

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

### MUTUALS' DEFERRED SHARES BILL [*LORDS*]

*Wednesday 4 February 2015*

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CLAUSES 1 to 4 agreed to.  
Bill to be reported, without amendment.

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**The Committee consisted of the following Members:**

*Chair:* KATY CLARK

- |   |   |
|---|---|
| † Bailey, Mr Adrian ( <i>West Bromwich West</i> ) (Lab/Co-op)       | † Lazarowicz, Mark ( <i>Edinburgh North and Leith</i> ) (Lab/Co-op) |
| Baker, Steve ( <i>Wycombe</i> ) (Con)                               | † Leadsom, Andrea ( <i>Economic Secretary to the Treasury</i> )     |
| † Doughty, Stephen ( <i>Cardiff South and Penarth</i> ) (Lab/Co-op) | Llwyd, Mr Elfyn ( <i>Dwyfor Meirionnydd</i> ) (PC)                  |
| † Evans, Chris ( <i>Islwyn</i> ) (Lab/Co-op)                        | † Love, Mr Andrew ( <i>Edmonton</i> ) (Lab/Co-op)                   |
| Evans, Graham ( <i>Weaver Vale</i> ) (Con)                          | Nuttall, Mr David ( <i>Bury North</i> ) (Con)                       |
| † Evans, Jonathan ( <i>Cardiff North</i> ) (Con)                    | † Uppal, Paul ( <i>Wolverhampton South West</i> ) (Con)             |
| Evans, Mr Nigel ( <i>Ribble Valley</i> ) (Con)                      | † Williams, Roger ( <i>Brecon and Radnorshire</i> ) (LD)            |
| † Hoban, Mr Mark ( <i>Fareham</i> ) (Con)                           | Matthew Hamlyn, <i>Committee Clerk</i>                              |
| † Jamieson, Cathy ( <i>Kilmarnock and Loudoun</i> ) (Lab/Co-op)     | † <b>attended the Committee</b>                                     |

## Public Bill Committee

Wednesday 4 February 2015

[Ms KATY CLARK *in the Chair*]

### Mutuals' Deferred Shares Bill [Lords]

9 am

**The Chair:** Good morning everyone. No amendments have been tabled to the Bill, so we will begin with a debate on clause 1. I suggest that Committee members make any remarks they have about clauses 2, 3 and 4 during that debate. In other words, we will have a general debate about the contents of the Bill on the question that clause 1 stand part. If the Committee is content with that suggestion, I will put the question that clauses 2, 3 and 4 stand part of the Bill formally once we have completed consideration of clause 1, on the basis that those parts of the Bill will have already been debated. Is that agreeable?

**Hon. Members:** Yes.

#### Clause 1

POWER TO PERMIT OR FACILITATE THE ISSUE OF DEFERRED SHARES

*Question proposed,* That the clause stand part of the Bill.

**Jonathan Evans** (Cardiff North) (Con): It is a pleasure to serve under your chairmanship, Ms Clark, in a Committee composed of friends and colleagues on both sides of the House who have consistently championed the cause of mutuality. I propose to set out the content and purpose of the Bill in the debate on this clause. I am aware that it has support on both sides of the Committee. I trust that the remaining clauses may be dealt with formally, without the need for further debate.

Let me begin by setting the context. For over 300 years, friendly societies and mutual insurers have been an important part of our country's corporate landscape. From the time of the industrial revolution, working people's need for greater security against unemployment, sickness and funeral costs led to the creation of many such societies, all committed to principles of mutuality, customer focus and trust. Some of those societies, such as Royal London, NFU Mutual—I must declare that I served on its board for a decade—and London Victoria, have become major landmarks of the financial services industry. Others such as the Tredegar Medical Aid Society brought working miners together 120 years ago to mutually provide medical care.

The Tredegar Medical Aid Society was the first to make provision for members to receive sickness benefit when needed. In 1911, a parliamentary commission visited Tredegar to examine the scheme and, within a year, universal sickness benefit was introduced across the whole of the United Kingdom. Aneurin Bevan served on the board of that society with my grandfather, who was a working miner. In 1947, Bevan told Parliament

that the Tredegar Medical Aid Society was his model for the NHS. He declared that the Government were not nationalising health care in this country but “Tredegarising” it.

