

REMUNERATION IN THE MUTUAL SECTOR 2017

IN ASSOCIATION WITH AFM

KEYSTONE LAW

CONTENTS

Report purpose and changes this year	03
Groupings used in 2017 report	04
Board costs as a %	04
Bonus schemes	05
Board representation and refreshment	05
Who are Keystone Law	06
Graphs for remuneration and board costs	08

REPORT PURPOSE AND CHANGES THIS YEAR

Originally commissioned in 2009 the report has moved on from demonstrating that pay in the mutual sector is not driven by a culture of over reward, to assisting in the transparency required by corporate governance requirements, greater interest shown by members and a demonstration to potential members that the sector is driven by their interests rather than those of corporate investors. While the information is historic being based on the accounts of members made up in most cases to 31 December 2016 it puts a marker in the sand for those considering current remuneration policies. Robert Wharton has much more detailed information available on request.

The aim this year was to make the reporting process much more streamlined and show the results in graph form only. Solvency 2 has taken effect since the last report and this has changed the style of reporting of some members. While most of the information is publicly available it has been collected this year by way of a survey which members of the Association of Financial Mutuals (AFM) were invited to complete. Not every member of AFM responded and others have accounts filed at Companies House which do not give the detailed information required for this report. For those reasons a number of AFM members are not shown in this report. However, some of the newest AFM members selling cash plans have participated in the survey for the first time and for that reason we do not have historical information relating to them.



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GROUPINGS USED IN 2017 REPORT

As a result of feedback last year Martin Shaw requested a change in the groupings used for members. The purpose was to reflect better the size of members by reason of gross written premium (GWP) rather than assets, some of which were historic.

The groupings adopted are now:

GROUP 1.

Those members with over GWP of £50m. While there are six AFM members in this category, not all responded and the information was not available in their report and accounts. In one case as there have been a number of interim CEOs the information which could be obtained would not show an accurate or meaningful picture and so that member has been omitted.

GROUP 2.

Those members with GWP between £15m and £49m. There are ten members in this category but only seven are reported on as the others either did not respond to the survey or there is no relevant information in the accounts.

GROUP 3.

Those other members who are directive societies of which there are sixteen and form the bulk of the reporting and all are included in the review.

GROUP 4.

Non-directive members, of which there are sixteen but only four responded to the survey and accounts are not publicly available for the vast bulk of the remainder.

BOARD COSTS AS A %

In years past we have given these figures as a percentage against total assets and GWP. We have done the same here. Any comparison to last year should be drawn from last year's report which is available here.

[http://www.financialmutuals.org/files/files/Remuneration%20in%20the%20Mutual%20Sector%20Final\(1\).pdf](http://www.financialmutuals.org/files/files/Remuneration%20in%20the%20Mutual%20Sector%20Final(1).pdf)

BONUS SCHEMES

The survey asked if these existed as discretionary, short term (STIP) and/or long term (LTIP) plans. While previous surveys have seen these plans become more of a norm there are some four or five societies of the total who will not adopt any form of plan as a matter of principle in support of the mutual concept. This year an analysis of the yes or no answers reveals that LTIPs are few and far between; the group 1 and 2 societies have a mixture of mostly discretionary plans with some formal STIPs, group 3 are almost wholly discretionary (if at all) and in group 4 only one has a discretionary scheme. The impression this gives (over the years of the survey) is that bonus schemes have peaked in popularity/appropriateness.

BOARD REPRESENTATION AND REFRESHMENT

Previous reports have had very detailed information about the numbers of women on boards and board refreshment. This information has been obtained in less great detail this year. In terms of the numbers of women on boards this remains at 17.4% across both executive and non-executive directors and across all members of AFM (not just those in this survey). This is a reasonably steady figure for the AFM members, and similar to last year, but well behind the Lord Davies target of 25% for FTSE100 companies. There are still three societies in this survey who have no female representation on the board. Diversity is now being promoted much more strongly by the Government and by PRA, who have consulted on rules requiring banks and insurers to have a board approved diversity policy by 2018.

In the past some AFM members have reported very long lengths of service for some non-executive directors, particularly those still closely aligned to specified trades. However, analysis of the survey shows that refreshment is accelerating after a slow start in earlier remuneration reports. Across all of the groups there have been changes in the board with, in most cases, a couple of NEDs retiring and being replaced by two new ones. In groups 1 and 2 there is one society with six NEDs who have served more than nine years, group 3 has two societies with five directors who have served more than nine years, but those societies are closely aligned to a specified trade. In group 4 two of the societies have some NEDs who have served more than nine years.

WHO ARE KEYSTONE LAW

Established in 2002, Keystone Law is a full-service law firm with over 250 partner-level solicitors who have previously trained and worked at the country's most respected law firms. The firm's offering is delivered across 23 service areas and 15 sectors

OUR VISION

Today, it's not just about practising a profession; it's about tackling real commercial challenges. We don't just provide services that meet the legal needs of our clients. We bring their entrepreneurial vision to life through a unique combination of established expertise and intuitive understanding of our clients' needs. Above all, marketplace and industry insight remain at the core of everything we do. For us it's about offering long-term, successful solutions and professional guidance in a sustainable, meaningful way.

OUR REPUTATION

Our reputation in the marketplace is thriving. Our business model makes us a natural choice for companies large and small. Our strong levels of client intimacy mean that our base of private clients continues to increase at pace and we are no stranger to household names: many of our lawyers boast long-term senior-level relationships with large corporations that rely upon quality advice and deeper insight.

SERVICE AND VALUE

Keystone lawyers are all senior solicitors who have worked for at least 10 years in the country's top commercial law firms or in senior in-house positions. Their experience allows our clients to benefit from a responsive, commercial and accurate legal service delivered by a team of specialists who have come across similar issues in the past. Keystone uses technology and modern working practices to deliver both excellent service and unbeatable value.

FINANCIAL SERVICES TEAM

The Financial Services team at Keystone consists of 16 highly experienced lawyers that deliver commercial advice combined with an in-depth understanding of current market practice. Providing practical guidance to businesses exploring the regulatory implications of new initiatives and also helping those facing regulatory challenges as a result of previous activity, the team fully understand the issues you are facing. In addition, the team advise mutual and other financial services organisations on corporate, employment, data protection and intellectual property issues as well as dispute resolution and claims management. Our clients include insurance companies (both mutual and corporate), institutional investors, family offices, crowdfunding platforms, banks, investment managers and funds, credit and mortgage firms, and other financial services institutions

Robert has acted for a large number of the members of the AFM over the years and has particular expertise in commercial transactions for friendly societies, corporate governance and regulatory problem solving. He carried out the first ever FISMA Part VII transfer of engagements for a mutual and has since done others. He has advised on Section 166 reports, whistleblowing, and board investigations. Robert has also overseen the rationalisation of a large property portfolio for a mutual.

WHO ARE KEYSTONE LAW

Terms of Reference Whistleblowing

Incorporation Transfer of Engagements Remuneration

Employment Dispute General Data Protection Regulation

Regulatory
Overload

Have you dealt with similar issues?

