

AFM NED TOOLKIT

CORPORATE GOVERNANCE MINI-TOOLKIT

This themed extract of the AFM NED Toolkit explores **Corporate Governance**. Questions preceded by letter A are more suited to new starters, and B to experienced NEDs, though all offer useful issues to explore.

- A1.6 Are you familiar with the governance arrangements at your firm?
- A1.7 Why does culture matter?
- A1.15 What are the key attributes of a successful Board?
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- B2.9 What is the process in your firm for re-electing Board members and for ensuring that there are sufficient independent directors?
- B2.10 What are the attributes of a successful Board?
- B2.11 Do you believe that there are any skills gaps on the Board?
- B2.21 To what extent does your firm apply the principles within the AFM Corporate Governance Code?
- B2.23 Are you satisfied with arrangements in respect of the Board regarding Board evaluations, remuneration and diversity?

A1.6 Are you familiar with the governance arrangements at your firm?

Framing your response

The report and accounts have to describe the governance arrangements, and Solvency II specifies the System of Governance that insurers must adopt (for a non-Directive insurer this is simplified).

Knowledge

The governance arrangements are described in the financial statements, the Regular Supervisory Report (for Solvency II firms) and the Management Responsibilities Map.

The composition and the activities of the governance committees will be described in the financial statements. Committees should have written terms of reference. There should be a schedule of matters reserved for the Board.

Understanding

You should form a view on the quality of the governance arrangements. In general, governance should be proportionate. Your appointment may represent a strengthening of governance.

Central to this is understanding how the governance arrangements fit with business activities, functions and reporting lines.

Experience

What governance experience do you have that means your views on the firm's governance are acted on?

Action

What changes to governance do you expect the firm to be making- the answer may be none! Governance structures need to be worked at to be effective.

For Other Information

The Management Responsibilities Map ('MRM') should include Senior Managers, as defined by the regulations, and the terms of reference of each Board Committee. It may also set out who sits on which committee. In particular, you are expected to know who is responsible to the Board for the major lines of activity of your firm.

Details of executives and senior managers not covered in the MRM can be requested. Ideally, you will meet these people as part of your induction.

Knowing how the firm works is important. It is a requirement of the regulations to understand how information and decisions are communicated.

The AFM produces a governance code for mutuals and reports on the extent of its use every year. The AFM Corporate Governance Code was launched on 1 January 2019 and can be seen [here](#). The latest AFM report on governance is [here](#).

A1.7 Why does culture matter?

Framing your response

Are you up-to-date on regulatory pronouncements on culture: in summary, they say it is important because financial scandals wouldn't have happened in the right cultures?

There are a lot of articles and speeches that remind us how important culture is, but precious little on what to do to create the right culture.

Knowledge

How does the firm describe its culture? What does the Board do to assess and to manage culture? What is the Board's view about what needs to change in the Board's culture?

Understanding

How would you describe your firm's culture? Are there things about it that need to change? Does the Board challenge appropriately? Is the firm committed to assessing and managing the firm's culture? Is the tone at the top appropriately set (by the CEO and Board)? Are behaviours consistent with the desired culture?

Experience

What cultures have you worked in? How did you improve them or maintain them? Have you tested or influenced culture from afar (as Non-Executives Directors have to)?

Action

What are the culture questions that you will be discussing with your colleagues?

For Other Information

The PRA and FCA have made a number of statements about culture in recent years. It is important to understand their position on culture at the time of the interview.

The Financial Reporting Council has performed extensive research into culture and the role of Board. The [failure of the Equitable Life](#), an old, established mutual, still has resonance for mutuals today.

A1.15 What are the key attributes of a successful Board?

Framing your response

There are many articles on what makes a successful Board. It is important that the characteristics of the Board reflect the position of the firm and the industry in its business cycle.

Knowledge

What boards have you had experience of (probably as an employee, at the very least)? Which were good? Which were bad? What made them good or bad?

Understanding

What attributes do you see your firm's Board having and needing? Is there an appetite to make the necessary change?

Experience

To what extent do your outlook, skills and/or personality complement the needs of your firm?

Action

What will you do to contribute to the success of the Board?

For Other Information

Attributes of good Boards include being neither too large nor too small, having the right balance of skills, being cohesive but able to handle conflict, the absence of factions and a common purpose.

More modern attributes include a well-planned strategy and objectives, clear direction, an appropriate range of skills and experience, high-quality Non-Executive Directors, effective decision making, a strong induction processes, a sound culture, being able to challenge constructively, to avoid interfering in executive decisions, to be committed to reflection and to self-renewal. As a result, the modern high-quality Board sees its accountability as paramount.

