Peter Cardinali
Finance & Business Services
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

25 May 2021

Dear Peter,

AFM Response to consultation CP21/8, Regulatory fees and levies: rates proposals 2021/22

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 fee proposals for insurers, and to highlight their consequences for small mutual insurers.

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 support the priorities of the FCA and the work undertaken to perform its duties. During the pandemic, our sector has appreciated the engagement and flexibility provided at times by the regulators, and the sensible approach it has taken to coordinating the regulatory regime at a time of high stress. Most AFM members are dual-regulated by FCA and PRA, and our comments in part therefore reflect the overall structure of fees and levies. We have also responded to the PRA's consultation.

5. We note that FCA has decided to delay the publication of its business plan until July, alongside its report and accounts. This means that for the purposes of responding to this consultation, we can only comment on the explanations and evidence provided in this paper. We consider this is sub-optimal, as the business plan reveals much of the activity plans upon which the budget has been based; we are therefore being asked to agree a funding level and apportionment without knowing whether this is fair and consistent with future plans.

6. We agree with the 'broadly flat base' adopted by FCA, which see the ORA budget increase by 2%. Given the challenging environment most businesses continue to face, we consider that it is prudent not to seek to raise regulatory fees excessively at this time, and as noted above, without a clear business plan rationale.

7. AFM members tend to pay most or all their fees via either block A.0 or A.3 or A.4. We note that in each of these blocks, the overall funding collected is expected to fall slightly (via Table 2.3), and that this is the result both of the modest increase in the ORA, as well as a fall in the number of firms supervised. We consider this is appropriate.

8. We also support the imposition of a one-off business interruption insurance fee on firms in block A.3 (and A.5). We recognise that the certainty the test cases have produced, and the more dedicated focus on the main suppliers of business cover, have minimised the effect on other insurers.

9. FCA has rightly referred to the unacceptably high cost of the Financial Services Compensation Scheme, FSCS. We have raised this concern in response to past FCA fees consultation, and highlighted the need for earlier and better intervention by the FCA: we are therefore pleased that FCA now accepts this. We consider that effective gatekeeping, proper supervision and adequate capital standards are key to resolving this

issue and reducing the cost of FSCS, not another redistribution of the FSCS costs.

10. We consider the same type of policy response is needed with regards to the Financial Ombudsman Service, which has in recent years sought to bring forward a budget intended to maintain its current cost base and infrastructure, rather than question how it readjusts to changing needs and market conditions. Whilst FCA has intervened to reduce the FOS budget increase somewhat, we remain convinced that the Service needs to make more dramatic changes to its operating structure.

11. With regards to the Money and Pensions Service, we note the levy is set by DWP. Contrary to the total line in Table 10.1, the proposed levy represents a 30% *increase*, not a decrease in the funds allocated to industry. There are also errors in the headings for Table 10.3.

12. Some of our members have begun to submit fee-based data to FCA using the new portal. Their general comments are that this has been initially cumbersome (in seeking new set up permissions), but thereafter straightforward.

<u>Conclusions</u>

13. In summary, we responded to FCA's fee consultation last year to express a concern that the level of increase in fees proposed for insurers in 2020/21 was unwarranted by the explanations provided in the consultation paper, and indeed the FCA business plan. We are reassured that the level of increase in fees this year proposed by FCA is modest.

14. That said, the total cost of regulation continues to increase at an alarming rate, and there is an emerging risk that PRA and FCA take it in turns to raise fees for particular fee blocks. Also, despite increasing efforts by FCA to temper the demands for funds of other regulatory bodies, the overall budgeting process remains top-down and based on rolling over capacity from one year to the next, more than it does to meeting future demand.

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