

**MYNERS REVIEW OF THE GOVERNANCE  
OF LIFE MUTUALS**

**CONSULTATION DOCUMENT**

**COMMENTS**

C Paskell MRICS, Chief Executive  
Druids Sheffield Friendly Society  
Dove House  
181 Brampton Road  
Wath upon Dearne  
Rotherham  
S63 6BE  
email: [druidssheffield.friendly@virgin.net](mailto:druidssheffield.friendly@virgin.net)

August 2004

## **FOREWARD**

As stated, mutual life offices are a sizeable presence in the market for life insurance in the UK. They are valued by their members and contribute to the diversity of the insurance sector. Corporate governance is currently very good and any change must be in relation to size and the diversity that exists, and not be burdensome to prevent the mutual delivering the best for its members

The questions from the consultation document have been answered under the headings:

- Corporate governance guide
- Board effectiveness
- Policyholder voice
- Regulation
- Market disciplines
- The potential advantages for financial mutuals
- General governance principles for financial mutuals
- Market structure
- Practice in other countries

The answers to the questions have been given based on my experience as the Chief Executive of the Druids Sheffield Friendly Society, which is a small traditional friendly society with 7,600 members operating with a network of 44 lodges run by volunteers who work in local communities.

### **Corporate Governance Guidance**

**Q 1** As a small friendly society we do not have to comply with the code, but feel we do operate to strict management principles in an appropriate framework. We already have on going dialogue with our members through our network of lodge secretaries who operate in local communities.

We are governed by a committee of management who have appropriate knowledge of the workings of our society and are nominated and elected by the membership in accordance with the registered constitutional rules.

Any changes would not be effective, but would alter the way we have been administered successfully for over 140 years.

**Q 2** Although there are no current arrangements for mutual life offices to adhere to the code, the regulations we operate under are more than enough to illustrate the principles of good management.

## **Board Effectiveness**

**Q3** The composition and structure of the committee should be relevant to the size of the mutual and the business conducted. As a small friendly society the committee is made up of members being fit and proper people with the appropriate knowledge and elected by the membership. These committee members are involved with the ownership of the society and are governed by members on the membership's behalf. Many of the committee are fully qualified in their full time employment and bring this expertise, along with their friendly society knowledge, to the management of the Society. The fact that these committee members are fully conversant with our friendly society's business and have the appropriate approved person's regime means they are more than qualified to manage the Society's affairs.

It is not necessary to have qualified executives on the board because if actuarial advice is required on any matter, this is obtained in writing from the external appointed actuary and discussed at a committee of management meeting. The same applies for any investment advice given by the external stockbroker and accounts advice is sort from the external accountant/auditor. The fact that these are external professional advisers means the committee receives independent neutral advice.

In my opinion the present structure of our committee is competent to meet the regulations and rules, which means as a mutual we are operated by our members on behalf of the membership.

**Q4** In my experience the information and advice used by non executive directors of life mutuals is satisfactory in terms of quality and relevance, to enable them to exercise effective oversight of the business and cannot be improved. There are cost implications in paying the fees of a professional attending every board meeting.

As a non-directive un-incorporated friendly society we are not affected by the change to the with profits actuarial role, we keep the current appointed actuary regime.

As stated earlier we obtain external advice from the appropriate professional people to assist the committee in deliberations on various matters.

**Q5** The role of a non executive committee of management member is to oversee the management of the Society is administered in accordance with regulations and our constitutional rules. These committee members are well versed in the above and are able to understand and challenge any matter outside this aspect.

**Q6** The members of our society expect the committee members to have a basic knowledge on the regulations, rules and technical aspects of the Society, and would not elect them onto the committee if they felt they were not competent.

As Chief Executive, I am the qualified approved person employed full time by the Society and would not expect the committee of management to have the same legal duties as myself. In accordance with the rules I am a member of the committee and answerable to the members.

## **Policyholder voice**

- Q7** Policyholders are currently engaged because through the lodge secretary and delegates they vote on and influence how our society is administered.

The lodge secretary is in touch with the members in their locality and keep them advised and up to date on the Society.

Policyholders with our mini insurance ISA are given an annual statement that advises on the progress of their policy.

Every one of our policyholders has a vote that is used through a delegate system at our AGM. Therefore each is classed as a member who is not subject to the type of policy held. Every member is equal in our society.

- Q8** The policyholders are not the source of the risk capital for the enterprise. Many mutuals like our friendly society have large surpluses above our solvency margins, and it is the surplus that is used to develop both the society and new products. In our society the members are guaranteed a return on their investment therefore our members are happy to save with us. This is borne out by the persistency levels in friendly societies.

All our products booklets state how the money is invested and the return that can be expected.

## **Regulation**

- Q9** I agree in so far as corporate governance is concerned the FSA has been largely successful in its work.

The FSA has appeared to grasp the diversity that exists in the friendly society movement and the amount of regulation required not to be over burdening to the smaller societies, whilst still protecting the members' interest.

The Financial Services and Markets Act 2000 and the relevant rules and guidance in the FSA's handbook are instruments that are used most effectively by the FSA.

- Q10** I think the FSA involvement is enough regarding corporate governance. With the Sandler suite of products being introduced, the move is to simple, transparent products that are easy to understand with a lighter regulatory regime.

## **Market Disciplines**

**Q11** A way of enhancing the external discipline on mutual life offices is the disclosure of product information to the general public. For instance 'Which' magazine ran an article on mini insurance ISA's and our society's ISA came out top. From this we were inundated with applications to invest in our society.

Another way of achieving this is by a website that would demonstrate the product information.

The fact our members are involved in the running of our society means they demand proper printed literature on our products that are in plain English making them easy to understand.

## **The Potential Advantages of Financial Mutuals**

**Q12** The specific barriers that exist to the success of mutual business in the case of friendly societies like ours is the limit of tax exempt business to premiums of £25 a month or £270 a year.

**Q13** De-mutualisation would have a devastating effect on our business and the way we operate. Members' have a say on the administration of the society and benefit from the fact we are a non profit making body, as returns and surplus are distributed to members. To demutualise in accordance with our constitutional rules would take a special notice at an AGM that would have to be signed by 10% of the membership prior to the AGM.

## **General Governance Principles for Financial Mutuals**

**Q14** Any change in the general governance of our society would have a serious affect. Since 1858 we have been successful in looking after our members in times of adversity and they have benefited from and been involved in the way the Society has been administered.

**Q15** Yes small affinity group based mutual life firms face different governance issues from the largest firms in the sector. The diversity that exists between financial institutions means it is difficult to regulate these with one set of rules.

Governance of our friendly society is stronger and more than enough for a small society looking after members' interests, many from the less affluent in local communities.

An example of this is that the members' elect the Committee of Management from the membership in accordance with Constitutional Rules.

The members elected to the committee are Lodge Secretary who operates lodges in their local communities and are fully conversant with the society's products and the members' needs and wishes.

The elected members serve on the committee for 2 years and then have to be nominated and elected again by the membership. The treasurer and trustees now serve for six years then have to be nominated and elected. Our society is regulated by the FSA and we comply with all their requirements regarding approved and fit and proper persons on the committee of management with systems of inspection and control approved by them. The committee are fully aware of their commitments in managing the Society and seek advice from the external appointed actuary, accountant, stockbroker and property agents, whenever necessary.

## **PRACTICE IN OTHER COUNTRIES**

**Q16** I am not aware of effective governance regimes for life mutuals in other countries.