Mutual understanding

The modern mutual sector and how to support it

Jake Shepherd

SMF Social Market Foundation

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Jake's research portfolio covers a wide range of policy issues, from in-work poverty to gambling, the four-day week to drug reform. Jake has appeared in various print and broadcast media including The New Statesman, The Independent, The Times, Times Radio, and BBC Radio 4.

GLOSSARY

Term	Description
Mutual	Organisations that are owned by their members, who may be customers, employees, or suppliers. Mutuals do not answer to shareholders, instead prioritising the interests of their members and communities.
Co-operative	A particular subset of mutuals that must reflect co-operative values set out by the International Cooperative Alliance. 'Mutual' is a broader term that encompasses various member-owned organisations.
Member	Individuals who hold membership and have a direct stake in a mutual organisation, typically having rights (such as voting on how the business is run) and privileges (including financial advantages). Members do not have any expectation of any entitlement to a share in the increased value of their mutual.
Public company	For-profit businesses that have issued shares and can be traded on public stock exchanges, with ownership dispersed among shareholders.
Shareholder	An individual or entity that owns shares in a company and has entitlement to its profits. The more capital they own, the greater share of the profits. The level of influence a shareholder has depends on the number of shares they own and the voting structure of the company.
Demutualisation	The process of mutuals legally changing their ownership structure in order to become a public-traded company and attract external capital, transitioning to a shareholder-based model.
Capital instruments	Special financial instruments that allow mutuals to raise capital while retaining their mutual ownership structure, avoiding demutualisation.

FOREWORD

By Gareth Thomas MP, Chair of the All-Party Parliamentary Group for Mutuals

What are the things we want from our economy? We all have different answers, but I'm sure most people would have a list that includes good jobs, affordable and sustainable goods and services, and stronger communities. And those are all things that our mutuals sector helps to deliver, which is why I'm a strong supporter of that sector, and why I'm pleased be introducing this report.

As you'd expect from a serious think-tank like the Social Market Foundation, this is a comprehensive, evidence-based and clear-eyed assessment of the sector, its benefits and its challenges.

To those of us who know the sector well, many of the benefits outlined here are familiar ones. Since mutuals are owned by customers, employees or suppliers, they can do business in a different way. They can plan for the long term, giving greater priority to looking after their people, the planet and the places where they operate. They can and do make a profit, but they're able to share that profit widely. That's always a good thing, but especially important at a time when living standards are under such pressure.

Sharing profits with members and communities is the essence of a stakeholder economy, where successful business is good for everyone, not just a small group of owners. That economic model doesn't belong to the Left or the Right – it's something that can win support across the political spectrum. That's part of the reason that the mutuals sector enjoys strong backing from across Parliament.

The polling research for this report also shows that mutuals can command widespread support from the public, because they do exactly the things that people want to see from the economy. There has always been great public enthusiasm for businesses that do the right thing for society while also turning a profit, but that demand is only likely to grow. Led by younger generations, the public is only becoming more interested in the environmental and social impact of business. Mutuals are well-positioned to surf that wave of interest in a more responsible way of working.

Yet there are challenges too. As that same polling shows, people like the things that mutuals do but they don't always know enough about mutuals as organisations, about what makes them tick and how they're structured. This report is a good challenge to the sector and its friends to raise our game in how we explain and extol the virtues of mutual ownership. There is a great story to tell here, but we need more people to hear it.

Some of the challenges are more technical. Perhaps the key issue identified in this report concerns access to capital. The problem of raising finance has been a roadblock to the growth and success of the mutuals sector. Despite political enthusiasm for the sector, the machinery of government has been slow to respond to this need. This report's suggestion of innovative capital-raising methods based on Australia's mutual capital instruments is just the sort of new thinking that should be injected into our debate.

Mutuals have a long and proud history. This report shows how their future could be even greater, playing a central role in delivering the sort of economy that we all want. I hope it is read widely.

EXECUTIVE SUMMARY

This report provides a comprehensive overview of the modern mutual sector, exploring its key opportunities and challenges. It reviews existing literature on mutuals, incorporates insights from mutuality experts, and presents survey findings on public opinion of mutuals.

What are mutuals?

- Mutuals are organisations owned by their members, who may be customers, employees, or suppliers.
- Members have a direct stake in the business and can have a say on how the organisation is run.
- Mutuals do not answer to shareholders, instead prioritising the interests of their members.
- Mutuals tend to have a strong sense of social purpose, extending their impact beyond members to local communities.

Mutuals offer several potential benefits

- Mutuals are organisations owned by their members. This model of ownership carries a number of potential benefits.
- For members, these benefits include financial rewards (for example a share of profits or equity), decision-making participation, improved customer service, sustainable long-term planning, and a sense of belonging.
- In terms of their contribution to wider society, mutuals can promote economic distribution or predistribution, enhance consumer choice, prioritise social responsibility, support local communities, and foster inclusion and equality.

There are some big opportunities for the sector

- Mutuals are more resilient than investor-owned firms, making them a dependable choice in a rapidly changing global economy. Evidence from the financial crisis and the pandemic support this.
- Public perceptions of business are shifting towards sustainability, social responsibility, and ethical sourcing, particularly among younger consumers. Young audiences thus present a significant opportunity for mutuals to target.
- The UK mutual sector has gained renewed political attention, with politicians from both major parties expressing their support in recent months. Mutuals should capitalise on this favourable political climate.

But just as many challenges

- Relying on member funds rather than investors means mutuals have less scope for generating capital. This makes it harder for them to grow, and in some cases leads to ‘demutualisation’.

- Mutuals can experience competitive disadvantage. Due to limited financial resources and smaller scale, mutuals tend be less commercially aggressive and can struggle to compete on all service expectations.
- The general public often lacks awareness and comprehension of mutuality and what it entails. Insufficient 'brand awareness' of mutuality poses a significant obstacle to future business success.

New survey data reveals what the public think about mutuals

- Awareness of mutual ownership is low. Only 20% of adults understand what it means. 40% have heard of the term but are unsure what it means. 40% haven't heard of it at all.
- 28% of people are part of at least one of mutual. 59% are not. 13% are not sure.
- The public see the appeal of mutuality. They agree mutuals are good for the economy (53%), the sector would be better off with more mutuals (53%), mutuals can make a big difference to society (54%), and the government should do more to help mutuals grow (54%).
- But most people are not convinced enough to become involved. Even after learning about mutuality, 33% remain unsure about participating. A higher percentage (39%) said they still weren't interested.

There are steps the sector and the government can take to support UK mutuality

- Awareness and understanding of British mutuality is poor. The sector needs to respond to that challenge proactively, improving its brand recognition and competitive edge via marketing, communication, and education.
- Mutuals have significant difficulties raising capital. To address this challenge, the government should consider capital instrument-enabling legislation and mutual shares.
- To support growth and inform policymaking, mutual organisations and the government should collaborate on gathering comprehensive data to monitor UK mutuality. This will improve the government's understanding of the economy.

Recommendations

1. **The sector launches an information campaign for mutuals**, enhancing brand recognition. This could be achieved through a mutual kitemark scheme, public information campaigns, or mutuality support networks.
2. **The government creates a new capital instrument for mutuals**, allowing them to raise more funds and prevent the threat of demutualisation. Australian Mutual Capital Instruments, a form of debt capital that can be converted to equity, is one such option.
3. **To create a better policy understanding of mutuals**, mutual organisations and government should collaborate on the creation of comprehensive data that monitors UK mutuality.

CHAPTER ONE – INTRODUCTION

Mutuals are organisations owned by their members – who may be customers, employees, or suppliers – offering social and economic benefits to members and the communities they serve. Mutuality has a rich history dating back centuries but, despite its longevity, it remains largely misunderstood.

This report aims to shed light on the numerous benefits associated with mutuality. From financial rewards to increased participation, greater consumer choice to local community support, mutuals are said to offer a range of advantages that set them apart from 'normal' investor-owned businesses. Because of these purported benefits, there are some key opportunities which, if unlocked, would allow mutuals to thrive.

One of those opportunities is a resurgent political interest in mutuality, with politicians of both major parties stating their desire to help promote the mutual sector in recent months. This includes a pledge by Shadow Treasury Minister, Tulip Siddiq, to double the size of the mutual sector.[1] Steve Baker, Minister of State for Northern Ireland, has argued that the Conservative Party should accept "co-operatives and mutual societies are an important part of our society that should be fostered in everybody's interests".[2] A Co-operatives, Mutuals and Friendly Societies Bill has recently passed its final stages in Parliament.[3] Andrew Griffith, the Economic Secretary, has announced a government review of key mutual legislation.[4]

This amounts to a level of commitment to mutuals not seen in years. The sector should seize the political moment. But there are significant obstacles that could prevent the sector from reaching its full potential. One of these barriers is a lack of understanding of mutuals, with most people – whether that's the general public, the business world, or those in Whitehall – generally unaware of what mutuals are and do.

This is the primary concern of this report: to improve understanding of mutuality. Though there are challenges around data and evidence, this research aims to provide as comprehensive an overview of the mutual sector as possible, fostering a mutual understanding of alternative ownership models and their potential impact on society. Ultimately, this report offers a range of potential solutions to address the challenges facing the mutual sector, outlining practical steps both mutuals and policymakers can make to help the sector grow.

The structure of this report is as follows:

- **Chapter Two** aims to define mutuality, providing an overview of its key principles and characteristics.
- **Chapter Three** explores the advantages of mutuals, including benefits offered to individuals, communities, and wider society.
- **Chapter Four** builds a picture of modern mutuality and its place within today's economy, identifying key opportunities and challenges the sector should reckon with if it is to thrive.
- **Chapter Five** explores public attitudes to mutuals, providing new survey data to help build the existing evidence base on mutuals.

- **Chapter Six** highlights international approaches to mutuality, discussing prominent case studies the UK sector can learn from.
- **Chapter Seven** presents a series of actions the mutual sector can take to advance its cause, while also making suggestions for how the government can offer its support.

CHAPTER TWO – UNDERSTANDING MUTUALITY

Mutuals are a unique type of organisation that have a long lineage in the UK. But as is discussed throughout this report, they are generally not well understood. This chapter aims to define mutuality, providing an overview of its key principles and characteristics.

Mutuality has a long history

Mutuality has been among humans "from time immemorial".[5] The earliest type of mutual organisation is thought to be the mutual aid society, social groups which brought together people with common interests to provide support in times of need, such as illness, injury, or crisis.[6]

Over time, fully-fledged mutual organisations started to emerge throughout Europe and North America, including mutual insurers. According to the International Cooperative and Mutual Insurance Federation, mutual insurance companies date back to the 17th century, when specific professions such as farmers, fishermen, and teachers banded together to pool their resources in the absence of adequate solutions provided by mainstream insurers.[7]

In the UK, mutual insurance began to cover losses caused by fire.[8] The first such mutual is thought to be The Fire Office, established in 1667 after the Great Fire of London by individuals who agreed to insure each other against future perishment.[9] The earliest known mutual building society, Ketley's, was founded in 1775[10] so members could contribute into a shared fund, drawing lots to purchase land and build homes.[11] The first co-operative retail store, the Rochdale Society of Equitable Pioneers, was established in 1844 to pool together scarce resources and provide access to basic goods at a lower price.[12]

Even though today's economy is unrecognisable from those times, the basic principle of those pioneer mutuals – members putting their resources together to satisfy their common needs – has remained unchanged, and it continues to play a part in the social fabric of countries throughout the world.

Today in the UK, it is estimated that between a quarter and a third of the adult population – approximately 13 million to 18 million people – is a member of at least one mutual.[13] There are around 31,000 registered mutual organisations.[14] [i] That includes 7,000 co-operatives,[15] 130 mutual insurers,[16] 43 building societies,[17] and 250 credit unions,[18] not to mention the many other types of mutuals that exist (as discussed below, mutual organisations vary widely in size and scope) all of which operate primarily for the benefit of their members.

[i] The Financial Conduct Authority's Mutuals Public Register currently shows over 31,000 registered mutuals in the UK. But it is worth noting that not all these organisations may be active or operational. Some may have ceased operations, merged with other mutuals, or converted to other legal structures.

Mutuals exist to serve their members

As a 2011 government guide to mutual ownership highlighted, all types of firms, strictly speaking, operate for the benefit of their members. The key difference is that 'normal' businesses serve shareholders or owners, whereas mutuals work for their customers, employees, or suppliers.[19]

> *"The distinguishing characteristic of a mutual is that the organisation is owned by, and run for, the benefit of its members, who are actively and directly involved in the business, rather than being owned and controlled by outside investors."* – **Department for Business Innovation & Skills**

A similar interpretation is offered by Mutuo, the UK's leading advocacy group and think tank for mutuals. Mutuo says the reason mutuals are distinct from mainstream investor-owned firms is that their objectives are different:[20]

> *"The point of a mutual is different from mainstream investor-owned businesses. It is focused on delivering its mission to its members, rather than maximising return to investor shareholders through profit distribution and capital growth. The members are participants in the business as customers, suppliers, or workers."* – **Mutuo**

Based on this description, mutuals could be confused with other purpose-oriented organisations, such as social enterprises and charities. All three share similarities in terms of trying to achieve a social or environmental mission. The key distinction is in terms of ownership structures: mutuals are owned by their members. If charities or social enterprises are member-owned, they are also mutuals. The categories are not mutually exclusive.

Another complexity is that 'mutual' is often used as an umbrella term for many different types of mutuals; for organisations with different means and ends.[21] As well as business entities such as co-operatives, building societies, and insurers, mutuals can also come in the form of less established organisations. These include social clubs, supporters' trusts, or public service mutuals. Mutuals exist in various parts of the economy, "from farming to finance, health to housing, education to manufacturing".[22]

There is also confusion surrounding 'mutuals' and 'co-operatives,' with people often using these words interchangeably.[23] However, it is important to note that while all co-operatives are mutuals, not all mutuals are co-operatives. Co-operatives must reflect co-operative values set out by the International Co-operative Alliance (ICA),[ii] whereas 'mutual' is a broader term that encompasses various member-owned organisations.[24]

[ii] According to the ICA, the global body that represents co-operatives, co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. It also outlines co-operative principles which guide organisations to put those values into practice: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community. Source: International Cooperative Alliance, 'Cooperative identity, values & principles'.

Table 1: Different mutual types

Enterprise	Financial services	Community activities	Public services
Consumer-owned co-operatives	Building societies	Clubs and societies	Housing co-operatives
Worker-owned co-operatives	Friendly societies and mutual insurers	Supporter trusts	Housing associations
Co-operative consortia	Credit unions		Co-operative schools
Agricultural and fishing co-operatives			NHS foundation trusts
Energy co-operatives			Public service mutuals

Source: Mutuo – see 'Business with a Purpose: The UK Mutual Economy Report 2019' for details

There is no clear one-size-fits-all definition of mutuality. Within some co-operatives, members can bargain for lower pricing. In other mutual companies, members might receive dividends. For most mutual firms, having a say in how the company is run means voting for company directorship. Elsewhere, it could also mean deciding on new products.

