STEERING THE BUSINESS DOWN THE RIGHT PATH

Association of Financial Mutuals

Corporate Governance Report 2016

September 2016

Introduction

This is the latest report from AFM on corporate governance in the mutual insurance sector. It draws on compliance reports from our members, showing their stated levels of compliance during 2015 with the Annotated Corporate Governance Code for Mutual Insurers.

The primary purposes of this report are to enable our members to benchmark their performance against their peers, as well as to provide an overview to Treasury and the financial regulators on standards of governance amongst friendly societies and mutual insurers.

The Code is available to view on the AFM website, and closely follows the Financial Reporting Council's Code for listed companies.

Contents

About AFM

The Association of Financial Mutuals (AFM) was established on 1 January 2010, as a result of a merger between the Association of Mutual Insurers and the Association of Friendly Societies. Financial Mutuals are member-owned organisations, many of whom have operated for over 100 years, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.

AFM currently has 38 members and represents mutual insurers and friendly societies in the UK and Ireland. Between them, UK mutuals manage the savings, protection and healthcare needs of over 30 million people, and have annual premium income of around £16 billion. For more, go to www.financialmutuals.org.

Executive Summary

This report provides an overview of compliance with the Annotated Corporate Governance Code for Mutual Insurers (the Code) during 2015, by members of the Association of Financial Mutuals.

The annual compliance exercise for the Code is set on a comply or explain approach, and requires companies to complete a detailed questionnaire which illustrates the main principles and provisions within the Code, and helps the Board of each company identify how best to comply with each aspect. Where a company does not comply with a Code provision, it documents an explanation in its annual report and accounts.

The stated level of compliance with the 27 main principles of the Code in 2014 was 97%, on a par with the performance in 2014 (96.7%). The principles are largely self-evidently good practice, so high levels of compliance are generally expected; though 35% non-compliance with the principle on performance-related pay shows not all aspects of good corporate behaviour translate equally to a mutual business.

This year no AFM member achieved full compliance with all the Code provisions. In fact, fewer than 40% of companies reported between one and three provisions that they could not comply with. The Code assumes small organisations can misapply some aspects of the Code, and with a skew in AFM membership to small organisations this should not itself be a source of concern. Sections of the Code that showed the highest levels of compliance were in relation to leadership and accountability. The most common exceptions related to: a lack of externally facilitated board evaluation; not all directors elected annually; absence of performance-related pay for executives. Our analysis of explanation statements is that the number has increased again, but that more effort is being made to set out why non-compliance is a better match to the business model and culture of the mutual.

Looking at the report and accounts more generally, the median length of report has grown to 67 pages, with many companies make great efforts to make their accounts more engaging and informative. Others have been slow to modernise reporting standards, and with a greater focus on audit and accountability, more work will be needed in the future.

Overall, the sector should be content that the annotated Code remains a relevant benchmark, and is helping the sector to demonstrate a very strong commitment to high levels of corporate governance, and to steering the business down the right path.

1. The Annotated Corporate Governance Code

The Code was developed in 2005 following the publication of the Myners' Review in December 2004, which made a specific recommendation for the introduction of a version of the Combined Code for the mutual insurance sector.

At the time HM Treasury and the Financial Services Authority agreed that responsibility for producing the Code and detailed guidance for their members on its implementation would rest with the predecessors of AFM. This was reviewed post-launch by FSA, who were broadly content with the self-regulatory approach.

The Code seeks to adopt wherever possible the requirements and principles of the UK Corporate Governance Code which is supervised by the Financial Reporting Council[1]. The Code retains the same set of Principles and Code Provisions as FRC's, and these are grouped into the following five sections:

Section A:	Leadership
Section B:	Effectiveness
Section C:	Accountability
Section D:	Remuneration
Section E:	Relations with members

Within each section there are a number of Main Principles (27 in total across the Code), and a series of Code Provisions (of which there are 53 in total).

The section headings reflected changes made by FRC to the UK Corporate Governance Code in 2010, which updated the principles in light of the Walker Report. This compliance exercise is based on the version of the Code published in 2012. The Code was further modified in 2014, for compliance during 2015.

Whilst compliance with the Code is not now a condition of membership of the Association of Financial Mutuals, all eligible members (34) completed the compliance exercise this year.

[1] http://frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx

2. Annotated Corporate Governance Code, Compliance Exercise, 2016

2.1 Methodology

Members are responsible for evaluating their compliance with the Code and for completion of a questionnaire, which gives detailed information about their compliance.

In completing this report, AFM has relied upon the information provided by members and has not attempted to validate or evaluate the submissions. It is also a requirement of the Code that individual companies report their compliance with the Code within their Annual Report and Accounts. Some elements of the Code are subject to review by the company's auditors. Reporting is undertaken via our compliance website, www.AFMgovernance.co.uk.

The Annotated Code recognises differences in regulatory requirements for non-directive societies (those that fall outside the scope of Solvency 2): some of the Code compliance requirements are voluntary for non-directives, and we show this in the report.

2.2 Overall compliance with Main Principles

The Main Principles set out by the Code are the building blocks of good corporate governance: when the Prudential Regulatory Authority developed its own Board responsibilities[2], they heavily overlapped the Main Principles.