Boards of mutual are usually accountable to their membership. Engagement with the membership tends to be difficult to achieve, but this should not prevent it being on Board agendas. Being accountable to owners is a primary Board responsibility.

A1.16 What are the benefits of a diverse Board?

Framing your response

Diversity can take many forms, but the key elements are about the opportunity of having different people involved in a Board, to offer a range of contributions and to avoid a Board become stale or unable to think broadly about the market and the strategy of the business.

Knowledge

What does a diverse Board look like? What does the firm’s Diversity Policy say about targeting diversity?

Understanding

Do Boards with more women make better decisions? What about race, age, disability or social status? How about life experience?

Experience

If you have been involved in a Board which was diverse, how did that affect the quality of decisions?

Action

What does the Board need to do to ensure diversity is maintained or improved?

For Other Information

Diversity within the Board is a hot topic, which continues to develop. Diversity of thought is an important factor, alongside characteristics such as gender and race, and for a mutual, where the interests of customers are uppermost, a diverse Board will help ensure decision-making is effective and reflects the interests of customers.

There is a fair amount of material on Board renewal, diversity etc. (see for example the website of [ICAEW](#)). Increasingly, firms have to consider how they avoid groupthink now and in the future, and a clear diversity plan will help support this.

A1.17 How should a Board evaluate its performance?

Framing your response

Best practice is externally facilitated evaluation every three years, with a lighter approach in intervening years. The Senior Independent Director should lead the appraisal of the Chair, and individual Non-Executive Directors should be set objectives, report their CPD and be appraised at least annually.

Knowledge & Experience

Do you have a view, either theoretical if you have not been through a Board performance process, or based on experience?

What reading have you done about Board appraisal and performance management?

Have you discussed Board performance evaluation with the Chair or other members of the Board?

Understanding

What do you understand the performance management process to be at your firm? Do you think that it will be effective?

Action

What changes do you expect to see?

For Other Information

External appraisal of Boards every three years is being seen as increasingly routine and required. Other approaches include self-assessment questionnaires, one-to-one meetings between the Chair and Directors or an internal Board assessment programme. There are many organisations who can help to craft something appropriate.

Have you seen the results of your firm's last external Board evaluation?

A1.18 What is your experience of Board evaluations?

Framing your response

This is a variant of the prior question.

Knowledge

How does your firm perform its evaluations? How does it feel about regular external evaluation? How thorough and integrated was the last appraisal? Is the appraisal process transparent?

Understanding

Is there a difficulty with evaluation at your firm? Is the firm trying something new? What changes might you be gently encouraging?

Experience

Have you had any experience in Board evaluation? If you have, was it good or bad? If it was good, why? What changed as a result? If bad...same questions.

Action

How will you assist the development of the Board's performance evaluation?

For Other Information

External appraisal of Boards every three years is being seen as increasingly routine and required. Other approaches include self-assessment questionnaires, one-to-one meetings between the Chair and Directors or an internal Board assessment programme. There are many organisations who can help to craft something appropriate.

Have you seen the results of your firm's last external Board evaluation?

A1.19 What are the main responsibilities of a Non-Executive Director?

Framing your response

The Board of an insurer is responsible for everything that happens in the firm.

On that basis, what is the point of this question? Firstly, there is the standard answer you can draw from a textbook. Then there is the knowledge of the strength from a team working together, and the experience of a solid team working to protect policyholder benefits and to run a financial services business properly.

Knowledge

There are many lists available that describe the responsibilities of members of a Board, and the difference between the roles of Executive and Non-Executive Director.

Understanding

What makes for an effective discharge of Board responsibilities? Avoidance of groupthink, effective challenge, appropriate performance management, robust appraisal of Board and Executive.

Experience

What is your experience of a Board working effectively? Or disfunctionally? What were the positive indicators or warning signs? What were the trigger points for a different type of Board dynamic?

Action

Is your Board working well or badly? Have you discussed your conclusions with the Chair and Chief Executive? Is there a plan for change, or for building on the quality work that has been done?

For Other Information

There are many publications listing responsibilities for Non-Executive Directors. Commonly, they include:

- providing effective oversight and, if necessary, challenge;
- helping develop proposals on strategy;
- scrutinising the performance of management in meeting agreed objectives, and monitoring the reporting of performance;
- taking steps to be satisfied about the integrity of financial information and robustness of controls;
- overseeing systems of risk management;
- scrutinising the design and implementation of remuneration policies;
- providing objective views on resources, appointments and removals, succession planning, and standards of conduct.