The following list illustrates how diverse mutuality can be, using some of the UK's most well-known mutuals as examples:

Nationwide Building Society (a co-sponsor of this report) is the world's largest building society, with around 16 million customer-members. It offers a range of financial services, including mortgages, savings accounts, and insurance products. Like all building societies, it differs from mainstream banks because its profits are reinvested back into the organisation to benefit its members through lower fees and charges, member-only discount rates, cashback rewards, and exclusive savings accounts.[25] Nationwide's Annual General Meeting (AGM) gives members the opportunity to ask the board questions about the business, though only 'qualified' members can vote on key decisions.[26]

Royal London (the other co-sponsor of this report) is the UK's largest mutual life insurance and pensions company, with nearly two million customer-members. The Royal London board encourages its members to have their say on how the business is governed, including voting on the appointment of directors, at its AGM. Owing to its mutual status, Royal London's profits are all reinvested in the business to enhance its services, or returned to eligible customers (those that have taken out a pension plan since July 2001) through their individual pension plan.[27]

The Co-operative Group and its wide range of retail arms is one of the world's largest consumer co-operatives, and the UK's fifth-biggest retailer. Having origins in the Rochdale Pioneers Society, it is rooted to the notion of ethical trading and the belief that the profits of the business should be shared amongst members according to their purchases. Anyone can become a member of the Co-op by subscribing for a £1 share, giving then the right to vote on a one member, one vote basis and the right to stand for election on the Group board or council.[28] Members get exclusive deals that help them make savings, with 2p of every £1 spent at the Co-op going into their account.[29]

The John Lewis Partnership, comprised of John Lewis and Waitrose, is 100% owned by staff and is the largest employee-owned business in the UK. What sets John Lewis apart from mainstream companies is that the workforce are co-owners: they all have a share in the business and are involved in key decision-making.[30] Members' power to direct on matters such as employment conditions, pay, and wellbeing is expressed through 'formal arrangements', representative bodies, and formal and informal personal contact.[31] John Lewis employee-members also receive significant store discounts (which can be shared with another person), learning subsidies, and a host of other benefits.[32] In March 2023, the firm announced it was considering diluting its staff ownership structure.[33] Chair of the John Lewis Partnership, Dame Sharon White, has since said the firm is no longer looking to sell a stake in the business, but it could consider external investment again in the future if it was needed.[34]

Box 1: Defining mutuality

Because mutuals' legal structures, objectives, and products or services vary, defining mutuality in all-encompassing terms can be challenging. But they do share some common principles:

- Mutuals are owned by their members, who may be customers, employees, or suppliers.
- Members have a direct stake in the business and can have a say on how the organisation is run.
- Mutuals do not answer to shareholders, instead prioritising the interests of their members.
- Mutuals tend to have a strong sense of social purpose, extending their impact beyond members to local communities.

CHAPTER THREE – EXPLORING THE ADVANTAGES OF MUTUALS

Mutuals are organisations owned by their members, often with a strong sense of social purpose, seeking to benefit the communities in which they operate. Such a model carries a number of potential benefits. This chapter reviews the current body of evidence on mutuals and draws upon insights gained from in-depth interviews with experts from across the sector to set out some of these possible advantages.

Mutuals offer several potential benefits to their members

Individuals that are part of a mutual will receive rewards they would unlikely get from mainstream companies. While it is true that profit-seeking businesses can also offer benefits, incentives, or 'perks', the key difference is that, with mutuals, such offerings are baked into the organisation's structure, as part of its essential relationship with members – not as an extension of its usual corporate activities.

Financial benefits

Some benefits are tangible and reward members financially. Because mutuals do not exist to make profits for shareholders, they can offer their members dividends, reduced premiums, or cheaper retail prices. For example:

- In May 2023, Nationwide launched its Fairer Share scheme, a new reward which returned £340 million in £100 payments to eligible members. Following strong annual results, Nationwide also launched a Fairer Share Bond for existing members with a 4.75% interest rate and announced the return of over £1 billion to members in the form of better rates and incentives.[35]
- When the customer-owned insurance company Royal London performs well, it aims to boost its policy holders' pensions savings. It says it shared £155 million of its profits with around 2 million customers in April 2023,[36] totalling over £1.5 billion of dividends since the scheme was established in 2007.[37]
- If there are profits available for distribution, Co-op members may be paid a share. If a member is due a dividend, it can be paid directly into their bank account or they can be sent vouchers to use at Co-op stores.[38] For instance, in 2021/22, after a strong trading year, Lincolnshire Co-op members received a dividend bonus of £1.6 million.[39]
- Glasgow Credit Union, the UK's largest credit union, may share surplus with members in the form of a dividend on savings. In 2022, two dividend payments (0.15% and 1.50%) were calculated on saving balances.[40]
- Building societies tend to provide better interest rates. In 2021, building society savers received £615 million more in interest than they would at 'traditional' banks.[41]

Democratic participation

Based on principles of democratic governance and solidarity, mutuals provide members with more of a voice, allowing them to participate in the organisation's decision-making.

According to a report by the European Added Value Unit, which provides policy research for the European Parliament, mutual democratic principles such as the 'one member, one vote' principle are by their nature socially responsible, helping to foster a more resilient corporate model and promote members' interests.[42] As the SMF has highlighted in previous research looking at responsible business practice, increased voice can help to deliver several practical benefits for employees, for example bargaining for better pay or workplace policies.[43]

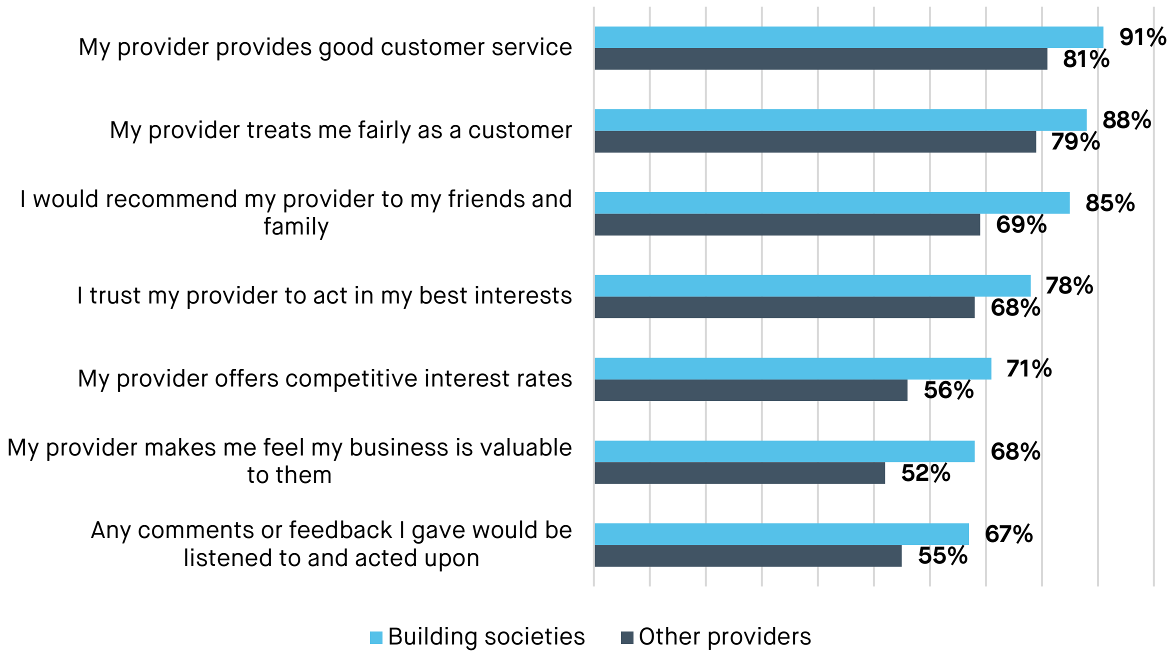
Higher customer satisfaction

Mutuals' actions are guided by the fact that they are member owned, which gives them a greater stake and incentive in their clients' welfare. They are inherently client-friendly, better aligned with members' interests, and therefore customers are more likely to be satisfied with the services they provide.[44]

> *"Generally speaking, the way they actually behave towards consumers, the day-to-day decisions that are taken by the business are taken through the lens of being customer owned."* – **Hilary McVitty, Head of External Affairs, Building Societies Association**

This general rule has been illustrated by the Building Societies Association which analysed YouGov data in 2022, showing that building societies consistently outscore banks on a range of customer service measures, and are more likely to provide better customer service overall (91% versus 81%). It is also supported by an independent survey of the motor insurance sector, with NFU Mutual and LV= emerging as the best rated providers in terms of overall customer satisfaction.[45] In 2020, the Institute of Customer Service positioned John Lewis and Nationwide as the highest rated organisations for customer satisfaction in the UK.[46]

Figure 1: Customer service performance, GB



Source: Building Societies Association

Strategic patience

Mutuals do not have the same profit-oriented style of management as investor-owned firms. While all mutuals need to generate positive financial gains to survive, they tend to be long-term focused, concerned with sustainability rather than speedy returns.[47] This is supported by New Economics Foundation (NEF) research exploring international evidence on co-operative banks, which suggests that, by targeting lower returns, co-operatives generate more stable profits over the longer term and are much less likely to suffer losses.[48] As discussed in Chapter Four, mutuals are regarded as being better equipped to navigate risk, particularly in the face of market volatility.

> *"When you've got patient owners, you don't have the same drivers for behaviour. You don't need quarterly reporting, you don't need short-term profit maximisation. You don't need to take huge risks."* – **Peter Hunt, Managing Partner, Mutuo**

> *"One of the strengths of building societies is that they're there for people, not for shareholders. That also very much allows them the advantage of being able to plan for the long term."* – **Kate Creagh, Public Affairs Manager, Building Societies Association**

> *"We were once seen as being the granny in the rocking chair. Now we're seen as being astute, long-term-view, safe businesses."* – **Peter Hunt, Managing Partner, Mutuo**

Goodwill and belonging

There are intangible benefits to being part of a mutual. For reasons cited above, mutuals can provide a sense of social purpose and a sense of belonging to members. These are benefits that are, arguably, harder to find in companies motivated by profit. While many private companies may also have a duty of care to their customers, it is not regarded as an intrinsic part of their business model. As explored below, mutual organisations may adopt a "stakeholder-oriented" attitude to business governance, engaging in wider community activities.[49]

> *"They are welcoming, inclusive, give people the opportunities that they need and deserve, and make them feel like they belong."* – **Kate Creagh, Public Affairs Manager, Building Societies Association**

They can make a positive difference to wider society

A mutual venture is one where people come together to achieve something for themselves and for each other. They therefore work in the interest of wider communities and can have a range of direct and indirect positive impacts on society, setting them apart from other businesses.[50]

Economic distribution

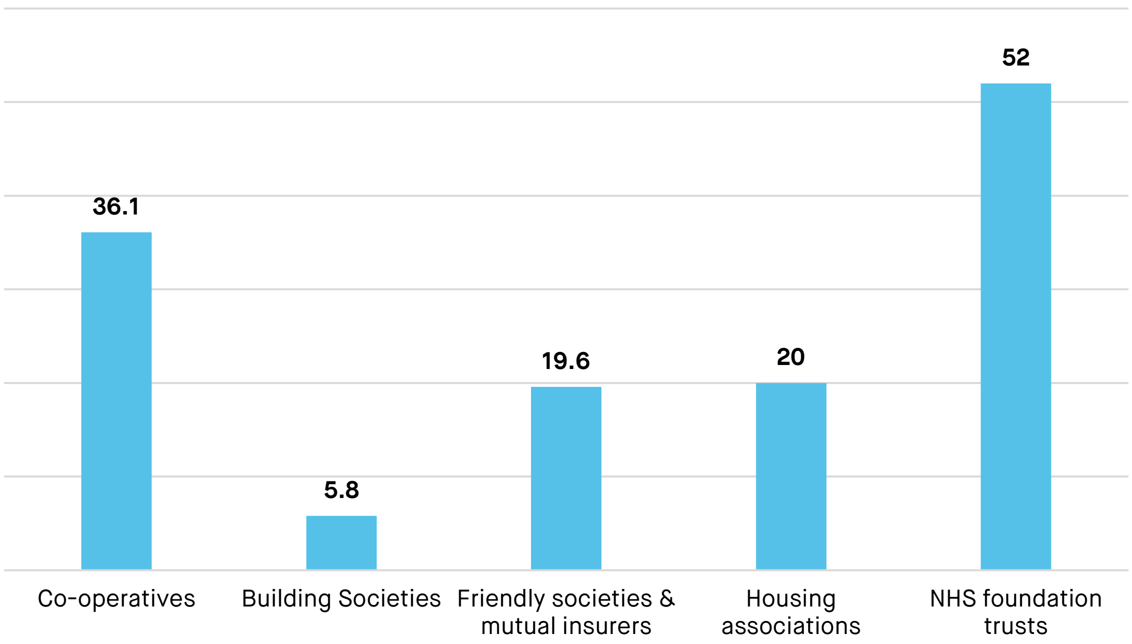
While solid data on the economic impact of the mutual sector is lacking, we know that mutual businesses generate over £133.5 billion of income annually.[51] That is a significant amount of money which, rather than going to shareholders or investors, can be distributed to members and (as discussed in greater detail below) into local economies. Power to Change has found that community-owned assets in England generate £147 million net expenditure in local economies, creating 7,000 net additional full-time jobs, for example.[52]

> *"I like 'directly sharing in economic rewards' as the best and broadest concept to capture mutuality."* – **Douglas Kruse, Distinguished Professor, Rutgers School of Management and Labor Relations**

> *"The common mutual business is a hybrid. It has an economic focus, and a social focus."* – **Professor Tim Mazzarol, University of Western Australia**

> *"They can help the economic performance of companies if workers have a supportive corporate culture, and there is plenty of evidence, very strong evidence,[iii] that employee-owned companies do have better economic performance. There are stunning reductions in employee turnover."* – **Joseph Blasi, J. Robert Beyster Distinguished Professor and Director, Rutgers University Institute for the Study of Employee Ownership and Profit Sharing**

Figure 2: Mutuals' revenue (£bn)



Source: Mutuo

[iii] Such evidence includes research previously published by the SMF, which suggests employee ownership can help to tackle the UK's productivity crisis. Source: SMF, 'A stake in success: Employee share ownership and the post-COVID economy'; SMF, 'Strengthening employee share ownership in the UK'.

Wider consumer choice

It is widely agreed that economies benefit from diverse ownership structures.[53] According to the Financial Conduct Authority (FCA), mutuals provide additional consumer choice and promote competition in the interest of consumers.[54] As a "form of ownership that does not fit conveniently with either public or private ownership",[55] mutuals can offer options traditional entities do not.

Mutuals' close connection to their customers give them an advantage when it comes to developing products that respond directly to consumers' needs. For example, Änglamark, a Nordic organic brand, was founded "by consumers, for consumers" to manufacture environmentally and allergy-friendly food products. As of 2018, Änglamark was rated the greenest brand in Sweden 8 years in a row, and was the "number one" organic brand in Norway.[56]

> *"The UK consumer wants diversity. Mutuals keep the market honest and offer diversity, choice, price regulation, and coverage regulation. That's really important."* – **Liz Green, Executive Vice President, International Cooperative and Mutual Insurance Federation**

Social responsibility

Mutuals are claimed to be more highly committed to social objectives. This is because, unlike Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) agendas which *encourage* private companies to act responsibility, having a social purpose is an intrinsic part of mutuality.

For instance, co-operatives must reflect ethical and co-operative values set out by the International Cooperative Alliance (ICA).[57] Many have well-defined policies of supporting communities.[58] Mutuals have also driven the adoption of Fairtrade, which benefits food producers in developing countries,[59] Co-op being the UK's largest seller of such products.[60] As well as sharing dividends with members, co-operatives may also set aside a share of their profits for communities; local causes, charities, and not-for-profit groups.[61]

> *"If you stand back from it, the legal structure of a mutual is merely a vehicle in which the purpose is carried."* **– Peter Hunt, Managing Partner, Mutuo**

> *"They're set up with a purpose in mind. But being less global does also mean they tend to have less of a carbon footprint than other companies."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

> *"These organisations not only offer fair and transparent products and services, but they also do good in the communities that these people are attached to."* – **Liz Green, Executive Vice President, International Cooperative and Mutual Insurance Federation**

Supporting local communities

As one interviewee put it, mutuals tend to be "rooted locally". As well as providing services that people need, this has an impact on local economies: securing jobs, helping to maintain purchasing power, and stabilising communities. The SMF was told of some of the interesting place-based community initiatives mutuals carry out:

- Taking over struggling businesses, such as pubs[62] and other community assets. According to a report by Power to Change, community businesses can help to support the regeneration of high streets, ensuring a more "diverse mix" of users and activity.[63]
- Because they are more focused on serving local communities and because they tend to be smaller (with less resource to invest in digital technology and automation) building societies are less likely to close branches than banks. Since 2015, Nationwide has closed fewer branches (95) than other major providers, including Barclays (986), NatWest (741), Lloyds (645), HSBC (635) Santander (475), and RBS (449).[64]
- Community-owned energy farms – often renewable – that reduce energy costs for local communities. The Scottish Government's Community and Renewable Energy Scheme helps to support such projects.[65]
- For many clubs, the economics of modern football is becoming increasingly unsustainable and alienating.[66] Football supporters' trusts try to strengthen the influence of fans in the running of clubs,[67] while community-ownership can act as a mechanism to save much-loved community assets.[68]

> *"One thing which is interesting about the sector, which is quite typical of mutuals and certainly much more so than 'regular' companies, is the connection to place and being loyal to a particular place."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

Boosting inclusion and equality

For reasons given above – democratic governance, responding to members' needs, social responsibility – mutuals are said to "serve the underserved" and are more likely to focus on individuals otherwise overlooked by firms.

