



Richard Johnson
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

8 October 2015

Dear Richard,

AFM Response to Consultation Paper CP15/25, Changes to the Approved Persons Regime for insurers not subject to Solvency 2

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objective(s) we seek from our response are to:
 - Comment on the proposed rules.
2. The Association of Financial Mutuals (AFM) represents 47 member companies, and in most of our member companies, customers present and future are the owners of the business. 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 £16.4 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 businesses.
4. AFM welcomes the commitment from FCA to make the Approved Persons Regime for non-Directive insurers proportionate and relevant to the scale and

¹ ICMIF, <http://www.icmif.org/global-mutual-market-share-2013>

complexity of those organisations. In particular, FCA has made some further simplifications to the regime compared to CP15/15, which we consider better fit with these objectives. We have also had a helpful dialogue to explore some of the consequences with the new regime, and we understand small firms will have use of a dedicated support team to answer queries in the run-up to the new regime.

5. In this consultation, FCA has helpfully sought to describe differences in approach between larger and smaller non-directive insurers. For smaller non-directives, we agree that removing NEDs other than the chair from the Approved Persons Regime, and extending the timeline to comply, are both helpful changes.
6. We accept there is a need in some large non-directive insurers to ensure their governance arrangement align with firms within the scope of Solvency 2. PRA has also adopted this approach, though its prudential regime also maintains a separate set of rules for non-directive friendly societies, with no categorization by size. This implies that non-directive friendly societies with assets over £25 million will be subject to the non-directive friendly societies rulebook. However, that distinction does not exist in PRA's SIMR consultation (CP26/15) or in this FCA consultation.
7. Hence larger non-directive friendly societies such as discretionary benefit societies², could be subject to rules that approximate to Solvency 2 for the Approved Persons Regime, even though 99% of their product is not regulated. They would also need to comply with relevant accompanying areas such as the governance map, but with the prudential regime that applies to small non-directives. We consider this is potentially confusing, and will add additional complex and board costs, particularly where in the past such organisations have been outside the scope of the ICA regime. We suggest to avoid uncertainty all non-directive friendly societies are treated as small non-directive insurers with regards to the Approved Persons Regime.
8. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'AB' followed by a long horizontal stroke.

Chief Executive
Association of Financial Mutuals

² The discretionary element of these products are not regulated on the basis that it has a single price and the same benefits (which vary according to the resource available) for all members. However, a very small element of the product (eg < 1%) may carry a contractual requirement which is regulated.