



CORPORATE GOVERNANCE FOR MUTUAL INSURERS

Guidance published by AFM
in response to the requests contained in the
Myners Review of the Governance of Life Mutuals

January 2015

Contents

| | |
|---|----|
| 1. Introduction..... | 3 |
| 2. Reporting and disclosure..... | 5 |
| 3. Non-directive mutuals | 11 |
| 4. Director recruitment, evaluation, induction, and development | 13 |
| 5. Member relations | 17 |
| Appendix 1: Myners' recommendations | 27 |
| Appendix 2: The Main Principles of the Code | 30 |

© Copyright 2015

The text and the annotations in this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and is not used in a misleading context. The material must be properly acknowledged as coming from the AFM.

Any enquiries relating to this document should be sent to:

Association of Financial Mutuals (AFM)

7 Castle Hill

Caistor

Lincolnshire LN7 6QL

www.financialmutuals.org

1 Introduction

Lord Myners' report on governance in mutual insurers in 2004 produced a series of recommendations, reproduced in full in Appendix 1, which the sector adopted faithfully and thoroughly. The key recommendation was to produce a version of the (now) UK Corporate Governance Code, annotated for mutual insurers. A copy of the annotated Code is available to download from the AFM website: [http://www.financialmutuals.org/files/files/ACGC,%20v%20October%202014\(1\).pdf](http://www.financialmutuals.org/files/files/ACGC,%20v%20October%202014(1).pdf); the main principles are provided in Appendix 2.

When the Code was first launched in 2007, AFM's predecessors, the Association of Mutual Insurers and Association of Friendly Societies, provided a set of guidelines, to help members adopt the Code, and to cover those aspects of Lord Myners' recommendations that are not covered in the Code. The guidelines were intended to have a relatively short shelf-life, but have proved useful since to many societies and their NEDs, so in late 2014 the AFM Board asked the AFM Regulation and Governance Committee to produce revised guidelines.

As the Code itself has now been in use for many years, these new guidelines only amplify particular aspects of the Code, and of Myners recommendations. This paper is not therefore, as the original was, a comprehensive review of actions and guidance for each of Myners' recommendations. The guidelines provide updated links to source material, new sources of broader references, and in a few areas provide new or amended definition of good practice.

Various legal regimes apply to mutuals in the United Kingdom – some are governed by the Friendly Societies Act, others by the Companies Act, others were created and are governed by their own Acts of Parliament. Certain aspects of the guidance may be required under legislation applying to some types of mutual and as such there will be no discretion for those mutuals where this arises. This document does not and cannot constitute legal advice. Mutual insurers must continue to seek their own advice on the law as it relates to their particular business.

Compliance with the Annotated Code is a condition of membership of AFM. We expect members to be aware of wider developments in governance as well, and we provide support for members, through conferences and workshops, via our dedicated website, www.afmgovernance.co.uk, and by working with other organisations.

1.1 Other reference material

Expectations of good governance have moved on significantly since the Myners Report: to illustrate, to keep standards consistent with those of listed companies and the guidance of the Financial Reporting Council, our Annotated Code has been updated on four separate occasions since launch.

Much of the blame for the financial crisis which began in 2008 was laid at the door of executives and non-executives, and this has led to a generally increased focus on remuneration and governance standards, from both policymakers and regulators. In particular, mutual insurers should be aware of:

- The Financial Conduct Authority's Threshold Condition 4, Adequate resources;
- The reviews, by Kelly and Myners (again) in 2013/ 14 into failings in the management and governance problems of the Cooperative Group;
- Guidance and good practice produced on a regular basis by the Financial Reporting Council;
- In September 2012 Professor Richard Roberts provided a report "Did anyone learn anything from the Equitable Life?", which identified the governance causes of the society's collapse;
- In November 2014 the Prudential Regulatory Authority and the Financial Conduct Authority issued consultations about senior responsibilities in insurers:
 - PRA's CP26/14 seeks to introduce a new senior insurance managers regime, including the allocation of standards and the assessment of fitness and propriety;
 - FCA's CP14/25 makes changes to the pre-approval form for significant influence functions, and creates new rules for individuals to treat customers fairly. FCA plans to include some roles in its Approved Person's Regime that are not part of PRA's new authorisation regime, and also indicated it would consult on whether and how to include NEDs as Approved Persons.

2. Reporting and disclosure

2.1 Introduction

The Myners report recommended that all life mutuals should:

- include an Annotated Code compliance statement in their annual report and accounts in the form adopted by listed companies (see section 2.2 below),
- include in their annual report and accounts (and on their web site) a description of each director's expertise and experience together with a clear statement about the board's own balance, completeness and appropriateness to the requirements of the business (see section 2.3),
- produce a remuneration report along the lines of that required from listed companies (see section 2.4),
- conduct an advisory vote on the remuneration report at the AGM (see section 2.5),
- notify members of major transactions with members' consent being sought in the case of very large transactions – we were asked to devise best practice guidelines on appropriate thresholds (see section 2.6).

The Myners report also recommended that large life mutuals should produce an operating financial report, and commented on the use of summary financial statements. These recommendations have been superseded by changes in company law since, as well as the important addition of the Strategic Report (see section 2.7), and enhanced requirements for auditor reporting (see section 2.8).

2.2 Code compliance report

A mutual insurer is required to adhere to the Annotated Code on a 'comply or explain' basis. As an essential part of this process, the mutual insurer must include in its Annual Report a governance statement relating to the principles set out in Section 1 of the Code, in a manner that will enable members and other stakeholders to evaluate how these principles have been applied. There should also be a statement as to whether the mutual insurer has complied throughout the accounting period with all relevant provisions set out in Section 1 of the Code detailing:

- those provisions, if any, it has not complied with;
- in the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions; and
- the company's reasons for non-compliance.

