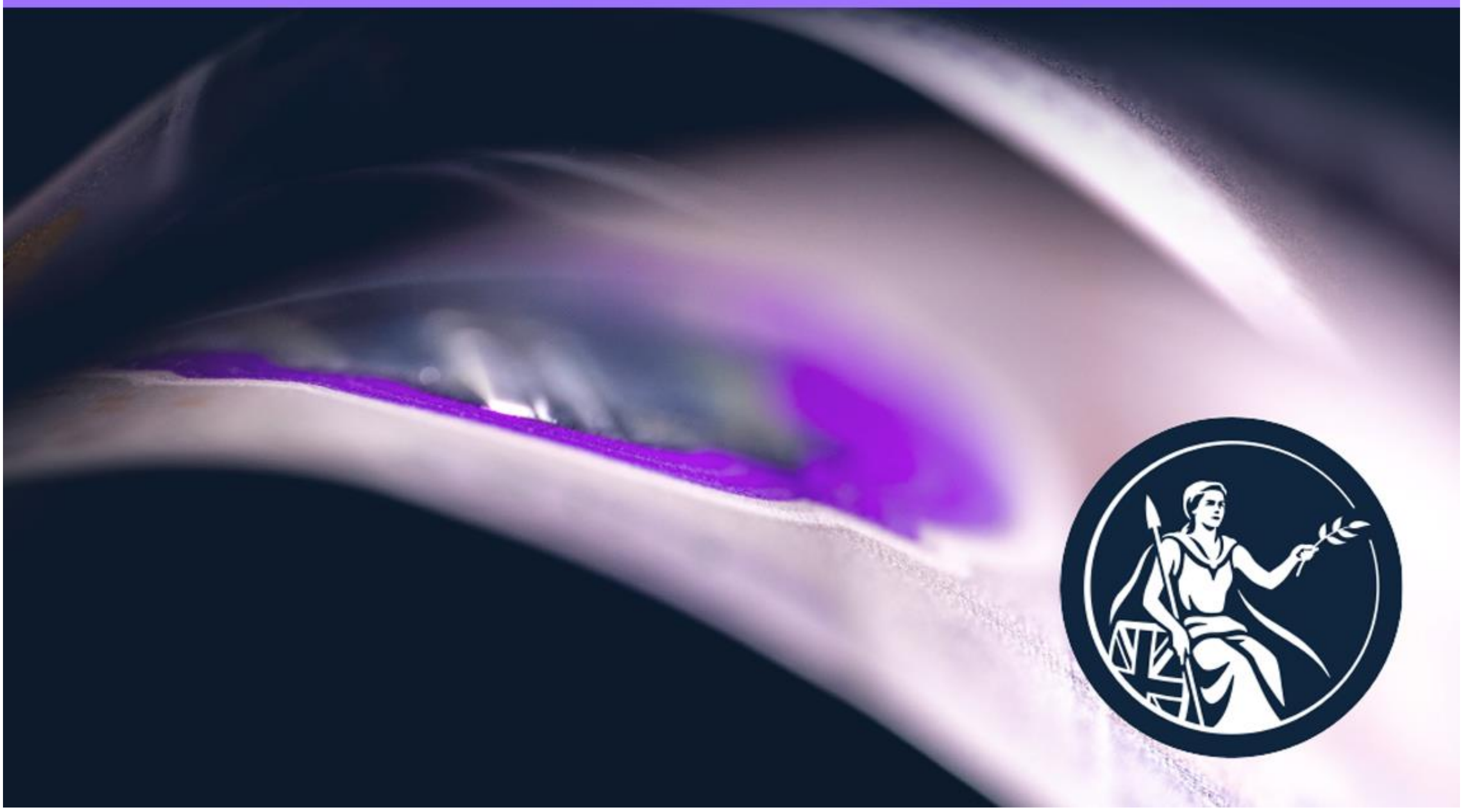
Bank of England PRA

FINANCIAL CONDUCT AUTHORITY

Mutuals landscape report

5 December 2025



Mutuals landscape report

5 December 2025

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1: Foreword

Financial mutuals play an important part in the UK's financial services industry. Their distinct model of ownership and governance places members at the heart of their business model. Mutuals increase the diversity of the UK financial services sector which in turn makes it more resilient and provides consumers with greater choice. They can also play a pivotal role in supporting local communities and in financial inclusion.

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) recognise the Government's commitment to grow the mutual and co-operative sector as a whole. Effective and proportionate regulation has an important role in achieving this outcome by enabling sustainable growth and protecting consumers, alongside an appropriate legislative framework and a clear vision driven by the mutuals sector.

As regulators, we are committed to supporting mutuals by advancing our respective objectives, including our secondary international competitiveness and growth objective.

The PRA has already introduced more proportionate regulatory regimes through their Strong and Simple regime for small deposit takers and Solvency UK for insurers. The PRA and FCA continue to implement ways to reduce undue regulatory burden for all firms, including mutuals. We are also committed to providing active support for firms' growth ambitions with initiatives like the FCA/PRA Scale-up Unit, and the FCA support services.

Our proportionate and targeted approach applies to all financial services firms. Mutuals are a unique sector and so require a tailored regulatory response. In the last year we have eased regulations for building societies to enable them to compete more easily with banks, supported credit unions by helping them set up shared service organisations, and worked with the Law Commission to modernise Friendly Societies legislation for insurers.

Much work has been done in recent years to streamline and tailor regulation and legislation for building societies and insurance mutuals. As the credit union sector evolves, the regulatory framework must evolve too. We are committed to engaging with the sector to undertake a comprehensive review and to consider the longer-term evolution of the sector's regulatory framework. For building societies and mutual insurers there is always more that can be done, and this report sets out additional measures regulators could take for these sectors.

This report has been informed by our ongoing regulation and supervision of mutuals and by direct engagement with mutuals and their trade associations in sessions around the country throughout 2025. We are very grateful to all the stakeholders who have engaged with us and helped inform this report.

Our aim is that this report will stimulate further discussion on how best to support the mutual sector as we are eager to continue working with all parties to support sustainable growth.

Sam Woods
Deputy Governor,
Prudential Regulation and Chief Executive of the Prudential Regulation Authority

Nikhil Rathi
Chief Executive,
Financial Conduct Authority

2: Executive summary

Financial mutuals are a key part of the UK financial system, providing mortgages, loans and insurance cover for over 30 million members. The mutuals sector is an important contributor to consumer trust and financial inclusion, focusing on offering value and choice, often to underserved communities and markets. Mutuals increase UK corporate diversity which leads to greater resilience in the financial system.

As regulators, our ambition is to facilitate the long-term sustainable growth of the sector and ensure that mutuals have the same opportunities to compete as other firms. This will help to ensure that financial mutuals can continue to serve the needs of consumers, provide vital services and support a diverse financial sector. This will be achieved through:

- proportionate regulation;
- initiatives that support mutuals in addressing the challenges and opportunities they face; and
- sector engagement and collaboration.

Our regulatory approach is grounded in proportionality and risk-based supervision, tailored to the size, complexity, and business model of each firm. This is particularly important for smaller firms, to ensure that they only face regulatory costs commensurate with the riskiness of their activities.

We have already taken significant steps to ensure proportionality for the sectors we supervise. These include:

- The PRA removing fees for small friendly societies, and small and medium sized credit unions;
- The PRA's 'Strong and Simple' framework to introduce a new simple but resilient prudential regime for small banks and building societies;
- The introduction of 'Solvency UK' which removed almost 50 reporting templates, and changed the threshold to allow smaller mutuals to become eligible to qualify for the simpler 'non-directive' regime;
- Reducing regulatory burden by removing the need for a Consumer Duty Board Champion;
- The recent consultation proposing significant reforms to make the Senior Manager and Certification Regime less burdensome and our commitment to work with the Government to go further;
- A statement providing clarity and reassurance to promote workplace savings;
- The forthcoming FCA policy statement on the boundary between financial advice and other forms of support;

- Changes to the FCA's mortgage rules to provide lenders with greater flexibility; and
- The forthcoming FCA policy statement on simplifying insurance rules and product information.

We are also taking forward a number of initiatives to support the specific needs of the financial mutuals sector including:

- A joint PRA and FCA Scale-up Unit to provide regulatory support to eligible firms, including mutuals, which are looking to grow rapidly. This will complement the existing FCA support services, including the Innovation Pathways, the pre-application support service, and regulatory and digital sandboxes.
- The PRA withdrew the supervisory statement setting out specific expectations on building societies' activities thereby creating a level-playing field with banks.
- The PRA consulted on amending rules to remove barriers to credit unions establishing Credit Union Service Organisations (CUSOs). The final policy will be published in February 2026.
- The FCA promoted home ownership by reminding mortgage providers of the flexibility of its rules. Following consultation, the FCA set out changes to its rules designed to simplify specific responsible lending and advice rules for mutuals.

The PRA and FCA intend to undertake a comprehensive review of the credit union sector's future trajectory, and to consider the longer-term evolution of the sector's regulatory framework. This review would consider the implications of larger/more complex credit unions and more proportionate regulation for smaller credit unions.

For mutual insurers, the PRA and FCA heard a request for more clarity on the friendly society 'Part VIII' transfer process, and the PRA intends to publish guidance to help mutual insurers understand the simplifications that we currently apply around this consolidation process. The FCA heard from industry about challenges in implementing certain aspects of the approach to with-profits funds set out in COBS 20 in the FCA Handbook, and in early 2026, the FCA plans to start work on broader legacy issues in the life insurance and pensions market with a view to reducing any regulatory barriers. The FCA will engage in wider dialogue with mutual insurers on these topics.

We are grateful for the extensive engagement we have had with the mutuals sector throughout 2025, which has been in addition to our frequent interaction with firms and trade associations. We are committed to continuing this level of close engagement, to make sure we understand the issues and that regulatory requirements are clear. We plan to enhance our engagement and communications, for example, by providing tailored content for credit unions on the regulators' websites and holding joint regular roundtables with groups of firms.

