



Association of British Insurers

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## The ABI and Investments

- Total investments £1.5 bn
- Own 13% of UK equity market
- Other investments overseas equities (14%), fixed interest (43%), property (7%)
- Characteristics:  
Insurers are long-term owners



# Ownership, responsibility and value

Long term owners need companies to:

- make robust strategic decisions
- manage risk
- be accountable to the shareholders that own them

Institutional investors have a responsibility

- to promote the health of the companies they own
- to generate value for their beneficiaries



## What engagement means

- seeking to ensure that companies can deliver good decisions and manage risk
- challenging when this is not the case
- active and considered use of voting powers
- supporting good boards to secure stability
- resolving problems that threaten stability

It DOES NOT mean micro-management

It DOES mean open and positive communication



## Why codes help

- They set an agreed consensus organisational framework for strategic decisions and risk management
- They provide flexibility for companies to adopt their own solutions with shareholder approval
- They create a basis for communication between companies and their shareholders

A reinforced chain of accountability from management to boards to shareholders means less need for regulation



# A cautionary tale

Remember:

**BANKS ARE NOW BEING (OVER?) REGULATED  
BECAUSE GOVERNANCE FAILED**



## More effective owners

RiskMetrics study showed:

- Companies find codes useful, but
- Most shareholders are not active
- Hence recommendation for stewardship codes
- UK proposal now on the table  
(<http://www.institutionalshareholderscommittee.org.uk>)



# Stewardship codes and Europe

## Benefits

- Could enhance effectiveness of long-term owners
- Set standards for overseas investors
- Limit need for regulation of companies and shareholders
- Assist in sustainable value creation

## Problems

- Diverse codes in different member states
- Ownership structures vary
- Risk of unintended consequences ie a move to entrenchment



## Towards a long-term view

To reap the benefits of a functioning accountability chain requires a greater focus on long-termism. Europe needs to debate why long term focus declined

- Is there incentive for long-term institutions to hold equities?
- Who will own companies if not?
- Is there too much focus on trading and market liquidity?
- How to keep markets open and prevent board entrenchment?



## Mr Barnier's choice



- Develop a long term culture with open markets, accountability and less regulation
- Regulate, entrench and protect