The following format is suggested:

“The Annotated Corporate Governance Code”

The board is committed to a high standard of corporate governance.

The board considers that, throughout the period under review, it has applied the relevant principles and complied with the relevant provisions of The Annotated Corporate Governance Code for Mutual Insurers (Dated: Month/Year) (‘the Code’) [as amplified by Corporate Governance for Mutual Insurers – Guidance published by AFM in response to the requests contained in the Myners Review of the Governance of Life Mutuals (Dated Month/Year)].

The following are exception(s) to our compliance with the Code for the stated reasons,

X

X

X

[The board does not regard the exception(s) as a material departure.]

Mutual insurers should require the external auditor to review the company’s statement with regard to the Annotated Code provisions C1.1, C.2.1, C3.1, to C3.7. A statement by the auditors should confirm this; for example as follows:

“In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society’s compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.”

Detailed for this can be found in Schedule C of the [Code](#).

2.3 Board disclosures

A mutual insurer should, within its Annual Report, publish a description of each director’s expertise and experience, including:

- the date of appointment to the board,
- previous roles in the firm,
- relevant qualifications and experience,
- other directorships held by the individual, and
- brief details of previous employment including positions held and responsibilities.

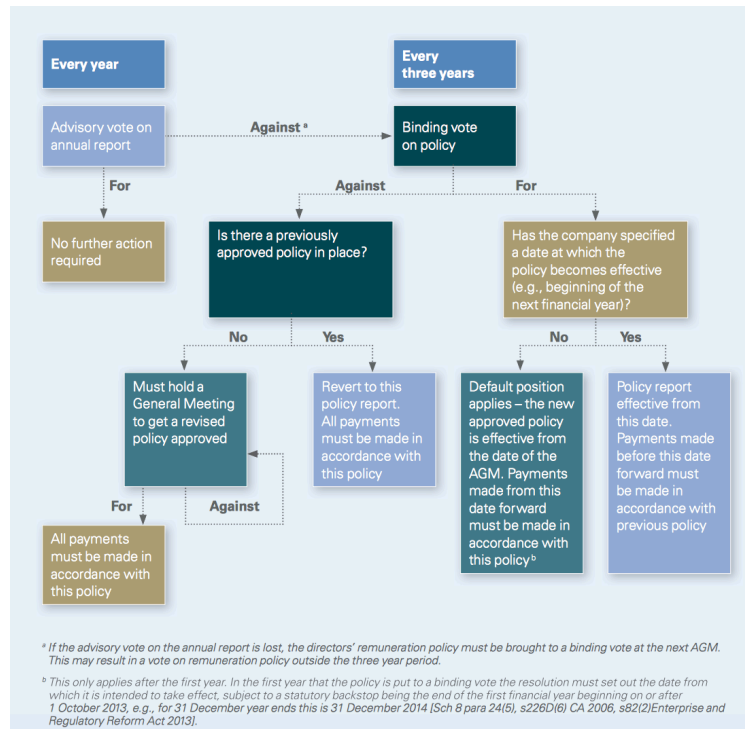
Alongside this in the Annual Report, the board should make a clear statement about its own balance, completeness and appropriateness to the requirements of the business. If any long-serving non-executives are serving on the board, it must provide an explanation of why it considers them to be independent.

Both items should also be available on the mutual insurer's website. Where they do not have a website, consideration should be given to establishing one.

2.4 Remuneration report

Each mutual insurer is required to include a directors' remuneration report in its annual report and accounts. The latest legislative requirement on this for listed companies is The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (SI2008/410) as amended in 2013 by amendment regulations (SI 2013/1981) – which are available to view online at: http://www.legislation.gov.uk/uksi/2013/1981/pdfs/uksi_20131981_en.pdf, though these need to be read subject to modifications for a mutual insurer where necessary. Accordingly mutual insurers should produce a directors' remuneration report equivalent to that described in Schedule 8 of the 2008 regulations (as amended in the schedule to the 2013 regulations).

The regulations now state that there should be a binding vote at the AGM on the directors' remuneration policy at least every three years. The actual payments and the directors' remuneration report continue to be subject to an advisory vote; however if an advisory vote is lost, the policy must be brought to a binding vote at the next AGM, and the report and accounts should describe what action has taken place to engage with members after the vote (see chart below).



Source: KPMG

Although these Regulations are applicable to listed companies, they represent a current indication of what is currently regarded as best practice. Certain aspects of the directors' remuneration report are subject to audit. Up-to-date guidance on the content of the *directors' remuneration report* and the *director's remuneration policy* can be downloaded here: <http://uk.practicallaw.com/6-540-9731>.

2.5 Vote on remuneration report

Each mutual insurer is required to hold an annual advisory vote to approve the directors' remuneration report. A suggested wording for the advisory vote resolution is as follows:

"To approve the directors' remuneration report for the year ended [31 December 20XX]."

The Notice of the AGM should also include wording along the following lines:

The directors' remuneration report: *You are asked to approve the directors' remuneration report by way of an advisory vote. This is not a legal requirement, but your board considers it is best practice to enable members to express a view on this issue.*

2.6 Large transactions

A mutual insurer should notify its members of any major transactions (defined as those above a 5% of total assets as shown in the audited balance sheet of the last financial year) it has undertaken. Notification can be retrospective.

