

Aviva plc Response to Walker Review on Corporate Governance in UK Banks and Other Financial Industry Entities

Recommendation Number	Text of Recommendation	Aviva Response
1	<p>To ensure that NEDs have the knowledge and understanding of the business to enable them to contribute effectively, a BOFI board should provide thematic business awareness sessions on a regular basis and each NED should be provided with a substantive personalised approach to induction training and development to be reviewed annually with the Chairman.</p>	<p>Aviva is supportive of this recommendation and of the explanation in the Walker Report giving rise to it. We believe that it is of benefit to any board to have a wide mix of skills and experience, and that therefore a thorough approach to induction and to ongoing training and development for NEDs is important to assist them in developing their understanding in areas where they consider it necessary. It is also important to give NEDs the opportunity to be briefed fully on developing trends in the industry, as well as technical issues relating to management, financial and reporting issues.</p>
2	<p>A BOFI board should provide for dedicated support for NEDs on any matter relevant to the business on which they require advice separate from or additional to that available in the normal board process.</p>	<p>Aviva agrees with requirement to provide full support for NEDs to enable them to discharge their duties, on every level from basic administrative support through to the provision (where necessary) of external independent advice. As a matter of wording, we would question whether at all levels this support needs to be “dedicated”, if this term is meant to imply that the resource should be exclusively dedicated to the NEDs, certainly insofar as administrative and related issues are concerned. However, we agree that the resource should always be sufficient and that the NEDs should always feel that their interests are being given priority.</p>
3	<p>NEDs on BOFI boards should be expected to give greater time commitment than has been normal in the past. A minimum expected time commitment of 30-36 days in a major bank board should be clearly indicated in letters of appointment and will in some cases limit the capacity of the NED to retain or assume board responsibilities elsewhere.</p>	<p>Aviva accepts the principles underlying this recommendation, given the complexity of the industry and the necessity (shown by the financial crisis) for clear focus on governance and on risk control. However, it does not believe that it would be appropriate to enshrine minimum levels of this sort in letters of appointment for all BOFI boards, which are very diverse in nature. Instead, Aviva would suggest that the nature of the commitment should be stressed through the medium of the appointment letters and also where appropriate of the board’s terms of reference, but that the</p>

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		number of hours or days required to be devoted should be left to the discretion of individual BOFI boards to determine.
4	The FSA's ongoing supervisory process should give closer attention to both the overall balance of the board in relation to the risk strategy of the business and take into account not only the relevant experience and other qualities of individual directors but also their access to an induction and development programme to provide an appropriate level of knowledge and understanding as required to equip them to engage proactively in board deliberation, above all on risk strategy.	Aviva is supportive of this recommendation and of the rationale underlying it. However, we hope the FSA will strike the right balance between its responsibilities, and the need to recognise the Board's obligations to comply with their duties to shareholders and others. We also feel that a closer explanation of what is meant by "board balance" would be helpful, and this explanation should also be made available to investors.
5	The FSA's interview process for NEDs proposed for major BOFI boards should involve questioning and assessment by one or more senior advisers with relevant industry experience at or close to board level of a similarly large and complex entity who might be engaged by the FSA for the purpose, possibly on a part-time panel basis.	Aviva agrees that whatever mechanism is used by the FSA should include appropriately experienced input. However, we are concerned that the recommendation may be too prescriptive in terms of the description of the nature of the help which the FSA might be obliged to use. The "gene pool" of people at or close to board level of major BOFI's is a small one, and one in which there may be conflicts of interest, and there may be others with knowledge of the industry who could also assist with this role. The interview process should also not produce the result of discouraging a degree of healthy diversity in skills and experience amongst NED's of BOFI boards, and should be careful not to supplant the role of BOFI boards and Nomination Committees
6	As part of their roles as members of the unitary board of a BOFI, NEDs should be ready, able and encouraged to challenge and test proposals on strategy put forward by the executive. They should satisfy themselves that board discussion and decision making on risk matters is based on accurate and appropriately comprehensive information and rules, as far as they believe it to be relevant or necessary, on external analysis and input.	Aviva supports this recommendation and the rationale underlying it.

