CORPORATE GOVERNANCE FOR MUTUAL INSURERS

Guidance published by AMI and AFS in response to the requests contained in the Myners Review of the Governance of Life Mutuals

February 2008
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INTRODUCTION

1.1 Purpose of this document

The final report of the Myners Review of the Governance of Life Mutuals ("the Myners report") was published in December 2004. This assigned certain tasks to the Association of Mutual Insurers ("AMI") and the Association of Friendly Societies ("AFS"). We (AMI and AFS) were required to:

- produce and update an annotated version of the Combined Code suitable for life mutuals;
- provide detailed guidance on the interpretation and application of the Code for small friendly societies;
- collect and publish annually information on adherence to the key aspect of that Code;
- develop an induction and professional development programme for non-executive directors of life mutuals;
- devise guidance that promotes best practice member relations; and
- devise best practice guidance on the practice of notifying members of and seeking their approval to major transactions.

We appreciated being asked to play a role in the implementation of the recommendations of the Myners report. This is our response to those requests.

1.2 Overview of this document

In section 2, we put in context the guidance contained in this document by commenting briefly on the findings of Lord Penrose's investigation into Equitable Life and then expand upon Paul Myners' review of life mutuals. Our guidance must always be viewed in the light of these two reports, both of which are available on the Treasury's web site: www.hm-treasury.gov.uk. We then deal in turn with each of the tasks assigned to us.

In section 3 we refer to the Annotated Code for mutual insurers that was initially published in July 2005 and revised in February 2008. Section 4 contains guidance for small mutual insurers and some modifications to the Annotated Code as it applies to them. In section 5 we deal with the monitoring and reporting and refer to the questionnaire that AMI/AFS members need to complete. Our guidance on the recruitment, induction and evaluation of directors is set out in section 6 – we very much appreciated the assistance that we received here from the Institute of Chartered Secretaries and Administrators. In section 7 we deal with the issue of member relations. In section 8 we consider reporting and disclosure requirements, and in section 9 refer to those recommendations of the Myners report that have not previously been considered.

1.3 Our expectation

We set out in this document governance practices that we believe mutual insurers should be following today to ensure they continue to address the issues identified by Lord Penrose and Paul Myners.

AMI and AFS members must adhere to the Annotated Code in the sense of comply or explain non-compliance (see section 3.2). We expect all AMI and AFS members to follow the guidance contained in this document that has been developed to assist them in complying with the Annotated Code and the other recommendations of the Myners report.

There are, of course, other mutual insurers who are not AMI/AFS members. We recommend the adoption of the guidance by such firms to demonstrate their commitment to higher standards in corporate governance.

1.4 Updating

We have committed to ensuring that this guidance and the Annotated Code are kept under regular review and updated to reflect changes in regulation, legislation, and best practice. Updated versions of both documents will be circulated to all AMI/AFS members at the time of publication. Both documents appear on our web sites: www.mutualinsurers.org and www.afs.org.uk.
1.5 Not legal advice
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 our guidance may be required under legislation applying to some companies and as such there will be no discretion for those companies where this arises. This document does not and can not constitute legal advice. Mutual insurers must continue to seek their own advice on the law relating to their particular business.

BACKGROUND

2.1 Penrose
In his report into events at Equitable Life, a life mutual, Lord Penrose made a number of observations about corporate governance. He felt that accountability at Equitable was poor. There was ineffective scrutiny and challenge of the executive – the non-executive directors had insufficient knowledge and skills, and there were no mechanisms to ensure that the board was provided with the information and advice that it required to enable it to exercise its responsibilities. In addition, the board itself was not subject to effective external discipline or scrutiny.

2.2 Myners Review
Following the publication of Lord Penrose’s report, the Government established a review of the governance of life mutuals to be carried out by Paul Myners. The Government recognised that the problems at Equitable Life arose as a result of particular circumstances in one company at one time, but felt that the report raised questions about the governance of mutual life offices in general. The terms of reference of the Myners review were to consider the governance framework for mutual life offices in comparison with comparable companies, and where appropriate to bring forward recommendations to ensure that the boards of mutual life offices are as accountable to their members as boards of comparable companies are to their shareholders.