In the case of very large transactions (defined as 15% of the value of total assets as shown in the audited balance sheet of the last financial year), the mutual insurer should seek its members' consent prior to the transaction being effected. The types of transaction, which should be considered for notification and member consent, are as follows (this is not intended to be an exhaustive list):

- mergers and acquisitions,
- joint ventures,
- establishing a new business.

2.7 The Strategic Report

From 1 October 2013 the Strategic Report replaced the Business Review, as a key part of a company's report and accounts, and to replace the Summary Financial Statement.

The purpose of the strategic report 'is to inform members of the company and help them assess how the directors have performed their duty under s172 (of the Companies Act)'. Its three main objectives are:

- to provide context for the related financial statements;
- to provide shareholders with an analysis of the entity's past performance; and
- to provide insight into the entity's main objectives and strategies, and the principal risks it faces and how they might affect future prospects.

Schedule B of the Annotated Code summarises the information the annual report should include. For a more detailed description of the strategic report, see: http://afmgovernance.co.uk/news/adopting_the_new_strategic_report

A mutual insurer which does not send the annual report and accounts to all members should publish a Strategic Report, together with summary financial information, and should send them to all members with the notice of the Annual General Meeting and voting papers (mutual insurers with delegate structures should, as a minimum, send a copy of the Strategic Report to its delegate representatives).

The AFM Board considers that all mutual insurers (whether or not incorporated under the Companies Act) should comply with the requirements to produce a Strategic Report as part of their report and accounts. For friendly societies, S78

of the Friendly Societies Act 1992 requires friendly societies to lay their report and accounts before the AGM and to send copies to every member who asks for them. Where a member asks for friendly society accounts under s78, they must be sent the full accounts as there is no equivalent to the exception provided by company law (which now states a mutual company can replace the full report and accounts with the strategic report and certain prescribed supplementary material). If a friendly society has previously sent out the summary financial statement as a matter of good practice, there is nothing in the relevant legislation to prevent it from replacing this with the strategic report.

2.8 Auditor reporting

In its role as the regulator for external auditors, the Financial Reporting Council introduced new requirements for auditor reporting for year-ends from 30 September 2013. These requirements apply also to members of AFM as subscribers to the Annotated Code.

External auditors are required to:

- describe the assessed risks of material misstatement they identified which had the greatest effect on the overall audit strategy and where their efforts were directed
- explain how they applied the concept of materiality in the audit and what threshold they used as being material to the financial statements, and
- explain how the audit addressed the assessed risks of material misstatement.

Auditors are also required to report by exception any inconsistencies they detect concerning adherence to the requirements of the Code that:

- the annual report and accounts taken as a whole gives a fair, balanced and understandable assessment of the company's position and prospects, and
- the section describing the work of the audit committee appropriately addresses matters communicated by the auditor to the audit committee.

The intention is that there will be a fuller description of the work the auditor has undertaken giving more insight to members, or other users of the accounts, than the existing binary pass/ fail model of published audit reports.

AFM members should ensure their auditors adopt this form of reporting; for more information, see: http://afmgovernance.co.uk/news/changes_in_auditor_reporting.

3. Non-directive mutuals

3.1 Introduction

The Annotated Code represents a level of governance to which all small mutual insurers should aspire. Nevertheless the Myners Report clearly recognised that a more proportionate regime was appropriate for smaller mutuals. Recommendation 7 of the Myners Report reads:

“The AFS, working with the AMI, should produce more detailed guidance on the interpretation and application of the annotated combined code for small friendly societies.”

We have always considered that the Code principles were self-evident, and that all AFM members, regardless of size should expect to comply with them. We accepted though that when the Annotated Code was first produced, some of the more detailed Code Provisions would be more onerous, particularly as the Code at the time included a section on stewardship, which was not relevant for many mutuals, and which has since been removed from the Annotated Code. Accordingly we identified provisions that were less relevant for smaller mutuals, and produced an abbreviated version of the Code questionnaire.

More recently, and with the experience of operating the Annotated Code for many years, we have seen few substantive differences in Code compliance between large and small mutuals, and few aspects of non-compliance that cannot be appropriately explained by factors other than size alone.

A previous definition of ‘small mutual’ was largely arbitrary, and has now been removed. Instead we have brought the Annotated Code into line with more general regulation, and differentiate now between ‘directive mutuals’ and ‘non-directive mutuals’, ie those that are subject to the EU insurance directives and those which are not.

The Annotated Code contains main and supporting principles. These guidelines for non-directive mutuals do not alter the principles of the Code; they indicate some provisions which non-directives may choose not to apply. Non-directives should apply all of the principles and report on them in the same way as other mutual insurers. Supporting notes have been included at the end of this chapter designed to indicate, where there are particular issues for non-directives in achieving compliance, which aspects they should focus on.

We believe, however, that, non-directive mutuals should make every effort to comply with the Annotated Code above and beyond this ‘minimum’ whenever and wherever practical. In any event, as part of their comply or explain statement they should state clearly all provisions which were not complied with including those covered below.

3.2 Definition of a non-directive mutual

A non-directive mutual insurer is one that falls below the threshold for compliance with Solvency 2; this means they have:

- gross premium income over the preceding three financial years of less than €5 million per annum; or
- gross technical provisions of less than €25 million.

Both conditions have to be met to qualify as a small mutual insurer.

NOTE: UK mutual insurers calculate their premium income and technical provisions in Sterling, not in Euros. As exchange rates fluctuate it is possible that a UK mutual that was previously a non-directive mutual may become a directive mutual or vice versa. It is also possible that the definition thresholds may change over time as a result of inflation, and of course the threshold is applied taking the last three year average premium and technical provisions figures. We expect that a mutual insurer that at any time has become a directive mutual should not be entitled to the exemptions for a non-directive mutual, even though it may have become one whether due to currency fluctuations.

