



Association of Financial Mutuals

Operational Report 2019/20

Presented to the Annual General Meeting
13 October 2020

About Association of Financial Mutuals and its Members

The Association of Financial Mutuals (AFM) was established on 1 January 2010. Financial Mutuals are member-owned and not-for-profit organisations, many of whom have operated for over 100 years, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.

AFM currently has 46 Members and represents mutual and not-for-profit insurers, friendly societies and discretionary mutuals in the UK and Ireland. Between them, UK mutuals manage the savings, protection and healthcare needs of over 30 million people, and have annual premium income of around £20 billion. For more information, please go to www.financialmutuals.org.

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Chairman's comments

2020 has been a year like no other for every single one of us. However much this Operational Report sets out the positive work of your trade association, in supporting the interests of our members, it cannot be denied that there are more important issues on all our minds. For some of our members, the ongoing challenging environment has proved too much, and we lament each mutual brand that disappears.

Like every other business in the UK, AFM has had to modify its way of working. Very early in the lockdown, we agreed that it was vital that AFM found new ways to support our members, and imaginative solutions to delivering value for money. It is pleasing to see how valued those efforts have been.

As the Operational Report demonstrates, we have also worked hard to continue to support members on training and development, regulation and corporate governance issues. Yet again, we have been able to deliver substantial and tangible benefits to our members in these areas.

It is worth reminding ourselves that the first two-thirds of AFM's financial year was business as normal, and that over that time we held our biggest ever conference, and welcomed more members to more events than ever before. Unfortunately, we are unable to hold our conference this year, but it is pleasing to see so many of our members joining in with the regular and varied online events and meetings that we have been running this year.

As our Report and Accounts shows, AFM remains strong financially, and remains ready and able to support members for the years ahead.

I would like to give my thanks to everyone who contributes to our work, or who supports us financially. Your continued support is valued and appreciated.

As well as setting out our operations over the last year, this document also provides information on this year's Annual General Meeting, including the agenda, and our latest Report and Accounts. You can also read about the nominees for the AFM Board who will lead our work for the next 12 months.

Thank you for taking time to read our Operational Report for 2019/20.

Jane



A brief snapshot of the main outcomes for 2019/ 2020:

- Our work with PRA and FCA on regulatory proportionality has delivered tangible benefits to AFM Members, and the requirement to audit SFCRs was removed for 2019 year-end for almost all AFM members.
- AFM's new Corporate Governance Code went live from the beginning of 2019, and members have reported positively about the way they have applied the principles in the Code and on more effective engagement with members.
- During 2019 and early 2020, we delivered a wider range of events than ever for AFM Members. We witnessed a 50% increase in attendees. Since lockdown, AFM has offered an extensive programme of webinars and online meetings.
- We have extended our already successful leadership development programmes, with the chance for members to participate in a Masters' programme by Loughborough University on strategic leadership for mutuals
- AFM's memberships of international mutual trade bodies AMICE and ICMIF connect us with mutuals in other countries and improve our understanding of global trends
- We have seen a substantial increase in press coverage during 2019/ 20, following the appointment of Carr Consulting as our PR partners
- At the AFM Conference in 2019 we launched a new project, to celebrate AFM's 10th year, selected by members and with a focus on developing a marketing toolkit and a media campaign on the benefits of the mutual sector.
- Our climate change template supported members in setting out what actions they would take to support activity to reduce the consequences of climate change, and at the same time AFM launched its own Sustainability Policy.

