation of committee of management powers, and communication with members.

The scope of the 1992 Act

The 1992 Act applies to both regulated friendly societies and non-regulated friendly societies (that is, friendly societies that provide only discretionary benefits). This means the PRA will not always be involved, although the FCA will be, as the registering authority.

One question we considered was whether the 1992 Act should be limited to regulated friendly societies. That would create a clearer divide between friendly societies carrying on insurance business and friendly societies providing only discretionary benefits.

However, narrowing the scope of the Act would have practical drawbacks. It could make it harder for regulated friendly societies to exit insurance business and move to a discretionary benefit model and it could force non-regulated friendly societies into legal forms that do not reflect their identity or needs.

We conclude that the 1992 Act should remain open to both regulated and non-regulated friendly societies. This preserves a flexible framework that reflects the diversity of the sector.

Grounds for cancellation of registration

We recommend that the 1992 Act should give the FCA effective tools to deal with serious non-compliance by friendly societies. At present, the FCA can prosecute committee members for certain breaches, but that targets individuals rather than the friendly society itself. It is also a more limited and less flexible response than cancellation of registration.

Following on from our conclusion that the 1992 Act should continue to cater to all friendly societies, whether or not they carry on insurance business, it is especially important that the 1992 Act itself gives the FCA, as registering authority, a power of cancellation where a friendly society wilfully breaches the Act. We also recommend a separate ground for cancellation where a friendly society has fewer than three members, mirroring the position under the CCBS Act and reflecting the basic idea that a friendly society should remain a society in substance.

However, cancellation is a serious step. We therefore recommend safeguards before registration can be cancelled. The FCA should first issue a warning notice. If it decides to proceed, it should issue a proposed cancellation notice, giving the friendly society time to rectify the breach or prepare for cancellation. The friendly society should also be able to make representations to the FCA and should have a right of appeal to the court.

A friendly society's constitution

The 1992 Act refers to a friendly society's memorandum and rules, which together set out its purposes, powers and governance arrangements. We recommend defining these documents together as the society's constitution, to make the Act clearer and easier to read.

Statutory declarations

Friendly societies need to amend their constitutions as their business or governance arrangements change. Under the 1992 Act, amendments to a society's memorandum or rules must be recorded, sent to the FCA and registered before they take effect.

In some cases, the Act also requires a statutory declaration. Statutory declaration requirements reflect a long-standing legislative approach intended to provide assurance that statutory procedures have been followed. In practice they add time and cost without much benefit. Friendly societies generally submit applications and notifications in good faith: there are isolated examples of non-compliance, which is more often inadvertent than deliberate. In cases of intentional non-compliance, the requirement for a statutory declaration is not a necessary deterrent. It is also not clear that the implications of a statutory declaration are well understood.

For these reasons, we believe that statutory declarations are not an effective safeguard. Friendly societies generally submit information in good faith, and where information is inaccurate or misleading, the FCA has other ways to respond. Other comparable registration systems also do not generally require statutory declarations for routine constitutional changes.

We therefore recommend removing statutory declaration requirements from the 1992 Act. This is a practical simplification: it would make common filings quicker and less costly, while preserving the FCA's role in checking that constitutional amendments comply with the legislation.

Formation of subsidiaries

Incorporated friendly societies may form or control subsidiary companies. Subsidiaries may help a friendly society offer complementary services, diversify its activities or manage parts of its business in a more appropriate structure.

At present, if a friendly society wishes to form or control subsidiaries but its memorandum does not provide for this, its memorandum must be amended. That requires a special resolution and registration by the FCA. We consider that this adds unnecessary cost and delay for what will often be an operational or technical decision.

We recommend that the 1992 Act should expressly allow incorporated friendly societies to form and hold subsidiaries without first having to include that power in their memorandum. This would remove unnecessary procedural steps and support sustainable growth, while leaving appropriate regulatory oversight in place.

New matters to be addressed in a friendly society's rules

A friendly society's rules should give members and committee members a clear picture of how the society is governed in practice. We recommend adding three common-sense matters to the list of issues that must be addressed in the rules.

