

Lady Grover's Hospital Fund for Officers' Families ("The Society")

2021 Change Prospectus

Proposal by your Committee to Secure the Future of the Society by altering the Constitution to provide Benefits on a Discretionary Basis and to Incorporate the Society

Introduction - Why We Are Recommending The Change To A Discretionary Model

The Society is a Friendly Society currently falling within the regulations applying to insurance firms, from the very largest (like AVIVA) to the very smallest (ourselves). The regulatory requirements place a significant burden on our continued ability to support our members, primarily in two ways. They require us to employ one or more persons with insurance industry knowledge and experience (currently our CEO, Stuart Bell), which adds financial burden but, more importantly, insurance regulation brings us within the reach of solvency rules under which we have to maintain high levels of solvency capital to protect against stresses, such as stock market fluctuations or changes in interest rates. While we remain a regulated insurer, these stresses (which we could weather simply by reducing benefits under a discretionary model) could render the Society technically insolvent at a stroke, even with around £2 million in assets. This could lead to a precipitate dissolution and loss of future benefit. As we have previously advised in newsletters, your Committee believes that both the financial strain and the precarious solvency position are unsustainable and that it is therefore not in members' interests to continue as a regulated insurer. The Committee is therefore proposing a change in the Society's status that removes these financial challenges yet preserves the ethos and spirit that the Society has maintained since its establishment by Lady Grover.

The Proposal

Our proposal would fundamentally change the nature of your Society, but will effectively reset Lady Grover's Fund in its history, before modern insurance regulations applied to Friendly Societies and particularly before the regulatory structures of the last two decades. We seek your approval to operate as from 1 January 2022 on a Discretionary basis. **This means that applications for benefit would be considered by the Committee at its discretion and that members would no longer have a contractual right to claim benefit or any of the protections that the regulatory regime currently gives them, such as the supervisory oversight by our regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), under their rulebooks and recourse to the Financial Ombudsman Service and the Financial Services Compensation Scheme. Members will therefore no longer be able to place any reliance on receiving benefit – as there would no longer be any guarantee that an application for benefit would be paid in full or at all.** However, the Committee will ensure that every application is considered with the highest levels of diligence and compassion.

We propose to effect this change through a members' vote at a Special General Meeting (or SGM) which would also modernise the Rules and incorporate the Society. The additional stability that the proposal would bring would give us a stronger base from which to grow our membership and also make our partnership with the Officers' Association (OA) less complex and more symbiotic as the OA itself evolves. The Business Case for this is given in **Appendix 1**, expanding on our rationale.

What Does Discretion Mean?

As explained above, conversion to a discretionary basis means that applications for benefit will be considered by the Committee with diligence and compassion, rather than in accordance with strict contractual entitlements. It will also mean that if the Society's funds come under strain, we will be able to reduce or suspend paying benefit.

However, the Committee presently expects, based on its own view of the Society's current circumstances and on the actuarial advice it has received, that once the transition is complete we would have sufficient funds to allow the Committee to exercise its discretion as to the merits of applications received without undue recourse to the reserves.¹ The payment of benefits would of course no longer be guaranteed, so that members will need to be comfortable in placing their reliance on the Committee's diligence and good judgment in exercising its discretion fairly. They will also need to form their own view of the Society's financial stability and should not place reliance on receiving benefit. In a year where, say, there was either a significant drop in investment values or income, or a significant rise in applications for benefit, the Committee would, in addition to its discretion about the merits of any particular application, also have the discretion to make changes to the overall level of benefits paid out in order to sustain the Society. It would exercise that discretion in accordance with its own assessment of the situation, of course taking appropriate professional advice but outside the regulatory framework currently provided by the PRA and FCA. In such circumstances you could not rely on receiving the benefit for which you had applied, but our current view is that we would anticipate having sufficient funds to be able to exercise our discretion in considering applications for benefit diligently and with compassion, hence being able to maintain the ethos and founding principle of Lady Grover's Fund.

In essence your annual subscription would change from being an insurance premium with guaranteed pay-outs in the event of a valid claim, to being a contribution to the Society in return for the ability to make applications for benefit to be considered by the Committee, where the pay-out might not be paid in full or at all – at the discretion of the Committee. At our recent Annual General Meeting many members made it clear that they had joined the Society, not so much

¹ The reference here (and throughout this document) to the Committee considering the "merits" of each claim should be understood broadly to incorporate considerations not only of whether the claim meets the eligibility or other criteria notified to members, but also whether – in the Committee's discretion – it is an appropriate claim to pay, taking into account compassion factors, need and any other consideration that the Committee considers appropriate in the circumstances.

in the expectation of being able to claim benefit for their own families, but as an act of solidarity with fellow-officers and fellow-officers' families who might need support from the Society in the future. This is entirely consistent with the ethos of a not-for-profit mutual discretionary benefit society run by unpaid volunteers.

