



John Reynolds,
Financial Conduct Authority,
12 Endeavour Square,
London E20 1JN

11 July 2019

Dear John,

AFM Response to FCA CP19/15, Independent Governance Committees: extension of remit

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:
 - Comment on the proposals in the consultation, as they relate to the extension of guidance beyond pension providers.; and
 - Highlight the need for proper engagement with AFM and its members.
2. 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 staff¹.
3. 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 businesses² and to take account of corporate diversity³.

¹ ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

³ <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

4. We recognise the value of independent governance committees (IGCs) in overseeing the activities of pensions providers, and in ensuring that those providers are accountable to their customers, and consider fully the best long-term interests for customers. We support proposals to extend the remit of IGCs to more fully explore issues ranging from sustainability to stewardship to value for money within pension funds.
5. Since no AFM member is a provider of pension funds, we have not commented in detail on the proposals in the consultation, where they relate to the scope of IGCs in pension funds. Our response is therefore limited to the apparent suggestion in the consultation that guidance for IGCs might be extended to 'all life companies that provide investment-based life insurance products' (paragraph 3.26). This proposal and the related guidance are likely to materially affect a wide range of AFM members.
6. The proposal to extend guidance appears to contradict the comment in paragraph 2.26 that 'We have no evidence to suggest the need for immediate action to strengthen rules or guidance for the governance of with-profit funds.' As FCA will recognise, there are longstanding arrangements for with-profits in this area, including the requirement to appoint a with-profits committee (or independent expert for smaller organisations), as well as the content of the PPFM (principles and practices of financial management).
7. The consultation proposes extending FCA's guidance to providers of investment-based life insurance products on 'how firms should think about ESG risks and member concerns in investment decision-making' (paragraph 3.25). Whilst the specific nature of the guidance and the intended form of implementation is unclear, there appears to be some overlap with FCA's recent implementation of the Shareholders' Rights Directive 2, PRA's requirements to develop a plan for managing the financial risks of climate change, and EIOPA's expectations under Solvency 2.
8. FCA guidance indicates IGCs should report on a range of issues (paragraph 3.15), including to comments on the effectiveness of a firm's policies and to critically appraisal how well policy is implemented. There is no natural mechanism in a life company to do this, and we are particularly concerned that the approach might infer the creation of IGCs in non-pension providers. We consider this is disproportionate and there is no evidence in the consultation that the consequences of these disclosure have been thought through.

9. We are concerned therefore that the proposal to extend FCA's guidance is:
- a. not evidenced by any particular concerns with current arrangements;
 - b. was not considered by the Law Commission report or DWP's actions;
 - c. is not clearly articulated in the consultation proposals or accounted for in FCA's cost benefit analysis;
 - d. does not appear to take into account the existing governance arrangements for investment-based life insurance products; and
 - e. cannot work to the same timetable as other proposals in the consultation, or without effective engagement with relevant parts of the life sector, including AFM.

10. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw
Chief Executive
Association of Financial Mutuals