Association of Financial Mutuals

Corporate Governance Report 2017

September 2017

Introduction

This is the latest report from AFM on corporate governance in the mutual insurance sector. It draws on compliance reports from our members, showing their stated levels of compliance during 2016 with the Annotated Corporate Governance Code for Mutual Insurers.

The primary purposes of this report are to enable our members to benchmark their performance against their peers, as well as to provide an overview to Treasury and the financial regulators on standards of governance amongst members of AFM.

The Code is available to view on the AFM website, and closely follows the Financial Reporting Council's Code for listed companies.

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About AFM

The Association of Financial Mutuals (AFM) was established on 1 January 2010, as a result of a merger between the Association of Mutual Insurers and the Association of Friendly Societies. Financial Mutuals are member-owned and not-for-profit organisations, many of whom have operated for over 100 years, and the nature of their ownership, and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers.

AFM currently has 48 members and represents mutual insurers and friendly societies in the UK and Ireland. Between them, UK mutuals manage the savings, protection and healthcare needs of over 30 million people, and have annual premium income of around £16 billion. For more, go to www.financialmutuals.org.

Executive Summary

This report provides an overview of compliance with the Annotated Corporate Governance Code for Mutual Insurers (the Code) during 2016, by members of the Association of Financial Mutuals.

The annual compliance exercise for the Code is set on a comply or explain approach, and requires companies to complete a detailed questionnaire which illustrates the main principles and provisions within the Code, and helps the Board of each company identify how best to comply with each aspect. Where a company does not comply with a Code provision, it documents an explanation in its annual report and accounts. In so doing our approach mirrors that of the largest listed companies, and indeed our Code is annotated with very little revision from the FRC's Code.

The stated level of compliance with the 27 main principles of the Code in 2016 was 97%, which is consistent with 2015. The principles are recognised good practices for all organisations, so we expect this kind of outcome: with divergences only where the principle cannot be effectively applied to a particular business model.

Turning to the Code provisions, which articulate preferred practice in more detail, in 2016 one AFM member achieved full compliance with every one of the Code provisions. Most AFM members however do not aspire to comply fully, and are comfortably explaining how their established practice allows them to achieve good outcomes for members without replicating the approach of listed companies.

During the year 80% of members recorded three or more provisions they did not comply with, compared to 65% in 2015. Hence compliance levels fell a little, from a position in 2015 where organisations typically complied with 95.1% of the provisions, to 94.6% in 2016. There were no discernible new trends in this, though it does indicate a small rise in the number of explanations necessary in the report and accounts.

Our report does highlight some general areas for improvement, and these are broadly similar to last year: increasing AGM turnout, improving the clarity of narrative, committing to widening board diversity, and externally-facilitating board evaluation.

That said, the sector should be content that the annotated Code remains a relevant benchmark, and is helping the sector to demonstrate a very strong commitment to high levels of corporate governance.

1. The Annotated Corporate Governance Code

The Code was developed in 2005 following the publication of the Myners' Review in December 2004, which made a specific recommendation for the introduction of a version of the Combined Code for the mutual insurance sector.

At the time HM Treasury and the Financial Services Authority agreed that responsibility for producing the Code and detailed guidance for their members on its implementation would rest with the predecessors of AFM. This was reviewed post-launch by FSA, who were broadly content with the self-regulatory approach.

The Code adopts wherever possible the requirements and principles of the UK Corporate Governance Code, supervised by the Financial Reporting Council[1]. The annotated Code retains the same set of Principles and Code Provisions as FRC's, grouped into the five sections:

Section A:	Leadership
Section B:	Effectiveness
Section C:	Accountability
Section D:	Remuneration
Section E:	Relations with members

Within each section there are a number of Main Principles (27 in total across the Code), and a series of Code Provisions (of which there are 53 in total).

The section headings reflected changes made by FRC to the UK Corporate Governance Code in 2010, which updated the principles in light of the Walker Report. This compliance exercise is based on the version of the annotated Code published in 2014. The Code was further modified in 2016, intended for compliance during 2017- though in light of the government's Green Paper on corporate governance FRC is undertaken a wholesale review of the UK Corporate Governance Code during 2017.

Compliance with the Code is not a condition of membership of the Association of Financial Mutuals; however all 34 eligible organisations complete the exercise. (See the Annex for a list of participants.)

[1] http://frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx

2. Annotated Corporate Governance Code, Compliance Exercise, 2017

2.1 Methodology

Members are responsible for evaluating their compliance with the Code and for completion of a questionnaire, which gives detailed information about their compliance.

In completing this report, AFM has relied upon the information provided by members and has not attempted to validate or evaluate the submissions. It is also an expectation of our approach that individual companies report their compliance with the Code within their Annual Report and Accounts. Some elements of the Code are subject to review by the company's auditors. Reporting is undertaken via our compliance website, www.AFMgovernance.co.uk.

The Annotated Code recognises differences in regulatory requirements for non-directive societies (those that fall outside the scope of Solvency 2): some of the Code compliance requirements are voluntary for non-directives.