For a transitional period of 12 months, any valid claims for nursing and similar expenses which were incurred before the conversion to a discretionary model, and which are covered under the Society's current rules, would continue to be treated in accordance with our current rules and paid in full. These claims would continue to be covered by the Financial Services Compensation Scheme and members would also continue to be able to refer any complaints in relation to them to the Financial Ombudsman Service.

Members and prospective members will have their attention drawn to the limitations of providing benefits on a discretionary basis, and the manner and circumstances in which discretion might be exercised. These are set out in **Appendix 2**. This document will be kept up to date on our website and all prospective members will be referred to it; it will then be provided in writing to those future members who decide to subscribe to the Society. Based on the Committee's assessment and on the actuarial advice it has received, the Committee believes that the Society has good prospects if it becomes a discretionary mutual. The downside risks are manageable, and reserves remain at acceptable levels to allow the Committee to exercise discretion in considering members' applications for benefit.

We recognise that this is a fundamental change to how the fund operates and therefore the Society is proposing to distribute in excess of £500,000 (approximately 25% of its reserves) to members in recognition of the removal of the guarantees associated with operating as an insurer, including access to statutory protection and complaints processes. The amount of such compensation is detailed in **Appendix 3** and depends on the type of membership (Officer, Widow(er) etc.) and the age of the main beneficiary. The Society has taken advice that the compensation payment should not attract a

Capital Gains (or any other) tax liability, but members may wish to inform their own tax advisers of the payment. Any members who applied to join after 1 December 2020, when we first announced our intentions will not qualify. Members of the Committee who are also members of the Society have waived their right to this distribution – and some other members have indicated that they may not wish to claim it. The right to a distribution is not contingent on the payment of subscriptions which fall due after the proposal becomes effective – and members will be free to cancel their direct debits if they wish to leave the Society.

The Committee is keen to minimise the impact of this change and is very conscious of the changes to the subscriptions in recent years. The annual subscriptions are not increasing as part of this change and, for members whose main beneficiary is under the age of 60, there will be a significant reduction in cost. The maximum benefit levels at outset represent a small increase on current levels, although these are subject to reduction should the Society need to exercise its discretion. However, to remain viable the Society will need to update its subscription levels and benefits from time to time, the next review being in 2024, by which time the Society will have a better idea of its ongoing expenditure, including running costs. The initial terms of business are given in **Appendix 4**.

What Does Incorporation Mean?

When the Society was first registered as a friendly society, in 1934, all friendly societies had the legal status of unincorporated associations of members, much like informal clubs, with their assets held by trustees and with members liable, without any limitation, for the full amount of any debts the friendly society was unable to pay. Under the Friendly Societies Act 1992, it became possible for friendly societies to incorporate as an alternative to continuing as unincorporated (or “registered”) friendly societies.

Unlike a registered society, an incorporated friendly society is a legal entity in its own right and can hold its assets and be sued for its debts in its own name without the need for trustees. The liability of

members of an incorporated society for its debts is limited to the amount of any subscriptions which have become due and are outstanding from them, to reflect which an incorporated society is required to have the word “Limited” (or the Welsh equivalent) at the end of its official name. These features are similar to a limited liability company, but an incorporated friendly society is still a friendly society governed by the Friendly Societies Act 1992, not by the Companies Act 2006, and is still a mutual organisation owned exclusively by its subscribers, not by any external shareholders.

Many friendly societies have now incorporated under the Friendly Societies Act, which allows registered societies to convert to incorporated status by the simple process of adopting a memorandum, which sets out the purposes and powers of the society, and adopting a new set of rules. Since the Society will need to adopt new rules in any event in order to convert to a discretionary model, the Committee is proposing that the Society should also incorporate at the same time in order to secure for its members the advantages of limited liability and to simplify its operations by no longer needing to have trustees.

How You Will Decide

Members are asked to sanction this proposal by approving the adoption of a new Memorandum and revised Rules. These documents are supplied separately on our website. Notes on the main changes are given in **Appendix 5**. A voting form is provided for this purpose for those unable to attend the SGM either in person (if COVID allows) or virtually.

What If The Members Reject This Proposal?

