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Myners Review of the Governance of Mutual Life Offices

Submission by Ronnie Sloan FFA (independent actuary)

I have pleasure in responding to those questions on which I feel that I have something constructive to offer. However, I would preface my remarks by pointing out that, while many of my comments are generally applicable, the bulk of my practical experience relates to my specific involvement with the affairs of Standard Life since the time of its 2000 AGM.

Q.1 To what extent does the current guidance on corporate governance, particularly the Combined Code, provide an appropriate framework for mutual life offices?

1.1 Subject to minor re-interpretation where necessary to suit the context of mutuality, the current guidance would seem to be largely satisfactory.

Q.2 What is the best way of securing mutual life offices' compliance with corporate governance best practice?

2.1 By requiring mutuals to comply with the Combined Code as if they were proprietary, again subject to minor re-interpretation to suit the context of mutuality.

2.2 The FSA should also make more frequent use of its powers to disqualify individuals from acting as non-executive directors if they fail to meet relevant criteria.

Q.3 Should the ownership structure of, or the nature of the business conducted by, a life mutual affect the composition or structure of its board?

3.1 The complex nature of the business should require added emphasis to be placed on the balance of the board (Principle A.3), specifically in relation to technical expertise.

3.2 In practice, this should require the non-executive directors to include at least one, and preferably more, independent qualified actuaries. Only by this means can there be a reasonable likelihood of exercising effective scrutiny of the executive (actuaries).

3.3 The ownership structure of life mutuals should disallow blank (open) proxies held by the Chairman (or other directors) from being exercised as they think fit. In other words, policyholders should be required to indicate specifically how their votes are to be cast.

3.4 The appendix contains notes outlining my suggestion at 3.2 as made at various times since 2000 at actuarial meetings (items 1-4) and in the professional press (item 5).

Q.4 Is the information and advice used by the non-executive directors of life mutuals sufficient to enable them to exercise effective oversight of the executive?

4.1 In relation to the specific example of Standard Life, this is clearly not so, in relation both to information and to advice.

- 4.2 In this context, I attach copy letters (items 6 & 7) dating back to June 2001 in which I sought to draw the attention of the non-executive directors to matters of which they were clearly either not aware, or to which they were failing to respond appropriately,
- 4.3 While it has been argued in some quarters, in particular by the previous Chairman of Standard Life, that non-executive directors need not themselves necessarily possess technical expertise provided that they have access to independent outside advice, I believe that Principle A.3 does indeed require direct possession of such expertise.
- 4.4 I further believe that, in the case of Standard Life, the outside advisers named by the Chairman at the 2002 AGM were neither independent (because they provided advice to the Company too) nor were they asked to give separate advice to the non-executives.

Q.5 What is the rôle of the non-executive director in a complex or technical business?

- 5.1 To take special care to exercise independent scrutiny of the executive, and to ensure they (the non-execs) are neither 'baffled by science' nor 'take their eyes off the ball'.
- 5.2 It is the duty and responsibility of non-executive directors to ensure that they have both the capability and the capacity to provide such challenge to the executive.
- 5.3 As stated at 2.2, it should be incumbent on the FSA to ensure reasonable compliance.

Q.6 What can the owners of a complex or technical business reasonably expect of its non-executive directors?

- 6.1 Primarily, to comply with the requirements at both 5.1 and 5.2 above.
- 6.2 To ensure such compliance in both letter and spirit, non-executive directors should be required to submit themselves for re-election each year, not merely every 3rd year.
- 6.3 The duties of executives and non-executives are clearly somewhat different, but their degree of legal responsibility should be tempered by their expertise and the details of their service contracts, in particular time allotted and remuneration.
- 6.4 Above all, non-executive directors should hold themselves accountable, and prepared individually to answer reasonable questions at AGMs, which process should occur before the annual re-election suggested at 6.2 above.

Q.7 What rôle should policyholders play in the running of mutual life companies?

- 7.1 Given the problems in setting criteria and rôles for paid non-executive directors, it is difficult to envisage a valid role to be played by policyholders in the direct running of a mutual life office, especially if on a (probably) unremunerated basis.
- 7.2 Instead, it would seem preferable to strengthen the responsibilities of non-executive directors, and further to empower policyholders in their selection and accountability.
- 7.3 In particular, as suggested at 3.3 above, policyholders should not be permitted to give a proxy the power to vote on their behalf without specific direction on each item.

Q.8 What does “source of the risk capital” mean in the context of a mutual life office?

- 8.1 Interestingly, when the board of Standard Life were in 2000 defending the Company’s mutual status, their arguments largely referred to policyholders enjoying the benefits of mutuality, whereas by 2004 this had changed to them bearing all the business risks.
- 8.2 While the statement by Lord Penrose is true in a literal sense, it should not necessarily be taken as meaning that it is only the current policyholders who are the sole source of risk capital. The point is that previous generations of policyholder may well also have contributed (perhaps unknowingly) to the risk capital of the enterprise.
- 8.3 This need not necessarily require mutual life offices to be more risk-averse than their proprietary counterparts, but it does require a particular level of understanding of the exact nature of a mutual, especially by the independent non-executive directors.

Q.9 Has the FSA in its work since 1997 succeeded in anticipating some of Lord Penrose’s views on corporate governance?

- 9.1 Perhaps so, in the sense that the FSA has kept a watching brief and has required the regular submission by life companies of statutory annual returns and the like.
- 9.2 However, to my own personal knowledge, the FSA failed to respond adequately to my complaint to it of 1 November 2000 about misleading advertising by Equitable Life, in which context the FSA was meant to act in place of the Advertising Standards Authority on matters relating to financial services. Although not strictly related to corporate governance *per se*, this complaint (see item 8) did relate to actuarial governance and had previously been raised direct with the Appointed Actuary of Equitable Life.
- 9.3 Another example that did relate specifically to the corporate governance of Standard Life occurred in August 2001 (see item 9) when I drew to the attention of the FSA what I regarded as breaches of the Combined Code, to which Standard Life declared itself as adhering on a voluntary basis. However, no action was taken by the FSA.

Q.10 Is there a further rôle for the FSA in improving firms’ corporate governance?

- 10.1 By requiring, and supervising, compliance with the Combined Code.
- 10.2 Director nomination and election procedures need to be much more transparent and democratic – see item 10 describing my experience re Standard Life AGM in 2001.
- 10.3 Disclosure and accountability to policyholders needs to be substantially improved, and in a meaningful manner, not purely lip-service as practised by Standard Life – items 11 & 12.

Q.11 What market forces are most relevant for mutual life offices?

- 11.1 Regrettably, personal financial considerations currently hold most sway, as reflected in the impact of new business sales on bonuses and remuneration, with consequential impact on final salary pensions (which should be changed to career average).
- 11.2 These should be replaced by other customer-related performance criteria, on which failure should lead to proportionate sanction, including demotion, pay reduction and/or subjection to annual re-election (3-yearly for executives) by policyholders - see 6.2.

Q.12 Do specific barriers exist to the success of mutual businesses in the UK?

- 12.1 Not really, other than that the most ambitious people (not necessarily the best) tend to be attracted to the higher financial rewards offered by proprietary businesses.
- 12.2 It is singularly unfortunate that this should apply so obviously in the area of financial services, whereas there are many other fields, such as education and healthcare, which people enter for more altruistic reasons. But will society's perception of value change?
- 12.3 Regrettably, I must also draw attention to mis-placed political correctness, for example in connection with the recent advertisement seeking three non-executive directors of the FSA. Well-qualified individuals (such as myself), who would be willing and able to put something back into society in this way, are discouraged from applying due to the evident positive discrimination involved. Applications for these posts closed on 7 September (without my having applied), but my e-mails attached at item 13.