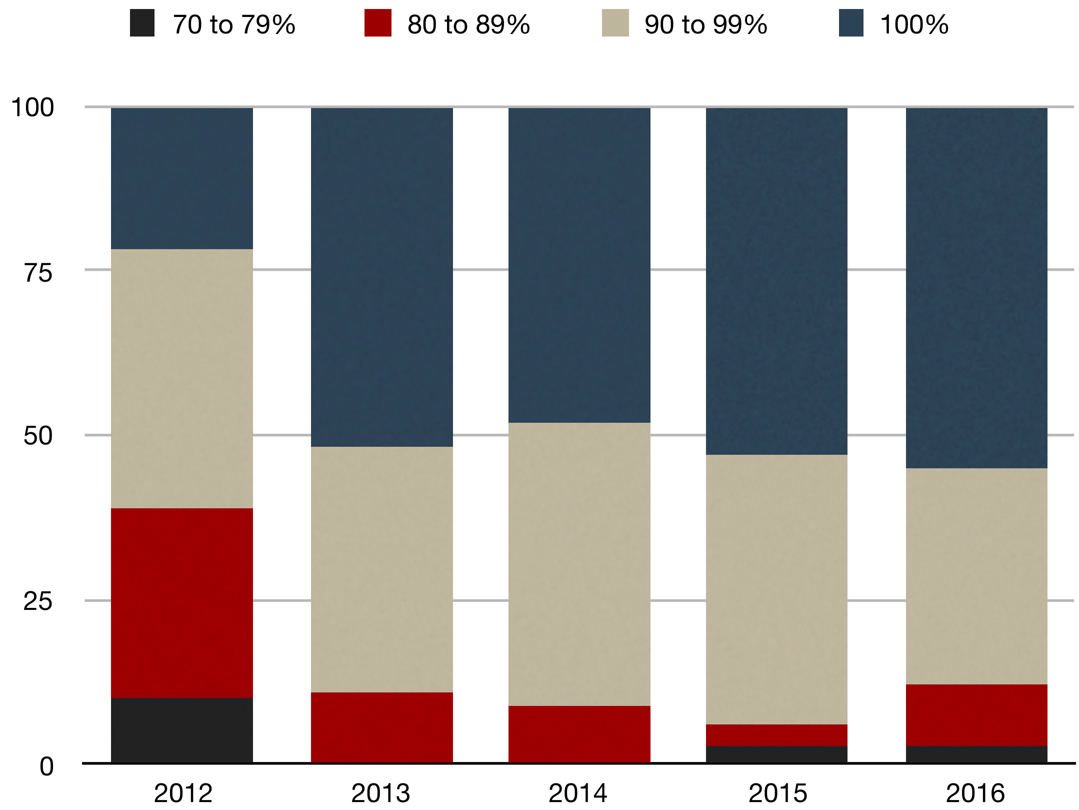
2.2 Overall compliance with Main Principles

The Main Principles set out by the Code are the building blocks of good corporate governance: when the Prudential Regulatory Authority developed its own Board responsibilities[2], they heavily overlapped the Main Principles.

We tend therefore to view the Main Principles as self-evidently good practice, and for AFM members to always aspire to comply with them.

There are 27 Main Principles, and as the chart below shows, the level of code compliance is very high. More than half of organisations (55%) comply with all 27 of the main principles: the highest level ever, and fewer than one in eight members comply with less than 90%.

[2] http://www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps1316.aspx



Overall, members reported 97% compliance with the main principles, a figure that has remained constant now for four years. There was 100% compliance with the sections of the Code on Leadership (section A).

The principles which a number of members could not fully comply with were predominantly in section D, covering Remuneration:

- performance-related pay for executives (39% did not comply, up from 35%); and
- executive pay designed to reflect the long-term success of the company (12% did not comply).

By contrast, there was a marked increase in the proportion of firms' boards undertaking a 'formal and rigorous evaluation' of performance (91%, compared to 85% in 2015).

These trends are covered in more detail in the next section.

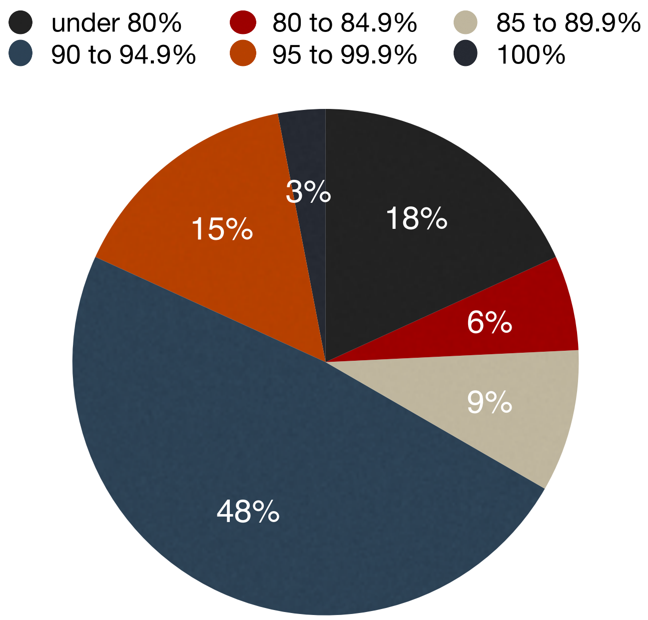
2.3 Compliance with the Code Provisions

There are 53 Code Provisions, which elaborate on the principles in a more prescriptive way, and set out in more depth the nature of behaviours the Principles expect.

The Code anticipates members will have complied with the Code's provisions, or where they have not, expects them to provide an explanation as to why not.

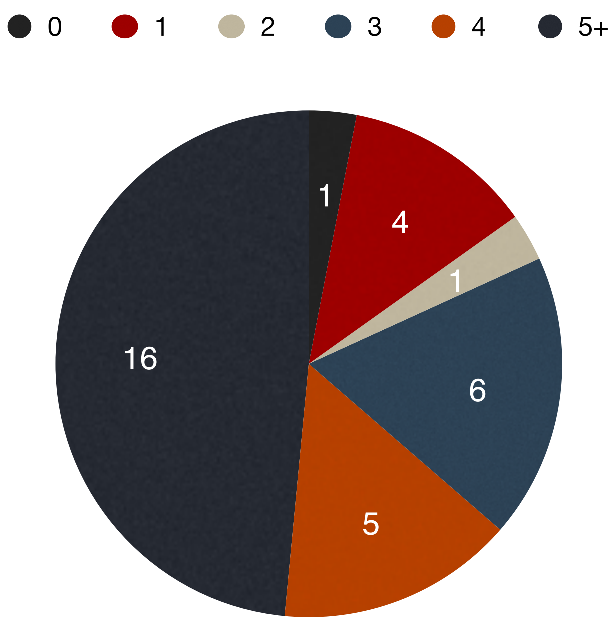
2.3.1 Overall results

The charts below show the distribution of overall results for the 33 members that complied the exercise, and the number of Code Provisions for which they did not comply and were therefore expected to provide an explanation.