3.3 Non-directive mutuals guidelines

As we state above, AFM expects all members including non-directives to comply with all the Main Principles in the Annotated Code. Provisions of the Annotated Code which a non-Directive can choose to exclude from the “comply or explain” regime are:

| | |
|------|--------------|
| A.4: | A.4.1, A.4.2 |
| B.6: | B.6.2 |
| D.1: | D.1.1 |
| E.1: | all |
| E2: | E.2.3 |

In considering whether they can comply, non-directive should consider:

- We do not consider the independence criteria set out in the Annotated Code prevents a non-executive director who is a member of a mutual insurer from being determined as independent.
- The board of a non-directive should carry out some form of performance evaluation; this could take the form of the evaluation explored in section 4.3.2 below. As a minimum, performance evaluation should focus on the performance of the board.

4. Director recruitment, evaluation, induction, and development

4.1 Introduction

Recommendations 9, 10 and 11 of the Myners report can be taken together. They provide that:

- *AMI and the AFS should develop an induction and professional development programme for non-executive directors of life mutuals;*
- *appointments to the board should involve appropriate sources of external opinion; and*
- *a rigorous board appraisal should be conducted annually covering not only the performance of individual directors but also the board as a whole.*

The Annotated Code deals with appointments to the board (section B.2), information to and professional development of directors (section B.4) and evaluation of the performance of the board, its committees and its members (section B.6). All AFM members must comply with the Annotated Code or explain their reasons for any non-compliance. The guidance below has been developed to assist with compliance in these areas.

Best practice guidelines on non-executive director recruitment, induction and development can be divided into four areas:

- appointments to the board;
- induction and development programmes for new directors;
- access to information and support, to facilitate informed board discussion; and
- an annual appraisal of individual directors and the Board.

4.2 Appointment, induction and development, and access to information

In 2006 we sought the advice of and worked closely with the Institute of Chartered Secretaries and Administrators (“ICSA”) to produce the guidance notes on the first three areas. Three guidance notes have been adapted to suit mutual insurers by the ICSA from their guidance notes for listed companies. They cover:

- Appointments to the board using objective, external opinion;
- Induction and professional development of directors; and
- Access to information.

ICSA no longer maintains this section of their website, so care should be taken to ensure the guidelines are consistent with wider good practice now.

4.3 Board and director appraisals

The mutual insurer's board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Individual evaluations should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time). The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

4.3.1 Process

It is the responsibility of the chairman to select an effective process and to act on its outcome. The mutual insurer could consider consulting an external third party to help conduct the evaluation, and add objectivity to the process.

The non-executive directors ("NEDs") led by the senior independent director ("SID") – or other independent director, if no SID has been appointed – should be responsible for the performance evaluation of the chairman, but the views of the executive directors should be taken into account.

Executive directors should only be appraised in respect of their directorial duties. Appraisal of their executive functions should be carried out by their line manager (probably the chief executive officer) in the normal way.

There should be a feedback session at which the appraised director receives feedback, with an agreed action plan to address any issues. The results of the board/ committee evaluation should be shared with the board as a whole, while the individual assessments should remain confidential between the chairman and the director concerned (or independent director for the chairman).

The entire appraisal process should be recorded, and the board should state in the firm's annual report how such performance evaluation has been conducted.

4.3.2 Evaluation of the Board

The board should consider the following questions to assess how they are performing and to identify areas for improvement:

- Does the board receive appropriate and timely information of the right quality?
- Is management responsive to requests for clarification and does the board provide adequate feedback to management?
- Is the number of board and committee meetings sufficient and are they of sufficient duration to enable proper and effective consideration of all the

issues?

- Are board procedures conducive to effective performance, and are they flexible enough to deal with all eventualities?
- How well has the board performed against any performance objectives which have been set?
- What has been the board's contribution to the testing and development of strategy?
- What has been the board's contribution to ensuring robust and effective risk management?
- Is the composition of the board and its committees appropriate?
- How has the board responded to any problems or crises that have emerged and could/should these have been foreseen?
- Are matters specifically reserved for the board clearly identified, are they appropriate and are they regularly reviewed and updated as necessary?
- How well does the board communicate with the management team, company employees and others?
- How effectively does the board use mechanisms such as the AGM and the annual report?
- Is the board as a whole up to date with the latest developments in the regulatory environment and the market?
- How effective are the board's committees? (Each one should be assessed using the appropriate evaluation criteria noted here with additional comment about their individual interaction with the board.)

4.3.3 Evaluation of non-executive directors

The board should consider the following questions to assess how the NEDs are performing and to identify areas for improvement:

- Is attendance at board meetings satisfactory?
- How well prepared and informed are they?
- Do they demonstrate a willingness to devote sufficient time and effort to understanding the company and its business?
- Are they willing to participate in events outside of the boardroom?
- Have they contributed to the development of strategy and risk management?
- How successfully have they brought their knowledge and experience to bear in the consideration of strategy?
- How effectively have they probed to test information assumptions?
- When there are conflicting views, how resolute are they in maintaining their own views and resisting pressures from others?
- How effectively and proactively have they followed up their areas of concern?
- How effective are their relationships with fellow board members and senior management.
- Does their performance and behaviour engender mutual trust and respect within the board?
- How actively and successfully do they refresh their knowledge and skills?
- How up to date are they with:
 - latest developments in corporate governance and financial reporting

- issues?
- the industry and market conditions?