Legislative change can play an important role in supporting the sector. It is important that legislation is future proofed to keep pace with the needs of a modern society. Recent and ongoing changes to building societies, credit unions and friendly societies legislation will help support growth in the mutuals sector. And we welcome the initiatives outlined in the Government's Financial Inclusion Strategy. We stand ready to engage on these or any other legislative updates.

Regulation and legislation can create an environment that supports and enables safe and sustainable growth in the financial mutuals sector. However, neither will be the driver of this growth, this can only come from the sector. We see several ways in which the sector could deliver this; for example, by larger mutuals supporting smaller mutual organisations with access to, or sharing of, resources or by setting out a clear vision and roadmap for mutuals growth.

3: The role of mutuals in financial services

Mutuals are organisations owned by their members and are typically driven by a purpose-based mission of serving the needs of their owners. Mutuals often build deep roots within the communities they serve and can establish strong links to specific areas or industries. The mutuals sector in the UK includes organisations operating across many areas of the economy, including the financial sector.

The financial mutuals sector encompasses a range of firms with a long history going back to the 18th century. The first building society dates from 1775, and friendly societies were first recognised in legislation in 1793.

The main types of financial mutuals are:

i. **Building societies** form an important part of the mortgage and savings markets. The Building Societies Act 1986 defines the principal purpose of building societies as 'making loans which are secured on residential property and funded substantially by the society's members.

ii. **Credit unions** provide loans and savings products to their members. They operate under different legislation in Great Britain (the Credit Unions Act 1979) and Northern Ireland (The Credit Unions (Northern Ireland) Order 1985). Credit union members must have specific common bonds between them (these may be occupation/employer-based or based on a locality or association).[1] The legislation limits the amount of interest they can charge on loans and the nature of the business they can undertake.

iii. **Mutual insurers** operate in both the life and non-life insurance sectors for consumers, and in the wholesale general insurance and marine insurance markets (for example as Protection and Indemnity Clubs (P&I)). Many insurers are friendly societies, registered and/or incorporated under the Friendly Societies Act 1992 or the Friendly Societies Act 1974. A small number are registered as co-operatives under the Co-operative and Community Benefit Societies Act 2014. There are also mutual insurers registered under the Companies Act 2006 as 'companies limited by guarantee without share capital', or unregistered companies. This includes the **P&I Clubs** and some consumer insurers.[2]

1 See Section 1A of the **Credit Unions Act 1979** and Section 3 (4) of **The Credit Unions** (Northern Ireland) Order 1985.
2 While the Society of Lloyd's has a number of mutual like characteristics, it is not captured with the scope of this report.

iv. **Funeral plan providers** offer funeral plans to consumers. There are consumer co-operatives registered under the Co-operative and Community Benefit Societies Act 2014 operating in this sector. They often have substantive funeral care businesses, alongside food retail and other activity. They account for around 25% of the market, with most of that being concentrated in the largest provider. They are solely regulated by the FCA.

The focus of this report is on financial mutuals regulated by both the PRA and FCA ('dual regulated' firms) under the Financial Services and Markets Act 2000 (FSMA).[3] This covers building societies, credit unions and mutual insurers.

Mutuals' contribution to the provision of financial services

The ownership model of financial mutuals can result in a different business emphasis compared with other firms, which can benefit resilience in the market. The presence of financial mutuals can also broaden the range of products and services available to consumers, thereby increasing choice through mutuals fulfilling needs in smaller, niche markets.

In some cases, mutuals provide access to financial services that may not otherwise be available. Building societies, for example, have **prioritised maintaining** a branch presence in communities across the UK and now account for 35% of the UK's branch network, compared with 14% in 2012. The **FCA's Financial Lives 2024** survey data shows that adults living in the most deprived areas of the UK were more likely to hold a credit union savings account or loan than those living in the least deprived areas. This data also showed that adults showing characteristics of vulnerability were more likely to hold a credit union savings account or loan than those not showing characteristics of vulnerability. Some mutual insurers offer niche product lines, thereby meeting needs not easily met by other insurers.

As mutuals are owned by their customers they can focus on delivering value exclusively to them. This could, for instance, be through building societies offering competitive terms on savings and mortgages. Life insurers may distribute a share of the profits to members through mutual bonuses or profit share, while general insurers may underwrite at a loss to reduce surplus capital by offering lower premiums to members.

Mutuals primarily use retained profits as a source of capital. These retained profits can then be invested in the business with the aim to provide returns to members later. The more

3 For ease, we refer to FSMA 2000 and the subsequent updates under FSMA 2023, simply as FSMA throughout the report. Separately, the FCA is the registering authority for 'mutual societies' – which includes more than 9000 societies registered under mutuals legislation. Most of those societies are not regulated under FSMA. The FCA is publishing an assessment of that landscape alongside this report: **www.fca.org.uk/publications/corporate/mutuals-registering-authority-report**.

limited range of external capital raising options for mutuals can result in some mutuals retaining profits to build up high capital ratios.

The existence of mutuals increases the corporate diversity of the markets in which they operate. Different organisational forms, with different business models, are affected differently by system-wide shocks. This was demonstrated after the 2008 financial crisis, when building societies accounted for over three quarters of the growth in mortgage balances across the UK from 2010-2014, writing business when banks were focused on repairing their balance sheets.

Regulatory approach

For dual regulated building societies, credit unions and mutual insurers, the PRA is responsible for prudential supervision and the FCA for conduct supervision. In addition to their primary objectives, both regulators have a secondary objective to 'Facilitate the international competitiveness and growth of the UK economy in the medium to long-term'.

Under FSMA, both regulators are subject to a set of regulatory principles and other 'have regards'. These include recognising, where appropriate, differences in the nature and objectives of different business models, including mutuals. When making rules, FSMA requires the PRA and FCA to set out our opinion on whether the impact of those rules would differ significantly between mutual societies and other firms and explain that difference.[4]

The PRA and FCA supervise firms based on the type of regulated activity. For example, building societies are supervised alongside other deposit-takers and mortgage lenders and mutual general insurers are supervised alongside other general insurers. We do, however, consider the business model of firms in our supervision. And in some cases, mutuals are subject to bespoke regulatory treatment. For example, credit unions are exempt from the Capital Requirements Regulation (CRR) that applies to other deposit-takers, and consumer credit regulation for the traditional credit union loan.

In line with the principles of good regulation, we embed proportionality in our approach. Supervisory engagement is proportionate to the size, consumer harm and potential impact to financial stability of any given firm. The diversity of firm structures, sizes, and business models are considered thoroughly as part of our supervisory assessment framework to apply the principles of proportionality.

We also consider the costs and benefits of our regulations across different types of firms. For example, the way a firm complies with rules regarding organisational and governance requirements is specified to be commensurate with its size, risks, business model and activities. Similar considerations may be made when determining whether a rule may be

4 Section 3B and Section 138k of FSMA.

waived or modified for a firm based (in part) on whether it is unduly burdensome for that firm in its original form.

The PRA applies proportionality in its regulation of insurance firms through separate regulatory regimes. Insurers below certain thresholds – typically relating to size and risk profile – fall under the Non-Solvency UK regime, which is a proportionate simplified regime tailored to small insurers. Most firms which fall into this category are small mutual insurers. Insurance firms which are above the thresholds fall within the Solvency UK regime. In 2024, the PRA increased the thresholds for Solvency UK, enabling more firms to qualify for the Non-Solvency UK regime. Most of the firms benefiting from this change were mutuals.

Consumers in regulated mutuals benefit from the same protection generally as consumers of other firms. Complaints can be referred to the Financial Ombudsman Service (FOS). The Financial Services Compensation Scheme (FSCS) offers the same protections for deposits and insurance products as with other firms.

4: The evolving mutuals landscape

The financial mutuals sector is long-established in the UK and has evolved over time reflecting changes in competition and customer demands, economic conditions and the regulatory and legislative environment. Today, the mutuals sector includes several very large firms operating across the UK and a large number of smaller firms, often operating within a local area or sector. Overall, the mutuals sector has experienced significant growth in recent years, and in aggregate the sector is in a strong financial position.

Despite financial mutuals' success and well-established presence, the sector does face challenges. Some of these challenges are common across all firms operating in the financial services sector, for example high levels of competition, keeping pace with technological change, the cost of regulation and responding to rapidly-changing macroeconomic pressures. These challenges can be heightened for some mutuals due to the difficulties of raising additional capital while retaining a mutual ownership structure, including the lack of a liquid market in mutual capital instruments. Some challenges are particularly pronounced for smaller financial services firms because of a lack of the economies of scale and scope from which larger firms can benefit.