1. The rules should explain how the committee of management will deal with conflicts of interest — for example, where a committee member has a personal interest in a proposed decision. This supports good decision-making and complements our recommendation to codify committee members' duties (see below recommendation 20).

2. The rules should address delegation of committee powers. Delegation is often necessary for efficient management, but the rules should make clear how authority may be delegated and any limits on that delegation.

3. The rules should explain how the society communicates with members. This promotes transparency while leaving each friendly society free to choose the communication methods that work best for its membership.

Member participation

See Chapter 4.

Key recommendations

Recommendation 14: A member should need the FCA's permission, following a written application, to access a friendly society's register of members.

Recommendation 15: Friendly societies should be able to communicate with members by means of a website on an opt-out basis, subject to certain safeguards, including a right to request hard copies.

Recommendation 16: The notice period for all meetings should expire with the date of the meeting, including where proxy voting is permitted.

Access to the register of members

Friendly societies must keep a register of members' names and addresses. The register has an important practical purpose: it allows members to identify and communicate with other members about the society's affairs, for example where they want to seek support for calling a meeting.

However, unrestricted access to the register can create risks. Members' details may be sensitive, particularly where the society's membership includes vulnerable people or groups whose identity or address should not be easily accessible. There is also a risk that the register could be used for purposes unrelated to the society's affairs.

We therefore recommend introducing a safeguard. A member who wants access to the register should apply to the FCA. The FCA should allow access only where it is satisfied that the information is needed so the member can communicate with other members about the society's affairs. The society should be able to make representations, and there should be consequences for misuse of information obtained from the register.

Electronic communication with members

Friendly societies need workable and efficient ways to communicate with members, especially when members must decide on important proposals such as transfers, amalgamations or conversions. The 1992 Act already allows electronic communication, but only where members have opted in.

We distinguish between two forms of electronic communication.

1. **Communication by email** depends on a member providing an email address for that purpose. We do not recommend changing this, because members should remain free to decide whether to provide an email address.

2. **Website communication** is dealt with differently. Members are not required to provide an email address; instead, the society makes information available online and notifies members where it

can be found. We recommend allowing this on an opt-out basis, where authorised by the society's rules or by a members' resolution.

Facilitating a move away from paper-based communication by making it easier to relay information by means of a website would result in time and cost savings for friendly societies, but it must be balanced with member autonomy. Before a society may relay information via a website, members should be asked to agree, told the consequences of not responding, and given 28 days to respond. They should also be able to withdraw deemed consent and request paper communication, including hard copies of documents supplied via a website.

This approach aligns with company law, providing a familiar model for those involved in governance and administration.

Meetings and voting

Meetings and voting are central to member participation in friendly societies. They give members a formal say in decisions that may affect their interests or the direction of the society. The rules governing those processes should therefore be clear and easy to apply.

We recommend one practical simplification. At present, where proxy voting is permitted, the notice period for a meeting may expire before the meeting date. This can cause confusion, and a miscalculation can invalidate the meeting or resolutions passed. We recommend a single rule: the notice period for all meetings should expire with the date of the meeting.

We also considered whether proxy voting should be allowed at delegate meetings where special resolutions are moved. We conclude that the current restriction should remain. Delegate meetings are a form of representative democracy: elected delegates meet, debate and vote on behalf of members. Allowing delegates to appoint proxies could weaken that democratic link.

Committee of management

See Chapter 5.

Key recommendations

Recommendation 17: Anyone over the age of 18 should be eligible for election to a friendly society's committee of management. There should be no statutorily prescribed upper age limit.

Recommendation 20: The 1992 Act should adopt the general directors' duties set out in the Companies Act 2006, subject to modification to suit the nature of friendly societies.

Recommendation 24: The making of certain payments to committee members for loss of office should be exempt from disclosure and member approval requirements, as under company law.

A friendly society's committee of management performs a role similar to a company's board of directors. It is responsible for managing and overseeing the society and its business.