Regulatory
Permissions

What is the issue? How long have you got?

Board
Review

KEYSTONE LAW

Running
Subsidiary
Businesses

Can we help? Do you have the background experience?

Customer
Complaints

Can we do it better/more quickly for you?

Senior Insurance Managers Regime

Rule Changes Commercial Agreements Regulatory

Diversity Investigation Solvency Capital

Corporate Governance

GRAPHS FOR REMUNERATION AND BOARD COSTS

GRAPHS FOR EXECUTIVE DIRECTORS

These show the total remuneration for 2016 of the CEO and the second highest paid executive (whoever he may be-if there is one), broken down into base pay, pension contribution, other benefits and any bonus. We have not been able to import 2015 information as it was not included in the electronic survey but the picture will be built again with the 2017 accounts. There are some new starters in some groups and so we have taken an annualised salary but used the actual figures of other payments made in 2016.

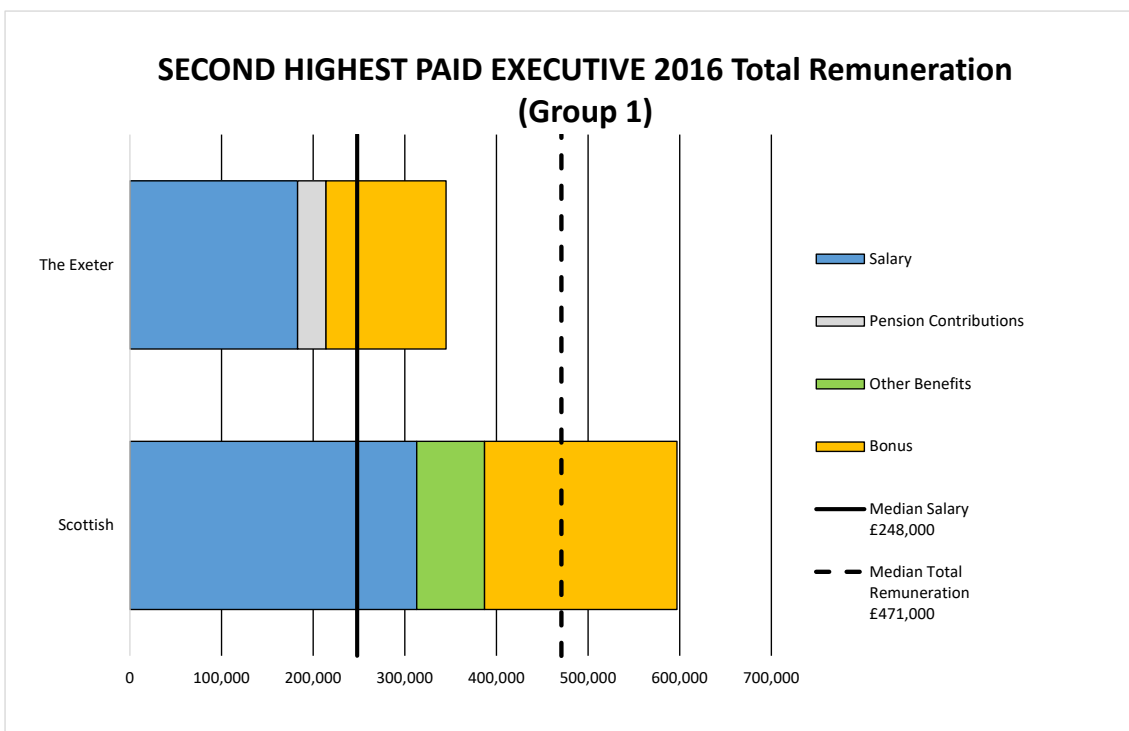
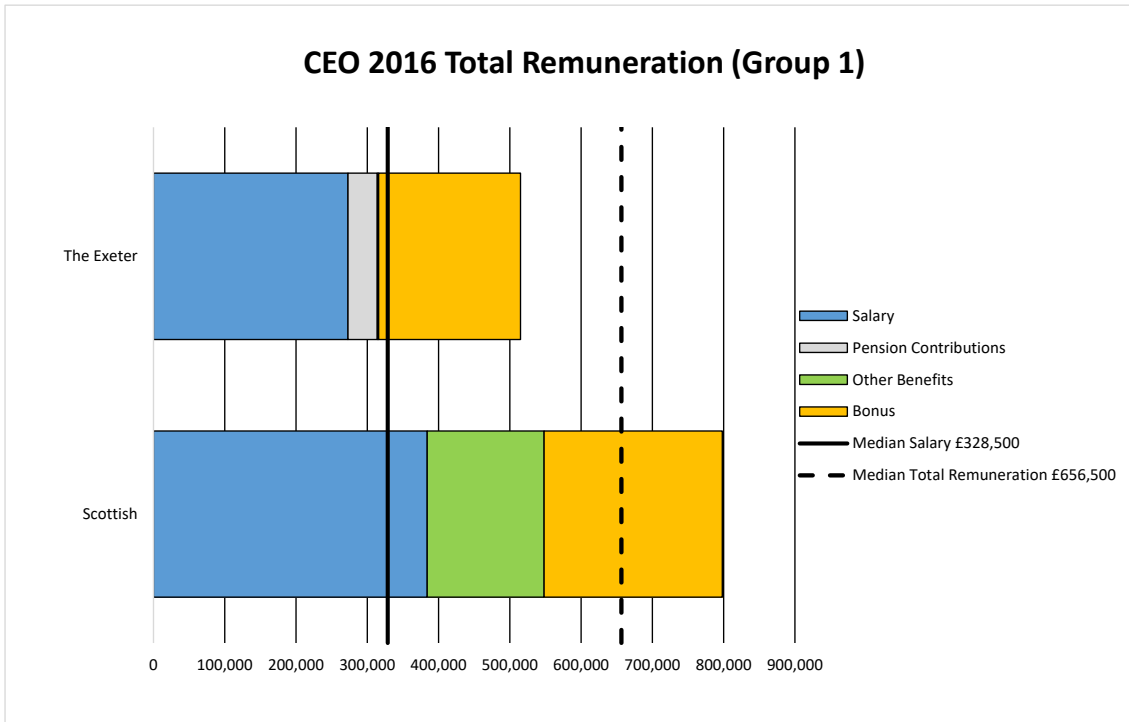
GRAPHS FOR NON-EXECUTIVE DIRECTORS

These show the remuneration (including any attendance allowances/benefits) of the Chair of the Society and the second highest paid NED (who may not necessarily be the vice-chair or SID).