Q.13 What are the forces that drive de-mutualisation? What are the implications of de-mutualisation for members and customers?

- 13.1 Again regrettably, often the prospect of personal financial gain. However, unless mutual organisations are committed to mutuality in perpetuity, this will remain inevitable.
- 13.2 Business and commercial needs may appear to dictate de-mutualisation, but it is often difficult to exclude bias and/or vested interests on the part of management and their advisers. In particular, it should always be incumbent on the board to indicate clearly and objectively the consequences of continuing as a (smaller) mutual entity, rather than highlighting the advantages (and to whom) of de-mutualisation – see item 14.
- 13.3 What is paramount is that policyholders' entitlements on de-mutualisation (but not the detailed basis) are clearly spelt out at the earliest possible stage, before substantial sums are expended on a process that has not yet been approved by the policyholders.
- 13.4 Unsurprisingly, I have on several occasions at actuarial meetings raised this general point of principle, but more recently have been disappointed to find that Standard Life seemingly intend to make no further announcement for another 18 months, despite protracted correspondence (copies if required) and a letter to the press (see item 15).

Q.14, Q.15 & Q.16 No specific comment.

In conclusion, I have of necessity been brief in some of my comments, and so would be glad to expand more fully on any matters in which your Review might show particular interest.

Yours sincerely

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APPENDIX

Attachments to Myners Submission by Ronnie Sloan FFA

<u>Attachment Number</u>	<u>Para Ref.</u>	<u>Title of Document</u>	<u>Subject matter</u>	<u>Date</u>
1.	3.4	Lessons 2001	Lessons from Equitable (FFA)	29 Nov 2001
2.	3.4	Corp Div 2002	Corporate Diversity (FFA)	18 Feb 2002
3.	3.4	Act Gov 2002	Actuarial Governance (FFA)	12 Mar 2002
4.	3.4	Penrose 2004	Discussion on Penrose (FIA)	24 May 2004
5.	3.4	Actuary Feb 04	Letter to The Actuary (FIA)	2 Feb 2004
6.	4.2	StanLife Jun 01	Standard - Corp Governance	30 Jun 2001
7.	4.2	StanLife Sep 01	Standard – Non-Exec D’s Q’s	30 Sep 2001
8.	9.2	ASA ELAS	ASA/FSA complaint re Equitable	1 Nov 2000
9.	9.3	FSA Aug 01	FSA re Standard’s Corp Gov	10 Aug 2001
10.	10.2	AGM 2001	RKS experience re Standard	24 Apr 2001
11.	10.3	StanLife Accy	Standard Life Accountability	28 Mar 2002
12.	10.3	StanLife Accy2	Standard Life Accountability2	10 Nov 2001
13.	12.3	FSA non-exec	e-mails re FSA NED selection	Jul/Aug 2004
14.	13.2	Stay Mutual	Article re Standard Life	2 Apr 2004
15.	13.4	Stan Demut	Letter re Standard Life demut’n	14 Jun 2004

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Lessons from The Equitable

Faculty Discussion – 29 November 2001

Remarks by R K Sloan FFA

Mr Chairman, Ladies & Gentlemen, my name is Ronnie Sloan.

Corley Report : May I begin by congratulating the Corley Committee on treading so well that fine line between saying too little and saying too much. However, at certain points, I could almost feel the self-restraint being imposed. The recommendations are eminently sensible and sound, and indeed 7.3 of the FSA's Baird Report also came out with precisely recommendation A – external peer review of the work of the Appointed Actuary.

While we are here all fully aware of the restricted terms of reference, this did not prevent Equitable Life itself from commenting that “we are surprised that the Inquiry has shied away from discussing culpability at Equitable.” However, we know that was not its purpose, as culpability will be fully addressed by the Inquiry being conducted by Lord Penrose, to whom the FSA has submitted the Baird Report as evidence.

Now let me try to draw some lessons, which I will deal with under a few headings:-

Whistle-blowers: the issue of whistle-blowers is referred to in both reports, but the unfortunate fact is that corporate culture in the UK tends to result in whistle-blowers being vilified. Accordingly, I would like to see greater protection, and some form of financial indemnity offered to whistle-blowers – not just in our industry, but also in other walks of life such as the health service, Government and so on. *To quote Edmund Burke* – “When bad men combine, the good must associate; else they will fall, one by one, an unpitied sacrifice in a contemptible struggle.”

Professional Intervention: the matter of culture is also touched upon in the Baird Report, where in 7.7 the FSA intends in future to be more pro-active in its approach and to review the need for intervention where appropriate. Given the limitations of the Corley remit, but the substantial body of information now available to the profession, I would like to see the Faculty and Institute also adopt a more pro-active approach to possible transgressions of our professional guidance and best practice.

Peer Pressure: perhaps this is merely a softer version of Professional Intervention, but we all have a vested interest in maintaining the good name and reputation of the actuarial profession and the life assurance industry. I would therefore like to see the formation of informal groupings of peers, which I believe do already exist in some quarters, whereby gentle persuasion could be applied before any doubtful practice become a crisis. *Attributed to Burke* - “It is necessary only for the good man to do nothing for evil to triumph.”

Advertising: in the light of the arguably misleading advertisements issued by Equitable, and the apparent indifference to this shown by the FSA, I fully endorse recommendation D with regard to reviewing communications to policyholders and potential policyholders. Perhaps it might offer some light relief if I tell you that the punchline of The Equitable's advertisement of 14 October 2000, which I had occasion to refer to the FSA, read: "So with a company as reliable as The Equitable, why throw money down the drain?"

Sales supervision: as an extension of the last point, I would also like to see actuaries, whether or not the Appointed Actuary as such, have direct responsibility for the integrity and compliance of a life office's sales force. Some of the figures in the Baird Report make startling reading, for example that Equitable Life wrote 35% of all Income Drawdown business in the UK during the first 3 years of its availability. Sales practice and sources of new business should be subjected to careful scrutiny. That way, at least some of the Country's mis-selling scandals – and I'm referring here not only to The Equitable – could well have been avoided – and the cost of which is generally being borne by policyholders.

Compliance: Mention of compliance reminds me, as a former compliance officer myself, how unwelcome an intrusion to one's daily workload the matter of compliance can often seem. However, it is a subject that deserves to be taken much more seriously, as the rigorous discipline entailed can more readily avoid lapses such as recommendation of weak and inappropriate life offices, for AVCs and the like.

PRE: we know that Equitable Life have been accused of arrogance, but there have also been a number of publicly voiced opinions regarding the meaning of PRE which have cast serious aspersions on the integrity of other professions, and at the same time imbued the actuarial profession with a totally misplaced appearance of infallibility. We must therefore aim to be more circumspect in our dealings with other professions in such subjective areas.

Corporate Governance: I now return to a recurring theme of both the Corley and Baird Reports, namely the many instances where reference is made to actions and decisions taken by the Board of Directors, and to the information made available to the Directors. In this regard, it is perhaps worth reciting Principle A.3 of the Combined Code of good governance and best practice, which states: "The board should include a balance of executive and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision taking."