Members of the AFM Board 2019/20

The members of the AFM Board as at 30 June 2020 were:

- Marc Bicknell, Railway Enginemen's
- Kathy Byrne, Metfriendly
- Elaine Fairless, Compass Friendly Society
- Peter Green, Healthy Investment
- Paul Hudson, Cirencester Friendly Society
- Chris Kenny, MDDUS
- Jane Nelson, The Oddfellows (Chair)
- Mike Perry, PG Mutual
- Russ Piper, Sovereign Health Care
- Stuart Tragheim, Holloway Friendly Society (Vice Chair)

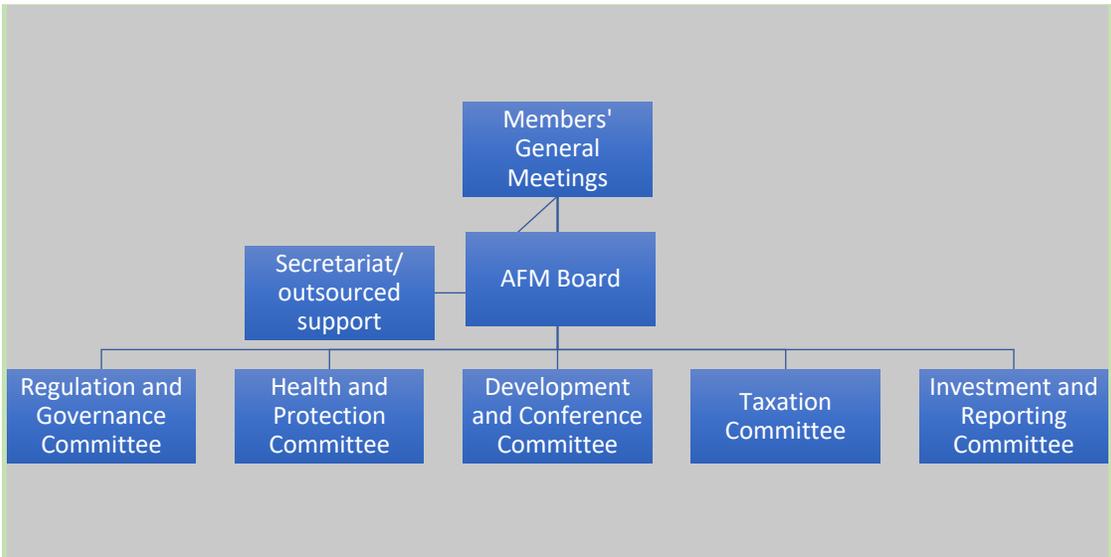


Committee Reports

AFM’s Committees help to ensure the work of AFM is relevant to its Members, and that a wider range of Members are actively involved in our work.

See below for a list of members of AFM Committees.

AFM operational structure



Development and Conference Committee

This Committee supports the wide range of training and development work now undertaken by AFM. Members of the Committee highlights training needs for members, and help develop relevant solutions. They also play a leading role in developing the format and programme of the annual conference.

Amongst the main deliverables in the last year are:

- The AFM online training portal now has over 1,400 users from nearly 30 AFM members. The portal offers a highly discounted price, and the capacity for staff and NEDs to undertake regular training and CPD work.
- Our leadership development programmes, Accelerate and Stepping Up continue to attract good numbers, and for 2020/21 will be this joined by a Masters in Strategic Leadership for Mutuals, from Loughborough University, subject to government regulation.
- Further support for NEDs via our annual conference and the revamped NED toolkit.
- A series of events for targeted audiences, including Marketing Managers, Finance Managers, Company Secretaries and CEOs. During lockdown these were extended to HR and IT managers. Many of our events are now running at full capacity.
- Our subscriptions to ICMIF and AMICE mean their events are also available to AFM members.
- The 2019 AFM conference was attended by a record number for AFM, with positive feedback about the event.