We tend therefore to view the Main Principles as self-evidently good practice, and for AFM members to always aspire to comply with them.

There are 27 Main Principles, and as the chart below shows, rates of compliance are very high:

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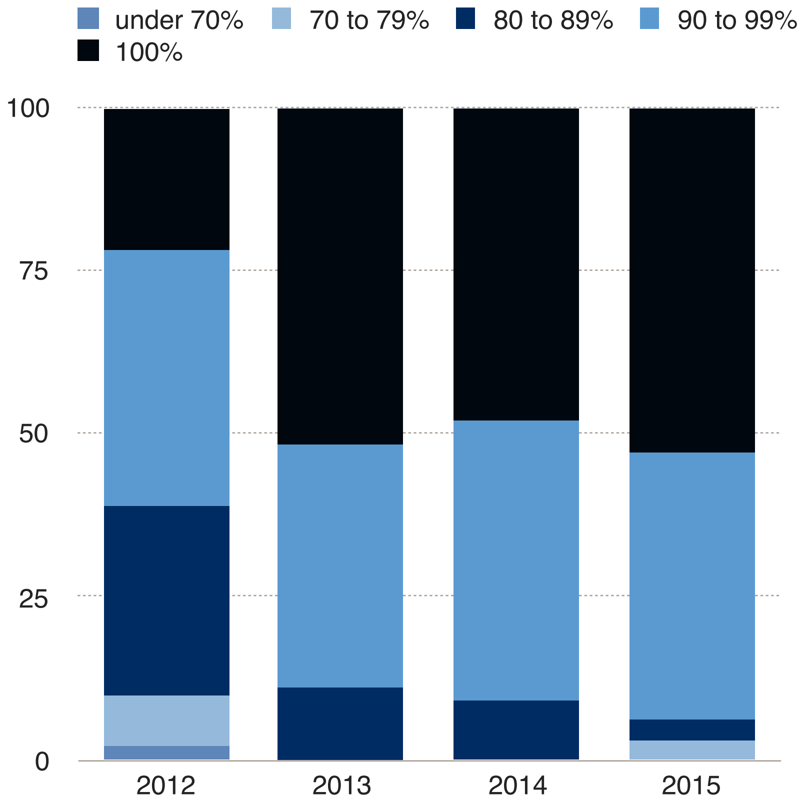
[2] http://www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps1316.aspx



More than half of members comply with all the Principles. Areas where organisations fail to comply are largely focused on three main principles:

- performance related pay (35% of members did not comply);
- effective board evaluation (15% non-compliance); and
- the regular re-election of board directors (9% stated non-compliance).

The reasons why some organisations do not comply with these Principles are covered in the next section.

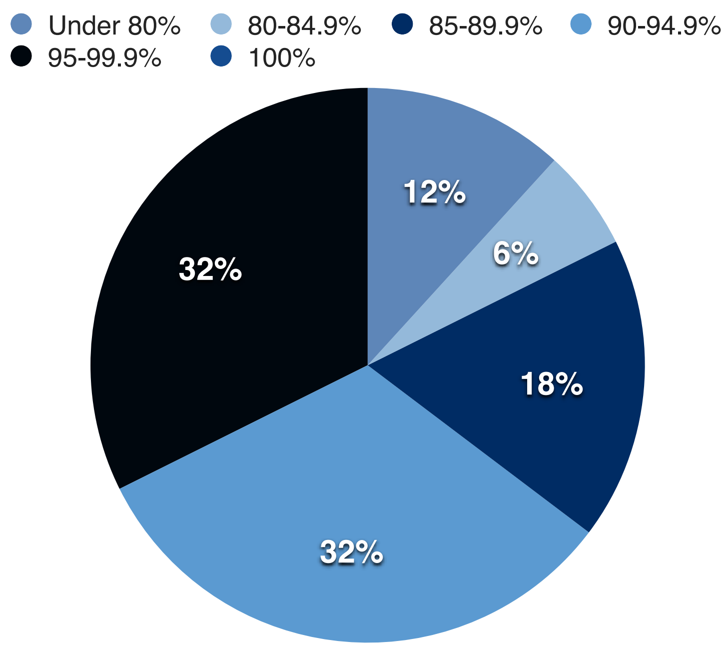
2.3 Compliance with the Code Provisions

As explained above, compliance with the Main Principles is pretty much a given, and they are largely written in a way that enables well-run organisations to incorporate them as good practice. The Code Provisions elaborate on the Principles and set out in more depth the nature of behaviours they expect.

Where a member does not comply with a Code Provision, they should set out an explanation in their report and accounts, covering either why their preferred approach is a better fit for their business, or what they are doing to close the gap.