The important contribution made by mutuals over the years to both innovation and corporate diversity has been significantly undermined in recent decades by their inability to raise regulatory capital other than by retaining past profits without losing their mutuality. Mutuals have faced the twin challenges of seeking to retain enough capital to satisfy solvency requirements and to fund ongoing growth without then falling victim to the pressures of demutualisation.

The result has been that the UK has a significantly smaller mutual sector today than almost anywhere else in Europe, with a consequent drop in consumer choice, customer focus and trust in financial services. That problem has led all parties to recognise that something urgent must be done to allow mutuals to raise additional capital if required without losing their mutual status, and that is both the purpose and effect of the Bill. That need is amplified by the impending changes to the European solvency rules.

Clause 1 gives power to the Secretary of State to permit the use of deferred shares in friendly societies and mutual insurers. Such shares can be transferred but not withdrawn. The Bill prohibits repayment of principal other than on the solvent winding up or dissolution of the issuer or where the appropriate regulator has consented to the repayment. A society may issue deferred shares only if it is authorised to do so by its memorandum or rules, and a mutual insurer may do so only if authorised to by its constitution. That means that no shares will be issued until the current members have approved it.

The power to make regulations is exercisable thereafter by statutory instrument and subject to the affirmative procedure. The rest of the Bill clarifies the voting rights of holders of deferred shares and provides necessary legal definitions. That, very simply, is what the Bill is about.

I pay tribute to my noble Friend Lord Naseby—formerly a Deputy Speaker of this House—for all the work that he has done to take the Bill successfully through the other place. I also pay tribute to that icon of mutuality, Peter Hunt, for all the assistance he has given me in taking the Bill forward and, since I am, as it were, drawing to the evening of my service in the House of Commons, the work that he has performed for the all-party group for mutuals, which I have had the honour of chairing.

I thank my hon. Friend the Minister, who has consistently offered Government support for the Bill, as has my hon. Friend the Member for Fareham. The hon. Member for Kilmarnock and Loudoun has championed the Bill and has offered me consistent support throughout my chairmanship of the all-party group—in fact, she is my deputy chair—as has my distinguished predecessor, the hon. Member for West Bromwich West. He has done so much over the years for the mutual sector, and I am pleased to be able to refer to that to thank him for it. I have no doubt that many more mutual companies would still be around today if the measures that we are considering had been passed three decades ago, so I commend the Bill.

**Roger Williams** (Brecon and Radnorshire) (LD): Since it was mentioned specifically, I should point out that I am a participating member of NFU Mutual. Therefore, if it is necessary, I declare an interest.

**Cathy Jamieson** (Kilmarnock and Loudoun) (Lab/Co-op): Perhaps I should also refer people to my entries in the Register of Members' Financial Interests given the number of different parts of the co-operative and mutual sector that I have been involved in over the years.

The hon. Member for Cardiff North set out the history of the Bill and, indeed, gave us a considerable amount of information about his and his family's background and involvement in the history of mutuals. I never fail to take the opportunity to mention that my constituency was the home of the Fenwick Weavers' Society, which is on record as being the first co-operative, much to the chagrin sometimes of my colleagues in the Rochdale area. None the less, I always take the opportunity to claim that. Present-day mutuals play a significant role not only in building societies, but in the wider services that are provided through financial mutuals. Indeed, the Association of Financial Mutuals and the Building Societies Association have been champions of trying to ensure that we create a level playing field between the shareholder plcs and that particular model to give people the option of being involved in the mutual sector.

As the hon. Gentleman outlined, the Bill is short but important because it sets out a different option for the mutuals to issue a new class of deferred shares. Holders of those shares would be members of the society but would only have one vote irrespective of their shareholding, and they might receive only the value of their investment if the society were wound up. Regulations would set out the details of how those shares might be issued and it is anticipated that they would qualify as capital under the solvency II directive, which is the insurance equivalent of the Basel capital requirements. Lord Naseby set out and, indeed, expanded on that as the Bill was taken through the other place.