Executive directors should be appraised against these criteria (where appropriate) as far as their performance as directors is concerned.

4.3.4 Additional issues relating to the chairman

The board should consider the following questions to assess how the chairman is performing and to identify areas for improvement:

- Does the chairman demonstrate effective leadership of the board?
- Does the chairman ensure that board meetings are effective and efficiently run?
- Are relationships and communications with policyholders/members well managed?
- Are relationships and communications within the board constructive?
- Are the processes for setting the agenda working?
- Are board members easily able to raise issues and concerns?
- Is the company secretary being used appropriately and to maximum value?

5. Member relations

5.1 Introduction

Recommendations 15 and 16 of the Myners report invited us to devise guidance that promotes best practice member relations to include: fair and accessible voting arrangements, the establishment of a member relations function, the promoting of dialogue with members, provision of information to members and facilitating discussion amongst them. These best practice notes support this.

That guidance is split into three parts:

- Member relations strategy (section 5.2)
- Member communications (section 5.3)
- Best practice for fair and accessible voting procedures in mutual insurers (section 5.4)

Provisions within section 1 of the UK Corporate Governance Code make several references to 'shareholders'. Although mutual insurers do not have shareholders the Annotated Code makes clear that the principles underpinning these provisions of the Code are relevant and should be actively considered by members of AFM.

The best practice guidelines on member relations that follow cover:

- the use of member forums/panels etc, where they exist, to facilitate effective dialogue between members
- the interaction between the board and member forums/panels
- the information that should be provided to members (what and when)
- how the AGM is conducted
- what should be voted on at an AGM
- how member participation at the AGM should be encouraged
- how web-sites and other technology can best be used
- member relations function (including strategy)

5.2 Member relations strategy

5.2.1 The strategy

Each mutual insurer should develop a member relations strategy, as recommended by Myners, to consider the relationship between a mutual insurer and its members, with a view to encouraging active engagement of members, and encouraging members to take an active role in the governance of the organisation.

The exact nature of this strategy will be determined by reference to the particular composition and requirements of the mutual insurer's membership. The mutual insurer should actively encourage the involvement of members in

the formulation of its member relations strategy. This could be (where such exists) through a constitutional arrangement such as a delegate system or an informal body such as a members' panel or forum, or by direct contact with the membership as a whole.

It is recommended that the following principles apply to the member relations strategy:

- ultimate responsibility to rest at board level – owned by a member of senior management and with access to the Senior Independent Director (where appointed) or a designated non-executive director,
- developments and changes to the strategy to be reported to, and approved by, the board at least annually,
- the strategy should include procedures to identify and address any potential conflicts between the members and the business,
- information provided to members to be realistic, appropriate and proportionate (i.e. members should not be inundated with more, or more detailed, information than they have expressed a desire to receive), and
- no impediment to free access for each individual member to the member relations function.

In formulating its member relations strategy, the mutual insurer should consider, *inter alia*, the following:

- the size of its membership and geographical location(s) of members,
- the presence or absence of any constitutional (e.g. delegate system) or informal (e.g. members' panel or forum) structure for member representation and communication,
- the particular interests of members holding different types of contract or policy,
- the particular interests of different cohorts or generations of member holding the same type of contract or policy, including any such held within a closed fund,
- the need to communicate to members information about significant changes in the operation and future strategy of the business,
- the requirement for large transactions to be subject to approval by members, and the associated need to communicate information and guidance to members about any such transaction, prior to their being invited to vote thereon,
- the requirement to notify members of major transactions,
- the ability for members to address issues and concerns directly to either the chairman, senior independent director (where appointed) or designated non-executive director(s),
- the ability and desirability for members to be able to communicate directly with each other about issues of mutual interest or concern, and
- the costs of providing member relations facilities, and the extent to which these are used and valued by members.

5.2.2 Ownership of the member relations strategy

The mutual insurer should ensure that an individual of at least senior management level is given responsibility for its member relations strategy. This will include the maintenance, development and delivery of the strategy.

5.2.3 The member relations function

The individual responsible for the strategy should have responsibility for a member relations' function, although this may or may not be established as a separate department or division in the organisation.

The exact nature, structure and resourcing of the member relations function will be determined by the member relations strategy, taking into account the constitution and size of the mutual insurer, the resources at its disposal (including human, financial and systems), and the nature and geographical location(s) of its membership.

It is recommended that the member relations function:

- is the focal point for communication between the mutual insurer and its members, both as a body and as individuals, other than where there is an existing and appropriate contact e.g. company secretary for formal matters
- has direct access to the senior independent director (where appointed) or a designated non-executive director
- is provided with sufficient resources to operate effectively
- facilitates the provision and maintenance of a dedicated members' section on the organisation's website;
- provides all members with appropriate access to the organisation, and
- provides reasonable and practical help to individual members and groups of members wishing to communicate with each other about issues of mutual interest or concern.

In addition, the mutual insurer may wish to consider the provision of one or more of the following for, or as an adjunct to, its member relations function:

- dedicated employee resource
- dedicated email address
- dedicated member publications such as newsletters or occasional reports on performance, business developments and new initiatives
- permanent or temporary accommodation to facilitate personal attendance by members (if required).