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7	The chairman should be expected to commit a substantial proportion of his or her time, probably not less than two-thirds, to the business of the entity, with clear understanding from the outset that, in the event of need, the BOFI chairmanship role would have priority over any other business time commitment.	Aviva agrees that a BOFI chairman's role demands a substantial time commitment. However, we are sceptical about the proposal to indicate a minimum level of time commitment, since we believe that BOFIs are diverse in their nature and that, whilst their boards should accept the principle behind the recommendation, it is not clear why this should relate to a prescription in terms of the amount of time commitment.
8	The chairman of a BOFI board should bring a combination of relevant financial industry experience and a track record of successful leadership capability in a significant board position. Where this desirable combination is only incompletely achievable, the board should give particular weight to convincing leadership experience since financial industry experience without established leadership skills is unlikely to suffice.	Aviva agrees with this recommendation.
9	The chairman is responsible for leadership of the board, ensuring its effectiveness in all aspects of its role and setting its agenda so that fully adequate time is available for substantive discussion on strategic issues. The chairman should facilitate, encourage and expect the informed and critical contribution of the directors in particular in discussion and decision taking on matters of risk and strategy and should promote effective communication between executive and non-executive directors. The chairman is responsible for ensuring that the directors receive all information that is relevant to the discharge of their obligations in accurate, timely and clear form.	Aviva agrees with this recommendation and understands why the proposal is made that this, and the text of recommendation 8, is stated to form a part of the FSA controlled function authorisation process. So far as the proposal (contained in the detailed text of the Report) to incorporate these principles in the letter of appointment to the position is concerned, Aviva's only comment is that some parts of the recommendations (particularly recommendation 8) may be more appropriately incorporated elsewhere, for example in the board terms of reference.
10	The chairman of a BOFI board should be proposed for election on an annual basis.	Whilst the commentary leading to this recommendation is understood, Aviva is sceptical whether the requirement for annual election of the chairman is particularly useful. In reality, if investors are concerned about a chairman's performance (as with any other board member) mechanisms

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		exist, particularly through the medium of the senior independent director, to ensure that shareholders concerns are fully made known to the board so that appropriate action can be taken.
11	The role of the SID should be to provide a sounding board for the chairman, for the evaluation of the chairman and to serve as a trusted intermediary for the NEDs as and when necessary. The SID should be accessible to shareholders in the event that communication with the chairman becomes difficult or inappropriate.	Aviva agrees with this characterisation of the role of the SID, which it agrees is useful as a way of focusing further the existing provisions in the Combined Code.
12	The board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process every second or third year. The statement on this evaluation should be a separate section of the annual report describing the work of the board, the nomination or corporate governance committee as appropriate. Where an external facilitator is used, this should be indicated in the statement, together with an indication whether there is any other business relationship with the company.	Aviva agrees with the proposal relating to disclosure, and believes the annual review should be an important opportunity for the board to formally consider its behaviours in relation to decision making on key issues, particularly relating to risk and strategy. Aviva is supportive of the concept of a regular externally facilitated review.
13	The evaluation statement should include such meaningful, high level information as the board considers necessary to assist shareholders' understanding of the main features of the evaluation process. The board should disclose that there is an ongoing process for identifying the skills and experience required to address and challenge adequately the key risks and decisions that confront the board, and for evaluating the contributions and commitment of individual directors. The statement should also provide an indication of the nature and extent of communication by the chairman with major shareholders.	Aviva agrees with this recommendation, for the reasons set out above.
14	Boards should ensure that they are made aware of any material changes in the share register, understand as far as possible the	Aviva agrees with this recommendation.