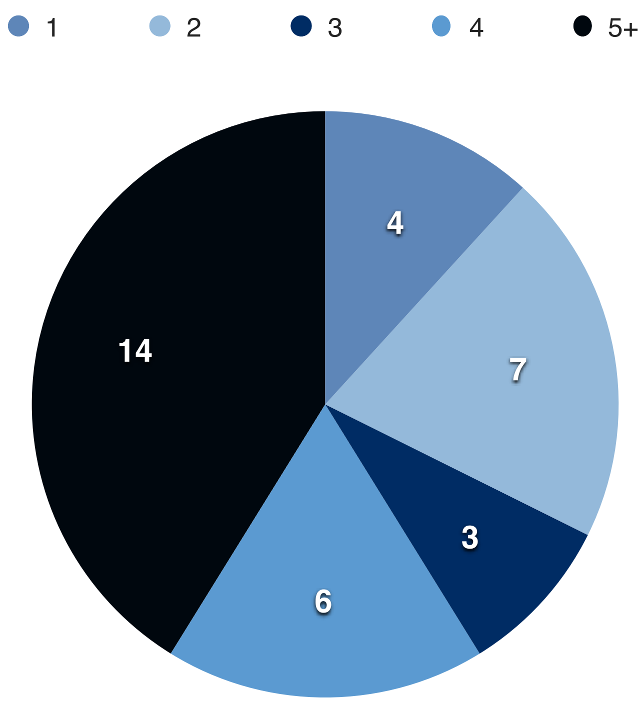
2.3.1 Overall results

The charts below show the distribution of overall results for the 34 members that complied the exercise, and the number of Code Provisions for which they did not comply and were therefore expected to provide an explanation.



The first chart shows the distribution of performance by companies, based on the proportion of the 53 Code Provisions that they complied with.

Whilst no organisation complied with all 53 Provisions, two-thirds of members complied with more than 90%.



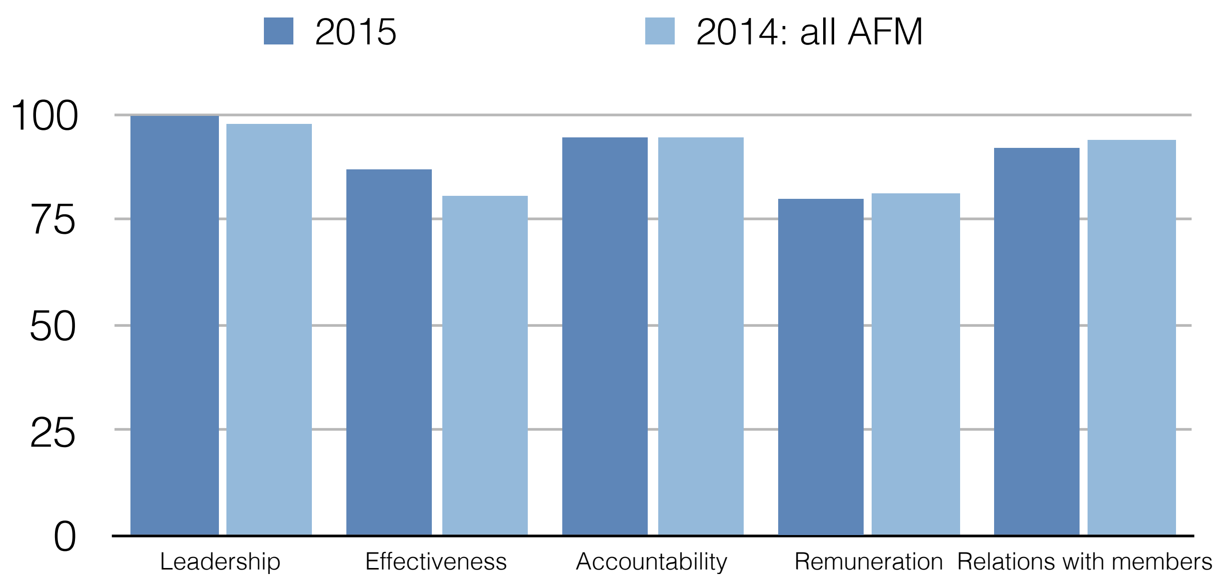
This chart shows the number of explanations provided by members.

A third of members register just one or two Provisions which they were unable to comply with, though a significant proportion reported five or more explanations[3].

[3] For an overview of compliance with each Code Provision, see the video via this link: 2015 code provisions

The Code recognises that members have the option to explain rather than comply, so in itself this does not imply lower standards of governance. Indeed, non-Directive organisations can exempt themselves from certain of the Provisions where they cannot be applied to their business. A key issue, as we explore later, is the quality of the explanations provided, and of the narrative more generally in the report and accounts.

Breakdown of compliance by each of the five sections of the Code is shown in the chart below. The chart shows a very similar pattern to compliance in 2014, where larger mutual organisations also took part in the exercise. As in previous years, the sections on Effectiveness and Remuneration have proved harder to apply to mutual businesses.



A like-for-like comparison of 2015 results with the same organisations in 2014 shows that overall, members stated level of compliance was 91.1%, compared to 90.6% the previous year. This shows small, but incremental improvement, especially as there were new elements of the Code to report on this year, and where new regulatory scrutiny has encouraged firms to be more demanding of themselves.