The measures are timely. If such a Bill or such opportunities had been around some years ago, we might have seen some different developments in the mutual sector. The important thing is that we try to ensure that the Bill goes through. As the Association of Financial Mutuals put it in its manifesto, it is important that we have the mutual sector to provide

“a fair deal for consumers...a level playing field for financial mutuals...a rational approach by regulators to capital”

and

“a more coordinated approach to promoting mutuals, creating a stronger savings culture and tackling the housing crisis”.

Building societies, of course, are crucial to that.

The hon. Gentleman thanked a number of people. I add my thanks to Lord Naseby who took the Bill through the House of Lords. The hon. Gentleman also mentioned Peter Hunt, whom I have known for more years than I care to admit, because that might give away my age too easily. However, I have known him for years, including during his involvement in the mutual sector. I also thank my hon. Friends who are here to support the Bill. The hon. Member for Cardiff North has been a

champion. We may not agree on everything in politics but he has been a champion for the mutual sector in taking this Bill through.

There is one point I hope the Minister can address. Can she give us an indication of the timetable for taking through the regulatory requirements and the affirmative resolution that would be required? That would be helpful. Otherwise, we fully support the Bill and I am pleased to be participating here today.

**The Economic Secretary to the Treasury (Andrea Leadsom)**: It is a pleasure to serve under your chairmanship, Ms Clark. I am delighted to be here to support this excellent Bill. I congratulate my hon. Friend the Member for Cardiff North on securing and promoting the Bill and for securing a prompt date for the Committee stage of a life-changing Bill for the mutual sector. If this is his swansong—he is retiring from Parliament at the general election—he can be proud of his record of being so persistent in stressing the importance of this measure. I am delighted to support it and congratulate all hon. Members who were involved in ensuring the measure got parliamentary time and could be dealt with during this Parliament.

The Bill started in the other House, where it had wide cross-party support. I also congratulate my noble Friend Lord Naseby on his work to promote the merits of the Bill. The Government support the key aim of the Bill, which is to provide friendly societies and mutual insurers with a means to raise external capital in a way that does not impinge on their mutual status. As my hon. Friend and other Members will know it is a priority of the Government to promote more competition and choice in financial services. To have a healthy and thriving mutual sector is vital, to which the Bill makes a significant contribution.

We all know that access to capital and credit is the lifeblood of any company. Access to capital poses a specific issue for mutuals, as they were designed to serve their members and did not have capital investors in mind. Unlike other firms, mutuals cannot issue shares, which deprives them of access to the equity markets, and that means that in broad terms mutuals access their regulatory capital from retained earnings and by issuing subordinated debt. That long-term approach is often seen as a strength of the sector, but mutuals have long made the case that the restrictions on accessing external capital can act as a brake on the sector's ability to adapt and respond to new market conditions.

The sector has also argued that that limits an individual firm's ability both to secure maximum investment in the business to develop innovative products and to grow through acquisition. This enabling Bill would allow friendly societies and mutual insurers to issue a new class of deferred share. The Bill has two substantive clauses.

Clause 1 would allow HM Treasury to make regulations that would permit friendly societies and mutual insurers to issue new deferred shares. Clause 2 sets out the conditions that will preserve the mutual status of firms that wish to issue deferred shares.

Clause 3 sets out the definitions of terms used in the Bill and clause 4 contains the title, confirms that the Bill extends to the whole of the United Kingdom and will come into force when the Treasury makes the regulations provided for in clause 1.

*[Andrea Leadsom]*

In specific answer to the hon. Member for Kilmarnock and Loudoun's question about when the legislation can be brought in, we are consulting the regulator and interested parties in drafting the regulations and are keen to progress the matter as soon as possible, while ensuring that we get the regulations right. Therefore, I cannot give her a specific answer other than to say it is an urgent priority. I can also confirm that the Bill raises no human rights issues.

The Government fully support the Bill. It is consistent with the commitment in the coalition's programme to promote mutuals and to foster diversity in financial

services. It is a short Bill but one that can provide a big opportunity for the mutuals sector. I am delighted that all Members, as I understand it, intend to support the Bill.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

*Clauses 2 to 4 ordered to stand part of the Bill.*

*Bill to be reported, without amendment.*

9.16 am

*Committee rose.*