The sector is well placed to address these challenges through:

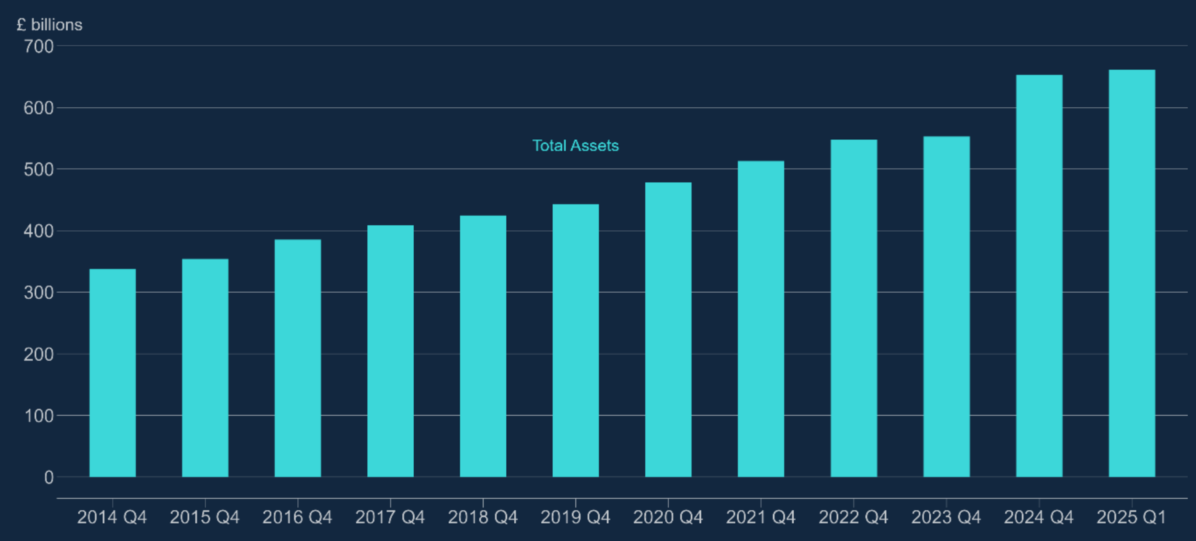
- **Proportionate regulation**: recent and ongoing regulatory reforms (eg, Strong and Simple, Solvency UK, tailored regimes for credit union deposit taking and lending) are designed to reduce burdens and support sustainable growth, especially for smaller firms.
- **Access to Tailored Support**: initiatives like the FCA/PRA Scale-up Unit and FCA support services, such as Innovation Pathways and our pre-application support service (PASS) provide mutuals with targeted regulatory support for growth and innovation.
- **Collaboration and Shared Services**: opportunities exist for mutuals to collaborate (eg through Credit Union Service Organisations or shared service models) to achieve economies of scale, better access specialist expertise and reduce costs.
- **Legislative Modernisation**: ongoing reviews and proposed updates to legislation could remove barriers and enable mutuals to operate more flexibly and competitively.

Building societies

There are 42 building societies in the UK, with approximately 27 million members, 52,000 employees, and 1,300 branches.

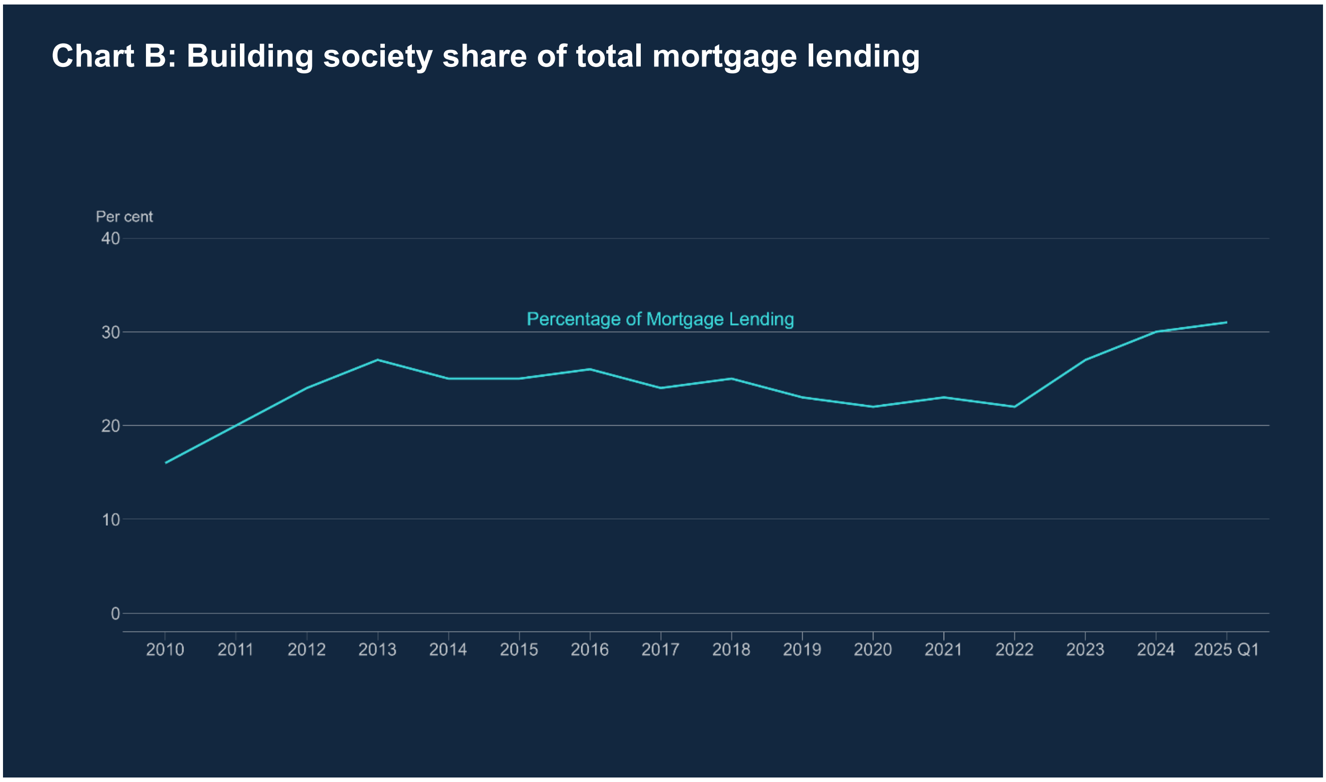
The total assets of the building society sector (including subsidiaries) reached £661 billion by Q1 2025 (Chart A). This included £490 billion of residential mortgage assets, equivalent to 31% of total mortgage lending (Chart B). Societies hold £485 billion of retail savings, constituting 23% of all cash savings.[5] Building societies enjoyed significant growth in the period after the Global Financial Crisis, lending in a period when many banks had to be more focused on repairing their balance sheets.

Chart A: Building society total assets



Source: PRA regulatory returns (FSA001 and FINREP)

5 Source: Building Societies Association.

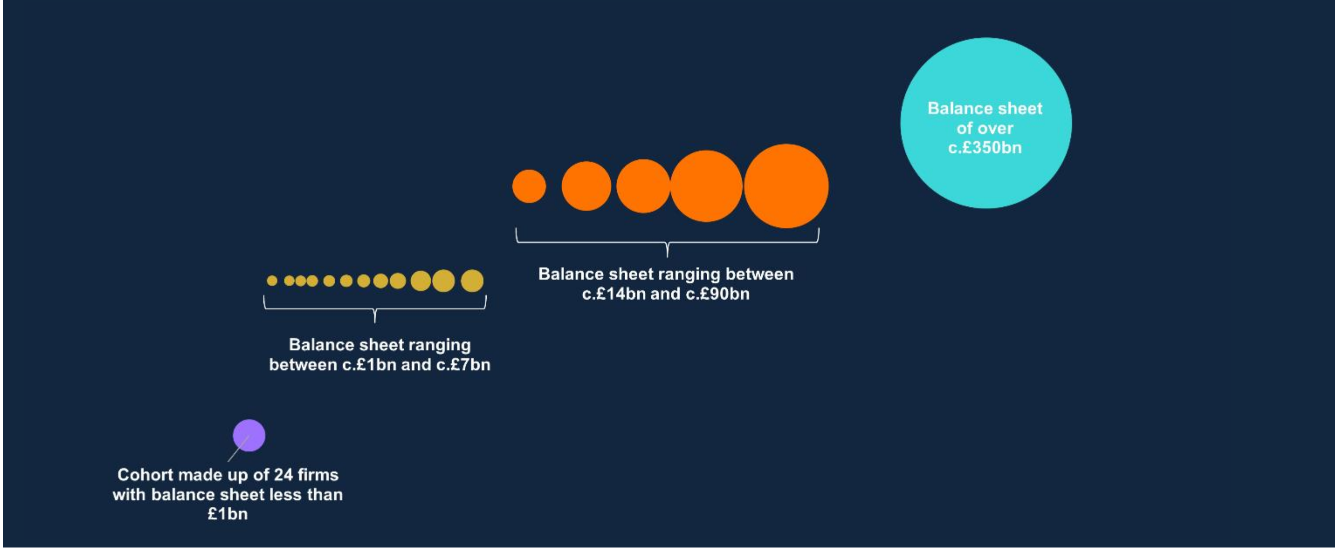


Source: PRA regulatory returns (MLAR)

Although the sector's total assets have increased steadily, the number of societies has reduced since the 1980s. From increased competition and demutualisation towards the end of the last century, to the Global Financial Crisis at the beginning of this century, building society numbers have reduced from over 700 in 1980, to 67 in 2000 to the 42 remaining today.

The largest six societies hold around 90% of the sector's assets, resulting in a long tail of smaller societies (Chart C).

Chart C: Distribution of building society assets



Source: 2025 Q1 PRA regulatory returns (FINREP)

Mergers within the building society sector may provide greater scale and geographic reach but not diversification of products. Recently, two of the larger societies looked to diversify their business model through acquisition of retail banks, giving them access to funding and lending channels – such as business lending and current accounts – not previously available to them.

Smaller societies' business models are in some cases being put under pressure due to rising operational costs. For example, smaller scale operations can face difficulties in absorbing increasing costs related to IT infrastructure or cyber security as customer expectations for digital services continue to grow and technology continues to develop at pace. Higher costs and the need for continual investment can make it increasingly difficult for some mutuals to remain competitive and grow.