FCA guidance is [here](#); PRA’s statement on board responsibilities is [here](#). The AFM has published ‘[Duties of Directors of Mutual and not-for-profit insurers](#)’.

A1.20 What does effective challenge look like? Give an example when you challenged a decision. What was the impact of your challenge?

Framing your response

Effective Non-Executive challenge is a multi-faceted skill: challenges should be firm, fair and not unreasonable. They need to be balanced and at an appropriate level. This is one area that new Non-Executive Directors may find difficult: there is a difference between Executive and Non-Executive challenge.

Challenges don't have to result in a change. A successful challenge might lead to extra management information, so that a particular (new) risk can be tracked. It may oblige the Executive to explain their proposal better. A successful challenge will lead to a better quality decision being made.

Challenge need not be combative, nor should it be over-dramatic. Incisive, logical and measured are the preferred characteristics of robust challenge.

Knowledge

Do you have to be an expert to provide effective challenge? Clearly not. Effective challenge will allow your firm to make better decisions.

What does ineffective challenge look like?

Understanding

Is your firm used to effective challenge? How do you know? If not, how will you bring it about?

Experience

Are you able to challenge effectively? Can you give examples of challenges that led to an improved decision?

Action

What signals will you look for? How will you know if your firm is resistant to challenge? What will you do in that case?

For Other Information

Challenges are needed in all areas of Board business, including ethics, culture, business strategy, risk management, business activities and proposals, financial performance, management information and data quality.

It might be useful to consider examples of situations where you have effectively challenged others, and what the impact was on the decision made.

A1.21 What is your approach to challenge?

Framing your response

Challenge is central to effective Board and Committee governance.

There is a balance to be struck between robust and respectful challenge. Boards have been described as ‘critical friends’ to the Executive, which conveys some sense of the balance between questioning and support.

The most effective challenge will depend on how the personalities involved interact.

Knowledge

Do you need to know more to make an effective challenge? Obviously not. Sometimes the most naïve sounding question is what everyone around the table wants to ask, but dare not.

An educated or technical challenge may be better made in private, to avoid the appearance of a public sparring match. Thus, there needs to be the opportunity for private discussions: that they exist is an indicator of a Board working well.

Understanding

Framing your challenge is important. Understanding where the Executive is coming from is a useful perspective to consider alongside your own.

A good Executive team will understand the usefulness of challenge on grounds of conduct, prudence, reputation, solvency and so on. You might have to balance these perspectives with achieving corporate goals (new markets, new sales, improving services, managing expenses, underwriting and so on).

Experience

Experience in challenging Executives will be useful: being challenged, when you were an Executive, might also be formative. Remember what it felt like? Are there better challenges or better phrasing that might be used?

Action

Have you discussed the challenge process with the Chair and Chief Executive, and the appropriate tone of challenge? How will you record your challenges? Should you be asking them to be formally minuted?

For Other Information

There is no right way to challenge in any given situation. An experienced individual will be able to read the room, to make appropriate points in ways that are useful and constructive, and to help the Board as a whole make better decisions.

Business coaches or mentors may be able to offer additional help. In the first instance though, a Non-Executive should talk to their Chair.

A1.22 What sources of assurance will help confirm that your responsibilities have been satisfactorily discharged?

Framing your response

The only source, really, is the Board/Committee papers and minutes, because you need a demonstrable documented history to show orderly governance. So how much material is there and how accurate and insightful is it?

Knowledge

As a high-level, the assurance should be contained in the Terms of Reference for relevant Committees and the Compliance Plan, Audit Plan, Risk Management Plan. policies and so on.

At a more detailed level, the assurance should be contained in the papers and the minutes dealing with conduct etc..

Understanding

Are you comforted by the materials? How would you test their integrity? How independent is the assurance you are receiving?

Is there a development plan to identify and address gaps?

Experience

If you have previously run a function (as an Executive) that provided assurance, or received assurance as a Non-Executive, how does the equivalent in your new firm match up?

Action

What conclusion have you drawn about the quality and quantity of the sources of assurance? Is the trend improving or worsening?

For Other Information

No-one will guarantee that a set of assurance sources will be sufficient. Assurance is about compiling a patchwork of input which results in a robust sense that all required matters are being attended to, in line with their materiality and proportionality.

A2.9 How does your role fit with other parts of your firm’s overall governance?