Eligibility to be a committee member

Under the 1992 Act, a person must be elected to the committee of management in accordance with the society's rules. The Act sets a minimum age of 18, but it also contains an upper age restriction: a person who has reached 70, or any lower retirement age set by the society, may be elected only if additional approval and disclosure requirements are met.

Committee members should be chosen for their ability to contribute to the society, not excluded because they have reached a particular age. We recommend a simple rule: anyone over 18 should be eligible for election to the committee of management, and the 1992 Act should not prescribe an upper age limit.

Friendly societies should not be able to impose upper age limits through their rules, although they may continue to set other eligibility criteria. This would allow societies to benefit from the experience and institutional knowledge of older committee members, and it mirrors a similar reform in the building society sector.

Committee members’ duties

Committee members already owe duties to friendly societies, including duties under the common law. However, those duties are not set out clearly in the 1992 Act.

We recommend putting these core duties on a statutory footing. This would make the law easier to find and understand, and would give committee members clearer guidance about the standards expected of them. The general directors’ duties in the Companies Act 2006 provide the model. This will therefore be a familiar governance framework.

However, the duties must be adapted for friendly societies. In particular, the duty to promote the success of a company (for the benefit of shareholders as a whole) should not import a shareholder-value idea of “success”. Friendly societies exist to pursue their statutory purposes for the benefit of members. The duty should therefore require committee members to act in good faith to further those particular purposes, while considering members as a whole (and acting fairly between different classes of members).

Removal and disqualification of committee members

We explore another gap in the legislative framework: currently, committee members cannot be disqualified for persistent breaches of the 1992 Act.

We recommend aligning with company law, so that a committee member may be disqualified for persistent breaches. Their appointment would end automatically, and they would not be eligible for appointment to any other friendly society.

Compensation for loss of office

Payments to committee members for loss of office can raise obvious governance concerns. The law should ensure transparency and member oversight where such payments are material, without creating unnecessary procedure for ordinary or low-risk payments.

At present, the 1992 Act generally prohibits compensation for loss of office or retirement unless the proposed payment has been disclosed to members and approved by the society. We recommend clarifying that approval should be by ordinary resolution. This preserves member control while avoiding an unnecessarily high approval threshold.

We also recommend updating the exemptions. Payments made to discharge existing legal obligations, damages, settlements and pensions should be exempt, as should payments not exceeding £200 in aggregate. This preserves scrutiny for material payments but avoids unnecessary process where there is no realistic governance risk.

Finally, the disclosure and approval safeguards should not be easy to avoid. We recommend extending the regime to payments made to persons connected to committee members, and to payments made by subsidiaries of incorporated friendly societies.

Compensation for loss of office caused by transfers, amalgamations and conversion

Separate rules apply where compensation is proposed in connection with a transfer, amalgamation or conversion. These payments can be particularly sensitive because they arise alongside structural changes to the society and may create conflicts of interest for management. Members should therefore be told about them and should approve any such payment separately from the transaction itself (for example, the transfer proposal).

However, we consider the current requirement for a separate special resolution to be disproportionate. We recommend requiring a separate ordinary resolution instead. This preserves member oversight while reducing the risk that a beneficial transaction is frustrated by an unnecessarily high approval threshold.

We also recommend closing gaps in the regime. Payments to connected persons should be covered, as should payments to committee members made by another party to the transaction, such as an acquiring company. It should not be possible for substantial compensatory payments to be made outside the disclosure and member-approval regime.

Accounts, audits, and friendly societies that are public interest entities

See Chapter 6.

Key recommendations

Recommendation 30: Friendly societies should be allowed to choose their own year-end date, with notice to the registering authority and subject to transitional provisions.

Recommendation 32: A tiered audit regime should apply to non-regulated friendly societies.

Recommendation 36: Government should review the application of the public interest entity regime.

Auditing and accounting requirements ensure that friendly societies maintain accurate records, thereby supporting financial stability and regulatory compliance. Our recommendations would create a more proportionate accounting and audit framework.

Financial year of friendly societies

The 1992 Act requires all friendly societies to have a financial year-end of 31 December. That gives the regulator a common reporting reference date across the sector, which may assist supervision, but it also creates a practical problem. Since all friendly societies must prepare and submit their accounts, and the auditor’s report on those accounts, within the same period, this concentrates demand for accounting, actuarial and audit services, increasing costs and reducing choice.