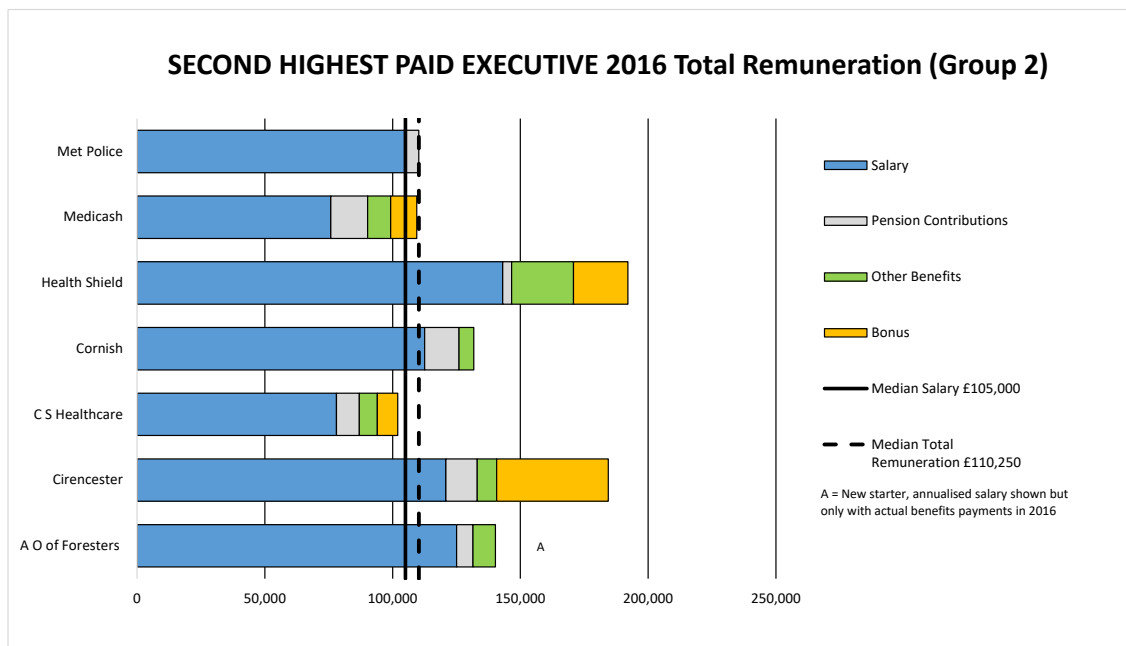
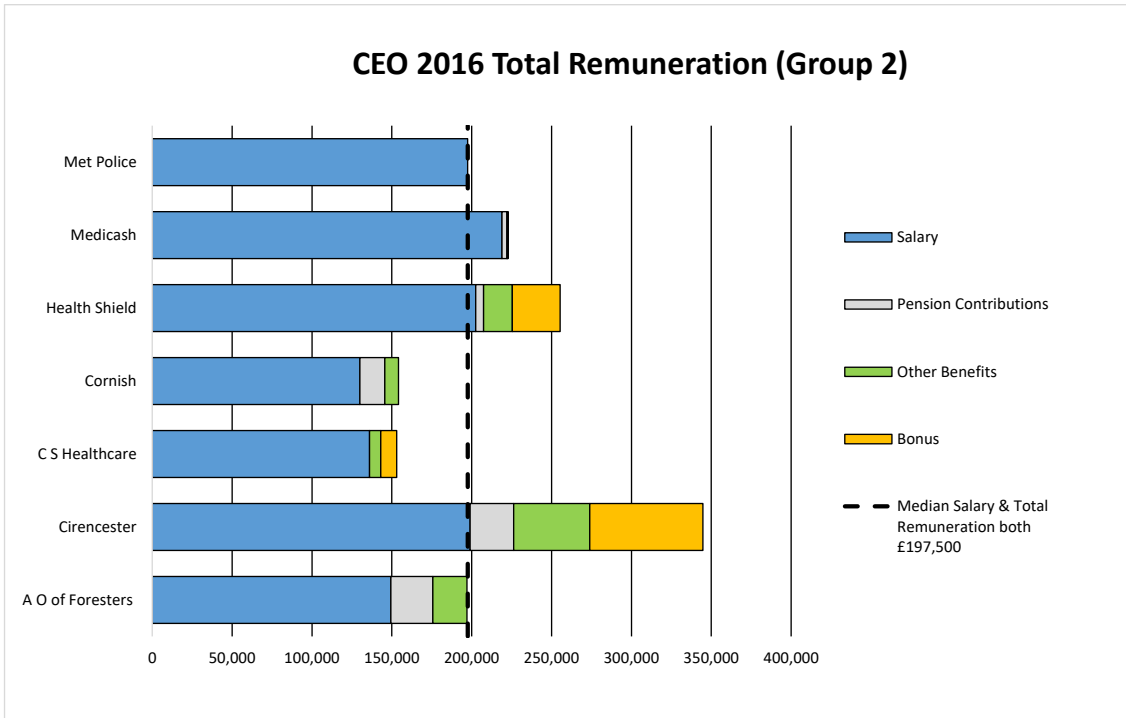
GRAPHS FOR BOARD COSTS AGAINST GWP AND TOTAL ASSETS

These have been shown as two separate graphs covering all of the Societies in the survey.

