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

7 January 2019

Dear David,

AFM Response to FCA CP18/34, Regulatory fees and levies, 2019/20

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 as they affect AFM members; and
   - Put forward a potential fairer and more proportionate approach to the proposals on weightings applied to life insurers.

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

4. We are responded to the proposals in chapter 3 (briefly) and chapter 4 of the consultation only. In relation to the proposals in chapter 3, since these only have an indirect bearing on AFM members, we make the following comments:

    a. The role performed by FCA in relation to unauthorised mutual societies remains relevant and valuable: as per other FCA work on protecting the perimeter, FCA information on the status of unauthorised mutuals may be vital to consumers. AFM receives a large number of queries each year from beneficiaries of mutuals who ceased to trade many decades ago, and where either the fund has expired or been transferred elsewhere. As FCA holds the records of the Friendly Societies Registrar, we frequently point consumers to the FCA for more information about a 'lost policy';
    b. We accept the argument about the relative inefficiency of collecting fees from unauthorised mutuals, and agree with the proposal to replace this with a small increase in fees for authorised firms;
    c. We agree that the charge for online inspection of the mutuals register should be removed, though as this represents an important role for FCA in protecting consumers, we would wish to see a firm commitment from FCA to retaining support for the register.

5. In chapter 4, FCA sets out similar proposals to the weighting of the premium and liability components of life insurers' fees as, in a separate consultation, doe the PRA. We agree with the logic from FCA of applying a fee based on the size of an organisation, the risk they represent and the amount of work that is undertaken in supervising them. We also agree that the current weighting applied to the premiums and liabilities of general insurance should be unchanged.

6. With regard to life companies, we responded to CP17/38 highlighting our concerns with the proposed change in weightings[4]. We were pleased therefore that FCA decided not to implement changes for 2018/19, and that it would consider its proposals more fully for 2019/20.

7. In proposing a changed weighting to 60% premiums and 40% liabilities for 2019/20, compared to the current 75:25 weighting, we had envisaged that FCA would have set out a greater evidence base to support the

[4] http://www.financialmutuals.org/files/files/AFM%20response%20to%20consultation%20on%20FCA%20fees%20and%20levies.pdf

change. Instead, the main rationale appears- as it was in CP17/38, to follow the PRA's lead.

8. As we did with PRA, we explore this by reference to an illustration:

   a. Mutual A has GWP of £10 million and BEL of £50 million: the proposed fee for 2019/20 is: £2,762.40;
   b. Mutual B also has GWP of £10 million, but BEL of £200 million: its fee is proposed to be £4,731.90.

   Mutual B has fees of 71% more than Mutual A. As both mutuals are likely to be deemed lower risk and in FCA's flexible portfolio group of insurers, it is unlikely that Mutual B would receive 71% more supervisory attention. Indeed, in our experience, where flexible portfolio firms are not subject to any significant regulatory attention unless they are either part of a thematic review, or else seen to be an outlier from data review, it is difficult to argue that there is any material difference in supervisory time allocated to the two mutuals.

9. We accept that for much larger, fixed portfolio insurers, the situation is different. We suggest therefore, unless FCA has more granular evidence of the work it undertakes across small life insurers, that it only applies the changes proposed to higher risk, directly supervised firms, and that for others, the current weightings are applied.

10. We appreciate that there will be 'winners and losers' in the proposed approach, but unless and until FCA can provide evidence that the relative work expended justifies that firms with higher liabilities warrant an even higher fee, we think the current differential is sufficient (for Mutual A and Mutual B above, under current fee weightings, Mutual B already pays fees of 40% more than Mutual A).

11. We have responded separately to the PRA on their proposals to changes fee weightings for life companies.

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

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals