



Governance & Professionalism Policy
Financial Conduct Authority
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AFM Response to FCA consultation on improving the Appointed Representatives regime

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 around £25 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> with updates from EY and AFM

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 are pleased to respond to this consultation, which itself follows relatively quickly after past reviews of the regime for appointed representatives (ARs).
5. Amongst AFM members, a number retain AR arrangements, though most of these operate on an introducer basis (IAR), where in our experience- and as described in the consultation- the limits on the activities permissible are generally clear and well-supervised by principals. The majority of introducer arrangements made by AFM members are not appointed representatives, and operate on the basis that introducing is not a regulated activity.
6. Traditionally, many friendly societies adopted an industrial branch, or “man from the Pru” approach, and where this has become unviable over time, the introducer regime has allowed those traditional businesses to maintain active, and to retain the capacity to sell to and support consumers. The benefits highlighted in the consultation focus on cost-effectiveness, but an important missing ingredient is the role that introducers offer to supporting vulnerable customers and on serving the underserved. Many products offered by AFM members are low in cost, and the target market needs hand-on support in managing their finances, but is not attractive to IFAs; hence, introducers offer an important service for people who would otherwise be excluded.
7. Indeed, where most introducers operating alongside AFM members are located away from the south-east, they maintain a valuable role in ‘levelling up’ access to insurance in our most disadvantaged communities. We have already seen firms terminate “introducer appointed representative” arrangements due to higher authorisation costs, and where they operate on the basis that the activity of “introducing” is not regulated. We would encourage the FCA to be very clear about when an introducer’s work becomes regulated and thus requiring registration as an IAR.
8. FCA is right to evidence the risk of harm from some ARs, particularly to vulnerable customers, and to draw on evidence from complaints and FSCS data to support the view. The data also suggests the smallest principals offer the greatest risk, though with regards to introducers, FCA accepts that “the potential harm arising from their activities is relatively low”. We agree with this and consider this is due both to the limitations on the introducer’s role, as well as the very low volumes of business generally produced. We have reviewed the consultation with the differences in AR and introducer proposals in mind:

- a. We agree with the new notification requirements in chapter 3, and the differences between ARs and introducers;
 - b. The fit and proper proposals in chapter 4 would not be proportionate to apply for IARs; the clarification of responsibilities is reasonable, though the consultation appears to leave less scope for a proportionate approach to oversight; and
 - c. The topics in Chapter 5 do not appear to be targeted at IARs.
9. We make the following comments on other aspects of the proposals in Chapter 3 (with relevant questions in the consultation included as appropriate):
- a. The list of information requirements for new ARs in paragraph 3.13 is comprehensive, though as this relates to new ARs in the first instance, the mix between past and future activity levels is ambiguous (Q1, 2 and 4);
 - b. Firms are required to report on proposed new ARs at least 60 days in advance of an appointment (Q2): we recognise the importance of giving FCA opportunity to review applications, though the text at paragraph 3.17 does not suggest it will often undertake a review. Where it does, the considerable problems FCA has had in reviewing authorisations on a timely basis, suggests supervisors may not be able to respond fully within 60 days. Hence, we would appreciate clarity on how FCA will: confirm it has no concerns about an AR appointment; whether FCA proposes to have the power to delay approval; and what action it will take if firms disregard the notice period;
 - c. We support the plan to add extra information to the FS Register (Q5), though we consider this will only be useful to consumers if they are aware of it, if it is easy to find, and if the information is presented clearly and influences consumers' decision-making. At present we do not consider the presentation of information is usable for most consumers, and we would be interested to hear how FCA plans to address this;
 - d. We agree with the requirement to produce information on revenue, as well as projections on future revenue (Q7), though we suggest there should be a de minimis level of £1,000 for introducers, as the cost and complexity of collection for very small volumes is proportionate (see comments on the CBA below).
10. With regard to the responsibilities of principals in Chapter 4, our comments are:
- a. The outline of responsibilities, and fit and proper standards expected will help ensure poor standards of conduct by ARs

- diminish (Q9-10), but do place a heavy burden on principals to verify information, and this will undoubtedly cause a reassessment of the benefit of retaining some AR relationships;
- b. We agree with the proposed guidance on reasonable steps and adequate resources/ oversight, and recognise that the extensive level of oversight is broadly consistent with good practice, for a principal discharging their responsibilities fully (Q11-15);
 - c. We agree that principals should review at least annually the activities of ARs, and constantly review the potential for harm to consumers (Q17).
11. In Chapter 5, FCA discusses the potential risks of principals working with ARs that may be considerably bigger than them. We recognise the risk that those ARs might lever significant pressure on the principal, and that this has the potential to increase harm. The chapter does not differentiate between large AR businesses that solely or mainly focus on a specific regulated activity, or large businesses that have a small AR focus, or small IAR income line. For example, AFM members in the past have worked with a range of IARs, that introduce consumers as part of a wider support package: this might include a local council, who acts as an introducer for a vulnerable consumer with a particular protection need. Whilst the council might be a large business, its IAR volumes might be very small, and the degree of risk is therefore small. The same might be true of other ARs that mainly focus on non-regulated activities.
12. We think the Board of a principal should have discretion to consider when the scale of an AR (or IAR) might become problematic, rather than to impose a limit.
13. With regards to the CBA provided, we note that the FCA has focused its data collection on the number of AR relationships in the market, not their value. This makes an assessment of the reasonableness of the costs more difficult, as the context is limited. However, FCA assumes the one-off costs of the changes proposed for 'small firms' is £3,300. FCA's definition of small in this context is a principal with between one and five ARs: taking a mid-point, that indicates the implementation cost is estimated at over £1,000 per AR, with annual costs of a further £300 plus.
14. Those appear to be significant costs, particularly where the value generated is low. FCA's contention therefore that the number of AR's is unlikely to change significantly is questionable, even if the total revenue generated is not significantly different. This is because where a well-run AR is also of low value, or if the introductions they produce are for low-value products, those additional costs may be of marginal or negative value to the principal. Because the past data collection has not

considered this, it is unclear therefore to what extent the proposals will significantly distort the market, or whether the exit of a number of ARs will have a significant impact on consumers, and in particular the vulnerable or those less able to afford tailored advice services.

15. Given increases in fees for ARs, as previously announced, we conclude that FCA should quantify to what extent underserved consumers will find it more difficult to source financial products as a result of these changes, and act to close the gap in the supply of financial products to the vulnerable.
16. The consultation does not provide a comparable cost for implementation of the proposals between ARs and IARs, though where the former might add implementation costs for a small firm of £1,000, the latter is likely to be somewhat smaller.
17. We welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw
Chief Executive
Association of Financial Mutuals