



REMUNERATION IN THE
MUTUAL SECTOR 2018
IN ASSOCIATION WITH AFM

KEYSTONE LAW

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POSITIONING

This is the 10th anniversary of this report produced in conjunction with the Association of Financial Mutuals, (AFM), the trade body whose members are made up of friendly societies, mutual insurers, discretionary mutuals and cash plan providers. The aim is to produce a streamlined report to be read alongside the AFM Corporate Governance Report of September 2018, to provide information on the high standards of governance, compliance and cost effectiveness of the mutual sector.

The information in this report is drawn from the (corporate governance) returns made to the AFM by each member although much of the information is also available in those annual accounts published by members. Not every member has provided all of the information required in which case they may not be included in this report. In most cases the information relates to financial years ended on 31 December 2017. More detailed information is available on request from Robert Wharton.



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EXECUTIVE SUMMARY

The graphs at the back of this report show the remuneration for the two highest paid executive and the two highest paid non-executive directors of each of those members of the AFM who returned that information to the AFM for the purposes of the corporate governance review. The groupings of members used in this report is the same as last year but there are more participants owing to the increased and more diverse membership of AFM. We have not attempted a comparison with the 2016 figures because of the variation of the participants. It has not been possible to cover every single member for reasons explained below. There is brief comment on board diversity, refreshment and bonus schemes. It is recommended that this report is read in conjunction with the AFM Corporate Governance Report of September 2018 at <http://www.financialmutuals.org/mutual-governance/governance-reports>. There are graphs showing total board costs against gross written premium (GWP) and total assets.

METHODOLOGY

We try to keep the data in this report comparable over time, by using consistent data. Members are divided into 4 groups. The division is based solely on gross written premium (GWP). This offers the best basis of comparing both the current scale and direction of travel of businesses (compared to asset size or number of employees which vary significantly across different business lines and models). The groups are:-

Group 1 those members with a GWP in excess of £50 million. Two businesses in the group are non-directive (i.e. not subject to the Solvency 2 regime) but because of their very large size it is logical for them to be in this category.

Group 2 those members with a GWP above £15 million but below £50 million.

Group 3 other directives, most of whom have GWP above £5 million but below £15 million.

Group 4 are wholly non-directive members and with a GWP of under £5 million.

The source of information used was solely that returned to AFM in the corporate governance questionnaire sent to all members. This has helped provide an even playing field as information displayed in accounts can be open to different interpretation or categorisation of figures. However, not all members responded to AFM's questionnaire or did not complete enough of the questions to make incorporation into this report meaningful. Therefore, we have taken as correct and have not verified, the information supplied. In addition, readers will see a number of new participants in all of the groups owing to the expansion of membership of the AFM and in particular the welcome inclusion of a number of new member cash plan providers.

Furthermore, it has been necessary or desirable to exclude, regretfully, from the report a number of members on account of, lack of information returned, the size of the organisation in terms of, GWP, size of remuneration or number of policyholders (and therefore total assets) because to include them would seriously distort the median figures.

GENDER REPRESENTATION

This is well covered in the AFM corporate governance report on page 11 and to be found here. <http://www.financialmutuals.org/mutual-governance/governance-reports> In summary, the proportion of female directors increased in 2017 up to 20% (from 18% in 2016). This is short of the target of 33% for FTSE 350 companies but there is steady upwards progress. Interestingly the increase was most marked among executives where there was an increase of 5% over the previous year. It is of course now a requirement to have a gender diversity policy under the Senior Insurance Managers Regime.

BONUS SCHEMES

In group 1 three of the four members have discretionary schemes and only one has both a short-term and long-term incentive scheme.

In group 2 it is interesting to see that four of the ten members have no bonus scheme at all and while the majority (five of the remaining six) have a discretionary scheme, very few have any short-term or long-term incentive scheme.

In group 3 there is an almost even split between those that have a discretionary scheme, and those with no bonus scheme at all. Only three of the eleven members have a short-term incentive scheme.

In group 4, of the five participants, four have a discretionary scheme only, although one of those does also have a short-term incentive scheme.

Looking back at previous reports over the years there was a marked increase in the implementation of short-term incentive schemes about five years ago but we are not seeing those schemes become more prolific and discretionary schemes are still the flavour of the day. There are a number of members who, on principle, do not have any form of bonus scheme.

BOARD REFRESHMENT

In group 1 there has been substantial refreshment of the board in two of the four members and ongoing refreshment in the others, although three NEDs in two of the members have served more than nine years.

In group 2 there has been refreshment in seven out of the ten members, but there is still one member with four NEDs who have served more than nine years. A second member has three NEDs who have served more than nine years and there are a further three more members who have a long-serving NED. In summary that is 50% of that group who have NEDs who have served longer than the nine years suggested by the annotated corporate governance code for mutual insurers.

In group 3 the position is worse where, eight of the members have at least one NED who has served more than nine years and indeed five of those each have three or more directors over that limit. While there has been a little refreshment in some of those cases, and more NEDs have retired than have been appointed, it does paint a very different picture in this category of member.

In group 4, and as has been the case for some years, the number of NEDs over nine years is substantial, with five in one case and in the others four reducing down to one. Three members of the group have retired some NEDs and appointed new ones in their place but in two of the cases there has been no refreshment at all.

HOW KEYSTONE LAW CAN ASSIST THOSE IN THE MUTUAL SECTOR

Terms of Reference Whistleblowing

Incorporation Transfer of Engagements Remuneration

Employment Dispute General Data Protection Regulation

Regulatory
Overload

Have you dealt with similar issues?

Regulatory
Permissions

What is the issue? How long have you got?

Board
Review

KEYSTONE LAW

Running
Subsidiary
Businesses

Can we help? Do you have the background experience?

Customer
Complaints

Can we do it better/more quickly for you?

Senior Insurance Managers Regime

Rule Changes Commercial Agreements Regulatory

Diversity Investigation Solvency Capital

Corporate Governance

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2002
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23
PRACTICE
AREAS

16
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ON THE LONDON STOCK
EXCHANGE

270
PARTNER
LEVEL
LAWYERS

23
AVERAGE
YEARS
PQE

**TOP
100**
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We are proud to offer clients a 270-strong lawyer offering across nine key locations. Our team is a carefully curated group of individuals who average 23 years' post-qualification experience. Some have built their careers at some of the UK's most established firms; others have cut their professional teeth in-house at major multinationals.