A good example is building societies, which are more likely to provide credit, including mortgages, to those considered risky by banks due to their more personalised approach.[69] Meanwhile, research by the European Parliament on the insurance sector shows that mainstream providers offer different premiums based on different profiles. This can make coverage expensive – and exclusionary.[70]

> *"We make that great virtue of what we describe as serving the underserved: finding areas in the market where people can't get access to financial advice, because most financial advisors won't look at consumers unless they have a large investment portfolio already."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

Mutuals also outshine traditional banks, which have been criticised for providing inaccessible banking services, in supporting individuals with disabilities. According to a May 2021 poll of disabled consumers by Which?, mutuals emerged as two of the three top-rated banking organisations. First Direct, an internet-based bank, achieved the highest overall customer satisfaction (95%), followed by Nationwide (the top-rated provider with a branch; 87%) and the Co-operative Bank (84%).[71]

Another example is gender equality, with evidence suggesting mutuals are more likely to advance women in leadership roles than limited companies. In 2022, 23% of the top 100 mutuals in Australia had female CEOs, compared with just 7% of CEOs in the top 200 ASX-listed companies.[72]

> *"Employee-owned firms have been shown to have significant effects on the wealth accumulation of women and people of colour in the United States."* – **Joseph Blasi, J. Robert Beyster Distinguished Professor and Director, Rutgers University Institute for the Study of Employee Ownership and Profit Sharing**[73]

Table 2: Potential benefits offered by mutuals

To individuals	To wider society
Financial benefits	Economic distribution
Democratic participation	Wider consumer choice
Higher customer satisfaction	Social responsibility
Strategic patience	Supporting local communities
Goodwill and belonging	Boosting inclusion and equality

Source: SMF analysis

CHAPTER FOUR – OPPORTUNITIES AND CHALLENGES IN THE MUTUAL SECTOR

This chapter builds a picture of mutuality and its place in today's economy, showing there are some key opportunities the sector could leverage in order to prosper. But it also points to significant challenges that mutuals must overcome if it is to seize the moment. Like the preceding chapter, this part of the report draws upon existing literature and interviews with mutuality experts.

There are some big opportunities in the sector

Due to the strengths and service advantages highlighted above, there are significant opportunities for growth in the UK's mutual sector.

Providing stability in an uncertain economy

Mutuals tend to be more resilient than investor-owned firms. In an ever-changing global economy subject to flux, mutuals can therefore position themselves as a more reliable way of doing business. In the words of South Korean politician and former UN Secretary-General, Ban Ki-moon, "their underlying values of self-help, equality and solidarity offer a compass in challenging economic times".[74]

While solid empirical evidence is lacking,[75] lessons from the 2007-08 global financial crisis go some way to support Ban's claim. Analysing mutuals in the EU insurance market in 2011, research for the European Parliament found that mutuals are: less prone to risky speculative activity, show better creditworthiness, have more better-quality capital with smaller amounts of debt, provide less risky business offerings, and are less dependent on capital markets, and are therefore better equipped to deal with crises.[76]

> *"The lack of diversity deepened the crisis and made the sector less resilient as a whole to the radically changing environments. For this reason, stimulating diversification of company forms could be seen as a means to prevent future crises or to diminish the likely impact of future crises."* – **European Parliament**

NEF claims that co-operative banks' "prudential approach" to managing capital allowed them to weather the financial crisis better than the commercial banking sector.[77] Research produced by the Building Societies Association and Cass Business School and City University London in 2015 reached a similar assessment. It concluded that, while banks outperformed building societies in the run up to the financial crisis, the latter recovered faster and demonstrated more stable asset growth.[78]

Insights from Australia's Business Council of Co-operatives and Mutuals also provide some evidence of mutuals' resilience during crises. Australian co-operative and mutual enterprises (CMEs) were reported as not just staying steady through the COVID-19 pandemic, but as strongly rebounding from it. The combined turnover of its top 100 CMEs was AU$34.38 billion (approximately £18.5 billion), representing a 10% increase in revenue increase over the previous year,[79] compared with the Australian economy as a whole which grew by 2.2%.[80]

The financial crisis and the COVID-19 pandemic, not to mention the ongoing cost of living and climate crises, have shone a light on the need for more sustainable business practices. Now more than ever, people want – and need – some degree of financial and social security. For example, if major energy and water companies, which have faced substantial criticism for their business practices in recent months,[81] were instead structured as mutuals, sharing profits with struggling customers instead of benefitting shareholders, they would likely emerge as compelling and competitive forces in the modern economy.

If recent history tells us anything, it's that another major crisis is not too far around the corner. That mutuals are less sensitive to shock and can provide stability in the economy is seen to be a significant opportunity among experts:

> *"Mutuals were established as a response to market failure in the beginning."* – **Peter Hunt, Managing Partner, Mutuo**

> *"Employee owned firms are less likely to lay off workers in recessions, and seem to be more stable in general. That's good for workers, but it's also good for the economy. It maintains worker purchasing power and community stability. It can be a real recession-fighting technique."* – **Douglas Kruse, Distinguished Professor, Rutgers School of Management and Labor Relations**[82]

> *"The current economic system is not okay. The way to change is through reforming some of the structures that that determine the way it's controlled."* – **Dan Gregory, Director, Social Enterprise UK**

Responding to changing consumer attitudes

Public attitudes towards business are changing, with consumers becoming increasingly interested in issues such as sustainability, social responsibility, and ethical sourcing.

For example, research by First Insight, summarised by YouGov,[83] found that 72% of consumers consider sustainability in their purchasing decisions. In 2021, Deloitte reported that 85% of UK consumers adopted more sustainable lifestyle choices during the COVID-19 pandemic, with 32% considered 'highly engaged'.[84] Ethical Consumer estimates that UK ethical markets grew by almost 35% in 2021, expanding to £141.6 billion – the largest jump in the value of the market since 1999.[85]

These findings suggest consumers are willing to support companies that demonstrate a higher commitment to social responsibility. The biggest opportunity may lie with younger consumers, as they tend to be more demanding of businesses and have different expectations.

As digital natives, young people have an abundance of information at their fingertips. According to Deloitte, they report more anxiety than any previous generation – and feel the pressure to act.[86] Due to Gen Z[iv] coming of age and the demographic makeup of the world thus beginning to shift, they are "becoming a force to be reckoned with", demanding change from companies with their purchasing power:[87]

- According to Merkle, 83% of Gen Z want brands to take a stance on social issues, compared to just 59% of consumers aged 41 and up.[88]
- Edelman has showed that 73% of Gen Z only buy from brands they believe in,[89] while McKinsey found 70% say they try to purchase products from ethical companies.[90] McKinsey also says Gen Z research the companies they purchase from, with 65% reporting they learn the origins of everything they buy.[91]
- Savanta has shown Gen Z still pay more to meet their ethical standards despite the current cost of living crisis, prioritising ethical consumerism more than older generations.[92]

Representing the future, younger generations could be a powerful audience for mutuals to focus on. According to Jonathan Deacon, Professor of Marketing at the University of South Wales, Gen Z is already forcing companies to "think beyond their profits" to attract new clients.[93] Mutuals' advantage is they do not have to adapt in the same way as traditional businesses. They already have purpose-led credentials, giving them credibility and, potentially, a leg up in the market.[94]

> *"Young people, young consumers, they need something to grab hold of."* – **Liz Green, Executive Vice President, International Cooperative and Mutual Insurance Federation**

Seizing the political moment

There is revived political interest in the UK mutual sector. Government buy-in and the development of sector-specific policies is a good way of helping any type of business to grow, therefore mutuals need to take full advantage of that appetite.

We have been here before. In 2010 the Conservative-Liberal Democrat Coalition Government outlined its commitment to "foster diversity in financial services, promote mutuals and create a more competitive banking industry".[95] From that came the establishment of the Ownership Commission to review the state of business ownership in the UK, including mutuals.[96] Francis Maude, a former Conservative minister, spoke extensively on his desire to see greater mutualisation within public services, and in 2011 announced a mutuals taskforce.[97] In the end, though, little came of these commitments, and the political project of building the mutual sector lost steam.

[iv] There is no precise definition of when the generation starts and ends, but Pew Research Center say it is those born between 1997 and 2012. Source: Pew Research Center, 'Defining generations: Where Millennials end and Generation Z begins'.

Fast forward a decade to 2022, the Co-operatives, Mutuals and Friendly Societies Bill started to make its way through Parliament. The Bill focuses on one issue in particular: giving the Treasury the power to make regulations to govern how mutuals can use or deal with their assets if they were to close down, protecting them against 'demutualisation' (see Box 2, below).[98] Not only does this represent a positive change in the sector – as discussed below, raising capital is a significant challenge – but it also shows a degree of political priority.[99] In June 2023, the Bill passed its final stages. Once it has received Royal Assent it will change the law on mutuals operate in the UK, helping them to preserve their assets.[100]

In June 2022, the Chair of the All-Party Parliamentary Group for Mutuals, Labour MP Gareth Thomas called on the government to support the expansion of the sector.[101] Shortly thereafter, Shadow Treasury Minister, Tulip Siddiq, revealed her desire to promote the mutual sector. Writing for the Co-operative Party in March 2023, Siddiq said "the sector continues to play an invaluable role in promoting financial responsibility and resilience among their members", which is "why Labour has committed to doubling the size of the co-operative and mutual sector when in government".[102] Though it is not yet entirely clear what "doubling" means – it could be increased membership, number of businesses, or revenue – Siddiq's pledge represents the boldest commitment to mutuality in years.

Labour is not the only party to express their support for the mutual sector. In a Westminster Hall debate in December 2022, Steve Baker, Minister of State for Northern Ireland, argued that the Conservative Party should accept "co-operatives and mutual societies are an important part of our society that should be fostered in everybody's interests".[103] Andrew Griffith, the Economic Secretary, has announced a government review of the Co-operative and Community Benefit Societies Act 2014 and Friendly Societies Act 1992, which will be carried out by the Law Commission.[104]

There are also significant challenges

Given the nature of the mutual sector – mutuals are not the same as mainstream firms and are not as well understood – there are some significant challenges that need to be addressed if it is to make the most of the opportunities outlined above.

Accessing capital and limits to growth

Raising funds via members rather than investors means mutuals have less scope for generating capital. Because they have no public market to go to and are thus less financially nimble, mutuals largely depend on their own income and can struggle to attract investment, making it harder to grow.

This 'capital conundrum' is a double-edged sword. On the one hand, mutuals do not have to answer shareholders pressuring for financial returns. On the other, their only option for raising capital is restricted to long-term retained earnings. It is difficult for small mutuals to find start-up capital, while large mutuals tend to grow slowly over time, and are dependent on sustained business success.[105] [v]

Meanwhile, UK financial rules are perceived as being insensitive to mutuals. Experts interviewed by the SMF for this research said that the current framework is agnostic towards mutuals and tend to lean towards the traditional stock company model, causing additional cost and leading to competitive disadvantage. High legislative and regulatory demands may also serve as a barrier to entry for new mutuals.[106]

There is no recognition of mutuality's value to wider society in UK law. Currently, there is no statutory mechanism for ensuring that surpluses remain committed to that public purpose, an incentive for demutualisation (described below). Meanwhile, the Companies Act[107] – the UK's primary legislation for the governance of companies – is thought to create challenges for mutuals as it was primarily designed for shareholder-owned firms.

When compared with the extensive body of legislation under which companies are incorporated, the legislation under which mutuals are registered is also considered to be sparse. Additionally, while company law is substantially modernised every 25 years, legislation for mutuals has not been addressed since its establishment in the 19th century, aside from piecemeal changes.[108]

A specific criticism lies with the Company Act requirement to issue shares to members, which may not always be desired by mutuals and, as a consequence, time and energy is diverted to finding solutions. The Act is perceived as limiting the ability of mutuals to raise capital as it lacks a specific legal structure for 'mutual capital instruments' – financial products that allow mutuals to raise capital without issuing shares or diluting ownership.[109]

> *"Inevitably, in the UK, most big insurers and most big deposit takers are shareholder-owned businesses, and therefore most rules are written with that focus in mind. Regulators tend to assume that big businesses have the capacity to better protect consumers."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

As a response to the capital issue, the Mutuals' Deferred Shares Act[110] was introduced in 2015 to allow financial services mutuals to issue *deferred* shares. In contrast to normal shares which can be bought and sold on the stock market, members receive a dividend payment only after a certain period of time has elapsed or a specific condition has been met, providing the organisation with money to support its operations.

[v] The capital conundrum does not apply to the building society sector as some building societies can issue Core Capital Deferred Shares (CCDS). CCDS are a form of capital that allow building societies to inorganically increase their Common Equity Tier 1 capital (a bank or building society's core capital) to supplement their retained earnings, while remaining consistent with the mutual ethos. Source: Nationwide, 'Capital Deferred Shares'.

But there have been problems with this legislation, including issues around taxation. Mutuals that issue deferred shares fail to meet HMRC's criteria for mutual trading, making the business subject to corporation tax (mutuals may be eligible for tax exemptions due to their ownership structure). It is said that mutuals are not prepared to risk issuing such shares, rendering the act ineffective.[111]

Similarly, it is argued the UK tax system blocks employee-ownership structures, as people founding an employee-owned business can take shares in such a company but employees joining later will be charged income tax. Meanwhile, the Friendly Societies Act, which applies to friendly societies and mutual insurers, is considered to be problematic for smaller mutuals, as it places too much emphasis on solvency and creates a competitive disadvantage compared to European mutuals, including those that operate in this country.

> *"There's this constant pressure from regulators all around the world to drive everybody into this one-size-fits-all approach, because it's easy to regulate."*
> – **Peter Hunt, Managing Partner, Mutuo**

In terms of regulation, there is the view that the FCA's approach is not well-suited to the needs of mutuals, instead taking a one-size-fits-all approach to enforcement. This is exemplified, it is argued, by the FCA's upcoming Consumer Duty standards, created to ensure financial services are better aligned with the interests of consumers.[112] Because that objective is already the core mission of mutuals, it is argued the new rules will create additional regulatory complexity without providing any new value to members. Although experts have identified such bureaucracy as an issue, it appears to be a relatively minor challenge and is unlikely to pose a significant obstacle. Since mutuals already adhere to the Consumer Duty, it should not create any major divisions, especially since the duty applies to all firms.

> *"These days, one of the challenges is what the regulator requires everybody to do. There are a whole raft of rules and regulations that every financial services provider has to abide by… It reduces the headroom for mutuals being able to do something that is mutual-specific."* – **Hilary McVitty, former Head of External Affairs, Building Societies Association**

Together, these challenges make it difficult for some mutuals to thrive. And in markets where competition is stiff, there comes a time where some mutuals need to become more like for-profit operators in order to survive. This process is known as 'demutualisation'.