Given that none of The Equitable's non-executive directors was an actuary, it is difficult to see how, in the complex environment of a life office, this requirement could reasonably be met without at least one independent actuary amongst the non-executives. So, while I strongly support external peer review of the Appointed Actuary, this is far from the only area where technical considerations affect the operational strategy of a life office. I would therefore like to see greater emphasis placed on the importance of having an independent actuary amongst the non-executive directors of every life office.

In conclusion, after reading through so much report material, I am minded to repeat the old adage that I always used whenever staff were faced with doubts about how to act on a problematical professional matter – "How will it sound in court?" Unfortunately, this has never been more true. Thank you.

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Corporate Diversity and the provision of Financial Services

Faculty Panel Discussion – 18 February 2002

Remarks (as edited) by R K Sloan FFA

May I begin by picking up a thread and, if I may, answering briefly the question that Dr Tutt posed about “what progress regarding demutualisations?” I think the generally perceived answer is money. Many policyholders pocketed a lot in windfalls. But

If we go back to the origins of mutuality, mutuals were central to the early development of life assurance in the late 18th century. To quote from Professor Ricketts’ in 1999, he said – “The calculations involved were so uncertain that investor-owned institutions offering similar contracts would have risked either default or the making of enormous profits for shareholders. A mutual could set the premium prudently high, but then distribute surpluses to the membership as time advanced.”

But times have changed, as has the financial world we now inhabit. Mention was made in the paper of globalisation. This includes both geographical globalisation and technical changes from entry into new markets such as banking and investment management. In areas like banking the payback periods can be particularly long. Long payback periods are also associated with products like the new stakeholder pensions with their 1% cap on expense charges. I happened to come across evidence given to the House of Commons Treasury Select Committee prior to the introduction of stakeholder by the actuary of a mutual, who said that – “if the 1% cap were to become a requirement generally in our business, then it would be difficult for a mutual company to comply with it.”

In general, in this kind of environment such very long-term risks, and the rewards associated with them, would seem to be much better suited to shareholder-ownership than to mutuality.

Ownership rights were mentioned by Professor Ricketts. I would just comment briefly that for those companies that are still mutual it might perhaps help if they were to set out their stall, as it were, as to how they viewed the ownership rights of their existing policyholders. Interestingly, in the Treasury Select Committee from which I quoted, Patricia Hewitt said that the Government thought that the existing policyholders owned the assets.

As regards a company setting out its own attitude to ownership rights, in my view one company that implemented demutualisation well in terms of the distribution was Friends Provident who, rather than distributing in proportion to existing policy values, which

tends to be the normal assumption, based this on the increase in asset share over premiums paid. This of course offers relatively little to recent entrants to the company, and thereby acts as a significant deterrent to carpetbaggers, which must be a good thing. So it could help defuse some situations if mutuals were perhaps to explain how they might apply demutualisation if they were to follow this course, or state if they would adopt the community concept of locking away surplus for ever.

Mention is made in the paper of consumer choice and whether any restriction therein was to be regretted. I do not feel that this sort of generalised question is really all that appropriate. We are not talking about fashion clothing, or something like that, but the hard-nosed provision of financial services. The irony here is that the success of most forms of financial products depends on sound investment in the shares of proprietary companies. In other words, no investment institution could survive if all organisations were only mutual. That is obviously a truism, but I think it is nevertheless relevant to point it out.

We then come to the matter of regulation, which I believe does indeed reduce the advantage of mutuality. Again quoting from the paper by Professor Ricketts in 1999, he said “the growth of state-imposed financial regulation to some extent substitutes for mutual status.” Then, with great prescience, given the subsequent Equitable Life experience,, he added “ whether Government regulation is an effective substitute is another matter.” So well done there! However the irony of that situation was that mutuality was itself far from helpful to Equitable Life in its situation, and arguably contributed to its eventual downfall, if I can call it that.

Now I come onto accountability and whether there are real differences between the levels of accountability between mutuals and proprietary companies. Somebody suggested that there was not much, but I am afraid that I have to say that in my view the answer has to be a resounding yes, there is a difference. For a start, the Combined Code of good governance applies only to PLCs, and not to mutuals. As a result, even seemingly straightforward issues such as the composition of Audit Committees - do I hear see Enron? - the composition of Remuneration Committees, and so on, quite frankly get fudged over to the detriment of the company's owners, that is its with-profits policyholders.

There are many other defects in the structure and the corporate governance of mutuals, in which I include Building Societies as well as Life Offices. There have been things like undemocratic restrictions on director nominations and election procedures, unfair use of proxies – the situations abound. So we definitely need better accountability.

On a conceptual level, when considering the less affluent or high net worth customers, we are basically looking at homogeneity of risk, or need. One area where mutuals could send out helpful signals is regarding commission, where it would seem entirely logical to impose a cap on the commission paid on a single transaction, say a maximum of £3,000. New proposals are of course in the offing, but the current practice of “buying” business via IFAs would seem to be the very antithesis of the mutual concept of putting the customer first.

Professional Issues : concern should be to ensure that existing structures work effectively. Need we be concerned whether streets are lit by gas or electricity, so long as it is effective and safe, the same going for whether motor cars are rear-wheel or front-wheel drive. So let's concentrate not on the means of delivery, but on financial security, professional probity, high standards of accountability and corporate governance in all kinds of financial services organisations – and let market forces decide whether mutuals or proprietary companies prevail.

Thank you.

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Actuarial Governance

Faculty Discussion – 12 March 2002

Remarks by R K Sloan FFA

Mr Chairman, Ladies & Gentlemen, my name is Ronnie Sloan.

Appointed Actuary role : In 5.4.1 the question is posed as to whether the Appointed Actuary should be an employee of the company rather than an external consultant. On balance, I believe it makes sense for the Appointed Actuary to be an employee, especially if the Corley recommendation is adopted of external peer review. However, I would like to draw attention to the points made by the FSA in paras 112 & 113 of Issues Paper 5 where they point to potential conflicts of interest where the Appointed Actuary receives part of his remuneration either through share options or some other direct profit-related means. I would therefore support Option B5 “to prohibit, or restrict in some respects, the granting of share options, or other profit-related remuneration, to Appointed Actuaries.”

With-Profits Committee : In 5.2 the Role of Directors is discussed, and one possibility put forward is the formation of a committee of the board of directors to consider the issue of policyholders interests in greater depth. The AGWP believes it would be preferable for such a Committee to have a majority of non-executive directors. Indeed, the FSA’s Issues Paper 5 goes into the idea of With-Profits Committees at great length in paras 47 to 56, after in para 46 having floated the option of the appointment of a policyholder representative onto the board of directors. Interestingly, they conclude in para 57 that “a key factor that could affect the viability of establishing W-P Fund Committees is whether there would be an adequate supply of appropriately qualified individuals.”

This therefore brings me back to consideration of the general responsibilities of directors, in connection with which it is perhaps worth reciting Principle A.3 of the Combined Code of good governance and best practice, which states: “The board should include a balance of executive and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board’s decision taking.”

Let me just take one obvious example that is well documented. Given that none of Equitable Life’s non-executive directors was an actuary, it is difficult to see how, in the complex environment of a life office, this requirement could reasonably be met without at least one independent actuary amongst the non-executives. I would therefore like to see greater emphasis placed on the importance of having an independent actuary amongst the non-executive directors of every life office.

I believe this would make it easier to achieve some of the governance objectives being advanced both in tonight’s paper and by the FSA. Thank you

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Discussion on the Penrose Report

Institute of Actuaries – 24 May 2004

Remarks by R K Sloan FFA

Mr Chairman, Ladies & Gentlemen, my name is Ronnie Sloan (visitor from the Faculty).

