

Survey of Corporate Governance in Life Mutuals

Research Report

prepared for

Myners Review of the Governance of Life Mutuals

by

IFF Research Ltd

December 2004

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1 Executive Summary

- 1.1 The Myners Review commissioned IFF Research to conduct research to obtain detailed information from mutual life offices and proprietary life firms on various aspects of their corporate governance.
- 1.2 The survey covered all mutual life insurance firms excluding non-directive friendly societies and all UK owned proprietary life insurance firms (or their UK parent company where the life insurance entities are subsidiaries) not all of which are listed. Foreign owned firms were not included.
- 1.3 Of the 44 organisations that have taken part in the survey, 15 are proprietary life firms and the remaining 29 are life mutuals.
- 1.4 In terms of the size profile of organisations surveyed, almost half (19/44) have long term insurance liabilities of over £1billion, whilst a third (15/44) have liabilities of less than £100 million. The majority of the latter are mutuals.
- 1.5 Proprietary life firms tend to have larger assets/liabilities than do life mutuals; two thirds (9/15) of proprietary life firms have liabilities of over £1billion compared to around a third (10/29) of mutual life offices.

Board composition

- 1.6 The proprietary life firms surveyed have slightly larger boards than the life mutuals. The average size of proprietary life boards is eleven members where as the average size of a mutual board is nine members.
- 1.7 Mutual life office boards have a higher proportion of non-executives on their board, 23/29 life mutuals have over 50% of their board comprised of non-executive directors.
- 1.8 In terms of non-executive directors who are independent, a third of life mutuals (10/29) and a third of proprietary life firms (5/15) have at least 50% independent non-executive directors on their board. Six life mutuals state that they have no independent non-executives on their board (five of

which have total liabilities of under £500 million) as do three proprietary life firms (two with total liabilities of under £500 million).

- 1.9 The proportion of organisations that have chairman who were not independent at the time of their appointment is slightly higher amongst proprietary life firms than life mutuals (5/15 compared to 6/29). Mutuals that have chairmen who were not independent at the time of their appointment are more likely to be small.
- 1.10 In terms of whether organisations have an appointed senior executive director, the difference between proprietary life firms and life mutuals is marked, most (12/15) proprietary life firms have an appointed senior non-executive director compared to a third of life mutuals (9/29).
- 1.11 None of the chairmen in life mutuals or proprietary life firms also serve as the chief executive and none of the chairmen or chief executives in either life mutuals or proprietary life firms are also the appointed actuary.
- 1.12 Two thirds of proprietary life firms (10/15) and life mutuals (18/29) have audit, remuneration and nominations committees. In terms of the life mutuals that do not have all three of these committees, all (11) have an audit committee, all bar two (9) have a remuneration committee, but none have a nominations committee. Most (7/11) of the life mutuals that do not have all of these three committees are small.

Operation of the board

- 1.13 Board appraisals happen more often in proprietary life firms where two thirds (10/15) conduct an appraisal of the performance of the chairmen and non-executive directors compared to just half of life mutuals (15/29). Most of the life mutuals (9/14) that do not conduct appraisals are small.
- 1.14 Proprietary life firms are also more likely to conduct appraisals of the chairmen (led by the senior executive director). Whilst half (8/15) of proprietary life firms conduct an appraisal of the chairman, less than a quarter (6/29) of life mutuals do so. Over half of the life mutuals that do not conduct an appraisal of the chairman are small (14/23).
- 1.15 In proprietary life firms most (12/15) hold at least one meeting per year of the non-executives without the executive directors present, compared to two thirds of life mutuals (20/29). Those life mutuals not holding these meeting are small.

- 1.16 About a quarter of proprietary life firms and life mutuals (4/15 proprietary life firms, 6/15 mutuals) state they do not have a job description for their non-executive directors. There are no significant differences by size.
- 1.17 The proportion of life mutual boards that have access to independent advice is higher (21/29) than that of proprietary life boards (7/15). Large life mutuals are more likely than small mutual to have no access to independent advice, (6/14 large life mutuals compared to only 2/13 small life mutuals). In terms of proprietary life firms there is no significant difference between large and small organisations.
- 1.18 Reflecting the fact that a higher proportion of mutual boards have access to independent advice, over half (17/29) of mutual boards have utilised independent advice in the last three years, including three quarters (11/15) of small life mutuals. A third of mutual boards (10/29) have used independent advice more than five times in the last three years (four large life mutuals and six small life mutuals) compared to just one proprietary life firm.
- 1.19 Those who have sought advice have done so across a wide range of areas; legal and actuarial advice being the most frequently sought.
- 1.20 Most proprietary life firms (13/15) and all life mutuals have an internal audit function and all are monitored and reviewed by the audit committee.
- 1.21 Under half of proprietary life firms (6/15) and life mutuals (11/29) have had an independent (external) evaluation of their governance arrangements within the last five years. The majority of these are large proprietary life firms and mutuals.
- 1.22 All the boards of proprietary life firms (15/15) conduct a review at least annually of the financial, controls, the operational controls, the compliance controls and the risk management systems. Of the mutual life office boards, all but one (28/29) conducts at least annually a review of the financial controls, the operational controls and the compliance controls.
- 1.23 A slightly higher proportion of proprietary life firms (10/15) let their shareholders / members vote on directors' remuneration than in mutual life offices (12/29). The small mutual life offices are least likely to allow their members to vote on directors' remuneration.

Annual reports

- 1.24 A higher proportion of proprietary than mutual life firms include a statement of attendance, a report of directors' remuneration and a statement of whether the organisation complied with the Combined Code in their annual report. Three quarters (11/15) of proprietary life firms include a statement on the Combined Code compared to just a third of life mutuals (9/29). Only a minority of small life mutuals (3/15) include a statement on whether the organisation complied with the Combined Code in their annual report.

Relationship with members

- 1.25 Two thirds (18/29) of life mutuals (rising to over three quarters 12/15 of small life mutuals) have all their policyholders registered as members. Life and with-profits policyholders are most likely to qualify for membership.
- 1.26 The majority of mutual life offices (23/29) allow their members to attend the Annual General Meeting. Of the 5 that stated they do not allow their members to attend, two are large and three are small. All life mutuals with liabilities of under £100 million (11) allow their members to attend.
- 1.27 Three quarters (22/29) of life mutuals allow voting by proxy including most small life mutuals (13/15). Of the six life mutuals stating they do not allow voting by proxy, 4 are large and have liabilities of over £1 billion and 2 organisations are small with liabilities of between £100 million and £500 million. More than half of the life mutuals do not allow postal voting. Five life mutuals, three of which are large, do not allow either postal voting or proxy voting.
- 1.28 Most life mutuals (20/29) notify members of the AGM or any other meetings by post and half (15/29) of all mutual life offices also release a press advertisement. A few organisations also stated they notify members on their website.
- 1.29 For about half of life mutuals over 500 votes are needed to for the requisition of business at both AGM and EGM (9/21 AGM and 11/24 EGM). All large life mutuals need at least 100 votes for the requisition of business at the AGM compared with only a third (4/12) of small life mutuals.
- 1.30 A couple of life mutuals require a very large number of votes for the requisition of business at the AGM and EGM. Both are large with liabilities of over £1billion. One requires 3750 votes for the requisition of business at both the AGM and EGM; the other requires 3400 votes for the requisition business at both the AGM and EGM.
-

- 1.31 Most life mutuals had less than 100 members attending their last AGM.

Conclusions

- 1.32 Although many aspects of the governance arrangements of proprietary life firms and life mutuals are similar there are some marked differences in the board composition, compliance with the Combined Code and other aspects of corporate governance. There are also a few areas where the governance arrangements of life mutuals differ by size of mutual.
- 1.33 The main differences between life mutuals and proprietary life firms revolve around the make up of the board (life mutuals have a higher proportion of non-executive directors). However proprietary life firms are more likely to appraise the performance of their chairmen and non-executive directors.
- 1.34 Small life mutuals are more likely to have a higher proportion of non-executive directors. Areas where their governance arrangements are not as good as larger life mutuals include being less likely to appraise the performance of chairman and non executive directors, hold meetings of the non-executives where executive directors are not present and allow members to vote on directors remuneration.