2.3 Myners report
Paul Myners submitted his report in December 2004. We have summarised in section 1.1 those aspects of the report’s recommendations in which we were asked to play a role. The recommendations of the Myners report are set out in full in Appendix 1.

2.4 Context of our guidance
This document must be read in the context of the events that prompted the development of these guidelines. In the covering letter with which he submitted his report, Paul Myners wrote:
“Life mutuals have a unique structure with a clear focus on delivering benefits to their members. They also face a number of specific corporate governance and accountability issues as a result of their particular form of ownership and the nature of the business they conduct. The Review’s assessment is that governance is already good in some mutuals, but also less good in others. With these considerations in mind, the recommendations in the report address the issues in a realistic and proportionate way, and are rooted in established practice and common sense. Taken together, they provide the basis for life mutuals to ensure that their accountability will be enhanced and their governance will compare very favourably to best practice in comparable proprietary companies.”
We believe that although Paul Myners wrote these comments in regards to life mutuals they are equally valid in relation to all mutual insurers.
We prepared this document and the Annotated Code in response to the recommendations of the Myners report. Our objective of doing this is to support mutual insurers in the achievement and maintenance of the levels of accountability and governance referred to above.
ANNOTATED CODE

3.1 Myners views
Central to Paul Myners’ recommendations was the introduction of a version of the Combined Code annotated so that it was relevant to mutual insurers. In the covering letter to his report, he wrote:

“The Combined Code on Corporate Governance although directed at listed companies provides universally applicable corporate governance principles of separation of function, independents and transparency and translates them into guidance on good practice. I am clear that these principles, as enshrined in the Code, also provide the right basis for good corporate governance among life mutuals. At the same time it is important to acknowledge the many very specific attributes of life mutuals and the particular environment they operate in and what this means for how the principles are interpreted and implemented. Accordingly one of my main recommendations is that all life mutuals should adhere to an annotated version of the Combined Code which interprets for the benefit of life mutuals the principles and provisions enshrined in the Code.”

Recommendation 3 of the Myners report reads:

“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.”

3.2 The Annotated Code
In response to that proposal, a joint working party of the AMI and AFS developed the Annotated Combined Code for mutuals (“the Annotated Code”). It was published on 13 July 2005, with the backing of both the Treasury and Financial Services Authority, and subsequently updated in February 2008. This updated version is available on our web sites: www.mutualinsurers.org and www.afs.org.uk.

The Annotated Code follows the Combined Code on Corporate Governance which has applied to listed companies since 1998, and is available on www.frc.org.uk/corporate/combinedcode.cfm. The additional guidance in the Annotated Code comprises an introduction and a set of annotations and is intended to assist mutual insurers in having ‘regard’ to the Combined Code. The annotations follow a ‘by exception’ approach, in that they are given only for those elements of the Combined Code that either raise particular issues for mutual insurers or are not considered to be relevant to mutual insurers. The annotations are not intended to alter the principles of the Code but rather to promote interpretations that should best uphold these principles.

The Annotated Code does not, of course, demand compliance with a set of detailed and inflexible rules – what it does impose is an obligation to “comply or explain”. A board may be satisfied that there are good reasons why the company should not comply with a particular provision of the Code, but where this occurs, the board must provide the members in the disclosure statement in its Annual Report and Accounts with the reasons for each non-compliance.

Members of AMI and AFS have been required to adhere to the Annotated Code since 1 April 2005 and to publish a statement in their Report and Accounts to this effect that identifies and explains the reasons for any non-compliance.

There are, of course, other mutual insurers who are not AMI/AFS members. We recommend that they too adhere to the Annotated Code to demonstrate their commitment to higher standards in corporate governance.

We have been monitoring compliance by members of the AMI and AFS with the Annotated Code, reporting at a high level to both the Treasury and the Financial Services Authority (see section 5).

