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AFM Response to PRA consultation 2/18 "Changes in insurance reporting requirements"

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 this consultation, and PRAs wider work to make Solvency 2 compliance proportionate.

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].

[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

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[3].

5. AFM welcomes PRA's ongoing programme to make the Solvency 2 regime more proportionate. Whilst the regime has brought many benefits in the way organisations assess and act on risks within their business, this has been achieved at a high cost of compliance. Hence, any actions to streamline regulatory requirements are welcome.

6. The proposals in this consultation have been developed in consultation with the ABI. We recognise therefore that they are developed with a wider constituency in mind. AFM's own priorities for streamlining reporting requirements centre on:

   - Providing exemptions for the external audit of the SFCR where that provides little or no benefit; the analysis we have presented to PRA demonstrates that the current approach is very expensive for smaller mutuals to continue. We look forward to the consultation promised during April.
   - Simplifying the amount of asset data that is needed for smaller insurers, and the underlying reporting requirements. We consider there is no need for the PRA to capture all of the individual asset lines for smaller firms. The focus should be on whether there is a concentration risk or liquidity. We believe that the PRA should permanently remove the requirement from all but Category 1 -2 firms.
   - Extending the current and welcome temporary waiver for quarterly reporting to a permanent basis. Firms will benefit from certainty, but at the moment the risk that the waiver may be revoked is unhelpful.
   - More proportionality on the documentation aspects of Solvency II. For smaller firms where the numbers of staff may be in low double figures, the common knowledge of the staff may be quite high making documentation a chore rather than a useful exercise. It has also materially added to actuarial bills (between 10% and 15% of the bill is now associated documentation of the Solvency II work). Some documentation is required but it should be designed for the nature of the firm and the level of risks undertaken.

   We have discussed the issues above at previous meetings with PRA.

[3] http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted

7. With regard to the changes proposed in this consultation, we consider the proposals to simplify reporting requirements are all sensible. We make the following more detailed comments on changes to the national specific reporting templates:

    a. **NS.01 and NS.02**: these reports are generally not considered to be onerous, but the proposal to limit submission in future to firms with with-profits BEL of over £500 million is welcome.

    b. **NS.05**: this will have a slight but positive impact. In our view this template largely reproduces the content of the harmonised EIOPA templates, and we think it might be possible to go further, such as to restrict data only to an analysis of claims.

    c. **NS.06**: Appendix 1 confirms firms with gross technical provisions for life business are less than £500 million are exempted; this is helpful for small mutuals.

    d. **NS.07**: we welcome the revisions to layout and simplification of data requested for non-life firms. We observe that PRA is increasing the amount of data required in this template, which will increase collection and reporting work, though most of the data is readily obtainable and much used in other reporting requirements.

    e. **NS.09**: we welcome the proportionate approach; we also note that many firms already benefit from the credibility statement ("Firms are not required to show experience where this is of low credibility. A guideline for low credibility is less than 200 claims per annum for an individual line of the template.").

    f. **NS.10 and NS.11**: we welcome the revisions to layout and simplification of data requested for non-life firms.

8. With regard to **quarterly reporting waivers,** this is one of the areas we highlight in our list of areas for further simplification (as above). The procedural changes proposed for granting a waiver will simplify the process, though we consider PRA might have gone further to issue permanent waivers- subject to the firm continue to meet certain conditions- rather than retaining temporary/ renewable waivers. This would give greater certainty for firms and remains within the spirit of article 35(6).

9. We agree with the changes set out in Appendix 4 to the consultation, setting out the PRA's expectations for a firm when a waiver is revoked or has expired.

10. We are grateful for the changes to the requirement for mutuals to only complete an **annual controller report** where they have a controller. Previously friendly societies held this exemption, and we are pleased that PRA has acted on our request to close the anomaly for other types of mutuals.

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

Yours sincerely,

Chief Executive
Association of Financial Mutuals