The first chart shows the distribution of performance by companies, based on the proportion of the 53 Code Provisions that they complied with.

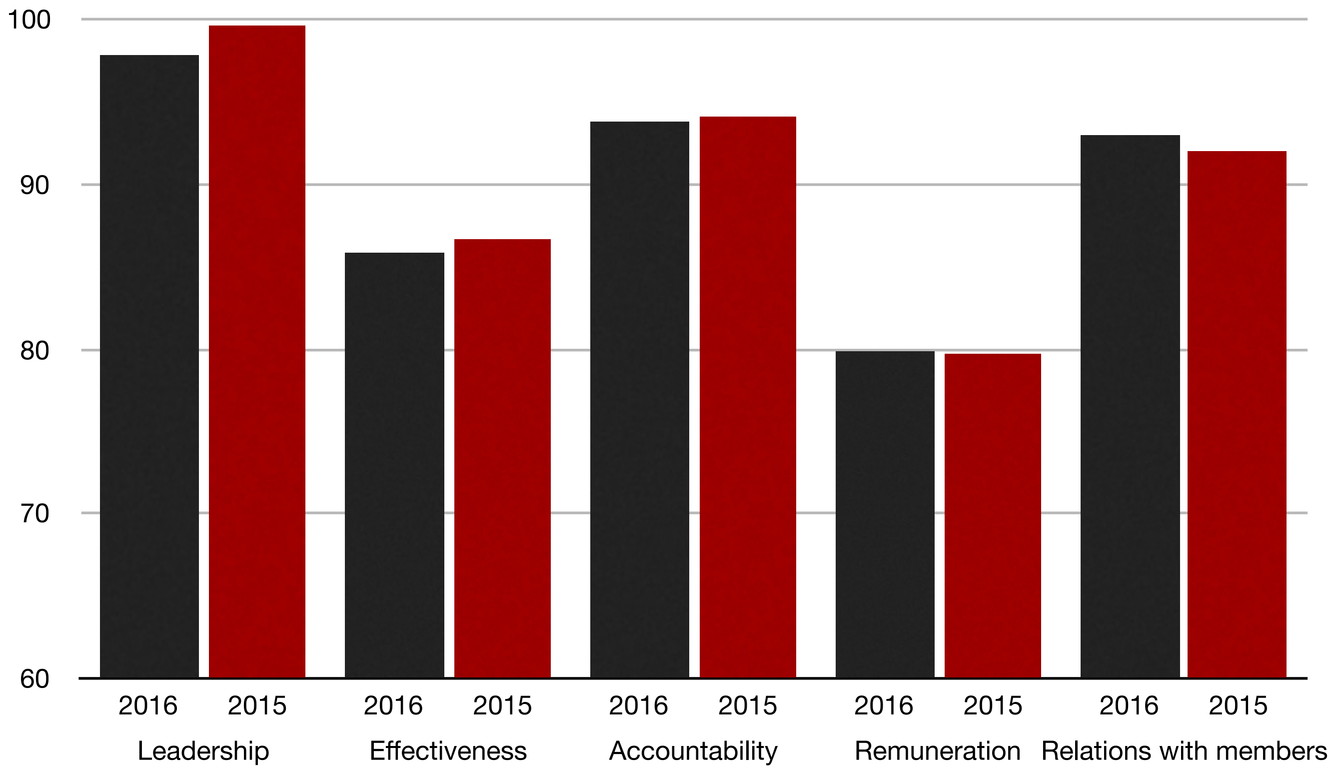
In 2016, one organisation (The Exeter) complied with all 53 Provisions, and two-thirds of members complied with more than 90%.



This chart shows the number of explanations provided by members, and suggests a higher tendency for firms to elect not to comply, where an alternative approach better fits their business.

18% of members register zero, one or two Provisions which they were unable to comply with, which compares with a third in 2015. Nearly half reported five or more explanations were necessary in the year.

The Code recognises that members have the option to explain rather than comply, so in itself this does not imply lower standards of governance. Indeed, non-Directive organisations can exempt themselves from certain of the Provisions where the Provision cannot be applied to their business. A key issue therefore is the quality of the explanations provided, and of the narrative more generally in the report and accounts.



The chart above compares the overall levels of compliance with each of the five sections of the Code, and contrasts the 2016 results with the previous year. This illustrates that where there has been a dip in overall compliance, it has tended to be in the sections on Leadership and Effectiveness. As in previous years, the sections on Effectiveness and Remuneration have been less readily applied in the sector. The Appendix provides results for each of the provisions in the Code.

Overall compliance with the Provisions in 2016 was 94.6%. This compares to 95.1% in 2015, and represents a slight drop from the highest ever rate in the previous year.

2.3.2 Compliance with sections of the Code

Section A: Leadership

This section of the Code focuses on how well the board takes collective responsibility for the long-term success of the company.