2.3.2 Compliance with sections of the Code

Section A: Leadership

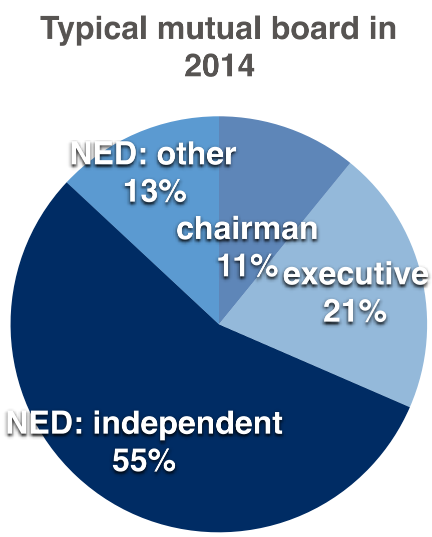
This section of the Code focuses on how well the board takes collective responsibility for the long-term success of the company. The word chart on the right displays the relative frequency of words used in this section of the Code- highlighting the leadership of the board in general and chairman in particular.

	all companies	directive companies	non-directives
Section A	99.6% (97.6% in 2014)	100%	98.6%

This section has 8 provisions. For the last three years it has produced the highest overall scores, indicated that AFM members are confident about the nature of leadership of their organisation.

Companies were content that their board meets regularly enough to keep on top of its agenda and to discharge its duties effectively. All directors are properly identified in the annual report, and no company had an individual fulfilling both roles of chief executive and chairman.

There were very few explanations provided in this section, and almost all were from non-Directive societies, for whom there are some exemptions: around 10% of companies have not appointed a Senior Independent Director (though ensure these responsibilities are maintained by another Director or the Company Secretary); two small organisations indicated there was no executive on the board; four companies did not set out the number of Board meetings attended by each Director.



The average size of board at the end of 2015 was 9.2. The largest board was 14, and the smallest had 5 directors. The typical breakdown of the board is illustrated in the chart.

The largest population of directors are independent NEDs (an average of 5.1 per board). The introduction of Solvency 2 and the Senior Insurance Managers Regime have both lead to some Boards considering their arrangements, though in two cases only one NED was considered independent, whilst in six others there were two.

Section B: Effectiveness

This section considers the balance of skills, experience, independence and knowledge of the Board, as well as appointments to the Board and the effective operating of it. There are six principles and 18 Code Provisions in this section, making it the most extensive of the Code.

	all companies	directive companies	non-directives
Section B	86.7% (80.3% in 2014)	93.8%	82.0%

There was a significant increase in stated compliance in 2014 compared to the previous year, though it remains the second lowest scoring overall.

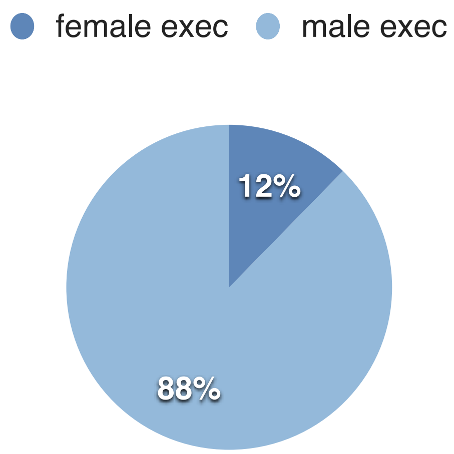
All companies were satisfied that they had the required number of independent directors on their Board (at least 50% for larger companies, and at least two directors for smaller companies; code provisions B.1.2), though this is at odds with the figures quoted at the end of the previous section[4]. All companies stated that the chairman reviewed each NED's training needs on a regular basis.

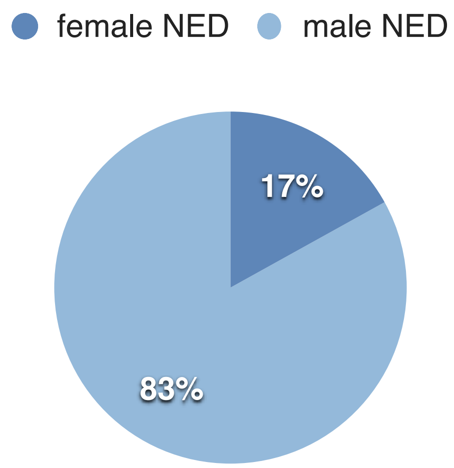
82% of companies indicated one of more NEDs was submitted for re-election in the year, which would result in them serving over six years, though all such companies considered the submission was subject to 'particularly rigorous review', which also took account of the need for progressive refreshing of the Board (code provision B.2.3). In four cases, the Board did not state how it evaluated performance (code provision B.6.1) and in only a third of companies has evaluation been externally facilitated at least every three years (code provision B.6.2).

[4] AFM's 2015 company and financial data provides a breakdown of each Board: http://www.financialmutuals.org/resources/key-statistics

The 2014 version of the Annotated Code introduced a new provision in relation to Board diversity (CP B.2.4): 79% of companies now state they have a relevant policy for Board diversity, up from 73% in 2014; whilst 68% of companies indicate they set out the policy in their report and accounts, and describe their progress. Those providing explanations for not doing so indicated that they recruited on merit, and took tacit account of diversity. One company committed to introduce a policy for 2016.

At the end of 2015 members reported having 50 female directors (made up of 42 NEDs and 8 female executive directors), equivalent to 16% of all directors. This is broadly unchanged from the previous two years: and indicates that the sector has fall rapidly behind listed companies: from a position of parity in 2013, FTSE 100 companies now have 26% female directors[5]. That said, no FTSE 100 company can match the 57% female Board members reported by one mutual. 74% of members had at least one female director in 2015, of whom around a third had achieved or exceed the David report aspirational target of 25%.