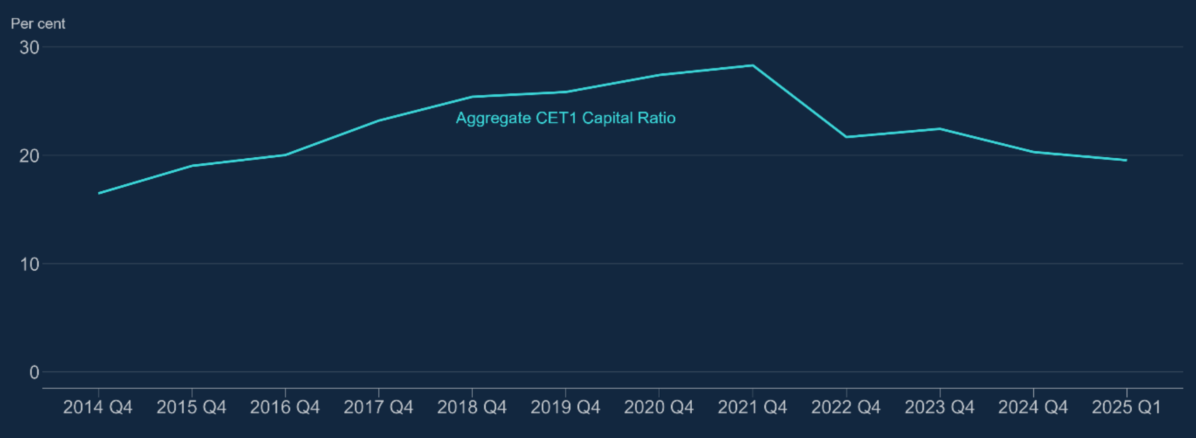
Building society services tend to be accessed from branches in greater proportion compared with banks, with building societies' branch network accounting for 35% of the UK's branch network as a whole, and up to 46% in smaller towns and communities. This presents both an opportunity for the sector in terms of customer acquisition and retention but also a challenge in terms of cost.

Societies are responding to these challenges. A number have adapted their operating models to reduce costs and deliver improved services, such as running Head Office functions from their branches. Some are making branches into hubs and resources for the wider community. Some societies are trialling multi-bank kiosks in their branches which enable consumers to deposit and withdraw cash and access banking services with a range of banks. And we see examples from other jurisdictions of mutuals working successfully together through networks such as trade associations, or secondary structures such as service organisations, to help achieve economies of scale while retaining proximity to members. Some societies may also determine that mergers may be a mechanism for gaining scale in order to maintain the provision of services for their members.

Many building societies operate in niche parts of the mortgage market such as self-build and shared ownership, leveraging their ability to undertake manual underwriting experience to compete effectively in these areas with high-street banks. This strategy faces headwinds in the shape of technological change which may allow for competitors to undertake greater automated underwriting. And while operating in niche markets or serving specific member groups can shield mutuals from intense pricing rivalry in mainstream markets, it can also limit opportunities for growth and diversification.

Capital levels are high in the sector, with many societies holding capital well in excess of regulatory requirements (Chart D). Management buffers are driven by a number of factors such as the reduction in options to raise external capital, but also predictability and certainty of regulatory capital expectations. This capital could be deployed elsewhere, both investing back into the business and through additional lending to support long-term growth of the sector and the economy. The Strong and Simple framework assists firms to plan, by making capital requirements more consistent, giving firms confidence to use surplus capital, and we would note there is no regulatory expectation for societies to maintain capital headroom over regulatory buffers.

Chart D: Aggregate capital levels for the building society sector



Source: PRA regulatory returns (COREP)

While capital instruments like Core Capital Deferred Shares (CCDS) are permitted, their uptake has been limited due to factors such as cost, complexity, lack of secondary markets, scale, and low investor familiarity. That said, some mutuals both large and small have successfully accessed regular debt markets or found tailored solutions to support their capital needs.

Secondary structures to help aggregate share offers could be a potential tool to support capital raising, as could changes to consumer access to investments. We welcome proposals from industry to improve the breadth and depth of capital available to the sector.

Credit unions

There are around 350 active credit unions in the UK, providing services to over two million adults and holding just over £4.9 billion in assets. Credit unions are particularly significant in Northern Ireland where 34% of the population are members of a credit union, compared to 1.7% in England, 7.8% in Scotland, and 2.1% in Wales.

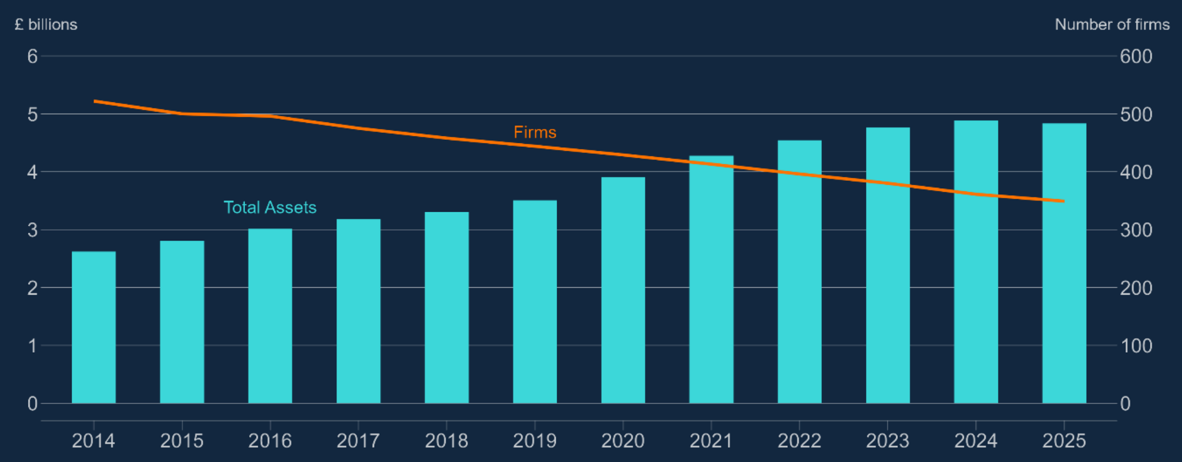
A person joining a credit union must fall within its ‘common bond’. In Northern Ireland, all members of a credit union must share at least one common bond – such as living in the same locality or working for the same employer. In Great Britain that requirement was amended in 2012, to allow credit unions to have multiple unrelated common bonds. HM Treasury (HMT) has recently consulted on further reforms to the common bond and has since confirmed that it will bring forward a package of growth-focused reforms to the **credit union common bond** in Great Britain.

The credit union sector continues to see new firms authorised, with seven new credit unions established between 2014 and 2024. However, while the total assets of the sector have increased in this period, the total number of firms has declined (Chart E). This has largely been driven by smaller firms exiting the market through transfers of engagement, where one credit union takes on the business of another. The ability to execute a transfer of engagement can be limited for larger credit unions due to legislative limitations such as the locality common bond potential membership cap. This means that there are few credible solvent exit options for larger credit unions.

The credit union framework was designed for small, community-based institutions offering simple products, but legislative reforms and aggregator-driven growth have enabled larger, more complex credit unions to emerge, some looking to compete with high street banks. And potential changes to common bond requirements may result in more larger credit unions.

This suggests a review of the regulatory regime that applies to larger or more complex credit unions to ensure regulation continues to adapt to the needs and risks posed by larger/more complex credit unions. There may be merit in reviewing the legislation alongside the regulatory regime.

Chart E: Size and number of credit unions



Source: PRA regulatory returns (BEEDS)

The community ethos of credit unions is evidenced by the fact that many rely on volunteers, with around 20% of credit unions operating without paid staff and only 25% employing more than ten paid staff members (Chart F). This can lead to varying standards of governance and difficulties in accessing specialist skills, such as risk management or technology expertise. As credit unions grow and diversify their activities, it is important that their governance frameworks evolve accordingly and that they have access to the capabilities needed to support sustainable growth. The regulators have undertaken initiatives to address these governance concerns, including governance reviews, webinars and targeted communications to smaller firms. Trade associations and larger mutuals could also play a greater role in promoting best practices and supporting capacity-building across the sector.

Chart F: Average paid staff members at credit unions (by asset size)

Source: 2025 Q2 PRA regulatory returns (BEEDS)

Credit unions hold £4.1 billion of retail deposits. Their assets are principally loans to members (93% of loan assets are personal unsecured loans, the remainder being mortgage loans or loans secured against a property) and surplus funds invested with counterparties. Increasingly credit unions are diversifying their lending into areas such as corporate lending and mortgages. This includes providing loans to small businesses and community development projects that may not qualify for traditional bank financing.

Like building societies and mutual insurers, this sector has a small number of larger firms that account for most of the sector's assets and a long-tail of much smaller credit unions (Chart G). Only seven credit unions have over £100 million in assets and these account for around 25% of the sector's assets. At the other end of the spectrum, there are around 240 credit unions that have less than £10 million in assets.

Chart G: Distribution of credit union assets

Source: 2025 Q2 PRA regulatory returns (BEEDS)

Many credit unions struggle to obtain high quality services (such as IT and audit) at an affordable cost due to their size. One way to overcome this is through increased collaboration, enabling credit unions to share expertise and achieve economies of scale. In other jurisdictions, such as Ireland and the United States, Credit Union Service Organisations (CUSOs) play a central role in delivering these benefits, supported by regulatory frameworks designed to mitigate associated risks. While a small number of CUSOs have already been established in the UK and interest is growing, there has been uncertainty over whether the current regulatory framework permits credit unions to invest in such entities. To address this, the PRA **consulted on rule changes** to clarify that such investments are allowed and to ensure that any related prudential risks are appropriately managed.