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	reasons for changes to the register and satisfy themselves that they have taken steps, if any are required, to respond.	
15	In the event of substantial change over a short period in a BOFI share register, the FSA should be ready to contact major selling shareholders to understand their motivation and to seek from the BOFI board an indication of whether and how it proposes to respond.	Whilst Aviva understands and supports the principle underlying this recommendation, it believes the FSA would achieve the best results if it approached these issues with a degree of flexibility, given that institutional investors may find themselves having confidentiality and conflict of interest problems
16	The remit of the FRC should be explicitly extended to cover the development and encouragement of adherence to principles of best practice in stewardship by institutional investors and fund managers. This new role should be clarified by separating the content of the present Combined Code, which might be described as the Corporate Governance Code, from what might most appropriately be described as Principles for Stewardship.	Aviva supports this recommendation.
17	The present best practice “Statement of Principles – the Responsibilities of Institutional Shareholders and Agents” should be ratified by the FRC and become the core of the Principles for Stewardship. By virtue of the independence and authority of the FRC, this transition to sponsorship by the FRC should give materially greater weight to the Principles.	Aviva agrees with this recommendation.
18	The ISC, in close consultation with the FRC as sponsor of the Principles, should review on an annual basis their continuing aptness in the light of experience and make proposals for any appropriate adaptation.	Aviva supports this recommendation.
19	Fund managers and other institutions authorised by the FSA to undertake investment business should signify on their websites their commitment to the Principles of Stewardship. Such reporting should confirm that their mandates from life	Aviva supports this recommendation.

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	<p>assurance, pension fund and other major clients normally include provisions in support of engagement activity and should describe their policies on engagement and how they seek to discharge the responsibilities that commitment to the Principles entails. Where a fund manager or institutional investor is not ready to commit and to report in this sense, it should provide, similarly on the website, a clear explanation of the reasons for the position it is taking.</p>	
20	<p>The FSA should encourage commitment to the Principles of Stewardship as a matter of best practice on the part of all institutions that are authorised to manage assets for others and, as part of the authorisation process, and in the context of feasibility of effective monitoring to require clear disclosure of such commitment on a “comply or explain” basis.</p>	<p>Aviva is generally supportive of this recommendation, but notes that differentiation may be required for investors who are not long term investors.</p>
21	<p>To facilitate effective collective engagement, a Memorandum of Understanding should be prepared, initially among major long-only investors, to establish a flexible and informal but agreed approach to issues such as arrangements for leadership of a specific initiative, confidentiality and any conflicts of interest that might arise. Initiative should be taken by the FRC and major UK fund managers and institutional investors to invite potentially interested major foreign institutional investors, such as sovereign wealth funds and public sector pension funds, to commit to the Principles of Stewardship and, as appropriate to the Memorandum of Understanding on collective engagement.</p>	<p>Aviva has no comment on this proposal</p>
22	<p>Voting powers should be exercised, fund managers and other institutional investors should disclose their voting record, and their policies in respect of voting should be described in statements on their websites or in other publicly accessible form.</p>	<p>Aviva agrees with this.</p>

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23	<p>The board of a BOFI should establish a board risk committee separately from the audit committee with the responsibility of oversight and advice to the board on the current risk exposures of the entity and future risk strategy. In preparing advice to the board on its overall risk appetite and tolerance, the board risk committee should take account of the current and prospective macro economic and financial environment drawing on financial stability assessments such as those published by the Bank of England and other authoritative sources that may be relevant for the risk policies of the firm.</p>	<p>Aviva is supportive of this recommendation, and believes that the separation of risk and audit committees it implies is beneficial given the different nature of the two functions.</p>
24	<p>In support of board-level risk governance, a BOFI board should be served by a CRO who should participate in the risk management and oversight process at the highest level on an enterprise-wide basis and have a status of total independence from individual business units. Alongside an internal reporting line to the CEO or FD, the CRO should report to the board risk committee, with direct access to the chairman of the committee in the event of need. The tenure and independence of the CRO should be underpinned by a provision that removal from office would require the prior agreement of the board. The remuneration of the CRO should be subject to approval by the chairman or chairman of the board remuneration committee.</p>	<p>Aviva agrees that at group level the Chief Risk Officer should participate in the risk management and oversight process at the highest level, and should be independent from individual business units. It also agrees that the CRO should have a direct report to the board risk committee and particularly to its chairman We suggest that his or her removal from office should be a matter for the Risk Committee rather than the board as a whole. Finally, we suggest that the remuneration of the Chief Risk officer should be required to be approved by the Risk Committee, which should have the right to consult the Remuneration Committee as it considers appropriate.</p>
25	<p>The board risk committee should have access to, and in the normal course, expect to draw on external input to its work as a means of taking full account of relevant experience elsewhere and in challenging its analysis and assessment.</p>	<p>In line with the Combined Code requirement that directors (and by inference board committees) have the right to draw on external advice Aviva agrees that it is appropriate to put particular focus on this issue for board risk committees. The proposal relating to access to external advice is a sensible one, although the circumstances in which the committee might feel it appropriate to draw on that advice should be a matter for it to decide on on a case by case basis.</p>

