The Survival of the Mutual and Co-operative Sectors: forewarned is forearmed

Lord Graham of Edmonton

Editor's introduction:

In this article, Ted Graham, who is close to the centre of both the Labour Government and the Co-operative Movement in the UK, reflects on the recent demutualisation of a large part of the building society sector, an attempted takover of the Co-operative Wholesale Society, and changes to the law which both co-operators and Labour politicians are promoting to make such moves more difficult. Though the building society sector has shrunk to around 30 per cent of its former size, there are still 71 societies left as mutuals. While only three societies, Nationwide, Bradford and Bingley and Britannia, have assets of over £10 billion, 16 have assets of between £1 billion and £10 billion, and the rest are very small, with assets of under £1 billion. However, the sector is still very large, and very much worth fighting for. Despite gloomy predictions that mutuality is 'dead', the mutuals are themselves rediscovering their roots and, as previous articles in the Journal have reported, are using their difference from shareholder companies to market their services to customer-members.

Whether we can move as fast as is required - or even in the right direction - there is clear warning that a situation is now upon us that will require the utmost good sense and leadership if we are to avoid losses of untold size in the years that lie ahead - just a few years ahead. There is nothing less at stake than the retention of a movement or a spirit which we have thought was sacrosanct; not only the predator inclinations of groups and individuals, but the clear signs that given the opportunity, individuals will seize any chance to enhance their own financial interests. Where we go back to in order to see how it all started is a moot point, but I think it can be pinpointed more or less precisely with the passing of the Building Societies Act in 1986. A move designed to promote and protect one group, in my opinion, has been used to advance the interest of a wholly different group of people. To be forewarned is to be forearmed.

Under the 1986 Building Societies Act societies were allowed to extend significantly their range of permitted activities. A large number of societies have decided that their future trading prospects will be enhanced by the abandonment of mutuality, thereby acquiring a greater freedom of action to compete in the market as banks. At the same time, a significant number of building societies have themselves been taken over, mainly again by banks. We don't have to look very far to see how the trend began and then developed. In 1989 the Abbey National was demutualised and the first bank takeover was that of the Cheltenham and Gloucester by Lloyds TSB in 1995, followed a year later in 1996 when the National and Provincial was taken over by the now Abbey National plc. A veritable avalanche followed. The Alliance and Leicester, the Halifax, the Woolwich and then Northern Rock have all followed the demutualisation trail. On the bank front there has also been much activity. The Bank of Ireland has taken over the Bristol and West and we await the conclusion of the takeover by the Royal Bank of Scotland of the Birmingham Midshires. All these takeovers or demutualisations have been accompanied by substantial cash payouts to the members of the societies concerned as the capital values of the societies, generated by the activities of past generations of savers and borrowers were unlocked for the benefit of the fortunate few, and (in some cases) undeserving present generation members. The greed of 'carpetbaggers' has been such that many have not been content to passively deposit their cash with mutual societies in the hope that the society itself may decide on the demutualisation route. More ruthless groupings of 'carpetbaggers' have proposed votes within societies by which they have tried to force the 'demutualisation'. This bribery stinks to high heaven.

The 1986 Building Societies Act has been augmented by the Building Societies Act 1997 which has created the conditions or powers designed to provide greater accountability which in turn affects the arguments for conversion. These are:

- The ability of the plc to issue shares in order to acquire institutions.

- Five year protection from takeover - a very defensive reason.

- The members would like to get money for nothing.

A key weakness for building societies is that membership is acquired for nothing but is worth a great deal. The case for a strong and vigorous mutual sector is clear:

- It gives the consumer choice and a better deal.
- It provides an element of diversity not available in the competition between heavily advertising, overcharging monoliths.
- Bluntly, we have too many banks already. What we need is institutions dedicated to serving and supporting their members and concentrating on the job they are good at.

To this readership there is no need to rehearse the trauma which jumped into our Co-operative world with the activities of Andrew Regan early in 1997. His scheme in its application was ludicrous to those of us who know and understand our structure but it served as a warning that late in the day we really have to examine whether we have our structures right - especially in the light of what I have pointed out earlier is a sea-change in the culture emerging today and which affects institutions like building societies, the whole of the Mutual Sector - and especially our Co-operative Movement. What has to be done? What are we doing?