As someone who has, since about 1996, taken a considerable interest in the situation at Equitable Life, I must admit to not having been surprised at any of the major conclusions arrived at by Lord Penrose in his report.

Indeed, I recall making critical comments about Equitable's flawed bonus distribution approach at the Transparent With-Profits paper in Edinburgh on 19 March 2001, which included a table illustrating their over- and under- declarations of bonus since 1989 – effectively a simplified version of Lord Penrose's Financial Table D at the end of his report.

We then also had our discussions entitled 'Lessons from The Equitable' in November 2001 following publication of the Corley Report. After recently digging out my old remarks from 2001, which were not recorded verbatim at that meeting, I find that I still have little reason to change anything material in what I said then.

My remarks had covered a range of topics including Whistle-blowers, Intervention by the Actuarial Professional, Peer Pressure, Advertising, Sales Supervision, Compliance, PRE, and Corporate Governance. However, I'm sure you will be relieved to hear that I propose now to re-address only the last one, namely Corporate Governance, on which I had said:-

"It is perhaps worth reciting Principle A.3 of the Combined Code of good governance and best practice, which states: "The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual, or small group of individuals, can dominate the board's decision taking."

Given that none of The Equitable's non-executive directors was an actuary, and most of the executives were, it is difficult to see how, in the complex environment of a life office, this requirement can reasonably be met without at least one independent actuary amongst the non-executive directors. I would therefore like to see this adopted by every life office."

That's the end of my quote from 2001.

Returning now to Lord Penrose: he explained on page 739 how critical risk management and actuarial functions of Equitable Life were not subject to effective scrutiny or challenge, mainly because The Equitable's non-executive directors were so wholly dependent on actuarial input from the executive that they were largely incapable of exercising any influence on the actuarial management of the Society. He further described Equitable's board as 'a self-perpetuating oligarchy'.

Later on that same page, Lord Penrose referred to the importance of the FSA addressing 'the problem of unbalanced or ineffective boards', and on the next page to: 'there appears to be no alternative to the FSA exercising powers to refuse an appointment where this does not fill a gap in a board's range of skills and experience.'

So, given the introduction of the Combined Code of corporate governance in 2000, including Principle A.3 concerning the balance of the board, and despite the repeated public pleas of many commentators, myself included, I am frankly surprised that some mutual life offices still have no actuary amongst their non-executive directors. It was thus virtually inevitable, albeit highly regrettable, that The Treasury should now have found it necessary to institute the Myners Review of the governance of mutual life offices.

As with all issues of corporate ethics and probity, if the parties concerned won't put their own house in order, then someone else will eventually feel compelled to do it for them. This is surely a lesson that the life assurance industry, coupled with the actuarial profession, should have learned long before now, and which could have avoided the embarrassment of the imposition of this further external review (Myners) on top of the Morris Review.

Thank you.

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24 May 2004

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The Editor
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2 February 2004

Dear Sir

Corporate Governance

The article in the Jan/Feb issue raised a number of interesting points about the relationship between actuaries and non-executive directors of life companies.

Some of the conclusions were:-

- Internal monitoring by non-execs may not be as effective as suggested
- Risk aversion of non-execs may actually be harmful to the business
- Non-execs may not command sufficient professional knowledge

Elsewhere, references were made to the corporate governance role played by professional actuaries (is there some other kind?), and of the proportion of actuary/non-exec directors, which all seems to be based on the presumption that the terms actuary and non-executive director are somehow mutually exclusive.

Now, the Combined Code on Corporate Governance was reviewed in 2003 following the Higgs Report, but one of its key principles (A.3) still remains virtually unchanged in the new July 2003 version, viz: "The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking."

In the not untypical situation where most or all of the executive directors of a life company are actuaries, and none of the non-execs is, then I have long argued that this is in fundamental breach of Principle A.3, as well of course as contributing to the authors' conclusions above.

Putting all of this together therefore supports my plea that the non-execs of every life company, whether PLC or mutual, should be required to include at least one independent actuary.

Yours faithfully

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FAX MESSAGE
(total 2 pages)

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30 September 2001

Dear M Delorme

Corporate Governance - The Standard Life Assurance Company

Thank you very much for your letter of 7 September, copied to me by fax on 19 September, and which happened to arrive in the post the following morning! As I mentioned, I have been away on holiday this last week, hence the slight delay in my response.

First, let me acknowledge all your general points about overall balance and other business experience of the directors, none of which I question. Equally, I trust you can give me credit for being well aware of all these issues, having only picked on two easily identifiable points in order to focus attention on some very important underlying principles.

While flexibility and discretion do indeed need to be applied, this can hardly excuse such blatant examples as disregarding Mr Trott's 27 years on the board, or Mr Lessels' 23 years, including some 10 years as Chairman himself. Furthermore, these two, plus Mr Stewart, all continue to accrue final salary pension benefits, yet comprise 75% of the Remuneration and Appointments Committee. Independence should also be seen to be that, so I really cannot understand why these gentlemen persist in flouting all known guidelines, and with your apparent approval. If they have Standard Life's good name at heart, surely putting their pensions on the same footing as post-1995 directors would hardly drive them to penury!

As regards your suggestion that I have referred to only two benchmarks, perhaps I might list those four of which I am aware, namely ABI/NAPF, Hermes, PIRC, and Standard Life, all of which indicate 10-year maximum service for "independence", which is also supported by the Institute of Directors. Indeed, even I would decline to serve on the Remuneration Committee in view of my long personal association with all four of your UK executives.

To return to your defence that your ten non-actuary non-executive directors can provide an effective counter to the five actuary executives, perhaps you would care to answer these:-

- (a) What is the current “embedded value” of Standard Life Bank, which Mr Lumsden has assured me will be reflected in the returns payable to existing policyholders?
- (b) What is the Board’s view on the pay-back period of Standard’s major investment in ultra low-cost (and low profit) Stakeholder Pensions? - including paying commission.
- (c) What was the cost of last year having reduced the charges on all existing pension policies (to match Stakeholder), which I have seen estimated at £750m?
- (d) Why was the earlier (wise) decision not to offer With-Profit Bonds changed last year, and what is the cost to other policyholders of not currently applying any MVAs thereon?

It is on broad issues such as these that I, and other informed outside observers, have some concerns, and on which I would welcome your views from your independent standpoint.

As regards the Regulations, I am aware of their provisions, my point being that they should have been reviewed for inconsistencies (and amended?) before you embarked on the 2.4m member mailing of proxies that was initiated last year. While I am glad to note that some changes are now in train, would it be expecting too much to be notified of what these are?

Finally, it will be apparent that I have disregarded the request in your P.S. to write via the Company Secretary, which is the very kind of corporate evasion that the Senior Independent Director role is meant to dispel. However, I undertake not to write to you again personally if you will do me the courtesy of letting me have your own direct reply to this (final) letter.

Assuring you of my best intentions for OUR company.

Yours sincerely

Ronnie Sloan

P.S. As I will be out of the country from 10 October to 1 November, your early reply by fax would be much appreciated, or else it can await my return in November.

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Consulting Actuary

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Advertising Standards Authority
Complaints Department
2 Torrington Place
London WC1E 7HW

1 November 2000

Dear Sirs

The Equitable Life Assurance Society

I wish to lodge a complaint about a full-page advertisement placed by the above mutual life insurance company in the Daily Telegraph of Saturday 14 October 2000.