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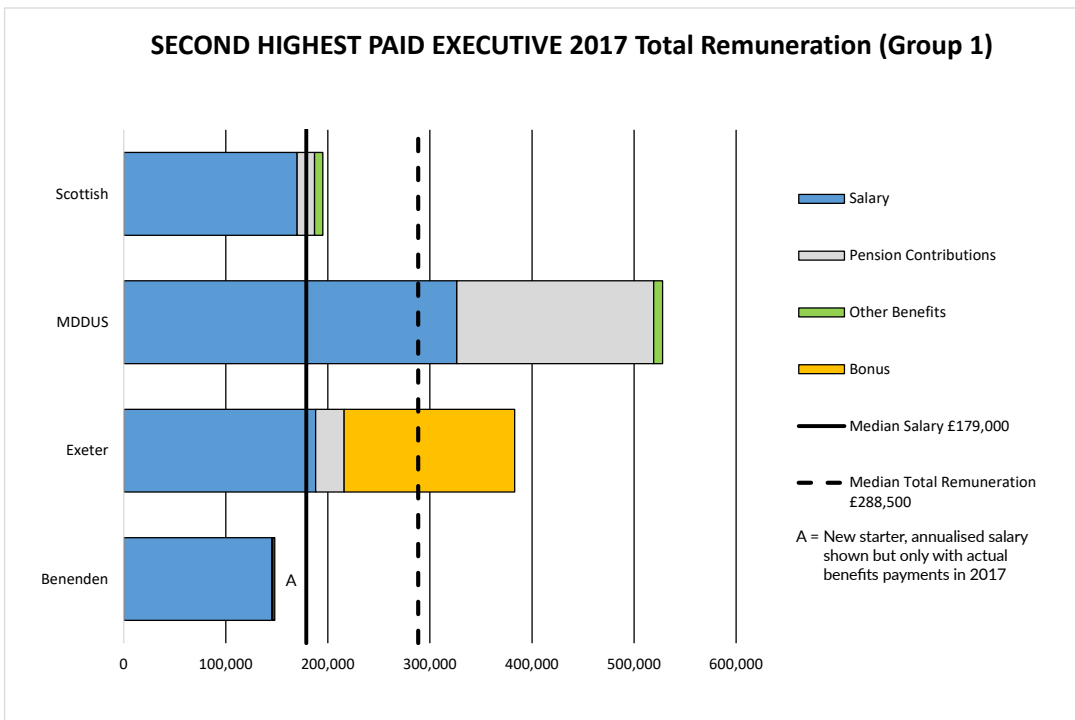
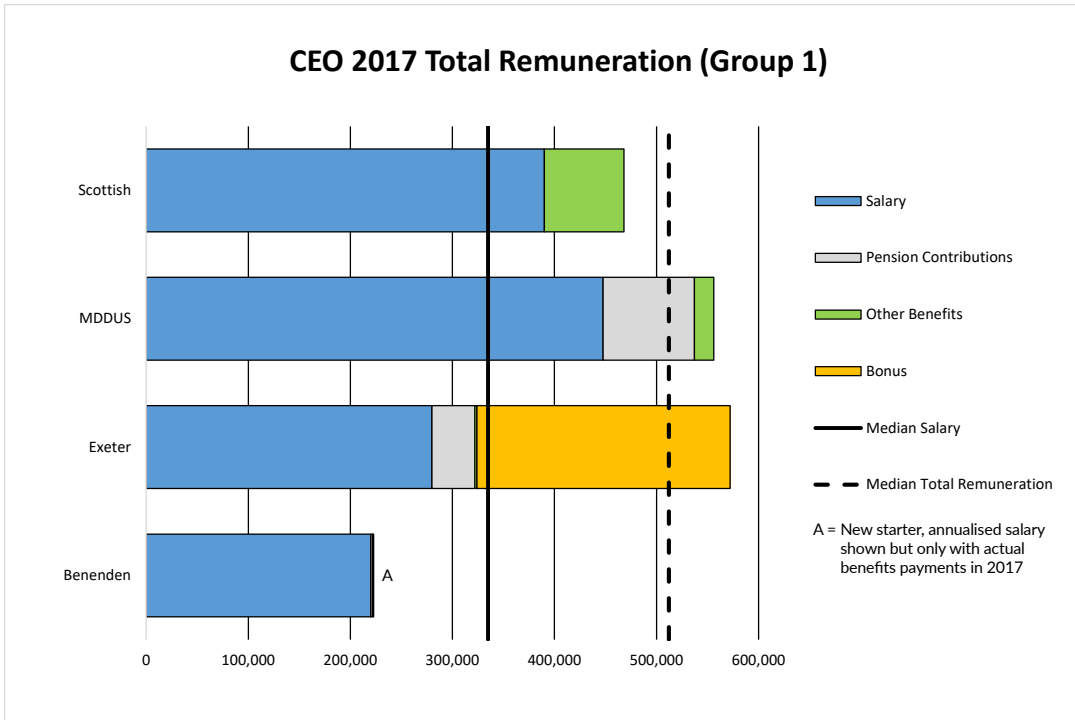
DISPLAY OF INFORMATION

The information shown is the remuneration of the Chief Executive, the second highest paid executive (whoever it may be), the Chairman and the next highest paid NED (whoever it may be). That remuneration has been broken down into its constituent parts where possible. There are also graphs of all members in the survey showing their board cost as a percentage against their GWP and total assets.