2 Introduction

Background and Objectives

- 2.1 The Myners Review commissioned IFF Research to conduct research to obtain detailed information from mutual life offices and proprietary life firms on various aspects of their corporate governance.
- 2.2 This research obtained detailed information from mutual life offices and proprietary life firms on:
- Their board composition;
 - Their compliance with the Combined Code;
 - Other aspects of corporate governance including voting arrangements; and
 - Whether there are any significant differences in these arrangements between mutual life offices and proprietary life firms and between different sizes of life mutuals.
- 2.3 The findings from this research form the basis of this report.

Methodology

- 2.4 The study was conducted by self-completion survey.
- 2.5 The survey covered all mutual life insurance firms excluding non-directive friendly societies and all UK owned proprietary life insurance firms (or their UK parent company where the life insurance entities are subsidiaries) not all of which are listed. Foreign owned firms were not included.
- 2.6 Responses were received from 44 of the 64 organisations invited to participate; 29 life mutuals and 15 proprietary life firms. This represents an overall response rate of 69% qualifying organisations and 74% amongst life mutuals. (3 organisations were found not to meet the qualifying criteria).
- 2.7 The profile of achieved interviews by size is as follows:¹

¹ To facilitate comparison of the behaviour of smaller and larger mutuals and Plcs, a cut off of £500m of long term insurance liabilities and margins in the most recent years has been used.

Size profile

	ALL	Small	Large
Proprietary	15	5	10
Mutual	29	15	14

2.8 Fieldwork was conducted between 27th August and 15th October 2004.

2.9 Further details about the methodology are provided in the technical appendix.

Report Structure

2.10 This report is based on the responses from the 44 organisations that took part in the research. Due to the low base sizes, comparisons within this report are made through broad proportions rather than by actual percentage figures (although these are shown in any tables and charts). Absolute base sizes are given throughout this report.

2.11 Throughout the report any key differences between arrangements in mutual life offices and proprietary firms are highlighted along with any differences by size.

2.12 The size of the organisation has been defined in terms of its total long-term insurance liabilities and margins in the most recent year. Small life mutuals and proprietary life firms have been defined as any organisation with under £500m stated as their long-term insurance liabilities; large life mutuals and proprietary life firms have been defined as any with over £500 million. For some analysis purposes responses have been grouped into three bands (under £100m, £100m to £1b and £1b +). A second analysis variable interlocks size with whether the organisation is a proprietary or a mutual life office.

2.13 The remainder of the report is split into the following sections:

Chapter 3 Profile of life mutuals and proprietary life firms;

Chapter 4 Board composition;

Chapter 5 Operation of the board;

Chapter 6 Annual reports;

Chapter 7 Relationship with members;

Chapter 8 Conclusions;

Chapter 9 Technical Appendix

3 Profile of life mutuals and proprietary life firms

3.1 This chapter describes the profile of all life mutuals and proprietary life firms that are included in the survey. The chapter focuses on the status and size of organisations before detailing the number of shareholders and members they have.

Status

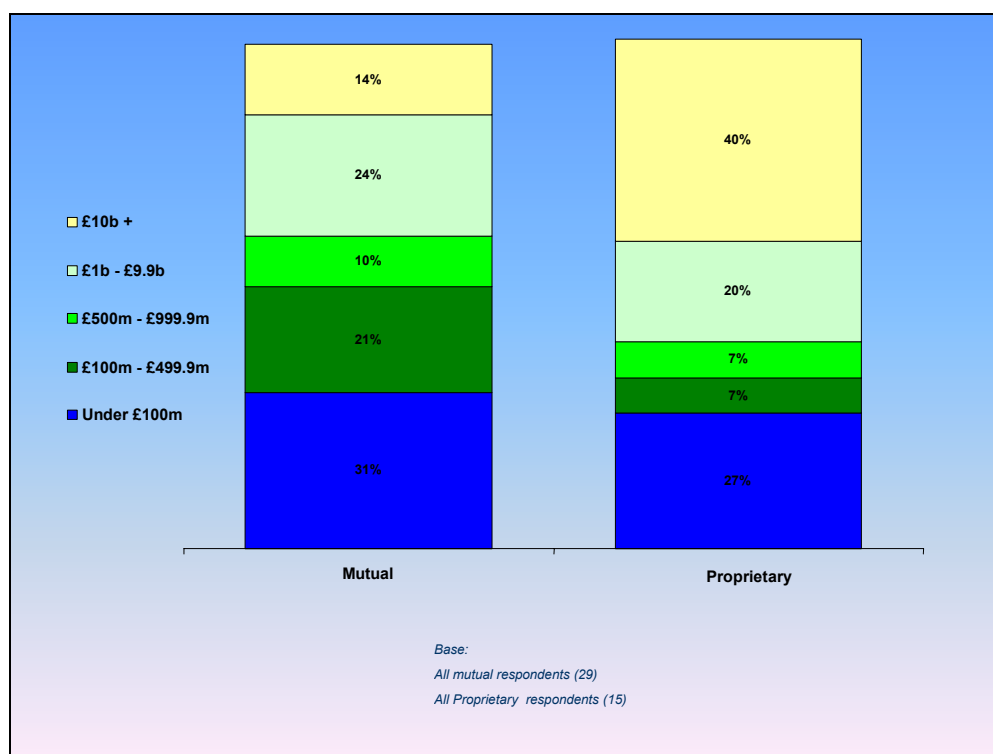
3.2 Of the 44 organisations that have taken part in the survey, 15 are proprietary life firms and the remaining 29 are mutuals.

3.3 As the chart below shows, two thirds of life mutuals are friendly societies (19), a fifth are mutual companies limited by guarantee (5) with the remainder divided between industrial and provident societies (2) and companies incorporated by a private act of parliament (2). The remaining one describes itself as an unlimited mutual company.

Size

3.4 In terms of the size profile of organisations responding to the survey (measured by their long-term insurance liabilities in the most recent financial year), almost half (20/44) have liabilities of over £1billion, whilst one third (13) have liabilities of less than £100 million. The majority of the latter are life mutuals and this is highlighted by the following table which shows the size of organisations by mutuals and proprietary life firms

Chart 3.1 Size of business by whether a life mutual or life proprietary firm



3.5 Proprietary life firms in the survey tend to be larger by assets/liabilities than life mutuals. Two thirds (9) of proprietary life firms have liabilities of over £1billion compared to around a third (10) of mutual life offices. Only four life mutuals have liabilities of over £10b compared to two fifths (6) of proprietary life firms.

3.6 To facilitate comparison of the behaviour of smaller and larger life mutuals and proprietary life firms, a cut off of £500m has been used. This classification gives the following profile:

Table 3.1 Defining proprietary life firms and life mutuals by size

	ALL	Small	Large
Proprietary	15	5	10
Mutual	29	15	14

- 3.7 The size of organisations in terms of liabilities is closely correlated to that of the business premiums earned in the last financial year. All five of the smallest proprietary life firms earn premiums of under £50 million and most (13/15) of the smallest life mutuals earn premiums of under £50 million. At the other end of the scale, most of the largest proprietary life firms (8/10) and two thirds (9/14) of the largest life mutuals earn premiums of over £100 million.