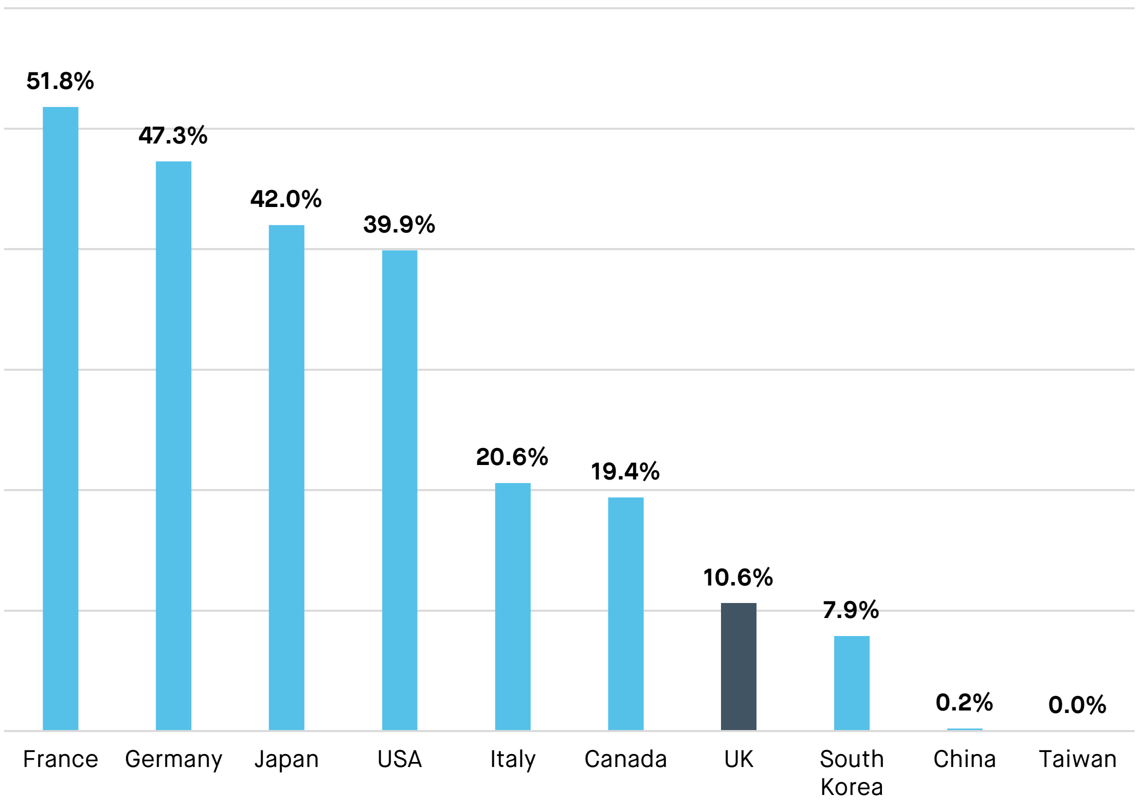
Box 2: What is 'demutualisation'?

Demutualisation is the process of member-owned mutual companies legally changing their structure in order to become a public-traded company and compete and survive in the market.[113]

Since the financial sector liberalised in the 1980s, with policy becoming increasingly driven by free-market ideology – a position mutuals don't quite identify with – many companies have turned to demutualisation. As noted above, current regulations are said to reflect, and support, prevailing free market business norms, making it difficult for some mutuals to compete. But there is also some attraction to being publicly listed. By becoming 'like everyone else' there are more options, more capacity to raise capital, and more opportunities for growth. Demutualisation can be particularly appealing to management, as they gain significant increase in pay and bonuses. The concern is that it destroys value for members.

Robust data is lacking, but evidence from the insurance sector helps to illustrate the broader trend of mutuals struggling to survive: in the 1990s, mutuals were estimated to hold around 50% of the market, whereas in 2007 they made up just 4%. The financial crisis helped to reverse that downward trend (supporting the notion that mutuals are indeed resilient during times of crisis), and in 2010 mutual insurers comprised about 7% of the market.[114] In 2017, they made up slightly less than 11%, showing some recovery over time, though still outperformed by all other G7 nations (Figure 3).[115]

Figure 3: Mutual market share in the 10 largest global insurance markets, 2017



Source: International Cooperative and Mutual Insurance Federation

Prominent examples of mutuals that have demutualised include household names such as Northern Rock and Halifax. The most recent case is John Lewis, which recently considered selling a stake in the business to raise outside investment – consequently changing its staff-ownership model.[116] According to retail specialist and former government adviser, Mary Portas, John Lewis lost sight of its "soul" and "what sets it apart" in its attempt to rebuild.[117] Chair of the John Lewis Partnership, Dame Sharon White, has since said the firm is no longer looking to sell a stake in the business, but it could consider external investment again in the future if it was needed.[118]

> *"The battle in hand is far more nuanced. It's about what makes up the soul of your brand. The intangibles, the shared beliefs, the beautiful things that can't be captured in financial projections but earn a little space in people's hearts."*
> – **Mary Portas, brand and retail expert**[119]

The impact of demutualisation can be detrimental to members. More turnover is redirected to shareholders, less value is retained in the business, and they can become less resilient. As an ongoing threat, it can become a constant business distraction.[120] Demutualisation also restricts consumer choice, including on "'non-financial' issues such as branch closures and charges on cash machines".[121] For these reasons, the European Added Value Unit has contended that, ultimately, "demutualisation in the UK weakened the diversity in the financial services sector, which is considered as a detrimental effect for consumers".[122]

Box 3: LV= defeats demutualisation

In 2021, LV=, formerly known as Liverpool Victoria, sought approval from its members for the acquisition of the business by private equity firm, Bain Capital. However, following a campaign led by the All-Party Parliamentary Group for Mutuals and supported by Mutuo, members voted against the board's demutualisation proposal, leading to its abandonment. The LV= vote is said to demonstrate that UK consumers desire corporate diversity, and it marked the first time a UK mutual's membership did not support a board resolution to demutualise.[123]

In its inquiry into the proposed takeover, the APPG found that demutualisation would harm the diversity of financial service providers in the UK and unnecessarily weaken the mutual sector. It also highlighted the regulators' (The FCA and PRA) failure to fully prioritise the interests of members, consumers, and the broader economy.[124] Commenting on the defeat, Gareth Thomas, chair of the parliamentary group, expressed the need for legislative overhaul with stricter safeguards against incentives for demutualisation and greater rights for members. He also argued the saga brought attention to the value of the UK's mutual sector, including support from the press.[125]

Keeping up with competition

Mutuals can experience significant competitive disadvantage, problems that tend to stem from the sector's difficulty raising funds. Limited capital means less firepower in the market, one example being smaller marketing budgets that make it harder to attract customers.

Mutuals come in many shapes and sizes, though most of them are small. For instance, while Nationwide, the largest building society in the UK, has assets of around £270 billion, the next biggest, Coventry Building Society, has assets of just under £6 billion. Most other building societies are considerably smaller.[126] Royal London is around seven times the size of the next largest insurance mutual, NFU Mutual.[127] Because most mutuals have a smaller share of the sector and wider market, they have less cash, are less commercially aggressive, and can't compete on all service expectations, particularly digitisation.[128]

> *"The sustainability of the small-mutual business model is challenged by the disproportionate regulatory and technical overhead."* – **Alpha FMC**[129]

Somewhat ironically, another issue is a lack of collaboration within the mutual sector. As one interviewee put it, "the co-operative movement neither cooperates nor moves". Because mutuality is so diverse – there are different company types with differing purposes and objectives – opportunities for progress can be limited. Overcoming this obstacle would purportedly result in reduced expenditure and lessen individual burdens. As discussed below, stronger alliances could also help to push for regulatory change.[130]

> *"The argument we often make is the capacity for a group of mutuals to work together in collaboration to find solutions. The challenge we find pretty quickly is that different businesses with different strategies and different product types find it really difficult to find the areas where they can collaborate."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

Low public awareness

Poor understanding of mutuality has been cited as a challenge throughout this research. Even though a third of the UK population are part of a mutual organisation,[131] people generally do not understand what they do. Like most things, a lack of public awareness does not bode well for future business success.

While customer understanding varies according to demographic and socioeconomic factors,[132] experts believe there is little "brand awareness" of mutuality and what it entails. And because there are many different types of mutual organisations each with their own purposes and goals – as discussed above, mutuality is not easily defined – the topic can be confusing.

> *"People understand the idea of building societies, co-operative shops, and John Lewis being employee-owned is well known. But most people wouldn't necessarily know that 'mutual' means those types of organisations."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

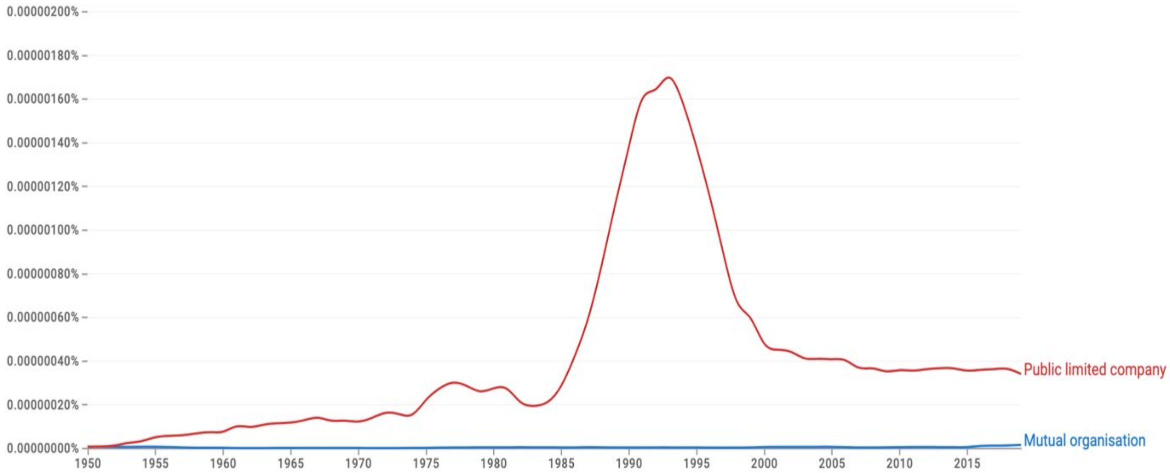
> *"One of the challenges for mutuals is, with that limited capital base, how to convince consumers."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

> *"I think where some of the challenges are relate to the lack of understanding of what a mutual is. Whilst it's very easy to describe the legal construct of a building society, it is harder to engage people with that mutual difference, especially across a range of organisations which have different strategies. It's the difference between head and heart – and we need both."* – **Hilary McVitty, former Head of External Affairs, Building Societies Association**

This lack of awareness is not limited to the general public. According to experts, mutuality is seldom taught at university. Business schools tend to teach from a "free-market perspective", meaning mutuals fall by the way side in academia, in people's education, and eventually in the worlds of business and finance. The SMF was also told many financial advisers don't feel comfortable talking about mutuality, as it is too unorthodox when compared with conventional financial practice.

> *"In academia, we don't educate people about mutuals. So when they go into the world of work, the only way they think is with regard to the investor-owned economy. It's culturally ingrained."* – **Antti Talonen, Associate Professor, University of Helsinki**

Figure 4: 'Mutual organisation' versus 'public limited company' in English publications, 1950-2019

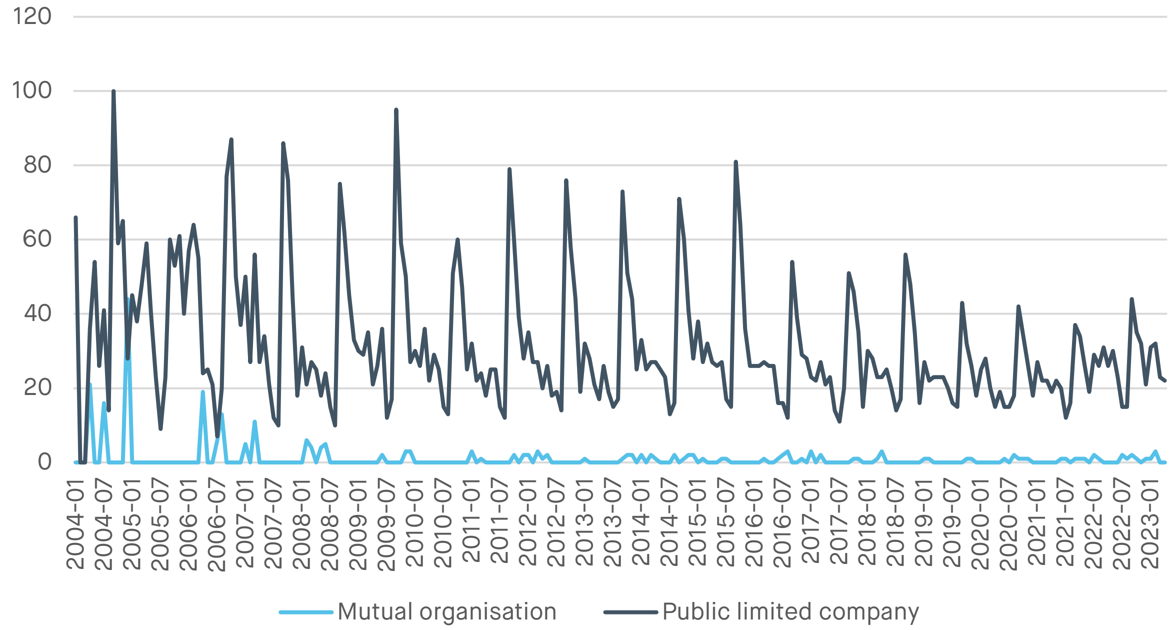


Source: Google Ngram Viewer

Poor understanding of mutuals is reflected in literature. Google Ngram Viewer (Figure 4, above) shows how the phrase 'mutual organisation' – 'mutual' and 'mutuality' are everyday words that are likely to crop up outside of a business context – rarely occurs in books (English language, any country) compared with 'public limited company'.[133] Google Trends, which tracks the popularity of web topics and searches, shows a similar separation (Figure 5, below) as interest in mutuals is significantly lower than limited companies.[134]

> *"In the 1950s, it disappeared from the literature. Economics became taken off into this neoclassical focus. Mainstream economics has essentially ignored the co-operatives and mutuals business."* – **Professor Tim Mazzarol, University of Western Australia**

Figure 5: 'Mutual organisation' versus 'public limited company' in online search queries, UK, 2004-2023



Source: Google Trends

CHAPTER FIVE – PUBLIC ATTITUDES TO MUTUALS

As we have highlighted throughout this report, mutuality tends to be underrepresented in public debate, in politics, and in research. To build upon existing evidence and better understand the role it plays in British society, the SMF commissioned independent market research agency, Opinium, to ask a representative sample of 1,500 members of the public (GB, March 2023) what they think about mutuality.

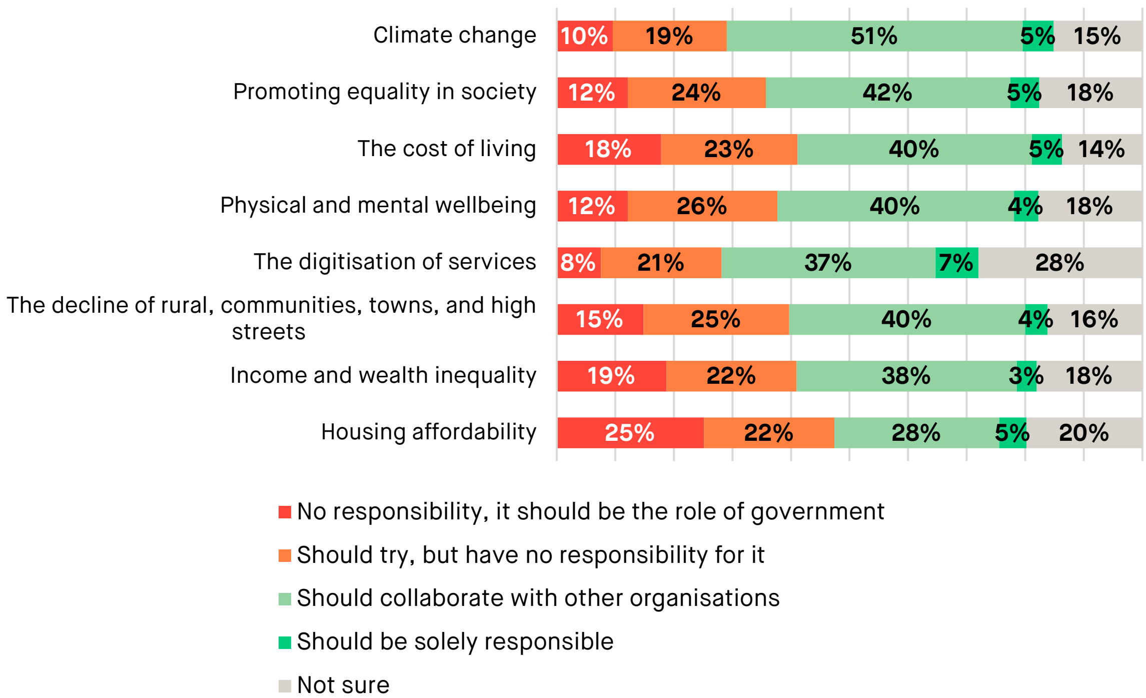
This chapter thus provides new data exploring public attitudes to mutuals, covering consumers awareness and understanding, support for mutuality principles, participation in mutuals, and reasons why mutuals are and are not used.

