David Cheesman
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

28 January 2022

Dear David,

AFM Response to consultation CP21/33 on regulatory fees and levies proposals for 2022/23

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 welcome the opportunity to respond to this consultation. We have restricted our comments to the proposals in Chapter 2, as the other areas are not directly relevant to our members, and in that vein, we have no comments on the proposals relating to consumer credit firms.

5. For other organisations in block A, we recognise the need to base the size of the minimum fee on the 'minimum cost of being regulated', and we agree with the ingredients of that, as per paragraph 2.7.

6. We particularly welcome the indication that part of the explanation for a higher minimum fee is the commitment from FCA to maintaining more meaningful oversight of small firms, to protect consumers; and for greater intervention intended to reduce the costs of failure suffered by industry when a firm fails and consumers require intervention from FSCS. Where AFM has itself had to increase subscriptions over time, we have been careful to provide supporting evidence that our fees continue to represent value for money, and of the work we are doing to invest the money collected into meaningful projects and activities.

7. Where many AFM members are themselves small businesses, our experiences in the recent past has been of little or no supervisory activity. We therefore consider that in justifying higher fees, FCA should properly demonstrate that is collecting relevant data about its activity, and can fully and transparently justify that changes in fees are proportionate to effort expended.

8. The true 'minimum cost of being regulated' is now assessed by FCA at £41.5M, compared to the £21M that is currently collected. We agree therefore that the money collected needs to increase, to close this gap, though we stress that the evidence provided to support this is very limited in nature. The doubling of the minimum costs though suggests both that costs have not been accurately assessed in the past, and also that they are increasing by a rate that is much higher than the already significant increase in all fees over time.

9. We note that FCA has not yet settled on a final rate for 2022/23, and we suggest that as the quantum of change is so significant, the full effect is spread over at least two years. This is particular as the improvements in supervisory attention, which rely on the transformation programme and the significant IT investment required, will not be realised in early 2022.

10. We also note that in paragraph 2.18, the concession on fees for small firms with a social purpose, including mutuals, is to be retained. We

support this in recognition of the work undertaken to improve access to financial products, but also because in many cases such organisations survive on extremely slim margins. Indeed we have seen a number of small friendly societies applying to wind up or to become unregulated in the recent past, in part because of continued increases in the cost of regulation.

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

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals