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AFM Response to consultation CP8/21, Regulatory fees and levies: rates proposals 2021/22

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:

    - Seek clarity on the significant fee increases proposed for insurers, and to highlight their consequences for small mutual insurers.

About AFM and its 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 £19.6 billion, and employ nearly 30,000 staff[1].

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[2] and to take account of corporate diversity[3].

[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

AFM comments on the proposals

4. We support the priorities of the PRA and the work undertaken to perform its duties. During the pandemic, our sector has appreciated the engagement and flexibility provided at times by the PRA, and the sensible approach it has taken to coordinating the regulatory regime at a time of high stress.

5. We respond to this consultation more out of frustration than expectation. The PRA approach to consulting on fees and levies amounts to expecting industry to write a blank cheque. We say this because of the continued absence of commentary to explain the level of fees demanded.

6. Insurers in particular face a significant increase in fees for 2021/22. Yet the consultation does little to explain the increase, let alone to reassure the efficiency with which previous years' fees have been employed. We appreciate that the PRA business plan should establish more clarity on how resources are deployed, but this is overdue, and the date for release has not been published.

7. In any event, the PRA business plan and annual report fail to give a detailed account by fee block of what policy and supervision work has been undertaken. We suggest PRA utilises modern costs processing techniques to give a more granular account of how costs are allocated; in their absence, we can only judge the efficient use of PRA resources based on our and our members' experiences:

    a. On policy, we have seen no significant policy developments from PRA, that have necessitated a response from AFM, since 2018. The recently published Regulatory Initiatives Grid suggests there will be few new policy developments affecting smaller mutual insurers (unless and until HM Treasury's Review of Solvency 2 is passed onto PRA).

    b. On supervision, AFM members are small, lower risk insurers on the whole, and are generally supervised by PRA at an arms-length. During 2020 the degree of direct contact by necessity fell away significantly, and we are not aware of plans to increase this in the next financial year.

8. As a result, we cannot evidentially judge the significant increase in fees PRA seeks to make on general and life insurers; neither can we see a clear rationale by which PRA can justify the increase. This may emerge

over the summer, when the Business Plan is published, but in the meantime PRA expects industry to accept in good faith an increase in fees for general insurers of 13.5%, and life insurers of 6.1%.

9. Similarly, a relatively high proportion of AFM members pay the PRA minimum fee, and small non-directive friendly societies will see an increase in fee of 40% (albeit the amount remains low). We cannot judge, in the absence of detailed reporting by PRA, whether this represents a rate that is closer to the economic cost of supervising these organisations. However, given the small population of non-directive friendly societies, the increase will make no difference at all to PRA's overall income.

10. In the past five years, the ORA paid by fee blocks A3 and A4 have risen from £78.2 million to £92.6 million, an increase of 18%. The number of firms supervised in the same period has fallen by 11% for general, and 22% for life, insurers. As a result, the cost paid by the 466 insurers now supervised by PRA, is typically 36% higher than it was in 2016.

11. This is of course matched by significant fee increases from FCA and other parts of the regulatory environment. And the impact on insurers is all the more stark in Table 2.C, which reinforces that fees for deposit-takers are barely changed at all, when compared to the growth in those businesses' balance sheets. That means an absence of commentary on the reasons for a shift of PRA fees towards insurers is all the more unfounded on the basis of the information presented by the PRA (in this consultation and elsewhere).

12. We note that the cost of the UK's departure from the EU, which were previously shown as a separate project cost, are now incorporated into the main budget. We think this is the wrong approach, since it means that future year's fees may be inflated by the allowance for this work, and it makes it more difficult to assess how PRA is managing work on this topic. (By comparison, FCA has retained a budget line on EU withdrawal.

13. On a point of detail, in the context of general insurers, we would ask PRA to verify that with a 13.5% increase in planned fees, a reduction in the number of firms supervised, and a fall since 2020/21 in the tariff data, why the proposed rule amendment in table IIIA indicates the fee payable per million of gross written premium is expected to fall from £595.90 to £547.70, and the fee payable per million of best estimate liabilities will fall from £46.97 to £35.66.

Conclusions

14. In summary, we consider the overall cost of regulation in the UK is reassuringly high; it is testimony to this and the resilience of firms, that there have been no spectacular failures in the last 12 months. We would though also like to be able to confirm that the costs imposed by the PRA on individual firms are fair, and proportionate to the risks they represent, but it is not possible to state this based on the information provided in this consultation. This does not indicate that PRA has made an adequate case for a substantial increase in the costs it imposes on industry.

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

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals