

AMI Myners Response

Summary of Response by the Association of Mutual Insurers (AMI) to HM Treasury: Myners Review Consultation Document July 2004

The members of AMI welcome the Myners Review and are keen to provide constructive consultation that will enhance the governance of financial mutuals. We see tremendous business opportunities for well run mutuals which will benefit individuals and society as a whole.

Given that there are fundamental differences in structure between the proprietary and mutual model there is no inherent reason to assume that one is better than the other. The diversity offered by both mutuals and proprietary companies in the UK should be encouraged with the strengths of both being brought to the forefront.

The Penrose Report, which prepared the ground for the Myners Review, was critical of the management of Equitable Life. It is the belief of AMI that these issues were related to management and control rather than to the mutual form of governance. The same governance issues could and indeed have happened in proprietary companies in recent years eg Independent Insurance.

The Myners Review document highlights continually the benefits of the large institutional shareholders in the proprietary model. It is important to point out that they do not actually own the company and that often these large institutional investors are voting on behalf of their customers' money normally with no consultation with the providers of capital.

Corporate Governance Guidance

- AMI encourages amendments to the existing Combined Code to reflect the different needs of mutuals and the diversity of their governance structures. It does not seek a separate code for mutual organisations.
- AMI encourages clear disclosure in the annual report of key mutual metrics applicable to policyholders and how mutuals communicate with policyholders and vice versa. AMI is prepared to work with Myners to evaluate what key mutual metrics would be most applicable.
- AMI would prefer to see independent confirmation of compliance with the Code using external auditors.

Board Effectiveness

- AMI believes that the status of mutuals should not influence the composition of their boards. We consider that the combined code gives adequate guidance in this area.
- The approved person regime is an effective contributor to the overall governance of regulated firms.
- AMI encourages mutual boards to engage with their policyholders through membership groups, either formally or informally. The influence of these groups on the Board should be of a consultative nature.
- A revised mutual combined code should facilitate non-executive directors access to independent advice.

Policyholder voice

- AMI believes strongly that it is not the role of policyholders to run a mutual in the same way that it is not the role of shareholders to run a proprietary company.
- AMI encourages new ideas to involve policyholders in their mutual and is willing to work with the Myners Review to promote best practice among its members.
- In terms of policyholder influence on strategic issues, they should only be involved where substantive changes are being recommended.

- It is fact that the policyholders provide the risk capital of a mutual insurer. However, the risk capital is built up over time by many generations of policyholders and it is inequitable that one particular group of policyholders on a certain date should be considered the owners of this risk capital. However, the Boards of mutuals should have due regard to the ultimate source of capital and behave in line with the expectations of the policyholders.

Regulation

- AMI agrees that the FSA's work since 1997 has significantly improved corporate governance. Project Arrow, PPFM, approved person regime, and realistic reporting have all contributed to better corporate governance and more protection for policyholders.

Market disciplines

- AMI believes that there are strong market forces already in existence for mutual life offices that provide checks and balances. We do not concur with the idea that proprietary companies have more effective market forces exerting influence on them.
- It is true that large institutional shareholders are starting to leverage their power under the banner of socially responsible investment (SRI) and we encourage this. This new-found power can just as easily be used in a way that is not necessarily in the interests of all the shareholders.

Advantages of financial mutuals

- Trust, honesty, integrity and value are the backbone of mutuality. Certainly, the insurance industry as a whole is being viewed by the general public as failing to live up to all these ideals and it is important that confidence in the industry is restored.
- The implications of demutualization generally are that the market would lose the competitive pressure on that mutuals are able to exert. Research conducted by *Money Management* on endowment returns shows that after a mutual has demutualised the endowment returns become significantly less competitive.
- AMI wishes to work with the Myners Review to ensure that mutuals are not disadvantaged competitively by regulation, legislation, or financial standards from within the UK or internationally.