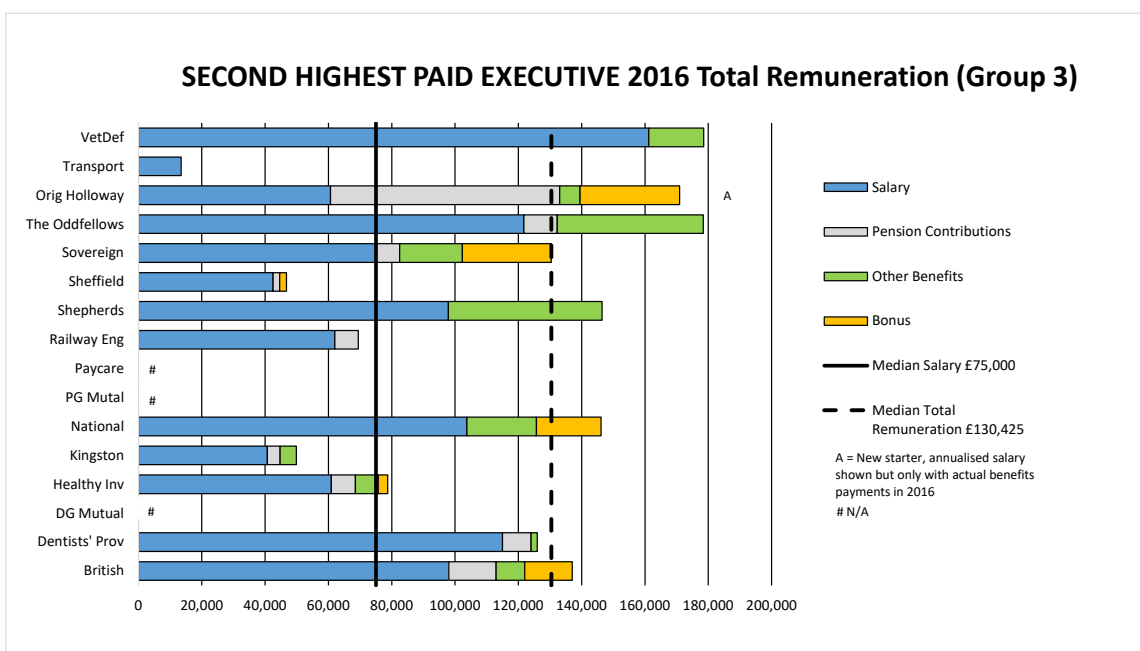
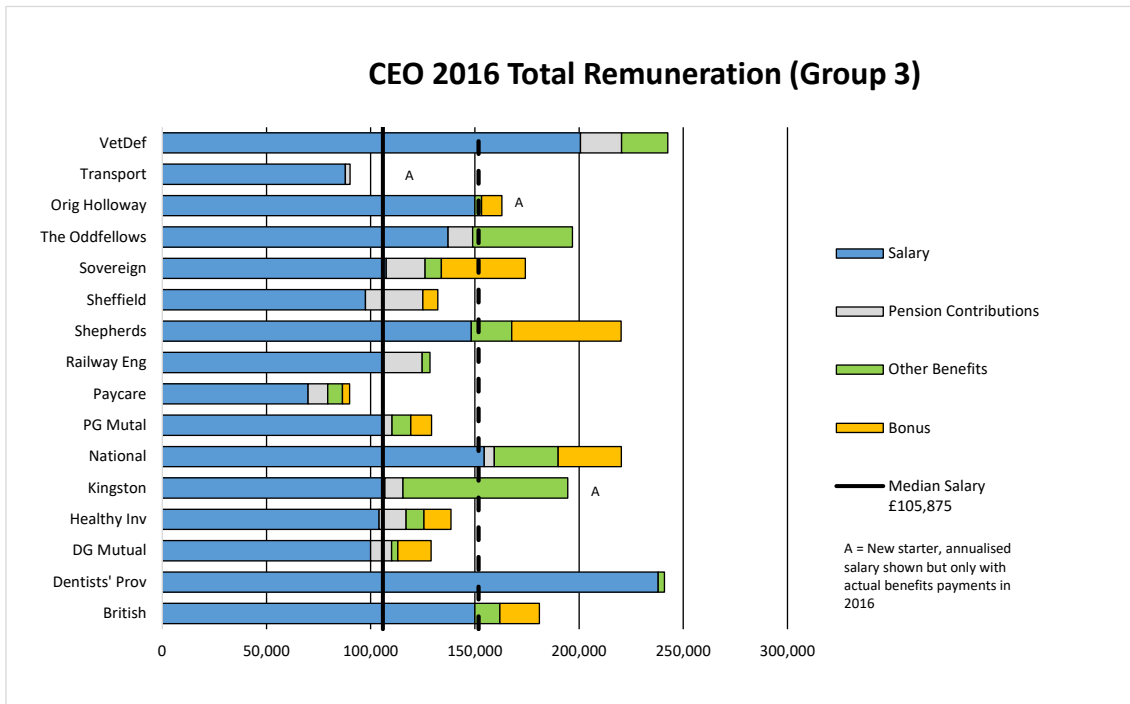
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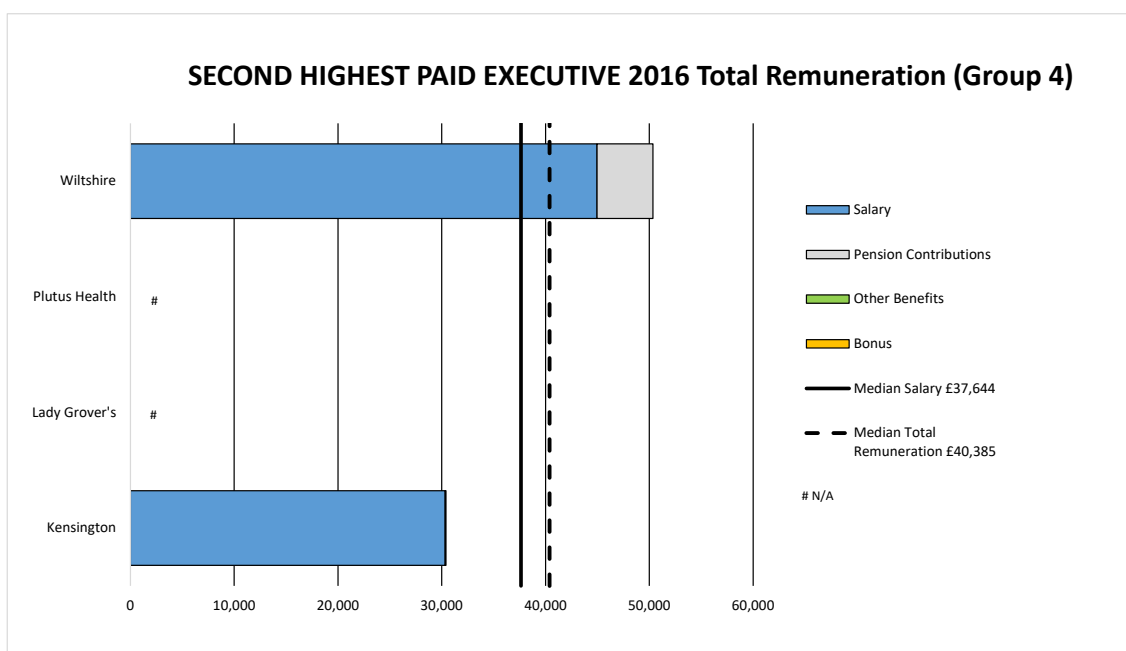
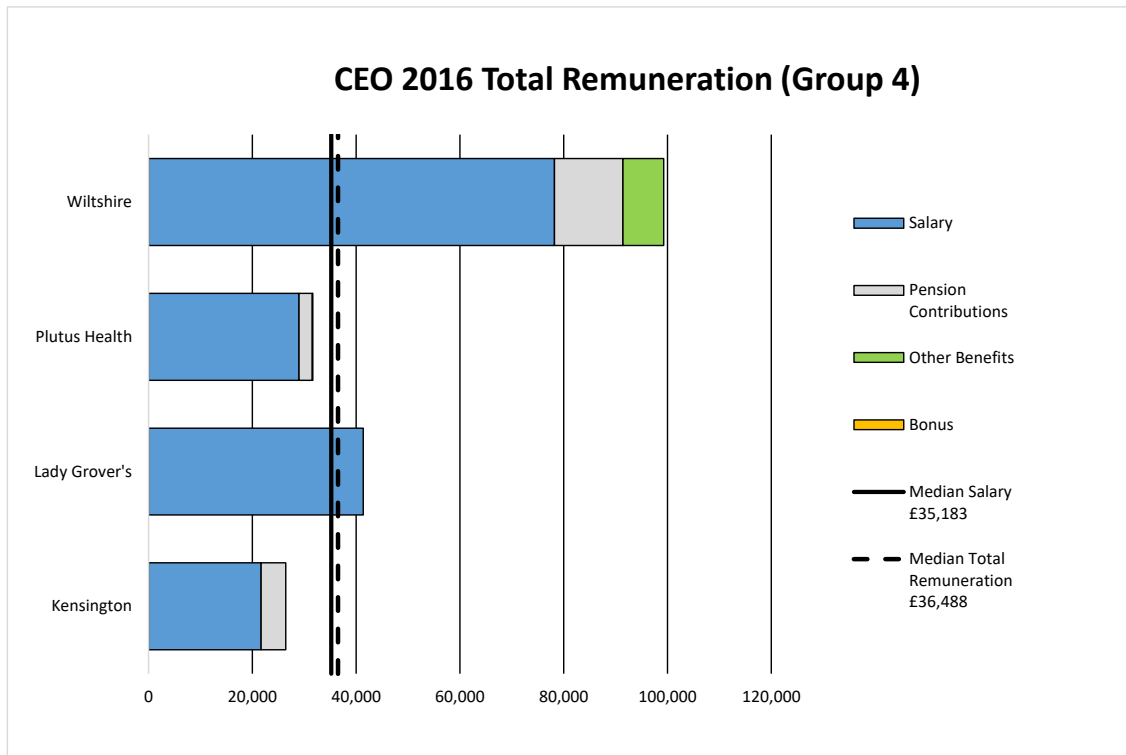
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