Dormant accounts and friendly societies

by Anthony Hilton

It was back in 2005, in the Pre Budget report that the then Chancellor Gordon Brown first signalled his interest in using unclaimed assets for social purposes. He had noticed that banks and building societies had dormant accounts which collectively contained many millions of pounds, but where the money had been untouched for years, and where it was a reasonable supposition that the original holder had either forgotten about it, lost the account details, or died.

A lot has happened since then with a series of inquiries and consultations leading to the Dormant Accounts bill which is currently moving through Parliament. The basic objective remains very much as originally outlined by Brown – to identify and re-invest the assets in dormant accounts for the benefit of the wider community, but there is now more detail. The money for example will be distributed by the Big Lottery Fund and it will go primarily to improve youth services and to assist financial capability and inclusion programmes. There is still some studied vagueness here however. Originally there was a powerful push to use the money to create a Social Investment Bank which would provide expertise and finance to third sector organisations seeking to create businesses and employment in blighted communities. Now however, there seems to be more emphasis on more overtly vote catching initiatives like building sports centres.

Thereafter, much of the bill's detail concerns the mechanisms by which this will be done - making it legally possible for the banks and building societies affected to hand the money over, and to relieve them of their legal obligations to the customer; creating a mechanism so that if those whose accounts are affected subsequently come forward, they will always be able to get their money back. It also defines what a dormant account is - in this case it is an account where there have been no customer initiated transactions for 15 years. Meanwhile outside of Parliament, the banks and building societies affected by the bill have been working to identify these accounts, and, importantly, to make a final effort to contact the holders before their money is labelled as dormant and handed over. It is now believed that when the exercise is complete, some £150 million will come out of building societies and between £250 million and £350 million will be released by the banks.

Friendly Societies are not included in this bill, but they need to be aware of the way the wind is blowing. In evidence last year to the Treasury Select Committee, the Association of Friendly Societies argued powerfully against inclusion. Definitions of dormant accounts appropriate for banks did not transfer easily to insurance. It was much harder to value an insurance policy than a bank account, many of the products were designed to last much longer than 15 years - Child Trusts accounts for example which run for 18 years or whole of life and burial policies which run until death - and as mutual organizations, friendly society rules provided for any unclaimed funds, to be redeployed for use by the remaining members.

It is clear however, that Friendly Societies are not immune from dormant accounts, albeit their close ties with local communities make it easier to trace people and means the problem is small - estimated by the AFS at about one quarter of one per cent of all accounts and worth about £50 million across the movement. The problem is not evenly spread however, and Societies which have merged over the years are likely to have a greater incidence if they inherited less comprehensive records. Interestingly too, the Treasury Select Committee in its report, suggested extending the scheme to life offices at some time in the future, so there is a distinct possibility that Friendly Societies will be drawn into the net at some point.

Even without that threat it is not something a responsible management can ignore. Any financial organisation has a moral and fiduciary responsibility to do all it can to make sure that assets go to those who are entitled to them, and of course it is also a central plank of the FSA's principle of Treating Customers Fairly. But it is a resource intensive process, and a heavy extra workload on a thinly staffed organisation. It is to the movement's credit therefore, that it has undertaken an in depth market testing exercise and selected Assets Reunited as its preferred supplier in this area. Assets Reunited is a leader in the emerging UK assets reunification market and will be offering a range of services that can be customized to provide the most efficient and cost effective solution for each Friendly Society.

www.icsasoftware.com/unclaimedassets

www.assetsreunited.co.uk