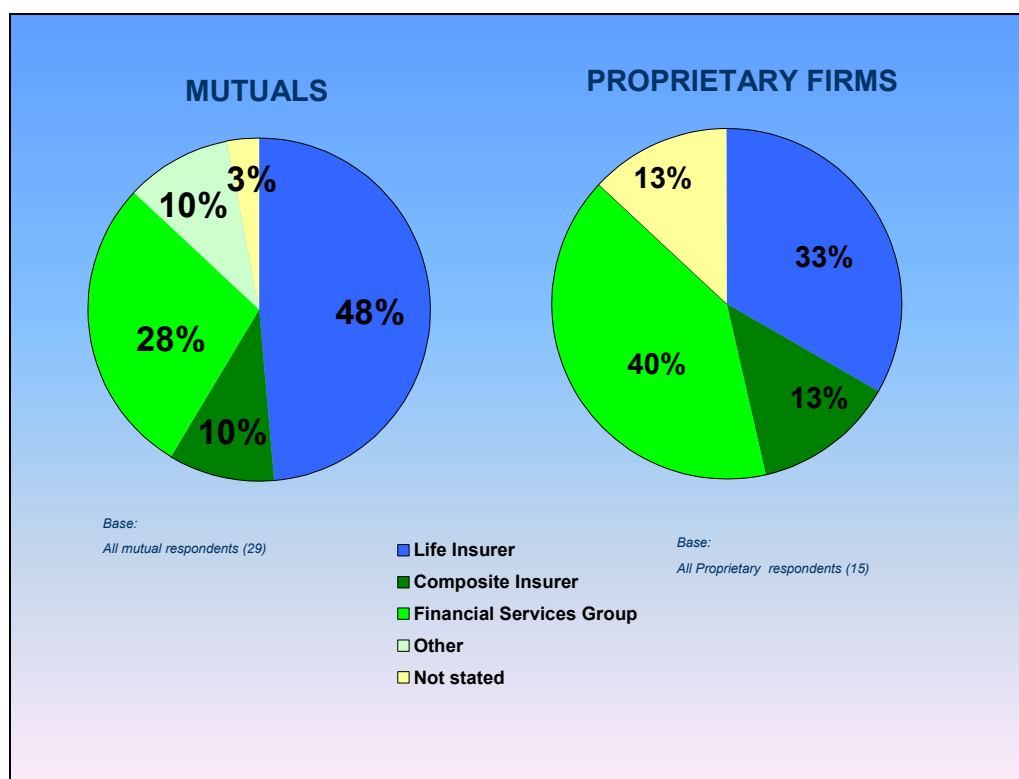
Number of funds

- 3.8 Over half of life mutuals (16/29) only have one open long-term insurance fund, compared to just three proprietary life firms who are most likely to have between two and four open funds. Around a fifth of proprietary life firms and mutuals state they have no open funds (three proprietary life firms and six mutuals).
- 3.9 Regarding closed long-term insurance funds, half of proprietary life firms and life mutuals (7/15 proprietary life firms and 14/29 mutuals) state they have none. Of the organisations that do have closed funds, mutuals are likelier to only have one compared to proprietary life firms where the majority have between two and nine closed funds.

Type of business

- 3.10 Regarding the type of business conducted by organisations, almost half (14/29) of life mutuals regard themselves as life insurers, a quarter (8/29) as financial services group and 3/29 as composite insurers. Amongst proprietary life firms just under half (6/15) describe themselves as a financial services group; a third (5/15) as a life insurer and 2/15 as a composite insurer.

Chart 3.2 Type of business conducted by life mutuals and proprietary life firms by size



Debt and Equity Securities

3.11 Three of the four life mutuals with listed debt securities are large life mutuals (i.e. have total liabilities of over £500m). Nearly all small life mutuals (14/15) do not have listed debt securities. About half (7/15) proprietary life firms have listed debt securities.

3.12 About half of proprietary life firms (7/15) have listed equity securities. One mutual also stated that it had listed equity securities. (Many life mutuals commented that this type of security was not applicable to their organisation).

Shareholders and Members

3.13 In mutual life offices the number of members broadly correlates with the size of the organisation (in terms of their total liabilities). All five life mutuals with fewer than 25,000 members are small, whilst most of the life mutuals with more than 100,000 members are large (11/13). This is shown in by table 3.2 below.

Table 3.2 Membership of life mutuals by size

	Mutuals					
	All		Large		Small	
	(n)	%	(n)	%	(n)	%
Under 25,000 members	5	18	-	-	5	33
25,000 - 99,999 members	7	25	2	14	5	33
100, 000 – 499,999 members	9	32	5	36	4	27
500,000 members +	7	25	6	43	1	7
Base: All Mutual respondents stating total number of members	28	-	13	-	15	-

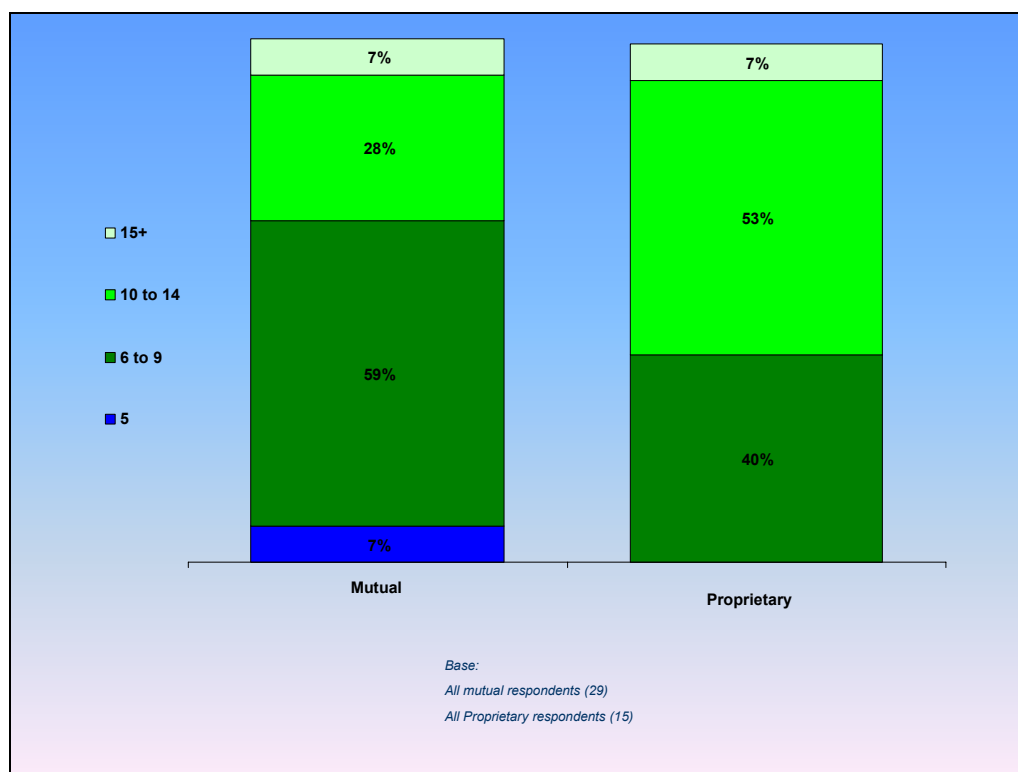
4 Board Composition

4.1 This chapter examines the board composition in both life mutuals and proprietary life firms.

Number of directors on the board

4.2 The following table shows the number of directors on the boards of proprietary life firms and mutual life offices. Most organisations have between six-fourteen board directors. The average size of a mutual boards is nine members, where as the average size of a proprietary board is ten members

Chart 4.1 Number of directors on the board by whether a life mutual or a proprietary life firm



4.3 As the table shows, two life mutuals (both small friendly societies) have only five directors on their board. Both of these only have one executive and none of the non-executives are currently independent. Most life mutuals (17/29) have between six and nine directors on their board and ten have ten or more directors. Two life mutuals have fifteen or more board directors (one has 17 and the other has 15). Both these are industrial and provident societies.

- 4.4 Around half of proprietary life firms (8/15) have between ten and fifteen directors on their board compared to just under a third of life mutuals (8/29). Only one proprietary life firm has fifteen or more directors on the board,
- 4.5 All organisations were asked whether there was an appointed senior non-executive director. The difference between proprietary life firms and life mutuals is marked, most (12/15) proprietary life firms have an appointed senior non-executive compared to a third of life mutuals (9/29).
- 4.6 All organisations were also asked if they have a written policy of skills on the board. Almost three quarters of life mutuals (21/29) and the majority of proprietary life firms (12/15) do not have one in place. Only two large life mutuals (2/14) had a written skill policy in place.
- 4.7 Of the organisations which have a written skill policy, this was only available publicly on request, with the exception of one mutual and one proprietary life firm where it was available publicly on a website.