If the membership rejects the proposal, then the Committee would reluctantly be forced to close the Society to new members and move a subsequent vote to the membership to dissolve the Society. In that case the Society would cease operating, a liquidator would be appointed and once the necessary legal processes had been completed and all costs recovered, including those incurred by the liquidator, the remaining assets would be distributed to all eligible members in accordance with the current Rules and with the applicable statutory and regulatory rules relating to the winding up of a registered friendly society conducting insurance business. While the amount to be distributed to members on a dissolution is likely to be greater than the 25% of reserves the Committee is recommending should be distributed on conversion to a discretionary model, uncertainties over the cost of the liquidation make it difficult to predict the precise amount members might receive. As a registered friendly society, the Society falls outside the scope of the detailed rules applicable to the winding-up of either insurance companies under the Financial Services and Markets Act 2000 or incorporated friendly societies under the Friendly Societies Act 1992. We would therefore need to engage a specialised insolvency practitioner to guide us through the legal uncertainties and anticipate having to incur significant expense in doing so. The Committee does not consider it to be in the interest of members to incur the expense of investigating this scenario at this stage.

Appendix 1 – Why we are proposing these changes – the Business Case

Expenses The costs of running the Society are burdensome (currently they equate annually to our historical maximum of claims paid) and this has in part been addressed by outsourcing all administration to a subsidiary of the Officers' Association ("OA"). Nonetheless we currently cannot outsource the CEO role which must be held by an insurance professional. Provided the proposal goes through, the CEO will stand down and his role will be assumed by an appointee of the OA, or another person nominated by the Committee. As the subscriptions the Society would collect after converting to discretionary status would no longer be premiums in respect of insurance business, the subscriptions would also no longer be subject to insurance premium tax (although the Society would still continue to conduct insurance business during a transitional period during which pre-existing claims were being settled).

Membership The Society has seen its membership decline and grow older. There is a need to attract new members and we have already taken some initial steps to improve the terms for younger members.

If we cannot address these challenges effectively, then the Committee considers that there is no long term future for the Society. The size of the Society and the nature of its benefits would mean that there is negligible likelihood of it being taken over by a larger firm and the cost of transfer, which would require a complex statutory procedure, would in any event be prohibitive. Accordingly, if members do not approve the proposal to convert to a discretionary model, the Committee would propose that the Society be dissolved, and the balance of its reserves distributed to its eligible members. This would leave members without any access to future benefits, and naturally the most vulnerable members would be among the worst affected.

We see an exciting opportunity to work in harmony with the OA to address these challenges as a discretionary mutual, as the OA are themselves currently developing a membership proposition targeting

the same market segment as ourselves – officers approaching retirement from the services (or recently retired). In particular, OA members would have access to the OA's careers service. The OA have devoted considerable resources to this development of their membership proposition. As a way of rapidly expanding our membership, we would be planning to offer the OA members introductory terms to join the Society, a discount on their first year's subscription, with the OA meeting part of the cost. We have projected how the Society might develop and consider that, in the Committee's opinion at the present time and based on the Committee's assessment and on the actuarial advice it has received, there is a good prospect of the Society meeting the challenges we face – business growth and management costs. This is contingent on members approving the transition to discretionary benefits under the proposed new constitution.

Whilst the interests of the OA and the Society will generally be aligned, they will be independent organisations and there will be occasions when that needs to be demonstrated – most clearly when the management contract needs to be renegotiated. The proposed new Rules provide for such decisions, on the Society's part, to be taken by independent members of the Committee and there will be an ongoing need for such members to be sufficient in number to form a quorum.

Appendix 2 – The Discretionary Mutual Model

Only members of the Society will be eligible to apply for benefit. Membership will be determined by the payment of annual subscriptions which must be kept up to date. The Society will not pay more than a published maximum amount for each type of benefit. It may make reduced or no payment on the basis of the merit of a particular application, or suspend or reduce payments more broadly, at the discretion of the Committee. The Committee will generally be representative of the membership and will be unpaid volunteers, being Officers or having connections with the Armed Forces; it will be elected by the members. The Committee will have absolute control in how it applies discretion. It will be fair in its application and does not intend to discriminate between members, whether current and future. There will be an appeal process, but an appeal will not be able to overturn the Committee's application of discretion, although it may result in the Committee revising a previous decision. The Committee will, among other things, have regard to the financial position of the Society when considering applying discretion, and there will also be other management actions which it may wish to consider to reflect any shortfall in funds – in particular, reviewing the level of subscriptions.

The Society intends that its reserves should not be drawn on excessively to support benefits, and the Committee may take advice in future as to whether the amount of these reserves remains consistent with the provision of benefits to its members in later life. Reserves may be depleted by falling investment values and the Society would take action if such falls were substantial, prolonged, and/or accompanied by a significant fall in investment income.

The Society aims to achieve a broad balance between its income and outgoings, including allowing for a sustainable level of recourse to the investment reserves and the income thereon. If expenses or benefit levels rise, this will normally result in an increase in subscriptions. However, the Committee will also consider whether benefits need to

be reduced – either by the application of discretion or reviewing the maximum benefit levels.

