



Lucy Ashton
Policy Advisor
Association of British Insurers

25 March 2014

Dear Lucy,

AFM Response to consultation on changes to ABI's good practice guide on Unit-Linked Funds

1. I am writing in response to this discussion paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Respond to some of the points raised by the consultation; and
 - Highlight specific consequences for mutual insurers and friendly societies.
2. The Association of Financial Mutuals (AFM) represents 53 member companies, most of which are owned by their customers. Between them, AFM members manage the savings, protection and healthcare needs of over 20 million people, and have total funds under management of over £100 billion. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.
3. The proposed changes to the ABI unit-linked funds good practice guide demonstrate a clear commitment from the industry to deliver high standards. We are grateful to the ABI working group for its endeavours, and for the clarity and comprehensiveness of the resulting guide. The guide sets a high benchmark, which we consider will contribute significantly to addressing the shortcomings identified by the FCA's 2013 review.

4. ABI and AFM have a number of common members, though the majority of our members do not subscribe to ABI. We therefore see our main objective being to intervene where there are specific or different impacts for mutual organisations. Beyond that we actively encourage our members to adopt recognised good practice from a wide range of sources, including ABI, particularly where that helps inform and elaborate formal regulatory rules. Hence many of our members have fully adopted the current ABI good practice on unit-linked products.
5. AFM has discussed its work on unit-linked funds with the FCA on a number of occasions. We have agreed the main findings of the review, and accepted the need for the industry to raise standards. In so doing we have stressed our preference for an industry-led approach.
6. It is our understanding that FCA will have consideration to the guide in its supervisory work, but constitutionally it can only assess firms against its formal rules- and this is an important safeguard for regulated firms of course. The content of the guide is therefore not binding on non-ABI subscribers, but we would expect the FCA to challenge firms whose practice is materially different from that described in the code, to be able to justify their approach.
7. This does not amount to a 'comply or explain' regime (which might be inferred from paragraph 1.3 of the guide), though it is a clear signal for providers to take full account of the guidance, and to be mindful of its intent, even where their approach diverges. This is particularly important for small and closed book mutuals, who may seek a proportionate approach to achieving similar consumer outcomes.
8. We think that some of the guidance will require extensive changes to governance arrangements, documentation and IT systems for some mutuals, and that the costs of these will be exacerbated by the short timescales proposed. Hence we consider that there would be a disproportionate impact on unit costs for some smaller mutuals, should they adopt all aspects of the guide.
9. In such cases we will encourage our members to undertake a gap analysis, explore the impact of adopting the ABI guidance, and if they plan not to adopt it (during 2014 or at all), to satisfy themselves that their existing approach as well as any alternative actions taken, achieve similar aims. In this respect we think the guide would have been enhanced with, in addition to the detailed text, a clear set of principles designed to highlight the key customer outcomes expected (and a clear read-across to the relevant FCA rules).

10. We have not sought to examine the specific questions posed by the consultation in detail at this stage, but in summary:

- i. We consider the guide does provide clarity on what improvements might be expected to improve customer fairness;
- ii. The amendments do explore how insurers their assessment of assets: we would expect firms to make investment decisions in recognition both of the FCA rules, and their own stated aims and risk tolerance as well as commitments made to unit-holders;
- iii. The guide supports insurers in seeking to comply with the FCA rules.

11. We were surprised at the very short window for consultation, having been invited to respond only on 11 March. As a result we have not been able to fully quantify or verify our comments. We would suggest though that around 18 months after re-issue, the ABI commits to undertaking a review of what changes have resulted from the new guide, both in industry practice and customer outcomes. We would be very pleased to contribute to that review.

12. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,



Chief Executive
Association of Financial Mutuals