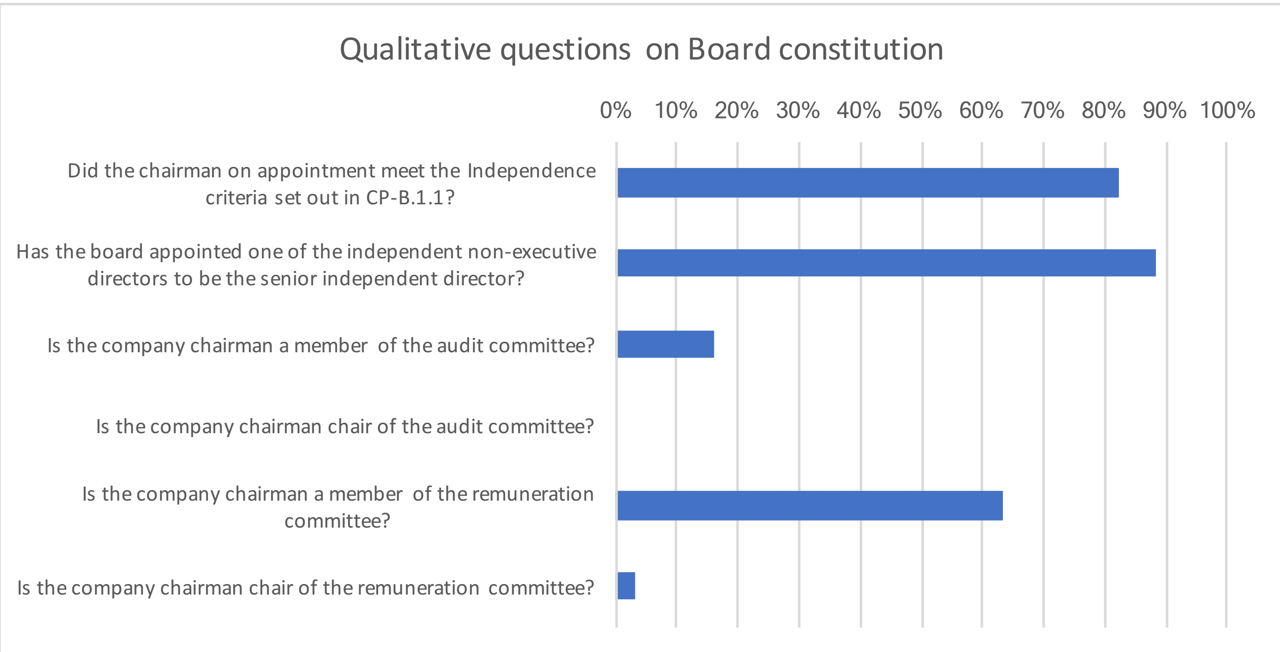
There are eight provisions in this section and they continue to attract the highest scores overall, albeit with a slight reduction from 2015:

SECTION A	all companies	directives	non-directives
2016	97.9%	98.3%	96.9%
2015	99.6%	100%	98.6%

All members complied with five of the eight criteria, though one provision that had previously secured 100% compliance fell to 91% in 2016: relating to situations where directors were unable to immediately resolve concerns. In one case this was because it was acknowledged the quality of information provided to the Board needed improvement.

In 2016 the average size of the Board was 9.1 people (9.2 in 2015), with a range between 5 and 14. A typical Board consists of 2.1 executives (with a range of between zero and five), and 7 non-executive directors (with as few as four and as many as 12).

In a number of cases there was no Senior Independent Director at the start of 2016, though companies reported that this role was fulfilled by the Vice-Chair, or that a SID was appointed during 2016 or 2017. This is covered in the chart below, with responses to other qualitative questions.



Section B: Effectiveness

This section considers the balance of skills, experience, independence and knowledge of the Board, as well as appointments to the Board and the effective operating of it.

This is the most extensive section in the Code, with 18 provisions. This section witnessed a reduction in compliance in 2016 for both directive and non-directives:

SECTION B	all companies	directives	non-directives
2016	85.8%	88.9%	74.7%
2015	86.7%	93.8%	82%

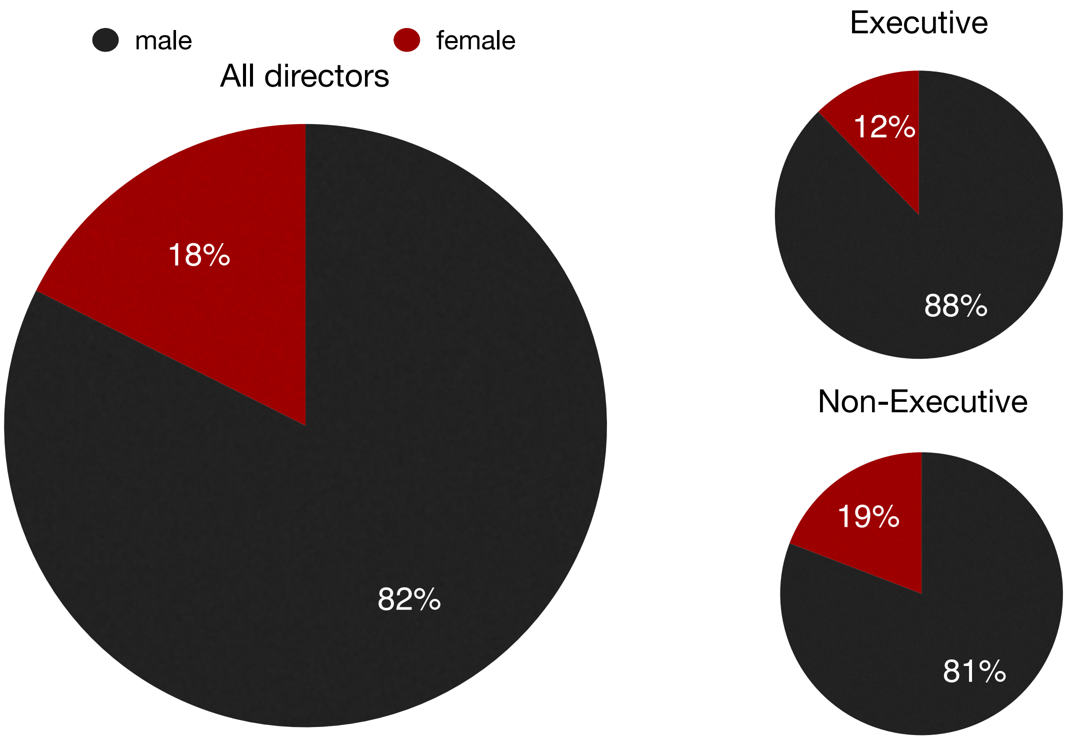
There were a number of areas relating to the composition of the Board that contributed to the reduction in compliance levels: including that two organisations confirmed recruitment activity was ongoing to increase the proportion of independent NEDs; and five organisations had no nominations committee and deferred the work to the Board as a whole (four of which are non-directives).