In our view, a single fixed year-end is not essential to effective supervision. Other regulated entities operate with different year-ends, and the regulator can still obtain the information they need through standardised reporting requirements.

We therefore recommend allowing friendly societies to choose their own financial year-end date. This would give societies more flexibility and help spread demand for professional services. Safeguards would prevent misuse: for example, a change should not allow a financial year to run for more than 18 months, and societies should not be able to change their year-end too frequently.

Consequential changes to filing deadlines

As filing deadlines are linked to the financial year-end, we also recommend that accounts and reports be submitted to the regulator within six months of the end of the financial year, or 14 days before the AGM, whichever is earlier.

A tiered approach to audit for non-regulated friendly societies

Under the 1992 Act, most friendly societies and registered branches must appoint an auditor each year, regardless of their size or activities. That single approach is difficult to justify across such a diverse sector. Some friendly societies are large regulated insurers; others are small non-regulated friendly societies providing discretionary benefits to members.

Audit requirements are important for transparency and accountability, but they should be proportionate. We do not recommend changing the audit and financial reporting requirements that apply to regulated friendly societies under the Financial Services and Markets Act 2000 (“FSMA”) and related legislation. For non-regulated friendly societies, however, we recommend a lighter, tiered approach.

In particular, a non-regulated friendly society should be able, by special resolution, to opt out of the duty to appoint an auditor where its turnover does not exceed £15 million and its balance sheet total does not exceed £7.5 million. This preserves member control while ensuring that audit requirements reflect the size and nature of the society.

Friendly societies that are public interest entities

Public interest entities (“PIEs”) are organisations subject to enhanced audit and reporting requirements because of their size, nature or role in the economy. Some friendly societies fall within the PIE regime because they carry on regulated insurance business and meet the relevant size threshold.

This issue has consistently been raised with us as a serious practical problem. PIE audits are designed for entities of significant public interest, but some friendly societies caught by the regime are much smaller and less systemically significant than the organisations it was principally designed for. The result can be a level of cost and scrutiny that is difficult to justify by reference to the risks they pose.

We received evidence that the regime can impose disproportionate costs on friendly societies, reflecting both the limited number of firms able to undertake PIE audits and the requirement to retender and rotate auditors. These costs divert resources that might otherwise produce some benefit to members and can place pressure on a sector that already faces limited access to suitable audit providers.

We consider that reform is justified and recommend that Government review the application of the PIE regime to friendly societies, with a view to excluding those below an appropriate size threshold.

Asset protection

See Chapter 7.

Key recommendation

Recommendation 37: The Government should review the issue of asset protection in friendly societies, with particular consideration given to the potential tax consequences and the position of with-profits members.

Friendly societies often accumulate assets over many decades. These “legacy assets” have been built up through members’ contributions and are intended to benefit current and future members. The concern is that, through opportunistic demutualisation, those assets could be diverted away from their mutual purpose.

Friendly societies can already take steps to protect their assets through their rules, for example by imposing waiting periods before new members can vote on demutualisation, requiring higher voting thresholds, and entrenching protective rules so that they are harder to remove. These measures are useful and can be tailored to the circumstances of each society.

However, a rules-based approach does not offer the strongest form of protection. Rules can be changed, may not be adopted consistently across the sector, and may be vulnerable where a society converts into another legal form. An asset lock, that is, a restriction on how assets may be used, transferred or distributed, would provide a more direct and certain way to protect legacy assets. The Co-operatives, Mutuals and Friendly Societies Act 2023 already gives HM Treasury power to make regulations introducing voluntary asset locks for friendly societies, but no regulations have yet been made.

There are, however, various difficulties associated with instituting an asset lock in the context of friendly societies, including potential adverse tax consequences and conflict with the regulation of with-profits funds. Resolving the tax issues would require changes to tax legislation or HMRC guidance, which fall outside our remit. We therefore recommend that the Government review the issue of asset protection in friendly societies.