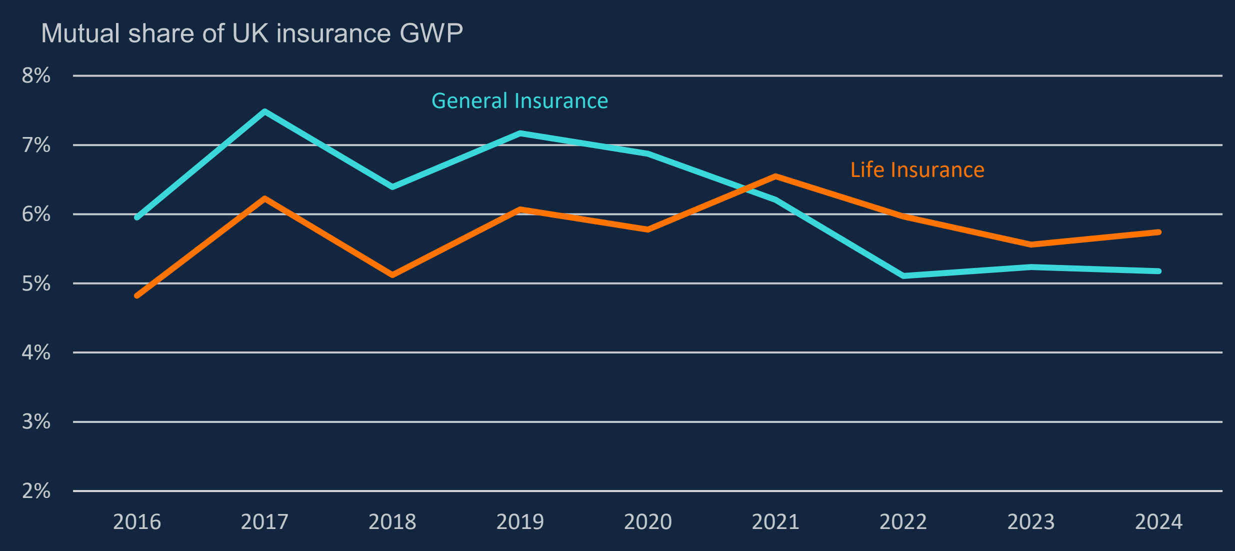
We note the challenges that these small firms face in having sufficient resources to devote to understanding regulatory requirements and plan to enhance our engagement and communications with a view to providing tailored content for credit unions on the regulators' websites. The FCA has committed to set out **different approaches smaller firms can take to the Consumer Duty** where appropriate.

Mutual Insurers

The mutual insurance sector manages the savings, pensions, protection and healthcare needs of over 26 million people in the UK and Ireland and collects annual premium income of over £23 billion.

The mutual insurers' share of the UK insurance market has remained roughly stable over the last 10 years at around 6% of total assets, and 5-6% of total premiums (Chart H).

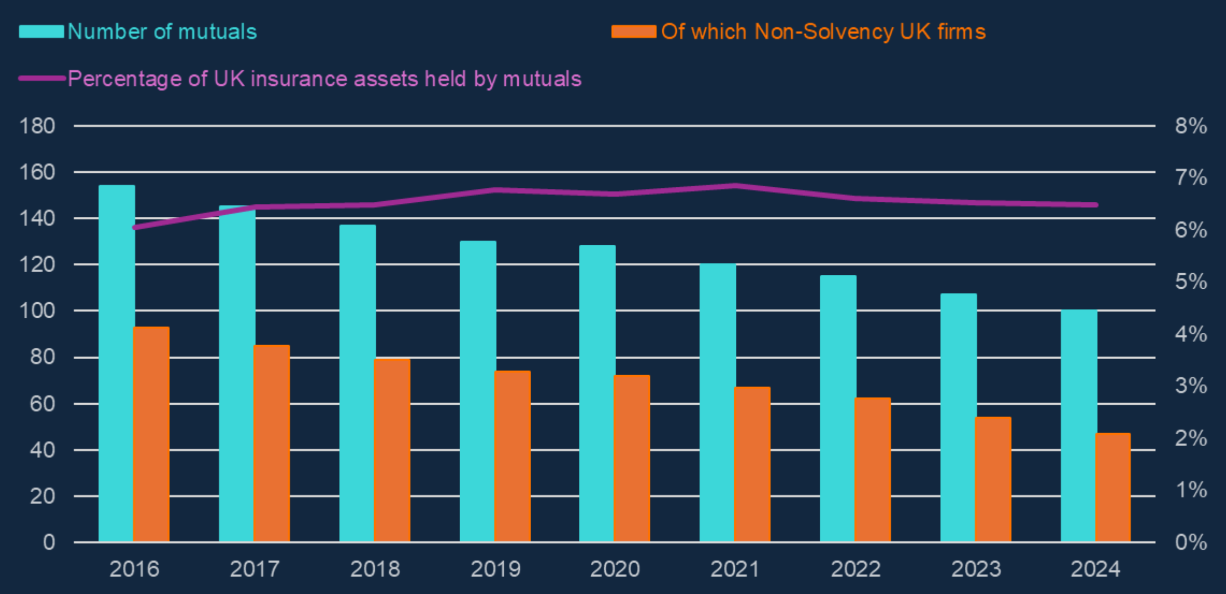
Chart H: Mutual share of insurance markets



Source: PRA Regulatory returns (S.05.01, IR.05.03 and IR.05.04)

Although market share has held steady, the number of mutual insurers has decreased substantially from 154 in 2016, to 100 in 2024 (Chart I). There has been a further reduction to 93 mutual insurers as of September 2025. The reduction is largely due to the exit of the very smallest mutual insurers. Many of these were Partnership Pension Societies (PPSs) which were extremely small Non- Solvency UK firms. PPSs were popular in the 1980s prior to changes to private pension legislation. There are currently 40 Non-Solvency UK mutual insurers, the majority of which are PPSs. Most of the PPSs are in run-off and we therefore expect the number of mutual insurers to decrease further in the next few years.

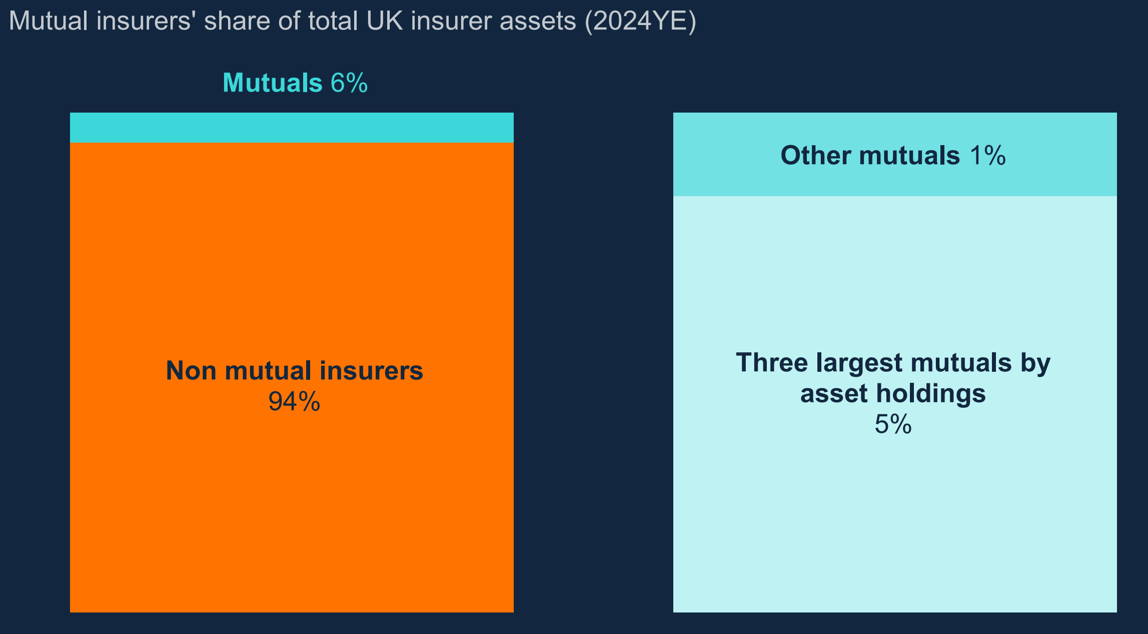
Chart I: Number of mutual insurers



Source: PRA Regulatory returns

Similar to building societies and credit unions, the mutual insurance sector is comprised of a small number of larger firms, and many smaller firms. The three largest insurance mutuals account for 84% of the sector's assets, most of which are held by the largest insurance mutual (Chart J). The remaining 90 insurance mutuals hold around 16% of mutual sector's assets which is equivalent to c1% of total UK insurance sector assets in 2024.

Chart J: Mutual Insurers' Share of total UK insurer assets



Source: PRA regulatory returns (IR.02.01)

Some smaller insurer mutuals operate in niche markets where their members may be underserved elsewhere. For example, the **Protection & Indemnity** (P&I) clubs provide marine liability cover for approximately 90% of the world's ocean-going tonnage.

Similarly to building societies, smaller insurers face issues of economies of scale and business model sustainability, which have been heightened in recent years due to rising operational costs, particularly relating to technology. These cost pressures can make it increasingly difficult for some smaller mutuals to remain competitive and grow their market share. Trade associations have discussed the potential for greater collaboration between mutual insurers which could support cost challenges – but to date take up has been limited. Where mutuals enter run-off these assets often leave the mutuals sector.

Like building societies, capital raising can present a challenge for insurance mutuals looking to invest and grow. Many insurers hold capital buffers well in excess of regulatory minima or internal risk appetite levels, and the mutual sector holds higher capital buffers than shareholder owned firms. Holding large management capital buffers in excess of the levels needed to meet regulatory requirements can be motivated by insurers' reliance on generating capital internally over time, rather than being able to source additional capital externally.

Some of the larger mutual insurers have successfully accessed regular public debt markets. In our engagement a small number of insurers suggested that current legislation presents a barrier to capital management. We note that the development of new capital instruments would require legislative change and would likely benefit a minority of firms given the larger insurance mutuals have found alternative ways to access capital and cost and complexity are likely to be an impediment for small firms wanting to issue these. We further note the potential implications of issuing new forms of capital instrument on the current tax status of mutuals. Notwithstanding this, we would be happy to engage with the sector and HM Government in further work on the potential development of new capital instruments for mutuals.