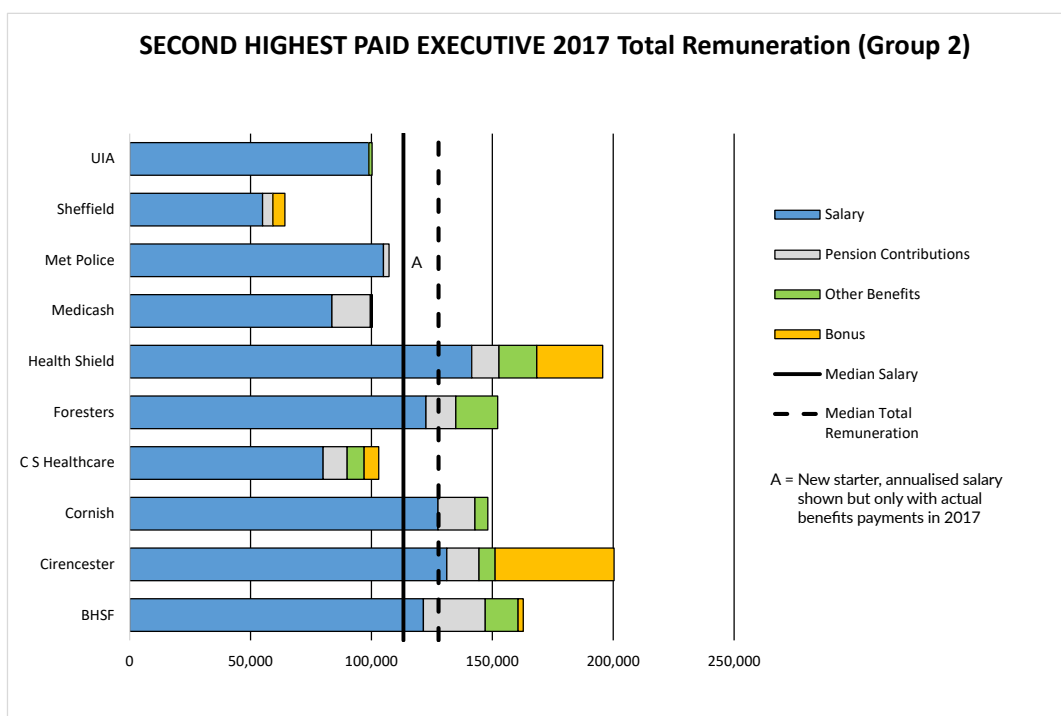
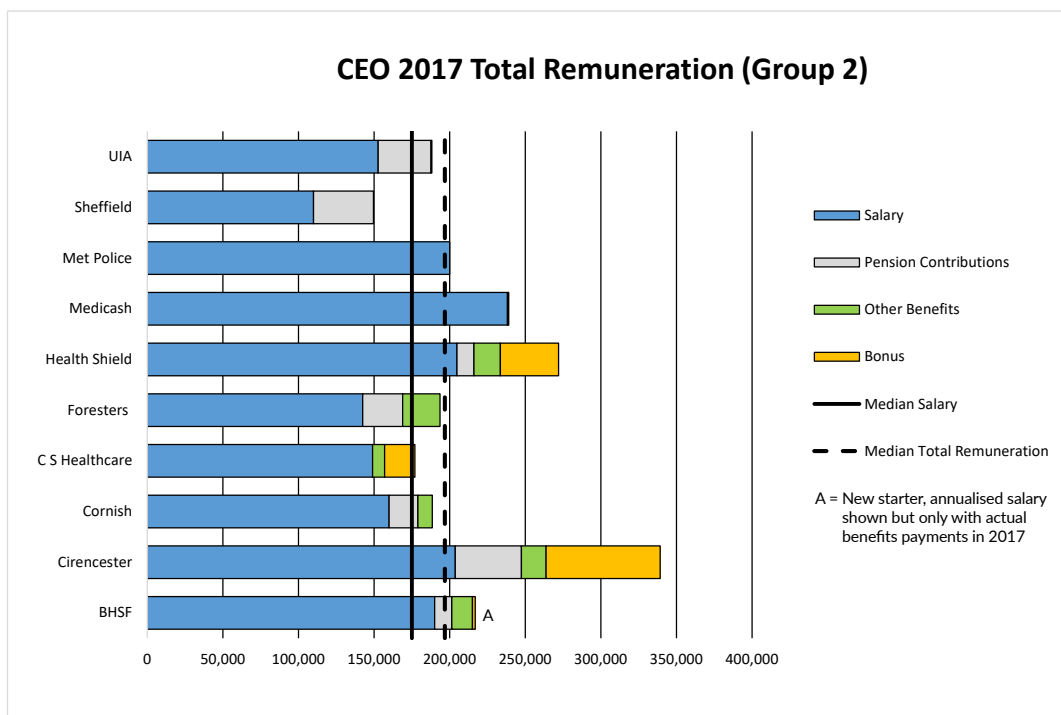
BOARD COSTS

We have shown in one graph for all of the members in the survey the percentage of their board costs as against both GWP and total assets. In two cases the results are shown as zero because