



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

8 October 2015

Dear Jack,

AFM Response to Consultation Paper CP27/15, *The prudential regime 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 prudential regime; and
 - Highlight issues where the fit for friendly societies is unclear.
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 PRA to create a simpler and more coherent rulebook for non-Directive firms. We also welcome the commitment to avoid significant changes to the current regime, given the short timelines now available. Overall therefore, we consider that the proposed

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

arrangements help deliver a proportionate approach to regulating small mutual insurers.

5. We provide a small number of specific observations on the detailed proposals:
 - a. The proposals covering governance seek to separately categorise smaller non-directive insurers, larger non-directive insurers, and non-directive friendly societies. This implies that small friendly societies are outside the definition of both smaller non-directive insurers and larger non-directive insurers; hence, a non-directive friendly society with assets over £25 million is excluded from the proposals relating to larger non-directive insurers. It would be helpful to have this clarified, particularly for discretionary benefit friendly societies with assets over £25 million- where most of their business is not regulated;
 - b. In addition, in other parts of the proposed rulebooks there is a less clear separation between rules relating to non-directive insurers (large or small) and friendly societies; this approach risks being confusing- where some of the insurer rules do apply to friendly societies;
 - c. Solvency 2 rules provide that a firm should breach the thresholds for three consecutive years before they move into or out of the regime. There are apparently no transition provisions in the PRA rulebook for UK firms whose assets go above or below the £25m threshold. This will be problematic for any firms near the Solvency 2 threshold, and we consider PRA should adopt a similar three-year approach;
 - d. Currently a non-Directive Friendly Society is required to hold a resilience reserve (para 16 of Annex 5 of IPRU(FSOC)); there appears to be no such requirement in the proposed rules. We suggest the rules are aligned to smaller non-directive insurers, to hold a resilience capital requirement, and thereby to avoid the current effect that Friendly Societies have to hold an additional 4% solvency margin on their resilience reserve;
 - e. We would consider that firms should be required to hold sufficient assets in their with-profits funds to cover all liabilities, not just with-profits liabilities, and would anticipate a change to the rulebook to reflect this.

6. 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