Consolidation and economies of scale

As outlined, over time, there has been significant consolidation in the mutuals sector, though there remain a large number of smaller firms. The business model viability of different firms is not directly linked to size, and there are many examples of thriving smaller financial mutuals. As regulators, we are agnostic to the composition of the sector. However, some firms may determine that their preferred strategy is to gain scale through merger or acquisition rather than organic growth. The PRA and FCA stand ready to discuss such plans with any mutual.

One way for smaller mutuals to mitigate challenges related to economies of scale and scope is to outsource certain functions and use third-party providers. This can be a way to secure specialised expertise or technology at a lower cost than could be delivered otherwise. However, the use of third-party providers can itself give rise to challenges, as there are relatively few suppliers who are able to provide products and services adequately tailored to the sector's needs. This can concentrate key services in a small number of suppliers, increasing the risks to operational resilience. The sector has taken steps to seek its own solutions to some of these challenges, for example, in the establishment of CUSOs, and we welcome further engagement on solutions.

Entry and Exit

While the financial mutuals sector in aggregate has grown in recent years, we have seen limited entry of new mutual firms to the market. During the past decade seven new credit unions have been registered. Of those mutual insurers still writing new business for consumers, the last was authorised in 1988, though there have been more recent examples of authorisation of mutual reinsurers. The most recent authorisation of a building society took place in 1981. A new building society has been registered under the Building Societies Act in 2025, but is not yet authorised.

The regulators have engaged in discussions on establishing new financial service mutuals and will continue to offer **pre-application support to potential firms** as required. This support is provided through the **New Bank Start-up Unit**, which has authorised 41 new banks since 2013, and the **New Insurer Start-Up Unit**, which has authorised 41 new insurers since it was established in 2018. To help support the authorisation of new firms, we offer a 'mobilisation' regime which allows a firm to be authorised with restrictions, while they finalise the development of their firm, helping to reduce possible barriers to entry.

We have seen recent interest in the establishment of regionally focused mutual or co-operative banks. These are banks owned by their members, typically customers or depositors, rather than by shareholders. Unlike a credit union, a mutual bank would generally offer products and services to non-members, as well as members. The legislative and regulatory regime offers flexibility, with options to adopt different legal structures – including as companies under the Companies Act 2006, or as co-operative societies under the Co-operative and Community Benefit Societies Act 2014. We do, however, recognise that there are restrictions on banking activities in the Co-operative and Community Benefit Societies Act 2014, in relation to withdrawable share capital.

In our engagement, firms and trade bodies have not suggested there are any significant barriers within regulation to the establishment of new mutuals. However, setting up a new entity is inevitably a costly process, as staff need to be hired, operational infrastructures need to be set up, and new customer bases need to be built. Given a new mutual's ability to raise capital can be limited, these represent significant challenges. One possible source of funding for new mutuals is from regional bodies and we note that public funding to support mutuals is available in some parts of the UK, for example public funding has been provided to various credit unions in recent years.

A well-functioning and dynamic market also needs to enable unviable firms to leave with minimal disruption. **SS2/24**, which came into force on 1 October 2025, sets out the PRA's expectations for non-systemic banks and building societies in the UK to prepare, as part of their business-as-usual (BAU) activities, for an orderly 'solvent exit', and if needed, to be able to execute one. Some societies have suggested that legislative change may be required to deliver a more effective toolkit to fully execute a solvent exit.

In the case of larger building societies subject to bail-in strategies, the expectation is that societies should develop adequate capabilities to support their preparations for resolution, consistent with their existing obligations under the Bank of England's Resolvability Assessment Framework. Firms must consider what systems and processes they would need if they fail and are placed in a resolution. All of this must be considered in the context of their preferred resolution strategy and how a resolution would be executed. In this regard, the Bank's Resolution Directorate continues to engage with larger societies and their trade association on their preparations for bail-in, including the case where this involves the demutualisation of the society upon their failure.

For small credit unions a transfer of engagements or dissolution are well-trodden paths. However, a lack of transfer partners (due in part to common bond restrictions) and significant administration costs means these are less feasible options for larger credit unions. There are a number of legislative obstacles to large credit unions achieving a solvent exit: for example, under the Credit Unions Act 1979, credit unions can only transfer to another credit union with the same/overlapping common bond (which can be a challenge for large credit unions). Plans by HMT to bring forward growth-focused reforms to the common bond may ease some of the challenges with transfers. Additionally, credit unions cannot sell their loan book to a non-credit union under the legislation. This is a particular challenge as recent legislative changes to expand the scope of credit union activities and loosen common bond requirements have resulted in larger and more complex credit unions. There may be merit in reviewing existing legislation and considering additional mechanisms to facilitate solvent exits.

Most mutual insurers seeking to exit the market do so via a transfer of engagements or through run-off. Low value and complex portfolios of legacy business can result in difficulties in finding suitable acquirers. In 2026, the FCA plan to start work on broader legacy issues in the life insurance and pensions markets with a view to reducing any regulatory barriers. The PRA intends to publish guidance on Part VIII transfers to help mutual insurers better understand the process, costs and simplifications that we currently apply, thus reducing barriers to firms looking to merge or consolidate. **SS11/24** sets out the PRA's expectations for UK insurers to prepare, as part of their business-as-usual activities, for an orderly 'solvent exit'. The Preparations for Solvent Exit Instrument will come into force on 30 June 2026. Where firms are struggling with viability, the PRA and FCA stand ready to engage in conversations on solvent exit options, including mergers, to prevent disorderly exit and help maintain assets in the sector.

As regulators, we are committed to taking steps to support all firms, including mutuals, in their growth aspirations. Mutuals are eligible to benefit from the **FCA's support services** including the **Innovation Pathways** and building societies and mutual insurers can access the recently launched **PRA and FCA Scale-up Unit**. These services are designed to support firms looking to grow and innovate by providing access to regulatory expertise and sandboxes.

The FCA's support services have aided mutual firms in developing solutions through tools such as restricted authorisation, sign posting, informal steer, and individual guidance. Through the FCA's innovation services, firms have tested a range of initiatives. For example, one firm piloted an automated digital advice solution designed to improve member experience and understanding. Other initiatives explored through these services include identity token solutions to enable onboarding without conventional ID, enhancements to bill prioritisation and account access, and the application of Artificial Intelligence in credit and mortgage decision-making.

5: Supporting the mutuals sector

The PRA and FCA are grateful for the extensive engagement we have had with the mutuals sector across several events around the country in support of this report. This has been part of a broader sustained engagement between regulators and the sector.

In our regulatory approach we seek to support every sector, irrespective of ownership model, by ensuring an appropriately tailored approach across the market, grounding our approach in proportionality, with risk-based supervision, tailored to the size, complexity, and business model of each sector and firm.

We recognise that effective and proportionate regulation has an important role to play in providing the right environment for the mutual sector to grow in a sustainable way. There are trade-offs in the regulatory choices we make – between the benefits we want to see and the potential harm that could arise.

Regulation also plays an important role in increasing the trust and confidence consumers have in financial services. This in turn can help support the growth of the UK economy by increasing consumers' use of financial services which enable them to more effectively save, invest and spend. Mutuals play an important role in helping develop trust in financial services. The right regulatory environment will help to ensure that mutuals have the same opportunities to compete as other firms. We seek to achieve this through:

i. proportionate regulation and supervision so that mutuals do not face undue costs and burdens;
ii. targeted initiatives designed to support mutuals in tackling the challenges they face; and
iii. regular, ongoing communication and engagement with the sector and its trade bodies to ensure their needs are well understood, and that they in turn understand regulatory priorities.

We have taken substantial steps under each of these three categories in recent years. And more initiatives are currently underway to provide further support.

Our engagement with industry has not suggested that there are major outstanding areas of regulatory change needed to unlock more sustainable growth in the mutuals sector. However, we have discussed some areas where further action may help to provide the right environment for growth. These are described in more detail below and we would welcome ongoing engagement on these topics.

We also recognise that potential changes in regulatory approach are just one lever that can be pulled to support the sector. Real progress will also require action to be taken by the industry itself, alongside the provision of support and co-ordinated action by both regulators and legislators.

Our proportionate approach to mutual supervision

The PRA's and FCA's proportionate approach to supervision means we prioritise those issues and firms that are likely to pose the greatest risk to our objectives while ensuring that our interventions do not go beyond what is necessary in order to achieve those objectives. We aim to provide clarity to firms on our expectations to reduce the risk that firms 'gold-plate' our requirements unnecessarily. Proportionality is core to how we meet our objectives as it ensures that firms, especially smaller firms, only face regulatory costs which are commensurate with the riskiness of their activities. Proportionality, therefore, supports competition and growth and ensures that the PRA and FCA are using their resources efficiently by focusing on the most important risks.

Ongoing proportionality initiatives which benefit a wide range of firms

The PRA and FCA have sought to reduce the direct costs of regulation. In April 2025, the PRA implemented changes to its **regulated fees and levies** for 2025/26. Minimum fees for small non-directive friendly societies, and small and medium-sized credit unions were reduced to zero, removing fees for a large proportion of small mutuals.

The FCA has also acted to reduce the regulatory burden on firms, as set out in its **response to the Prime Minister and Chancellor in January 2025**. This has included removing the need for a Consumer Duty Board Champion, eliminating some regulatory returns, removing Dear CEO portfolio strategy letters and seeking to rely on the Consumer Duty where possible rather than implementing new rules. Earlier this year, HMT consulted on **potential legislative changes to the SM&CR regime**. Proportionality is already a key feature of the SM&CR with different requirements applying to different firms depending on size and complexity. The PRA and FCA recently issued consultations (**PRA CP18/25** and **FCA CP25/21**) with some Phase 1 proposals to increase the efficiency and effectiveness of the SM&CR and reduce regulatory burdens. As noted in these CPs, the regulators will consider consulting on further proposals to take advantage of any additional flexibility arising from HMT's proposals, including which Senior Manager roles might be removed from the requirement to seek regulatory approval prior to appointment. This will make the regime less burdensome and more flexible, thereby lowering compliance costs for all affected firms, including mutuals, and supporting growth more broadly.