Board Committees

- 4.8 Table 4.2 shows the different types of board committees that proprietary and mutual life offices have. There are no marked differences by size and type of organisation.

Table 4.1 Board committees and mutual life and proprietary life firms by size

	Mutuals						Proprietary life firms					
	All		Large		Small		All		Large		Small	
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%
Audit	29	100	14	100	15	100	12	80	8	80	4	80
Remuneration	27	93	14	100	13	87	12	80	7	70	5	100
Nominations	18	62	10	71	8	53	10	67	6	60	4	80
Investment	19	66	11	79	8	53	8	53	4	40	4	80
Risk	10	34	6	43	4	27	6	40	4	40	2	40
Others	16	55	11	79	5	33	5	33	3	30	2	40
Base: All respondents	29	-	14	-	15	-	15	-	10	-	5	-

- 4.9 As the table shows, all life mutuals have audit committees, as do most proprietary life firms (12). In terms of remuneration committees, all bar two of the smallest life mutuals have these, as do most (12) proprietary life firms.
- 4.10 All life mutuals have at least one of the board committees required by the Combined Code (audit, remuneration and nominations) although there are two proprietary life firms which have none of these.

- 4.11 Two thirds of proprietary life firms (10/15) and life mutuals (18/29) have all three of the board committees required by the Combined Code (audit, remuneration and nominations). In terms of the life mutuals that do not have all three of these committees, all (11) have an audit committee, all but two (9) have a remuneration committee, but none have a nominations committee.
- 4.12 About two thirds (7/11) of the life mutuals that do not have all of these basic committees are small, of the five proprietary life firms four are large and one is small.
- 4.13 Around two thirds of life mutuals have nominations and investment committees (18 and 19 respectively) although these are more likely to be larger life mutuals. A similar proportion of proprietary life firms have nominations committees and investment committees (10 and 8 respectively). Again it is the larger proprietary life firms that are more likely to have these committees.
- 4.14 Around a third of both life mutuals (10/29) and proprietary life firms (6/15) have risk committees. These are slightly more likely to occur in large than small life mutuals, (6/14 large life mutuals have risk committees compared to 4/15 small mutuals).
- 4.15 In terms of other committees held, life mutuals (particularly the larger ones) are more likely than proprietary life firms to hold other committees. Over half (16) of life mutuals hold other committees compared to a third of proprietary life firms (5). Some of the other types of committees named by organisations are 'with-profits' 'sales and marketing' and 'management'.

Board Composition

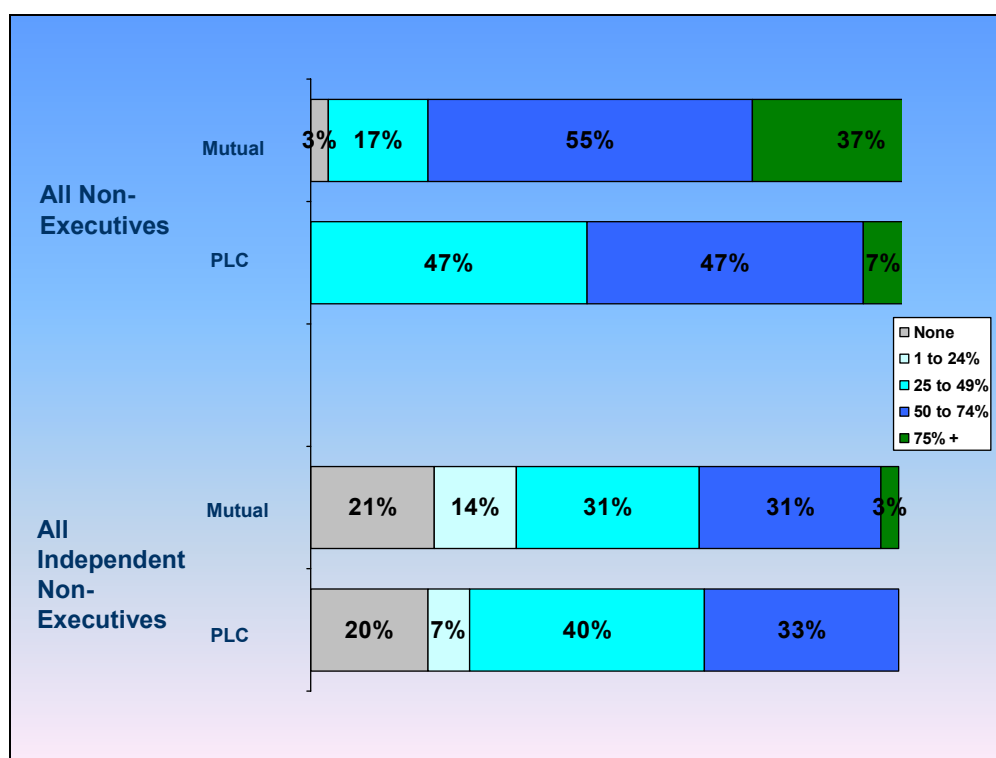
- 4.16 The following table shows the proportion of board members who are executive and non-executive directors in proprietary life firms and mutual life offices.

Table 4.2 Proportion of board who are executive and non-executive directors by proprietary life and mutual life firms

Proportion of board	Executive directors				Non-Executive directors			
	Proprietary		MUTUAL		Proprietary		MUTUAL	
	(n)	%	(n)	%	(n)	%	(n)	%
75%	-	-	1	7	1	7	7	37
50% - 74%	5	33	2	7	7	47	16	55
25% - 49%	9	60	12	41	7	47	5	17
1% to 24%	1	7	12	41	-	-	-	-
None	-	-	2	7	-	-	1	3
Base: All respondents	15	-	29	-	15	-	29	-

- 4.17 Proprietary life firms typically have a higher proportion of executive directors on their board compared to life mutuals, whilst mutual life office boards have a higher proportion of non-executives on their board. 23/29 life mutuals have over 50% of their board comprised of non-executive directors compared with only 8/15 proprietary life firms.
- 4.18 Amongst proprietary life firms and life mutuals, the larger the organisation, the greater the proportion of executive directors.
- 4.19 Two life mutuals state that they have no executive directors on their board. Both of these are friendly societies with total liabilities of under £500m.
- 4.20 Moving on to examine the proportion of non executive directors who are independent, the following chart shows, the proportion of board members who are non executives and **independent** non-executives in proprietary life firms and mutual life offices.

Chart 4.2 Proportion of board who are non-executive and independent non-executive by proprietary and mutual



4.21 In terms of non-executive directors who are **independent** a third of life mutuals (10/29) and a third of proprietary life firms (5/15) have a proportion of 50% or more independent non-executive directors on their board. There are no significant differences by size of organisation.

4.22 Six life mutuals state that they have no independent non-executives on their board (5 of which have total liabilities of under £500m) of which three stated that none had been independent at appointment. 3 proprietary life firms (of which 2 have total liabilities of under £500m) also stated that they have no independent non-executives.

