



Competition and Quantitative Impact Team
Prudential Regulation Authority
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27 September 2023

AFM Response to PRA CP11/23, PRA statement on the review of rules

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 support to the process of review.

About AFM and its members

2. The Association of Financial Mutuals (AFM) represents insurance, as well as healthcare and indemnity, 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 result, 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. The approach in the consultation sets out a practical and sensible approach to reviewing rules.
5. We have responded below to the questions raised, and 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,



Martin Shaw
Head of Policy
Association of Financial Mutuals

Comments on questions raised in the consultation

Q1: What type of information should the PRA be collecting to inform its reviews?

We consider the sources of information provided in the Annex are all relevant. However, we would like to see greater emphasis placed on stakeholder views: the case for a review of the rules may often be triggered by qualitative feedback from stakeholders. This includes where industry highlights problems with specific rules; for example, AFM highlighted a problem with the PRA requirement for the external audit of SFCRs, and held meetings with PRA staff to seek a solution, culminating in the evidence provided in CP8/18. Just as important in this process is a decision not to change rules; for example, a few years ago PRA considered changing the rules for non-directive insurers, to more closely align with those for firms subject to Solvency 2: AFM contributed to discussions about the workability and proportionality of this, and PRA agreed not to go ahead with a review.

Stakeholder engagement also includes the feedback PRA will obtain from other regulators on the workability of rules and instances of rules being circumvented: in particular FCA, FOS and FSCS. In addition, some recent reviews have been prompted by government action: including the approach to managing the financial impact of climate change, and the review of Solvency 2.

We would like to see more coverage of this in the 'rule review methods' document.

Q2: Do you have any views on how the PRA prioritises and select rules to review?

We support the changes already in process, to review Solvency 2, and to explore a 'strong and simple' regime for smaller deposit-takers. These are good examples of PRA working with Treasury to identify opportunities for review, following the UK's departure from the EU. We agree with the way these projects were prioritised ahead of a wider review of the Retain EU Law.

Prioritising should not simply be a factor of identifying rules that create the most harm, but also to identify the specific harm potentially caused by rules, either on particular groups of consumers, or specific sub-sets of firms. It should also identify rules that will become moribund, and as a result have an impact of PRA's ability to discharge its primary- and secondary- objectives.

We would like to see PRA set a target date for review of all its rules, to ensure none are overlooked, which should provide a deadline for review and an assessment of the impact of any rule review.

Given ongoing reviews of Solvency 2 and Basel rules, we do not consider that any other elements of Retained EU Law should be prioritised simply to close off rules which remain workable. It may be more efficient to continue with these for as long as possible.

As we mention in our introductory paragraphs above, there is a responsibility for PRA to take account of corporate diversity in all aspects of its work, under section 20 of the Bank of England and Financial Services Act 2016. In our view, there is insufficient consideration by PRA of this responsibility: we would for example expect to see an annual account of how it approaches this obligation in its report and accounts. We certainly see the value of considering its commitment to corporate diversity as one of the potential triggers for rule review.

Q3: Do you have views on how the PRA select review methods?

We consider qualitative analysis should always be a key factor in any decision to change the rules.

The more quantitative methods may be deployed as necessary for the particular circumstances identified via qualitative review. It is inevitable that artificial intelligence can provide a valuable aid to PRA in future in collating evidence for a review.

Q4. Do you have views on the channels for stakeholders to engage with the PRA on rule reviews?

We agree with the range of channels highlighted in paragraph 1.8. At times in the past the Insurance Practitioner Panel has been underutilised, and earlier engagement with them on a review of rules (and other aspects of PRA's work) would be valuable.

We note that FCA is recruiting for its [CBA Panel](#), as required by FSMA 2023. We understand PRA is likewise recruiting but we have not seen as transparent a process. We consider that the PRA CBA panel will have a key role in identifying the grounds for rule change (for example via post-implementation review), as well as in the formation of new policy.

Q5: Do you have views on the way the PRA communicates its ongoing reviews and outcomes of past reviews?

We agree with the process identified in paragraph 1.9, including the creation of a webpage dedicated to the topic.