the board costs information in the return was incomplete or they have boards which do not have any significant cost. In one other case the chairman does not take a fee.

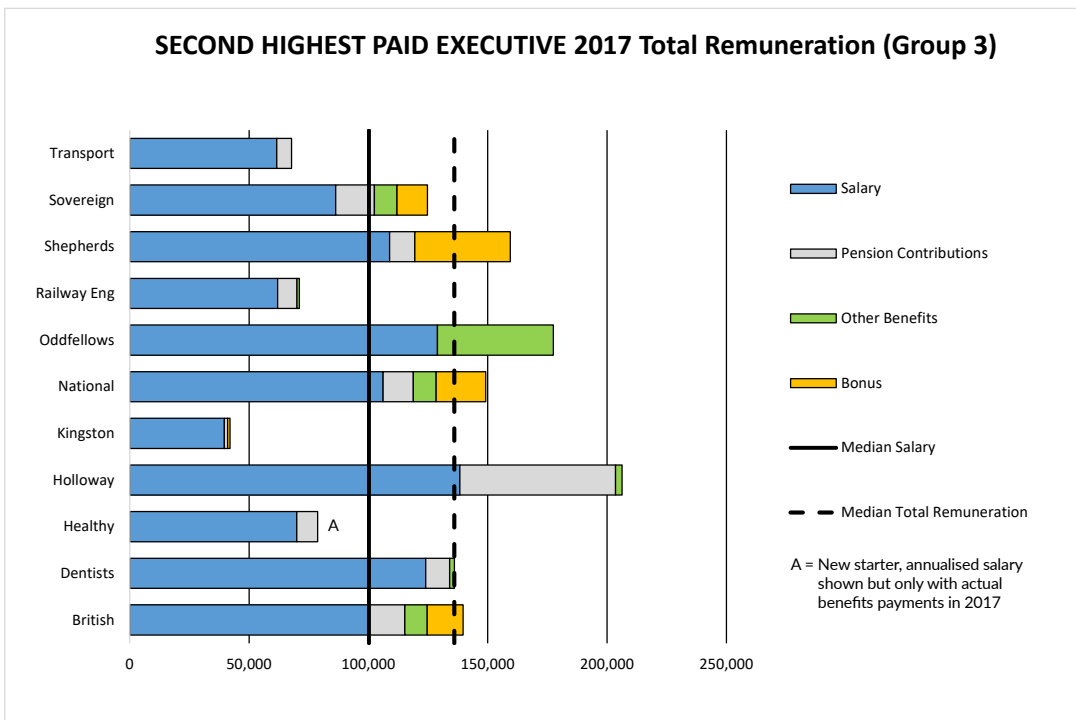
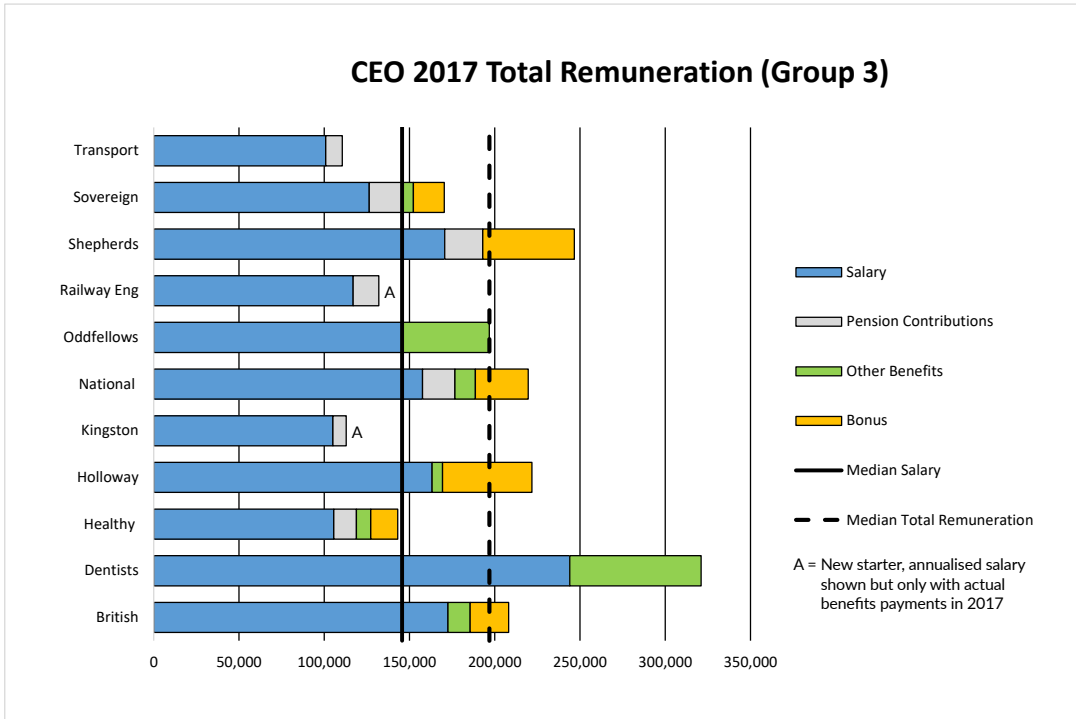
GRAPHS FOR EXECUTIVE DIRECTORS



