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Prudential Regulation Authority
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London, EC2R 6DA

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**AFM Response to discussion paper DP1/21,** A strong and simple prudential framework for non-systemic banks and building societies

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
* Provide our support for the concept of ‘strong and simple’ and to encourage PRA to undertake a dialogue on how to translate that into insurance as well.

About AFM and its members

1. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff[[1]](#footnote-2).
2. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses[[2]](#footnote-3) and to take account of corporate diversity[[3]](#footnote-4).

AFM comments on the proposals

1. We agree that there is great scope for a simplified regime for small and non-complex organisations that are regulated by the PRA. This is partly a consequence of the UK exit from the EU, where rules have become more burdensome over time, and less relevant to UK market forces: this is an unavoidable result of trying to knit together a consensus across EU nations. The opportunity for simplification is also a result of limited proportionality in the current rulebook, as well as the limited resources available within the regulators. Handled properly therefore, a ‘strong and simple’ regime should become more straightforward for supervisors to monitor actively and effectively, as well as in providing efficiency savings to industry.
2. We also agree that simplicity should not be confused with a lack of robustness. Consumer confidence rests on all organisations working towards a common standard of customer protection: a proportionate approach means better targeting of the approach, with continued but more targeted rigour.
3. One of the issues for PRA to address is in relation to corporate diversity. The PRA has had a stated objective on this since 2016 as we mention above, but we see no consideration of how it has approached this objective, in the operate of supervisors, or in its account of its activities in the annual report or business plan. Equally, neither the banking nor the insurance start-up unit have yet approved a new mutual provider, suggesting that the barriers to entry remain high, and that it is likely they are higher yet for a mutual, due in part to a continued lack of consideration of business form.
4. We have not attempted to consider the specifics of a ‘strong and simple’ regime in banking, since we do not represent that sector. We do suggest though that such a regime needs to be evidence based- understanding the costs and benefits of changes, and the likely consequences for consumers and for competition in the market. Simplification needs to retain key aspects of the current regime, recognising the investment over time of both industry and regulators. Simplification should also identify elements that are offering little protection to consumers, adding costs to firms, and which are not actively monitored by regulators.
5. We also consider that PRA needs to consider the concept with regard to other aspects of the regulatory regime, including the Financial Ombudsman, FS Compensation Scheme, FRC, as well as the FCA. The elements of the regulatory regime need to work intelligently and co-operatively, so that requirements are not duplicated, and that early warnings that are picked up in one place can be actioned in the right way across the regulatory system. The Treasury Select Committee recently highlighted the need to bring the Financial Ombudsman Service into greater co-ordination with other parts of the regulatory framework, and this would contribute significantly to a ‘strong and simple’ regime working effectively.
6. The concept of ‘strong and simple’, as examined in the discussion paper, is an appealing one. We are unclear therefore why it has only been considered with regard to the deposit-taking sector. Insurance, for example, suffers the same challenges around the prudential framework. And whilst the Treasury has initiated a review of Solvency 2, including issues around proportionality and thresholds, so far PRA has only actively expressed an intent to dealing with issues that bear most relevance to large insurers (including the risk margin and matching adjustments). ‘Strong and simple’ should be a mantra that extends across all PRA’s work, and we would be very keen to speak to PRA about how the principle can be carried over into insurance.
7. A ‘strong and simple’ insurance regime should also focus on smaller, non-complex firms that are not active overseas. It should also focus on the prudential framework beyond Solvency 2. Over the last two years we have written to PRA on a number of occasions about unnecessary complexity in the market for transfers, and about a growing tendency for PRA to widen its interpretation of its responsibilities. None of this is consistent with a proportionate regime.
8. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw

Chief Executive

Association of Financial Mutuals

1. ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016> [↑](#footnote-ref-2)
2. Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted> [↑](#footnote-ref-3)
3. <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted> [↑](#footnote-ref-4)