3.3 Updating
We have committed to ensuring the Annotated Code and this guidance are kept under regular review and updated to reflect changes in regulation, legislation, and best practice. Updated versions of both documents will be circulated to all AMI/AFS members at the time of publication. Both documents appear on our web sites: www.mutualinsurers.org and www.afs.org.uk.
4. SMALL MUTUAL INSURERS

4.1 Introduction

The Annotated Code represents a level of governance to which all small mutual insurers should aspire as they grow. Nevertheless the Myners Report clearly recognised that a less onerous regime was appropriate for smaller mutuals where financial and human resource will be limiting factors in the application of the Annotated Code. 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.”

Accordingly, we have developed guidelines that indicate which elements of the Annotated Code might be considered onerous for small mutual insurers and may therefore be excluded from the ‘comply or explain’ regime. We still believe, however, that, small mutual insurers should make every effort to comply with the Annotated Code above and beyond this ‘minimum’ whenever and wherever practical.

The Annotated Code contains main and supporting principles. These small mutual insurer guidelines do not alter the principles of the Code but indicate some provisions which small mutual insurers may choose not to apply. Small mutual insurers 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 guidance designed to indicate, where there are particular issues for small mutual insurers in achieving compliance, which aspects they should focus on.

4.2 Definition of small mutual insurer

A small mutual insurer is defined as a firm with:

- an average gross premium income over the preceding three financial years of less than £20 million per annum and
- average assets at the end of the last three financial years of less than £100 million.

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

4.3 Small mutual insurer guidelines

Small mutual insurers can choose not to apply Section 2: E of the Annotated Code. These principles and supporting principles relate to the mutual insurers role in their own right as an institutional investor and are unlikely to be relevant for small mutuals.

Provisions of the Annotated Code which a small mutual insurer can choose to exclude from the “comply or explain” regime:

A.1: A.1.3
A.3: A.3.3
A.4: A.4.4, A.4.5
A.5: A.5.1
A.6: A.6.1
B.1: B.1.1, B.1.2
B.2: all
C.3 all
D.1: all
D.2: D.2.3

4.4 Supporting notes

Where there are particular issues for small mutual insurers, we believe they should focus on the following aspects of the principles:
A.3: We do not consider the independence criteria set out in the Annotated Code prevent non-executive directors who are members of a mutual insurer from being determined as independent, unless the policy holdings giving rise to that membership are considered to be material in the context of the director’s relationship with the mutual insurer.

A.4: Small mutual insurers might choose to apply these principles by ensuring that the requirements in the provisions describing the activities of nomination committees are instead carried out by the board. Attention should be focused on ensuring there is a formal procedure for the appointment of new directors in place rather than establishing a separate nomination committee.

A.5: Directors should receive some form of induction on appointment but given small mutual insurers can choose not to comply with provision A.5.1 this induction need not be “full, formal, and tailored”.

A.6: The board of a small mutual insurer should carry out some form of performance evaluation which could take the form of the performance evaluation guidance in section 6.3.2 of the guidance on monitoring and reporting. As a minimum therefore, performance evaluation should focus on the performance of the board.

B.2: Small mutual insurers might choose to apply these principles by ensuring that the requirements in the provisions describing the activities of remuneration committees are instead carried out by the board. Attention should be focused on ensuring there is a formal procedure for fixing remuneration rather than establishing a separate remuneration committee with care being taken to recognise and avoid conflicts of interest.

C.3: Small mutual insurers might choose to apply this principle by ensuring that the requirements in the provisions describing the activities of audit committees are instead carried out by the board as far as possible. Attention should be focused on ensuring the integrity of financial statements and reviewing the firm’s internal financial controls.

5. MONITORING AND REPORTING

5.1 Our task
In recommendation 3 of the Myners report we were asked to collect and publish annually information on adherence to key aspects of the Code. Subsequently, the Treasury and the Financial Services Authority indicated that it would appreciate an annual high level compliance report from us. The Myners report suggested that the Treasury should conduct a review of life mutuals’ compliance with the Annotated Code in 2008.

In the light of this, our objectives were to create a monitoring and reporting process that would both contribute to improving corporate governance of mutual insurers, and facilitate the annual collection and publication of information on adherence to the Annotated Code. We were also keen to demonstrate that we have the ability to self-regulate the governance of the mutual insurance sector.