Framing your response

Every organisation will have its own culture. It will have its own problems to address, which might seem on the surface identical to other problems you have faced, but might have very different causes, roots and/routes to a solution. An informed answer to this question might differ markedly from the standard textbook response.

Knowledge

Your induction should help satisfy you on the answer to this question.

Understanding

More interesting is the Board or Committee’s share of the work: what problems does it has to address, working with what other Committees or working how with the Board? Are there personality issues to be handled? people with strong views? Stakeholders with particular views?

Experience

What experience do you have of handling situations of this type? What resources can you call on to understand and resolve situations? How have you previously worked with governance structures to ensure an appropriate result?

Action

Have you agreed what the problems are with the Chair and Chief Executive? Do they see things in the same was as you? How have you reconciled any differences in view?

For Other Information

There is no substitute for doing to job to understand how an organisation functions or doesn’t. You might consider your expectations and how you will react if they are not satisfied. You might too be pleasantly surprised.

A2.13 How is the PRA strengthening accountability in financial services?

Framing your response

This is a question that means considering not just what the PRA website says, but also had that is interpreted in your firm.

Knowledge

You have to know the basics, as do your Board colleagues. You may want to encourage the firm to provide training and update material on these issues. AFM seminars provide useful opportunities for external understanding too.

Understanding

How will the regulatory business plan and actions affect your firm? What research needs to be done or what changes are required? Is there a plan? Are they on track? Is there appropriate Board reporting (does there need to be?)

Experience

How well placed are you to express a view on progress towards regulatory goals? If you have never worked in a governance function, you may be new to these areas - in which case, ask your firm the questions above. If you have experience of implementing regulatory change, what have you seen done well and what have you seen fail?

Action

The range of possible actions extends from keeping a watching brief to assisting in implementation of tricky, intrusive regulation. Assisting might mean making sure that the right structures are in place and that appropriate external input is sought.

For other information

There is a wealth of information about the implementation of the Senior Managers and Certification Regime: PRA has plenty of clearly-written material in particular. In summary, the PRA wants to know that there is a named individual accountable for every aspect of a firm.

A2.14 What expectations does the FCA have of your Board, individually and collectively?

Framing your response

This sort of question requires a general, rather than a highly detailed, response.

Knowledge

The FCA’s remit is broad. You should have a good understanding of your firm’s approach to:

- Conduct, culture and governance
- Risk appetite
- Senior Managers & Certification Regime
- Systems and controls
- Relationships with members
- Relationships with regulators
- Relationships with policyholders*
- Product governance
- Sales and advice
- Advertising and promotion
- Reward and remuneration
- Customer care
- Complaints handling
- Vulnerable customers

and any development plans in each area.

These areas should be covered in your induction.

*policyholders with no membership rights

Understanding

What do you think of the firm’s approach and its plans? Are there weaknesses? What are the strengths (and how, in either case, would you know if the situation was getting better or worse?)?

Are there any big conduct issues that will require decision or action on the horizon?

Experience

Have you been involved in addressing conduct issues, at any level? What did you learn as a result? How has your experience shaped your perception of the management of conduct issues?

Action

Have you discussed your views with your Chair and/or the Chief Executive? If not, what are your plans to? If you have, what did you conclude?

For Other Information

See the FCA webpage on [Culture and Governance](#), and a recent FCA speech on [transforming culture in financial services](#).

FCA’s thematic review on [‘fair treatment of longstanding customers in the life insurance sector’](#) explores this theme further.

B1.18 What mechanisms are there in place for Non-Executive Directors to challenge the Chief Executive in your firm?

Framing your Response

The most common approach for challenge is around the Board or Committee table as part of the discussion of papers. There may be pre-meeting discussions that allow the Chief Executive to learn and understand the disposition of the Board, and a degree of pre-meeting lobbying: but challenge itself should be a roundtable-type event, shouldn't it?

If other types of forum are needed, planning should take account of the risk of groupthink or the dominance of the Chief Executive. The Board is collectively responsible and dealings among the Directors should be relatively accessible and open to all.

Surface Considerations	Detailed Considerations
<p>This is an opportunity to discuss situations where the Chief Executive has been challenged. Challenge- like the supportive role of a Non-Executive- should be productive and positive. While the challenge may not result in a change, it might result in different management information or different options being piloted or a nuance or two added to the proposal.</p> <p>There are relatively few decisions made by Boards. They tend to make the high-level decisions. Given their importance, challenge should result in more confidence in the outcomes.</p>	<p>Does your firm have a documented decision-making process? Does your firm check after the decision and its outcomes whether a better decision could have been made? Questions like 'what extra piece of information would, if you had had it at the time, have allowed you to make a better decision?', 'what challenge could you have made that would have improved the outcome/would have avoided problem X?'</p>

For Other Information

The documentation of challenges is a useful way to show how the Board affects decision making. Challenges don't only come from the Board. By maintaining a note of the challenges to a given decision, a firm can develop a rich seam of case history to guide and inform the decision-making process. The notes taken for the minutes need to clear, but should avoid inhibiting NEDs from speaking up.