People think business should take responsibility on social issues

Mutuals are organisations with a social purpose. On average, 44% of respondents think businesses should have either some or sole responsibility for tackling key social issues, compared with 37% who think they have no responsibility. Though it is a small plurality, this suggests the public expect businesses to be socially minded, demonstrating at least some duty of care.

On most issues – the cost of living (45% versus 41%), climate change (56% versus 29%), service digitisation (44% versus 28%), the decline of towns and communities (44% versus 40%), physical and mental wellbeing (45% versus 38%), promoting equality in society (47% versus 36%) – the public are more likely to think business should have some responsibility. There is just one issue where more people believe business should have no responsibility than believe business should play a role: housing affordability (47% versus 33%).

Figure 6: How much businesses should bear responsibility for tackling social issues



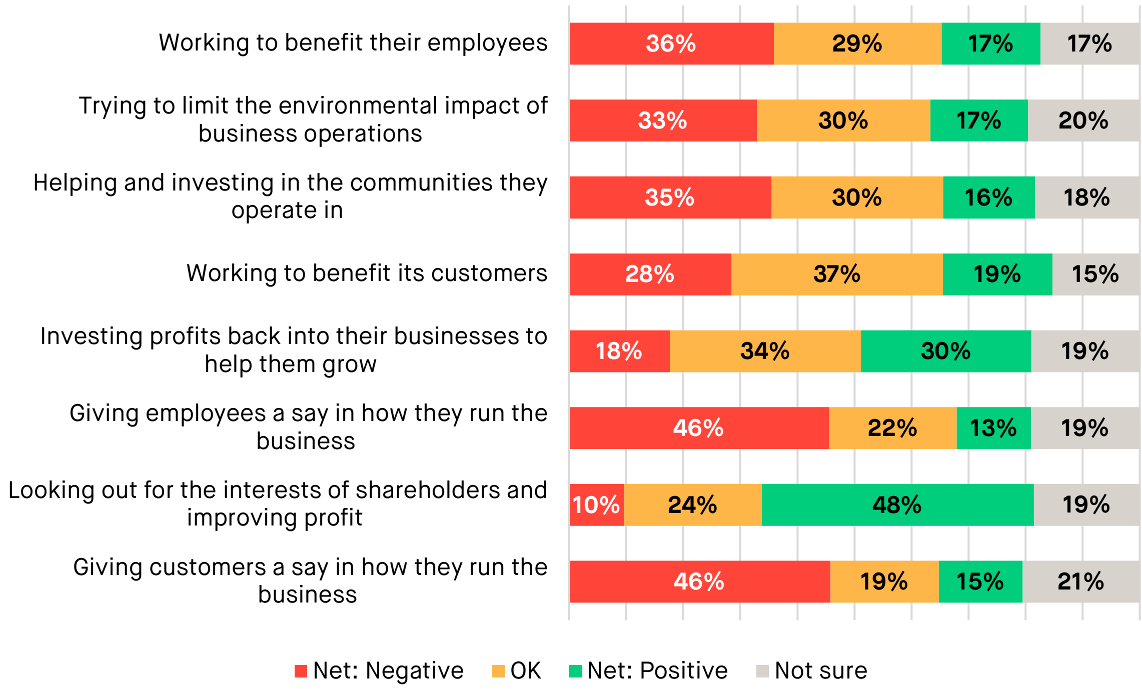
Source: Opinium

But they are perceived as performing badly on key mutuality principles

As well as the above societal issues, British adults think there are areas typically associated with mutuals which businesses should take responsibility for. However, firms are generally perceived as acting ineffectively on those principles. This may be an opportunity for mutuals: it is a gap they are, at least in theory, well-equipped to plug.

People are more likely than not to see business as failing to work to benefit employees (36% versus 17%), help and invest in communities (35% versus 16%), limit the environmental impact of business operations (33% versus 17%), work to benefit customers (28% versus 19%), give a say in how the customer runs the business (46% versus 15%), and give employees a say in how they run the business (46% versus 13%). By contrast, people see businesses as being more focused on their own commercial and financial interests, with a large proportion seeing them as successful at looking out for the interests of shareholders and improving profit (48% versus 10%) and investing profits back into their business to help them grow (30% versus 18%).

Figure 7: Business' perceived performance on key mutuality principles



Source: Opinium; Note: Rows ranked by public importance

Business is unaligned with public opinion

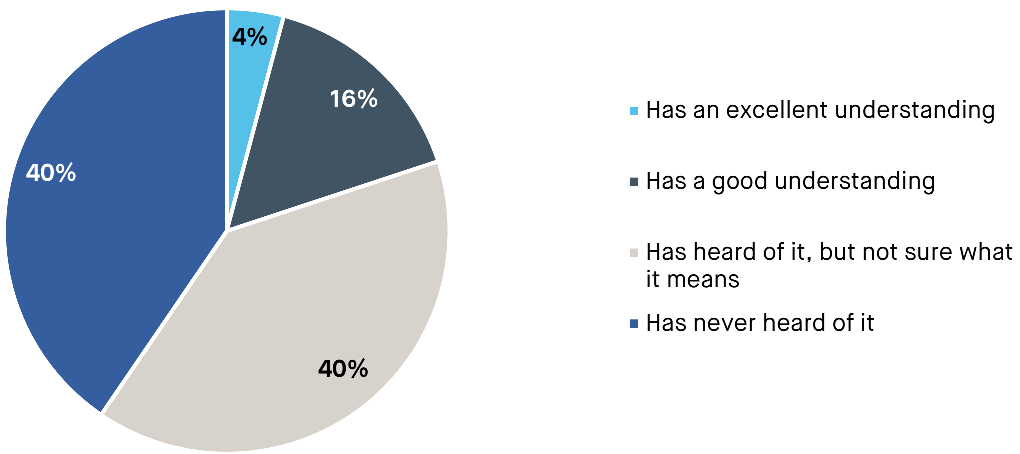
There is separation between what the public think should be important to businesses versus their perceived performance on those priorities. For instance, of all mutuality principles respondents were asked about, working to benefit employees was considered to be the most important. But as Figure 7 above shows, the public perceive businesses as performing negatively in that area. On the other hand, while businesses looking out for the interests of shareholders is the public's second lowest priority, it's the area the public thinks businesses are best at (48%).

These findings are supported by the University of Birmingham's Centre for Responsible Business, which also shows a "huge disparity" between public opinion on how businesses should behave on key issues and how they are actually behaving. In the words of the University's Professor Ian Thompson, "this could be a brilliant opportunity for businesses".[135] The opportunity could be even greater for mutuals, which already have a stake in this kind of behaviour – it could be another leg up in the market.

Generally, public awareness of mutuality is poor

Awareness of mutual ownership is low. Only 20% of adults understand what it means. 40% have heard of the term but are unsure what it means, and the same proportion (40%) haven't heard of it at all. That means four in five of the British public are unfamiliar with mutuality, echoing concerns cited in mutuality literature – including 2015 polling by YouGov,[136] which found 33% of those surveyed had never heard of a mutual – and by sector experts interviewed by the SMF.

Figure 8: Self-perceived consumer familiarity with 'mutual ownership'



Source: Opinium

There are some interesting demographic differences in consumers' reported understanding of mutuality. For example, men were less likely to say they have never of mutual ownership (34% versus 47%) than women and they were more likely to say they have a good or excellent understanding of what it is (28% versus 13%). Perhaps surprisingly, older adults are more likely to be unfamiliar with mutuality. 39% of those aged 18-34 and 37% of 35–49-year-olds said they had never heard of mutual ownership, compared with 50-64 (43%) and 65+ year-olds (43%). Table 3 below shows older respondents were also less likely to have a good or excellent understanding of mutuality.

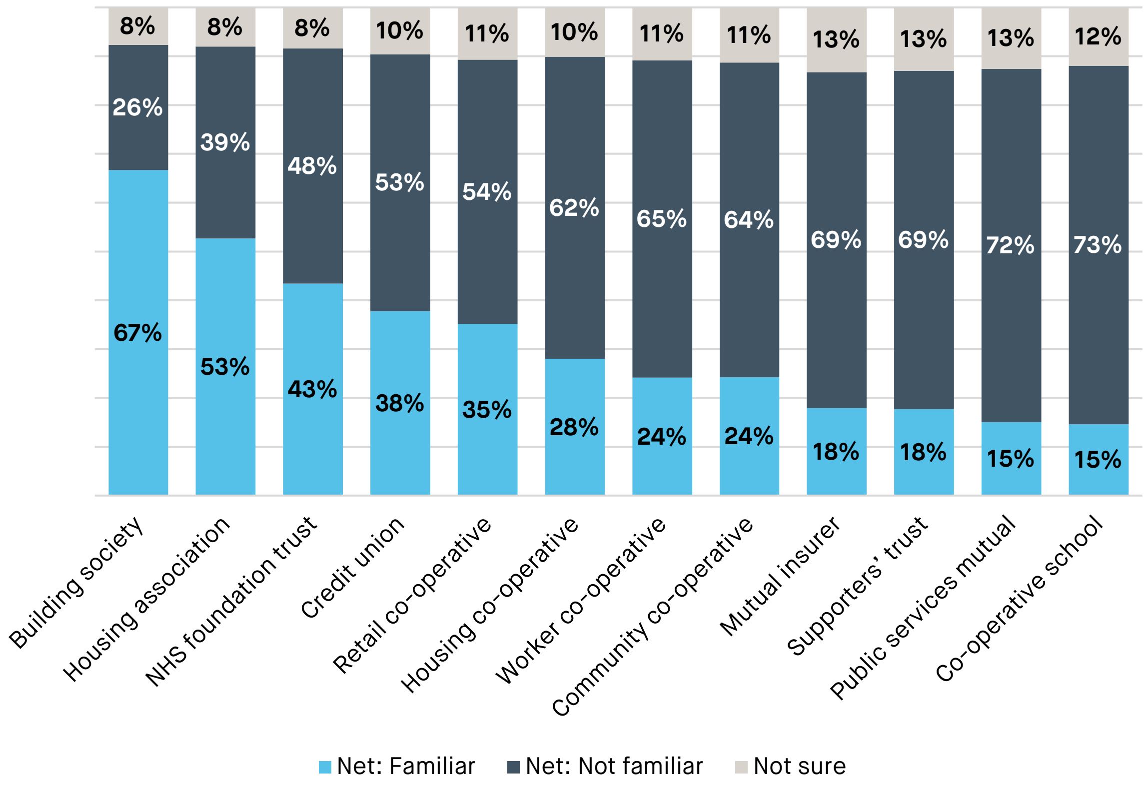
Table 3: Reported good or excellent familiarity with 'mutual ownership', by age group

18-34	35-49	50-64	65+
22%	24%	19%	15%

Source: Opinium

People are also unfamiliar with the variety of different kinds of mutuals. This is true for all types other than building societies (67%) and housing associations (43%), the only types of mutuals which more people recognise than do not. Those aged 50-64 (75%) and 65+ (77%) are more likely to be familiar with building societies, while younger adults (18-34 and 35-49 year-olds) tend to be more familiar with various other kinds of mutuals. Labour voters (22%) were more likely to be familiar with the term 'mutual ownership' than Conservative voters (18%), as well being more likely, on average (34% versus 29%), to be more familiar with different mutual types.

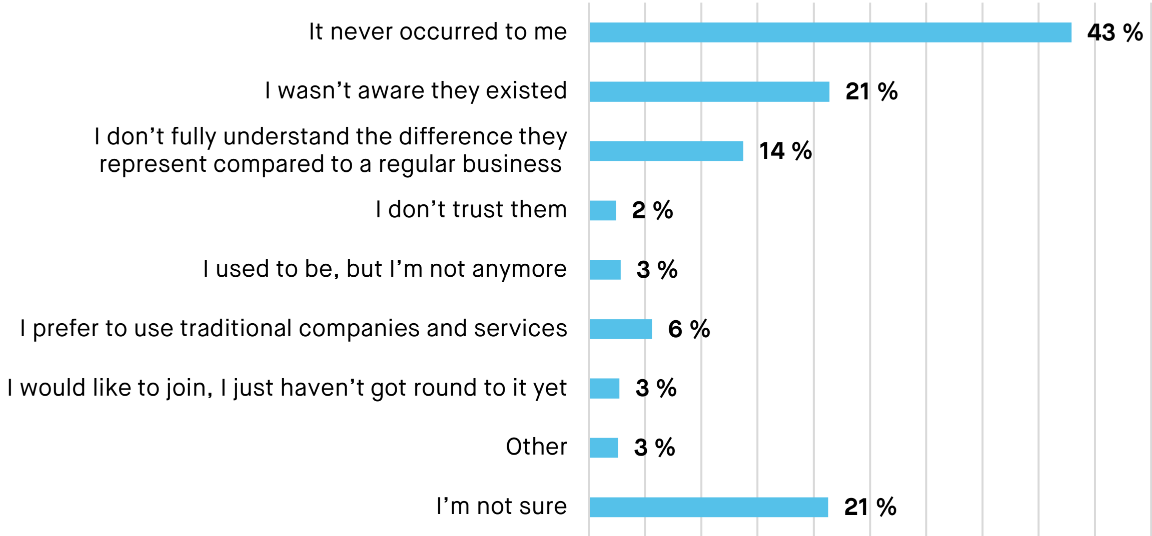
Figure 9: Familiarity with different mutual types



Source: Opinium

Three-fifths (59%) of respondents surveyed for this research said they were not part of a mutual organisation. When asked why that was, the vast majority gave reasons around poor understanding, with "it never occurred to me" (43%), "I wasn't aware they existed" (21%), "I don't fully understand the difference they represent compared to a regular business" (14%) and "I'm not sure" (21%) all standing out. This report has already highlighted that consumers' lack of understanding is a significant challenge for the mutual sector. What this data shows (see Figure 10 below) quite explicitly is that people do not join mutuals *because* of that low awareness.

Figure 10: Reasons for not being part of a mutual organisation



Source: Opinium

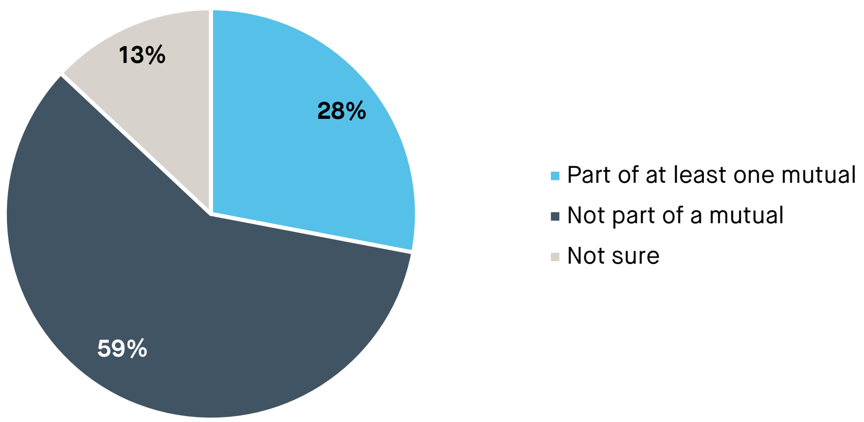
Note: This was a multiple response question, so percentages do not add to 100%

28% of people are already part of a mutual

28% of respondents are part of at least one of the mutual organisations surveyed – broadly consistent with Mutuo's estimate,[137] implying that between a quarter and a third of the population are part of the mutual. 59% of respondents said they were not part of a mutual. 13% said they were not sure if they were or not.