In a significant divergence from practice in the listed sector, only 38% of companies undertake annual elections of all Directors (code provision B.7.1). Those providing an explanation tend to state that the issue has been actively discussed and that, to ensure continuity, the organisation has retained a three year cycle of re-election, with the exception of directors who have served over nine years, who tend to be re-elected annually. (In two cases, the organisation is not a member-owned mutual, but a company limited by guarantee, where the directors are the sole members of the company.)

[5] http://www.cranfield.ac.uk/som/research-centres/global-centre-for-gender-and-leadership/female-ftse-index-and-report

Section C: Accountability

The principles in this section relate to how well the Board understands the financial prospects of the organisation and the nature of the risks it is exposed to. There were new requirements introduced in 2014 which were assessed for the first time in this report and which bring the number of provisions in this section to 14.

	all companies	directive companies	non-directives
Section C	94.1% (94.5% in 2014)	97.3%	85.2%

One organisation accepted that their description of significant issues affecting their financial statements needed further revisions. Otherwise all responses indicated that the company met the extended requirement to ensure the report and accounts is fair, balanced and understandable, and that it will allow members to assess the company's position and performance, business model and strategy (revised code provision C.1.1). However, our review of narrative reporting, in section 2.4.2 of this report, suggests that in some cases, where the narrative is limited, this assumes a very high level of financial understanding for recipients of the report and accounts.

All companies also indicated they had set out the strategy and how the organisation creates value over the long term (code provision C.1.2), and that they have assessed the company's prospects and carried out a robust assessment of their capacity to mitigate the principal risk the company faces (new code provision C.2.2). Again this was not always throughly set out in the narrative reporting.

The Code anticipated that Directive societies have at least three independent NEDs on their Audit Committee, and two for non-Directives (code provisions C.3.1). Responses indicate around 20% of companies did not achieve that in 2015, with a further three having no audit committee (due to size and structure).

All companies with an Audit Committee were content that the annual report described their work, that it had the proper resources to investigate any improprieties, that the Committee's Terms of Reference are available to view on the website, and that this included responsibility for assessing the appropriateness of the accounts and for leading work on putting external audit to tender (code provisions C.3.2 to C.3.7).

However, there was much lower compliance with the new requirement that the external auditor cease providing non-audit services, such as tax advice (code provision C. 3.8). Around 60% of companies indicate their auditor provided additional services in 2015; however, this is an issue that the FRC recognises requires further advice, and they are due to issue guidance in autumn 2016.

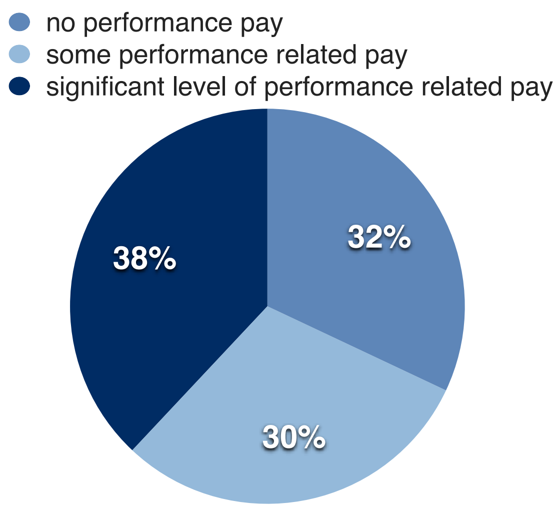
Section D: Remuneration

This section focuses on the levels of remuneration as well as the policy for fixing remuneration packages.

	all companies	directive companies	non-directives
Section D	79.7% (81.1% in 2013)	81.3%	75.3%

Scores in this section were the lowest overall, as they have been in previous years. It remains the case that some of the remuneration requirements introduced for large listed companies do not translate as effectively into mutuals. Equally there remains resistance in many mutuals, and amongst their boards to introduce a rewards culture.

There are nine Code Provisions in this section; none were universally complied with, so each company required some further explanation of its remuneration practice in comparison to the Code.



Just over a third of companies indicate that performance-related elements of remuneration form a "significant proportion of the total remuneration package of executive directors", though two-thirds indicated that they have some performance-related pay and that this is designed to reflect the best interests of members (code provision D 1.1). As a consequences, those organisations did not invite members to “approve all new long-term incentive schemes” (code provision D 2.4).

The reluctance to embrace performance-related rewards was particularly strong amongst small mutuals, but was also apparent in some medium sized companies. Explanations cited that large bonuses were not part of the organisation’s culture; similarly those organisations tended not to have a remuneration committee. Board pay is therefore largely agreed by the whole board in these companies.

Across the sector, board costs as a whole were around 12% of staff costs, though this varied significantly across organisations. AFM in conjunction with one of our Associate members is producing a further remuneration report in 2015 to look further into levels of pay, as well as future trends[6].

Section E: Relations with members

This section relates to the dialogue with members and the actions taken to encourage participation in the Annual General Meeting.

	all companies	directive companies	non-directives
Section E	92.0% (93.8% in 2013)	93%	87.0%

Scores were generally high in this area, though a little lower than in 2014, due mainly to changes in the membership of AFM, as there is now a greater skew to smaller mutuals.