Transfers of business engagements

See Chapter 8 on the general transfer process, Chapter 9 on the fast-track process, and Appendix 3 for an infographic of the existing process.

Key recommendations

Recommendation 39: A transferee friendly society should be able to approve a transfer by committee resolution, unless the regulator requires a special resolution.

Recommendations 41 and 42: Where members vote on a transfer, the financial particulars in the member statement should be summarised in addition to being set out in full. Where members do not vote, they should nevertheless receive a member statement, which sets out short particulars of the prescribed matters.

Recommendation 46: The regulator should not confirm a transfer if it would materially harm the interests of members and other recipients of insurance or other benefits.

Recommendations 50 and 51: A fast-track transfer process should be made available to "smaller" regulated friendly societies and non-regulated friendly societies.

Improving the existing transfer process

A transfer of engagements under Part 8 of the 1992 Act allows books of insurance to be transferred from one party to another, without having to obtain the consent of individual policyholders. For friendly societies, transfers are an important practical tool: they allow a society to streamline or expand its business, or to exit the market, with minimal disruption for policyholders.

The existing process contains important safeguards, including the following.

- Ahead of voting, prescribed information about the transfer proposal is sent to members who are eligible to vote.
- The members of the transferor vote on the proposal, as do the members of the transferee, unless the regulator consents to the transferee proceeding instead by resolution of its committee of management.
- An application for confirmation of the transaction is made by the transferor to the regulator and interested parties can make representations to the regulator with respect to the application.
- The regulator confirms the transfer unless it is precluded from doing so by statutory criteria known as "preclusion grounds".

Consultees told us that the process can be expensive, slow and disproportionate, particularly where a transfer is not complex or high risk. We recommend reforms that preserve the core safeguards but make the process more workable.

Voting. We recommend simplifying the position for transferee friendly societies. A transferee's members are not in the same position as a transferor's members: their policies are not being transferred, and the risks of receiving business are generally more limited. A transferee friendly society should therefore be able to approve a transfer by committee resolution, unless the regulator requires members to vote on a special resolution (for instance, because the transfer may significantly affect the society). It will be for the regulator to provide guidance as to when it might determine that a transferee friendly society must proceed by special resolution as opposed to the default committee resolution.

Member statement. Members of all participating societies should receive clear information about the proposed transfer in a member statement.

- Where members vote, the member statement should include a summary of the key financial information. This would help members understand what is often the most complicated part of the statement.

- Where a transferee proceeds without a member vote, members should still receive a member statement, but with short rather than full particulars of the prescribed matters. This would allow members to decide whether to make representations to the regulator in the lead up to confirmation.

Independent actuarial report. We also recommend a more proportionate approach to independent actuarial reporting. The regulator may require such a report to be produced in relation to transfers involving long-term business. These reports provide valuable assurance, but they can be costly and time-consuming. A report should therefore contain the detail the actuary considers appropriate, unless the regulator directs otherwise. This would allow the level of assurance to match the complexity and risk of the transfer, rather than requiring a "full" report every time.

Confirmation by the regulator. We recommend changes to some of the "preclusion grounds" that guide the regulator's decision on whether to confirm a transfer. For example, instead of asking whether the transfer is positively in the interests of members, the regulator should ask whether it would materially harm the interests of members or others in receipt of insurance or other benefits.

A new fast-track transfer process

In addition to improving the general Part 8 process, we recommend a separate fast-track transfer process. This is because even an improved process may still be disproportionate for some smaller regulated friendly societies or non-regulated friendly societies, where a transfer could help secure a beneficial outcome for members or policyholders.

Overview. The fast-track process would retain key safeguards but allow greater flexibility and confer new regulatory discretions, so that the process can be scaled to the circumstances of the transfer. See the table below for details of the differences between the general transfer process and the fast-track process.

Eligibility. The fast-track process would be available to smaller friendly societies. For regulated friendly societies, this means those with annual gross written premiums of no more than £25 million, so that they fall outside the regulatory framework for insurance firms, known as Solvency UK. Non-regulated friendly societies would qualify automatically, because they do not carry on insurance business.