In support of my complaint, I enclose the following:-

1. My letter of 16 October 2000 to The Equitable Life (also sent by fax).
2. The Equitable Life's reply of 27 October 2000 (received by me on 31 October).
3. The advertisement from page B9 of the Daily Telegraph of Saturday 14 October 2000.

Additional Information

4. Some of "The Society's current financial problems" include:-
 - (a) £1.5 billion "black hole" resulting from House of Lords ruling of 20 July 2000 regarding Guaranteed Annuity Rates (GARs).
 - (b) Backdated cancellation of all with-profits bonuses from 1 January to 31 July 2000.
 - (c) Cut of 20% in Final (Terminal) Bonuses for all non-contractual withdrawals.
 - (d) The impending sale of the Society and likely loss of its mutual status.
5. **Consumer's (sic) Choice** via the **Money Observer** – this survey was conducted as far back as November 1999 and was published in March 2000 – long before the House of Lords ruling at 4(a) above. Moreover, the editor added a strong qualifying note.
6. **Money Management Awards** – these were based on performance figures calculated as at 1 July 2000 (see above) and were based solely on unit-linked performance, not with-profits, despite the advert referring both to unit-linked and with-profits funds. Moreover, the editor informs me that no permission was sought by The Equitable for reference to these 5 Star Awards in the current series of adverts.

The British Codes of Advertising and Sales Promotion

7. The Code's general rules indicate that all advertisements should (*inter alia*):-
- (e) be . . . honest and truthful;
 - (f) be prepared with a sense of responsibility to consumers;
 - (g) respect the principles of fair competition generally accepted in business; and
 - (h) conform to the spirit as well as the letter of the Codes.

As both a qualified actuary of long standing and my late employer's Compliance Officer until 30 September, I genuinely believe that The Equitable Life are in breach of numerous aspects of various regulatory codes (see also below) and should both be requested to desist immediately from any further such advertising and also be severely reprimanded.

I would be glad to provide any further information that you, or any of the other bodies to whom this has been copied, may require.

Yours faithfully

R K Sloan

Copies to:

Paul Beaumont Esq
Insurance & Financial Services Division
The Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

William Hewitson Esq
Government Actuary's Department
New King's Beam House
22 Upper Ground
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Consulting Actuary

20 Lomond Road
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Dr Eleanor Linton
The Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

10 August 2001

Dear Dr Linton

The Standard Life Assurance Company - Corporate Governance

I have been given your name by Ned Cazalet who I understand is on the FSA With Profits Standing Panel. When discussing another matter, he mentioned my recent exchange of letters in the Financial Times regarding Standard Life's corporate governance, on which he felt you would be interested in receiving further background information. So here goes.

One of the points at issue concerns the definition of "independent" director, which I have taken from page 4 of the NAPF booklet "Towards better corporate governance" and with particular regard to items 4 and 6, namely service exceeding 9 years and active membership of the company's (final salary) pension fund. Although Standard Life accepts that several of its directors fail these two criteria, it resolutely refuses to accept that this affects their fitness to continue to be regarded as "independent" directors.

I therefore contend that:-

- (1) Standard Life's 4 member Remuneration Committee is improperly constituted, as 3 are pension scheme members, of whom 2 have also served for 27 and 23 years respectively, rendering them not independent and thus in breach of Combined Code provision B.2.2.
- (2) Although the Senior Independent Director is identified as such in the Annual Report (as per Combined Code provision A.2.1), the other directors considered by the board to be independent are not so identified (as per A.3.2).
- (3) The statement in the 2000 Annual Report that "a majority of directors is independent" is incorrect, in that only 7 of the 15 directors meet both the above criteria.

(continued overleaf)

This also leads on to another related issue concerning the overall composition of the board. Provision A.3 of the Combined Code suggests that the balance between executive and non-executive directors should be “such that no individual or small group of individuals can dominate the board’s decision-taking.” However, all five of the Standard Life’s executive directors are qualified actuaries, whereas none of the ten non-executives is so qualified.

I therefore contend that:-

- (4) The absence of any actuaries amongst the non-executive directors creates a serious imbalance on the board in breach of Principle A.3 of the Combined Code.

I am not suggesting that any one of these breaches is necessarily likely to lead to malpractice, but they clearly contribute to the overall impression that the board considers itself somehow immune from the high Corporate Governance standards that the industry expects – and which Standard Life sets out in its own UK Corporate Governance Guidelines booklet.

Two independent associates and I have also identified a number of areas in the Company’s Regulations (under The Standard Life Assurance Act 1991) which hamper the democratic process. One example is the conflict between the dates for lodging of director nominations and the issue of AGM voting papers. Others include the order in which Resolutions for board nominations are put to the AGM and the limited nature of the business that can be transacted at an AGM. Together these make it virtually impossible for non-board nominees ever to be elected – hardly a democratic situation for such a staunchly “mutual” company.

While we strongly believe in the important basic principles that we have identified, we feel that this situation has recently assumed even greater public significance in the light of the problems at The Equitable Life and the Independent Insurance Company, and against the background of the reviews currently being undertaken of With-Profits Policies and the Competitiveness of the Long-Term Savings Industry. This highlights the need for “a core of vigorously independent directors” who are also “seen to be independent” (per *Hermes*).

I enclose copies of (some of) my correspondence with Standard Life on the above matters and would greatly appreciate your comments. I would also be glad to provide you with further details on any of the areas touched upon, and very much hope that the FSA can bring its undoubted influence to bear on the situation.

I look forward to hearing from you.

Yours sincerely

R K Sloan

cc Vince Whitefoord Esq

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Standard Life AGM – Tuesday 24 April 2001

Good afternoon. My name is Ronnie Sloan. I have been a WP policyholder for 37 years, and am a semi-retired consulting actuary who last year completed 40 years in the pensions and life assurance industry. While I take a considerable interest in the company's operational activities, I today wish to ask a number of questions in the area of CG and related matters.

A. Remuneration Committee

A.1 You state in the Annual Report that Standard Life adheres to the Combined Code of Best Practice regarding Corporate Governance and that M Delorme is the Senior Independent Director, which position you yourself held before you became Chairman in 1998. As the Hampel Report did not itself lay down a precise definition of “independence”, do you accept the criteria laid down by the ABI/NAPF and PIRC?

(I did ask the Chairman this very question in my letter of 31 March)

A.2 To be more specific, do you acknowledge two of the criteria of independence as being?
(i) not to have served more than three 3-year terms of office (namely 9 years); and
(ii) not to be a member of a pension scheme of the company. *(conflict of interest)*

A.3 Are you aware that guideline B.2.2 of the Combined Code requires that Remuneration Committees should consist solely of independent non-executive directors?

(Standard Life's own statement of principles and policies include the belief that such Committees should comprise a majority of “independent” directors?)

A.4 If so, of the 4 non-executive directors who comprise your Remuneration Committee only 2 can be considered as truly “independent” by these criteria, since both you and Mr Lessels fail on the grounds of length of service (total 50 years) and membership of the Directors Pension Scheme (even though new directors after 16 Nov 1995 ceased to become members). Will you be taking early steps to remedy this situation?

(NAPF's CG Handbook 2001/02 contains specimen Assessment Form re this.)

B. Appointments Committee

B.1 In terms of the Combined Code Guideline A.5, there should be “a formal and transparent procedure for the appointment of new directors to the board”. Would you please outline this policy for us?

