



Jack Middleton
Prudential Policy Directorate
Prudential Regulation Authority
20 Moorgate
London, EC2R 6DA

8 October 2015

Dear Jack,

AFM Response to Consultation Paper CP26/15, *SIMR: proposals for non-Solvency II insurance firms*

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 draft SIMR rules; and
 - Identify areas where the current proposals are unclear and provide unwelcome consequences for some mutuals.
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.

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

4. AFM welcomes the commitment from PRA to create a simpler and more coherent rulebook for non-Directive firms. We responded to CP12/15 in support of the approach being taken, though at the time we also queried the threshold that was proposed to define non-directive firms
<http://www.financialmutuals.org/files/files/AFM%20response%20to%20OPRA%20on%20SIMR%20for%20non-Solvency%202%20firms.pdf>.
5. At the time we did not receive an explanation for the threshold of £25 million, but recognise that the accompanying paper, CP27/15 on the prudential regime for non-directive firms, retains this. The paper proposes three types of non-directive firms: non-directive insurers with assets of less than £25 million; non-directive insurers with assets over £25 million; and non-directive friendly societies: it does not draw a distinction between those non-directive friendly societies with assets above or below £25 million. The paper therefore implies that non-directive friendly societies include those below or above £25 million assets, and includes incorporated as well as unincorporated friendly societies.
6. This consultation though in table 1 lists small friendly societies in the section for NDFs with assets above £25 million, and therefore implies that a non-directive friendly society with assets in excess of £25 million (such as a larger discretionary benefits society²) is excluded from the prudential regime for non-directive firms with assets of over £25 million, but included in the SIMR rules for non-directives with assets over £25 million. This is likely to produce some perverse and confusing results, and potentially a significant increase in compliance and board costs for those non-directive friendly societies with assets over £25 million.
7. In particular it will require new and unanticipated authorisations at short notice, as some of the Executive and Non-Executive roles required are not part of the current non-directive regime, and in some cases such roles and the relevant committees do not exist. We accept that, as per paragraph 2.7, some such roles can be combined in support of proportionality, and it would be helpful for PRA to provide more thought on this.
8. The overall effect of these proposals therefore is to shift non-directive friendly societies with assets over £25 million, and larger discretionary benefit societies, much closer to the Solvency 2 regime. We do not feel that this is reflected in the cost benefit analysis, and PRA is at risk

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.

of using the SIMR regime to undermine the regulatory treatment of discretionary benefit societies. We consider that these organisations should be treated consistently, as per the proposals in CP27/15, which does not differentiate between large and small non-directive friendly societies.

9. 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 and a vertical line at the end.

Chief Executive
Association of Financial Mutuals