The purposes of the member relations function should include at least the following:

- to disseminate generic information to members
- to encourage members to participate in general meetings (including the

- AGM) and any associated voting
- to provide practical and procedural guidance and hospitality to members attending the general meetings in person
 - to facilitate and encourage member feedback on issues relating to the running of the business, including selection and (re)election of directors, and report such feedback to the board
 - to respond to general questions from members on governance and membership issues, including the strategy and future operations of the business
 - to facilitate contact between individual members and the appropriate representative(s) of the mutual insurer
 - to facilitate contact between representative groups of members (such as a members' panel or forum) and the appropriate representative(s) of the mutual insurer
 - where a constitutional representative body and/or informal members' panel or forum exists, to promote the existence of such body or bodies to members, to encourage member participation in such body or bodies, to provide secretarial services to support the functioning of such body or bodies (if required), and to disseminate to the membership as a whole information about any business or discussion undertaken by such body or bodies
 - to educate and assist members to understand the purposes and benefits of mutuality as a concept and of the mutual insurer in particular, and to measure the success of the mutual insurer in addressing those purposes and delivering those benefits
 - to ascertain and evaluate the effectiveness of the member relations strategy;
 - to conduct research among members to understand what they want to achieve by, and receive from, the member relations strategy
 - to recommend, develop and implement improvements to the member relations strategy, in response to member demands and/or the progress of the business, and
 - to co-ordinate the various parts of the member relations strategy.

5.3 Member communications

5.3.1 Providing information to members

AGM mailing pack

Notice of the AGM and the AGM mailing pack should be sent to all members permitted to attend the AGM at least 20 working days prior to the AGM. Mutual insurers should consider sending the information to any members who, because of the operation of a delegate system for example, do not have an express right to attend the AGM.

In addition to any content specifically required by law, regulation or the organisation's constitutional documents, the AGM mailing pack should include:

- a clear statement encouraging all members entitled to vote, to use their vote,

- information about member relations, including a statement of the member relations strategy and details of how members can obtain information from, communicate with, and participate in dialogue with the mutual insurer,
- a review of the operations of the mutual insurer during the year and information on its future strategy,
- the Report and Accounts or Strategic Report – where the mutual insurer chooses to send the strategic report, this should include the directors’ remuneration report and summarised financial data,
- notification of any major transaction undertaken since the preceding AGM. A clear statement as to why the board believes the transaction to be in the best interests of members should be given – sufficient, appropriate information must be sent to enable members to reach a balanced understanding of the effects of the transaction, with very large transactions being voted on by members in accordance with paragraph 2.6 above,
- a clear description of the resolutions to be voted on at the AGM, together with sufficient information to enable members to reach an informed decision on each resolution and including a clear statement as to why the board is supporting or opposing each resolution - where there is a resolution put forward that is opposed by the board, equal regard should be given to this,
- details on board members standing for election or re-election, including clear explanatory details of why the board believes those candidates should be elected or re-elected,
- clear details on voting, including the approach taken to proxy voting, polls, who is eligible to vote and how voting can take place,
- clear details on when and where the AGM is being held including a map, and
- clear information as to how the results of the AGM will be communicated, giving the opportunity to members to request details to be sent to them.

Where these guidelines require certain information to be given, this may be provided in summary form. In such a case, this should be made clear and members should be informed about how to obtain a copy of the full information, including, where appropriate, how to access it on the organisation’s web site.

Information available on request and accessible on the organisation’s website

The mutual insurer must make available on request and/or via its website the following information to members:

- the full details of any information where a summary has been sent out in the AGM mailing pack,
- information about the rights and obligations of a member,
- information about member relations, including a statement on the member relations strategy and details of how members can obtain information from, communicate with, and participate in dialogue with the mutual,
- the Report and Accounts,
- details of the board, including biographies,
- terms of reference of the Nomination, Remuneration and Audit Committees (as detailed in the Annotated Code),
- a specimen copy of the letter of appointment used for Non-Executive Directors,

- the Articles of Association or Rules of the Society, and
- results of any votes held at the AGM and a clear summary of the resultant impact of this.

Information to be provided to new members on admission

New members should be provided with the following information:

- the rights and obligations of a member, including clear encouragement for members to use their vote, and
- information about member relations, including a statement on the member relations strategy and details of how members can obtain information from, communicate with, and participate in dialogue with the mutual.

This information could form part of the policy documentation or be included as a separate, brief document. This information may be provided in the form of a summary. In such a case this should be made clear and members should be told how to obtain a copy of the full information or how to obtain access to it on the organisation's website.

5.3.2 Obtaining members' views

The mutual insurer should not only give members the opportunity to express their views to the organisation but should actively seek the views of members on appropriate and important matters affecting them as members, such as the organisation's business performance or proposed alterations to its constitutional documents or business strategy. Where appropriate, the firm should supply sufficient, appropriate information prior to such consultation exercises to assist informed discussion.

Meetings of members

Any meetings attended by members should be taken as an opportunity to obtain members' views on matters of importance to them as members of the organisation. The holding of an Annual General Meeting should be used as an opportunity for both the giving of information to and obtaining the views of members. At the AGM, members should be given the opportunity to raise issues of importance, either in the meeting itself or with directors or members of the firm's senior management outside the formal meeting.

Constitutional member representative systems

Where established, constitutional representative or delegate systems may be used as a source for obtaining the views of the membership, but a mutual insurer with such a body may also consider the use of a member forum or panel (as described below) as an additional means of obtaining members' views.

The mutual insurer should provide a service through which members can be put in contact with delegates.

Informal member representative forums or panels

Firms should consider the use of a “member forum” or “panel” (by whatever name it is called). These are an informal means by which a number of members (elected or not) can meet the firm’s management to receive information from and to give views to the firm, acting as a focus group or a sounding board for initiatives, but without any constitutional powers.

In creating such a group, the firm should have regard to the matters set out in this guidance in respect of the appointment of delegates.

