



William Hewitson  
Prudential Regulation Authority  
20 Moorgate  
London  
EC2R 6DA

21 September 2017

Dear William,

**AFM Response to PRA consultation CP8/17, Strengthening accountability in banking and insurance: optimisations to SIMR**

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 proposals, and explore the consequences for our members.
2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). 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 staff<sup>1</sup>.
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<sup>2</sup>.
4. In addition, the Bank of England and Financial Services Act 2016 now provides an additional Diversity clause for FiSMA, to require the PRA and FCA to take account of corporate diversity and the mutual business model in all aspects of their work<sup>3</sup>.

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

<sup>2</sup> Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

<sup>3</sup> <http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

5. The consultation makes a series of changes to the Senior Insurance Managers Regime ahead of the extension of the Certification regime to insurance (within CP14/17 and FCA's consultation CP17/26). We recognise that the changes in this consultation will take effect some time earlier than the wider changes in the other consultations, which await government legislation. It would have been helpful to understand from PRA what urgency there is in these changes that meant it was not possible to co-ordinate the implementation.
6. The consultation proposes the creation of a new SIMF of Chief Operating Officer, that will apply to all Solvency 2 firms, and larger NDFs. For many AFM members, the activities encompassed in PRA's definition ('managing the internal operations and technology in the firm') are likely to be shared by two or more individuals: it is helpful therefore that PRA has acknowledged and permitted this. The proposals though may cause some revising of responsibilities across senior managers in the business, and for small organisations increases the potential of needing to recruit new personnel, with the attendant extra costs. Paragraph 2.10 implies that the new Prescribed Responsibility that would accompany the new SIMF would not be split in the same way. Please clarify if our understanding is wrong.
7. PRA's most recent rule changes on SIMFs took effect on 12 September<sup>4</sup>. These allowed non-significant firms to be exempt "from the requirement to have an individual approved as SIMF5", where that firm outsources activities such as internal audit. This is a valuable concession, and whilst some of our members are exploring how to implement this whilst retaining the relevant PR- for example with the Chair of the Audit Committee; others report difficulty in removing the role once created. This new consultation potentially risks confusing the very recently introduced rules, and it would be helpful for PRA to explicitly state the requirements just introduced are to be retained, and whether and how firms need to justify its approach, and to explore what happens if the business changes over time.
8. The proposals made around the Head of Key Business Area (SIMF6), on group executives taking on NED oversight roles in a group firm, and on separation of CEO and Chairman role are restricted by PRA to 'large firms'. PRA's definition of insurers with premium income of £1 billion or assets of £10 billion means that all AFM members are excluded. We are not therefore commenting on the proposals in depth, except to say that under AFM's annotated version of the UK Corporate Governance Code<sup>5</sup>, which mirrors FRC's Code for listed companies, our members are expected to separate the role of Chair and CEO (code provision A.2.1). Our annual compliance return confirms that in every case, regardless of the size of organisation, this was the case, and we agree with PRA that this expectation should reasonably be met by UK insurers.

---

<sup>4</sup> <http://www.bankofengland.co.uk/pradocuments/publications/ps/2017/ps1217.pdf>, paragraph 4.2

<sup>5</sup> <http://www.financialmutuals.org/files/files/Annotated%20Combined%20Governance%20Code.%20v%20September%202016%20v2.pdf>

9. PRA also proposed that Solvency 2 insurers and large NDFs should have a policy to promote diversity amongst board members, and to consider a broad set of qualities and competencies when recruiting board members. The Corporate Governance Code annotated for mutual insurers, like FRC's code for listed companies already, makes this expectation, as PRA acknowledges (code provision B.2.4.A).
10. In our 2017 corporate governance report<sup>6</sup>, we report that 82% of AFM members could confirm that 'the board has a policy on diversity, including gender, and measurable objectives for implementing the policy'. The small minority of our members that did not comply fully were expected to provide an explanation in their report and accounts: most of these were from small NDFs, or from Solvency 2 insurers that had a policy but no measurable objectives; two organisations indicated that whilst they consider a range of diversity factors in recruiting, they make board appointments based on merit.
11. In addition, our compliance exercise for the annotated code also highlights the consideration of a range of qualities when recruiting. For example, questions include: 'Has the search for all board candidates been conducted against objective, merit-based criteria with due regard for the benefits of diversity on the board, including gender?', and 'Have all appointments to the board been made on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender?' Further questions ask AFM members to ensure the corporate governance report in the Report and Accounts comments on the delivery of the board diversity policy and its measurement, and that this is also taken into account in board evaluation. The results of our compliance exercise this year confirm that these expectations are almost universally adopted by our members.
12. We agree therefore with the approach set out by PRA, and also that firms are best placed to provide the detail of their policy on promoting diversity. We would though highlight that the title of this chapter ('diversity at boards of large insurers') uses a definition of large that means it applies to all Solvency 2 insurers and large NDFs. However, in the previous chapter, the word *large* refers to insurers with income in excess of £1 billion: this is potentially confusing.
13. We would be concerned that over time supervisors blur the definitions of large and assume that requirements designed for a small sub-set of insurers with premium income over £1 billion, or assets above £10 billion, are transposed onto all Solvency 2 firms (including those just above the Solvency 2 threshold). We conclude that it would be worthwhile differentiating more clearly between the different audiences for the two separate proposals.

---

<sup>6</sup> <http://www.financialmutuals.org/files/files/2017%20corporate%20governance%20report.pdf>

14. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,

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

Chief Executive  
Association of Financial Mutuals