The FCA responded to concerns about the volume and complexity of firm-facing requests and publications by launching **My FCA** earlier this year and improving the accessibility and efficiency of its Handbook with a machine-readable version. The Handbook website has also been redesigned and rebuilt over 2025. The FCA will continue to develop the site and introduce new features in line with feedback. These actions simplify how firms access our rules and guidance which is particularly useful for smaller firms who may be operating with fewer resources. Credit union complaint returns have also been made easier to submit by moving away from a paper-based system to an online form. Following consultation in **CP25/24**, the FCA is also moving forward with its proposals to remove statutory declarations on mutuals registration function forms where not required by legislation.

The FCA will shortly be publishing an Engagement Paper on Consumer Access to Investments which considers our rules on high-risk investments and where we can streamline and harmonise the FCA Handbook. We would welcome evidence and engagement through this process, including on areas such as the retail promotion of building society capital instruments.

Proportionality initiatives which benefit Building Societies

The PRA has recently announced **changes to the retail deposits threshold** for application of the leverage ratio, to index for nominal GDP growth with a view to limiting 'regulatory drag'. This approach aims to ensure that regulatory requirements remain aligned with economic conditions, providing a stable and predictable environment for firms and preventing inflation pushing firms into requirements not originally envisaged for them. In addition, the **Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**, which has been updated in response to firm and industry feedback following the consultation published in October 2024, includes raising the total assets indicative thresholds for a transfer or bail-in preferred resolution strategy from £15-25 billion to £25-40 billion, hence removing potential limitations on growth for building societies approaching this level.

The PRA's **Strong and Simple framework** took effect at the start of 2024. It introduces a simpler but equally resilient prudential regime for Small Domestic Deposit Takers (SDDTs), with more straightforward supervisory processes and reporting requirements. 97% of smaller building societies have already benefitted from simplified liquidity requirements, including reduced liquidity reporting. The PRA also consulted on a simplified capital regime for SDDTs in 2024. Coming into effect on 1 January 2027, the **proposals** will create a much simpler, more certain, and less costly capital regime for SDDTs which will support increased competition and a dynamic and diverse deposit-taking and lending sector in the UK.

The larger building societies, which are not eligible for SDDT, will benefit from other recently announced initiatives. We are committed to speeding up the time for review and response to firms' Internal Ratings-Based (IRB) model applications. We are also exploring a '**foundation IRB approach**' which would allow firms to use PRA-prescribed values for loss-given default instead of estimating their own for the purposes of modelling their capital requirements. This would significantly reduce the amount of modelling, time and resourcing required to obtain IRB permissions.

We are amending our approach for the rules applying to mortgage lenders. The Bank of England's Financial Policy Committee (FPC) updated its Loan-to-Income (LTI) mortgage policy in July 2025, allowing individual lenders to increase their share of lending at high LTIs (the current rule ensures that mortgage lenders limit the number of new residential mortgage loans made with an LTI ratio at, or greater than, 4.5 to no more than 15% of their total number of new mortgage loans per annum). Following the FPC's recommendation, the **PRA is reviewing the LTI ratio requirements**. Although not specifically targeted at the mutuals sector, as building societies play such a significant role in the UK mortgage market, these measures are expected to support their growth.

The FCA has promoted home ownership by reminding mortgage providers of the flexibility in its rules. Following consultation, the FCA set out changes to its rules designed to simplify specific responsible lending and advice rule for mortgages. In June this year the FCA published a discussion paper (DP25/2) on the **future of the mortgage market**. The paper considers areas where changes may be needed to support sustainable home ownership and economic growth, and where introducing more flexibility could allow firms to tailor their product offerings to consumers' evolving needs.

The FCA has consulted on streamlining data collection for mutual firms by proposing to decommission **REP002 General Insurance Pricing Attestation (CP25/16)**. These reforms demonstrate how the FCA is working differently to modernise its regulatory approach by working more efficiently and at pace, simplifying rules where appropriate, and streamlining data collection.

The **FPC** has refreshed its assessment of appropriate capital for the UK banking system, including building societies.

Proportionality initiatives which benefit Credit Unions

The supervisory regime applying to credit unions has been designed to reflect the legislative framework which underpins the sector, as well as the specific role and needs of credit unions. This regime reflects the risks that credit unions may pose to the PRA and FCA's objectives. Given the small size of most credit unions and limitations on the scope of their business activities, supervision and regulation is much simpler than for other deposit-takers, and for the smallest firms, more focused on ensuring they are able to exit the market with a minimal impact on their members.

This approach is set out in **SS2/23**. Credit unions are subject to a much simpler set of capital and liquidity requirements, with requirements and expectations scaling up according to the size and complexity of the credit union, to reduce the cost of compliance with prudential requirements, while at the same time seeking to protect members. Similarly, the FCA's **Credit Union Sourcebook** expressly references proportionality, reflecting that the implementation of rules will likely vary according to the size and complexity of a credit union.

In recent years we have seen a small number of credit unions grow to be significant in size, some of a size similar to smaller building societies. And potential changes to the common bond requirements may result in more larger credit unions. This suggests the need for a review of the regulatory regime that applies to larger or more complex credit unions to ensure it continues to reflect the risks and needs posed by these firms. Such a review might include, for example, consideration of whether capital requirements for larger and more complex credit unions could be more risk-based, rather than size-based as at present. It might also include governance and risk management expectations tailored to credit unions with a higher risk profile. The review may also provide an opportunity to ensure there is appropriate proportionality within the regulatory regime for all credit unions.

In line with the PRA's commitment to proportionate regulation, we have aimed to apply governance requirements in a balanced way by introducing a simpler framework for approving senior positions in credit unions, recognising the reliance on voluntary staff. Following HMT's consultation on legislative reforms to the Senior Managers and Certification Regime (SM&CR) and subject to legislative timings, the PRA and FCA will consider consulting as part of a 'Phase 2' of reforms to take advantage of any additional flexibility arising from HMT's proposals (including which Senior Manager roles might be removed from the requirement to seek regulatory pre-approval).

Proportionality initiatives which support Mutual insurers

For Insurers, Solvency UK came into effect on 31 December 2024. The Solvency UK reform package focused on competitiveness and growth, stripping unnecessary bureaucracy out of the regime and supporting insurers in making investments into the economy by enabling insurers to access a broader range of eligible assets more quickly.

The regime significantly increased the thresholds for entry into the Solvency UK regime from €5 million to £25 million in annual gross written premium income and from €25 million to £50 million for a firm's and group's technical provisions. As a result, 13 small firms, 10 of which were mutuals, became eligible to fall out of scope of Solvency UK and into the simpler Non-Solvency UK regime.

Solvency UK also resulted in significant reforms to reporting and disclosure reducing the burden of reporting, which particularly benefitted smaller firms, many of which are mutuals. In total, the PRA removed almost 50 reporting templates and the requirement for Regulatory Supervisory Reporting alongside other disclosures.

As part of our post Solvency UK approach, the PRA set up a dedicated unit to allow insurers with a matching adjustment to more quickly gain the permissions they needed to invest into new asset classes. Larger mutuals with annuity portfolios benefit from the increased speed and responsiveness from the regulator.

For providers of pension and investment products, the FCA is addressing the gap in support for consumers (**CP25/17** and **CP24/27**). The FCA plan to finalise the regulatory framework and publish a policy statement on targeted support in December 2025.

The FCA has acted to simplify rules for insurance firms and funeral plan providers (**CP25/12**). Proposed changes included removing the minimum 12-month review requirement for non-investment insurance products and removing the Employers' Liability Insurance notification and annual reporting requirements. The FCA will publish the results of this consultation, along with a policy statement, in December 2025. We will continue to engage stakeholders, including mutual firms, on where we can go further to streamline our rules.

Targeted initiatives to support mutuals

The PRA and FCA adapt our supervisory approaches to the needs of the sectors we supervise. For the mutuals sector in particular, we have a number of recent and current initiatives which are specifically designed to support mutuals and the challenges they face.

Through our engagement with the sector, we have been told that smaller firms face barriers to launching new products due to development and testing costs and regulatory complexity. The PRA and FCA have recently launched a joint Scale-up Unit for both deposit-takers and insurers. This Unit will help eligible firms in understanding regulatory processes relevant to their scaling-up plans and provides access to support, for example when looking to launch a new or innovative product or service.

Alongside this, the FCA set out in its **Registering Authority landscape report**, published alongside this report, the steps it is taking to improve the visibility and understanding of mutual societies through data on the Mutuals Public Register. Through the Mutual Societies Development Unit, the FCA will engage policymakers, academics and researchers, think-tanks, trade bodies and others on policy and understanding relating to mutual societies.

Targeted initiatives which support Building Societies

The PRA has **withdrawn** SS20/15. The PRA considers that the expectations set out in SS20/15 are no longer consistent with the PRA's broader policy approach and imposed prescriptive expectations on building societies that banks are not subject to. The PRA considers that the withdrawal of SS20/15 will help building societies to compete and grow in the UK market and reduce compliance costs on the societies.

Targeted initiatives which support Credit Unions

In order to address economies of scale challenges in credit unions, the PRA recently consulted on amending its rules to allow credit unions to invest in Credit Union Service Organisations (CUSOs) (CP13/25 – **Credit Union Service Organisations**). CUSOs can offer significant benefits to credit unions, for example allowing them to pool resources, achieve economies of scale and access services which would otherwise be too costly or complex to undertake on their own. The PRA recognises that CUSOs can have an important role in facilitating credit union growth and ensuring their sustainability and therefore proposes to remove barriers to CUSOs while establishing guardrails to ensure any associated prudential risks are managed in changes expected to be introduced in early 2026.