B.2 You will no doubt be aware that many life offices include actuaries amongst their non-executive directors, including Scottish Life, Scottish Provident, Scottish Widows, and now, albeit belatedly, even Equitable Life. Indeed, at last year's AGM, I remarked publicly on the absence of any actuaries amongst Standard Life's non-executives, which situation has not changed. Would you therefore please explain your policy in this regard?

(It would seem odd for say an engineering coy not to include any engineers in its non-execs!)

B.3 Your Appointments Committee is a joint function of your Remuneration Committee, which we have already established contains only 2 independent directors. Are you aware that last year's Company Law Review consultation document suggested that Appointments Committees should also consist entirely of independent directors?

If so, will you be taking early steps to remedy this situation?

C. Regulations under the SLAC Act 1991

C.1 In terms of Regulation 47, nominations for election of directors to the board must be lodged not LESS than 14 days and not MORE than 28 days before the AGM, while notice of the AGM must be announced at least 21 days in advance. In fact this year notice was published and proxies issued 28 days in advance on Tuesday 27 March, effectively BEFORE the earliest date when any such nominations could be lodged.

Given that the cost of reprinting and reissuing some 2.5m proxies to include any new nominations would be around £1m, can you confirm that the board will be reviewing the Regulations to provide for a more realistic period of notice to avoid this conflict, say to between 56 and 42 days prior to the AGM?

C.2 The notice period was already set at 14 – 28 days in the SLAC Act 1925, so why was this evident anomaly not reconsidered at the 1991 review, or when you decided last year for the first time to issue voting papers and proxies to all 2.5m members?

Given the importance you say you attach to good Corporate Governance, and expect from other companies in which you invest, this oversight could appear at worst like incompetence, or at best inadvertence. What would be your verdict?

C.3 While inadvertence seems less serious than incompetence, I would point out that inadvertence is generally regarded as one contributory factor in the financial problems at Equitable Life, so that I would suggest that the members of Standard Life have a right to expect rather higher standards of their directors. Would you care to comment?

C.4 It may perhaps be evident that I and many others have been somewhat unhappy about certain aspects of the Board's custodianship, so that I think it would now be appropriate to reveal that I and two other professional associates did in fact lodge, on the earliest possible 28-day date, valid nominations for our election as directors at today's AGM, only to be confronted with the prospect of incurring the previously mentioned £1m cost for the unavoidable reprinting and reissue of all the voting papers.

(Insert statement overleaf)

Anyway, faced with this £1m cost, we agreed to withdraw our nominations. However, given the conflict between the current 14 - 28 notice period and the issue of AGM voting papers and proxies, will you undertake next year to include our nominations on the basis of our prior intimation of our intention again to lodge valid nominations?

Otherwise we're damned if we do (too soon > 28 days) and if we don't (£1m cost of re-issue)

Ronnie Sloan

22 April 2001

Let me make it quite clear that none of us could remotely be described as carpet-baggers.

Indeed, as already mentioned, I myself have been a WP policyholder for 37 years. After having spent my first 7 years at Standard Life until qualifying as an actuary in 1967, I then pursued a successful and rewarding career as an independent consulting actuary, before taking semi-retirement 6 months ago after 40 years. With my particular experience as an actuary, and moreover as an IFA for many years, I felt I would now like to put something back into the community, in addition to my long-standing fund-raising efforts for charity.

Although neither of my two associates could be present today, both have likewise enjoyed successful business careers, one also as a consulting actuary, and the other as a stockbroker and investment manager. They are aged 49 and 56, while I am the grand-daddy at 57, so we feel we still have lot to contribute. We all take a keen interest in corporate governance, and the issues surrounding mutuality, as well of course as the operational aspects of this major international financial services company, in which we all take great pride. As such, we believe we would make extremely valuable additions to the board.

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Standards of accountability?

by

Ronnie Sloan

With Standard Life's proposed new Regulations now unveiled, it is relevant to check whether Standard's accountability has improved over the last year, and how they match up to their stated aim of "remaining open to the concerns of our members". So, what do we find?

Committees and Appointments – despite having denied at last year's AGM that the composition of its Remuneration Committee was faulty, Standard Life did later remove the three offending directors from its four-man committee from 15 November. However, no public announcement was made of these important changes, ostensibly on the grounds that they had been updated on their website. Moreover, the equally important change of the Appointed Actuary from 15 November was not shown at all on the website and became known only on publication of the Annual Report last week. Some openness!

There is also no mention on the website of Scott Bell's resignation as a director on 15 March. Nor does the AGM Voting Pack mention that Norman Lessels is now stepping down as a director after 24 years, raising the interesting question as to who (if anyone) will replace him on the Audit Committee, given that he was one of only two accountants on the board.

Corporate Governance – the board continues to confuse the terms "non-executive" and "independent", despite the latter being clearly defined in various governance guidelines, including Standard Life's own, as excluding directors who have served for more than 10 years. Yet, the new 2001 Annual Report again states that all Standard's non-executive directors are independent, when two have in fact served for 28 years and 24 years.

As regards the overall composition of the board, Provision A.3 of the Combined Code of good governance suggests that the balance between executive and non-executive directors should be "such that no individual or small group of individuals can dominate the board's decision-taking." However, as all 3 of Standard Life's executive directors (shortly to be 4) are qualified actuaries, whereas none of the 10 non-executives (shortly to be 9) has an actuarial qualification, it is difficult to see how this requirement can reasonably be met without there being at least one actuary amongst the non-executive directors.

Director election process – *(continued overleaf)*

Director election process – one of the objectives of Standard’s new Regulations is to ensure that members can vote on each candidate proposed. However, after indicating my intention to stand at next month’s AGM, I was disappointed to find that the board would still make no concession whatsoever in the existing procedure whereby it is necessary first to vote off one of the existing directors before my election could even be put to the vote. Furthermore, the chairman would also not agree to abstain from casting discretionary proxies in favour of existing directors (including himself), nor from casting them against me – not exactly “one-member-one-vote”!

So, faced with entering an unwinnable contest that would have diverted attention from debating the new Regulations, last month I again reluctantly withdrew my candidature. (The reason last year was that flaws in Standard Life’s Regulations would have led to a £1m cost of reprinting all the voting papers.) A further disappointing aspect this year was that Standard’s board said they would “strongly advise members to vote against me”, despite its Nominations Committee never even having deigned to interview me!

And now we find that the proposed replacement for the retiring non-executive director is another actuary executive, John Hylands. Surely it would have been more logical simply to have co-opted Hylands on Scott Bell’s retiral on 15 March? But then that would have meant that my nomination (as an independent actuary non-executive) would have been put to the vote at the AGM in replacement of Norman Lessels, who is stepping down.

Surely this is precisely what is intended by the proposed new Regulations, namely that members can vote on each candidate proposed? Yet Standard Life have engineered matters in this artificial manner effectively to force the withdrawal of my legitimate candidature. It is hard to discern any logic or consistency in Standard’s approach to this, nor to identify any semblance of real democracy – which should be the hallmark of a mutual.

Proposed new Regulations – I have still to study in detail all 48 pages of the proposed new Regulations, which I hope do indeed reflect Standard’s stated aim of being “fair and democratic”. But it is hardly a good start that they are being unveiled only one month ahead of the AGM, with no opportunity for any form of meaningful member feedback.