Safeguards. The process would retain important safeguards.

- Members of both societies would still have to approve the transfer by special resolution, and a member statement approved by the regulator would be sent before the vote.
- The regulator could also require advertising and a period for representations where appropriate.
- In deciding whether to do so, it should consider factors such as voting participation, the outcome of the vote, and the risk of material harm to members, policyholders or other benefit recipients.

Confirmation. The fast-track process would not remove regulatory oversight. The regulator would still confirm the transfer, but through a more general confirmatory discretion. Broadly, confirmation would be refused if the successor could not carry out the engagements, or if the transfer would materially harm members or other relevant persons. These are the preclusion grounds known under the existing process as the “successor factor” and the “members factor”.

	General transfer process	Fast-track process
Independent actuarial reporting	If required by the regulator.	If required by the regulator.
Member statement	A member statement approved by the regulator to be sent to members before they vote or, where the member vote is waived, before the committee votes.	A member statement approved by the regulator to be sent to members before they vote.
Members' votes	Transferor society: members' vote by special resolution required unless waived by the regulator. Transferee society: no members' vote required unless required by the regulator if the transferor is a friendly society.	Transferor society: members' vote by special resolution. Transferee society: members' vote by special resolution.
Application to the regulator	Application to the regulator for confirmation.	Application to the regulator for confirmation.
Advertising requirements	Advertise in one or more of the London, Belfast or Edinburgh Gazette and, if directed by the regulator, one or more newspapers.	No advertising, unless required by the regulator.
Period for representations	Standard practice is to allow six weeks for members to make written or oral representations to the regulator.	No period for representations, unless required by the regulator.
Confirmation of a transfer by the regulator	Confirmation by the regulator unless one of the preclusion grounds set out in Schedule 15 is present.	Confirmation by the regulator by way of a more generalised or "confirmatory" discretion.

Amalgamation of two or more societies

See Chapter 10.

Key recommendation

Recommendation 58: A streamlined amalgamation process should be made available to friendly societies that do not carry on regulated business.

Amalgamation is a process under the 1992 Act by which two or more friendly societies combine to form a single new friendly society.

Although the process has never been used, consultees have told us that it is a potentially useful consolidation mechanism. Amalgamation could support growth, strengthen the financial viability of smaller societies and allow societies to benefit from economies of scale. Alongside transfers of business engagements, amalgamation may help friendly societies respond to rising operational costs, particularly in light of consultees' expectation of an "era of consolidation".

Amalgamations, and conversions discussed in the next section, share procedural features with transfers of business engagements. Rather than repeat the transfer reforms explained above, we draw out the main additional recommendation for amalgamations as follows.

A streamlined process for non-regulated friendly societies

At present, all amalgamating societies are effectively subject to the same statutory process, despite differences in their activities and business models. We consider this unnecessary for non-regulated friendly societies. They do not carry on insurance business and so do not present the same prudential or policyholder-protection risks as regulated societies.

We therefore recommend a streamlined amalgamation process for non-regulated friendly societies. By "streamlined", we mean that there should be no requirement to apply to the regulator for confirmation of the amalgamation. Important safeguards would remain. Members of each amalgamating society would still have to approve the amalgamation, a member statement would still be sent before the vote, and the necessary steps would still have to be taken to establish the successor society, including approval of its rules by each of the participating societies.

Conversion into a company

See Chapter 10.

Key recommendation

Recommendation 60: The 1992 Act should expressly state that a converting friendly society must pursue the same purposes as it did immediately before conversion.

Conversion is the process by which a friendly society becomes a company registered under the Companies Act 2006. It happens infrequently, but it may be useful where a friendly society wants to operate under a different legal regime or take a corporate form that better supports access to external capital.

A key question is what purposes the company should be able to pursue at the point of conversion. Friendly societies may only pursue the statutory purposes permitted by the 1992 Act. Companies, by contrast, can generally adopt much broader objects. Under the current approach, a friendly society must convert into a company with the same purposes it had immediately before conversion. If the entity later wants to broaden its objects, it must do so separately under company law.