Targeted initiatives which support Mutual Insurers

In recent years there have been several consolidations of, especially smaller, mutual insurers. For some mutuals, consolidation is a way to help achieve economies of scale and so set a stronger platform for sustainable growth. The most common process is a 'Part VIII' transfer process overseen by the PRA and FCA. We have received feedback that this can appear a daunting and complicated process. In practice, the PRA strives to make the process as proportionate as possible, for example, by not requiring additional expert reports in most cases. The PRA intend to publish guidance on Part VIII transfers, setting out in a straightforward way how the consolidation process can be undertaken with a minimum of additional cost and burden. This should decrease barriers to firms looking to merge or consolidate in a bid to seek sustainable growth.

The FCA has **acted to simplify product information** on Packaged Retail and Insurance-based Investment Products (PRIIPS), Undertakings for Collective Investment in Transferable Securities (UCITS) and non-UCITS retail schemes. We consulted earlier this year on proposed changes and will publish a policy statement in December 2025. This will give Life Insurance firms more flexibility and freedom in how they describe their products to consumers.

We have heard from industry, and particularly mutual insurers, about challenges in implementing certain aspects of the approach to with-profit funds set out in **Conduct of Business Sourcebook (COBS) 20** in the FCA's Handbook. In early 2026 the FCA plan to start work on broader legacy issues in the life insurance and pensions markets.

Supporting mutuals through communication and sector engagement

Through the process of putting this report together, we have had extensive engagement with the mutual sector, with roundtables and discussion groups taking place around the country. We have closely engaged with the various trade bodies which together represent the sector. Our supervisory approach is carefully designed to ensure that mutuals are supervised by supervisors and specialists who have a deep understanding of the needs of the sector.

Ongoing engagement with the sector is critical to ensure that we continue to understand firms' issues and concerns. And that, in turn, our priorities are well understood by the sector.

Alongside regular supervisory engagement, the PRA and FCA have carried out a range of sector engagement. The PRA holds annual conferences for smaller insurers, with sessions targeted to the needs of mutual insurers; and the PRA and FCA attend and present at the Association of Financial Mutuals annual conference.

Building Societies are invited to twice yearly conferences for non-systemic deposit takers where the PRA sets out the detail of key policy initiatives, alongside participation in BSA conferences and events by the PRA and FCA. For credit unions we hold joint biannual round tables with trade bodies and an annual online conference with the sector, alongside regular participation in trade body conferences. As noted, we are also planning tailored content for credit unions on the PRA and FCA websites to enhance accessibility and engagement with credit unions. The FCA has also convened cross-sector roundtables, bringing together the mutuals sectors along with the PRA and Government.

Legislative change to support mutuals

Recent and ongoing legislative changes

Legislative frameworks play a crucial role in shaping the environment in which mutuals operate. Recent and ongoing changes aim to ensure that legislation keeps pace with the evolving needs of the sector, supporting mutuals' ability to grow, innovate, and serve their members effectively.

The Building Societies Act 1986 (Amendment) Act 2024 gives HMT the power to exclude certain sources of funding from counting towards the funding limit, which would enable societies to raise additional funds from sources other than members' deposits, provides HMT with the power to further align the provisions concerning common seals and executing documents to more closely align with company law and updates administrative rules (eg to conduct Annual General meetings in hybrid format) to be more closely aligned with banks. In addition, the definition of a small business (based on turnover) set out in the 1986 Act was increased from £1 million to £6.5 million. This allows more small business deposits to be excluded from the wholesale funding limit, giving building societies greater flexibility in their funding sources. This supports growth as building societies must raise at least 50% of their funding from members' deposits.

Further changes were also made recently to the Building Societies Act 1986, to remove references to the 'normal' and 'compulsory' retirement age for directors and allow the balance sheet to be signed by one director on behalf of the board, aligning with company law.

We also note the positive steps taken by the Law Commission, at the request of the UK Government, to modernise the legislation for co-operatives, community benefit societies and friendly societies, and by the Department for the Economy in Northern Ireland in reforming credit union law. However, we note that changes in company law can sometimes take time to be reflected in corresponding updates in mutuals legislation and some consideration of how mutuals legislation could remain up-to-date could be warranted.

We have welcomed and been closely engaging with the Law Commission in their review of the Friendly Societies Acts which govern most mutual insurers. On the conclusion of the review, the PRA and FCA will consider how best to update the regulatory framework to reflect any changes.

Future legislative changes

Although we have not heard significant calls from industry for wholesale legislative reform, the Government may wish to consider whether there is value in updating the Building Societies Act 1986, and the Credit Unions Act 1979. The credit union sector in particular, could benefit from a more holistic review of its legislative and regulatory framework. This would be with a view to limiting the regulatory requirements for the very smallest credit unions and supporting the professionalisation of the sector by setting out enhanced expectations, including a more sophisticated capital regime, for the largest credit unions that undertake additional activities beyond unsecured personal lending. Any such review would require close engagement with the sector to consider proposals.

Such a review could also encompass the tools available in the credit union legislation to facilitate solvent exit. A growing credit union sector, potentially including more and larger credit unions, needs to be accompanied by appropriate tools to ensure credit unions can exit the market in an orderly manner which minimises the impact on consumers. Mergers are one way to achieve this, and this method has been proven to be relatively straight-forward. However, there are currently fewer feasible options for solvent exit for larger credit unions due in part to some legislative obstacles (for example, the common bond requirement limits the number of available transfer partners). HMT has committed to bringing forward growth-focused reform to the common bond in the **Financial Inclusion Strategy** published on 5 November. There could be a case for including additional resolution tools in the relevant credit union legislation. Further changes to reduce barriers to exit could also be considered.

There are other features of credit union legislation that risk unduly constraining the sector and would benefit from review. The PRA and FCA propose to undertake a holistic review of the regulatory framework for credit unions, working closely with the credit union sector. We will also continue our engagement with the Department for the Economy in Northern Ireland, in their ongoing consideration of changes to credit union legislation.

Some building societies have proposed that change may be required to the Building Societies Act 1986, to deliver a more effective toolkit to fully execute a solvent exit. We stand ready to engage with the sector on this or other legislative changes.

In engagement with us, a range of financial mutuals have raised the relatively broad definition of Public Interest Entity (PIE) as a potential barrier to growth. More stringent audit requirements are placed on PIE firms, and there is a limited pool of auditors which undertake audit work for these firms, which can result in additional costs. Whether a firm is a PIE is defined by the Government and the Financial Reporting Council (FRC). The regulators have passed industry feedback on the definition of PIE to the FRC and HMT through our regular engagement.

Further sector engagement and co-ordination

While the right regulatory and legislative environment can help facilitate sustainable growth, only the mutuals sector itself can deliver it. This is recognised by the industry, and it is for the financial mutuals sector to develop a long-term vision and a clear strategy to deliver it. Although it is not the role of the regulators to determine the shape of any sector, we stand ready to participate in discussions that firms or their trade associations wish to have and we will look to create the right regulatory environment to support this. The greater collaboration we have seen over the past few years within the mutuals sector is positive, particularly among trade associations, but the sector can still do more to speak with a clearer voice to ensure discussions between the industry, regulators and Government are as productive as possible.

In some cases, sharing of expertise and pooling resources within the sector can be a way to address cost pressures arising from a lack of economies of scale, or to help raise standards and promote best practice, for example in governance and risk management. Such co-operation could be facilitated through networks such as trade associations, or structures such as service organisations. Such mechanisms could, in particular, play a valuable role in supporting smaller firms, offering shared expertise, infrastructure, and guidance through periods of strategic transition or investment.

While the sector has expressed interest in collaborative solutions, examples across the mutuals sector have so far been limited. The regulators would welcome further progress on developing shared service arrangements, including in the credit union sector and among other mutual firms. The PRA and FCA stand ready to support the sector by addressing any potential regulatory barriers that could limit the effectiveness of such organisations. We recognise all firms need to assess and remain vigilant to the application of competition law in any collaboration.

Secondary structures such as mutually-owned joint-ventures could also be a potential tool to support capital raising for deposit takers. Although Core Capital Deferred Shares (CCDS) have worked well, we hear from industry that greater scale in their offer could increase their attractiveness to investors. We encourage industry to explore establishing a secondary structure to help aggregate share offers and stand ready to engage with any proposals.

To help address challenges set out in this report, the FCA and PRA offer to support policy sprints to convene relevant stakeholders to engage in the development of solutions for mutuals, for example, focusing on areas such as capital raising and collaboration within the sector through shared services or secondary structures.

Where possible mutuals should ensure they keep abreast of how the regulatory framework is evolving when considering how to grow their business. We note that in many countries with large credit union sectors, credit unions provide a greater variety of products and services (other than savings and loans) compared to the UK. Credit unions in Great Britain were empowered in 2023 to take steps to offer a wider range of products and services – such as conditional sale, hire purchase, and insurance distribution. No credit union has applied to the FCA for authorisation under FSMA to take advantage of this change at the time of publication.

6: Conclusion

This report represents a significant step in our ongoing engagement with the mutuals sector, reflecting both the achievements to date and the opportunities that lie ahead. Throughout its development, we have benefited from extensive input and feedback from mutuals and their trade associations, which has helped inform the initiatives set out herein. We would like to thank all parties for their valuable contributions and continued collaboration.

We remain committed to advancing the important initiatives outlined in this report. We will continue to engage actively with mutuals, their trade associations, and all stakeholders not only on existing and in-flight initiatives, but also as new challenges and opportunities arise, ensuring that our approach remains responsive and proportionate to the evolving environment. We recognise that the sector itself will be the driving force behind future success. We encourage stakeholders to share their perspectives and ideas as we are keen to consider new approaches that provides all firms with an equal opportunity to compete, grow and thrive.

We look forward to further dialogue and collaboration as we work together to facilitate the long-term sustainable growth and resilience of the mutuals sector.