With regard to the recruitment and election of NEDs, only 30% of organisations have introduced annual elections: in other cases, directors are typically elected for three years, and the explanations provided generally assert this is preferable for continuity purposes, and is cost proportionate. In only two-thirds of organisations were any NEDs submitted for election in the year, down from 79% in 2015, suggesting that the three year cycle adopted in some organisations is not staggered.

Another area of divergence from the practice promoted by the Code is in relation to having a board diversity policy. This became a requirement of the Code in 2014, and in 2016 82% of organisations confirmed they had a policy in place (79% in 2015). At the time of writing, the Prudential Regulatory Authority is consulting on whether to make this a requirement of its rulebook.

With regard to the distribution of directors by gender across the sector, the charts show that within AFM members in 2016, 18% of directors were female. This compares with 16% in 2015, and 26% in FTSE companies[3]. Amongst Executives, the proportion of female directors, at 12% is unchanged from 2015, with an increase in female non-executives, from 17% to 19% in the year.

[3] https://www.cranfield.ac.uk/press/news-2016/women-on-boards-ftse-100-company-has-full-gender-balance-for-first-time



Once a NED is elected, all responses confirmed that new NEDs have a full and tailored induction programme, and this has been enhanced by the introduction by AFM of a NED toolkit and workshops for new NEDs.

All organisations also stated that they had a basis for performance review of Directors, though in four cases there was no statement in the report and accounts on how performance was evaluated. And in a clear divergence from good practice, only 45% of organisations indicated that they were committed to externally facilitated evaluation each year, whilst a third of those that have did not identify the external facilitator in their report and accounts. Reasons provided for not undertaking external facilitation include size of the organisation, and the cost and relevance of facilitators. This is another area that AFM is exploring how better to support members.

Section C: Accountability

The principles in this section relate to how well the Board understands the financial prospects of the organisation and the nature of the risks it is exposed to.

Overall performance across the nine provisions was broadly unchanged from 2015:

SECTION C	all companies	directives	non-directives
2016	93.7%	97.6%	83.3%
2015	94.1%	97.3%	85.2%

This section of the Code witnessed the second highest level of compliance overall. The number of explanations provided was therefore low. Many of those explanations were a result of an organisation electing not to have a stand alone audit committee, and in these circumstances the functions of the audit committee were discharged by the Board as a whole. The Code, inherited as it is from the listed sector, does not envisage circumstances where there is no audit committee, though this is permitted by regulation.

Mutuals have clear processes in place for identifying principal risks and reporting on these in the report and accounts. All are content that the annual report is fair, balanced and understandable and provides members with the information they need to assess the performance of the business and its strategy.

The average size of the Audit Committee in organisations is 3.9; six organisations included executive directors in the Committee membership. The Code assumes for directive insurers there are at least three independent NEDs on the audit committee (two for non-directives): there were four exceptions to this, in organisations where there are insufficient independent NEDs.

The Code also explores whether the external auditors provide any non-audit services; the EU Audit Directive assumes this should only occur where the activity has no affect on the audited report. In 2016 52% of companies reported that their external auditor still undertook other roles (down from 60% in 2015), though we understand that practice is changing rapidly within the audit profession and should quickly erase these anomalies.

Three non-directives and one directive friendly society had no stand-alone audit committee, with the role undertaken by the board as a whole. The Code acknowledges that for non-directives the Chairman can be a member of the audit committee as long as they were independent on appointment, and this occurred within four non-directives, and in two directive societies.

Audit of companies remains a key area of scrutiny, and during 2016 a number of changes were made to section C of the Code, to reflect the new EU Audit Directive. This includes further focus on audit re-tendering, and the expectation that "The audit committee as a whole shall have competence relevant to the sector in which the company operate". In addition, the introduction of Solvency 2 has contributed to a very significant increase in external audit costs for insurers.

Section D: Remuneration

This section focuses on the levels of remuneration as well as the policy for fixing remuneration packages.

Results in this section, which has nine provisions, were very consistent with 2015:

SECTION D	all companies	directives	non-directives
2016	79.8%	81.5%	75.3%
2015	79.7%	81.3%	75.3%

Results in this section of the Code have consistently highlighted that the set of practices that have been developed with a view to trying to curb the worst excesses of the listed sector, have much less relevance in the mutual arena. Scores in this section are the lowest, and this is partly because in many AFM members flexible remuneration is not a feature of executive pay.

In other cases, the level of bonuses or long-term incentive schemes are capped at quite low levels. In only 24% of organisations did they consider that levels of performance-related pay represented a significant proportion of executive remuneration.

As regard Non-Executives, all organisations were content that the level of remuneration reflects the time commitment and responsibilities of the role. However, in some cases those directors recruited from within the membership of the mutual are not paid. The new Senior Insurance Managers Regime places new responsibilities on many NEDs, though this has not led to increases in remuneration across the entire board.

Our annual remuneration report, produced by Robert Wharton, analyses trends in director remuneration in more detail[4].

Section E: Relations with members

This section relates to the dialogue with members and the actions taken to encourage participation in the Annual General Meeting.

There are six provisions in this section, which sees consistent results from one year to the next:

[4] http://www.financialmutuals.org/files/files/2016%20Final%2029_09_16.pdf

SECTION E	all companies	directives	non-directives
2016	92.9%	92.4%	88.9%
2015	92%	93%	87%

This section of the Code provides a range of procedural aspects intended to ensure mutuals maintain effective relations with members, particularly around general meetings of the mutual. AFM members confirm they adopt these procedures, though one society indicated that for practical reasons it is not possible for it to issue AGM packs at least 20 working days in advance.

