

Walker Review Team
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Walker Review of Corporate Governance

Lloyd's welcomes the opportunity to submit comments on 'A review of corporate governance in UK banks and other financial industry entities' published on 16th July 2009.

Lloyd's is the world's leading specialist insurance and reinsurance market, which accepts business from over 200 countries worldwide. It is the fifth largest provider of reinsurance and wrote £18 billion of insurance and reinsurance business in 2008.

The views expressed here are those of the Corporation of Lloyd's, which has oversight of the activities and operation of the Lloyd's market. The Lloyd's Market Association, which represents firms operating in the Lloyd's market, may respond separately.

General Comments

The Corporation of Lloyd's firmly believes in the importance of good corporate governance and the benefits it can bring to an organisation. Lloyd's 2008 annual report states that:

"The Council of Lloyd's is committed to the principle of good corporate governance and supports the application of the principles of the Combined Code on Corporate Governance, as far as they can be applied to the governance of a Society of members and a market of separate competing entities."

Lloyd's is broadly supportive of the Report's proposals to raise corporate governance standards. However, Lloyd's legal structure and organisation and its function as an insurance market (rather than an insurance company) mean that some of the Report's recommendations are not relevant to it.

We believe that the proposals and any amendments made to the Combined Code pursuant to the Report's recommendations should clearly distinguish between those financial institutions where excessive risk taking can take place and threaten the institution's financial stability and those institutions where it does not. Many of the proposals in the Report are aimed at governance and remuneration arrangements to curb excessive risk taking. The Corporation of Lloyd's main role is to oversee and manage the Lloyd's market. Proposals to deal with problems of excessive risk are not therefore relevant to the Corporation, despite its aim of complying with the Combined Code wherever possible.

The recent financial crisis has led to a wave of proposals for regulatory change, nationally and at international level. It is important that these proposals are proportionate and properly targeted. In particular, they should take account of differences between different financial sectors and not seek to legislate on a "one size fits all" basis.

Requirements that appear appropriate for the banking industry should not be applied indiscriminately to other sectors that do not face the same challenges. The Review was originally established to examine corporate governance in the UK banking industry. Although its terms of reference were subsequently extended to include other financial institutions, its principal focus remained on banks. Nevertheless, many of its recommendations are explicitly worded to apply to "banks and other financial institutions", which gives rise to concerns that insufficient regard has been paid to differentiating banks from financial institutions that were not the cause of the financial crisis.

We firmly believe that any new requirements for corporate governance and remuneration practices in the insurance sector should take account of the sector's characteristics. An important consideration is that account should be taken of rules under Solvency II, the EU's reform of insurance supervision, and not be part of separate regulatory rules.

Our specific comments are set out below.

Board size, composition and qualification

Recommendation 3 – Minimum time commitment of 30 to 36 days for NEDs on bank boards

A minimum expected time commitment by NEDs may make sense for major bank Boards but it is not necessary in all circumstances and should not be accepted as a universal norm. The key requirement should be that the time commitment is sufficient to enable NEDs to discharge their duties effectively.

Recommendations 4 and 5 – The FSA's supervisory process for the board and NEDs

We appreciate that these are addressed to the FSA but it is important that its duties in this regard are carried out in a proportionate and sensible way relevant to the circumstances.

Functioning of the board and evaluation of performance

Recommendation 12 – Evaluation of Board performance

We understand this recommendation's intention but based on the experience of our annual review exercise believe that an effective formal and rigorous evaluation of Board performance can occur without the need for stipulating external facilitation every second or third year. We do not believe that this should be a universal requirement.

In addition, stipulating that an external review must be carried out every 3 years introduces the risk that internal reviews will not occur on a more frequent basis.

The role of institutional shareholders: communication and engagement

The Corporation of Lloyd's is not a company limited by shares, so the recommendations here are not relevant to Lloyd's.

Governance of risk

Given the Corporation of Lloyd's role, we do not believe that these recommendations are relevant. That said, implementation of Solvency II by 2012 will fundamentally affect the way risk is managed and controlled in the insurance sector and will reinforce risk management's central position in insurance governance arrangements.

Remuneration

Recommendation 28 – Extending the scope of remuneration committees to all employees

For the reasons set out above, we do not believe that the remit of remuneration committees needs to be extended to all employees in financial institutions where excessive risk taking does not take place.

Recommendations 33 and 34 – deferral of payment of executive board member and executive remuneration

We understand why such arrangements may be appropriate in the case of banks but believe that other remuneration frameworks should be permitted where appropriate to the nature of the organisation.

Recommendation 35 – 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.

As mentioned above, the management and governance of risk in the insurance sector is at the heart of Solvency II. Again, we believe that it would be beneficial if the proposals were to better distinguish between different sectors within financial services.

We thank you for the opportunity to comment on this Report. Please let us know if you have any questions arising from this letter.

A handwritten signature in black ink, appearing to read "C. G. G. G.", written in a cursive style. The signature is positioned on the left side of the page, below the main body of text.