It will be for future Committees to consider how to exercise its discretion. There may be other factors, not noted above, that they wish to take into account.

Accordingly, members cannot rely on the terms on which subscriptions will be applied either immediately or in the future, nor on the benefits that will apply or on receiving any benefits, although we should stress that the Committee's view is that Lady Grover's Fund has a more sustainable future as a discretionary mutual than as a regulated insurer. Indeed, if members do not approve the proposal to convert to a discretionary mutual, the Committee will propose the immediate winding-up of the Society. As a discretionary mutual, the Society will have the potential to continue to provide benefit for its members indefinitely but there will always be the option to dissolve and distribute the remaining assets among the members if its business model is no longer considered viable. This will in part depend on the ongoing viability of the OA's own business model. Members should note that if the Society were to be dissolved after it has incorporated and converted to a discretionary model, the legal uncertainties referred to above surrounding its dissolution as a registered friendly society conducting insurance business would be reduced, meaning the society could be wound up under the provisions of the Friendly Societies Act 1992 quickly at potentially lesser expense.

Appendix 3 – The Distribution to Qualifying Members

The distribution to compensate members if the proposal goes through is given in the following table:

Attained age at 31/12/2021 (age of beneficiary for Officer members)	Officer Members, Divorcees, Adult Children	Widow(er) Members
Under 50	£100	£250
50 to 69	£100	£350
70 or over	£200	£450

Notes

- Only those members who joined during or before January 2021 will qualify for this distribution. Members who decide to leave the Society after the proposal is effective **will** still qualify.
- Members must claim their benefit prior to the end of 2023. (This will be a simple process for those members from whom we collect subscriptions by Direct Debit.)
- Members who are paying less than the prescribed subscription in 2021 will be eligible for a proportionate benefit. (They must then make acceptable subscription arrangements if they wish to qualify for consideration for future benefit.)

Appendix 4 – The Terms of Business – Subscriptions and Maximum Benefits

Subscriptions

Age of the oldest Beneficiary covered by the Membership*	Annual Subscription
Under 50	£40
50 to 59	£50
60 to 69	£60
70 or over	£70

***the age of the Member in the case of widow Members etc. entitled to claim for themselves**

Notes

- The Society may offer an introductory discount on Subscriptions to members of associated organisations at its discretion as a means of attracting wider membership.

Maximum Benefits

Applications for benefit will be deemed to start when the Beneficiary first incurs relevant expenditure. Applications must be made within 12 months of this date and be supported by receipts and medical evidence acceptable to the Society.

Type of Benefit (as defined in the Rules)	Maximum duration from start date	Maximum Weekly Benefit
Hospital/Nursing Home	8 weeks	£1750
Home Nursing	8 weeks	£350
Convalescence	8 weeks	£350
Home Help	15 weeks	£210

Notes

- The maximum duration includes any further applications starting within 12 months of the initial one. The maximum payable for all such applications is subject to an overriding limit of £8000.
- The maximum payable for any one week is £1750.
- The maximum payable for Home Help on any one application (including any further application within 12 months) is £2520.
- **The maximum benefit so determined above is subject to the Committee's discretion and so may be reduced (or suspended) at any time.**

Appendix 5 – The new Memorandum and the main Rule changes

In order to incorporate, the Society is required to have a Memorandum. Incorporation means that the Society can hold its assets directly rather than through Trustees. It also means that members cannot be held responsible for the liabilities of the Society beyond the amount of any subscriptions that are due from them but unpaid. Incorporation does not mean that the Society will become a company governed by the Companies Act 2006 and it does not mean that the Society will demutualise.

The Memorandum will set out the purposes of the Society which will be the provision of sickness benefits on a discretionary basis. The Memorandum will also include among our purposes the continued provision of sickness benefits as contracts of insurance, but we will only operate for that purpose during a transitional period of 12 months during which members who incurred costs covered by the Society before the conversion to discretionary benefits will still be able to claim them as insured benefits. Once that transitional period has ended the Committee will propose an amendment to the Memorandum to limit benefits to discretionary benefits only.

The previous Rules prescribed the levels of our subscriptions and benefits, but these will now be published separately as set out in Appendix 4 and the benefit levels will become maximum amounts for which members will be entitled to apply without any guarantee that they will necessarily be paid. Moving the subscription and maximum benefit levels to the website means it will be much simpler to keep them up to date.

There are other changes in the Rules including modernising references to the governing legislation and the use of gender-neutral language. The use of electronic communication with members will become the norm.

The rule providing for the distribution of assets on dissolution will of necessity no longer refer to the financial interest of members as this

is not applicable to discretionary benefits. New members will not qualify for a share of the assets until their third year of membership. Existing members as at the date of conversion would receive a “double share” on dissolution – which takes into account their age profile.