B1.19 What role can a Non-Executive Director play that an Executive cannot?

Framing your Response

This is more of an essay question. It would be very useful to be able to give examples of a Non-Executive could act where an Executive could not.

Surface Considerations	Detailed Considerations
<p>An effective Board will have a proper separation of activity between the Executive and the Board. This might be enshrined in a written Matters Reserved for the Board document.</p>	<p>Is the separation properly observed in your firm? If not, have you discussed your views on this with the Chair/Chief Executive?</p> <p>Perhaps the firm is so small that the Board needs to have a more active involvement. If this is the case, how is effective oversight achieved? What steps compensate for the reduction in independence of the Board?</p>

For Other Information

While much is written about the different role of the Executive and Non-Executive members of a Board, the practical implications are less well-documented, especially for small firms. Intimacy can be a good substitute for independence, especially in a culture that values mutuality.

B1.20 Where do you consider oversight to end and operational management to start?

Framing your response

The Matters Reserved for the Board and the Terms of Reference for the Board Committees should be a good theoretical start. In practice, how your Board behaves may be down to the Chair, her or his relationship with the Chief Executive and perhaps the influence of the Senior Independent Director.

Maintaining the line is a crucial part of governance. There can be a temptation to help out: that might be welcome, but it robs the Director of the ability to oversee effectively, and NEDs should not become shadow Executives.

Surface Considerations	Detailed Considerations
<p>Does the Board get involved in day-to-day activity? Does the Chief Executive have the support of the Board to say ‘you are crossing into management territory’? Has she or he ever said this - and what happened?</p> <p>Do you, or the Board, or the Chief Executive, have trouble with this part of governance?</p>	<p>If the Board is too involved in operational management, what are the causes? And what needs to change to ensure effective oversight?</p> <p>If the Board is too distant, what needs to change? Is the Chief Executive overly dominant? Are the dynamics between the Board and the Executive effective? If not, what are you doing about it?</p>

For Other Information

The dynamics between the Board and the Executive are critical to the success and the governance of a firm over the medium term. The Board has to be intimate with the firm’s affairs and supportive of its Executive. It has to monitor the performance of the Executive objectively and fairly, and to avoid marking its own homework, the Board needs an appropriate distance.

One approach a Board can take is to hire a Chief Executive, charge her or him with the job of creating a business plan for Board approval, and then with the responsibility to achieve the plan, reporting continually. Even if this is not the process used at your firm, it can be used as a model to understand what falls within and outside appropriate lines.

B1.21 As a Non-Executive Director, do you have a genuine opportunity to challenge?

Framing your response

If the answer to this question is ‘no’, you should resign now or be able to describe the discussions with Chair and other Board members about how to address this very important aspect of governance.

Surface Considerations	Detailed Considerations
<p>This is an opportunity to demonstrate the occasions that you have to challenge, how those challenges are recorded and what happens as a result.</p> <p>Describing how your challenges have changed management’s plans is a useful way of communicating what you are adding to the Board.</p>	<p>Are your challenges useful, or do they just fill airtime? How do you know?</p> <p>Should more challenge be going on? Is every issue or decision thoroughly challenged, or do some slip through because of lack of interest, ability, skill or simply time? Can you, hand on heart, say that your Board challenges the right things to the right extent all the time?</p>

For Other Information

Challenge is at the very heart of the operation of the Board. The skill of the Board lies in the depth and breadth of challenge, while supporting the appointed Executive team.

B1.25 What are the key elements for a sound corporate governance framework?

Framing your Response

This question starts to explore more fully the arrangements for corporate governance in your firm and whether it is sound. You should not be afraid to have a development plan in mind, the things that need to be improved.