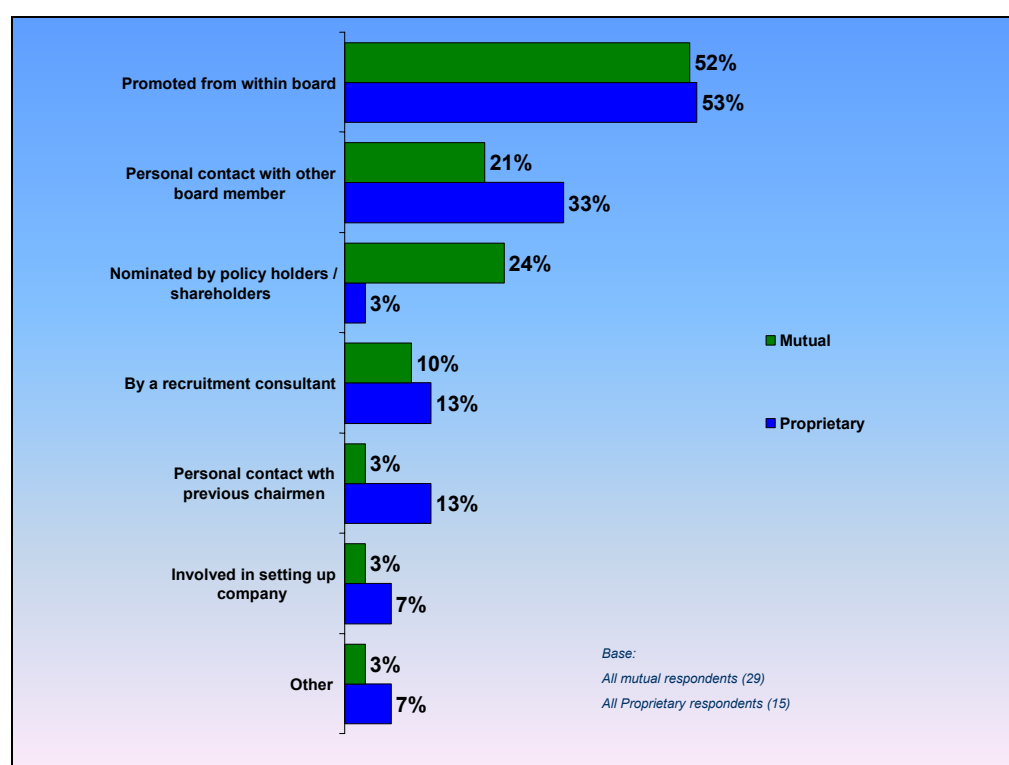
Length of Service

4.23 Eight life mutuals provided details of how long their directors had served on the board. Three indicated that the current board had served an average of over 10 years. The longest serving board members of life mutuals were one chairman and one non-executive who had both served a total of 24 years on their respective boards.

Chairmen

- 4.24 None of the chairmen in life mutuals or proprietary life firms also serve as the chief executive and none of the chairmen or chief executives in either life mutuals or proprietary life firms are also the appointed actuaries.
- 4.26 The proportion of organisations that have chairman who were not independent at the time of their appointment is higher amongst proprietary life firms. Of the 6 mutual chairmen not independent at the time of their appointment, most (4) are from small mutuals.
- 4.26 The following chart shows how chairmen were recruited to their roll for both proprietary life firms and mutual life offices. (In some cases a combination of approaches was used, so responses add to more than 100%).

Figure 4.4 How chairmen recruited to current role by proprietary and mutual



- 4.27 Around half of mutual (15/29) and proprietary life (8/15) chairmen were recruited to their current roll from within the board. This is borne out by the fact that overall two thirds (29) of chairmen are a former non-executive of the organisation. The proportion of mutual chairmen who are former non-executives is higher than that of proprietary life chairmen, (about three quarters (23/29) compared to a third (6/15).

- 4.28 Chairmen of proprietary life firms were more likely to be recruited by personal contact with other board members or the previous chairman, whilst chairmen of life mutuals were more likely to be nominated by members.

Friendly society / mutual chairmen

- 4.29 Most (15/19) chairmen of friendly societies were elected to the board. Most of those who were not elected are in large organisations (total liabilities of £1billion +).
- 4.30 One third of friendly society chairmen (6/19) also hold other chairmanships and half (9/15) also hold positions as non-executive directors.
- 4.31 Of the chairmen of mutual life offices, half (5/9) have current or recent experience of serving on the board of a listed proprietary life firm.
- 4.32 Two thirds (6/9) of all mutual chairman have served in their current role for three or more years, reflecting that almost all (8/9) have been on the board for three years or more and been re-elected to the board, at least once.
- 4.33 In terms of professional qualifications held by mutual chairmen, only one chairman has professional qualifications from the list given (legal, actuarial, accounting). This person was chairman of one of the largest life mutuals that had liabilities of over £1billion.

Executive directors

- 4.34 None of the friendly societies have executive directors who serve as chairmen on other boards, although a third (6) of friendly societies do have at least one executive director who also serves as a non-executive director on another board. Three of these are small friendly societies.
- 4.35 None of the nine mutual life offices have any executive directors on their boards who have current or recent experience of serving on the board of a proprietary firm.
- 4.36 In terms of how long executive directors from mutual life offices have served in their current role or in total on the board, two life mutuals (one small and one large) have no executive directors on their boards who have served for three years or longer. In five of the nine life mutuals over half of

their executive directors have been serving in their role for three or more years.

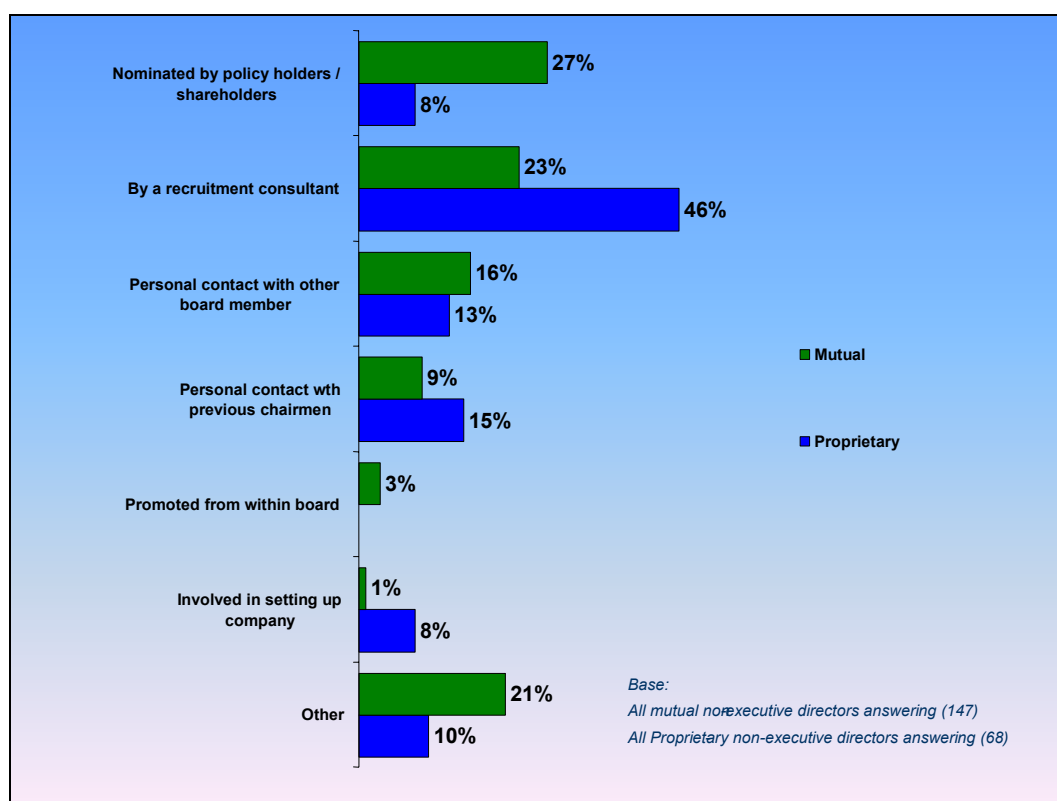
- 4.37 Regarding professional qualifications held by executive directors, in about half of mutual life offices (4/9) none have professional qualification from the list, whilst in the others at least half have professional qualifications. Again these are more likely to be larger life mutuals.