5.2 The questionnaire
We have produced a compliance questionnaire that is can be downloaded from AMI and AFS websites and should be completed online. Essentially this turns every statement in the Code (augmented by some of the other recommendations included in the Myners report) into a question. It has three objectives:

- to serve as a checklist for mutual insurers of the requirements of the Annotated Code;
- to assist mutual insurers to draft their corporate governance disclosure statements; and
- to assist AMI and AFS to collect and publish information annually on the adherence by mutual insurers to the Code in accordance with the recommendation of the Myners report and to provide our report to the Treasury.

The questionnaire adopts the structure, and where possible follows the wording, of the Annotated Code. Initially this document is intended to serve as a checklist to provide detailed assistance to mutual insurers on what is involved in complying with the Annotated Code.
5.3 Implementation
At the end of each calendar year, each mutual insurer will be requested to complete the questionnaire and send it to AMI/AFS. A report based on these returns will be submitted to the Boards of AMI/AFS. Information on adherence that will be published by AMI/AFS and reports to the Treasury and the Financial Services Authority are derived from this report.

6. DIRECTOR RECRUITMENT, EVALUATION, INDUCTION, AND DEVELOPMENT

6.1 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 A.4), information to and professional development of directors (section A.5) and evaluation of the performance of the board, its committees and its members (section A.6). All AMI and AFS members must comply with the Annotated Code or explain their reasons for any non-compliance (see section 3.2). 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.

6.2 Appointment, induction and development, and access to information
We have 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.

The ICSA has agreed to maintain these three notes so that they continue to reflect best practice. Subsequent versions can be downloaded from their website www.icsa.org.uk.

We very much appreciate the assistance provided by ICSA. They have also developed a training course specifically for smaller mutual insurers focused on induction of new non-executive directors. AMI also intends to develop training courses for professional development of existing non-executive directors.

6.3 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.

6.3.1 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.

6.3.2 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.)

6.3.3 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.

6.3.4 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?

7. MEMBER RELATIONS

7.1 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. All life mutuals were required to put in place adequate arrangements for taking into account members views and we were asked to consider how best to promulgate information sharing on best practice among life mutuals.

That guidance is split into three parts:

Member relations strategy (section 7.2)
Member communications (section 7.3)
Best practice for fair and accessible voting procedures in mutual insurers (section 7.4)

Provisions within section 1 of the Combined Code make several references to ‘shareholders’. Although mutual insurers, of
course, do not have shareholders the Annotated Code makes clear that the principles underpinning these provisions of the Combined Code are relevant and should be considered by members of AMI and AFS as they develop their own direct member dialogue. This guidance has been developed to expand upon this.

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)

7.2 Member relations strategy
7.2.1 The strategy
Each mutual insurer should develop a member relations strategy, as recommended by Myners, to improve the relationship between a mutual insurer and its members, with a view to encouraging greater engagement of members, and encouraging members to take a more 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.

7.2.2 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.

7.2.3 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 the AGM and any associated voting
- to provide practical and procedural guidance and hospitality to members attending the AGM 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.

7.3 Member communications

7.3.1 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, are not permitted 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 the rights and obligations of a member

- 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 summary financial statement – where the mutual insurer chooses to send the summary financial statement, this should include the directors' remuneration report

- 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 large transactions being voted on at the AGM or EGM.

- 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 web site

**The mutual insurer must make available on request and/or via its web site 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 Combined 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**

- 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 members relation 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 web site.

**7.3.2 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 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 web site 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.

7.3.3 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.

7.4 Best practice for fair and accessible voting procedures

7.4.1 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 not prohibit proxy voting. Where a mutual insurer’s articles of incorporation expressly forbid proxy voting, firms 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 or secure electronic voting to facilitate widest possible member 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.

7.4.2 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.

7.4.3 Voting and proxy voting

Members must be informed of the rules, including voting procedures, that 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.