In terms of demography, it is interesting to note that Labour voters (36%) are more likely to be part of a mutual than Conservative voters (25%), while London (38%) is the region with the highest proportion of people in mutuals members, Scotland being the lowest (21%).

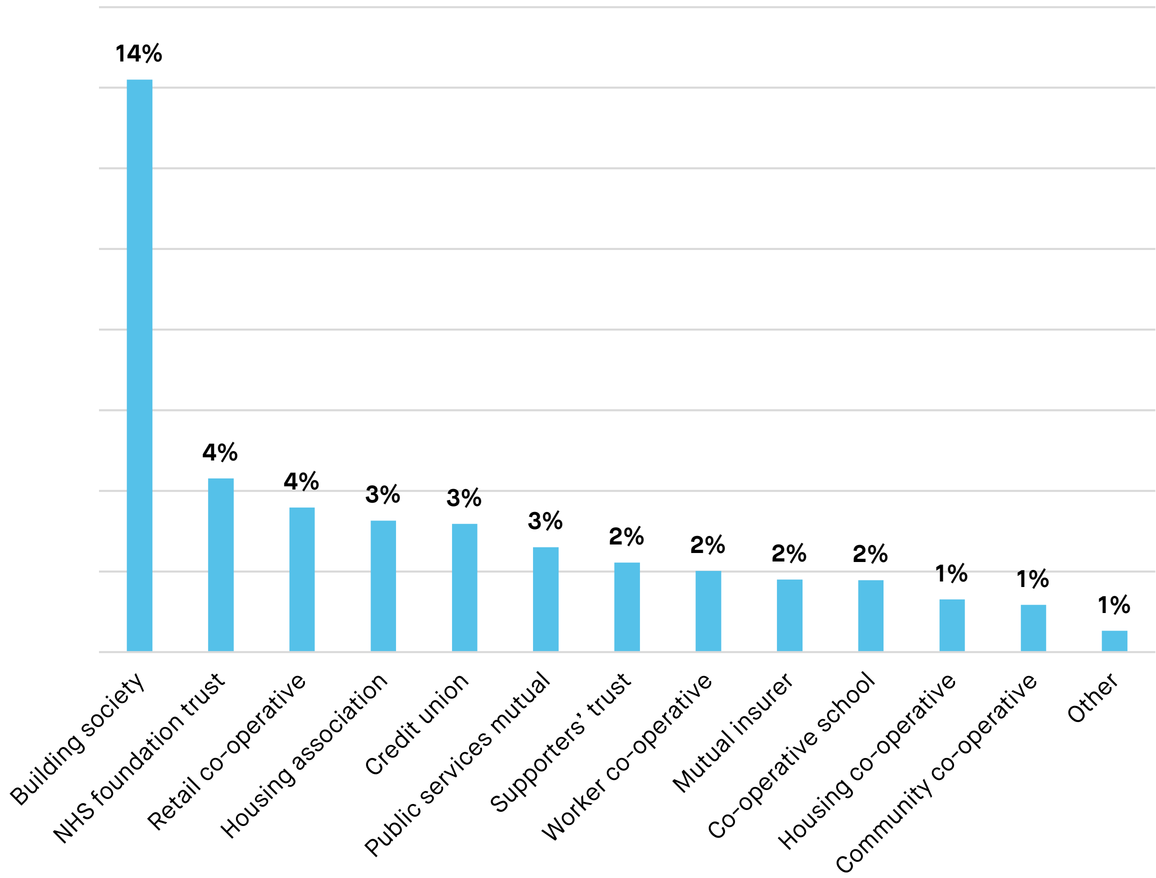
Figure 11: Participation in mutuals



Source: Opinium

As well as being better recognised, building societies also have the highest membership: 14% of members are part of this mutual type. This is followed by NHS foundation trusts (4%) and retail cooperatives (4%), though participation is generally marginal across all other types.

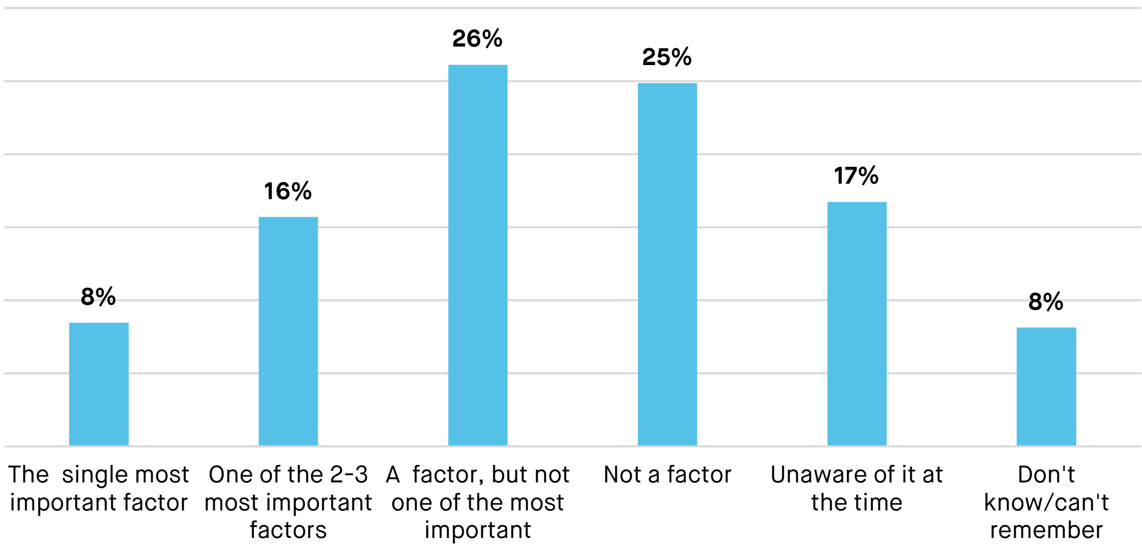
Figure 12: Are you part of any of the following types of mutual organisation? Please select all that apply.



Source: Opinium

Among respondents that are part of a mutual, half said that the organisation's mutual ownership structure was a factor in deciding to join (50%). This is more common among younger generations. 18-34 year-olds (68%) are more likely than those aged 35-49 (53%), 50-64 (39%), and 65+ (35%) to say they joined because of mutuality. This supports the potential opportunity set out above – younger people are more likely to value social and environmental responsibility, and they may well view mutual organisations as a way to promote those values. Labour voters (51%) are more likely than Conservative voters (38%) to have joined where mutual ownership was a factor.

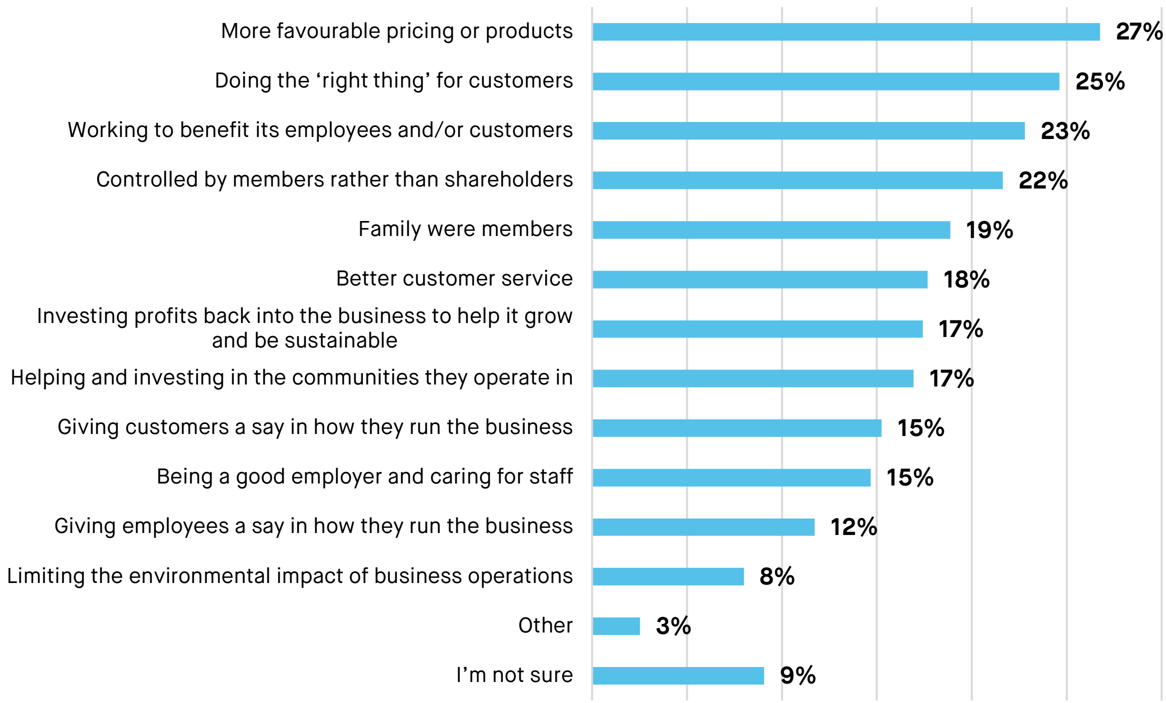
Figure 13: Mutuality as a factor for members joining mutual organisations



Source: Opinium

People also joined for reasons other than mutuality. The most common reasons were around individual benefits – for example more favourable prices/products (27%) or doing the 'right thing' for customers (25%) – rather than ESG principles, such as limiting the environmental impact of business operations (8%) or giving employees a say in how they run the business (8%). This is an important point to raise, as it shows that most people, no matter what a business' agenda is, tend to lean towards options that directly benefit them – especially financial ones.

Figure 14: Members reasons for joining a mutual organisation

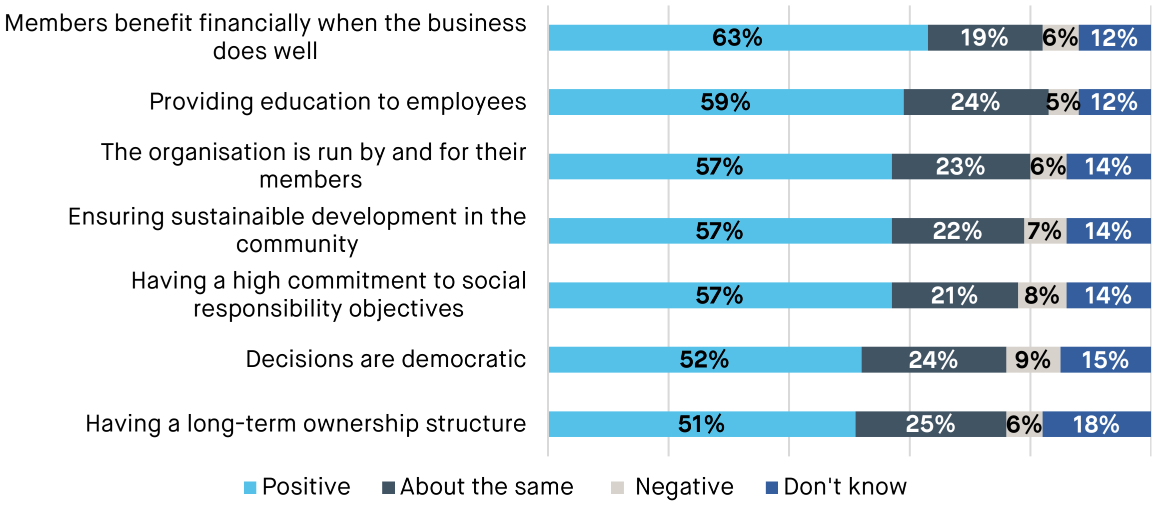


Source: Opinium

The public see the appeal of mutuality

Even though awareness of mutuality is generally low – 66% agreed not enough people know about mutuals (Figure 16) – the public do see the appeal of mutuality. When asked how they felt about businesses demonstrating certain mutuality principles, respondents were mostly positive. But they also showed a significant degree of ambivalence. On average, 57% responded positively to mutuality principles, and just 6% responded negatively. 23% said they felt about the same, 14% say they don't know.

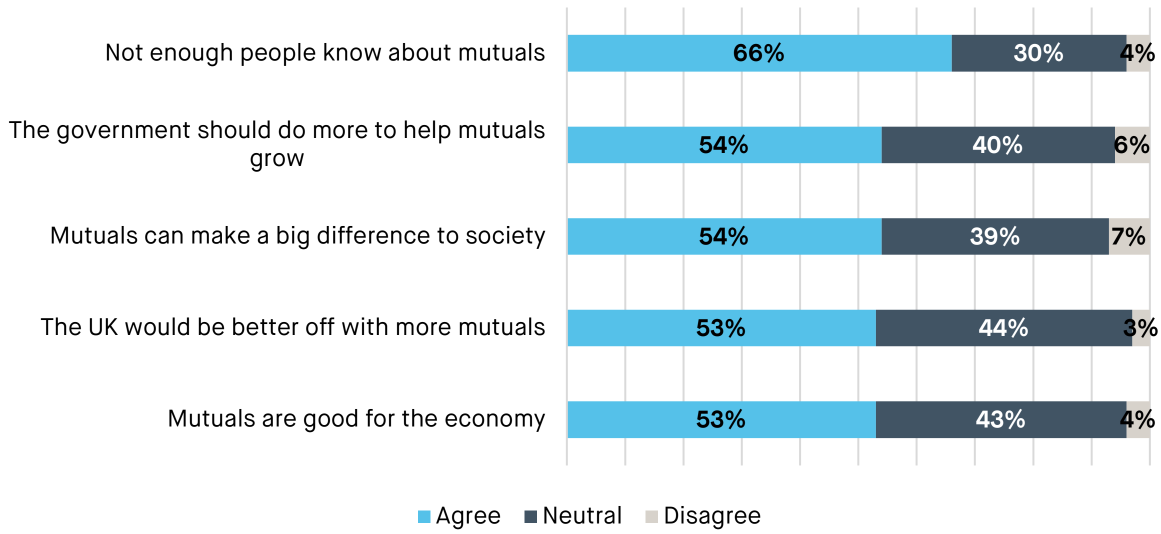
Figure 15: Consumer attitudes to business demonstrating mutuality principles



Source: Opinium

Surveyed adults were also asked to respond to a series of statements around the overall benefit of mutuals and whether they have a place in society. The results were more positive than negative.