The mutual insurer should provide a service through which members can be put in contact with members of its member panel or other appropriate member representative group (if any).

Members’ section of the firm’s web site

The members’ section of the firm’s website should provide members with the opportunity to submit questions or views to the firm, ensuring that such submissions receive appropriate attention and response from the firm, where appropriate.

5.3.3 Facilitating discussion among members

As this is a new initiative, there is scant generally established practice in respect of facilitation of discussion between members of mutual insurers. Mutual insurers should consider the approaches to such facilitation as set out below. This guidance will be reviewed subsequently to promulgate best practice once this can be determined and assessed.

At any AGM, member panel or forum meeting (if any, and however called) attended by members, the mutual insurer should provide the opportunity for members to meet and discuss issues of relevance. The mutual insurer may achieve this, for example, through the provision of appropriate facilities to members before or after such meetings.

Where a mutual insurer’s member panel or other member representative group (if any) has, under its constitution, the ability to arrange meetings for the purposes of consultation with the wider membership of the mutual, the organisation should provide assistance to it in the arrangement and holding of such meetings. Assistance may be given in the form of provision of accommodation or publicity for, and the provision of secretarial and other services to support, such meetings.

5.4 Best practice for fair and accessible voting procedures

5.4.1 General principles

Mutual insurers must hold an Annual General Meeting open to members (or

members' representatives).

Subject to any reasonable restrictions (see below), all members must have the opportunity to participate in all General Meetings. Participation includes attending and raising questions on the Resolutions at the meeting.

Mutual insurers should not require personal attendance at a General Meeting in order that a member can vote. Mutual insurers should therefore allow proxy voting. Where a mutual insurer's rules of articles of incorporation expressly do not expressly allow proxy voting, it should consider changing them.

Entitlement to participate in meetings and vote at them should not be subject to unreasonable restrictions (for example restrictions on age should only be imposed to restrict voting for those under the age of 18 and voting rights should not be subject to unreasonable policy-holding limits or qualification period.)

Mutual insurers may consider introducing secure postal voting and secure electronic voting to facilitate widest possible member participation. Friendly societies were permitted to undertake electronic communications including proxy voting by a 2010 Order, and this is a very cost effective way of broadening participation.

Mutual insurers should not impose unreasonable requirements on members' ability to requisition a meeting or to propose a resolution be tabled at a meeting. The lower of 5% of the membership or 500 members is regarded as a reasonable requirement.

5.4.2 Delegate voting

Where members' votes are delegated to elected representatives, the firm should ensure, to the extent possible, the active engagement of members in the electoral process and that:

- it identifies the different, significant types and generations of members and creates a selection process that establishes a panel of delegates consisting, in as far as is practicable, of a representative cross-section of members,
- all members have the opportunity to nominate candidates and vote in the delegate selection process,
- the opportunity to be appointed as a delegate is open to all members and any process used to appoint delegates is open and available to members on request,
- no member is permitted to act as a delegate for a period of longer than 6 years without re-election - consideration should also be given to how and under what circumstances members might remove an elected representative,
- the structure and purpose of the delegate system is set out in the Corporate Governance section of the annual Report & Accounts.

5.4.3 Voting and proxy voting

Members must be informed of the rules, including voting procedures, which govern General Meetings.

Where proxy voting is permitted, proxy forms must be sent to members with the notice of the meeting. The form should explain that members are entitled to appoint a proxy and provide a space for members to write the name of the proxy.

Mutual insurers must disclose to members how any undirected proxies would be voted. The proxy form should permit the members to vote for, against or to withhold their vote for each of the Resolutions to be put before the General Meeting. The deadline for the receipt of proxy votes should be not more than 2 working days before the date of the General Meeting.

5.4.4 Voting at the meeting

Mutual insurers should ensure all valid proxy appointments received are properly recorded and counted.

If a resolution is voted on by a show of hands by those members present at the meeting and there is any doubt about the outcome of the vote, the chairman must direct that the resolution will be decided by a poll. If the result of a show of hands on any resolution is contrary to the result that would have been brought about by a poll, the chairman must call for a poll on that resolution.

The Annual General Meeting of a mutual insurer should propose a separate resolution on each substantially separate subject and include resolutions to:

- receive the Report & Accounts, including the statement of compliance with the Annotated Code,
- receive the directors' remuneration policy (at least every three years),
- receive the directors' remuneration report (this vote may be advisory only),
- appoint or re-appoint the auditors,
- appoint or re-appoint directors, and
- approve any political donations proposed to be made by the firm.

A vote should be held even if an election is uncontested.

Other matters requiring approval at an AGM or EGM (Extraordinary General Meeting) or SGM (Special General Meeting) may be set out in the organisation's constitutional documents. Note also that a mutual insurer should obtain member approval at an AGM or EGM, of very large transactions.

7.4.5 Results of the meeting

For each resolution, after a vote has been taken, except where taken on a poll, the company should ensure that the following information is given at the meeting

and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:

- the number of votes in respect of which proxy appointments have been validly made;
- the number of votes for the resolution;
- the number of votes against the resolution; and
- the number of members whose vote was directed to be withheld.

Appendix 1: Myners recommendations

This document provides guidelines for mutual insurers, to help them put into practice the recommendations of the Myners Review. The Review was published in December 2004, and followed the earlier report by Lord Penrose into the collapse of Equitable Life.

The Myners' recommendations are reproduced in full, and references to trade bodies, FSA etc. are unamended. AFM, and before it AMI and AFS, concluded that the Annotated Code and these guidelines should apply to all mutual insurers and not just life insurers as recommended in the Myners Review. This extension of the Code has been welcomed by the Treasury and our regulators.