We conclude that this two-step process should remain. It ensures that members are not asked to approve conversion and a possible move away from mutuality as a single package. A converted company may still broaden its objects later, but that decision should be taken separately, under the governance protections that apply to companies.

We recommend making this clear on the face of the 1992 Act, by expressly stating that a converting friendly society must pursue the same purposes as it did immediately before conversion.

Access to external capital

See Chapter 11.

Key recommendation

Recommendation 61: Government should consider the need to introduce capital-raising mechanisms for friendly societies, given that the lack of such mechanisms is a barrier to growth for some friendly societies.

Friendly societies cannot raise capital by issuing shares to members or external investors. They usually fund their activities through member contributions, retained surplus or borrowing. This supports stability, but it can also make growth difficult: capital is built up slowly, and using reserves for investment can be hard to justify where those reserves may take many years to replenish.

Consultees told us that better access to capital could help some friendly societies invest in new products, technology, distribution, acquisitions and other growth opportunities. It could also support the long-term resilience of the sector. However, any capital-raising mechanisms would need to preserve the mutual character of friendly societies and protect member control.

The Mutuals' Deferred Shares Act 2015 was intended to create a possible route for some mutuals, including friendly societies, to raise external capital. In practice, it is not available because the necessary regulations have not been made. The main difficulty is tax. If friendly societies raised money from external investors, they might be seen as carrying on business to generate profits for those investors, rather than operating only for the mutual benefit of their members. That could put their favourable tax treatment at risk.

As tax policy falls outside our remit, we do not recommend introducing new capital-raising mechanisms. However, we conclude that the lack of any such mechanism can be a barrier to sustainable growth for some friendly societies. We recommend that the Government consider whether capital-raising mechanisms should be introduced for friendly societies, taking account of the wider implications for mutual insurers and tax policy more generally.

Business activities

See Chapter 12.

Key recommendations

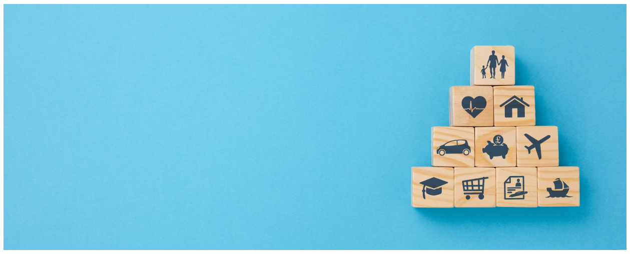
Recommendation 62: The purposes for which friendly societies should be able to exist should be the full range of insurance activities regulated under FSMA, subject to limited exceptions.

Recommendation 64: Restrictions on friendly societies' ability to carry on reinsurance should be removed.

Recommendation 65: Friendly societies should be able to invest in any manner authorised by their rules.

Friendly societies are not general commercial companies. The 1992 Act limits the purposes for which they may exist and the activities they may carry on. That reflects their mutual character, but some restrictions now sit uneasily alongside the modern financial services regime.

Our aim is not to remove all limits. It is to ensure that restrictions in the 1992 Act do not unnecessarily prevent friendly societies from developing products, managing risk or investing effectively, where those matters are already subject to appropriate regulatory oversight. We draw out some of our recommendations below.



The range of insurance products friendly societies can offer

At present, friendly societies cannot offer the full range of insurance products available to commercial insurers. This is because the 1992 Act contains a narrower list of permitted insurance purposes than the activities regulated under FSMA (see Schedule 2 to the 1992 Act).

We consider that this additional statutory restriction is no longer justified. The purposes of a friendly society should, in principle, be able to include the wider range of insurance activities regulated under FSMA, subject to limited exceptions. Whether a friendly society may actually carry on a particular regulated activity should be determined by the PRA through the authorisation process under Part 4A of FSMA.

The provision of reinsurance

Reinsurance is a way for an insurer to pass on some of the risk it has taken on to another insurer. It can help insurers manage risk, support growth and make transactions easier to complete.

