Louisa Chender
Financial Conduct Authority
12 Endeavour Square
London E10 1JN

10 September 2021

Dear Louisa,

AFM Response to FCA CP21/17, enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pensions providers

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, and their consequences for AFM members and their customers.

About 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 staff[1].

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 businesses[2] and to take account of corporate diversity[3].

[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

AFM comments on the proposals

4. We agree that it is vital that the momentum achieved on managing the financial risks of climate change is maintained. It is already evident that amongst asset managers and owners, the appetite for making substantial change is growing, though there is varying appreciation of the need for urgency.

5. As well as the need for speed, it is vital there is consistency and coordination. In recent times we have seen a series of joint consultations issued between PRA and FCA (such as on climate change, on diversity and on insurance transfers), only for FCA to issue a further consultation with a shorter response for deadlines. This gives the impression of a lack of co-ordination, and that the regulated agencies are competing with each other. This makes the overall impact less and the risk that firms are confused greater.

6. Currently, all life and non-life insurers that are regulated by the PRA are required to apply the standards in SS3/19. PRA's statement takes the TCFD approach to disclosure as good practice, and therefore actively encourages firms to report against the relevant pillars- though it does leave room for proportionality for smaller, non-complex firms.

7. AFM has actively supported its members in applying the requirements in SS3/19, via a planning template and a series of webinars to support implementation, in both of which we have involved PRA. The AFM Corporate Governance Code anticipates firms will use their report and accounts to maintain a dialogue with members about their approach to ESG, including the financial risks of climate change. Earlier this year, AFM became a supporting institution to the UN Environmental Programme's Principles for Sustainable Insurance, to further support members in adopting good practice.

8. We have therefore approached CP21/17 as a helpful reinforcement of the actions that firms should be taking, and we strongly support the outcomes FCA seeks to achieve, as set out in paragraph 1.24. In our view, the approach FCA has adopted adds an extra layer of direction to firms, and the greater consistency this will provide (above and beyond the PRA supervisory statement) will drive up standards and make it easier for consumers to make informed decisions.

9. We strongly agree with the notion that assets held by financial providers for the benefit of customers over the long-term, should be invested with a long-term perspective: inevitably this must include a consideration of the wider environment in which the funds are invested. We have

consistently argued that the long-term interests of customers- and society in general- are not always delivered where a firm is influenced by short-term rating agency action, quarterly reporting, and bonuses. Any long-term view will take account of climate change issues, and help steer investments into areas that are good for the community at large.

10. In recent consumer research by AFM, we found that consumers are increasingly focused on the behaviour of providers: indeed, more people indicated that ethical behaviour would influence their decision on who to buy a product from, than would past performance. Whilst the way a firm demonstrates it cares about protecting the environment remains a relatively low ranked aspect of behaviour (compared to issues like executive pay, how it treats customers and what it gives back to society), the issue was ranked as important by the under-40s in particular. We are slowly beginning to see these opinions translate into buying decisions.

11. FCA has proposed a threshold of £5 billion in assets under management for these rules, and on this basis the majority of AFM members would be out of scope. We consider this is an appropriate level, given that including smaller firms would increase costs to them and their policyholders significantly. As mentioned above, smaller AFM members would in any event be required to comply with PRA SS3/19 from the end of 2021.

12. As AFM members are generally out of scope, we have not commented in detail on the proposals, though we agree that the phased approach will allow all in-scope firms to develop the necessary data and meet reporting requirements over a reasonable timescale. We also support the wider efforts, via CFRF and elsewhere, to develop scenario testing and metrics, which will help achieve consistency for firms in-scope, as well as a practical model to adopt for firms below the threshold.

13. We have seen a range of net-zero targets set by the large asset managers, and we agree that all firms should publish their target date for achieving net-zero emissions. We are surprised that some asset managers are setting a potentially less-ambitious date of 2050, compared to others that aim to achieve net-zero by 2030. At this stage though, and as firms seek to understand the actions needed and their consequences, we consider it would not be helpful for FCA to comment on the scale of ambition being set across the industry.

14. We note the intent by FCA to create a new ESG sourcebook, as per paragraph 1.5. We think this is a good step forward, though we also consider that ESG factors are important across all aspects of a firm's operations, and any risk that they are relegated to a compliance

requirement should be avoided. AFM has undertaken significant work on all aspects of ESG, and would welcome the opportunity to engage with FCA on the range of topics to be covered.

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

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals