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Should Mutuals be for members only?

You are a customer services assistant working in a branch of a building society. You have been asked to meet James, a long-standing customer of the society, in order to discuss various products and services.

James has had a mortgage with the society for nine years, but when the discussion turned to property insurance, James quickly pointed out that he was far from happy with the society's attitude to its mortgage and insurance customers.

Ever since taking out the mortgage, James has insured the property with a combined buildings and contents policy purchased through the society's agency. James has long considered the policy to be too expensive, but has simply not bothered to shop around. The premiums are deducted each month from his bank account. You are informed by James that his insurance premiums have increased by 25% this year and that the policy is much more expensive than those taken out by his neighbours on virtually identical houses. He asks how a society that does not have to pay dividends to shareholders has to charge so much for its insurance products.

However, what has made James angry is the new advertising campaign by the society which offers a 20% discount to new household insurance customers, whether they are members of the society or not. As the society defends and promotes its mutual status by making value-for-money comparisons with 'companies that have to remunerate external shareholders', he fails to see how the society can be putting its members first.

James states that he has never received a 20% discount, or any discount at all for that matter, on any product or service offered by the society and asks you to justify how an organisation that purports to put its members first is prepared to charge more to members than non-members for the same product. Surely, he argues, the society should be ethically bound to promote the interests of members as a primary objective.

How would you justify the society's policy?

The concerns expressed by James concern two separate issues. The first of these is the product, which is considered to be too expensive. The second is the apparent price discrimination in favour of non-members of the society.

Building societies and other financial institutions often have to justify the apparently high cost of their property insurance products. These products are usually offered through an agency arrangement with an insurance company on a block policy basis, though some financial institutions (including some building societies) have wholly owned insurance subsidiaries.

Not all insurance policies are the same. Most policies cover about a dozen 'standard perils', but there are differences between many products in relation to certain features of the cover such as 'all risks', 'new for old' and (critically) the extent to which the customer is covered if the property is damaged by subsidence or heave. Societies have tended to enter into agency arrangements that provide high quality cover rather than less expensive products that may provide less protection than the customer expects. Very few building societies have even sought to promote their insurance offerings on the basis of price competitiveness. Like many customers, James would be bombarded by mass media campaigns offering cheap home insurance, either directly or through price comparison websites. How many customers actually check the quality of the cover? They are much more likely to consider price. Like buying petrol for the car, property insurance is often considered to be homogeneous, when plainly it is not.

The second issue raised by James is the matter of giving discounts to non-members. This would appear to be at odds with the primary objective of building societies, which is to promote the interests of their members. In order to survive and prosper, building societies have to maintain and preferably expand their membership bases. Few societies could survive in the medium or long-term without attracting new customers. Offering discounts on insurance is one method of attracting interest from those who have no dealings with the society at present. An average household policy on an average property might cost £200-250 per year. The one-off discount therefore represents a 'loss' of income of £40-50 per customer, which probably compares favourably with the cost of recruiting new customers through traditional brand and product advertising. Further, by signing up new customers, the society has the opportunity to cross-sell to a broader customer base, which should (theoretically) enable it to reap economies of scale (as all profits are ploughed back), thereby offering greater opportunities to generate benefits for all members.

From a practical point of view, it is unlikely that these profound discussions would be used in a customer interview. In relation to the problem that James has with the cost of insurance, you would need to stress the quality of cover, the fact that the property is fully insured at all times through index-linking and the convenience of monthly premiums, often with no administrative charge for this. In relation to discounts for non-members, you would probably have to adopt a simpler line of argument that the society is seeking to attract new customers in order to benefit a potentially wider membership.

James does, of course, have absolute freedom to choose the company with which he insures his property, provided the cover is adequate, the society’s interest is noted on the policy and the insurer is prepared to provide reports if cover is in danger of lapsing.