At present, the 1992 Act takes a restrictive approach. A friendly society may only reinsure risks insured by another friendly society, and only where the risk is of a class of business the friendly society already carries on. This means, for example, that a friendly society cannot reinsure the liabilities of a company or a subsidiary.

That restriction can put friendly societies at a commercial disadvantage. Reinsurance is often used as a practical step before a formal insurance business transfer is completed, allowing the economic risk to move while formal approval is still pending. Friendly societies should not be prevented from reinsuring business that may otherwise be transferred to them.

We recommend removing these restrictions. This would allow friendly societies to use reinsurance more effectively to manage risk and compete for business, while leaving the question of regulatory permission and prudential supervision to the PRA in line with FSMA.

Investment powers

Friendly societies may wish to invest their funds, for example to meet future obligations to members and support the long-term strength of the society. The 1992 Act gives friendly societies investment powers, but the way those powers are expressed is unnecessarily complicated and reflects an outdated legal framework.

We recommend a simpler rule: a friendly society should be able to invest in any way allowed by its rules. This would make the law easier to understand while preserving important safeguards, including regulatory oversight for regulated friendly societies and the duties owed by those responsible for managing the society.

Administration, restructuring and insolvent winding-up

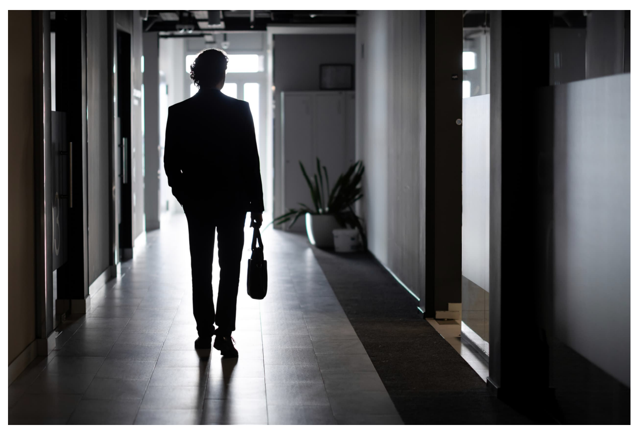
See Chapter 13.

Friendly societies rarely become insolvent in the sense of being unable to pay their debts as they fall due. We have found no examples under the 1992 Act, and none under the 1974 Act so far as we can determine. That reflects the generally stable nature of friendly societies, the availability of transfers as an exit route, and, for regulated friendly societies, early regulatory intervention where solvency concerns arise.

We nevertheless considered whether friendly societies should have access to insolvency tools available to companies or other mutuals, including administration and restructuring mechanisms. These tools can help rescue a business, pause creditor enforcement or restructure liabilities. However, the case for extending them to friendly societies has, in our view, not been made.

For friendly societies carrying on long-term insurance business, the priority in financial difficulty is likely to be protecting policyholders by transferring policies to another provider, rather than rescuing the existing entity. The current winding-up regime already reflects that aim by requiring the liquidator to continue the business with a view to transferring it as a going concern.

We also considered whether regulated friendly societies should be brought within the insolvency regime that applies to commercial insurers. Alignment has some appeal, but the benefits are speculative and the existing framework has not been shown to be deficient. We therefore do not recommend reform in this area.



Overall effect of the recommendations

Taken together, our recommendations would create a clearer, more proportionate and accessible framework for friendly societies. They support the Government's 2024 manifesto aim to double the size of the mutuals sector, while preserving the mutual character of friendly societies.

The most significant structural reform would be the repeal of the 1974 Act. The remaining recommendations modernise the 1992 Act by reducing unnecessary formalities, updating governance and audit requirements, improving member communication, and making key processes such as transfers and amalgamations more workable.

We have also been conscious that the 1992 Act should not duplicate or cut across the wider regime regulating financial services. Matters of prudential regulation should generally be dealt with through that regime, rather than through additional restrictions in friendly societies legislation.

The recommendations are practical and have generally been informed by best practice in other sectors. They remove barriers to good governance, sustainable growth and orderly change, while preserving core safeguards: informed members, appropriate voting rights, regulatory oversight and the mutual character of friendly societies.

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