Recommendations of Myners' Review

Recommendation 1

To mitigate the risk of conflicts of interest arising, any question of an increase in directors' remuneration or compensation to directors in the context of a motion to demutualise should be put to members as a separate motion as required under the Building Societies Act 1986.

Recommendation 2

Given the importance of the role of non-executive directors in life mutuals, meetings between FSA supervisors and non-executive directors of life mutuals (without the executive present) are a valuable part of the interaction between the FSA and supervised firms.

Recommendation 3

Life mutuals should adhere to a version of the Combined Code that has been annotated with guidance that does not alter the principles of the Code but aims rather to promote interpretations that best uphold these principles in this sector.

AMI and the AFS should consult with their members on the draft annotations in Annex D with a view to agreeing a final version for adoption for the beginning of the financial year 2005-06.

AMI and the AFS should collect and publish annually information on adherence to key aspects of the Code.

The Treasury should conduct a review of compliance by life mutuals with the annotated Code early in 2008, following the publication of annual reports for the financial year 2006-07.

Recommendation 4

The AMI and the AFS should ensure that the annotations to the Code for life mutuals are updated when the Combined Code itself has been reviewed.

Recommendation 5

Life mutuals should adhere to the annotated Code on a 'comply or explain' basis. A governance statement in the Annual Report of the form described in 12.43A of the Listing Rules should be seen by all firms as an essential part of this process.

It may be appropriate to discuss governance arrangements directly with member representatives. Firms should also anticipate that the FSA would wish to discuss compliance and their explanations for departures from the provisions of the Code in the context of a risk assessment or other supervisory work.

In taking forward the consultation on the annotated Code, the AMI and the AFS should be mindful of the objective, shared by the Review and the FSA, that by

following such guidance in the annotations, firms should be able to demonstrate that they have had regard to FSA's own high-level guidance relating to corporate governance.

The FSA is to take forward, in 2008, work to understand firms' reasons for not adopting the annotated Code as a model for governance, or for choosing to explain rather than comply with a particular provision of the Code, in order to understand whether there are any generic regulatory issues that may need to be addressed.

Recommendation 6

Life mutuals should require the external auditor to review the company's statement with regard to Code provisions C1.1, C.2.1, C3.1, C3.2, C3.3, C3.4, C3.5, C3.6 as described in listing rule 12.43A Requirements of the auditor.

Recommendation 7

The AFS, working with AMI, should produce more detailed guidance on the interpretation and application of the annotated Combined Code for small friendly societies.

The FSA should pay due attention to small firms when it undertakes the work described in recommendation 5.

Recommendation 8

The annual report of a life mutual should contain a description of each director's expertise and experience. Alongside this in the annual report, the board should make a clear statement about its own balance, completeness and appropriateness to the requirements of the business. Both statements should also be available on the firm's web site.

Recommendation 9

AMI and the AFS, in consultation with the FSA, the IoD and the ICSA should develop an induction and professional development programme for non-executive directors of life mutuals.

Recommendation 10

Appointments to the board should involve appropriate sources of objective external opinion, which may include considering using external recruitment consultants and seeking the views of member panels.

Recommendation 11

A rigorous board appraisal should be conducted annually in all life mutuals. This should cover not only the performance of individual directors but also that of the board as a whole.

Recommendation 12

The chairman and the company secretary should ensure that issues non-executives wish to be discussed are placed on the agenda.

Non-executives should receive the information and pro-active support that they require so that an informed discussion can take place.

When difficult issues arise, the first course of action should always be to encourage further and deeper analysis to be carried out within the firm but boards should establish clear procedures through which non-executives can obtain advice from independent external advisers at the company's expense when they "*judge it necessary to discharge their responsibilities as directors*".

Recommendation 13

All life mutuals should produce a remuneration report along the lines of that described in Schedule 7A of the Directors' Remuneration Report Regulations 2002 and conduct an advisory vote on the report at the AGM (as per S241A).

In addition, the data collected and published annually by the AMI and the AFS and the review of life mutuals' compliance with the Code to be conducted by the Treasury early in 2008 should both cover the directors' remuneration report and the holding of an advisory member vote.

Recommendation 14

Large life mutuals should produce an OFR in the same way as quoted companies will shortly be required to.

Recommendation 15

AMI and the AFS should devise guidance that promotes best practice member relations. This should include guidance on fair and accessible voting arrangements as well as advocating the establishment of a member relations function, responsible for a member relations strategy. The guidance should cover promoting dialogue with members, provision of information to members and facilitating discussion among members.

Recommendation 16

All life mutuals should endeavour to put in place adequate arrangements for taking into account members' views. AMI and the AFS should consider how best to promulgate information sharing on best practice among life mutuals. All firms should review their current arrangements (where these exist) and evaluate them in the light of the principles in box 13 (in Chapter 10). AMI and the AFS should develop these principles as part of the guidance on member relations.

Recommendation 17

Life mutuals should adopt the practice of notifying members of major transactions. Members' consent should be sought in the case of very large transactions. The AMI and the AFS should devise best practice guidance on appropriate thresholds.

Appendix 2: The Main Principles of the Code

The following notes are drawn from the FRC's introduction to the latest UK corporate Governance Code, published in 2014, with annotations provided by AFM (underlined in green).

Section A: Leadership

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Section B: Effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Section C: Accountability

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Section D: Remuneration

Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Section E: Relations with Shareholders (Members)

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The board as a whole for mutuals has the responsibility for ensuring that a satisfactory dialogue with members takes place.

The board should use general meetings to communicate with investors and to encourage their participation.