All companies confirmed that the chairman ensured the views of members are properly communicate to the whole board, and in three-quarters of cases, relevant forums have been established to facilitate this (code provision E.1.1).

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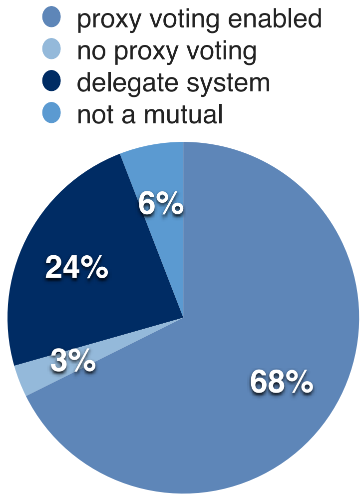
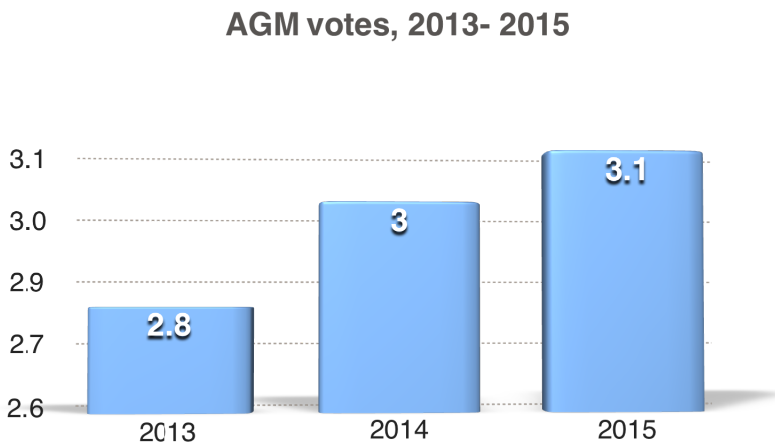
6 The 2014 remuneration report, produced by Foot Anstey, is available on the AFM website: http://www.financialmutuals.org/files/files/AFM%20Remuneration%20review%202014(1).PDF

The Code consider at length the nature and format of proxy voting, to ensure companies give proper opportunities for owners to participate in the Annual General Meeting. For AFM members, as the chart illustrates it may not always be appropriate to offer proxy voting. For example, eight friendly societies offer a delegate based system, where delegates are elected to attend the AGM on behalf of a local branch or court. Between them, these organisations have over 1.5 million members, making up two-thirds of AFM membership; the four largest companies, by size of membership, are delegate based, reinforcing how relevant this form of democratic ownership remains to the mutual insurance sector.



Proxy voting has increased significantly the proportion of members voting at the AGM; the recent introduction for the sector of electronic voting has made it easier and more cost effective for members to participate. Some organisations have also introduced prize draws, and charitable donations for members that vote, and these have lead to some significant increases in votes cast.



The best performing company achieved 12% of members voting at the AGM in 2015, though for others, the proportion that voted fell. As the chart illustrates, the proportion of members across the sector voting at the AGM remains low: and rose only slightly, from 3.0% in 2014 to 3.1% in 2015 (excluding delegate based societies).

Voting at AGMs did not present any reported issues: the Chairman set out the results of proxy voting in each case, though some companies have not previously reported voted withheld. No AGM resulted in a significant proportion of votes against a resolution, so no company reported having to set out the actions it was making in response (revised code provision E.2.2).

2.4 Reporting

2.4.1 Explaining non-compliance

As we stated above, no mutual was able to claim full compliance with every single Code Provision throughout 2015; companies would therefore be expected to provide at least one explanatory statement in their report and accounts.

As the guidance notes to the Code exercise state, an ‘explain’ statement should “set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle”. Non-directive mutuals may for example “judge that some of the provisions are disproportionate or less relevant in their case”; though where size is presented as a reason for non-compliance, the company should explain the hurdle it faces, and set out in its opinion how it achieves a comparable aim in a less onerous manner. Hence an explanation gives insight and describes what alternative arrangements are in place to safeguard members’ interests.

As part of the Code exercise, companies were asked to provide the draft explanation to accompany provisions for which they did not comply. We observed around 150 explanations, around 10 per cent higher than the previous year. Most of the explanations were factual explanations of why the provision did not apply (e.g. ‘we have no performance related pay’, or ‘as a delegate society we do not provide proxy voting’).

It is pleasing to see that many of the explanations were written in expansive form- as we encourage members of AFM to use the questionnaire responses to populate the relevant sections of their corporate governance statement. However it was evident that not all statements were carried across to the report and accounts, and indeed some explanations provided in the compliance questionnaire were written after the annual report was produced. There was also a tendency amongst some of the smaller non-Directives to not offer an explanation, or to simply state the provision did not apply to them due to scale.

2.4.2 General comments on the quality of narrative reporting

As well as the specific aspects of compliance with the UK Corporate Governance Code, we offer some comments on corporate reporting within mutual insurers more generally.