In some cases the business model of the organisations prevented full compliance: for example, those organisations with a delegate voting system (where individuals are nominated to attend the AGM on behalf of other members of their branch or court) cannot provide for proxy voting for the general population of members; and those with no separate audit or remuneration committee do not have to provide for them to be present at the AGM as they would attend in any event as directors.

The Code does not in itself consider the alternatives to the AGM for member engagement, though organisations highlight the range of member fora provided. Equally, the Code does not explore member turnout at the AGM, though AFM generally regards this as a good indicator that member communications are effective (with the exclusion of delegate based societies where AGM attendance is limited to the total of branch delegates).

As part of our compliance monitoring, we ask organisations to report the AGM turnout of members voting. The best performing organisation this year achieved a 10% turnout; typically the figure averages at around 3% of those eligible- though it is difficult to be definitive, as many friendly societies operate a delegate system, and others have a range of Child Trust Fund policyholders, where the beneficial owner is under the age eligible to vote at the AGM.

2.4 General observations on governance reporting

2.4.1 Explaining non-compliance

As stated above, one mutual was able to claim full compliance with every single Code Provision throughout 2016; all other organisations would therefore be expected to provide at least one explanatory statement in their report and accounts.

As the guidance notes to the Code exercise state, an 'explain' statement should "set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle". Non-directive mutuals may for example "judge that some of the provisions are disproportionate or less relevant in their case"; though where size is presented as a reason for non-compliance, the company should explain the hurdle it faces, and set out in its opinion how it achieves a comparable aim in a less onerous manner. Hence an explanation gives insight and describes what alternative arrangements are in place to safeguard members' interests.

As part of the Code exercise, companies were asked to provide the draft explanation to accompany provisions for which they did not comply. We observed around 150 explanations.

It is pleasing to see that many of the explanations were written in expansive form, rather than a simple statement of size or omission. However not all statements were carried across to the report and accounts, and indeed some explanations provided in the compliance questionnaire were written after the annual report had been produced. There was also a tendency amongst some of the smaller non- Directives to not offer an explanation, or to simply state the provision did not apply to them due to scale.

2.4.2 The quality of narrative reporting

The report and accounts of a mutual are either sent directly to, or made available online or on request, to members of the organisation. There is therefore a greater imperative for clear and concise explanations about the performance and prospects of the business, because the report and accounts are written for what is, in the most part, not a professional investor audience. Mutuals proudly describe their wide democracy: millions of people are eligible to vote at the Annual General Meeting of mutual insurers, so making the report easy to access, easy to read and easy to understand is a vital part of effective member engagement.

In recent years a great deal of attention has been given by organisations to improving the readability of the report and accounts. Much of this is instigated by the Code, with added requirements to ensure the accounts are 'fair, balanced and understandable', as well as expectations that the accounts provide an overview of business model and strategy, and cover the resilience of the organisation, the key risks it faces and how they are mitigated.

Of course, as well as striving for clarity of information, new requirements in the Code, and new regulatory requirements have added to the length and complexity of the accounts. And in 2017, the Solvency 2 directive has added to this with the SFCR (Solvency and Financial Condition Report), which regulators see as targeted mainly at owners and customers of businesses.

It is pleasing therefore to witness significant efforts by many organisations to make their report and accounts more legible, with clearer reporting, better layout and more visually attractive presentation. Some organisations have deconstructed their accounts online, making it a lot easier to find specific information: for example, many members of mutuals might find that the chairman's statement and the strategic report offer a worthwhile insight into how the business is run, and in many cases this is sufficient for their needs.

By comparison, it was also noticeable that amongst some small non-directive friendly societies there was a tendency to produce the minimum statutory requirements, with many reports under 20 pages in length. Many such organisations have historically employed small local audit firms, and whilst this will reduce costs it does mean that the capacity to adapt the accounts to a customer-owned, insurance audience, and to employ best practice, is limited. Recent accounting developments mean that more organisations are re-tendering their audit work, and this may contribute to greater concentration amongst larger firms.

The Code also promotes the development of an effective culture in the organisation. To help members better benchmark board culture in the sector, AFM commissioned Independent Audit to survey chairs of AFM members. This found that on the whole chairs are more confident than their contemporaries in listed companies or building societies, that they are addressing culture sufficiently[5].

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[5] http://www.financialmutuals.org/files/files/Views%20from%20top-%20Culture%20Survey%20July%202017%20copy.pdf

3. Changes to the Code

3.1 Changes to the Code in 2016

In April 2016 the Financial Reporting Council made a small number of changes to their Code. These were incorporated into AFM's Code in the version issued in September 2016[6]. Amongst a small number of changes was the expectation that the audit committee as a whole should have competence relevant to the sector in which the company operates. This version of the Code will be subject to compliance review during 2017.

At the time of issuing that update, the FRC did not envisage any major changes to their Code until 2019. Since then however it has announced a wholesale review of the Code, in light of further developments in corporate governance, and in particular in response to the government Green Paper on Corporate Governance Reform.

3.2 Evolving standards in corporate governance

As mentioned above, the recent government Green Paper put forward some significant proposals on corporate governance in the UK[7]. At the time of writing this report the government has not responded to feedback on its proposals; however the FRC has concluded that it should undertake a fundamental review of the UK Corporate Governance Code, which is now 25 years old[8]. It is expected that as well as incorporating a range of proposals from the government's Green Paper, the FRC will also explore current trends in corporate governance.

In response to this, as well as intensified regulatory focus on governance (including PRA's Board Responsibilities and Senior Insurance Managers Regime, FCA's Approved Persons Regime, and Solvency 2), the AFM Board has agreed to complete a full review of the annotated Code and our approach to compliance in 2017/ 18. We will also develop a new compliance reporting process for this year, taking account of these developments and AFM's changing membership profile.