Ronnie Sloan is an independent Scottish actuary and Standard Life policyholder who has been pressing hard for changes in the group’s corporate governance and accountability.

see also brief CV attached (as approved for inclusion in Standard’s AGM Voting Pack)

(colour photo of Ronnie Sloan available by e-mail on request)

28 March 2002

Short CV of Ronnie Sloan FFA

Ronnie Sloan FFA FPMI FInstD

Nominated as an independent candidate with the objective of improving accountability to members

Aged 58, Ronnie was educated at The Edinburgh Academy, before joining Standard Life in 1960 and qualifying as an actuary in 1967, before moving to Friends Provident Life Office for 3 years. In 1970 he entered the consultancy field and twice established new actuarial advisory businesses in Edinburgh before retiring in September 2000.

His experience covers company pensions as an approved Scheme Actuary and personal financial advice as an IFA, for which he was latterly his firm's Compliance Officer. Now an independent consulting actuary, who comments widely on actuarial matters of consumer interest, he is also a director of two Pensioner Trustee companies and a Governor of Scottish Sports Aid, as well as being involved in other sporting and charitable activities.

ENDS

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“Why the standards must be raised”

by Ronnie Sloan

As I see it : One policyholder puts his views on how Standard Life could make itself more open and accountable

This week's announcement of impending regulatory and procedural changes at Standard Life deserve two cheers as being a step in the right direction. But they still need to go further to achieve full democracy and accountability. Some ideas:

Re-drafting of company regulations – the current rules are indeed inadequate, despite having been created as recently as 1991. But Standard Life must publish detailed draft proposals (perhaps on their website) much earlier than “shortly before the 2002 AGM”, as otherwise there will be no opportunity for interested parties to have any direct input into reshaping them, merely a straight yes or no vote.

A new system for director elections – my nomination (later withdrawn) at the time of the 2001 AGM highlighted some of the existing shortcomings, now thankfully to be remedied. However, it is vital that this is combined with removal from the proxy forms of the current default provision whereby any proxy (usually the Chairman) can vote as he thinks fit if not instructed otherwise.

If this is not changed, then it will not be truly "one member one vote", but "some members one vote, the Chairman one million votes". Or to put it another way, imagine if, at a General Election, anyone who couldn't decide on the best candidate were required to give Tony Blair the power to vote on their behalf as he thought fit!

Increasing number of meeting requisitionists from 50 to 1000 – this is perhaps not unreasonable, provided that Standard Life also follows plc practice of making its register of members available for public inspection.

Removal of multiple voting – while probably acceptable to disentitle these 62,000 cases, it is noticeable that no attempt is being made to give votes to the 600,000 or more pension scheme and AVC members who currently have no vote (or just one collective trustee vote).

(continued overleaf)

Accountability – why are changes that have already been made to the composition of Standard Life’s important Remuneration and Appointments Committee (and which I publicly challenged at the 2001 AGM) not being disclosed until next March? This is as undemocratic as the virtual suppression of the AGM minutes, which are approved solely by the Chairman. Why not publish all such items immediately on Standard’s website?

Corporate governance – the board appears to confuse the terms “non-executive” and “independent”. Yet “independent” is clearly defined in various guidelines, including those published by the ABI/NAPF and by Standard Life itself, as excluding directors who have served for more than 10 years.

It is therefore extraordinary that Standard Life breaches its very own guidelines by including on its Remuneration Committee directors with 27 years and 23 years service.

If my criticisms seem many and varied, then that is hardly my fault, but the fault of Standard Life’s board who have allowed matters to drift in this way. Let us hope that these proposed changes are fully aired and lead to a more representative board, including a voice for the seemingly derided 46% of members who last year voted for demutualisation - and perhaps even to an independent actuary on the board!

Remember, too, that if mutuality is really to mean something special, then Standard Life needs to be seen to be genuinely democratic and accountable.

Ronnie Sloan is an independent Scottish actuary and Standard Life policyholder who has been pressing hard for changes in the group’s corporate governance and accountability.

As published in

“Smart Money”

The Scotsman

Saturday 10 November 2001

Hi Allan - many thanks for your latest Pension Snippets, which prompted me to send you the rest of my exchange with the FSA's recruitment people over the current vacancies.

I was most interested to learn that you had applied last year, and were 1 of 800 applications and did not even get asked up for interview. If such evident discrimination is endemic against people with some (if not most) of the necessary attributes, then maybe this should be exposed for the typical Blairite "control-freakery" that it seems to be.

Do you have any further comments on the situation?

Thanks. Regards. **Ronnie**

From: [Ronnie Sloan](#) **To:** [Stephanie Dickins](#)
Sent: Thursday, August 05, 2004 1:32 PM **Subject:** Re: FSA : non-exec directors

That sounds sensible on your part - thanks.

I only wish that the OCPA Rules appeared quite as sensible!

Regards. **Ronnie Sloan**

From: [Stephanie Dickins](#) **To:** [Ronnie Sloan](#)
Sent: Thursday, August 05, 2004 1:28 PM **Subject:** RE: FSA : non-exec directors

I apologise for the delay in getting back to you about this query. Ultimately, the forms and monitoring information are regulated by OCPA. The FSA may also monitor information, but the forms are not attached to the applications at the time of choosing candidates for the next stages of the process. They only receive the forms once a candidate is appointed.

Please feel free to fill in the forms at interview stage - we do not need them for the initial sifting process.

Kind regards, Stephanie

From: Ronnie Sloan **To:** Stephanie Dickins
Sent: 28 July 2004 18:01 **Subject:** Re: FSA : non-exec directors

Thank you for your response, in which you seem to have given me specific answers only to my questions (1) and (5).

While I can accept that SBH itself may not apply any discrimination, it does state on the form that the information "may also be used for other purposes" - perhaps by the FSA? - hence my question (3).

If no discrimination will be applied in the selection process, will it be acceptable for me to defer submitting the "Equal Opportunities" sheets until such time as I (may) attend for a formal interview in late October? Otherwise, the process seems most suspicious, and the antithesis of "open government".

I look forward to receiving your further comments.

Regards. **Ronnie Sloan**

From: [Ronnie Sloan](#) **To:** [Stephanie Dickins](#)
Sent: Wednesday, July 28, 2004 4:16 PM **Subject:** Re: Recall: FSA : non-exec directors

I think we (you?) are going round in circles here, as you've already sent me this message - at 15.26hrs today, to be precise.

Perhaps you'd mistakenly thought that you'd sent me your colleague's incoming thoughts to you, which is what I'd attempted to explain in my e-mail of 15.47 below.

As I've said, I'll comment further shortly. In the meantime, you may be interested to know that you've created some sort of new record in having sent me 5 consecutive e-mails between 15.14 and 16.04 today!

Regards. **Ronnie Sloan**

From: [Stephanie Dickins](#) **To:** [Ronnie Sloan](#)
Sent: Wednesday, July 28, 2004 4:08 PM **Subject:** RE: Recall: FSA : non-exec directors

Here it is:

Dear Mr Sloan,

Having referred your questions to a colleague who is working on this project, he has advised me that the political activity form is a standard form that needs to be filled in, as the FSA have voluntarily placed themselves under OCPA rules. As far as gender and ethnic issues go, these are purely for monitoring purposes - no discrimination on either side (our agency or the FSA) will be applied in the sifting and selection process.

I hope this is of some help. Kind regards,

Stephanie Dickins Project Coordinator

From: [Ronnie Sloan](#) **To:** [Stephanie Dickins](#)
Sent: Wednesday, July 28, 2004 3:47 PM **Subject:** Re: Recall: FSA : non-exec directors

No, you didn't in fact send me your colleague's thoughts - interesting though these might have been!