Surface Considerations	Detailed Considerations
<p>What are the components of the system of governance at your firm? How do you know that each element is effective? Is the reporting on these elements dynamic or static?</p> <p>Are there reports on failures in the system of governance? When do these reports get escalated to the Board? What then happens?</p>	<p>What are the plans for your system of governance?</p> <p>Where is the system of governance weakest? What plans do you have to strengthen it? Where is it strongest? How do you know?</p> <p>What gives you confidence in the system of governance? Have you assessed the causes of that confidence?</p>

For Other Information

The ‘System of Governance’ and ‘risk management system’ are terms in Solvency II. There are some prescribed requirements for them. The term ‘internal control system’ is referenced in guidance by the Financial Reporting Council.

Boards are required to assert the effectiveness of the risk management system and internal control system in the annual report. The evidence used for that assertion is part of the answer to this question.

B1.26 Which key corporate documents have you familiarised yourself with?

Framing your Response

A good induction plan will direct you to the most important corporate documents. See the callout article in the Introduction to the Toolkit for a starter.

Surface Considerations	Detailed Considerations
<p>For each document, you should know the purpose of the document, what controls are in place to maintain the contents and the standards of the document, and the process by which the document is populated.</p> <p>You should have a view about the completeness and appropriateness of the document.</p>	<p>How well does each document convey meaning to its intended audience? Is there a plan to develop the document? Are there any documents that are not as well developed as you would like?</p> <p>It is worth cross-referencing, to ensure that the messages are consistent.</p>

For Other Information

There is a finite list of corporate documents. Each will follow prescribed rules and practices: do they convey a consistent overall message?

B1.27 In what way, if at all, does the UK Corporate Governance Code affect mutual and not-for-profit insurers?

Framing your Response

This feels a little like a reading test? Have you read the UK Corporate Governance Code? Have you read the AFM Corporate Governance Code? What are the differences? Bear in mind that the AFM introduced a new Code for 2019.

Your firm’s induction material may well cover this. The Financial Statements should describe areas of non-compliance and provide an explanation where the variance is material. The AFM Code now adopts an ‘apply and explain’ and your Executive should explain the implications for your firm.

Surface Considerations	Detailed Considerations
<p>What’s your view on the governance codes (whether the listed companies code or the AFM one)? Does the Code help governance at your firm? Does your firm embrace the principles, or does it find the Code hard to meet? Is the Board keen to embrace modern governance thinking, or are there sensitive areas that are never probed? Or areas where ‘we do things differently around here’?</p>	<p>Are the Principles within the AFM Code addressed naturally by your firm’s design or processes? Or are specific actions required? Is there a plan to ensure Principles are applied more effectively?</p>

For Other Information

The Principles in the Codes are clear and reflect good practice, and it is the Board’s responsibility to be satisfied about how they have applied them.

B1.28 What are the key current themes in relation to corporate governance?

Framing your Response

In the corporate world? In the industry? In your firm? There are always themes being developed. The industry press will give a good idea of what is currently being chewed over. This question can be used to show how these themes are being considered in your firm, or why they are not relevant.

Surface Considerations	Detailed Considerations
What themes are current that affect your firm? How well do these map with the themes in the industry and wider corporate world?	What is the governance plan for your firm? Is the plan wholly reactive (to incidents in the firm, to regulation, to industry comment etc.) or is your firm seeking to lead in particular areas?

For Other Information

The industry press is the best source of industry themes (for example, Financial Adviser, Cover Magazine and Money Marketing). Not all themes will affect your firm, and it is important to know how each might apply, what mitigants can be put in place etc.

B2.3 How balanced and effective is your Board? What does your firm do to ensure there is the right balance of independence, skills, knowledge and diversity? What is the approach to refreshing and succession planning?

Framing your Response

There are well-established processes for reviewing Board skills, balance and effectiveness, leading to processes for ensuring appropriate succession. Your firm may have a Nominations Committee, which is responsible for developing policy in these areas, or the Board as a whole may agree the approach.

Surface Considerations	Detailed Considerations
<p>How well embedded are your firm’s nominations processes? How effective are they? How modern are they? What plans are there to develop them? Is there a timely programme of refreshing of the Board? To what extent is the Board in line with Corporate Governance Code advice?</p>	<p>How diverse in thought is the Board? How do you test diversity in your Board?</p>

For Other Information

There is a fair amount of material on Board renewal, diversity etc. (see for example the website of [ICAEW](#)). Increasingly, firms have to consider how they avoid groupthink now and in the future, and a clear diversity plan will help support this.

B2.5 How is your firm’s Board held accountable to its Members/ Customers?

Framing your Response

Being accountable to Members is important for a Mutual, but can be difficult in practice. The same can be said for not-for-profits and their customers.