Non - Executive directors

- 4.38 In (32/43) of organisations with non-executive directors, the proportion of non-executive directors independent at the time of appointment is over three quarters. A slightly higher proportion of mutual life offices (22/28) have three quarters or more of their non-executive directors independent when appointed compared to proprietary life firms (10/15).
- 4.39 Two proprietary life firms and three life mutuals have no non-executive directors who were independent when they were appointed to their position. All of these with the exception of one proprietary life firm are small organisations, with total liabilities of under £500 million.
- 4.40 Non-executive directors in mutual life offices are slightly less likely to serve on other subsidiary boards than their counterparts in listed proprietary life firms. Two thirds (10/15) of proprietary life firms have non-executive directors who serve on other subsidiaries compared to just over half (17/28) of mutual life offices. The majority of life mutuals with non executives serving on other subsidiaries are large (5/6 of life mutuals with over three quarters of their non executives serving on subsidiaries have total liabilities of over £500 million).

4.41 The following chart shows how non-executive directors were recruited to their roll for both proprietary life firms and mutual life offices. (In some cases a combination of approaches were used, so responses add to more than 100%).

Figure 4.5 How non executive directors recruited to current role by proprietary and mutual



4.42 Around one quarter of mutual non-executive chairmen were nominated by policyholders (27%) or were recruited by a consultant (23%).

4.43 Almost half (46%) of non-executive directors on proprietary life boards were recruited through a consultant.

Friendly society / mutual non-executive directors

4.44 About a third of friendly societies (7/18) with non-executive directors have non-executives who currently hold other chairmanships. (No executive

directors held other chairmanships.) There are no significant differences by size of friendly society.

- 4.45 Over half (10/18) of friendly societies with non-executive directors have at least some of their non-executive directors serving as non-executive directors on other boards. (This is a slightly higher proportion than for executive directors). Most of the friendly societies that have no non-executives serving on other boards (7/8) are small.
- 4.46 Regarding non-executive directors in friendly societies who hold executive directorships elsewhere, half (9/18) of friendly societies with non-executives do have at least some of them serving elsewhere as executive directors, although no friendly society has over three quarters of their non-executive directors serving elsewhere as executives. However only a few friendly societies (3) had executive directors holding other executive directorships, which suggests that the executive directorships held by non-executive directors must be in other types of organisation.
- 4.47 Of the 9 mutual organisations two thirds (6/9) have non-executive directors who have recent or current experience of serving on the board of proprietary firm. The large life mutuals have a greater proportion of non-executives with recent proprietary firm experience. (No life mutuals had executive directors with experience of serving on a proprietary life board.)
- 4.48 In all but one mutual life office at least half the non-executives have been serving in their current role for three or more years. The one mutual with no non-executives who have served for three years or over in either this or a previous role is a large with total liabilities of over £1 billion. Most mutual offices (7/9) have a proportion of between 50% and 75% of their non-executives who have served for three or more years in their current role.
- 4.49 Mutual life offices are quite evenly spread in terms of the proportion of their non-executive directors who hold professional qualifications (either legal, actuarial or accounting). A third (3/9) have no non-executives who hold professional qualifications, two of which are small life mutuals and one of which is large. Of the remaining six, only one has over three quarters of its non-executive directors holding professional qualifications (a small mutual).

Operation of the board

4.50 This chapter examines how the board operates, the training and appraisal of directors and accountability and audit.

Board meetings

4.51 The following table shows how many times the board met in the last year. Boards were most likely to have met between seven and eleven times a year. Life mutual boards were more likely than proprietary life boards to have met at least once a month (i.e. 12 times or more).

Table 5.1 Number of times board met in last year by life mutuals and proprietary life firms and by size

	Mutuals						Proprietary life firms					
	All		Large		Small		All		Large		Small	
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%
1 to 3 times	1	3	-	-	1	7	-	-	-	-	-	-
4 to 6 times	4	14	1	7	3	20	5	33	4	40	1	20
7 to 11 times	12	41	8	57	4	27	7	47	4	40	3	60
12 times	5	17	2	14	3	20	1	7	-	-	1	20
13 or more times	7	24	3	21	4	27	2	13	2	20	-	-
Base: All respondents	29	-	14	-	15	-	15	-	10	-	5	-

4.52 The average number of board meetings per year was nine or ten for both proprietary and mutual life firms. There are two small mutuals whose boards held only three or four half-day meetings per year.

4.53 On average the meetings of mutual boards last longer than the meetings of the proprietary life boards. Whilst the majority of proprietary life board meetings (12/15) last half a day and none last a full day, a significant proportion (6/29) of mutual board meetings last a full day and only one mutual board has meetings that typically last less than half a day.

4.54 Proprietary life firms are more likely than life mutuals to hold meetings with non-executives at which executive directors are not present. Three quarters (12/15) of proprietary life firms hold at least one meeting per without executive directors, where as only two thirds (20/29) of life mutuals do. All large life mutuals hold at least one or two such meetings per year.

Election of directors / board members

- 4.55 In almost all (39/44) organisations directors are subject to election by either shareholders or members at the first AGM after their appointment. Of the five that do not, three are large proprietary life firms, one is large mutual and one is a small mutual.
- 4.56 In most organisations directors are subsequently subject to re election every three years (11/15 proprietary life firms and 21/29 Mutuals). Mutuals are slightly more likely to have a longer term, with six only requiring directors to be subject to re election every four to five years.
- 4.57 A small proportion of mutual life offices (5/29) have had incumbent board members / board nominated candidates fail to secure (re) election in the last ten years. Most (4/5) of these are small life mutuals. No proprietary life firms have had any incumbent board members or board nominated candidates failed secure (re) election in the past ten years.
- 4.58 Again few (7/44) organisations have current board members who were not nominated by the chairman and/or the rest of the board. Most of these (5/7) are small mutual life offices.

Training and appraisal of board members

- 4.59 Board appraisals happen more often in proprietary life firms where two thirds (10/15) conduct an appraisal of the performance of the chairmen and non-executive directors compared to just half of life mutuals (15/29). Most of the mutuals (9/14) that do not conduct appraisals are small.
- 4.60 Proprietary life firms are also more likely to conduct appraisals of the chairmen (led by the senior executive director). Whilst half (8/15) of proprietary life firms conduct an appraisal of the chairman, less than a quarter (6/29) of mutuals do so. Of the mutuals that do not conduct an appraisal of the chairman, 14/23 are small.
- 4.61 About a quarter of proprietary life firms and mutuals (4/15 proprietary life firms, 6/29 mutuals) state they do not have a job description for their non-executive directors. There are no significant differences by size.
- 4.62 A slightly higher proportion of proprietary life firms (13/15) offer induction to non -executives when they join the firm than life mutuals (21/29). Where provided this training typically lasts over five hours.

- 4.63 The life mutuals that do not offer induction training are evenly split between large and small (four have total liabilities of over £100 million and four have total liabilities of less than £100 million). Most of those who do not provide induction training also have small boards (eight have fewer than ten directors on the board).
- 4.64 Fewer organisations offer formal training for non-executives when they join the organisation. Around a third of both proprietary life firms (4/15) and life mutuals (10/29) offer formal training for non-executives on joining. In most of these organisations the training lasts at least four to five hours. In those life mutuals that offer induction and training it lasts on average around only two-thirds as long as in proprietary firms.
- 4.65 The proportion offering formal training in subsequent years is slightly higher in mutual offices (14/29) than it is in proprietary life firms (6/15). Although there are no significant differences by size of mutual, nearly all (4/5) the life mutuals limited by guarantee offer no subsequent formal training.

Access and use of independent advice

- 4.66 The proportion of mutual boards that have access to independent advice is higher (21/29) than that of proprietary life boards (7/15). Almost all the boards of small life mutuals (13/15) have access to independent advice and around half of the boards of large life mutuals (8/14) have access to independent advice.
- 4.67 Of the organisations that have no access to independent advice, large life mutuals are more likely than small mutual to have no access to independent advice, (6/14 large life mutuals compared to only 2/13 small mutuals). In terms of proprietary life firms there is no significant difference between large and small organisations.
- 4.68 Reflecting the fact that a higher proportion of mutual boards have access to independent advice, over half (17/29) of mutual boards have utilised independent advice in the last three years, including three quarters (11/15) of small life mutuals. Only five proprietary life boards have used independent advice in past three years.
- 4.69 Those who have sought advice have done so across a wide range of areas; legal and actuarial advice being the most frequently sought after.