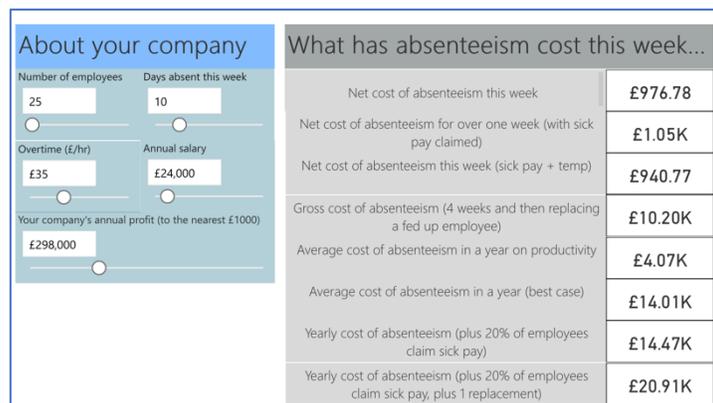
Health and Protection Committee

The Committee was formed in the first half of 2017, and hosts a range of cash plan, PMI and protection providers, as well as Associate members, to focus on product lines that have experienced growing demand in recent years for AFM members.

The Committee is keen to demonstrate the role of the sector, in delivering well-priced health and protection products, in handling claims fairly, in supporting the work of the NHS and welfare state, and in helping the population lead healthier lives.

Our annual Claims and Underwriting Forum seeks to share good practice in these key areas, and has produced case studies and good practice, as well as quantifiable evidence of the fairness of claims handling.

In 2019 we launched two new tools on the AFM website, designed to help small businesses better understand the impact on absenteeism and presenteeism, and to signpost how they can mitigate that.



We are represented on the Access to Insurance Working Group, which brings together protection providers and intermediaries, consumer groups, charities and policymakers to look at actions industry can take to improve access to protection products for people with pre-existing medical conditions. The group is delivering, amongst other things, better signposting guidance for customers, clearer explanations of underwriting, and higher standards of professional training.

The Covid-19 pandemic has had a significant impact on health and protection providers, and in particular the Committee has been discussing the mortality and morbidity consequences, as well as increasing use of digital solutions to better support policyholders.

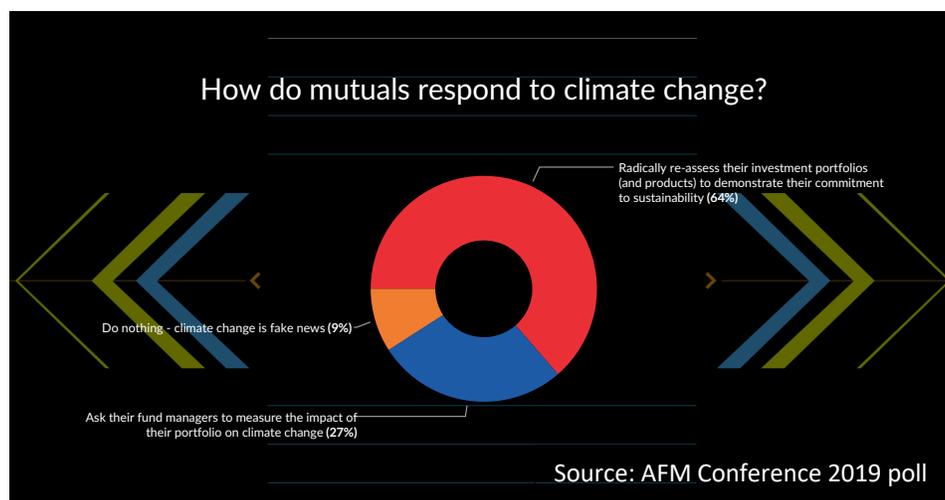
Investment and Reporting Committee

This Committee was formed in April 2017 and brings together a range of fund managers from our Associate Members, together with finance and reporting staff from our mutual Members.

The Committee has continued to track the new regulatory returns under Solvency 2, including the Solvency and Financial Condition Report (SFCR). This has led to some helpful benchmarking of the data in SFCRs across members, as well as more evidence to support our successful argument that smaller insurers should be exempted from having their SFCR audited. We are continuing to explore other options for proportionality on Solvency 2, including on the nature and format of reporting.

The Committee regularly tracks the effect of market movements on investment performance. In 2020, the increased volatility of the stock market has caused significant challenges to the solvency position of some insurers. The consequences of a global recession, Brexit, US elections and a second wave of coronavirus are likely to see volatility continue for some time.