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[6] http://www.financialmutuals.org/files/files/Annotated%20Combined%20Governance%20Code,%20v%20September%202016%20v2.pdf

[7] https://www.gov.uk/government/consultations/corporate-governance-reform

[8] https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2017/February/FRC-to-review-the-UK-Corporate-Governance-Code.aspx

4. Conclusions

The UK Corporate Governance Code, and our Annotated version, provide a strong bedrock for demonstrating effective governance of UK businesses. The comply or explain basis ensures companies can determine how best to implement good governance practices into their business. Results from this year's survey demonstrate that across our sector the commitment to deliver high standards remains unabated.

Expectations of corporate governance have continued to evolve in the ten years since we launched our annotated Code. Regulators have become much more focused on the performance of boards since the financial crisis, and have been joined by politicians who are keen to address shortcomings in modern business culture.

So it is reassuring that the results of this year's corporate governance review confirm that AFM members remain committed to delivering high standards, and to enhancing their governance procedures in an ever more complex world. It also to be a source of reassurance- not concern- that many mutuals have diverged from PLC type practices, where they can deliver the same outcomes more cost effectively, and with similar or better protection for customers.

That said, there are areas where AFM and its members can devote more effort to improving:

- AGM turnouts are low in some organisations, with improvements possible both in communication of the event, and the relevance of membership to the customer;
- the clarity of narrative reporting should continue to improve, to take full account of the informational needs of customers, to present a coherent account of the performance of the business, and to explain aspects of governance that diverge from recognised good practice;
- board diversity has stalled in the sector compared to PLCs, and in part this may be because there is no board diversity policy, or because it is only partially executed or measured;
- board evaluation is seen by many AFM members as an internal process, and the benefits of externally facilitating the evaluation are not always recognised.

AFM is working with members to raise awareness of these issues, and to adapt our corporate governance compliance processes in response to the changing environment.

Appendix: Detailed Breakdown of compliance in each section

LEADERSHIP	*2016: proportion of companies complying*	*2015*
(CP_2 - CP-A.1.1) Can the board demonstrate that it meets sufficiently regularly to discharge its duties effectively	100%	*100%*
(CP_5 - CP-A.1.2) Did the annual report identify the chairman, the deputy chairman (where there is one), the chief executive, and the senior independent director (where there is one)	100%	*100%*
(CP_8 - CP-A.1.3) Does the company arrange appropriate insurance cover in respect of legal action against its directors	97%	*97%*
(CP_9 - CP-A.2.1) Are the roles of chairman and chief executive exercised by different individuals	100%	*100%*
(CP_172 - CP-A.3.1) There is a requirement that the chairman or appointment should meet the independence criteria set out in CP-B.1.1 Your earlier responses in the Company Information section indicate that you do not meet this requirement and therefore an explain statement should be made.	97%	*100%*
(CP_89 - CP-A.4.1) Does the senior non-executive director provide a sounding board for the chairman and serve as an intermediary for the other directors where necessary	100%	*100%*
(CP_76 - CP-A.4.2) Did the chairman hold meetings with the non-executive directors without the executives present	100%	*100%*
(CP_98 - CP-A.4.3.A) Did any directors have concerns which could not be resolved about the running of the company or a proposed action	91%	*100%*
Leadership section overall	97.9%	*99.6%*

EFFECTIVENESS	*2016: proportion of companies complying*	*2015*
(CP_102 - CP-B.1.1.A) Has the board identified in the annual report each non-executive director it considers to be independent	94%	*94%*
(CP_169 - CP-B.1.2) For large companies the requirement is that at least half the board, excluding the chairman, should be comprised of non-executive directors determined by the board to be independent. For small companies the requirement is that the board should have at least two non-executive directors determined by the board to be independent. Your earlier responses in the Company Information section indicate that you do not meet this requirement and therefore an explain statement should be made.	94%	*100%*
(CP_12 - CP-B.2.1) Is there a nomination committee which leads the process for board appointments and makes recommendations to the board	85%	*88%*
(CP_17 - CP-B.2.2) Did the nomination committee evaluate the balance of skills, knowledge and experience on the board and in light of the evaluation prepare a description of the role and capabilities required for any appointment made during the year	82%	*91%*
(CP_18 - CP-B.2.3) Are non-executive directors appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director	100%	*100%*
(CP_108 - CP-B.2.4.A) Does the board have a policy on diversity, including gender, and measurable objectives for implementing the policy	82%	*79%*
(CP_19 - CP-B.3.1) Did the nomination committee prepare for the appointment of a chairman a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises	94%	*82%*
(CP_22 - CP-B.3.2) Are the terms and conditions of appointment of non-executive directors made available for inspection by any person at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting)	97%	*97%*
(CP_119 - CP-B.3.3.A) Can the board confirm that no full time executive director is also chairman of a FTSE 100 company or another company of equivalent size to a FTSE 100 company	100%	*100%*
(CP_26 - CP-B.4.1) Has the chairman ensured that all new directors receive a full, formal and tailored induction on joining the board	100%	*100%*
(CP_28 - CP-B.4.2) Does the chairman regularly review and agree with each director his or her training and development needs	97%	*100%*
(CP_29 - CP-B.5.1) Has the board established clear procedures (documented for example in directors' letters of appointment) by which directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors	97%	*100%*

EFFECTIVENESS	*2016: proportion of companies complying*	*2015*
(CP_31 - CP-B.5.2) Do all directors have access to the advice and services of the company secretary and is the company secretary responsible to the board for ensuring that board procedures are complied with	97%	*97%*
(CP_33 - CP-B.6.1) Did the board state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted	88%	*88%*
(CP_123 - CP-B.6.2.A) Has the evaluation of the board been externally facilitated at least every three years	45%	*41%*
(CP_126 - CP-B.6.3.A) Were the non-executive directors, led by the senior independent director, responsible for the performance evaluation of the chairman and were the views of executive directors taken into account	82%	*83%*
(CP_128 - CP-B.7.1.A) Are all directors subject to annual election by members	30%	*38%*
(CP_133 - CP-B.7.2.A) Were any non-executive directors submitted for election in the year	67%	*79%*
Effectiveness section overall	85.8%	*86.7%*