Table 5.2 Type of independent advice sought after by life mutuals and proprietary life firms and by size

	Mutuals						Proprietary life firms					
	All		Large		Small		All		Large		Small	
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%
Have any access to independent advice	21	72	8	57	13	87	7	47	5	50	2	40
Have ever used independent advice	17	59	6	43	11	73	5	33	4	40	1	20
Used legal advice	12	41	5	36	7	47	2	13	2	20	-	-
Used actuarial advice	11	38	4	29	7	47	2	13	2	20	-	-
Use accounting / audit advice	9	31	3	21	6	40	-	-	-	-	-	-
Used investment advice	9	31	4	29	5	33	-	-	-	-	-	-
Used recruitment advice	7	24	4	29	3	20	-	-	-	-	-	-
Used remuneration advice	8	28	4	29	4	27	2	13	1	10	1	20
Used governance advice	5	17	2	14	3	20	1	7	1	10	-	-
Have NO access to independent advice	8	28	6	43	2	13	8	53	5	50	3	60
Base: All respondents	29	-	14	-	15	-	15	-	10	-	5	-

Accountability and Audit

- 4.70 All the boards of proprietary life firms (15/15) conduct a review at least annually of the financial, controls, the operational controls, the compliance controls and the risk management systems.
- 4.71 Of the mutual life office boards, all but one (28/29) conducts at least annually a review of the financial controls, the operational controls and the compliance controls. This is a small mutual with total liabilities of under £100 million.
- 4.72 In terms of the risk management systems all but two of the mutual boards (27/29) conduct a review at least annually - one the board of a large mutual, and the other a small mutual (both friendly societies).
- 4.73 Of all organisations surveyed, three quarters (30/40) of those it is applicable to have an audit committee that reviews arrangement by which staff may raise concerns about possible improprieties in matters of financial reporting. A slightly higher proportion of proprietary life boards have this review in place (11/14 compared to 19/26 life mutuals). All of the seven life mutuals where the audit committee does not review arrangements for reporting financial improprieties are small.

- 4.74 Most proprietary life firms (13/15) and all mutual boards (29/29) have an internal audit function and all are monitored and reviewed by the audit committee.
- 4.75 Where applicable, all proprietary life boards (11/11) rest primary responsibility for making a recommendation on the appointment, re appointment and removal of external auditors on the audit committee. In all but two (27/29) mutual life boards, this responsibility rests with the audit committee. Both mutual life offices where responsibility does not rest with the audit committee are small with total liabilities of under £100 million.
- 4.76 There is no significant difference between proprietary life and mutual boards on whether the organisation has had an independent (external) evaluation of the governance arrangements in the last five years. Just under half (17/44) of organisations have (6/15 proprietary life firms and 11/29 life mutuals). The majority of life mutuals and proprietary life firms that have not had an independent evaluation are small: 10/15 small life mutuals and 4/5 small proprietary life firms.

Remuneration

- 4.77 For the majority of organisations with remuneration committee (9/12 proprietary life firms and 23/27 life mutuals) the committee is responsible for setting remuneration for all executives and the directors. Two of the four life mutuals where the committee does not set remuneration are small life mutuals; the other two large.
- 4.78 Under half of mutual life offices (12/29) allow their members to vote on directors' remuneration. The small mutual life offices are less likely to allow their members to vote on directors' remuneration.
- 4.79 The following table summarises what aspects of director's remuneration shareholders and members vote on (in organisations that allow them to vote). Nearly all (8/10) proprietary life firms have their shareholders vote on all directors in one motion where as just under half of life mutuals (5/12) have their members vote on all directors in one motion.

Table 5.3 What shareholders / members vote on by mutuals and proprietary life firms and by size

	Mutuals						Proprietary life firms					
	All		Large		Small		All		Large		Small	
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%
All directors as one motion	5	42	4	50	1	25	8	80	6	100	2	50
Executives separate motion	3	25	1	13	2	50	1	10	-	-	1	25
Non-executives separate motion	7	58	4	50	3	75	1	10	-	-	1	25
Chairman separate motion	2	17	1	13	1	25	1	10	-	-	1	25
Base: All where shareholders / members vote on remuneration at AGM	12	-	8	-	4	-	10	-	6	-	4	-

4.80 Half of the large life mutuals (4/8) and all the large proprietary life firms (6/6) have their shareholders/members vote on directors' remuneration in one motion.

5 Annual Reports

- 5.1 This chapter briefly examines how the annual reports of proprietary life firms and mutual life offices are composed and what the key contents of the annual report are.
- 5.2 A higher proportion of proprietary life firms than life mutuals include a statement of attendance, a report of directors' remuneration and a statement of whether the organisation complied with the Combined Code in their annual report. Three quarters (11/15) of proprietary life firms include a statement on the Combined Code compared to just a third of life mutuals (9/29). Only a few small life mutuals (3/15) include a statement on whether the organisation complied with the Combined Code in their annual report.

Inclusion of committee reports

- 5.3 Around one third of both life mutuals and proprietary life firms (5/15 proprietary life firms and 11/29 mutuals) include no reports on the work of the various board committees in their annual report. Nearly all (10/11) of the life mutuals which do not include reports on the committees are small.
- 5.4 Two thirds of both life mutuals and proprietary life firms (10/15 proprietary life firms and 17/29 life mutuals) include a report on their audit committee in their annual report. Mutual life offices are less likely than proprietary life firms to include reports on remuneration and nominations committees in their annual report but more likely to include reports on investment, with-profits and other committees.
- 5.5 In terms of who the annual report is issued to, there are marked differences between life mutuals and proprietary life firms. Whilst just under half of proprietary life firms (6) make the report available to shareholders in abridged form, only a minority (4/29) of life mutuals issue the annual report to their members abridged. Similarly, whilst half of proprietary life firms (9/15) offer the full-length report to their shareholders, only a few (6/29) life mutuals offer the full-length report to their members.
- 5.6 All but two life mutuals and all but one proprietary life firm make their report available on request. Two thirds of life mutuals and proprietary life firms also make the annual report available over the website (10/15 proprietary life firms and 18/29 life mutuals).

Relationship with members

- 6.1 This chapter examines the relationships that mutual and friendly societies have with their members, firstly by examining how many members mutual life offices have before moving on to how they vote and how many attended the last general meeting.

Number of members

- 6.2 In terms of the proportion of policyholders who are also members, two thirds (18/29) of mutual life offices have all their policyholders registered as members. A further four life mutuals have between 75% and 99% of their policyholders registered as members. Only three life mutuals have none of their policyholders registered as members (two of these are large life mutuals and one is small). One is a company limited by guarantee, one is an industrial and provident society and one describes itself as an 'unlimited mutual society'.
- 6.3 Nearly all (12/15) small life mutuals have all their policyholders registered as members where as about half (6/14) of large life mutuals do.
- 6.4 Examining which categories of mutual policyholder qualify for membership, in most life mutuals, all or at least some life policyholders (23/29) and with-profits policyholders (23/29) qualify for membership. The category of mutual policyholder least likely to qualify for membership are with-profits annuity holders where two thirds (17/29) do not qualify for membership.
- 6.5 Only 11 organisations provided a description of their membership criteria (this was an optional question). The majority of organisations offering an explanation stated that all their policyholders were members.

AGM and voting weights

- 6.6 In the majority of mutual life offices (26/29), there is no policy value threshold for qualification as a voting member.