7.4.4 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 Combined Code
- receive the directors’ remuneration report (this vote may be advisory only, and its outcome not binding on the directors)
- 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) 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 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 shares in respect of which the vote was directed to be withheld.
8. REPORTING AND DISCLOSURE

8.1 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 8.2);
- 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 8.3);
- produce a remuneration report along the lines of that required from listed companies (see section 8.4);
- conduct an advisory vote on the remuneration report at the AGM (see section 8.5);
- 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 8.6).

The Myners report also recommended that large life mutuals should produce a operating financial report in the same way as quoted companies (see section 8.7).

There has been an important development in the use of summary financial statements since the publication of the Myners report, that was in fact anticipated in the report, and we have dealt with this (see section 8.8).

8.2 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 Combined 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 Combined 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 Combined 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 Combined Code for Mutual Insurers (Dated: Month/Year)** (‘the Code’) [as amplified by Corporate Governance for Mutual Insurers – Guidance published by the AMI and AFS 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, C2.1, C3.1, C3.2, C3.3, C3.4, C3.5, C3.6.

Detailed for this can be found in Schedule C of the Code.
8.3 Board disclosures

Mutual insurers 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 web site. Where they do not have a web site, consideration should be given to establishing one.

8.4 Remuneration report

Each mutual insurer is required to include a directors’ remuneration report in its full annual report and accounts. We agree with the recommendation in the Myners report that mutual insurers comply with the requirements of the Directors’ Remuneration Report Regulations 2002 (SI 2002 No 1986 – available on www.opsi.gov.uk/SI/si2002/20021986.htm, modified for a mutual insurer where necessary. Therefore mutual insurers should produce a remuneration report equivalent to that described in Schedule 7A of the regulations and hold an advisory vote on the report at the AGM (as per S241A). Although these Regulations are only applicable to listed companies, they represent a current indication of what is regarded as best practice. Suggested items for inclusion are set out in Appendix 2. Certain aspects of the directors’ remuneration report are subject to audit.

8.5 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 2005].”

The Notice 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.

8.6 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
8.7 Summary financial statements

A mutual insurer who does not send the annual report and accounts to all members should publish a summary financial statement, which should be sent 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 summary financial statement to its delegate representatives). The summary financial statement is a summary of the full Annual Report and Accounts and should include:

- Chairman’s report;
- Chief Executive’s operational report;
- Report on director’s remuneration;
- Income and expenditure; and
- Balance sheet.

The summary financial statement should include, within the body of the document, sufficient explanation of industry terminology, to make it readable and understandable to the mutual insurer’s membership.

We recommend that all mutual insurers (whether or not incorporated under the Companies Act) comply with The Companies (Summary Financial Statement) (Amendment) Regulations 2005 (SI 2005 No 2281 available on http://www.opsi.gov.uk/si/si2005/20052281.htm) on the basis that they represent a current indication of what is regarded as best practice. These amend the 1995 regulations (http://www.opsi.gov.uk/si/si1995/19952092.htm) that had already been amended in 2002 (http://www.opsi.gov.uk/si/si2002/20021780.htm). The 1995 and 2002 Regulations applied only to listed companies – the 2005 Regulations extended the summary financial statements regime to all companies incorporated under the Companies Act.

9. OTHER MYNERS RECOMMENDATIONS

9.1 Recommendations 1, 2 and 12

There are three of the recommendations of the Myners report to which we have not so far referred. Recommendations 1 and 2 suggest that:

- 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
- 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 12 covers a number of boardroom matters:

- 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 at board meetings, 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 12)

9.2 Our views on them

We have not dealt with these recommendations because, whilst we agree with them, we do not believe that we can add anything to them by way of guidance. We expect members of AMI or AFS to adhere to these recommendations and mutual insurers who are not members of AMI or AFS are recommended to follow them.
APPENDIX 1: MYNERS RECOMMENDATIONS
The essence of this report provides best practice guidelines for mutual insurers, to help them put into practice the recommendations of the Myners Review.