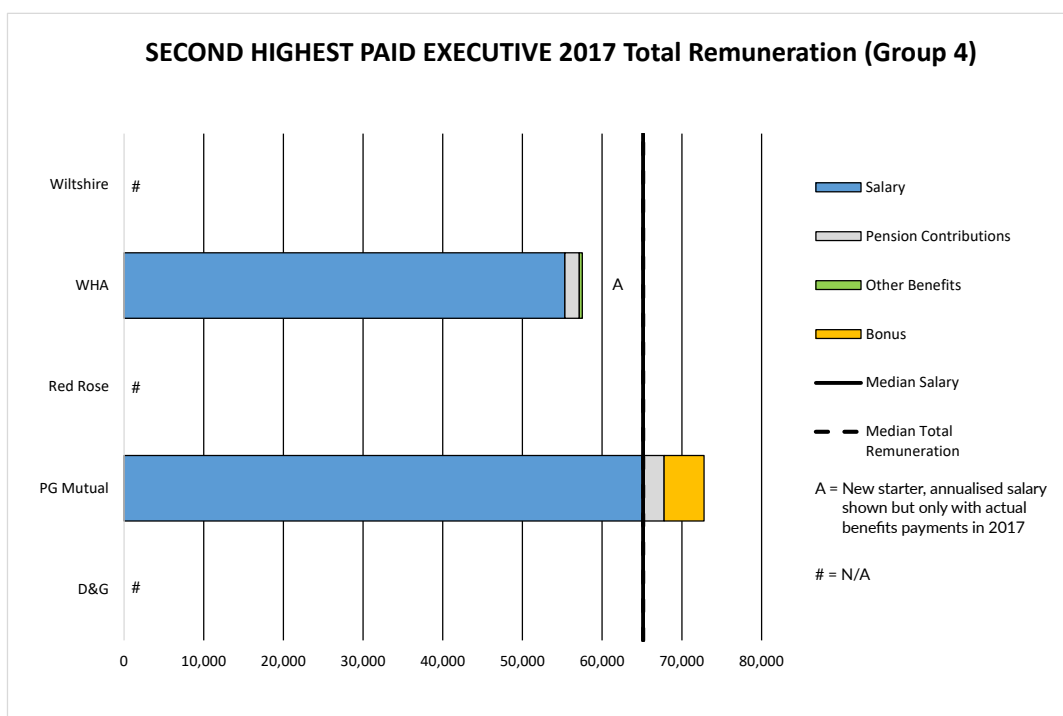
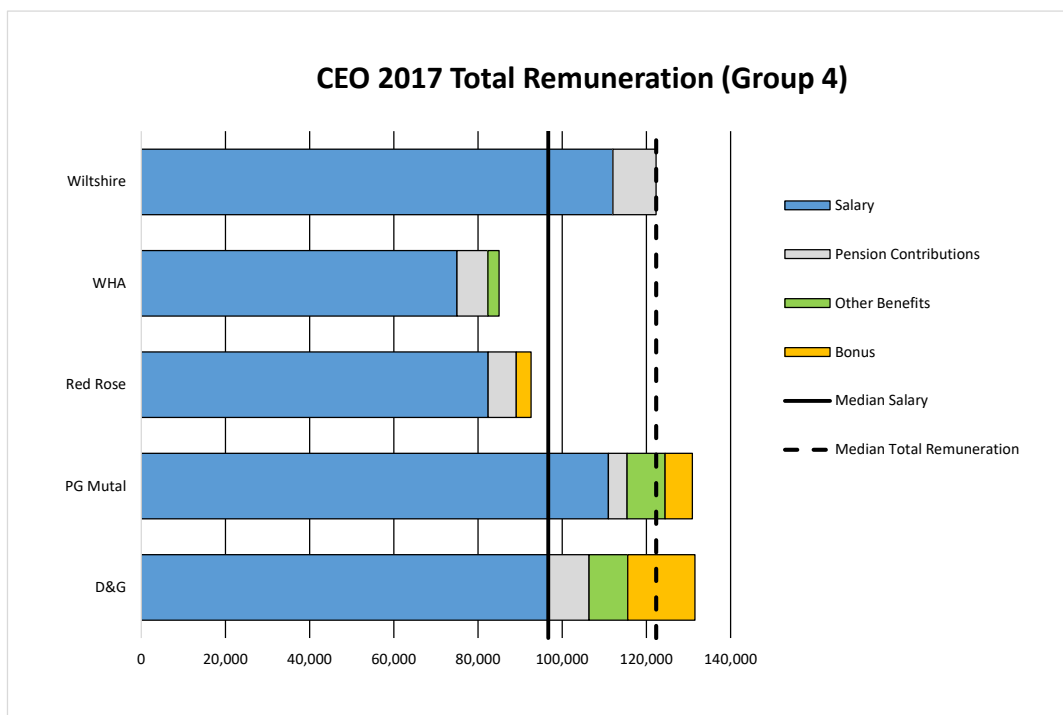
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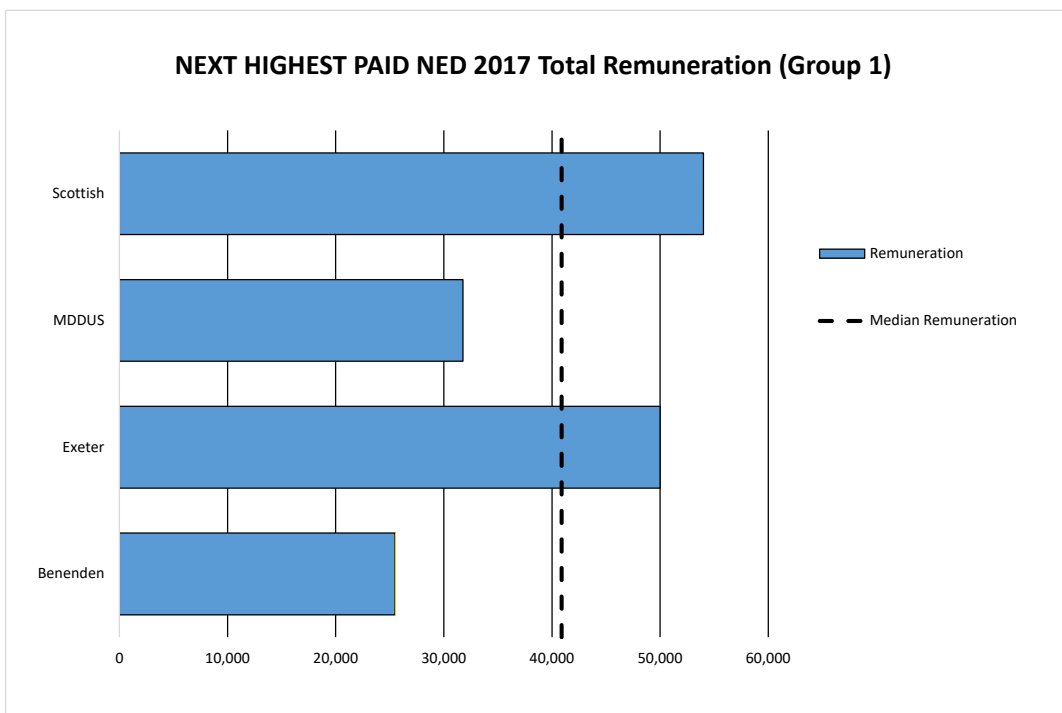