If you have an active Member body, the response to this question would draw on experiences of that body, as they should also feed into the Board processes. In other cases, or where the Member body is inactive, the relative absence of Members contributing directly means a greater burden for the Non-Executive Directors.

It is often perceived that governance of mutuals is weak because they lack the kind of accountability that professional investors or independent analysts offer. That puts a greater onus on the Board to consider and demonstrate how it is accountable to its Members/ customers, as well as to its other key stakeholders.

Surface Considerations	Detailed Considerations
<p>How do you ensure that you are accountable to Members? How do you judge the effectiveness of what you do?</p> <p>Do you have a plan to develop your accountability to your Members?</p>	<p>What is the cost per vote of your Member initiatives? What is the cost per Member, for those that use the services you provide? Does this represent a good use of Members’ money?</p>

For Other Information

Some Mutuals have well-established effective Member support schemes. Do they translate into extra votes - voting being the main mechanism by which Members hold Boards accountable? Do softer support schemes translate into more votes? The question of Member engagement is an active one for many mutual nowadays.

B2.6 How has the Board contributed to the development and execution of the strategy?

Framing your Response

Developing strategy is an important Board responsibility, yet in a multi-skilled Board, the roles of an individual Director will be different. The Executive Directors will be expected to do most of the development, and will be guided to a greater or lesser extent by the boundary conditions set by the Board.

There may be a number of iterations: there may be briefings and discussions outside Board and Committee meetings. The Board may have a particular approach that it expects to be followed, or may have directed the Chief Executive to develop her or his own approach, congruent with the firm’s capabilities.

Whilst the Board as a whole sets strategy, Non-Executives should be challenging (formally) and supporting, perhaps informally.

Execution is different. Boards should be seeking performance indicators and assessing results, challenging proposals and helping to optimise them

Surface Considerations	Detailed Considerations
<p>How did the Board contribute? What worked well? What was a surprise? What challenges were new for the Board?</p> <p>How many different approaches to strategy were reviewed? Were any standard models used? Did the Board take external advice? How did the Board assess the firm’s capabilities? How good are the financial models that underpin the results?</p>	<p>What could the Board have done better? Is the Board learning from the process by checking back to ascertain what extra information would have allowed it to make a better decision?</p> <p>Has the Board set robust review points? How closely is it tracking metrics that indicate future success?</p>

For Other Information

There are literally thousands of books about strategy. You will not be short of sources to support your firm’s capabilities and ambitions.

B2.7 How does the turnout at the AGM, and other Member engagement activities, ensure the Board has a democratic mandate to pursue its chosen strategy?

Framing your Response

The link between Member engagement activities and voting is not always direct. Some firms have an active membership; for others, the link is much less direct.

But if your membership is disinterested, how else does the Board satisfy itself that it is properly accountable for its actions?

Surface Considerations	Detailed Considerations
<p>Can you justify the current AGM turnout or voting levels?</p> <p>What are you planning to do to increase the turnout?</p>	<p>Will the cost of developing more additional services or reasons to vote outweigh the benefits of higher voting? Should you recognise the silent majority (if there is one) and learn from their lack of engagement that a different arrangement is required?</p>

For Other Information

From time to time, at the AFM conference, firms discuss their engagement strategies. Some mutuals achieve more than 10% turnout, with a determined focus on engaging members.

The best defence for low Member engagement might be high quality governance and clear evidence of the accountability of Directors through some alternative route. How else can you demonstrate that you are working in your Members' interests?

B2.9 What is the process in your firm for re-electing Board members and for ensuring that there are sufficient independent directors?

Framing your Response

The process should be documented, and overseen by the Nomination Committee, if your firm has one, or otherwise, the Board.

Surface Considerations	Detailed Considerations
<p>The procedures for elections and for testing independence should be clearly developed and documents within a firm. Where standards are not being met, the rationale should be set out and a plan for resolving any shortfall established, if necessary.</p>	<p>Does your firm have the right Board? Is it sufficiently independent in thought and character? How does the balance of its skills drive the discussions and strategy of the firm? How is the Board future-proofed?</p>

For Other Information

There are a number of useful publications describing Board recruitment, balance and development. The [AFM Corporate Governance Code](#) captures some of this.

The challenge is implementing modern governance requirements, which can often be seen as intrusive and bureaucratic, especially for competent, stable Boards. Fresh eyes and new thinking are valuable qualities in any Board. The challenge for every Board is to retain and develop experience and understanding, without losing the drive to develop and renew.

B2.10 What are the attributes of a successful Board?

Framing your response

A well-trod area, but considered in the right spirit, might provide some useful insight into your firm and its governance.

