CO-OPERATIVES, MUTUALS AND FRIENDLY SOCIETIES BILL

EXPLANATORY NOTES

Overview of the Bill

1 This Bill provides HM Treasury with the power to make regulations which would allow co-operatives, mutual insurers, and friendly societies to opt to restrict the use or dealing of their assets. Regulations made by HM Treasury under this power would enable these mutuals to ensure that their assets are only used for a purpose in line with the objective of the mutual entity or other limited purposes.

Contents

Overview of the Bill 1
Policy background 3
Assessment of Impact 3
Commentary on provisions of the Bill 4
Territorial extent and application 5

Policy background

2 'Mutuals' is an umbrella term for organisations that are member-owned, democratically controlled, and run for the benefit of their members. There are several types of mutuals in the UK.

3 One type of mutual is the co-operative. There are over 7,000 independent co-operative businesses across a variety of industries in the UK, which collectively have more than 250,000 employees and nearly 14 million members. The sector also includes financial mutuals such as mutual insurers and friendly societies, which provide financial services products such as insurance and are owned entirely by their policyholders, known as members. Profits earned by firms are retained or rebated to members in the form of dividends or reduced future premiums. There are over 50 financial mutuals in the UK and, according to the Association of Financial Mutuals, the sector has 30 million members and writes £20 billion of premiums annually.

4 At present, legislation allows for community benefit societies, a type of co-operative which conducts its business for the benefit of the community, to choose to adopt statutory restrictions on the distribution of surplus capital the society has at the end of each financial year. This has been used by many of these community benefit societies to preserve the purpose of their society by "locking in" these funds for focused usage.

5 Co-operatives, mutual insurers, and friendly societies may at present adopt voluntary restrictions on the distribution of their assets, which would be voted on by members of the societies and adopted into society rules. However, without a legal framework permitting these mutuals to adopt legislative restrictions, there is a possibility that restrictions in rules may be overturned in future.

6 This Bill therefore seeks to provide HM Treasury with the power to create regulations to allow co-operatives, mutual insurers, and friendly societies to choose to adopt legal restrictions on the use of their assets. The intention is that, where the members of the society choose to adopt these legal restrictions, the use of the assets would be limited to specific purposes in line with the objectives of the mutual society. The use of any of these assets for other purposes would then carry legal recourse.

Assessment of Impact

7 This Bill provides HM Treasury with powers to create regulations to allow co-operatives, mutual insurers, and friendly societies to choose to adopt legal restrictions on the use of their assets. As this Bill does not make further changes on the face of the Act, and the legislation, as an option for these mutuals to adopt, would be de minimus, there is no need for an impact assessment at this stage.

8 The optionality of the regulations (so that relevant mutual entities for whom a statutory asset lock is suitable may opt in, and those for whom it is not suitable will not need to adopt it) serves to mitigate negative impacts. The policy intent of the Bill is to remove financial incentives for demutualisation, which should be a net benefit for the mutuals sector. HM Treasury will continue to work with the sector and regulators to ensure the regulations are appropriately adapted to the needs and specificities of the different mutual models in the sector.

9 Mutual entities may incur some costs (e.g., legal advice) mutual when considering the appropriateness of an asset lock for their organisation. However, we do not expect costs to be significant nor above £5 million per annum.

Commentary on provisions of the Bill

Section 1: Power to restrict use of assets of relevant mutual entities

8. *Subsection (1)* enables the Treasury to make regulations to enable some mutual entities to ensure that some or all their assets can only be used or dealt with for the objectives of the mutual entity or for certain prescribed circumstances. The regulations may define which mutual entities have this option.

9. *Subsection (2)* enables the Treasury to prescribe in the regulations the objectives of the mutual entity for which assets can be locked in.

10. *Subsection (5)* lists certain matters which the regulations may cover. For example, it provides that the Treasury may make regulations about the procedure by which a mutual can adopt an asset lock; how assets which have been locked must be dealt with in certain circumstances; circumstances in which the asset lock may cease to apply; to ensure that any person to whom locked in assets are transferred can only use them for the same purpose for which the mutual entity could have used them.

11. *Subsection (6)* provides for the Treasury to include in the regulations other provisions for giving effect to a statutory asset lock regime. For example, functions may be conferred on a person specified to supervise and enforce compliance with the asset lock regime. It also permits the regulations to create criminal offences, though these may not be punishable by imprisonment for a term of more than seven years (see *subsection (7)*).

12. *Subsection (8)* requires any regulations under this section to be approved in draft by affirmative resolution in each House of Parliament before they are made.

13. *Subsection (9)* defines mutual entity.

Territorial extent and application

1 This Bill extends to co-operatives in England, Scotland, and Wales. It also extends to mutual insurers and friendly societies in England, Scotland, Wales, and Northern Ireland.

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EXPLANATORY NOTES

These Explanatory Notes relate to the CO-OPERATIVES, MUTUALS AND FRIENDLY SOCIETIES BILL as introduced in the House of Commons on 15 June 2022 (Bill 17).

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