

**Alliance for Finance**  
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Myners Review  
Room 4/16  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

26<sup>th</sup> August 2004

Dear Sir

**Governance Review of Life Mutuals**

We are pleased to comment on this consultation document. Indeed we welcome the review. It is a matter of note that the Life Sector is increasingly demutualised and that the market is dominated by proprietary companies. However, from the perspective of the consumers, it is important that there is diversity in the market place so that they have a wide choice.

Trade Unions and staff representative bodies by the nature of their own activities, have much sympathy towards mutuality, as this is central to their own *modus operandi*.

However, we accept that there is a difference between a mutual financial services organisation that is engaged in banking and mortgages on the one hand – and long term life assurance based products on the other. In the former case customers can withdraw their accounts easily. In the latter case this is much more problematical because of the nature of the products and the manifest disadvantages of the cessation of premium payments.

However, most policy holders and investors are passive creatures in the sense they are simply concerned with income, primarily or capital growth, secondarily. They have little concern for matters of corporate governance, unless and in so far as there is a direct pecuniary interest.

One of the advantages of the plc arrangement is that shareholders can constrain poor management practices. Indeed, in the best cases they encourage market leading practice in the long term interests of all. This is more difficult in reality in the context of mutuality even though it is the policyholders that own the business.

With regard to mutual life offices the companies should be obliged to make arrangements for the election of robust policy holder representation in corporate governance. This will of course involve election and high level training arrangements for those that are successful. At the same time there is a need for an independent external component, as is the case with plcs. Maybe the FSA and the Institute of Actuaries should draw up a panel of wise persons that can exist in this connection? We presume that life mutuals would want to co-operate with such an arrangement voluntarily, as it would give a marketing edge.

There is of course the staff dimension. It is important that employee interests are represented in the governance of life mutuals. Many of the employees will be policy holders. In addition they will have important technical and professional expertise. Of course they like policyholder representatives will need to be fully trained in matters of corporate governance.

Insurance plcs will want to consider how mutuality can be strengthened within the insurance business. The centrality of insurance is after all individuals protecting their own interests by collective means. This principle could be better reflected in their corporate governance as well.

Kind Regards

DIGBY JACKS  
Alliance- Secretary