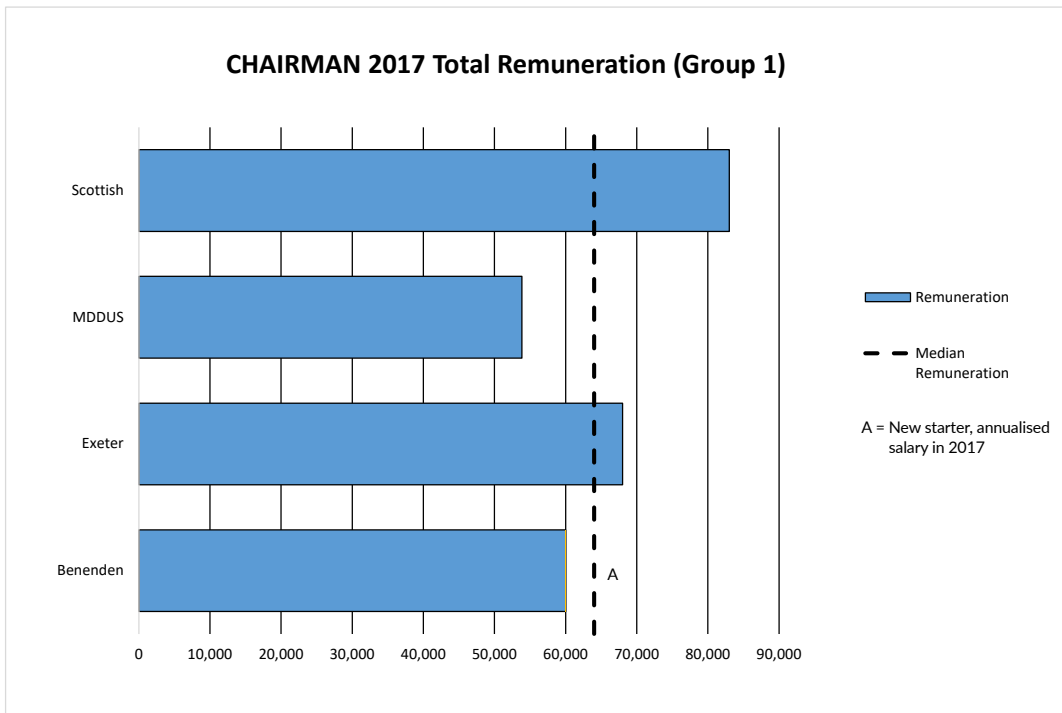
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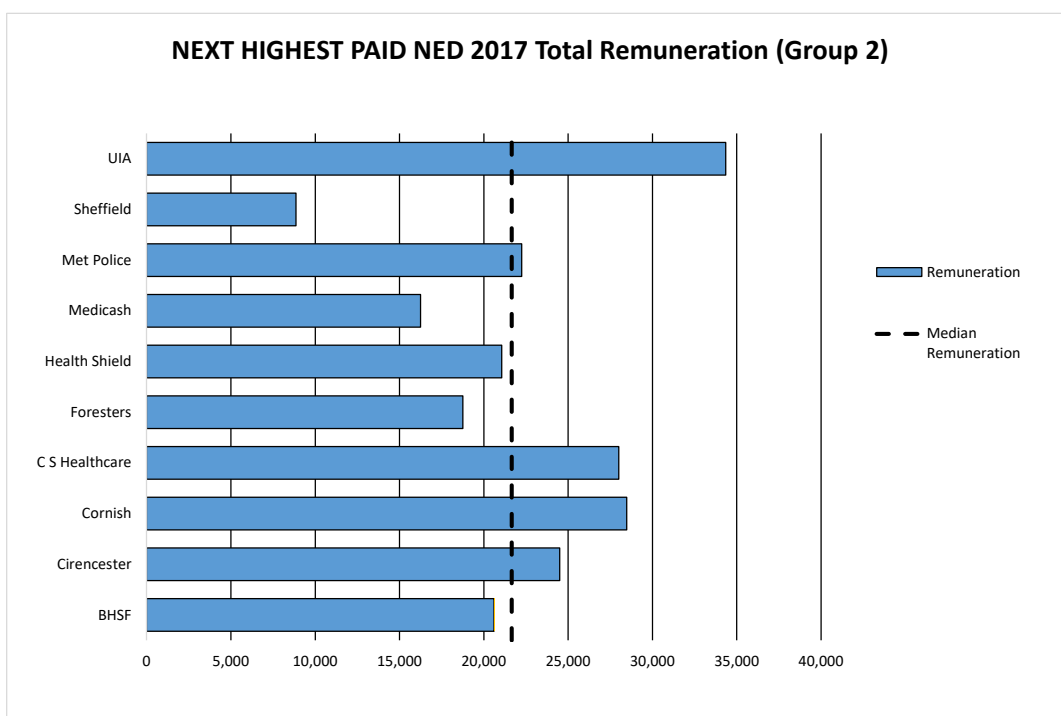
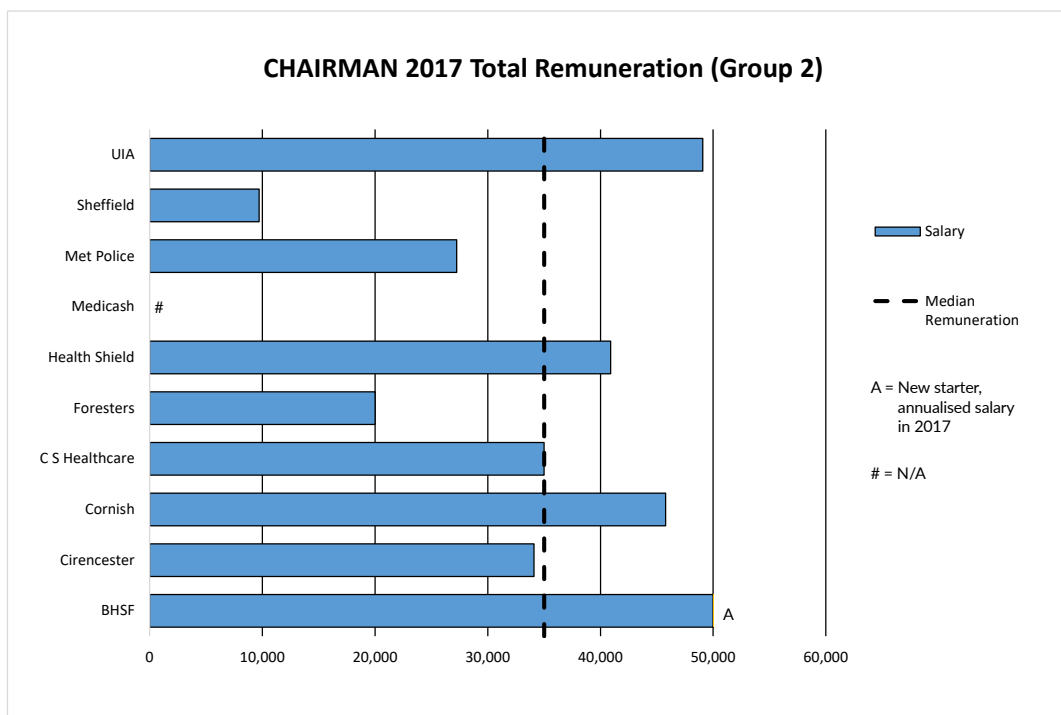