Previously you forwarded me your thoughts that you had sent to your colleague.

Will comment shortly on your formal reply.

Regards. **Ronnie Sloan**

From: [Stephanie Dickins](#) **To:** [Ronnie Sloan](#)
Sent: Wednesday, July 28, 2004 3:34 PM **Subject:** RE: Recall: FSA : non-exec directors

I'm so sorry about that - I've just emailed across my colleague's thoughts.

Stephanie

From: [Ronnie Sloan](#) **To:** [Stephanie Dickins](#)
Sent: Wednesday, July 28, 2004 3:28 PM **Subject:** Re: Recall: FSA : non-exec directors

OK - I'll pretend I didn't see it, but my request was a serious one prompted by the rather mixed messages conveyed by the questions and instructions in the application.

I'll await your considered reply in due course.

Thanks. **Ronnie Sloan**

From: [Stephanie Dickins](#) **To:** ronnie@sloan42.fsnet.co.uk
Sent: Wednesday, July 28, 2004 3:21 PM **Subject:** Recall: FSA : non-exec directors

Stephanie Dickins would like to recall the message, "FSA : non-exec directors".

From: [Stephanie Dickins](#) **To:** ronnie@sloan42.fsnet.co.uk
Sent: Wednesday, July 28, 2004 3:18 PM **Subject:** FW: FSA : non-exec directors

He's a bit paranoid isn't he! any particular way you think i should word the reply?
thanks for your help,
steph

From: [DYSV](#) **To:** [Ronnie Sloan](#)
Sent: Tuesday, July 27, 2004 5:51 PM **Subject:** Strictly Private and Confidential

Dear Sir/Madam,

Thank you for your email regarding the appointment a Non-Executive Board Member, FSA, which has been received successfully.

Kind regards,

Saxton Bampfylde Hever
T: 01483 409 713
F: 01483 531 882

From: Ronnie Sloan[SMTP:] **To:** DYSV
Sent: 27 July 2004 17:47:30 **Subject:** FSA : non-exec directors

As an independent consulting actuary of long experience, and a former Compliance Officer of my previous firm, I am interested in applying for one of the above vacancies from 1 Dec 2004.

In addition to active involvement in pensions as a Scheme Actuary, and in personal financial advice as a fee-based IFA, I also have particular experience of the mis-selling of many types of pension, life assurance and investment products. This occurred both through assisting complainants in the pursuit of their claims and through helping IFAs to resist or mitigate claims which were felt to lack merit.

Just turned 61, and semi-retired for 4 years now, I take a keen interest in consumer affairs and corporate governance issues in the financial services sector. I therefore feel that my overall background and professional experience could render me well suited to appointment as a non-executive director of the FSA.

That said, I do have some concerns about certain aspects of the application process, viz:-

1. Political Activity - it is stated that applicants "should" complete this question, but not that they "must". So, is this a definite requirement?
2. Given that such activity is stated not to be a criterion for appointment, I am puzzled as to why reference is then made to the positive skills and experience resulting from such activity. So, can you please elaborate?
3. If fair and equal access to public appointments is granted to all candidates, why should it be felt necessary to ask questions about Ethnic Origin? Given the issue of Racial Equality, can you state what "other purposes" this information may be used for?
4. Also, what precisely is meant by the expression "Which group do you most identify with?" More specifically, does this refer to my ethnic origin, or literally the group I most identify with?
5. I have noticed that, of the 3 impending vacancies, at least 2 are currently held by females and one by someone of non-white origin. So, as a white male, can you please reassure me that positive discrimination will not be applied against me?

Simply stated, in the light of the apparent prominence given on the application to political, ethnic and gender issues, I am seeking reassurance that these appointments will be made predominantly on the basis of the experience and capabilities of the candidates.

I look forward to hearing from you.

Ronnie Sloan

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Why Standard Life should Stay Mutual

by **Ronnie Sloan**

This week's update by Standard Life on its plans to demutualise begs as many questions as it purports to answer. For example, no reasons are given as to why its costs are so high that they need to be cut by 20%, or why Standard has been writing so much unprofitable business that it now needs to refocus on more profitable market areas.

Without answers to these kinds of fundamental question about the present situation, how can policyholders have any confidence in the ability of the Board to lead the Company in the right direction in the future?

Then we are told that "Standard Life wishes to continue growing a successful, diversified business", whereas I think most with-profits policyholders (who own the business) would as soon settle for a successful focused business that delivers good returns on their policies. So, whose wishes is the Standard Life Board reflecting? – its own, or its members?

Such diversification is one of the primary reasons given for demutualisation, yet it was after a period of unprofitable international diversification a century ago (in 1905 Standard wrote 51% of its business outside the UK and Canada) that it was forced to withdraw from more than a dozen overseas countries, and then changed to its current mutual status in 1925. So they've "been there, done that" already – why should it be different this time?

Even some of the proposed remedies lack any real logic, including the decision to close the staff final salary pension scheme only to new entrants, which will save nothing for many years, as existing executives continue to take their Buggins Turn at the top and scoop the pension pool at the expense of ordinary staff.

Despite my recent criticisms, I am also a supporter of a strong and independent Standard Life, as well as the general concept of with-profits, of which it has long been a champion. Yet I have seen no mention of any possible alternative plan to keep Standard Life as a mutual, but only the apparent *fait accompli* of change to a PLC, with the vulnerability and insecurity that now entails in today's aggressive corporate arena.

Where is the blueprint for Plan B involving other means of raising capital, perhaps by the sale of SL Bank and Healthcare, and reining back on expensive overseas expansion? Why not concentrate on writing more with-profits business, or selling less of other kinds, rather than just bemoaning the Company's shrinking ownership base over the last 3 or 4 years? Despite assertions that with-profits is dead, I believe that probably a majority of the public, as well as many IFAs, do in fact favour with-profits over DIY investment products, provided that the policy is with a reputable company, preferably mutual, that they can trust.

So, that is the challenge I now put to the Board, which I believe is the mandate they were given following the Stay Mutual campaign in 2000.

Ronnie Sloan

2 April 2004

Ronnie Sloan is an independent actuary who specialises in the analysis of with-profits policies, and has been a constructive critic of the governance and accountability of Standard Life's Board.

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14 June 2004

Dear Sir

‘Selling’ Standard Life?

Bill Jamieson’s profile of Amanda Forsyth, Standard Life’s new Investor Relations Director (The Scotsman, Saturday 12 June) referred to her task as “mission impossible”, whereas it might be fairer to describe it as “mission mis-directed”.

The launch of a charm offensive on The City is obviously a sensible move ahead of what “will be one of the biggest flotations on the UK stock market in recent years”. However, this is rather presumptuous, in that no mention is made of the major task of first persuading at least 75% of Standard Life’s current owners, namely its 2.5m with-profits policyholders, to vote at the 2006 AGM in favour of demutualisation.

In particular, it would be helpful to know as soon as possible what basis is proposed for the allocation of new shares to policyholders. While some demutualisations have been based simply on current policy values, often assumed to be the only way, arguably a fairer method is to use the increase in asset-share, that is policy value less premiums paid.

Although other allocation methods are also possible, it is clearly vital to the many thousands of policyholders whose policies are due to mature before 2006 (and also to others) that they are soon told where they stand on this with regard to possible reinvestment - even though the value of their new shares will obviously not be known until after flotation - always assuming that 75% vote for this course!

Yours faithfully

Ronnie Sloan
(independent actuary)