



David Stubbs,  
Primary Markets Policy  
Financial Conduct Authority,  
12 Endeavour Square,  
London E20 1JN

29 March 2019

Dear David,

## **AFM Response to FCA CP19/7, Proposals to improve shareholder engagement**

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 in the consultation; and
  - Propose an amendment to the general comply or explain approach proposed.
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<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

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

different consequences for mutual businesses<sup>2</sup> and to take account of corporate diversity<sup>3</sup>.

4. A number of AFM members are within the scope of this consultation: generally, they are life offices who maintain a with-profit fund/ funds. As AFM's life insurance members are all smaller insurers, they outsource fund management. Some of our members are of a scale below the Solvency 2 threshold, and the consultation confirms they are out of scope for the proposals in the paper (paragraph 3.4).
5. In this context therefore we are commenting in relation to their role as asset owners, not asset managers: in the past this has meant that AFM has not considered the FRC Stewardship Code to apply to its members, other than that they would seek assurance from fund managers that they were active adopters. In the context of this consultation, where our members adopt unitised investments and do not directly invest or own the shares of listed companies, many of the new disclosure requirements may not be relevant.
6. For with-profits insurers, the PPFM provides the key template for the way funds are managed and invested. This sets out the broad strategy to be adopted and the level of risk that is acceptable. The PPFM is available to policyholders, but as FSA/ FCA concluded that the edited, consumer-friendly version, was not effective and was disbanded, the challenge of improving transparency is well-understood by regulators.
7. Equally, the Solvency 2 rules have increased the flow of information between asset managers and life insurers. The SFCR, viewed by the PRA as a source of information for consumers, offers greater transparency about the systems of governance adopted, the risk profile and the valuation of assets.
8. We accept though, and have made the point to regulators in the past, that these existing reporting formats are not well-read by consumers, and are not presented in a readily understood format, so we are keen to explore how the requirements of the Directive translate into more *effective transparency*, not just additional *reporting requirements*.
9. In this light, and as stated above, the nature of our members as asset owners rather than managers, and the absence of direct investment into listed shares, means that the specific engagement policy envisaged in SRD2 does not appear relevant. We note FCA is taking a 'comply or explain' basis to Article 3g, but we consider this is beyond the scope of

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<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>

the Directive, and in cases where Article 3g disclosure is not relevant, we see no benefit to consumers of a requirement to comply or explain.

10. Article 3h is relevant to AFM's members in scope of the consultation. We note FCA's suggestion that disclosures of this nature should be provided annually, and online, either as a stand-alone document or within the SFCR. We agree that the latter is the likely route most will adopt.
11. We note that the main benefit FCA highlights from the proposals for asset owners are to 'strengthen investors' stewardship capability, improve market discipline and result in improved corporate governance for listed companies'. This provides a very PLC centric view, and as most of the benefits FCA is seeking to deliver are not relevant to mutuals, it would appear this is not consistent with the statement that "We do not expect the proposals in this paper to have a significantly different impact on mutual societies". We welcome clarity on this; in any event our suggestion that only Article 3h would apply in cases where Article 3g is not relevant, would maintain the proportionality of the approach.
12. We have no comments on the chapter on related party transaction as these have not tended to be relevant to our members.
13. We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,



Martin Shaw  
Chief Executive  
Association of Financial Mutuals