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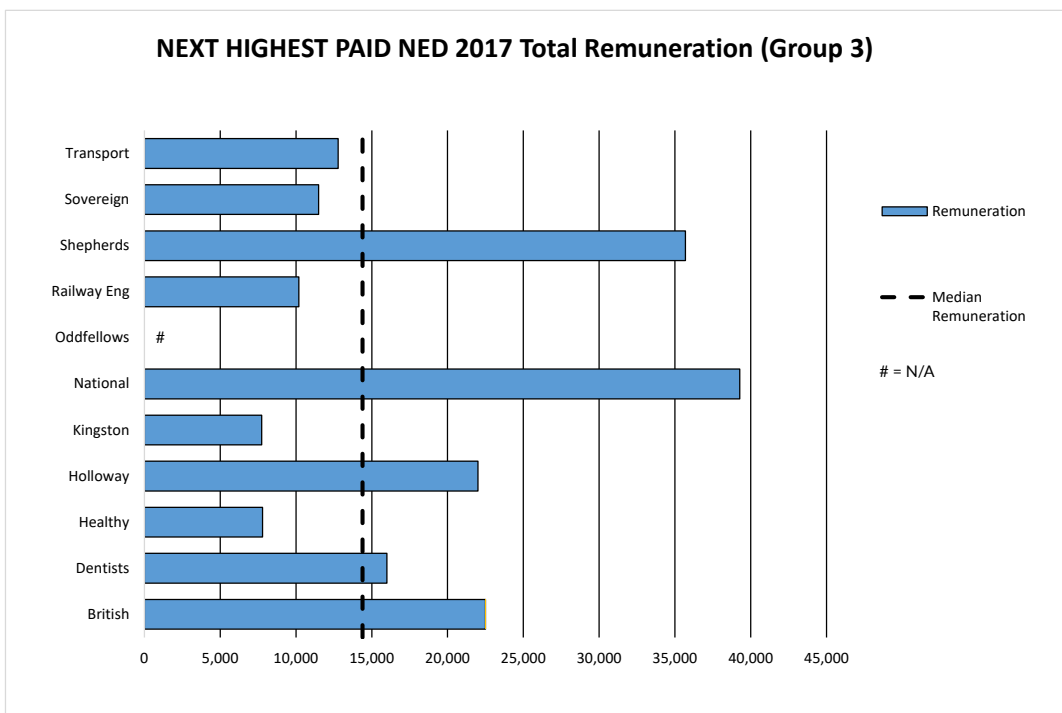
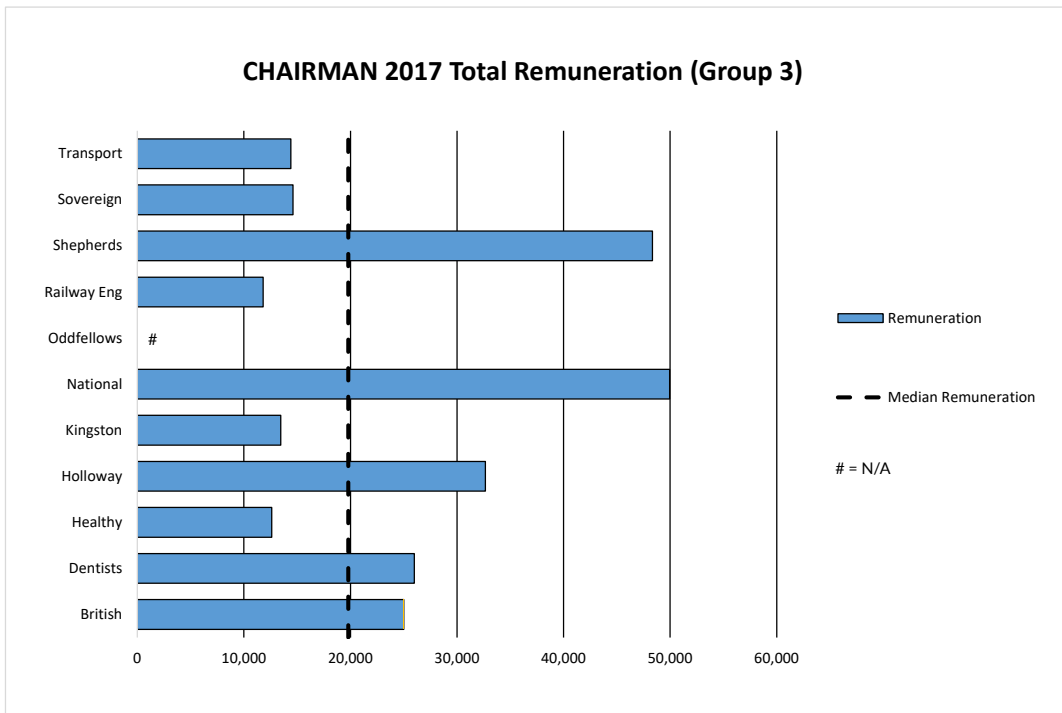
GRAPHS FOR NON-EXECUTIVE DIRECTORS



