



Peter Cardinali,
Finance and Business Services
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

14 May 2020

Dear Peter,

AFM Response to FCA consultation CP20/6, regulated fees and levies: rates proposed 2020/21

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 significant increases in proposed fees and the inequitable allocation of costs.
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 £19.6 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 businesses² and to take account of corporate diversity³.

¹ ICMIF, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

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

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

4. We welcome the opportunity to respond to this consultation, and we recognise the extensive effort that is given over to the annual fee-raising process by FCA. In an article from June 2019, the Financial Times calculated that regulatory fees and levies in 2019/20 came to £1.8 billion⁴, a cost borne by regulated firms, and ultimately by their customers. Given the UK's departure on 31 January from the EU, scrutiny of the entire cost of regulation now falls on the national regulators. Significant increases proposed this year by FCA, PRA, FOS and FSCS, brings the total cost close to £2 billion.
5. We appreciate the attention given to reflecting the quickly-developing issues around Covid-19. However, even in the short time since the consultation paper was approved by the FCA Board, the coronavirus has rapidly dominated society, and has become the prevailing feature of the UK economy in 2020, and with it the financial service industry. The consequences of the pandemic will be profound, and the implications for the way financial services is provided and regulated in the UK are likely to be far-reaching.
6. Whilst the FCA Business Plan already accepts the need to reprioritise some aspects of its work, we recognise it is not possible at this stage to precisely quantify how the pandemic will affect the nature of FCA activities in 2020/21. The value therefore of a slightly revised 'business as usual' budget and fee structure is open to question, unless FCA accepts that it is a starting template and agrees to retrospectively reassess how resources were deployed in 2020/21 and to reflect this in billing for 2021/22. Alternatively, we suggest FCA assesses fees for a six month period only at this stage, and issues a further consultation and invoicing later in the year.
7. To illustrate, FCA has proposed an increase of over 7% in the funding requirement for insurers. This is a bigger increase than for any other categories of fee-payer, and with a reducing number of firms, this means the burden borne by each insurer (and each of their customers) has risen rapidly: the tariff data indicated there has been no commensurate increase in income within the sector, or indeed customer base to spread that across. Indeed, the 480 insurers in fee-blocks A.3 and A.4 between them are expected to now pay around the same fees as the nearly 800 banks, building societies and other deposit-takers in block A.1.
8. The Business Plan fails to quantify why the average insurer should pay a much higher fee than the average deposit-taker. Indeed, the Covid-19 revisions to the Business Plan has removed some of the activities more relevant to insurers, and in our previous experience, the amount of policy, supervisory and enforcement attention devoted to insurers has

⁴ <https://www.ft.com/content/1cac749a-8b9d-11e9-b8cb-26a9caa9d67b>

always been significant less⁵. Similarly, the 80% increase in the levy required by the Financial Ombudsman Service completely disregards the 'polluter pays' concept, by forcing firms with very few complaints to take on a larger share of the cost.

9. It seems that after two decades of experience, little has been learnt in matching where work is undertaken to where it is paid for. The gulf, it seems, between the allocation of resources and the apportionment of cost has never been greater.

10. In relation to two other areas explored within the consultation:

- a. In Chapter 4 of the consultation, FCA highlights the changes in reporting deadlines for insurers established by EIOPA, and the delay therefore in collecting relevant tariff data. The consultation suggests two alternatives: either to use the previous year's data, or to delay making the final fee-rates by one month.

We see risks in setting fees based on a snapshot of an organisation's size that will be two years out of date, and therefore advocate that a small delay is a fairer approach.

- b. In Chapters 8 and 9, FCA indicates it is planning to review authorisation application fees and Part VII transfer fees (amongst others). The scale of proposed increase is significant, and will be believe serve to stifle competition. We have previously written to PRA (copied to FCA) highlighted the significant regulatory barriers to transfers for small mutuals and these proposals will only add to that burden. The risk therefore is that as a result, new competitors will not enter a market, or that customers trapped in an inefficient insurer will remain so.

We consider that as part of FCA's competition objective, it undertakes more work to assess the price elasticity of fees before it makes any changes that might be detrimental to consumers. We also suggest that where FCA's costs have risen sharply, it explores options to simplify its processes before passing on that cost: our April 2019 letter makes suggestions for this which we are happy to discuss again.

⁵ To illustrate, Table 6.1 shows that the application of retained penalties for deposit-takers is £8.2 million, and for insurers, is £4.5 million: an example of the greater enforcement effort given over to deposit-takers.

11. 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 'MS', with a long horizontal stroke extending to the right.

Martin Shaw
Chief Executive
Association of Financial Mutuals