- 6.7 The majority of mutual life offices (23/29) allow their members to attend the annual general meeting. Of the five that stated they do not allow their members to attend, two are large and three are small. All life mutuals with liabilities of under £100 million (11) allow their members to attend.
- 6.8 Only a third (10/29) of mutual life offices have a system whereby elected policyholder representatives attend the AGM. Most of these (8/10) are small life mutuals.
- 6.9 The majority of life mutuals (20/29) do not have any wholly owned insurance subsidiaries. Of the few that do, most (6/9) do not let the policyholders of the owned subsidiary have voting rights. All three life mutuals that do let the policyholders of the subsidiary have voting rights have total liabilities of over £1billion.
- 6.10 Just under half (13/29) of all mutual offices have a full register of all members available to all members. There are no significant differences by size of mutual.
- 6.11 All mutual life offices which were able to answer (28) state that sufficient information is held on the register to enable members to be contacted.
- 6.12 More than half of life mutuals do not allow postal voting (16/29), again there are no significant differences by size of mutual.
- 6.13 Three quarters (22/29) of mutual life offices allow voting by proxy. Almost all small life mutuals (13/15) allow voting by proxy. Where proxy voting is allowed, two thirds (14/22) of organisations issue the proxy form to all members. Nearly all (21/22) of life mutuals that allow voting by proxy, have a system in place whereby members can indicate how their vote must be exercised on each individual matter.
- 6.14 Of the six life mutuals that do not allow voting by proxy four are large and with liabilities of over £1billion and two are small with liabilities of between £100 million and £500 million. Five life mutuals, three of which are large, do not allow either postal voting or proxy voting.
- 6.15 Two thirds of life mutuals (18/29) allow all board candidates to circulate material at the firm's expense.

6.16 In terms of how mutual life offices notify members of the AGM or any other meetings, the majority (20/29) notify members by post and half (15/29) of all mutual life offices also release a press advertisement. A few organisations also stated they notify members on their website.

6.17 The following table shows the number of votes needed to requisition business at both the AGM and EGM by size of mutual. For about half of life mutuals able to answer over 500 votes are needed to for the requisition business at both AGM and EGM (9/21 AGM and 11/24 EGM).

Table 6.1 Number of votes needed for requisition business at AGM and EGM by size

	AGM						EGM					
	All		Large		Small		All		Large		Small	
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%
Under 50	7	33	-	-	7	58	4	17	-	-	4	33
50-99	1	5	-	-	1	8	2	8	1	8	1	8
100-499	4	19	2	22	2	16	7	29	3	25	4	33
500+	9	43	7	78	2	16	11	46	8	67	3	25
Base: All mutual respondents stating number of votes needed	21	-	9	-	12	-	24	-	12	-	12	-

6.18 All large life mutuals need at least 100 votes for the requisition of business at the AGM, compared with only a third of small life mutuals (4/12). Similarly most large life mutuals (11/12) need at least 100 votes for the requisition of business at the EGM compared to just over half (7/12) of small life mutuals.

6.19 A couple of organisations require a very large number of votes for the requisition of business at the AGM and EGM. Both are large with liabilities of over £1billion. One requires 3750 votes for the requisition of business at both the AGM and EGM; the other requires 3400 votes for the requisition business at both the AGM and EGM.

Numbers attended last AGM

6.20 The following table shows the number of members who attended the last AGM. Most organisations (22/28) had less than 100 members attending.

Table 6.2 Number of members attending the last AGM

	AGM					
	All		Large		Small	
	(n)	%	(n)	%	(n)	%
Under 50	11	39	2	15	9	60
50-99	11	39	7	54	4	27
100-499	5	18	3	23	2	13
500+	1	4	1	8	-	-
Base: All mutual respondents stating number attended	28	-	13	-	15	-

6.21 Four of the larger life mutuals had over 100 members attend their last AGM. Nearly all (9/11) organisations where less than 50 members attended the last AGM were small.

6.22 Amongst those stating how many staff attended the last AGM, all had fewer than 50 staff attending.

7 Conclusions

7.1 Although many aspects of the governance arrangements of proprietary life firms and life mutuals are similar there are some marked differences in the board composition, compliance with the Combined Code and other aspects of corporate governance. There are also a few areas where the governance arrangements differ by size of mutual.

7.2 The key differences between mutuals and proprietary life firms (and where applicable between the size of mutuals and proprietary life firms) can be summarised as:

- Mutual life firms are generally smaller than proprietary life firms;
- Proprietary life firms have larger slightly larger boards than life mutuals;
- Small life mutuals are the most likely not to have any of the three board committees required by the code (mainly nominations). Many (7/11) of the life mutuals that do not have all these three committees are small;
- Mutual life office boards have a higher proportion of non-executives on their board, 23/29 life mutuals have over 50% of their board comprised of non-executive directors (although there is no significant difference in the proportions having 50% or more of the board comprised of independent non-executive directors);
- A higher proportion of proprietary life firms have an appointed senior non-executive director;
- The boards of life mutuals meet more frequently than the boards of proprietary life firms;
- Proprietary life firms are more likely to hold meetings where executive directors are not present. Those life mutuals not holding these meetings are more likely to be small;
- Proprietary life firms are more likely to conduct an annual appraisal of the chairman and non-executive directors; small life mutuals are the least likely to undertake such appraisals;

- Large organisations are more likely to have an independent (external) evaluation of their governance arrangements. This applies to both large proprietary life firms and life mutuals;
- Proprietary life firms are more likely than life mutuals to let their members vote on director's remuneration. Small life mutuals are least likely to do this;
- Proprietary life firms are more likely to include in their annual report a statement of attendance, a report of director's remuneration and a statement on whether the organisation complied with the Combined Code than mutual life offices;
- Small life mutuals are more likely than large life mutuals to have all their policyholders registered as members.

8 Technical Appendix

- 8.1 The data was collected using a self-completion postal survey. Due to the nature of the information to be collected (a large amount of factual information which needed to be obtained from different documents and other colleagues) it was decided that a telephone survey would not be appropriate for this research.
- 8.2 The self-completion approach offered respondents the necessary time to prepare the required information improving the accuracy of the data whilst simultaneously making it easier to monitor response rates and chase respondents who had not returned the questionnaire.

Sampling

- 8.3 In terms of sampling, the key issue was to ensure that the organisations surveyed were representative of the whole industry. To this end a representative list of 28 life insurance organisations was drawn from the 240 life insurance companies that operate at an enterprise level. In terms of mutual life offices, a census approach was adopted with all 36 mutual life offices being included in the survey.
- 8.4 HM Treasury provided details of the 64 organisations sampled for the survey. These details included, status and the names of the chief executive and compliance officer along with their contact details. Before fieldwork began a short period of verifying the details on the sample list was undertaken by IFF to ensure the appropriate people would be contacted.

Pilot

- 8.5 To ensure that the questionnaire and approach worked as effectively as possible, they were tested in a small pilot before the main stage of fieldwork. During the period of verifying details on the sample list, 4 organisations (1 large, 1 small proprietary life firm and 1 large, 1 small mutual) were approached and invited to take part in the pilot.

- 8.6 The pilot questionnaires were mailed to the respondents on 30th July giving them 2 weeks to complete and return them. Once all 4 pilot scripts had been returned to IFF, respondents were called back to gain their feedback on, the structure and lay out of the questionnaire, the positioning of the study and on whether there were any bits of information that they found hard to obtain.
- 8.7 Following discussions with the four pilot respondents minor amends were made to the questionnaire to ensure it was as simple as possible for respondents to complete. All four pilot scripts were included in the final analysis.

Fieldwork

- 8.8 On 30th July all the chairmen of the organisations to be included in the survey were sent a covering letter addressed from Paul Myners. This letter briefly explained the nature of the study and explained that IFF would be sending a survey through the post in the forthcoming month.
- 8.9 On 27th August IFF mailed out the postal questionnaire with another covering note from Paul Myners. These were sent to the chairmen, although in a few cases IFF had been instructed to send the questionnaire to another contact after feedback from the initial letter. Respondents were given until 17th September to complete the survey.
- 8.10 After 17th September a period of chasing respondents was undertaken by IFF and HM Treasury to maximise the response rates. This period of chasing continued until 15th October when the final analysis tables were run.