



Alexander Zaremba
Finance, Planning, Performance & Analysis Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

18 May 2023

Dear Alex,

AFM Response to PRA CP7/23, Regulated fees and levies: rates proposals for 2023/24

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 members of AFM and their customers.

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 32 million people in the UK and Ireland, collect annual premium income of over £22 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 and AFM, 2022: <https://financialmutuals.org/wp-content/uploads/2022/10/UK-Market-Insights-2022.pdf>

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 welcome the opportunity to respond to this consultation paper. As a trade association representing smaller businesses, we take a close interest in regulatory costs, where they affect our members and their future capacity. We respond most years to the consultation, and value the ongoing dialogue with PRA.
5. The alarming rise in inflation and the cost of living throughout 2022/23 has led to rapid rises in the price of all kinds of services, and extra pressure on firms who are unable themselves to raise their own prices to consumers (either through competition, regulation or contract). In this light it is particularly welcome that the PRA is proposing to reduce its budget for 2023/24. The factors listed in how PRA has managed to reduce costs, in paragraph 2.4 are welcome evidence of avoiding passing on excessive costs to industry.
6. That said, the fees consultation was issued ahead of the Business Plan, making it more difficult to understand the allocation of fees between fee blocks and whether this would be consistent with the amount of effort expended. We would welcome greater transparency on this in future.
7. In our response to the FCA consultation on fees, we queried how it had shown an 18% increase in the number of life insurers authorised. We have not noted any such growth in the number of firms, and the 0.7% increase quoted in Table 2.C appears to be more realistic. We observe though that the notes at the bottom of the table indicate whilst tariff data for insurers in the table uses year end 2021 data, the “final fee rates will be based on 2020 data”: we query whether this should be 2022 data, as regulatory returns have now been completed for all insurers.
8. We are comfortable with the other changes to fee rules proposed (paragraphs 2.15 to 2.17).
9. We would welcome the opportunity to discuss further the issues raised by our response. We are happy to be included in the published list of respondents.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'MS' followed by a stylized flourish.

Martin Shaw
Head of Policy
Association of Financial Mutuals