Figure 16: Attitudes to mutuals' place in society



Source: Opinium

Within the context of the upcoming general election and a renewed political interest in mutual sector, the second statement – "the government should do more to help mutuals grow" is a particularly interesting one. Beneath the headline number that 54% favour government support for mutuals, it is possible to explore which groups are likely to be most supportive of government mutuality policies:

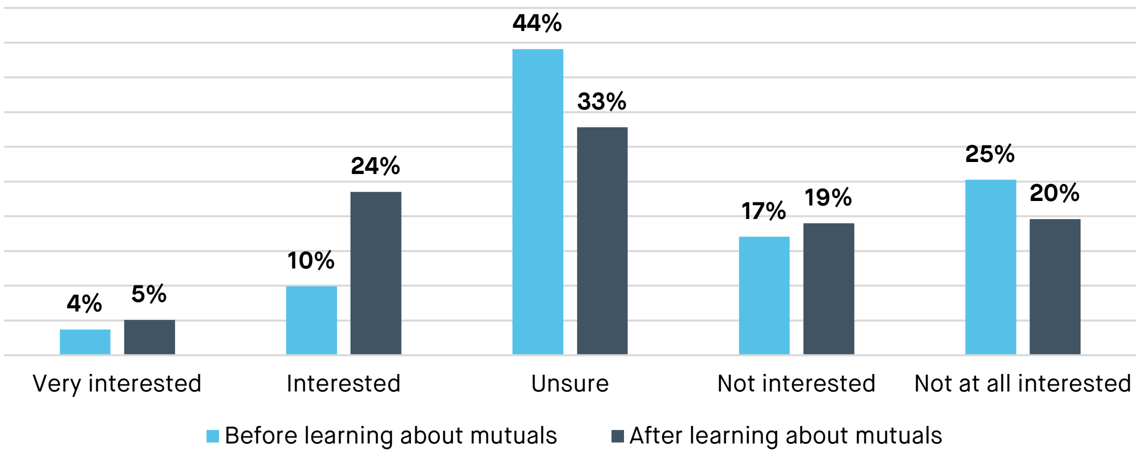
- Females (58%) agree slightly more than males (51%).
- Those aged 65+ (45%) are less likely to agree, though there is virtually no difference between other age groups (18-34, 59%; 35-49, 55%; 50-64; 57%).
- The Welsh (61%) and Londoners (61%) are most likely to agree, followed by those in the Midlands (54%), North (53%), South (52%) and Scotland (49%).
- Labour voters (68%) are significantly more likely than Conservative (50%) voters to support government action on mutuality.

Most are not convinced enough to become involved

When respondents who were previously unfamiliar with mutuals were provided with a description of what they are and do,[vi] there was a significant increase in those interested in joining, doubling from 14% to 29%. This shows that with the right amount of information, more people could become more involved in mutuality.

This is more true for some groups than others, with young adults (18-34 year-olds) and Labour voters being most interested in mutuality. Younger adults are more easily persuaded by what mutuals have to offer, with interest decreasing with age (Table 4). Labour voters were already more interested (19%) in mutuality than those who voted Conservative (12%). However, interest doubled across both groups after they learned more about mutuals (38% and 25%).

Figure 17: Consumer interest in mutuals



Source: Opinium

[vi] In Opinium's survey questionnaire, respondents were provided with the following description: 'Mutuals can offer a number of potential advantages. Mutuals do not answer to or pay shareholders. Instead, they can be described as businesses that have a 'mission', such as offering financial and social benefits to its members, prioritising environmental responsibilities, and investing in local communities.'

Table 4: Consumer interest in mutuals after learning about them, by age group

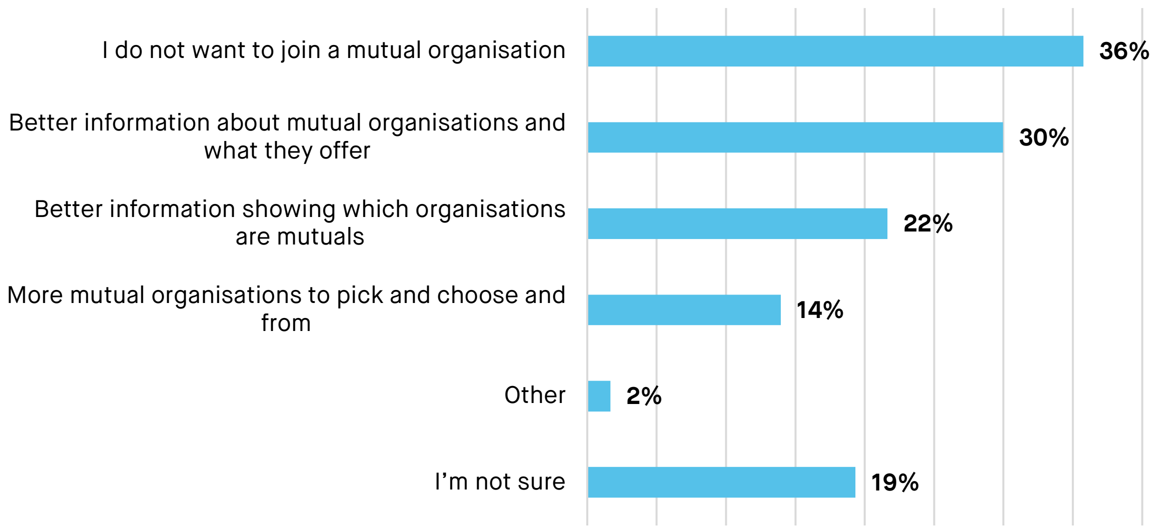
18-34	35-49	50-64	65+
38%	32%	26%	18%

Source: Opinium

Even after learning about mutuality and what it entails, a significant chunk of the public (33%) remain unsure of whether they want to be part of a mutual. A higher percentage (39%) said they still weren't interested. This shows that, though there are grounds for optimism, the mutuality movement has a lot of work to do if it wishes to increase its membership. While those unsure could be seen as 'fence sitters' that could be persuaded of its merit, there is an even larger group that needs much more convincing.

Again, low awareness is a key reason for not being part of a mutual organisation. Around 20% said they were unsure of what they need, while the top reasons that could motivate the public to join are better information about what these organisation have to offer (30%) and more information about which organisations are mutuals (22%). 14% said more mutual organisations to pick and choose from would make them consider joining.

Figure 18: Do you think any of the following would make you want to join a mutual



Source: Opinium

While this seems negative, it may also represent an opportunity. Because what the above charts (Figure 17 and Figure 18) show is that, while some people simply do not want to join a mutual organisation, there are many who remain unsure. They also show that if people were to be made aware of mutuals and their benefits, they are open to changing their mind. In terms of consumer buy-in in UK mutuality, it seems additional support is needed.

CHAPTER SIX – INTERNATIONAL APPROACHES TO MUTUALITY

There are international mutual sectors the UK can learn from. Mutuals are typically found in countries with strong traditions of mutual aid, particularly Europe and North America, but they are also blossoming in other parts of the world, including middle income countries such as India,[138] Vietnam,[139] Malaysia,[140] Jamaica,[141] and South Africa[142].

> *"A lot of countries around the world have modernised their legislation and have put an awful lot into building up their sectors, because they see them with some justification of generating economic and social outcomes that are benefiting their members."* – **Professor Tim Mazzarol, University of Western Australia**

It is difficult to identify which countries have the 'best' performing mutual sectors. The mutual landscape is fragmented with no universal definition of mutuality, leading to varying interpretations and practices in different regions. That being said, experts interviewed for this research reported some exemplar case studies showing what other countries have done to successfully support their mutuals.

Australia: Mutual capital instruments

Australia has a well-established mutual sector, with a significantly higher proportion of the population as members compared to the UK. While around a third of the UK population are part of the mutual, eight in ten Australians are members.[143] The Australian mutual sector has a combined turnover of AU$203 billion,[144] equivalent to around 13% of Australia's 2022 GDP.[145]

The biggest distinction between the Australian brand of mutuality and the UK's is its unique capital vehicle for mutuals, known as Mutual Capital Instruments (MCIs). As part of the Australian government's reforms to support the mutual sector, MCIs were introduced in 2015 as a form of debt capital that can be converted to equity in certain circumstances, for example financial distress, allowing mutuals to raise much-needed capital without having to demutualise.

MCIs' ultimate purpose is to make the Australian Corporations Act operate more fairly for mutual businesses.[146] In November 2020 the mutual insurer Australian Unity became Australia's first mutual to issue MCIs, with AU$120 million raised to pursue short-term growth opportunities, fund investments in social infrastructure, and support merger and acquisition opportunities.[147]

The introduction of MCIs is seen as a positive development for mutuals in Australia and for the mutuality movement more broadly. According to experts interviewed by the SMF, such an instrument would directly respond to the UK's capital conundrum challenge, helping to extinguish the threat of demutualisation, and is thus considered an exemplar legislative mechanism for the support of mutuals. The reforms also provide an additional lesson on the shared benefits of collaboration, coming to fruition after a unified industry campaign.[148]

"This is precisely the conversation we had around LV= and the conversation we're now having around John Lewis. If an instrument like that existed, we wouldn't be having that conversation." – **Peter Hunt, Managing Partner, Mutuo**

Australia: Measuring mutual value

Quantifying and communicating their value poses a significant challenge for mutuals. To address this, in 2017 the Business Council of Co-operatives and Mutuals, the representative body for mutuals in Australia, partnered with Monash Business School to develop the Mutual Value Measurement (MVM) framework. MVM is a tool that enables mutuals to measure their impact through a set of metrics and a "shared language" around how to report mutual value.[149] The framework has six dimensions:[150]

- **Commerciality**, capturing the economy value created by the business operations of a mutual.
- **Shaping markets,** showing the value created by mutuals in shaping markets and providing benefits to members and communities.
- **Member relationships,** relating to the value created by mutuals in building relationships with their members.
- **Community relationships,** demonstrating the value created by mutuals in building relationships with the community.
- **Ecosystem and reciprocity,** showing the value created by mutuals in contributing to the business ecosystem.
- **Mutual mindset,** capturing the value of a mutual acting ethically, sustainability, and consistent with mutual values.

MVM is said to bring direct business and commercial benefits. Above all, it can help mutuals communicate their economic and social value. It can, supposedly, improve strategic planning, helping mutuals to focus on their core business purpose. It may also help mutuals to better engage with their members and customers and foster meaningful relationships.[151] Meanwhile, MVM Accreditation, which is evaluated by an independent panel of experts, demonstrates to others that they are creating value. Like other kitemarks – such as the B Corp logo[152] and the Fairtrade Mark[153] – accreditation signifies a mark of quality, showing members and consumers they are a business they can trust.[154] As of June 2023, six mutuals have achieved MVM accreditation in Australia.[155]

Although cost could be a potential obstacle – an MVM consultancy service costs AU$12,000 (£6,500),[156] therefore signing up to the scheme may not be affordable for all mutuals, particularly smaller firms – such a tool would be useful here in this country, giving UK mutuals the guidance they need to effectively communicate their worth. Indeed, the framework has already been adopted by one British mutual, Newcastle Building Society, which is awaiting accreditation.[157] While the tool is relatively new and therefore data showing its uptake, coverage, and outcomes are currently unavailable, MVM appears to be, at least in principle, precisely what the sector needs to demonstrate its worth.

The United States: Mutual expansion centres

Despite its status as the bastion of free-market capitalism, the United States is seen by experts as having a relatively strong, well-supported mutual sector. While the US is home to several noteworthy mutuality developments – large mutual funds such as Vanguard which provide investment opportunities at lower costs,[158] supposedly helping to democratise finance;[159] credit unions that are exempted from federal income tax by virtue of delivering public purpose;[160] mutual organisations being routinely measured by national data sources[161] – interviewees with expertise in the matter, including American academics, expressed most interest in employee ownership.

Employee ownership (EO) refers to employees having an ownership stake in the company they work for. EO schemes are considered to be "consistent within the long American tradition of encouraging broad-based private property ownership", but they are also thought to be a powerful tool against inequality: strengthening firm survival, enhancing employment stability, and increasing democratic participation and corporate transparency.[162] Due to these perceived advantages, there is a growing movement that aims to expand EO across America.

> *"In the US, Republicans tend to see it as good for capitalism, the fact that employees are owning capital and investing in it. The Democrats tend to see it as giving employees more of a voice."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

The Employee Ownership Expansion Network is comprised of 20 state centres, each serving as a hub between regional business owners, chambers of commerce, business advisors, community groups, and government officials on the outreach and education of EO.[163] As well as a "business growth tool" it also helps with succession planning, helping ageing owners pass on their business to employees and the community. According to the Network, businesses located in states with EO centres created 48% of new employee shared ownership plans in 2017, while 34% of all EO businesses are located in those states.[164]

Employee ownership is a specific type of mutuality. But that's not to say similar models – networks that help like-minded mutuals to collaborate, share knowledge, covert ownership structures, and help mutuals to learn and grow – cannot also exist. America's expansion network leverages both public and private funding[165] although federal support for the initiative is limited.[166] This raises an important question: who would bear the costs of such a scheme in this country – philanthropists, the government (taxpayers), or mutuals themselves.

France: Nationally integrated mutual health support

Mutuality is said to be "the oldest social movement on French soil".[167] Today, the sector consists of nearly 500 member societies which protect 38 million people – more than half of the French population – employ 75,000 people full-time, and work with 100,000 elected volunteers. While their main purpose is to ensure welfare and provide protection across a wide range of social objectives, French *mutuelles* mostly cover health.[168]

France's health mutuals offer insurance coverage to members who contribute to a common pool of funds which is then used to provide health benefits. Most of these mutuals provide a range of health insurance plans, including coverage for medical consultations, hospital stays, and prescription drugs. They do not pay dividends and all of their profits are invested in favour of their members. They do not practice risk selection.[169]

Today, health mutuals represent "the first health and social network" in France, supervising nearly 3,000 care and support facilities, including the formation of not-for-profit hospitals, dental centres, and other establishments.[170] The key difference between France's mutual sector and that of other countries' is therefore its degree of integration with the national health system, with mutuals acting as the main funder of health after French social security. The government requires all residents to have basic health insurance; mutuals provide supplementary 'top-up'[171] insurance to cover services only partially funded by the public system.[172]

While the UK's potential shift towards a two-tier healthcare system is currently a topic of debate,[173] French *mutuelles* provide a nationally integrated system of health support, at a lower cost than that of private insurers, with the French government providing financial assistance to mutuals in the form of tax breaks and subsidies to ensure mutuality services and the benefits they provide are affordable and more widely accessible.[174] This means the French taxpayer effectively subsidises mutuality, adding to the already-high tax burden workers in France face,[175] – a lesson worth keeping for policymakers in this country.

> *"In France, they have a range of different protections for mutuals. It has permissive legislation, which removes some of the obstacles to collaboration through the creation of groups or networks of mutuals."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

Spain: Mondragón's federation of co-operative mutuals

Spain's mutual sector, like in France, is an important part of the country's social economy.[176] A unique example of the Spanish mutual experience is the Mondragón Corporation, a federation of co-operatives that is based in Spain's Basque region. The group is one of the largest co-operatives in the world, operating across a wide range of industries while investing heavily in social development projects.[177]

Mondragón acts as the parent company of 95 separate self-governing worker co-operatives all united under co-operative principles, first and foremost worker protection.[178] Each of Mondragón's co-operatives pays into a collective fund. When an individual co-operative does well, their members share the profits. But when times are tough, the co-operatives support one another, sharing finances and reallocating workers between themselves in order to save jobs.[179]

Indeed, in the aftermath of the financial crisis the Spanish economy struggled with a double-dip recession and high unemployment rate. While stakeholder companies were severely tested, Mondragón and the region remained stable. *The Guardian* reported that, unlike regular companies, it retained almost all jobs while managers took the biggest pay cuts. Crucially, businesses part of the Corporation's vast network also supported other firms, lending those worst-hit money.[180] Several years later, Mondragón was commended by *The New York Times* for its resilience during the coronavirus pandemic.[181]

Mutual structures are sometimes criticised because they do not lead to expansion. But Mondragón is highly successful in this department: it is a "genuinely large" and advanced industrial enterprise which has annual revenues of more than €14 billion (around £12 billion), and is one of Spain's largest employers.[182]

According to an OECD representative, "Mondragón is one of the landmarks of the social economy movement because of its scale… they show that it's possible to be profitable but still act on social objectives".[183] The Mondragón federation of co-operatives is a global success story that illustrates what mutuality *can* achieve, particularly during times of crisis and when they work together, while showing there are ways of doing business beyond the orthodox shareholder model.

> *"Mondragón's got a very strong co-operative sector. That's interesting because of difficulties around scaling up. How they dealt with that is, when their co-ops get too big to be able to have an appropriate democratic discussion and control of the organisation, they split up. They've now got many co-operatives."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

CHAPTER SEVEN – HOW TO SUPPORT MUTUALS

This report has highlighted the many purported benefits of mutuality, including opportunities that can make it 'stand out' in the modern economy: its resilience and stability, alignment with evolving public opinion, and the resurgence of political interest in mutuals.