In response to the PRA’s proposals on managing the financial risks of climate change, the Committee launched a new project on sustainable mutual insurance. This resulted in a template being issued in summer 2019, to help members prepare for new rules from October 2019. The Committee is undertaking further work to support members in their implementation plans, which the PRA expects to see embedded in 2021.



Regulation and Governance Committee

The Committee has day-to-day responsibility for responding to regulatory initiatives and communicating them to members, and for maintaining AFM’s Corporate Governance Code and accompanying work. Due to the pace of change in this area, the Committee meets six times a year.

The Committee identifies consultations from PRA, FCA or other bodies (including EIOPA, HMRC, HM Treasury, and the Financial Reporting Council) which have a material impact on smaller mutuals and not-for-profit insurers, and which might be different to its consequences elsewhere.

In late 2019, the Committee and Board concluded that it should change the balance of its work, to focus on supporting the implementation of new rules, as this was considered to be more productive than seeking to influence new policy. That said, AFM responded to 12 consultations during 2019 and 8 in the first half of 2020. AFM Members benefited directly and substantively from the constructive tone we seek to offer in our responses.

In addition, we hold regular discussions with regulators, and in recent months these have covered topics such as reporting deadlines under Covid-19, the impact on servicing overseas customers of Brexit, FCA work on vulnerable customers, problems with PRA and FCA authorisation processes, regulatory proportionality and the impacts of climate change. We also have regular liaison with FOS and FSCS.

In respect of corporate governance, the Committee has overseen the launch of the AFM Corporate Governance Code, which members have applied from 1 January 2019. Feedback indicates that using the principles in the Code has been straightforward and provided more relevant information for stakeholders.



At the start of lockdown, AFM contacted HM Treasury, to raise concerns about the AGM timetable for our members in 2020. We have liaised regularly with government, and as a result, the format and timing for member meetings this year were more flexible, and in some cases have resulted in increased levels of member engagement and higher AGM turnout.

Taxation Committee

The AFM Taxation Committee has operated successfully for many years. In early 2016 it was agreed that the Committee would continue to serve the wider mutual insurance sector rather than just AFM Members, as many of the members of the Committee were no longer AFM subscribers. Since then we have also added new committee members from within AFM, and have now welcomed a representative from the ABI, to support consistency across the insurance sector.

The Committee holds quarterly meetings and is also privileged to have regular liaison meetings with HMRC. In 2019 the Committee presented a range of operational issues that cause problems for mutuals to HMRC. HMRC took on the suggestions for change constructively, and we have already started to see changes to some of their processes.

In raising these issues with HMRC, we find they have listened carefully to our arguments and referred as necessary to colleagues in specialist areas. Alongside work in other Committees, we have regularly raised the sector's concerns on Insurance Premium Tax with HMRC.

The Committee discusses topical tax issues as they emerge, such as the impact of the budget each year, and the implications of the Finance Bill on tax arrangements for mutuals. In the last year this has included issues as varied as Making Tax Digital, updates to tax manuals, and inevitably, the impact of Covid-19 and the Brexit transition on tax rules and deadlines.

The Tax Training Day in June 2019 was well-attended, and we aim to provide a comparable event in 2021.



Members of AFM Committees as at 30 June 2020

(AFM Board members in bold)

Development and Conference Committee

Peter Green	Healthy Investment (Chair)
Lee Schopp	Metfriendly
Elaine Fairless	Compass Friendly
Ben Pears	Kingston Unity
Jane Nelson	The Oddfellows
Ann-Marie O’Dea	Shepherds Friendly Society
Jo Priestnall	Origos
Sasha Frieze	SDA LLP
Tamasin Laroque-Fathers	AFM
Martin Shaw	AFM