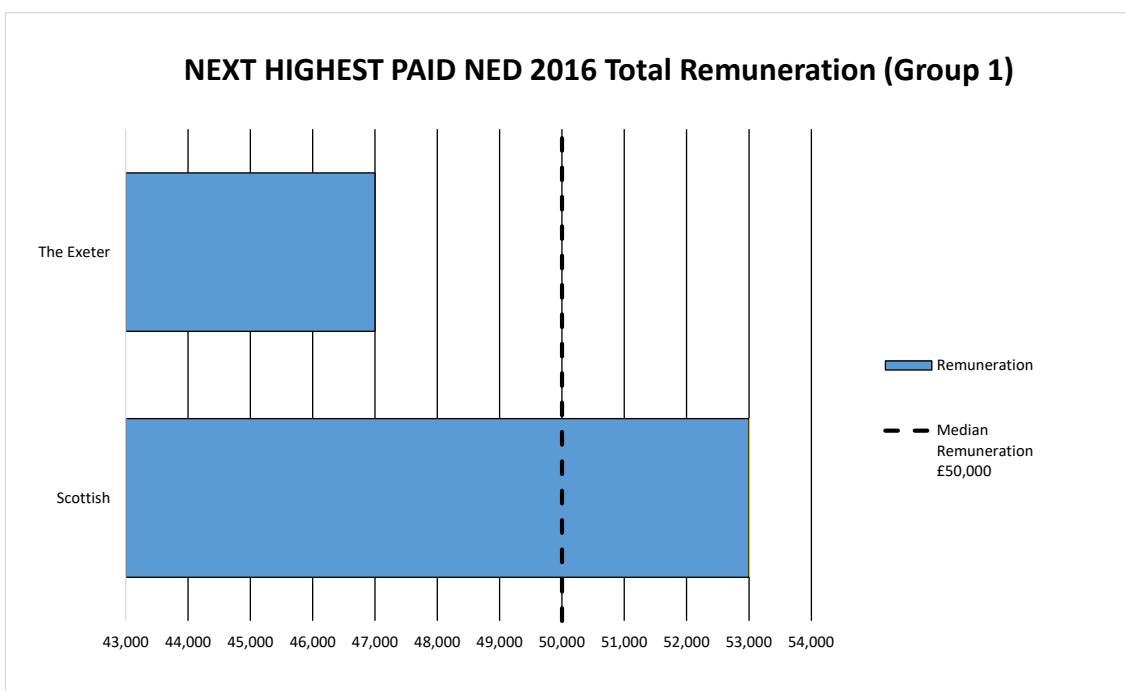
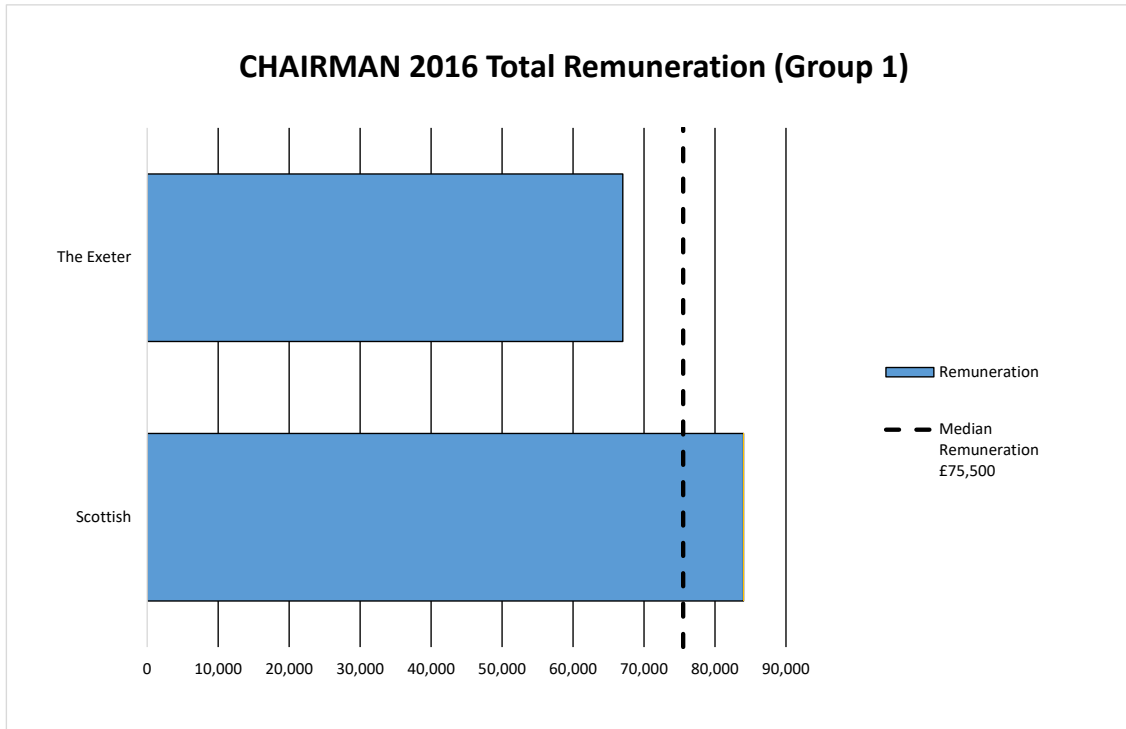
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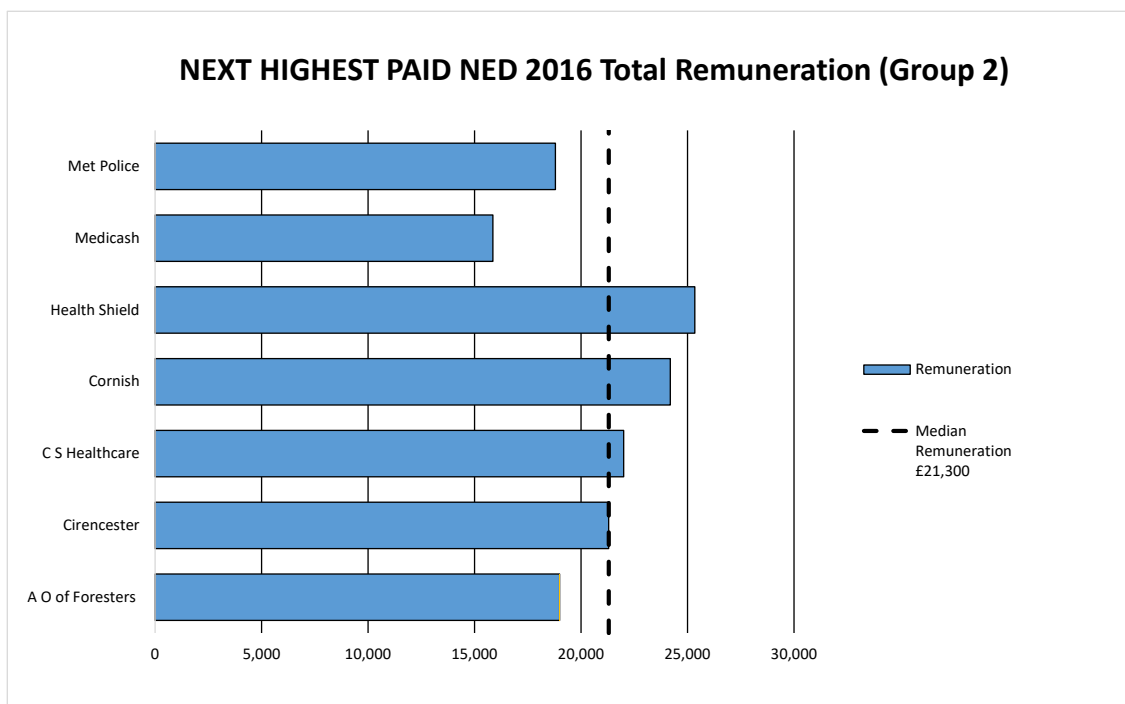
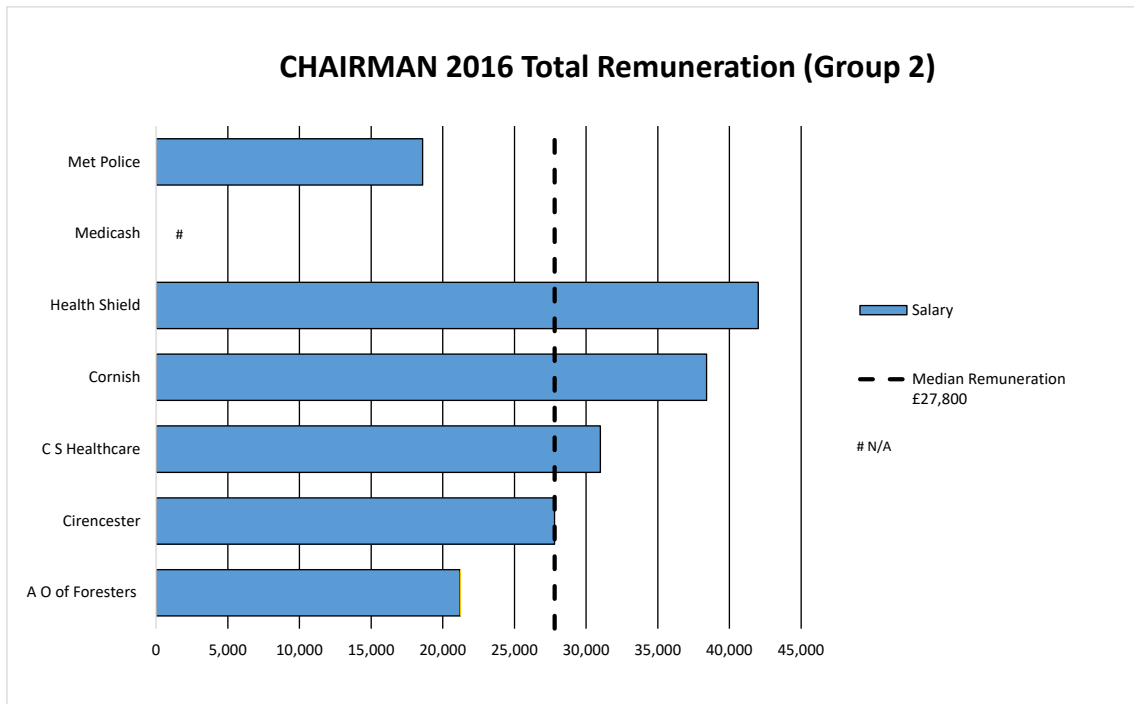