The Myners’ recommendations are reproduced below in full. It should be noted that the Steering group with subsequent ratification from the AMI and AFS Boards decided that the ACC and guidelines should apply to all mutual insurers and not just life insurers as recommended in the Myners Review. This extension of the Code was welcomed by the Treasury.

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: DIRECTORS’ REMUNERATION REPORT

A. Full report and accounts
A mutual insurer should consider including each of the items of information below, as it considers appropriate to its circumstances.

Remuneration committee information
- If the mutual insurer has a board remuneration committee:
  - the names of the members of the committee,
  - the name of any person (including a director of the firm who is not a member of the committee) who provided advice, or services, that materially assisted the committee in their consideration of the directors’ remuneration for the year,
  - in the case of any such person (other than a director of the mutual) the nature of any other services that that person has provided to the mutual insurer during the year, and whether that person was appointed by the committee.

Statement of the mutual’s policy on directors’ remuneration
- A statement of the mutual insurer’s policy on directors’ remuneration for the following financial year (to that being reported on) and for subsequent financial years must be provided.

The policy statement shall include the information specified below.

Items (i) to (vi) are required only where the mutual has a share option scheme or long-term incentive scheme.
Items (i) to (vii) relate to information required in respect of any person who serves as a director of the mutual insurer at any time in the period beginning with the end of the financial year being reported on and ending with the date on which the directors’ remuneration report is laid before the mutual’s AGM.

(i) In respect of each director by name, a detailed summary of any performance conditions to which any entitlement:
  - to share options, or
  - under a long-term incentive scheme, is subject.

(ii) An explanation as to why any such performance conditions were chosen.

(iii) A summary of the methods to be used in assessing whether any such performance conditions are met and an explanation as to why those methods were chosen.

(iv) If any such performance condition involves comparison with factors external to the mutual insurer:
  - a summary of the factors to be used in making each such comparison, and
  - if any of the factors relate to the performance of another company or companies or of a securities index, the identity of the company(ies) or index.

(v) A description of, and an explanation for, any significant amendment proposed to be made to the terms and conditions of any entitlement of a director to share options or under a long-term incentive scheme.

(vi) If any entitlement of a director to share options, or under a long-term incentive scheme, is not subject to performance
conditions, an explanation as to why that is the case.

(vii) In respect of each director’s terms and conditions relating to remuneration, an explanation of the relative importance of those elements which are, and those which are not, related to performance.

(viii) A summary and explanation of the mutual’s policy on
• the duration of contracts with directors, and
• notice periods, and termination payments, under such contracts.

Performance indicators
- Information that shows a comparison of the mutual insurer’s performance for the last five years, based on data and equivalent measures or key performance indicators selected as the mutual deems appropriate, and which may or may not include:
  - Business growth
  - Expense ratio
  - Customer retention
  - Staff satisfaction or retention
  - Corporate responsibility
  - A statement of the name of the index selected and the reasons for selecting it.

Service contracts
- In respect of the service contract of each person who was a director of the company at any time during the financial year being reported on:
  - the date of the contract, the unexpired term and the details of any notice periods,
  - any provision for compensation payable upon early termination,
  - details of other provisions in the contract necessary to enable members of the company to estimate the liability in the event of early termination.
  - An explanation for any significant award for compensation made to a person who was not a director of the mutual insurer at the time the award was made but had previously been a director (see “Compensation for past directors”, below).

Amount of each director’s emoluments and compensation in the relevant financial year
- For each director by name the amount (in tabular form) of each of the following for the financial year being reported on:
  - salary and fees,
  - bonuses,
  - expenses allowances,
  - compensation for loss of office and any other termination payments,
  - other non-cash benefits not falling within items (a) to (d) above or paragraphs “Share options” and “Long-term incentive schemes” below,
  - total of (a) to (e) above.
  - For each person who was a director at any time during the financial year being reported on, the amount (in tabular form) for the previous financial year equivalent to item (f) above.
  - The nature of any element of a remuneration package which is not in cash.
Share options
- Detailed information about share options awarded to or exercised by directors.