Health and Protection Committee

Sue Weir	Medicash (Chair)
Neil McCallum	Benenden Health
Paul Hudson	Cirencester Friendly
Courtney Marsh	Health Shield Friendly Society
Andy Rowson	Holloway Friendly
Jonathan Long	National Friendly
Stephen Schofield	PG Mutual
Cara Spinks	OAC Consultants and Actuaries
Kathryn Moore	SDA LLP
Martin Shaw	AFM

Investment and Reporting Committee

Andy Morris	Cirencester Friendly
Grant McKenzie	Foresters Friendly Society
Jane Nelson	The Oddfellows (Chair)
Kathy Byrne	Metfriendly
Chris Pine	Axa Investment Managers
Darren Ruane	Investec Wealth and Investment
Jacqueline Crawley	LGT Vestra
Philip Staunton	OAC Consultants and Actuaries
Clara Yan	Schroder Investment Management
Phil Smith	SDA LLP
Martin Shaw	AFM

Regulation and Governance Committee

Georgina Smith	British Friendly
Andrew Horsley	Cirencester Friendly Society
Paul Mahon	Cornish Mutual
Philippa Greenstein	CS Healthcare
Chris Davidson	Foresters Friendly
Mark Smith	Holloway Friendly Society
Sarah Ratcliffe	Kingston Unity
Bryan Hislop	MDDUS
John Midlane	Metropolitan Police
Sandy Richards	National Friendly
Nickeita Ashton	Paycare
Marc Bicknell	Railway Enginememen's
Tony Jones	The Exeter
Gary Morley	The Oddfellows
Andrew Hubbard	Ai-London
Robert Wharton	Keystone Law
John Gilbert	M&G Advisory
Edward Westrip	Mazars
John Burgum	OAC Consultants and Actuaries
Steve Dixon	SDA LLP
Martin Shaw	AFM

Taxation Committee

Elaine Fairless	Compass Friendly Society (Chair)
Mike Smith	Equitable Life
Matthew Haslehurst	Kingston Unity
Philip Geddes	LV=
Elizabeth Armstrong	Royal London
Peter Hayes	Royal London
Bryan Flint	Deloitte
Jon Garrett	Grant Thornton
Alistair Nichol	EY
Gordon Gray	KPMG
James Parker	MDDUS
Thomas To	Moore Stephens
Paul Watson	Morrison Govan
Philip Lewis	
Dan Gallon	ABI
Martin Shaw	AFM

Financial Report

By Jane Nelson, AFM Chair

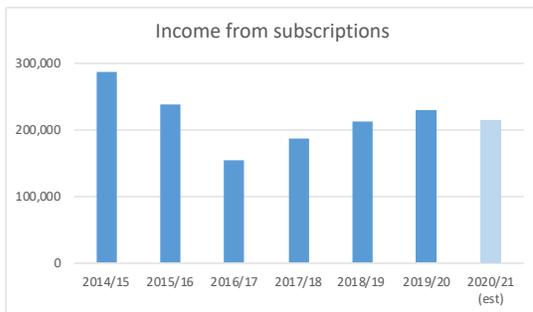
The latest AFM Accounts, attached separately, indicate that AFM produced a surplus in 2019/20, of £13,476. We had budgeted a deficit for the year of £27,600, but due to Covid-19 many of the expenses we expected in the second half of the year either did not materialise, or have been delayed.



