Jack Middleton
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

29 January 2015

Dear Jack,

AFM Response to PRA consultation CP24/14, Solvency 2, further measures for implementation

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:

   - Respond to the consultation proposals and highlight any specific implications for our members; and
   - Encourage PRA to adopt a proportionate approach to firms seeking exemptions to quarterly reporting.

2. The Association of Financial Mutuals (AFM) represents 52 member companies, most of which are owned by their customers. Between them, AFM members manage the savings, pensions, protection and healthcare needs of over 20 million people in the UK and Ireland, 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 consultation puts forward some important implementation issues for Solvency 2, and it is pleasing to see that PRA has been careful in its interpretation to avoid gold-plating the maximum-harmonising measures. The structure of the consultation is unusual though, with important principles and text relegated only to appendices, giving little impression that there is scope for engaging in a constructive dialogue-though perhaps given the limited nature of discretion that PRA has this is the intention. We are accordingly only responding in brief.

4. Chapter 2 relates to the appointment of actuaries. The skills needed of an actuary in different types of business vary significantly, and for smaller mutuals in particular it is unlikely that the firm will possess these skills in-house, and they will therefore have to appoint an external actuary. As we stressed in our response to FSA consultation 11/22, and as the PRA paper concedes, this will increase costs for those firms disproportionately. Where the PRA appoints an actuary into a firm it should take account of the need to match the skills and costs of the actuarial resource to the circumstances and needs of the firm, to avoid imposing an unnecessary burden on policyholders.

5. Chapters 3 and 4 relate to firms in run-off, and arrangements for Lloyds. We are content with these approaches and the proposed rule changes in the relevant appendices.

6. Appendix 4, on reporting exemptions, is of direct interest to the majority of directive mutuals (by number). We are encouraging all category four and five mutuals to seek a waiver, and this is consistent with the Directive intent: that up to 20% of a national industry should be within the scope of an exemption. This is amongst the clearest evidence that the implementation of the Directive is proportionate, and it is important therefore that PRA actively supports the intention, by:

    a. making the waiver process straightforward;
    b. confirming decisions quickly;
    c. providing long-term certainty in waiver decisions;
    d. avoiding unnecessary data requests in place of full quarterly reporting; and
    e. by ensuring it is reasonable in making ad-hoc requests or in seeking contingency arrangements.

7. Firms are required to submit their application to seek a waiver by 1 September 2015. AFM will encourage its members to apply earlier to give their supervisor the time required to process each application effectively. The draft statement does not commit PRA to a turnaround time, but in order for the waiver to be meaningful we consider it should communicate all decisions within eight weeks of receipt.

8. We would encourage the PRA to actively consider extending the exemption to some category two and three firms, where many are likely to fall outside the largest 80% of the industry by market share.

9. We do not have comments on the remaining appendices.

10. The consultation paper indicates that the regulator's estimate of the costs of implementing Solvency 2 is unchanged since FSA consultation CP11/22. This provided an estimated cost of implementation for all mutual insurers of £27 million. The 2011 consultation also indicated that the burden would be no different for mutuals compared to other insurers. Our response at the time queried this view, particularly for smaller mutuals, as there was limited evidence of proportionality, and we were aware that smaller mutuals in particular would not be able to absorb implementation work internally and would therefore suffer proportionately higher costs for (in particular) actuarial support or IT work. Subsequently we have highlighted the significant burden that mutuals will suffer due to PRA and FCA's interpretation of ring-fenced rules on mutuals with a with-profits funds. Additionally a range of our members have provided estimates of their Solvency 2 implementation work which suggests that the final bill will be many times the 2011 estimate. It is disappointing therefore that the consultation has not explored more fully the impact on mutuals, as it risks giving the impression that PRA is not giving due attention to the requirement under FSMA.

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

Yours sincerely,

Chief Executive
Association of Financial Mutuals