Long-term incentive schemes
- For each person (by name) who was a director of the mutual insurer at any time during the financial year being reported on, the following information (in tabular form) about long-term incentive schemes:
  - details of the scheme interests at the beginning of the year, interests awarded during the year, and interests at the end of the year,
  - for each such scheme interest, the end of the period over which the qualifying conditions have to be fulfilled and a description of any variation made in the terms and conditions of the scheme interests during the year,
  - for each scheme interest that vested in the year, details of any shares, the amount of any money, and the value of any other assets that have become receivable.

Pensions
- For each person (by name) who was a director of the mutual insurer at any time during the financial year being reported on, the following information in relation to a defined benefit pension scheme:
  - details of any changes during the year in the person's accrued benefits, and of the accrued benefits at the end of the year,
    - the transfer value of the accrued benefits at the end of the year,
    - the transfer value of the accrued benefits at the end of the previous year,
    - the amount obtained by deducting the directors' own contributions for the year (if any) from the difference between (b) and (c) above.
- For each person (by name) who was a director of the mutual insurer at any time during the financial year being reported on, details of any contributions made by the company in or for the financial year in relation to a money purchase pension scheme.

Excess retirement benefits of directors and past directors
- Certain details of excess retirement benefits of directors and past directors.

Compensation for past directors
- Details of any significant award for compensation for past directors (see “Service contracts” above, where an explanation for any such award is required).

Sums paid to third parties in respect of a director's services
- Details of sums paid to third parties in respect of a director's services.

B. Summary financial statements
Each mutual insurer is required to include disclosures on directors' remuneration policy, and on amounts of remuneration payable, within its summary financial statements (SFS). As a minimum, the SFS must include:
- A summary of the policy on directors' remuneration (a summary of the information provided in the mutual's full directors' remuneration report and may, at the firm's discretion, include forward-looking disclosures)
- Remuneration - for each director by name the amount (in tabular form) of each of the following which are relevant for the financial year being reported on:
  - salary and fees,
  - bonuses,
  - any significant amounts in relation to non-cash benefits or pension items,
  - gains made on the exercise of share options (in any connected undertaking of the mutual insurer),
- money or assets (other than share options) paid or receivable under long-term incentive schemes.
- Pension payments

(Comparative figures for the above items for the previous financial year are not required to be given in the notes to the full accounts in respect of individual directors. However, where a mutual insurer chooses to show such comparative figures in those notes, or in its directors’ remuneration report, it might consider also showing comparative figures (in relation to persons who where directors during the financial year being reported on) in the table given with its SFS.)

- The total remuneration for all directors for both the financial year being reported on and the previous year – the firm must provide the aggregate amount required to be included in the notes to the accounts. Where appropriate, an indication should be given that such amount contains elements of remuneration (such as non-cash benefits and increases in accrued pensions (or pension contributions) etc) that are in addition to the amounts disclosed for individual directors’ salary/fees, bonuses etc.
- The amount of any compensation for loss of office and any other termination payments in the financial year being reported on, giving the name of each director or past director concerned.
- Details of, and a summary explanation for, any significant award for compensation made in the financial year being reported on, to a person who was not a director of the mutual insurer at the time the award was made, but had previously been a director.
- A statement to the effect that full details of directors’ remuneration are available in the directors’ remuneration report contained within the full annual report and accounts.

The mutual insurer may wish to disclose more information than the suggested minimum above. If so, the information should remain a summary of information disclosed more fully in the directors’ remuneration report in its full annual report and accounts. It would seem inappropriate if disclosures on directors’ remuneration made with the SFS tended to overwhelm the financial information provided in respect of the overall performance of the mutual insurer.
1. Such an explanation may require careful wording in some cases so as not to imply that basic salary is unrelated to performance.

2. “Long-term incentive scheme” is defined as “any agreement or arrangement under which money or other assets may become receivable by a person and which includes one or more qualifying conditions with respect to service or performance that cannot be fulfilled within a single financial year, and for this purpose the following shall be disregarded, namely: any bonus the amount of which falls to be determined by reference to service or performance within a single financial year, compensation in respect of loss of office, payments for breach of contract and other termination payments; and retirement benefits.”