ACCOUNTABILITY	*2016: proportion of companies complying*	*2015*
(CP_34 - CP-C.1.1) Do the directors explain in the annual report their responsibility for preparing the accounts	100%	*100%*
(CP_37 - CP-C.1.2) Do the directors include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) for members and the strategy for delivering the objectives of the company.	100%	*100%*
(CP_38 - CP-C.1.3) Do the directors state that they consider it is appropriate to adopt the going concern basis of accounting in the annual report, and where produced half-yearly financial statements, and do they identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months	100%	*100%*
(CP_39 - CP-C.2.1) Have the directors in the annual report described the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity, and have they confirmed that they have carried out a robust assessment of the principal risks and explained how those risks are being managed or mitigated	100%	*100%*
(CP_41 - CP-C.3.1) Has the board satisfied itself that at least one member of the audit committee has recent and relevant financial experience	94%	*94%*
(CP_42 - CP-C.3.2) Are the main role and responsibilities of the audit committee set out in written terms of references	94%	*91%*
(CP_54 - CP-C.3.3) Are the terms of reference of the audit committee, including its role and the authority delegated to it by the board, made available on the company's website	85%	*91%*
(CP_137 - CP-C.3.4.A) Did the board request that the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy	91%	*91%*
(CP_80 - CP-C.3.5) Does the audit committee's objective ensure that arrangements are in place for the proportionate and independent investigation of possible improprieties in matters of financial reporting or other matters and for appropriate follow-up action	91%	*94%*
(CP_141 - CP-C.3.6.A) Is there an internal audit function	88%	*82%*
(CP_81 - CP-C.3.7) Does the audit committee have primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditors	91%	*94%*
(CP_82 - CP-C.3.8) Did the annual report contain a separate section describing the work of the audit committee in discharging its responsibilities	91%	*91%*
Accountability section overall	93.7%	*94.1%*

REMUNERATION	*2016: proportion of companies complying*	*2015*
(CP_85 - CP-D.1.1) Do performance-related elements of remuneration form a significant proportion of the total remuneration package of executive directors	24%	*38%*
(CP_151 - CP-D.1.2.A) Has the company released an executive director to serve as a non-executive director elsewhere	100%	*100%*
(CP_57 - CP-D.1.3) Is the board satisfied that levels of remuneration for non-executive directors reflect the time commitment and responsibilities of the role	91%	*91%*

REMUNERATION	*2016: proportion of companies complying*	*2015*
(CP_59 - CP-D.1.4) Does the remuneration committee carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination, in particular to avoid rewarding poor performance	94%	*91%*
(CP_61 - CP-D.1.5) Are all notice or contract periods for directors set at one year or less	94%	*94%*
(CP_63 - CP-D.2.1) Does the remuneration committee make available its terms of reference, explaining its role and the authority delegated to it by the board	88%	*82%*
(CP_64 - CP-D.2.2) Has there been delegated to the remuneration committee responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments	76%	*71%*
(CP_67 - CP-D.2.3) Does the board (or, where permitted by the constitution of the company, a sub-committee of the board) determine the remuneration of the non-executive directors within the limits set in the constitution	97%	*94%*
(CP_68 - CP-D.2.4) Are members invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes, (except in circumstances that would be permitted by the Listing Rules)	55%	*56%*
Remuneration section overall	79.8%	*79.7%*

RELATIONS WITH MEMBERS	*2016: proportion of companies complying*	*2015*
(CP_69 - CP-E.1.1) Does the chairman ensure that the views of members are communicated to the board as a whole	97%	*97%*
(CP_71 - CP-E.1.2) Does the annual report state the steps the board has taken to ensure that the members of the board, and, in particular the non-executive directors develop an understanding of the views of the members about the company	91%	*91%*
(CP_159 - CP-E.2.1.A) At all general meetings did the company propose separate resolutions on each substantially separate issue	100%	*100%*
(CP_164 - CP-E.2.2.A) Did the company ensure that all valid proxy appointments received for general meetings were properly recorded and counted	82%	*79%*
(CP_72 - CP-E.2.3) Did the chairman arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend	91%	*94%*
(CP_73 - CP-E.2.4) Did the company arrange for the Notice of the AGM and related papers to be sent to members at least 20 working days before the meeting, and for other general meetings at least 14 days in advance	97%	*88%*
Relations with members section overall	92.9%	*92%*

Annex: Companies that took part in the 2017 compliance exercise

Not all AFM members have retail customers, and we excuse new members, and those that abide by comparable codes. Those companies providing a return were:

- Anglo-Saxons Friendly Society
- Benenden Healthcare Society Ltd
- British Friendly Society Ltd
- Bus Employees' Friendly Society
- Cirencester Friendly Society Ltd
- Civil Service Healthcare Society
- Compass Friendly Society Limited
- Cornish Mutual
- Dentists and General Society
- Dentists' Provident Society
- Exeter Friendly Society Ltd
- Grand United Order of Oddfellows Friendly Society
- Health Shield Friendly Society Limited
- Healthy Investment
- Kensington Friendly Collecting Society Ltd
- Kingston Unity Friendly Society
- Lady Grovers' Fund
- Metropolitan Police Friendly Society
- National Friendly
- Original Holloway Friendly Society Ltd
- Paycare
- Pharmaceutical and General Provident Society Ltd
- Railway Enginemen's Assurance Society Ltd
- Red Rose Friendly Society Ltd
- Scottish Friendly Assurance Society Ltd
- Sheffield Mutual Friendly Society
- Sovereign Health Care
- The Oddfellows
- The Shepherds Friendly Society Ltd
- Transport Friendly Society Ltd
- UIA (Insurance) Ltd
- Veterinary Defence Society
- Wiltshire Friendly Society Limited

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