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26	In respect of a proposed strategic transaction involving an acquisition or disposal, it should as a matter of good practice be for the board risk committee to oversee a due diligence appraisal of the proposition, drawing on external advice where appropriate and available, before the board takes a decision whether to proceed.	Aviva agrees in principle that boards in general, and their risk committees in particular, should place a clear focus on due diligence in connection with transactions. The extent to which the board or its risk committee should however involve itself in individual transactions should involve an assessment of their materiality to the group and their likely risk profile, and that should be a matter for judgement by the board or committee.
27	The board risk committee (or board) risk report should be included as a separate report within the annual report and accounts. The report should describe the strategy of the entity in a risk management context, including information on the key exposures inherent in the strategy and the associated risk tolerance of the entity and should provide at least high level information on the scope and outcome of the stress-testing programme. An indication should be given of the membership of the committee, of the frequency of its meetings, whether external advice was taken and, if so, its source.	There is a potential overlap between this report and the information required to be disclosed by companies in relation to business review, and for this reason, together with the fact that the organisation's risk profile is best presented in a business context, we think it is better that information required on risk should be presented as part of the overall business review. The corporate governance report could contain any required details in regard to membership of the risk committee, frequency of meetings etc.
28	The remit of the remuneration committee should be extended where necessary to cover all aspects of remuneration policy on a firm-wide basis with particular emphasis on the risk dimension.	Whilst Aviva appreciates the reason for this recommendation, it feels that as stated the text is too wide in the way that it applies to all BOFIs. The recommendation as drafted would impose a considerable extra burden on remuneration committees for to some extent doubtful benefit; and it is difficult to see how remuneration committees could hope to discharge that burden on a non-executive basis. The suggestion is made that the recommendation is recast so that it makes clear that the remuneration committee should oversee policy in relation to those areas of remuneration which have a bearing in a material manner on the risk profile agreed on by the risk committee and by the board, and the obligation to consider whether those aspects of remuneration policy are consistent with the agreed risk profile.

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29	The terms of reference of the remuneration committee should be extended to oversight of remuneration policy and remuneration packages in respect of all executives for whom total remuneration in the previous year or, given the incentive structure proposed, for the current year exceeds or might be expected to exceed the median compensation of executive board members on the same basis.	Aviva agrees with this recommendation.
30	In relation to executives whose total remuneration is expected to exceed that of the median of executive board members, the remuneration committee report should confirm that the committee is satisfied with the way in which performance objectives are linked to the related compensation structures for this group and explain the principles underlying the performance objectives and the related compensation structure if not in line with those for executive board members.	Aviva agrees with this recommendation.
31	The remuneration committee report should disclose for “high end” executives whose total remuneration exceeds the executive board median total remuneration, in bands, indicating numbers of executives in each band and, within each band, the main elements of salary, bonus, long-term award and pension contribution.	Aviva agrees with this recommendation.
32	Major FSA-authorized BOFIs that are UK-domiciled subsidiaries of non-resident entities should include in their reporting arrangements with the FSA disclosure of the remuneration of “high end” executives broadly as recommended for UK-listed entities but with detail appropriate to their governance structure and circumstances agreed on a case by case basis with the FSA. Disclosure of “high end” remuneration on the agreed basis should be included in the annual report of the entity that is required to be filed at Companies	Aviva has no comment on this recommendation.