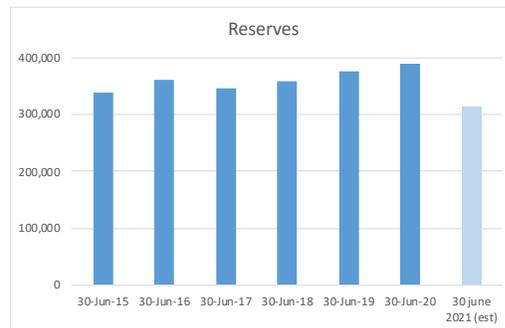
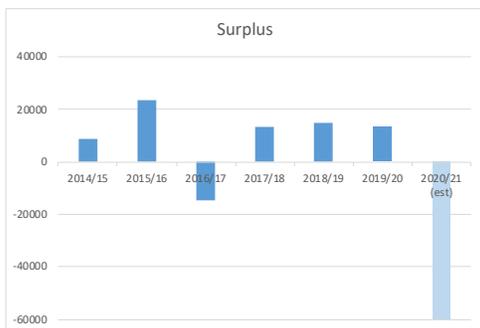
This meant that whilst income was on target, costs were lower than planned, albeit at a similar level to 2018/19. It is disappointing, but understandable, that some of the projects which the Board agreed for the year were not able to be delivered, but AFM has busily refilled the diary with a range of replacement activity.

The result is that our reserves have grown to around £400,000- a healthy level for such a small organisation. And, with greater uncertainty in the future, those reserves will be actively used by the Board to continue to provide value for money for members.

Earlier in the year we announced we were not increasing subscriptions for two years, to recognise the challenging circumstances for the sector. With a fall in membership and the loss of our annual conference, our forecast income is reduced for the year ahead. Despite this, and with the benefit of our strong reserves, we remain committed to broaden the range of project activity for 2020/21, to provide meaningful support to the sector, and stronger than ever value for money.



The charts reflect the current financial position AFM now has, and the basis for running down some of our reserves. AFM’s reserves are held in secure, low-yielding cash products.



Corporate Governance Report

This report is prepared against the six principles in the AFM Corporate Governance Code.

**Principle
1**



**PURPOSE AND
LEADERSHIP**

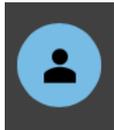
AFM was established in 2010 to advocate the values of mutuality and through this, promote the expansion of the sector.

The AFM Board has a clear focus on the purpose of AFM and operates against six key activities, agreed by members in 2016. The Board approved a business plan for 2019/20, which sought to deliver across these activities.

Regular CEO Forums and online meetings have ensured we share progress with members and seek their views on our work.

The Chief Executive provides secretariat support to the Board, but is not a Director.

**Principle
2**



**BOARD
COMPOSITION**

The Chair is responsible for leading the Board and for ensuring it is representative of our membership, and that the Board is accountable to members and effective in the way it operates.

All Board members are serving Chief Executives within the sector, ensuring there are appropriate skills and knowledge. There are no independent Directors of AFM due to the nature of corporate membership.

AFM seeks to ensure its Board is representative of its members. We take account of the size of organisations represented and their main business activities. In 2019/20, three of the Board Directors were female (30%), which is a significant proportion of all female CEOs in the sector.

AFM Directors are re-elected annually and under our constitution can serve for a maximum of nine years. No current or past director has served more than nine years.

As Board Director roles are voluntary and not contractual, we do not undertake evaluation. There were no operational issues or concerns with a Director's performance during 2019/20.

The Board agreed for 2020 to hold one session a year without the Chair/ Vice-Chair in attendance, though for Covid related reasons this has not yet occurred.

Meeting attendance: the attendance record of Board directors in 2019/20 was:

Marc Bicknell,	5 of 5	Chris Kenny,	4 of 5
Kathy Byrne,	3 of 5	Jane Nelson,	5 of 5
Elaine Fairless,	4 of 5	Mike Perry,	5 of 5
Peter Green,	5 of 5	Russ Piper,	5 of 5
Paul Hudson,	4 of 5	Stuart Tragheim,	4 of 5

Principle 3 **DIRECTOR RESPONSIBILITIES**



The AFM constitution is regularly reviewed to ensure it remains relevant, and that the Board governs the trade body in a manner that is consistent with that.

Board Committees ensure there is wide involvement in AFM across members, and each Committee operates under a defined Terms of Reference and reports to the Board quarterly on its activities.

The secretariat provides the Board with a quarterly report against the six core activities agreed at the Members' General Meeting in 2016. This includes an analysis of progress in the previous quarter, future milestones and potential risks.