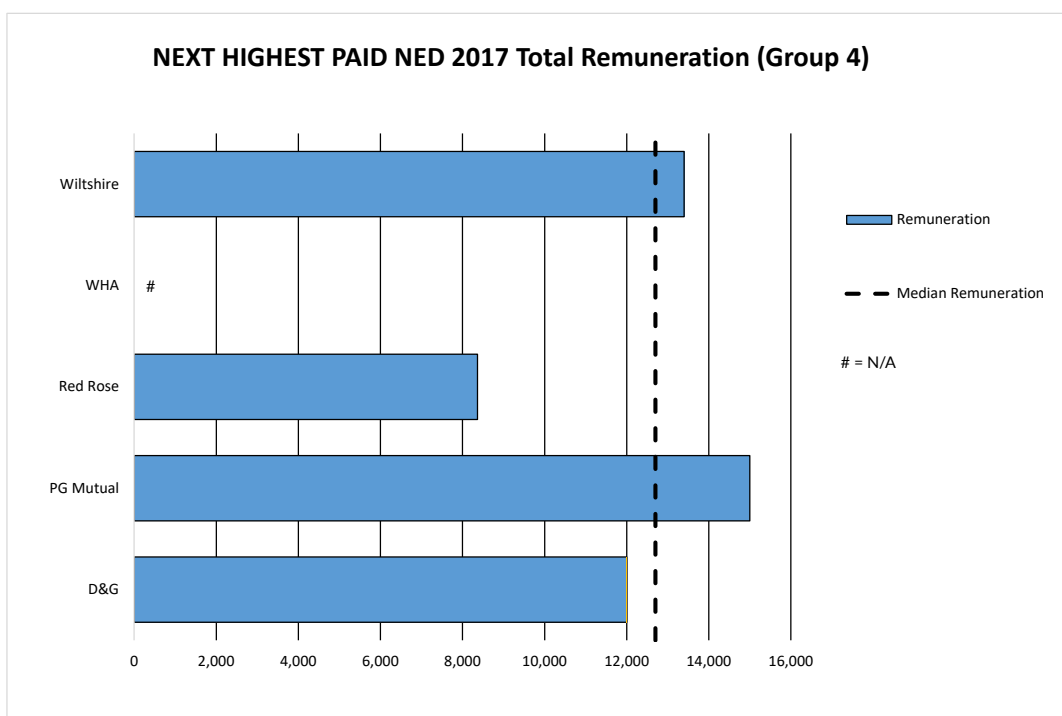
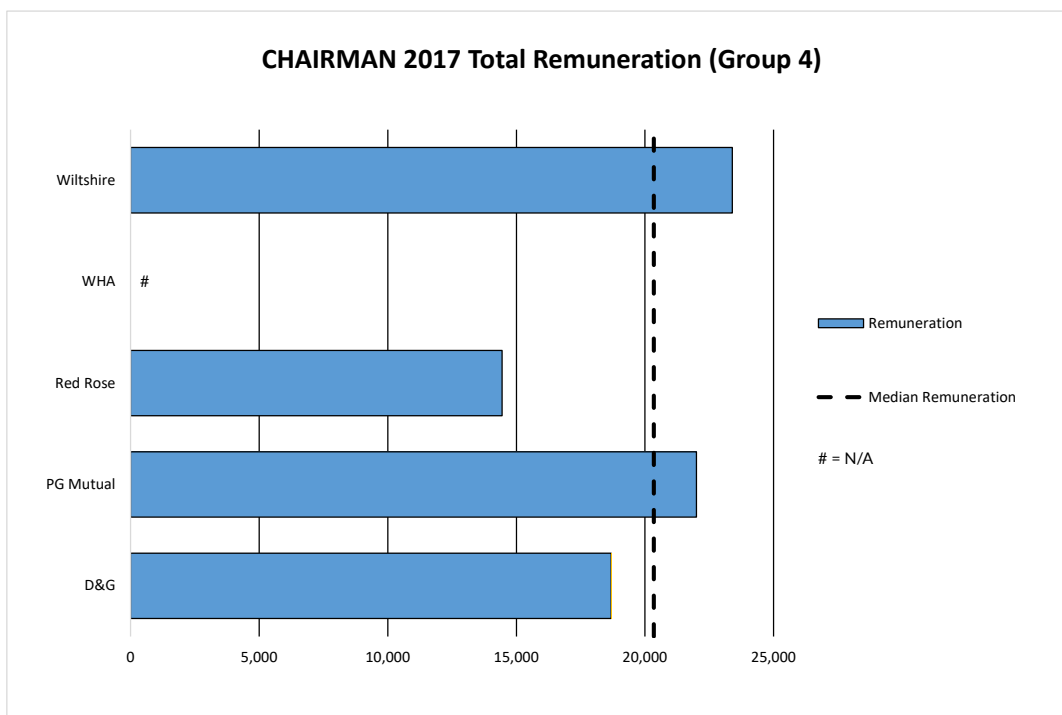
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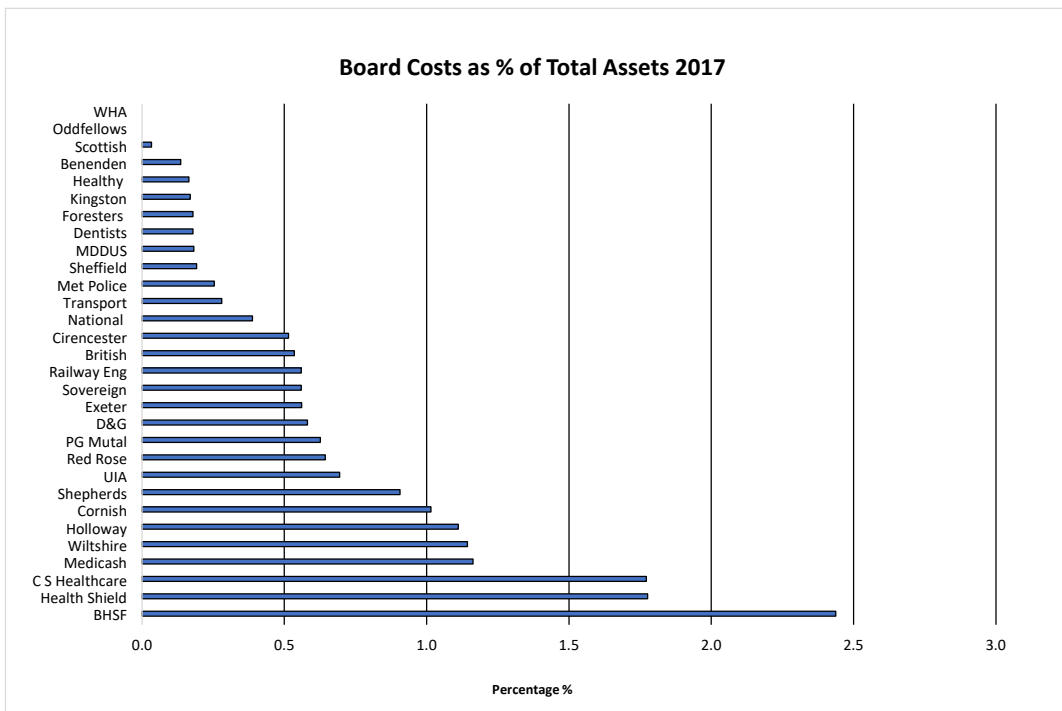
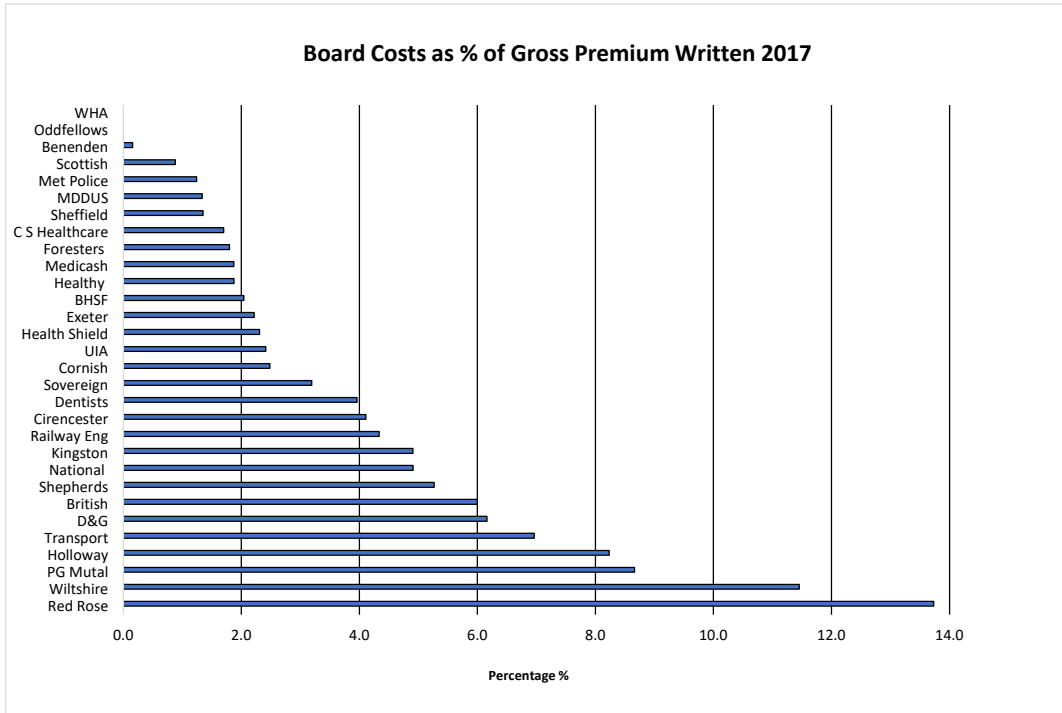
GRAPHS FOR NON-EXECUTIVE DIRECTORS



GRAPHS FOR NON-EXECUTIVE DIRECTORS



GRAPHS FOR BOARD COSTS AGAINST GWP AND TOTAL ASSETS



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EDUCATION
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EU & COMPETITION
FAMILY & MATRIMONIAL
FRAUD & FINANCIAL CRIME
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