

Otto Thoresen
Director General
Association of British Insurers
51 Gresham Street
London EC2V 7HQ

7 December 2011

Dear Mr Thoresen,

EXECUTIVE REMUNERATION

I am writing to you to express support for your letter of 5 December to the chairs of the remuneration committees of UK listed banks, in which you outlined your members' concerns with remuneration structures and the distribution of returns between employees and shareholders.

You raise some important issues that are specific and particular to setting remuneration in banks. It is absolutely right that you do so.

I fully support the principle that effective shareholder engagement is the best way of ensuring that boards are held to account for their decisions on pay. It is therefore important that shareholders of companies in *all* sectors engage with the companies in which they invest to ensure that their views are taken into account by remuneration committees and that pay is a true reflection of company performance.

More broadly, it is impossible to remove the debate about executive remuneration from wider economic considerations. At a time when earnings growth in the economy is severely constrained, public and political attention inevitably focuses on increases in directors' remuneration that do not appear to be linked either to company performance or to economic reality. It is therefore important – as the CBI and IoD have both made clear – that the remuneration policies of our largest public companies are not just proportionate, fair and transparent but that they are seen to be so.

I believe that your members have a key role to play in ensuring that companies take a responsible approach to executive pay, and I encourage and support them in doing so. The responses to our discussion paper on executive remuneration confirm the importance of effective shareholder engagement. I note that the ABI Principles of Remuneration, issued in September, set out clearly and concisely how you expect remuneration to be determined and structured and I welcome this new approach. I encourage your members to work closely with companies over the coming weeks and months to ensure these principles are adhered to and that remuneration is squarely linked to performance. In the meantime, I and my colleagues will be considering what other measures Government, shareholders or business could take.