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Gareth Thomas MP
House of Commons
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28 July 2022

Our Ref: 220705C

Your Ref: GT52763

Dear Mr Thomas

RE: The attempted demutualisation of Liverpool Victoria

Thank you for your email and letter of 5 July regarding Liverpool Victoria's (LV=) previously planned demutualisation and the FCA's handling of our responsibilities in this regard. I have set out below responses to the questions you have raised.

1. **Were LV= a listed company, it would have been expected to justify its volte face to shareholders. Why does the FCA not require the same transparency to LV='s members?**

   One of the FCA's statutory objectives is the protection of consumers, in this case the policyholders of LV=. As part of this objective, we aim to ensure that firms, whether shareholder- or member-owned, have effective systems and controls to ensure effective governance and comply with their obligations under our rules to pay due regard to the information needs of policyholders, and provide clear, fair and not misleading communication to them. Through our ongoing supervision of LV=, we have remained engaged with them since the member votes in December 2021 to ensure that this is the case, and that their communication approach has given due regard to the information needs of their policyholders (most of whom are also members).

   In this regard, I would note that in March 2022 LV= announced its financial results for 2021 (https://www.lv.com/about-us/company-information/annual-report), which included commentary on the firm's forward strategy in light of the results of the member votes in December 2021. Furthermore, the firm also hosted a Business Strategy Webinar in March 2022, the details of which can be found on LV='s website (https://www.lv.com/today).

2. **Has the FCA undertaken a review of its handling of the attempted demutualisation and sale to Bain Capital and if so what lessons and conclusions has such a review arrived at?**

   As with all significant pieces of work, we have considered at working level any lessons learned through the process that culminated in the member votes in December 2021, and we continue to consider this in the context of our overall approach to the supervision of re-organisations of this sort. In addition, we have reflected on the outcome of the member votes and our forward supervision strategy in light of this, through the appropriate executive committee at the FCA in February 2022.

I trust it is helpful to note that our general approach to strategic / commercial decisions of the sort made by LV= to pursue a deal with Bain Capital, is that we recognise that, in principle, it is for the Board of the firm (following the requirements of its constitutional arrangements) to determine. We intervene where we consider it would be appropriate and proportionate, for example where we consider that proposals are not consistent with our rules or where we have concerns about consumer/policyholder protection.

An example of this is our published letter of 26 October 2021 (https://www.fca.org.uk/news/statements/fca-non-objection-liverpool-victoria-financial-services) setting out the basis for our non-objection to LV= taking forward its next steps towards asking its members for their views on demutualisation. There were in addition a number of other issues which we considered during the period following LV='s decision to pursue a deal with Bain Capital and about which we challenged LV= as appropriate. Our consideration of these issues and all other aspects of the proposed demutualisation were subject to agreed internal governance.

3. **Has the FCA considered whether there are legal reforms that would have helped avert the £30 million plus costs that were unnecessarily incurred as the LV Board didn't seek earlier consent to demutualise?**

Our starting point is that it is for a mutual's governing body to consider and propose what future for the mutual may be in the best interests of members. Any such proposal needs to be consistent with our rules which, in the main, are aimed at providing an appropriate degree of protection for consumers (including policyholders being treated fairly), and also in line with the governance requirements of the firm (which could include appropriate consultation with its members). We intervene where we consider it would be appropriate and proportionate, for example where we consider that proposals are not consistent with our rules or where we have concerns about consumer/policyholder protection. An example of a situation where we could intervene is if we believed that the firm was going to cause harm to its policyholders, particularly with-profits policyholders, through incurring costs which could not be reasonably justified.

This general approach notwithstanding, as we have previously publicly stated, under our competition objective we are also supportive of consumers having choice between providers of differing structures, including mutuals. So, in the advancement of our competition objective, we have put forward policy proposals which are generally supportive of the continuation of the mutual sector in the provision of financial services. But that does not mean that we would oppose a demutualisation in an individual case, where it was in the best interests of the firm's policyholders, and where the required constitutional process involving members was followed.

It may have been possible for LV= to have consulted more with its members at an earlier stage about their views on demutualisation, but there is inevitably a trade-off between consulting early and being able to provide sufficient details (including the views of an Independent Expert) to allow for meaningful consideration of the question. At too early a stage in the process, we recognise that it may not be possible to describe adequately the actual benefits and downsides resulting from an actual offer for members. If a deal were to be discounted too early in the process, some members may be concerned that they were not given proper opportunity to consider an option which, in their view, could have been in their best interests (we note that c. 69% of members did vote in favour of demutualisation and the deal with Bain.)

It is important to note that, in line with FCA requirements, the governance processes within the firm included throughout the input and challenge of the With-Profits Actuary and With-Profits Committee (which ultimately was supportive), representing the interests of the with-profits policyholders in particular. Under our rules, the majority of the members of a With-Profits Committee must be independent of the firm (or chaired by an independent if there is an equal number of independent and non-independent members). The firm also sought the

views of members through its Member Panel, which is able to provide the views of at least some of the membership.

It is also worth noting in considering this question that any early intervention into the governance process could also have downsides in a different case, where a potential bidder, which is objectively the best candidate in the interests of members and policyholders, is put off by early informal steers from members which have no formal constitutional basis.

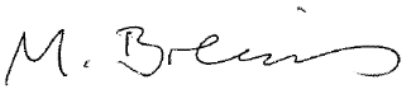
Finally, with respect to legal reforms, we note that legislation governing demutualisation takes different approaches across the different mutual society legal forms. Where demutualisation legislation is available to a firm, there will inevitably always be a cost to pursuing it, and the outcome of the use of that mechanism will vary from vote to vote. It is possible that legal reforms could make uniform and less costly the types of process that mutuals would need to follow when considering demutualisation options, which provide both adequate protection for policyholders and members, whilst at the same time allowing members properly to consider what may be in their best interests in a particular case.

4. **Has the FCA been asked by the Treasury to provide any formal or informal comment on the proposals set to be included in the Private Members' Bill 'Co-operatives, Mutuals and Friendly Societies Bill' being introduced by Mark Hendrick MP?**

   We have regular, constructive dialogue with HM Treasury under our Memorandum of Understanding with them, which includes legislation impacting the mutual sector such as this Private Members' Bill. We note that the detailed provisions of the Private Members' Bill are yet to be presented, and we remain willing to engage on the detail as it develops, both in our capacity as registering authority for mutual societies and taking into account our objective to secure the appropriate degree of protection for consumers. We remain supportive of approaches to modernise mutuals legislation and are happy to engage in these.

Thank you for your ongoing interest in the mutual sector, which plays an important role in providing choice to consumers in financial services. I hope that the responses I have set out above to your questions are helpful to you in understanding the FCA's approach to proposed demutualisations of the sort put forward by LV=, and more generally to the mutual sector.

Yours sincerely,



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