During the past twelve months a considerable amount of activity has taken place not least within the Building Societies Association (BSA), its members and others. The United Kingdom Co-operative Council collaborated with both the BSA and the Association of Friendly Societies to stage a useful Conference in September, where speakers from various quarters demonstrated that - hopefully not too late - a fightback of sorts is taking place. What is it we are fighting back against, and what is it that we are fighting for - and to retain?

Helen Liddell, the Economic Secretary to the Treasury, has criticised the management of building societies for not championing and promoting the case for mutuality more effectively, and has attributed to this much of the reason for the success of conversion and takeovers. I will return to the manner in which 'management' has become involved, but sadly a major factor must be the declining public interest in mutuals which in turn reflects the decline in the self-help mentality and in particular the non-conformist/dissenting work ethic. There is little doubt in my mind that as the route to what I would call 'ruin' started in Parliament we have to look towards legislative changes if we are to save what is left of the once dominant mutuality sphere.

Academically it is hard to find arguments against the principles of mutuality. It is the principle on which the building society movement and many insurance companies (including the Co-operative Insurance Society) were built. it works well, enlists local and family loyalty and has encouraged generations of thrift and involvement. Mutual societies offer lower mortgage rates and higher savings rates than their conglomerate competitors. A recent issue of *What Mortgage* found that out of 72 lenders the top 25 offering the best value were mutuals. *Money Facts* found that 8 out of the top 10 Tessa providers were too. *Money Management* found that the average return with profit endowment policies was better for mutual life insurance and friendly societies than their plc competitors. I can see a powerful reason for the above. Non-mutuals have to push up profits and charge more to provide dividends to shareholders. I am tempted to say it is as simple as that - but life is not so simple. Mutuals not only do not have to ape their non-mutual competitors but can raise money from devoted savers more cheaply than on the money markets. They can also think long-term rather than the short-term obsession of the plc resulting from its need to maintain share prices on the markets. The mutuals think mainly of their customers because they are their members.

We must not forget the background against which some building societies converted. The financial services market is going through a radical change - I would call it a revolution in which the following things have happened:-

- The range of institutions offering services is widening. The nature of the product on offer is changing - there is wider choice and products are more complex.

- Delivery processes are different - branches are being supplemented by ATMs, PCs the post, telephone and intermediaries.

- Consumer attitudes are changing: there is a growing number of very sophisticated consumers accompanied by a growing proportion of those buying many financial services for the first time.

- The nature of regulation is changing.

Both the Co-operative Union and the Co-operative Wholesale Society (CWS) have risen to the challenges posed by the current situation in their different ways, whilst the United Kingdom Co-operative Council (UKCC) has produced the Co-operatives Bill and is actively engaged with the Treasury to ultimately place it on the Statute Book. That journey has begun with no guarantee as to when the Bill will become an Act. After almost 130 years of being governed by the Industrial and Provident Societies Acts we are keen to have an Act of Parliament especially tailored to meet the needs of modern day Co-operative Institutions - not least because of the happenings of the last few years.

In essence, the Co-operatives Bill seeks to achieve the following :-

- To promote the special identity of Co-ops.
- To give co-ops a "level playing field" with companies.
- To protect Mutual Democracy.
- To ensure that the law keeps up to date.

Perhaps the greatest significance can be attached to that of protecting democracy. It will prevent a minority of members from voting to end the societies' Co-operative status. Conversion into a company would need a majority of all members as well as a special majority of those voting.

Where have we got to? We have a Legal Working Party of the UKCC led by Ian Snaith which is regularly engaged with a team of officials from the Treasury in teasing out matters in our submission which require adjustment. This seems to be working well and hopefully before the end of 1997 we will hear that there is accord on the content of the Co-operative Bill. At the political level we have the enormous advantage of having a Labour Government. To begin with, Helen Liddell is a Co-operator and sympathetic to the desires of the Co-operative Movement to attain the ultimate passing of the Bill. However, all is not plain sailing. Given that there is accord on the content of the Bill our biggest stumbling block is the legislative time-table. It does not need state secrets to reveal that in this first Parliament there are a host of priorities and we have to accept that the Treasury is keen to make changes in other fields which make a Co-operatives Act someway down that list of priorities. What we can do - and are doing - is to keep up the pressure for our solution to some of the problems outlined above to be given as high a priority as possible.

In the meantime Mutuality - and Co-operatives - remain in the front line. It was announced recently that those who sought to get the Nationwide Building Society converted to a plc (and got a bloody nose for their troubles) are back at it again. Greed and avarice stalk the land. How long Co-operatives can hold out against it is an interesting question.

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