

Myners Review
Room 4/16
H M Treasury
1 Horse Guards Road
LONDON
SW1A 2HQ

AP/smc

14 September 2004

Dear Sirs

Please find attached our response to the Consultation Document “Myners review of the governance of life mutuals”.

Mutuals which have a clear vision of why they exist and what they are aiming to achieve have an important role in the future of the life industry. As they only exist for the benefit of policyholders they have the ability to provide better value than proprietary companies.

The knowledge and quality of the NEDs is of paramount importance. Their role should be one of challenge, oversight and strategy.

We hope that mutuals will be strengthened by the outcome of this review and not burdened by unnecessary additional expense.

Yours faithfully

A PRIOR
Secretary

Encl:

Reliance Mutual response to the Consultation Document “Myners review of the Governance of Life Mutuals”

Introduction

Reliance Mutual founded in 1911, currently has around 250,000 policyholders, who are all members, and group funds approaching £1 billion. The company’s principal focus is to concentrate on running a cost-effective operation and providing good value to all policyholders.

In October 2003, Reliance Mutual acquired Criterion Life Assurance and earlier this year announced that a block of business (23,500 policies) would be transferred from Family Assurance on 1 October 2004.

The company remains committed to acquiring further blocks of business ranging from 5,000 to 25,000 policies. In addition it has also been successful in the development of new products in niche markets and continues to look for further opportunities in this area.

Reliance Mutual’s priority is to always put policyholders’ interest first.

Responses to questions in Section 4

Q1 Whilst we do not comply with the Combined Code our objective is to meet the principle of achieving good corporate governance and, where appropriate given the size and nature of our business, we take account of the Combined Code

Many of the remaining mutuals are relatively small and the imposition of the full code on them would not represent a proportionate way of dealing with the issue. It is important that the costs of a new approach do not outweigh the benefits. If this is not the case, then policyholders will undoubtedly be disadvantaged.

Given the diverse nature of mutuals and their size “comply or explain” might be better expressed as “comply unless inappropriate to the business”.

Q2 All mutuals need strong and effective NEDs who have the relevant width and depth of experience to understand how the mutual is operating. The FSA approved person regime should be used to ensure that mutuals have appropriate membership on their governing body

Q3 There should always be a majority of NEDs, one of whom should be Chairman. In nearly all cases there should be at least one executive director.

The composition of the board and the skills required from the NEDs must reflect the particular circumstances of each mutual.

It is vital that NEDs possess specialist knowledge and the ability to appreciate when they need external advice. The FSA, through the Approved Person regime has the ability to ensure that the appropriate knowledge and ability are present (by board not individual)

On committee structures the audit committee should not include executive directors (and the auditor should have the right to direct access to the audit committee). Similarly any remuneration committee should not involve the senior executive director when considering his remuneration. Other committees depend on the circumstances of the mutual, but an Investment Committee chaired by an NED would normally be beneficial.

Q4 Inevitably this varies between organisation. In our experience the information and advice used by NEDs is sufficient in terms of quality and relevance.

Good quality NEDs should be able to obtain the information and advice they require. However, they are dependent on the honesty and competence of the executive.

The non executives should between them have sufficient knowledge and expertise to interpret advice and information supplied, to determine information required and to form a view of the competence of the executive or other source of information or advice.

It should be recognised that a non executive cannot exercise complete and adequate oversight of all aspects of life assurance business such as, for instance, having sufficient knowledge of the many thousands of contracts written to form a view as to whether the courts might interpret them other than in the way intended by one or both parties.

Fully adequate oversight would require such involvement in the business that the individual could no longer properly be described as non executive.

It will be unfortunate if governance arrangements preclude appointment of a director able to make a major contribution in a restricted field because he cannot exercise equal oversight on other aspects of the business. Adequate total expertise and experience should be looked for in the board as a whole and not in each individual separately.

Q5 The complexity of a business should not change the role of NEDs, but it does change who is appropriate to be an NED as this must reflect the particular circumstances of each business. At all times the role should be one of challenge, oversight and strategy.

Q6 The owners should reasonably expect competent and effective oversight and that as and when required external assistance is obtained. NEDs should have the same legal duties to the company as executive directors.

Q7 The vast majority of policyholders show little interest in the running of a mutual, only in the results it achieves for them. Given the nature of life business this is not surprising. Their interests should be protected by the board and the NEDs should act as a check on any ambitions of management which may be inappropriate. The major responsibility of directors should be to ensure that all long-term commitments are met.

The average policy size in many mutuals, including Reliance Mutual, is small and the costs of, for example, meetings around the country (to make it practical for policyholders to attend) would be disproportionate to the benefit and would impact directly on the return to with profit policyholders.

Mutuals need to have a clear view of why they exist and be able to demonstrate that they are working in the best interests of the members and policyholders. An annual report on this could be produced and included in the accounts. Where appropriate the FSA could follow this up in discussion with appropriate members of the board.

The role the board should play in ensuring equity between different groups of policyholders is the same in a mutual as in a proprietary office.

Q8 The degree to which a life office should be risk averse must depend upon their full circumstances, not just their ownership.

We supply information to policyholders on strategy through the Chairman's Statement. The report suggested in the answer to Q7 could be used to supply information.

Q9 Since their formation the FSA have taken much closer interest in corporate governance than their predecessors. Through the approved person regime they have the system to control new appointments. In doing so they should ensure the board, as a whole, has adequate width and depth of experience.. Through Arrow visits the FSA can ensure that existing boards have the appropriate qualities.

Q10 The FSA's role should be to draw the board's attention to areas of concern and request corrective action. If this did not occur and policyholders' interests are threatened the FSA has the power to intervene.

Q11 Influence does exist from various areas including rating agencies and the press. Mutuals are also subject to the influence of the market through mergers and demutualisation. .

Q12 Historically, capital has come from the traditional with profits policyholders. With the decline of this business less capital has been available, which has created problems for some mutuals.

An advantage that mutuals have is their ability to take a longer term view and plan with a greater degree of certainty than proprietary companies. In proprietary companies the importance of short-term results is greater and there is a greater risk of outside intervention.

Q13 Lack of capital is the main force driving de-mutualisation.

Q14 No comments.

Q15 Governance for small, affinity group based mutual life firms can be more difficult, particularly if they can only appoint NEDs from the membership.

Q16 No comments.