The report and accounts of a mutual are either sent directly to, or made available online or on request, to members of the organisation. There is therefore a greater imperative for clear and concise explanations about the performance and prospects of the business, because the report and accounts are written for what is, in the most part, not a professional investor audience. Mutuals proudly describe their wide democracy: millions of people are eligible to vote at the Annual General Meeting of mutual insurers, so making the report easy to access, easy to read and easy to understand is a vital part of effective member engagement.

Accounting standards continue to evolve, and the amount of information mutual insurers are expected to include in the report and accounts is significant. And in 2017 this will be matched by the public reporting of insurers' solvency positions.

A representative sample of AFM members report and accounts showed that many organisations are striving to implement high standards of corporate reporting. The median length of report and accounts in the sample was 67 pages long, with the longest being 112 pages.

Amongst the clearest written reports were many with bright images, strong references to their community engagement, their staff development, and insightful comments which were designed to appeal to members, and to encourage deeper reading.

This was also reflected in the approach to corporate governance reporting, and to the strategic report. These aspects were most effective where they formed natural parts of the wider report, and where they provided a clear background to the financial data presented later in the accounts.

Recent developments include the inclusion of longer-term resilience reporting, with organisations tending to opt for a five year view on the prospects of the business (three years where the nature of the business is more short term). This was often described alongside the organisation's business model and its description of principal business risks and how they are mitigated. Well-set out, this section of the report can give a robust understanding of the prospects of the organisation, and as a result provides valuable reassurance to members/ policyholders. This means ensuring that the strategic report considers the main trends and factors that may affect future performance, and that the principal risks identified are relevant to the business.

But the report should also provide a clear articulation of the culture of the organisation: recent research by FRC indicated only 14% of FTSE 100 companies talk about culture in their report and accounts[7]; this suggests a clear opportunity for mutuals to offer a distinctive and unique view on being customer-owned.

Illustrative key performance indicators have now begun to appear in report and accounts, and give some valuable information on how the organisation judges what is important, as well as in how well it is delivering against those criteria. There appears to be a reluctance however for some societies to offer forward-looking targets, or to provide meaningful explanations for an adverse trend. The FRC has made similar observations amongst smaller listed companies, and wrote to Finance Directors at the end of 2015[8].

Another feature of the clearest accounts was the way in which the auditor's report has evolved recently. Auditors are much more clearly setting out the evidence they have considered and the basis for their assessment, as well as careful reference to the relevant Code provisions they have reviewed.

By comparison, it was also noticeable that amongst some small non-directive friendly societies there was a tendency to produce the minimum statutory requirements, with many reports under 20 pages in length. There was also evidence that the template for the accounts had developed little over the years: for example, invalid references to the 'Combined Code' (the term replaced by 'UK Corporate Governance Code' in 2012), as well as references to past regulators and even past CEOs. Many such organisations employ small local audit firms, and whilst this will reduce costs it does mean that the capacity to adapt the accounts to a customer-owned, insurance audience, and to employ best practice, is limited.

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[7] https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Corporate-Culture-and-the-Role-of-Boards-Report-o.pdf, see page 34, and a case study on auditing culture at Leeds Building Society

[8] https://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-Letter-Year-end-advice-to-preparers-smaller.pdf

3. Changes to the Code and other governance developments

3.1 Changes to the Code in 2016

In April 2016 the Financial Reporting Council made a small number of changes to their Code. AFM is in the process of incorporating these into the Annotated Version:

Section of the Code	Change made	Impact on AFM members
Preface	Altered to reflect the latest version of the Code	Members should consider and incorporate changes
Provision C.3.1	New wording has been added: "The audit committee as a whole shall have competence relevant to the sector in which the company operate"	This requirement was introduced via the Audit Directive and means members should verify the Audit Committee has experience of the insurance sector, and consider describing this in the report and accounts.
Principle C.3.7	Removes words: "FTSE350 companies should put the external audit contract out to tender at least every ten years."	Whilst this sentence is removed from the Code, the requirement remains in place via the Audit Directive.
Provision C.3.8	New wording added to bullet point on information to include in the report and accounts on a re-tendering: "advance notice of any retendering plans"	Audit Committees should set out in the report and accounts any future plans to re-tender audit
Schedule B	Amended to take account of changes to FCA's DTRs and Listing Rules relating to the Audit Regulations	Amended for the Audit Regulation and Directive and to reflect FCA requirement for reporting on viability.

The next significant change to the Code is due in 2019.

3.2 Changing regulatory environment

In the UK, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) continue to add further focus to corporate governance.

The most significant elements of change emanate from the Solvency 2 Directive, which introduced various new governance requirements. The PRA built on these further with new policy on board responsibilities. During 2015 the Senior Insurance Managers Regime (PRA), and changes to Approved Persons (FCA) were also introduced.

