

1 March 2010

Mr. Chris Hodge
Corporate Governance Unit
Financial Reporting Council
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codereview@frc.org.uk

Dear Mr. Hodge,

**Financial Reporting Council – Consultation on the Revised UK Corporate Governance Code
Comments from the International Underwriting Association**

Thank you for inviting comments on the revised UK Corporate Governance Code.

The International Underwriting Association (IUA) represents insurance and reinsurance companies in the international insurance and reinsurance market working in and through London. Our membership, consisting of 40 general insurers and reinsurers, makes up approximately 95% of the company market. For further information about our organisation and its membership please visit our website, www.iua.co.uk under the section 'About the IUA'.

General Comments

IUA members continue to take great interest in the developments on corporate governance and have contributed to recent regulatory and other relevant work streams. Our primary focus is upon the impact of the proposals on the provision of wholesale non-life (re)insurance.

We responded to the FSA consultation on a Code of Practice on Remuneration in mid-2009 and will also be responding to the FSA 'Effective Corporate Governance' paper (CP10/3). More widely we continue to liaise with the OECD in their work to produce guidelines specific to insurer governance and have provided comments to CEIOPS in the Solvency II Issues Papers relating to governance, risk management and remuneration policies.

We also submitted detailed comments to the Walker Review draft recommendations. Though we supported the key objectives and principles of the Review, we were concerned to ensure that the rules identified for the banking sector and other complex financial institutions were not automatically read across to apply to (re)insurance, at least without due consideration as to their possible disproportionate or unnecessary effects. We were thus pleased that the final report acknowledged the potential downside to implementing a 'one size fits all' approach and clarified that key measures should be mandatorily applied to FTSE 100 banks and / or life assurance companies and more proportionately to other entities. We supported this graded, less prescriptive approach and believe that it will be more equitable in application and fit more appreciably within the existing regulatory framework.

We continue to support the view taken in the Walker Review that there is nothing fundamentally wrong with the current corporate governance regime and that the Combined Code, including the 'comply or explain' approach, works well and forms the key tenet of a sound and flexible governance structure. In short, it is primarily companies' practices, rather than the corporate governance structure itself, where significant problems have arisen.

Given that the majority of the Walker recommendations, and principles underpinning them, succeed in providing greater transparency in the decision making processes of firms and improving corporate governance standards at board level, we are content with the incorporation of them into the Combined Code.

Proposed changes to the structure of the Code

We are comfortable with changing the name of the Combined Code to 'The UK Corporate Governance Code'. The suggested formatting amendments also seem sensible. Finally, we acknowledge the removal of the section on institutional shareholders in favour of creation of the Stewardship Code. However, for certainty and convenience purposes, we would be keen to ensure that the revised UK Corporate Governance Code and Stewardship Code are incorporated into the same document.

Proposed changes to the content of the Code

(i) Board Constitution, Development & Re-Election

We support the incorporation of Principle B.1. on the requirements of the Board to enable it to discharge its duties effectively. This links well with Principle B.3 on directors allocating sufficient time to the company to perform their duties responsibly and effectively. One of our concerns with the draft Walker Review recommendation was that whilst a prescriptive approach (for example 30-36 days work per annum) might not be an unreasonable undertaking for a NED appointed to a large bank, it might be less proportionate for other financial entities, including insurers. In the insurance sector there are real concerns that the increased pressures and prescriptive rules on NEDs may cause the 'talent pool' to shrink. We are therefore pleased that the FRC recognises this concern and the proposed Code changes maintain suitable flexibility.

We agree that the Board should retain ultimate responsibility for overseeing risk management and setting the company's risk appetite and tolerance. Clearly in the banking sector there have been deficiencies in ensuring that risk is integral to business decisions and oversight. Rectifying these failures is paramount to improving consumer and investor confidence. As far as insurance is concerned, we believe that the proposed Solvency II rules will provide a sufficient emphasis on adopting a risk management focus and suitable strategies.

We believe that the current rule of re-election of directors at the first year after appointment and a maximum of three years thereafter remains suitable. However, with regard to the two options outlined we would favour the Chairman only being subject to annual election as opposed to all directors. To subject all directors to annual re-election may lose vital board continuity and expertise. It may also be a disincentive for NEDs to join a board and spend the requisite time and resources being brought up to speed on company developments.



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We fully support the move to promote the role of senior independent directors (SIDs, A.4.1.). The emphasis on increased interaction between institutional investors and the board in the Walker Review makes the role of SIDs even more important and A.4.1. represents useful clarification and also serves to publicise the role of SIDs to shareholders.

(ii) Remuneration

The Walker Review, FSA and other bodies have been much more prescriptive on remuneration rules for certain institutions, i.e. banks and similar entities. We have made comments to those bodies on the suitability of prescriptive rules on long term incentives to insurance against those deemed necessary for banks. In general, we are not persuaded that the FSA Remuneration Code of Practice should (in its current form) apply to general (re)insurance business, or should at least be interpreted following recognition of the differing size, business transactions and risk strategies of insurance firms. Our key position remains that remuneration should be aligned to outcomes developed in a risk management framework and subject to suitable internal controls and governance. By and large insurance operates to this principle and has not seen the fundamental problems experienced in the banking sector.

We agree with the FRC that the Combined Code should not be excessively prescriptive given that it is not only applicable to financial institutions. We think the suggested changes, underpinned by the 'comply or explain' principle, strike the right balance and provide flexibility.

(iii) Disclosure of Corporate Governance Statements

It seems sensible to align the Combined Code disclosure rules with the FSA Disclosure and Transparency Rules. Allowing disclosure via the company's website would also provide further transparency and provide a more accessible medium for shareholders to access and digest the corporate governance statement.

(iv) Cost / Benefit Analysis

The greater focus on corporate governance and new requirements will clearly lead to increased time and financial resources for a lot of firms. However, the recent corporate governance failings necessitated a review into existing practices and the principles underpinning the changes are in the main eminently reasonable. Additionally, in terms of the Combined Code, the 'comply or explain' provision allows a fall back mechanism should a particular measure be disproportionately costly.

In conclusion, it is important that companies have established governance structures in place and, equally importantly, have controls in place to adhere to them within a proportionate and risk based assessment framework. The revisions to the Combined Code represent a step forward in promoting these goals.

We hope our comments are useful in finalising the revisions to the Code. We would be pleased to clarify or expand upon our comments as required.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chris Jones', is written over a blue circular stamp.

Christopher Jones
IUA Market Services Manager