



Anne Macadam
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Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

15 May 2015

Dear Anne,

**AFM Response to Consultation Paper CP15/16 (FCA) and CP13/15 (PRA) –
*Changes to the approved persons regime for Solvency 2 firms, and FCA
governance proposals***

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.
2. The Association of Financial Mutuals (AFM) represents 50 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 £15.9 billion, and employ nearly 38,000 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. We welcome the clarity in this consultation on the proposals for grandfathering. As we commented in response to previous consultations, giving firms clarity on this issue was vital to their implementation work for Solvency 2.

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

5. The grandfathering process and the proposals in this consultation are necessarily complicated by the overlap of responsibilities of the two regulators, and the lack of consistency in the approved persons regime from next year. We would have preferred to see a single, joined-up approach to SIMR: a dual approach puts UK firms at a potential disadvantage compared to overseas insurers. We appreciate the effort made by PRA and FCA to minimise the impact, though this does not remove the complexity in the system or the risk to firms of misinterpreting the differing requirements of the regulators.
6. Our comments on specific questions are attached. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,



Chief Executive
Association of Financial Mutuals

Answers to specific questions

Q1 [PRA and FCA]: Do you agree with the PRA and FCA's proposed approach to grandfathering existing approved persons into the new regime?

Grandfathering individuals, who are undertaking the same role pre- and post-regime change, is key to the implementation of Solvency 2. We accept that the differences in the content of CF roles, to key function holders, to SIMF roles means that in some cases it will be necessary for some individuals to seek new approval. It is not clear from the CP the extent to which this is likely, though we agree with the approach being undertaken.

Due to the complex nature of the timetable and the multiplicity of regimes- before 1 January 2016, January 2016 to 6 March 2016, and 7 March 2016 and thereafter, with differences in approach between PRA and FCA, there is a risk of the wrong forms being submitted at the wrong time. We would encourage the regulators to take account of that complexity and provide constructive support to firms.

Our assessment of the new regime is that, particularly in smaller mutuals, there could be a need to create new positions as well as others who do not fit readily grandfather across. As a result there could be a significant numbers of individuals who will require authorisation by 1 January. Given the long lead time at present for authorisations, it seems likely that supervisors will not be able to cope with the volumes. We therefore urge the regulators to consider how to amend their processes, or to build in contingencies in case they have been unable to provide full authorisation before implementation date.

Q2 [PRA and FCA]: Do you agree with the regulators' proposed Scope of Responsibilities template?

The template sets out the required responsibilities relatively effectively. It will require the regulators to assimilate data across a firm for every approved person in order to verify that all the relevant prescribed responsibilities have one or more SIMF.

Q3 [PRA and FCA]: Do you agree with the regulators' proposed approach to forms as set out in this chapter?

We agree, given the statement in the consultation that the changes are restricted to those required by EIOPA guidelines.

Q4 [FCA]: Do you agree with the FCA's proposals with regards to Governance Maps and information on the scope of SIF holders' responsibilities?

FCA expects firms to update scope of responsibilities templates where changes occur, but does not expect firms to make the changes and provide an historic trail for ten years in case it asks for that information at a later date. There does not appear to be any efficiency saving for firms in not submitting the forms, particularly as the PRA does require firms to notify them of changes to those responsibilities (see for example paragraph 2.10 of PRA CP 12/15).

Q5 [FCA]: *Do you agree with the FCA's proposals for amending SYSC to take into account PRA's rules transposing provisions in Solvency II in relation to firm governance?*

We agree.

Q6 [FCA]: *Do you agree with the FCA's proposals for allocating the responsibilities that currently make up the CF8 function?*

We agree.