In order to capitalise on these opportunities, it is important to address certain challenges. The SMF has identified three key obstacles that are preventing the mutual sector from reaching its full potential:

1. **Raising capital**, leading to problems around growth, demutualisation, and, ultimately, constrained consumer choice. This includes start-up capital for new mutuals as well as financial support for existing ones.
2. **Staying competitive in the market,** a problem which stems predominantly from a lack of capital and resource, but which also reflects the small size and stature of most mutuals and a lack of collaboration from within the sector.
3. **Poor awareness and understanding**, most of the public are unfamiliar with mutuality, the different kinds of mutual organisations, and what they have to offer – a significant challenge for any type of business.

This chapter offers a range of potential solutions to address these challenges. Drawing on insights from experts who were interviewed for this research, as well as from international case studies outlined above, it presents a series of actions that the mutual sector can take – and recommendations for how the UK government can offer its support.

There are actions the sector should take

There are plenty of international examples the UK mutual sector can draw inspiration from if it wants to grow its mutual sector. That should involve government support, but there are also a range of actions mutuals can take – together – to increase awareness of mutuality and convince the public of its place in today's economy. In order to make the most of the opportunities in front of them, mutuals should act proactively.

Show strong brand identity and market differentiation

As several participants highlighted, mutuals must find a message that appeals to consumers and motivates them to become a member. That means concentrating on purpose, translating those principles into a strong brand that resonates. Mutuals could see huge benefits by better communicating their value to potential customers.

As we have highlighted, consumers are becoming increasingly ethically minded. Demonstrating that mutuals care more about ESG concerns than the average business could therefore be a potential avenue for future membership growth. By 'owning' the narrative, mutuals' commitment to social objectives could be something that sets them apart from investor-owned firms for years to come.

> *"Concentrate on purpose. That's what unites mutuals"* – **Peter Hunt, Managing Partner, Mutuo**

Mutuals can further distinguish themselves by providing a more compelling financial case for participation, such as promoting superior products, competitive pricing, or higher probability of claim payment. The results of the SMF survey indicate that people are primarily concerned with individual benefits. Therefore, mutuals should focus on highlighting how their offerings can better meet the needs of their members.

Survey respondents were more likely to feel positive about financial rewards (63%) than democratic decision-making (52%), for example, while existing members were most likely to join a mutual for favourable prices or products. At a time when most people are worrying about the cost of living, mutuals should go out of their way to demonstrate the advantages they offer over their competitors.

> *"How do we find a message that appeals to consumers and motivates them to want to be a member of a mutual? That isn't about voting at the AGM because, in our experience, 95% of people don't want to take part in the AGM process. Part of the answer lies in your appeal as a business."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

Find a language that resonates

Clear communication is vital in business. It helps to ensure messages are conveyed accurately and create a distinct identity. But as it stands, 'mutuality' and its principles are difficult to pin down, and because the sector encompasses so many different types of organisations the topic can, understandably, be confusing for consumers. Experts have suggested that mutuals adopt fresh terminology that makes them more accessible and intuitive.

As an example, one interviewee recommended using broad terms that do not align with either extreme of the political spectrum and that emphasise people's preferred financial benefits. They suggested the mutual sector promote phrases like "sharing economic rewards," "equity participation," and "profit sharing" to help individuals understand mutuality in more general terms.

The most significant recommendation regarding language was the adoption of a clear, digestible term to describe mutuals that unifies them under a single banner. For example, in Australia, the term 'CME' (co-operative-mutual enterprise) has gained widespread usage and recognition.[184] Like 'SME' for small and medium enterprises, the phrase is said to have become a common term. This stands out as a sensible, simple solution that the UK would do well to adopt:

> *"There was separation as a community, they saw themselves in their own little areas. The logic [of creating a new term] was two-fold. One, making it easier to say. But also uniting them under a single banner that people understood. It has worked. In fact, the Australian Federal Parliament has adopted the terminology. It's become widely used in Australia."* – **Professor Tim Mazzarol, University of Western Australia**

Collaborate and form alliances

A common challenge within the mutual sector is the difficulty in collaboration due to the vast array of businesses with varying aims and objectives. This, in turn, creates barriers to competition in a market dominated by investor-firms with similar agendas. To address this issue, mutuals should seek to collaborate more effectively, especially given their shared principles of solidarity and mutual benefit.

In practice, this could mean many things. For instance, some experts proposed that mutuals help each other out economically, buying products and services from each other to "get everyone in the same supply chain". Spain's Mondragón Corporation is a fine example of just how far such co-operation can take mutual groups in tough circumstances, irrespective of their size.

> *"These businesses should be sourcing their IT services or HR services, for example, from other like-minded businesses – supporting mutuals, co-ops and social enterprises through their supply chains."* – **Dan Gregory, Director, Social Enterprise UK**

One interviewee spoke of the need for stronger alliances. One such example might be national networks, like America's employee ownership centres, that help to create communities, share information, and discuss best practices. New support infrastructure could also take inspiration from the Ownership Hub, an ongoing project supported by Co-operatives UK and the Employee Ownership Association, providing expertise on the various other kinds of mutual ownership models.[185]

Some experts suggested more formal arrangements, such as creating a single association group that brings together like-minded organisations 'under one roof'. The ICA is a good example of such an arrangement. It has defined and united the cooperative movement on a global level, and most countries' legislation refers to the ICA's definition of what a cooperative is.[186] A similar alliance, even on a national level, could be a potent tool for British mutuals, especially in terms of political advocacy.

Recommendation 1: Campaign to boost awareness and brand recognition

Awareness and understanding of British mutuality is poor. The sector should not wait on anyone or anything else to change that. It needs to respond to the challenge proactively, improving its brand recognition and competitive edge via marketing, communication, and education.

It is not within the scope of this report to outline what a new mutuality campaign should be. But experts interviewed for this research have provided examples of what such a campaign *could* look like. The following could be standalone actions, or they could be come together as part of a concerted strategy or sequence:

1. **A mutuality kitemark or certification scheme** that provides a mark of quality, transparency, and ethical practices to consumers, establishing a set of standards or principles that mutual organisations need to meet to be eligible. Crucially, these schemes could help to raise brand awareness and trust, indicating that mutual products and services have high social impact. Rather than introducing a new scheme, Australia's Mutual Value Measurement, already adopted in the UK, would be a ready-made solution.
2. **Industry-funded public information campaigns** which communicate the benefits and values of mutuality – in all its forms – to the public clearly, by way of advertising, social media, partnerships, events, and publications. Such a campaign would be costly to the sector, but it is likely the most effective, widespread means of addressing the sector's poor awareness problem. To help reinforce a strong brand identity, it could also introduce new phrasing like 'CME' (similar to 'SME', now a common term for small- and medium-sized businesses).
3. **Mutuality support networks** could serve as a platform for different kinds of mutuals to connect with each other, share best practices, and access resources and support services. Such an alliance could also include partnership opportunities, training and development programmes for mutual leaders, and – most importantly – representation for mutuals, advocating policies that support the growth of the mutual sector. Different to sub-sectoral trade bodies that already exist to represent specific industries or services, a mutuality support network would be the product of a wider, collaborative campaign.

There are also policies the government can implement

According to one expert interviewed for this research, there are three fundamental elements essential to the success of a mutual sector: a permissive and supportive policy environment, a facilitatory legislative environment, and sensitive regulation tailored to its specific business purposes.

While the mutual sector can take certain actions to support itself, it's important to recognise that the government also has a role to play. And as demonstrated above, a majority of the public (54% versus 40%) believe that the government should do more to facilitate the growth of mutuals. Policymakers should take note of these sentiments.

> *"The coalition government pledged to support mutuals, but didn't act on it. The current government needs to commit to more diverse ownership and return to that pledge."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

As the next general election approaches and political interest in mutuals is on the rise, experts have put forward various suggestions for how the UK government can effectively support mutuals.

Provide avenues for mutuals to raise capital

One of the main challenges the mutual sector is faced with is the 'capital conundrum' and issues around limitations to growth. A solution to that problem, from a government perspective, is to make changes to legislation and regulation that makes it easier for mutual organisations to raise capital.

> *"It's difficult for them to get funding on the same basis. That can be rectified by government, making sure mutuals aren't discriminated against."* – **Jonathan Michie, Professor of Innovation and Knowledge Exchange, University of Oxford'**

In particular, experts recommended the introduction of capital instruments, for example Australia's Mutual Capital Instruments, which allow organisations to issue shares while protecting the mutual ownership structure.[187] Such instruments will help mutuals to grow and, in some cases, will prevent them from losing mutual status entirely. Capital instrument mechanisms promise not just to level the playing field, but to address an existential threat. The one policy solution cited more than any other in this research, it may be what mutuals need most.

> *"The UK Government should support the creation of similar new capital instruments, with a new model for financing to allow the provision of non-member investment, which provides capital in return for a limited return but no participation rights."* – **Co-operative Party and Social Enterprise UK**[188]

More specifically, it has been suggested to the SMF that capital-raising instruments could take one of two forms: either they do not provide a return to investors, or they do, but not beyond an interest-like return, and only in circumstances where the business is profitable. Voting would be limited to the principle of one member, one vote, and there would be a related 'ask' of policymakers to ensure that any interest was tax-deductible. These suggestions have not been studied in detail and require further discussion.

As one participant explained, another approach that has merit is to provide government loan guarantees that commercial and mutual lenders and financial institutions can use when they extend credit to organisations with employee share ownership. In the US, there is new bipartisan legislation just introduced into the US Congress by both parties on this.[189] The US Treasury Department also has a new programme to extend up to $5 million in credit to ESOPs, co-operatives, and employee ownership trusts that want to buy out retiring small business owners.[190]

Another possible policy avenue is government funding that can support the growth of new mutuals. One way to use this funding is to help some organisations convert to ownership models, including essential community assets like swimming pools, football clubs, and pubs – things that matter deeply to electorate. A dedicated conversion pot or 'Right to Buy' initiative[191] could help smaller companies that lack the resources of larger firms, such as Richer Sounds[192] and Aardman[193], to convert to alternative ownership models. Tax incentives could be introduced to help facilitate the start-up of new organisations, for example tax relief on profits reinvested into asset-restricted mutuals.[194]

> *"A government that cared about ownership would be saying, 'we want to see assets on the high street, football clubs, utilities, transport, swimming pools, leisure centre, things that people care about and are at risk of losing, we want to covert those into new ownership models.'"* – **Dan Gregory, Director, Social Enterprise UK**

Provide advocacy for, and strategic oversight of, the mutual sector

The government could provide strategic oversight to the mutual sector. While the Co-operatives, Mutuals and Friendly Societies Bill recently passed its final stages in Parliament,[195] experts believe the government can do more to support the sector in this area.

For one participant, a comprehensive 'mutuality' or 'alternative' ownership strategy is needed. Others suggested creating a dedicated government sub-department for the mutual sector; a team of experts within a larger department like BEIS or the Treasury. Another expert recommended there be a named minister for mutuals, someone to provide direct representation and act as a dedicated advocate within government, similar to the minister for small business. However, this would require significant resources, both in terms of funding and personnel. As discussed below, this could be difficult to justify.

> *"There isn't one part of government that says, 'we're the champions for mutuals' that treats mutuals consistent with companies. Having that part of government that has responsibility for a part of the overall economy, which is comparable to most other industries, would be really important."* – **Martin Shaw, Head of Policy, Association of Financial Mutuals**

Reform legislation

The ultimate policy change, according to one expert, would be to review legislation "once and for all". This is line with recent calls for legislative reform from advocates in both the Labour and Conservative parties.[196]

In particular, it suggested the government introduce a new Mutuals Act that would create a legal framework tailored to the specific needs of mutuals. It's believed the Act should be given the same level of credibility as the Companies Act, or at least included within the Companies Act, similar to practice in Australia.[197]

But as that expert highlighted, renewing legislation for the mutual sector could be a complex and challenging process. Mutuals are diverse and operate in a variety of industries and sectors, leading to challenges around the balancing of competing interests and business models.

> *"The Co-operatives, Mutuals, and Friendly Societies Bill might result in a Law Commission review of all mutuals legislation, and I think if we can get that that would be a really big prize. Because when you formalise these questions, people then take them seriously, they have a proper conversation about them."* – **Peter Hunt, Managing Partner, Mutuo**

Recommendation 2: Introduce mutual capital instruments

Any of the above proposals would be valuable to the UK mutual sector. However, two of them – government advocacy and legislative reform – lack sufficient evidence. Government spending on oversight of the sector is hard to justify without strong evidence of its potential benefits, while root-and-branch legislative reform would also require a deeper policy understanding of the current state of the mutual economy and its impact. Along these lines, a third recommendation is proposed (see below).

In the meantime, the most pressing challenge for mutuals is to address their difficulties in raising capital and demutualisation while retaining their ownership structure. This problem requires immediate attention, without the need for further evidence. While the Mutual Deferred Shares Act has recently been legislated, it does not cover all parts of the mutual sector and is considered to be ineffective. Further change is needed. To address this challenge, the government should consider capital instrument-enabling legislation that allow transferrable shares and do not undermine the integrity and specific nature of mutuals, specifying the conditions that must be met if a mutual is to make use of such instruments. Australia's Mutual Capital Instruments is one such model the UK could emulate.

Create greater policy understanding

Evidence-based policymaking is essential for governments to support business and effectively review and update their legislation. But data showing the impact of the UK mutuality sector, and current levels of understanding and engagement, may not yet be strong enough to justify that level of support. Capital instruments and industry-funded awareness campaigns are low cost to government – things like new government units, ministers, and pots of money are not.[198] Taxpayer funding needs to be carefully considered and accounted for.

That is not to say mutuals do not deserve wider policy attention beyond the introduction of capital instruments. If this report has showed anything, it's that they have the potential for a great deal of social good. They offer something most businesses do not and help to create a diverse, healthy economy. Opinium's survey data shows that the public think they are a good thing. The difficulty is measuring those benefits against the cost of big policy changes without the supporting business case.

It is hoped this report has gone some way to convince policymakers of the benefits of mutuality. But the sector should continue to make the strongest case for itself, starting with more data, case studies, and evidence that demonstrate its positive impact. If the purported benefits of mutuality can be shown to be as impactful as they are claimed to be, there would be much less reason for government not to offer its support.

> *"If the UK does not have such data, then you can argue that they should."* – **Joseph Blasi, J. Robert Beyster Distinguished Professor and Director, Rutgers University Institute for the Study of Employee Ownership and Profit Sharing**

In true mutual spirit, organisations of all kinds should pool together their resources to create better data and information. Currently we know little about the number of mutuals, the size of different mutuals, their turnover, membership, number of employees, or how much they contribute to the economy. There is no comprehensive database that monitors mutuals. There is not even a standard definition or classification of mutuals. Meanwhile, countries such as Australia[199] and Canada[200] have impact studies that map the size, composition and overall health of the sector. This is one action the sector could take to collaborate: collect data and share it from under one roof.

The Labour Party has outlined its commitment to double the size of the UK mutual sector.[201] For that pledge to work, there needs to be a clear definition of the sector and robust estimates of its size. Meanwhile, Andrew Griffith, the Economic Secretary, has announced the Government will launch a review of key mutual legislation.[202] The sector should give the government everything it needs to carry out that review, and possibly wider sweeping reviews in the years to come, if it wants to be more heavily invested in.

Recommendation 3: Create greater policy understanding

To support the sector's growth and provide a more robust justification for policymaking decisions, mutual organisations and the government should collaborate on the creation of comprehensive data that monitors UK mutuality.

The sector should pool their resources to collect and share data under one roof, to provide a more complete picture of the sector's performance. The government should use this data to carry out future reviews of mutual legislation, as stated by the Economic Secretary. Australia's nascent Mutual Value Measurement framework would be a useful tool in this regard. Additionally, the government could take a more proactive approach by routinely collecting data on a national scale, similar to practices in the United States.[203] Not only would this help to support a consistent and accurate understanding of mutuals' impact, it would also inform future policymaking decisions – and, possibly, changes to mutuals legislation.

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