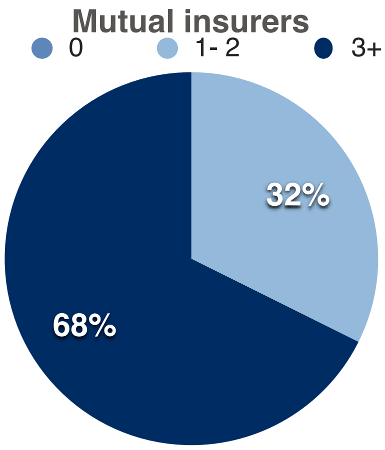
4. Conclusions

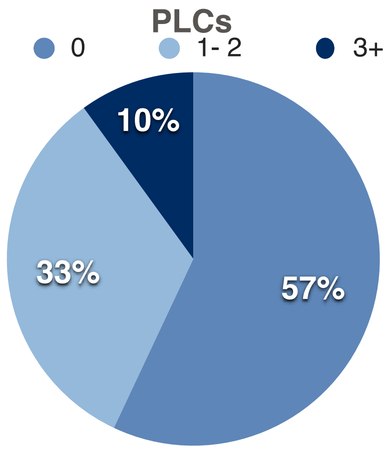
Expectations of corporate governance continue to evolve. For insurers in particular, the implementation of Solvency 2, the new Senior Insurance Managers Regime, and PRA's own views on the board responsibilities continue to give sharper focus to this area. Whilst the AFM's Annotated Corporate Governance Code is still as relevant today as it was when first devised ten years ago, its primary purpose now is to help members understand and interpret good practice in governance, and to support regulatory expectations.

For these reasons, and because the majority of the mutual insurance sector no longer subscribe to the Code, we do not suggest this report offers a complete picture of governance amongst mutuals, and we do not now make compliance with the Code a condition of membership of AFM.

This year's report continues to show that mutuals are raising their standards of corporate governance. This is evident in the capacity they have shown to embrace new requirements in the Code- and new developments more generally in governance. Report and accounts are undoubtedly longer now, but they are also more engaging and provide a more literate review of the organisation, and the issues that members of a mutual need to know.

Overall scores in the compliance exercise have broadly plateaued, as companies demonstrate clear lines in the sand, where 'good practice' from the corporate world does not translate into the mutual sector.





The resulting picture of compliance, comparing mutuals with PLCs is shown above.

AFM's role and support to members
AFM does not scrutinise individual responses and remains satisfied that, as with the FRC and its approach to listed companies, the responsibility for fair and accurate reporting rests with individual boards. As a trade body however, we run training sessions on corporate governance, produce guidance to support members, and engage constructively with regulators and policymakers on this important subject. Our NED conference is now an annual event and attracts around 100 people from across the sector. We also work with other trade bodies to provide support, and plan a major expansion of NED tools in 2016 and 2017.

Grant Thornton reports that 57% of FTSE 350 companies comply with all provisions in the UK corporate governance code, and only 10% reported three of more provisions not complied with[9].

Whilst overall performance is lower across mutuals, the commitment to delivering high standards of governance is strong, even if the scale of many mutuals, and the lesser fit of some provisions with the business practices in mutuals, means that results are lower.

Whilst it was very encouraging to see a number of AFM members achieve compliance with almost all elements of the Code in 2015, there remain areas for further improvement in future:

- the explanations given by some mutuals for not adopting a board diversity policy and measurable benchmarks are often weak, and this is reflected by slow progress in refreshing the board and appointing female directors;
- whilst some organisations have successfully trialled new ways to increase AGM turnouts, for others there is much greater scope to improve member engagement and to demonstrate that mutual ownership yields better results for consumers;
- limited adoption of externally-facilitated board evaluation may reflect the cost of traditional suppliers, so there is an opportunity to re-explore the benefits of an independent review, and for a more sector-driven solution;
- whilst large parts of the sector believe annual elections of directors and performance-related pay are not relevant to their business model, the justification for not adopting them is limited, and the evidence of how directors are brought to account, and how executives are incentivised to produce good customer outcomes, remains limited;
- new audit and risk-assessment sections of the report and accounts have been successfully incorporated into the annual reports of some, but not all, companies;
- some non-Directives in particular have made limited improvements to their accounts in the past, and the sector should continue to explore how to better share good practice and facilitate its wide adoption.

[9] http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/uk-corporate-governance-review-and-trends-2015.pdf

Annex: Companies that took part in the 2016 compliance exercise

Not all AFM members have retail customers, and we excuse new members, and those that abide by comparable codes. Those companies providing a return were:

- Ancient Order of Foresters Friendly Society Limited
- Anglo-Saxons Friendly Society
- Benenden Healthcare Society Ltd
- British Friendly Society Ltd
- Bus Employees' Friendly Society
- Cirencester Friendly Society Ltd
- Civil Service Healthcare Society
- Compass Friendly Society Limited
- Cornish Mutual
- Dentists and General Society
- Dentists' Provident Society
- Exeter Friendly Society Ltd
- Grand United Order of Oddfellows Friendly Society
- Health Shield Friendly Society Limited
- Healthy Investment
- Kensington Friendly Collecting Society Ltd
- Kingston Unity Friendly Society
- Lady Grover's Fund
- Metropolitan Police Friendly Society
- National Friendly
- Original Holloway Friendly Society Ltd
- Paycare
- Pharmaceutical and General Provident Society Ltd
- Railway Enginemen's Assurance Society Ltd
- Red Rose Friendly Society Ltd
- Scottish Friendly Assurance Society Ltd
- Sheffield Mutual Friendly Society
- Sovereign Health Care
- The Oddfellows
- The Shepherds Friendly Society Ltd
- Transport Friendly Society Ltd
- UIA (Insurance) Ltd
- Veterinary Defence Society
- Wiltshire Friendly Society Limited

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