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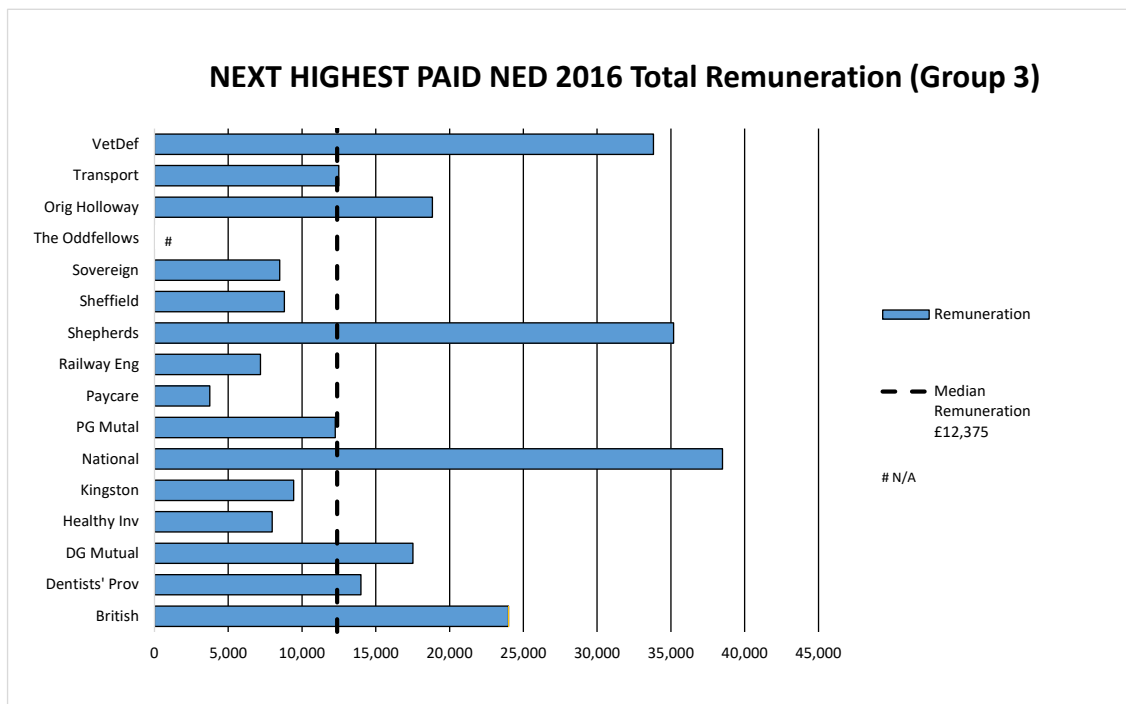
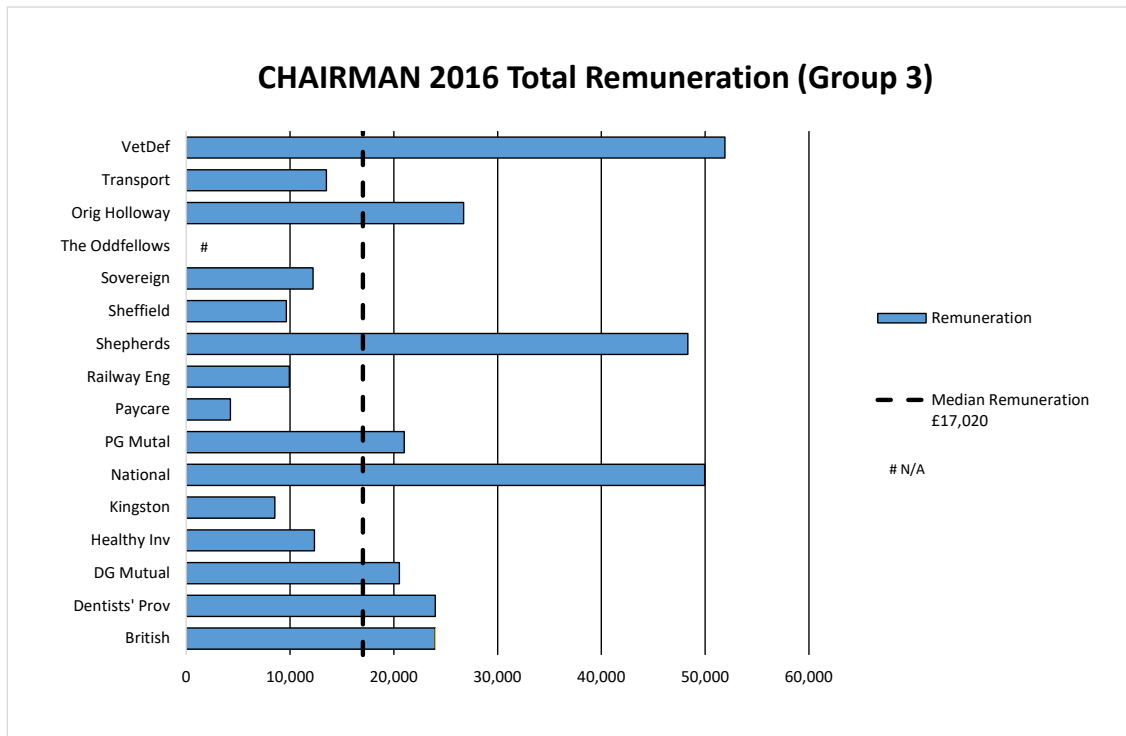
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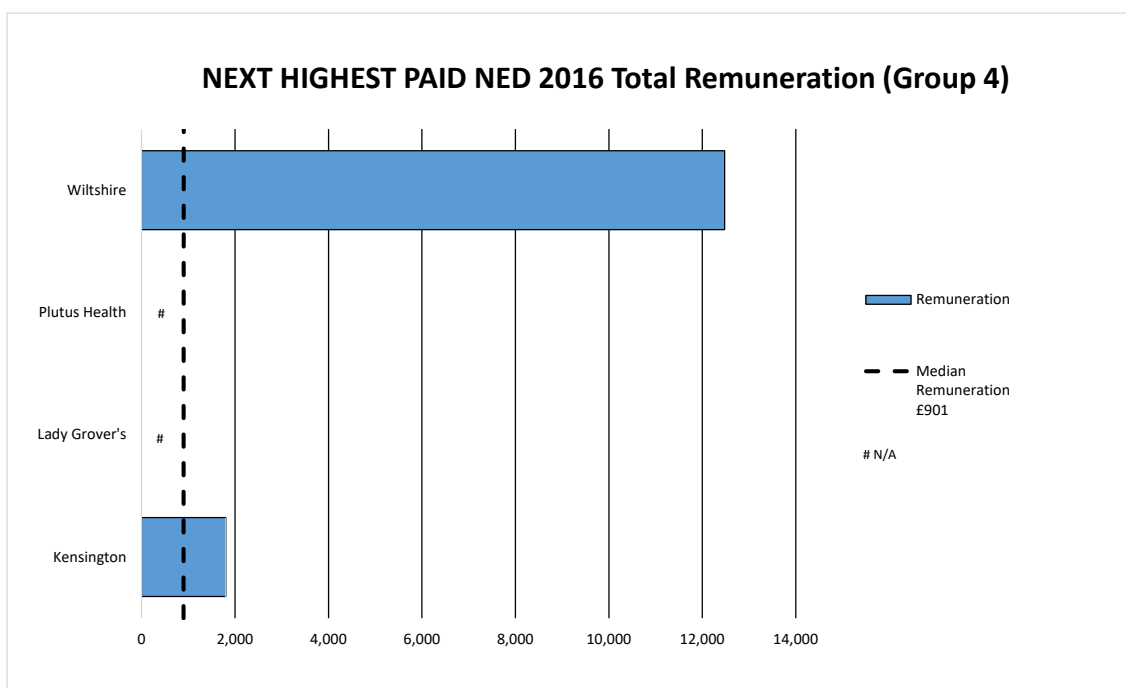
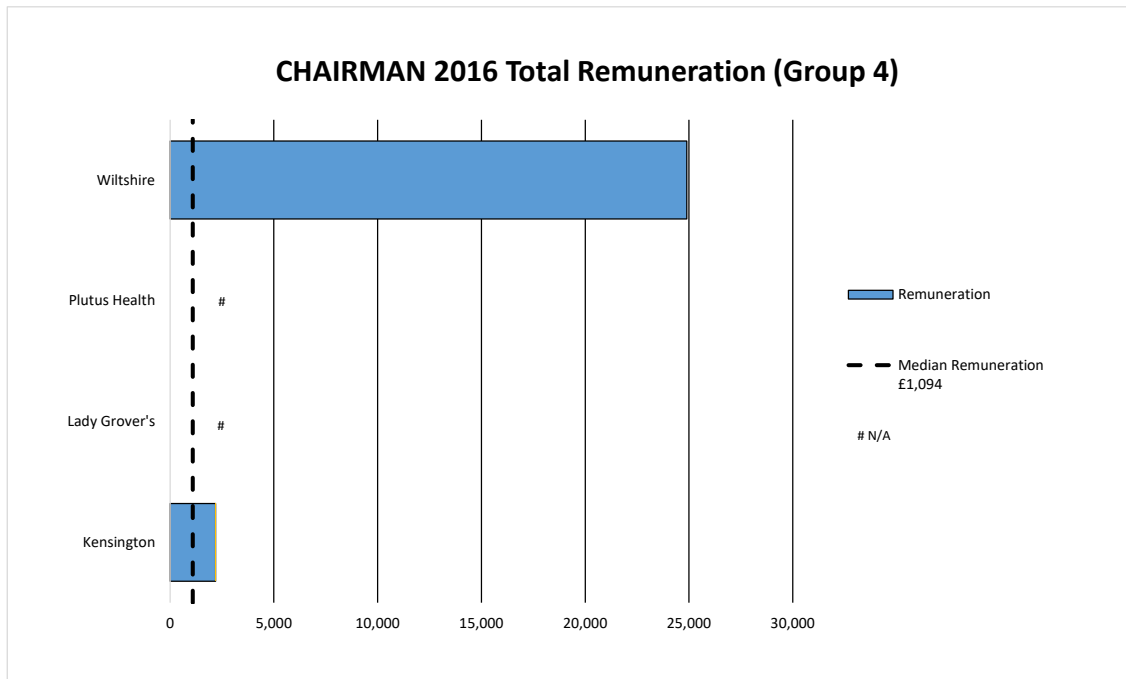