Surface Considerations	Detailed Considerations
<p>What makes your Board successful? How would you judge? How long would it take to know?</p> <p>The success of a Board depends on the prevailing commercial environment. The characteristics needed for success in a recession are different from those needed in boom times. How would you describe the current trading environment? How well prepared is your Board for success?</p>	<p>What would make your Board more successful? What would be indications of a failing Board? Would your Board take the required action if it was evidently weak in a recognised factor needed for success?</p> <p>Should the Board have different characteristics depending on the environment in which it operates and its stage in the business cycle?</p>

For Other Information

There are many reports published on what makes a successful Board. Not all of them will be relevant, and some are more academic than real-world useful. There are a set of common characteristics though, and a conscientious Board member will have their own internal checklist of behaviours and attitudes that drive success.

External evaluation, as covered in the [AFM Corporate Governance Code](#), is a practical way of assessing whether the Board meets its own assessment of what a good Board looks like (see in particular Principle 2).

B2.11 Do you believe that there are any skills gaps on the Board?

Framing your response

Politically, this may seem on the surface like a difficult first question. The Nominations Committee (if you have one - if not, the Board) should already perform a regular skills assessment and should have decided how it will address any perceived weakness.

The question could be a prompt for describing the appraisal processes in place for the Board and the approaches taken to Director CPD. It could prompt consideration of the Non-Executives, Executives and management succession plan, another important part of governance. The Board is charged with its own renewal and should be formally considering its future as part of the firm's governance.

Surface Considerations	Detailed Considerations
<p>What are you doing about the weaker or less well-represented areas on your Board?</p> <p>What is the succession plan?</p> <p>Is the assessment thorough enough? Are you planning an external assessment at some stage?</p>	<p>Are the steps in place to address the skills gap appropriate and meaningful? Is the solution chosen optimal in your opinion?</p> <p>Are you comfortable with the succession plan? If yes, why? If not, what are you doing about it?</p>

For Other Information

Ideally, your Board will regularly consider the range of skills it possesses (usually via a self-assessment). Directors may be asked to rank their own skillset.

The succession plan should be documented and regularly reviewed, perhaps by a Nominations Committee. The AFM Code suggests, and the firm's rules may have suggested terms for directorships.

If there is no succession plan, things could be awkward. Good governance includes planning, and if Boards are important, they should be planning their renewal.

If your succession plan for Directors does not follow the AFM Code, you might need to be prepared to explain why.

B2.21 To what extent does your firm apply the Principles within the AFM Corporate Governance Code?

Framing your response

Firms will document how they apply the principles in the Code within the Annual Reports, so this one should be answered there. More importantly is perhaps why the Board considers elements not applied, or partially applied are appropriate.

Surface Considerations	Detailed Considerations
<p>What aspects are not fully applied? Are they important to your firm? If the omissions/differences are important, why is that OK? If they are not, why are they not important?</p>	<p>What do you think about the omissions or differences? Are you content with the status quo or are you pressing for change? What was the flavour of the discussion on these matters by the Board?</p>

For Other Information

It would be unfortunate if the rationale for tolerating poor or patchy application of the Principles were not common across all Directors, even if the individual’s views differed. Boards may want to consider minuting this discussion in the expectation of regulatory challenge.

The AFM Corporate Governance Code replaced the Annotated UK Corporate Governance Code on 1 January 2019. For more, view [here](#).

B2.23 Are you satisfied with arrangements in respect of the Board regarding Board evaluations, remuneration and diversity?

Framing your Response

Three very different questions. Evaluations can be odd for Directors who have held prominent positions recently; remuneration is a difficult matter; diversity - is there any alternative to valuing diversity and seeking more of it?

Surface Considerations	Detailed Considerations
<p>How do you know the Board is good enough? Are remuneration structures appropriate? Is the Board doing the right thing about diversity?</p> <p>First, you need to know what the arrangements are. The you need to have a view on them.</p>	<p>Are you satisfied? If not, why not and what have you done as a result? In either case, yes or no, be prepared to explain the factors that have led you to your conclusion.</p>

For Other Information

Evaluations are common nowadays. There is plenty of material available to discuss the process and its dimensions.

Remuneration of NEDs is probably best considered with a view to the market and to the work involved in the Directorship.

Diversity within the Board is a hot topic, which continues to develop. Diversity of thought is an important factor, alongside characteristics such as gender and race, and for a mutual, where the interests of customers are uppermost, a diverse Board will help ensure decision-making is effective and reflects the interests of customers.