3. Such an explanation may require careful wording in some cases so as not to imply that basic salary is unrelated to performance.

4. The amounts to be disclosed include all relevant sums paid by or receivable from a) the mutual insurer, b) the mutual insurer’s connected undertakings, and c) any other person, except sums to be accounted for to the mutual insurer or any of its connected undertakings where such liability to account is released or not enforced within two years, details should be given as soon as practicable. References to amounts paid to or receivable by a person include amounts paid to or receivable by a person connected with him or a body corporate associated with him.

5. Amounts paid or receivable or share options granted in respect of a person’s accepting office as director shall be treated as amounts paid or receivable or options granted in respect of his/her services as director.

6. The amount of any compensation paid in respect of loss of office of a director or past director should be shown by name, together with the aggregate of such amounts. The aggregate of any such amounts paid in the preceding year must also be shown. The amount disclosed in respect of compensation for loss of office should include any amount received or receivable by a director or past director in respect of loss of office as director of the mutual insurer or the loss, while director of the firm or on or in connection with his ceasing to be a director of it, of any other office in connection with the management of the firm’s affairs or of any office as director or otherwise in connection with the management of the affairs of any connected undertaking of the firm. References to compensation include benefits otherwise than in cash, compensation paid in consideration for, or in connection with, a person’s retirement from office and where such a retirement is occasioned by a breach of the person’s contract with the firm or with a subsidiary undertaking, payments by way of damages for the breach or settlement or compromise of any claim in respect of the breach. The nature of any compensation for loss of office must be disclosed.

7. “Pension scheme” and “retirement benefits” are defined by reference to appropriate definitions in the income and corporation taxes act 1988.

8. Where the mutual insurer offers a defined benefits pension scheme, it is not required to show its actual contribution to the fund in respect of each director, and in aggregate. Instead the “increase during the financial year in the value of any accrued pension or accrued lump sum’s to be shown, which relates neither to the charge in the income and expenditure account, nor is a direct liability of the mutual. (The disclosure required being a measure of the benefit to the director). The mutual insurer should consider making this clear, and to note also that it is therefore not possible to make comparisons between mutual insurers of the cost of providing pension benefits or the aggregate costs of remunerating directors). It might also be helpful to show a subtotal of items before the cost of providing pension benefits is disclosed.

9. “Accrued pension” and “accrued lump sum” are the amount of the annual pension, and the amount of the lump sum, which would be payable under a defined benefits pension scheme to a director on his/her attaining normal pension age on the assumption that he/she had left the mutual insurer’s service at the end of the year, and ignoring future inflation, any commutation of the pension, or inverse commutation of the lump sum, any voluntary contributions paid by the director to the scheme and any money purchase benefits payable under the scheme.

10. “Money purchase scheme” is defined as a pension scheme under which the retirement benefits payable are calculated by reference to payments made, and which are not average salary benefits; a “defined benefits scheme” is a pension scheme which is not a money purchase scheme.

11. “Pension scheme” and “retirement benefits” are defined by reference to appropriate definitions in the income and corporation taxes act 1988.

12. The difference between the current retirement benefits paid to or receivable by directors and past directors, and those benefits to which they were entitled on retirement, should be disclosed, unless their retirement benefits have been increased by an amount not greater than that for such benefits paid to other pensioner members of the scheme, provided the scheme was adequately funded. References to retirement benefits include benefits otherwise than in cash. The nature of any such excess benefit must be disclosed.

13. “Qualifying services” means a person’s services as a director of the mutual insurer, and his/her service while director of the firm, as director of any of its connected undertakings or otherwise in connection with the management of the affairs of the mutual insurer or any of its connected undertakings.

14. There should be shown the aggregate amount of any consideration paid to or receivable by third parties for making available the services of a person as a director, distinguishing between services as a director (whether of the mutual insurer or any of its connected undertakings) and other services. For this purpose, the third parties referred to are persons other than the director himself or a person connected with him or a body corporate associated with him, and the mutual or any of its connected undertakings. The consideration referred to includes benefits otherwise than in cash. The nature of any such consideration must be disclosed.