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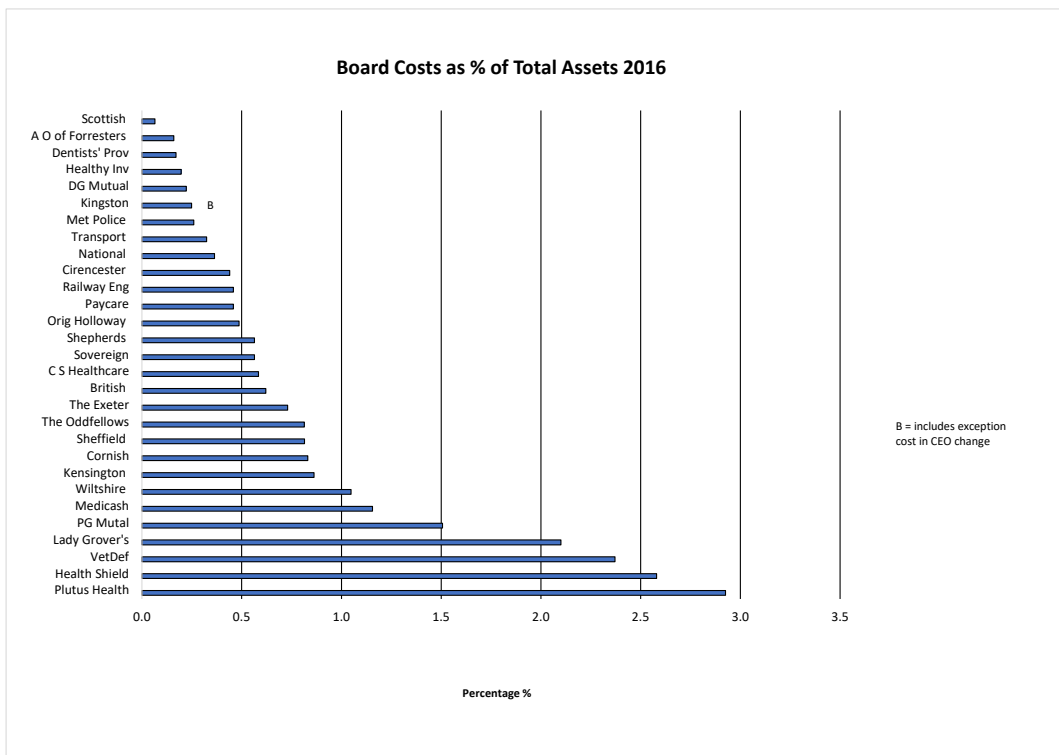
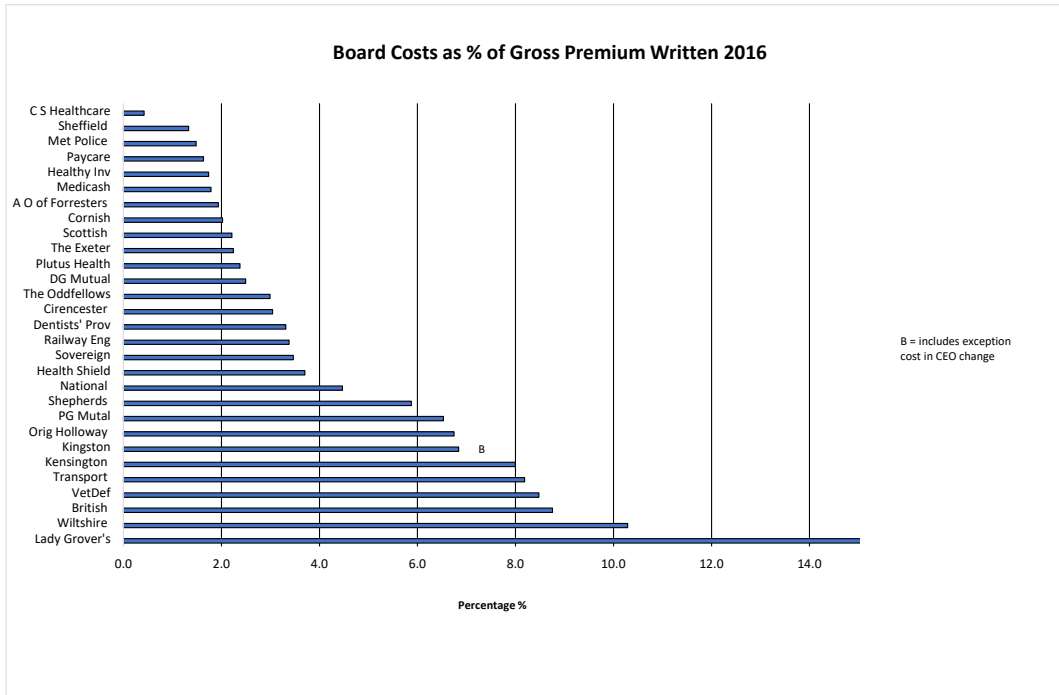
GRAPHS FOR NON-EXECUTIVE DIRECTORS



GRAPHS FOR NON-EXECUTIVE DIRECTORS



GRAPHS FOR BOARD COSTS AGAINST GWP AND TOTAL ASSETS



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EU & COMPETITION
FAMILY & MATRIMONIAL
FRAUD & FINANCIAL CRIME
INSURANCE
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LICENSING
MEDIATION & ADR
PENSIONS & INCENTIVES
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