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33	<p>Deferral of incentive payments should provide the primary risk adjustment mechanism to align rewards with sustainable performance for executive board members and executives whose remuneration exceeds the median for executive board members. Incentives should be balanced so that at least one-half of variable remuneration offered in respect of a financial year is in the form of a long-term incentive scheme with vesting subject to a performance condition with half of the award vesting after not less than three years and of the remainder after five years. Short-term bonus awards should be paid over a three year period with not more than one-third in the first year. Clawback should be used as the means to reclaim amounts in limited circumstances of misstatement and misconduct.</p>	<p>Aviva agrees with the suggestion in relation to clawback in circumstances of mis-statement or misconduct. In all other respects, Aviva is concerned that the proposal represents a “one size fits all” approach to these issues which are not helpful and will provide distortions in the market; Aviva does not feel that its own remuneration arrangements in this respect, which do not include vesting over a 5 year period, for example, have caused any undue risk to the business. It is also noted that the recommendation goes further than the FSA Remuneration Code for banks, and also that the Code provides for FSA monitoring of the risk profile of remuneration policies for individual entities which it regulates, which appears to be a more flexible and workable proposal. Finally, longer vesting periods are likely to result in employees discounting the value of such awards, which may lead to an inflation in the level of initial grants, which would be undesirable.</p>
34	<p>Executive board members and executives whose total remuneration exceeds that of the median of executive board members should be expected to maintain a shareholding or retain a portion of vested awards in an amount at least equal to their total compensation on a historic or expected basis, to be built up over a period at the discretion of the remuneration committee. Vesting of stock for this group should not normally be accelerated on cessation of employment other than on compassionate grounds.</p>	<p>Aviva disagrees with these proposals. In general, senior executives will have substantial multiples of salary at risk through deferral and long term incentive plans. A requirement of this type may well damage the UK financial services sector by causing a leakage of talent to other industries or jurisdictions. The amount of any retained vested awards should be a matter for remuneration committees To decide on a wide range of criteria including the nature of the individual business, executives’ roles within it, and the extent to which they can have a material influence on the risk profile of the business.</p>
35	<p>The remuneration committee should seek advice from the board risk committee on an arm’s length basis on specific risk adjustments to be applied to performance objectives set in the context of incentive packages; in the event of any difference of view, appropriate risk adjustments should be decided by the chairman and NEDs on the</p>	<p>Whilst Aviva agrees with the need for remuneration to be set in a way which recognises the importance of risk issues, and would support a recommendation to that effect, we feel that the way in which individual boards and committees are recommended to approach the issue should incorporate a degree of flexibility:- the recommendation as proposed at the</p>

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	board.	moment may be too prescriptive in terms of process.
36	If the non-binding resolution on a remuneration committee report attracts less than 75% of the total votes cast, the chairman of the committee should stand for re-election in the following year irrespective of his or her normal appointment term.	Aviva agrees with this recommendation.
37	The remuneration committee report should state whether any executive board member or senior executive has the right or opportunity to receive enhanced pension benefits beyond those already disclosed and whether the committee has exercised its discretion during the year to enhance pension benefits either generally or for any member of this group.	Aviva agrees with this recommendation.
38	The remuneration consultants involved in preparation of the draft code of conduct should form a professional body which would assume ownership of the definitive version of the code when consultation on the present draft is complete. The proposed professional body should provide access to the code through a website with an indication of the consulting firms committed to it; and provide for review and adaptation of the code as required in the light of experience.	Aviva supports this recommendation.
39	The code and an indication of those committed to it should also be lodged on the FRC website. In making an advisory appointment, remuneration committees should employ a consultant who has committed to the code.	Aviva supports this recommendation.

Date: 29 September 2009