The Annual Report and Accounts are circulated to all members and provide a fair, balanced and understandable assessment of our prospects. The accounts are formally reviewed by our Auditors, and no issues were reported.

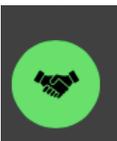
Principle 4 **OPPORTUNITY AND RISK**



The Board has an active policy for managing and maintaining the reserves of the organisation, for the benefit of members.

The work of AFM is plotted against its six key activities, as defined by members, and quarterly reporting highlights the key milestones for each project undertaken, the resources undertaken and committed to, and the risks to its success.

Principle 5 **REMUNERATION**



No Directors are paid for their time or support for AFM. In January 2020, AFM held a Board away day to finesse our strategy and to verify that it was consistent with the direction of the sector. Total costs were £323.

The salary of the Chief Executive is published in the Report and Accounts. Pay awards are approved by the Board as a whole, and there were no bonus or pension payments made in 2019/20.

Principle
6



**STAKEHOLDER
RELATIONSHIPS
AND
ENGAGEMENT**

AFM maintains regular communications with members, via the Mutually Yours newsletter, and with targeted updates to relevant audiences, such as the AFM Online bulletin introduced during the lockdown. We seek regular feedback from members via events and via surveys after member events. We encourage members to participate in our activities and Committees, as well as welcoming nominations to the Board.

Where AFM seeks to promote the value of the sector, to policymakers, regulators and the media, it seeks to do so in a manner that enhances the reputation of the sector. This includes, where appropriate, employing external advisors, and working constructively with other parts of the mutual sector, and non-mutual insurers.

In supporting our members' work on the impact of climate change, AFM has sought to ensure it sets a good example to members, and we published our sustainability policy in late 2019.

Martin Shaw, Chief Executive

AFM members and Associates

Activities Industry Mutual
Anglo-Saxons Friendly Society
Benenden Healthcare Society Ltd
British Friendly
Bus Employees' Friendly Society
Cirencester Friendly Society Limited
Compass Friendly Society Limited
Cornish Mutual Assurance
CS Healthcare
Cuna Mutual
Dentists' & General Mutual
Education Mutual
Exeter Friendly Society Ltd
Foresters Friendly Society
Grand United Order of Oddfellows
Health Shield Friendly Society Limited
Healthy Investment
HSF Health Plan Limited
IPB Insurance
Kensington Friendly Collecting Society
Kingston Unity Friendly Society
Lady Grover's Fund
Livery Companies Mutual

MDDUS
Medicash Health Benefits Ltd
Metropolitan Police Friendly Society Ltd
Military Mutual, The
National Friendly
OneFamily
Original Holloway Friendly Society
Paycare
PG Mutual
Railway Enginemens Assurance Society Ltd
Red Rose Friendly Society Limited
Scottish Friendly Assurance Society Limited
Sheffield Mutual Friendly Society
Shepherds Friendly Society Limited
Sovereign Health Care
The MDU
The Oddfellows Manchester Unity Friendly Soc
The Retail Mutual
The Veterinary Defence Society
Transport Friendly Society Ltd
UIA (Insurance) Ltd
WHA Healthcare
Wiltshire Friendly Society Limited

Aberdeen Standard
Ai-London
Axa IM
Barnett Waddingham
BDO LLP
bfinance
BHP LLP
BMO Global Asset Management
Charles Taylor Consulting
Eversheds Sutherland (International) LLP
EY
Fidelity International
Investec Wealth and Investment
Keystone Law
LGT Vestra
London and Capital
M&G Advisory

Majesco
Mazars
Medical Solutions UK
Milliman
OAC
Opal
River and Mercantile
Royal London Asset Management
RSM Risk Assurance
Russell Investments
Sarasin & Partners
Schroders
SDA LLP
TLT LLP
Union Bancaire Privee
Willis Towers Watson Limited



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