Insurance Analytics Division
Prudential Regulation Authority
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AFM Response to PRA consultation CP14/22, Review of Solvency 2: Reporting phase 2

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 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 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. PRA's original consultation on the streamlining of Solvency 2 reporting was well-received, and made some useful simplifications to requirements.

5. PRA estimates that the average savings to firms from the changes made in phase 1 of this work was 15%, and that the changes proposed in phase 2 will reduce reporting costs on average by a further 13%. Welcome though that is, the PRA's low estimate of saving each year for phase 2 is £23 million and the low end of implementation costs £59 million, which inevitably means that firms will initially see an increase in costs, and that there will potentially be a saving in the third year onwards.

6. We recognise that implementation will be timed to coincide with other proposed changes to the Solvency UK regime, i.e. from the end of 2024, and that firms will need to undertake changes to their reporting systems to reflect those new requirements as well. For small firms, the estimate in the consultation of £10,000 to £20,000 for implementation costs may potentially be an opportunity cost only, as long as most of the changes can be undertaken internally, and with minimal external support.

7. We also recognise that changes to reporting requirements are a result not just of opportunities to simplify reporting requirements, now that the UK has withdrawn from the EU, but also that the positive changes proposed to the Solvency UK regime will inevitably result in new or different data requirements. We are pleased that PRA has involved the industry working group effectively in exploring these changes.

8. We support the removal of reporting templates that yield little information or value to PRA, or where the data can be sourced from other returns (as set out in Chapter 2). We also appreciate the value of introducing new thresholds for some reports, to remove a burden for small firms. Some smaller firms have expressed frustration in the past at being asked to complete returns which are not relevant, and we look forward to seeing how PRA will rectify this through the changes proposed.

9. We recognise that the changes proposed to the design of reporting forms set out in Chapter 3 should streamline the effort required of firms. Extra simplicity and consistency of requirements will reduce work, especially if the PRA data returns produce a good fit with internal reporting and SFCR templates.

10. The proposals in Chapter 4 for new reporting templates address recognised shortcomings in current data capture, and provide sensible solutions. The high threshold for the excess capital generator is appropriate, and the cyber underwriting risk template is a practical solution to a growing problem.

11. We note that paragraph 4.12 refers to consideration of whether standards expected in IFRS17 should be factored into this review; we agree that it is not proportionate to do so until the new standards are in place. We also stress that as most members of AFM are not subject to IFRS reporting, care will be needed in considering how to incorporate those standards, to ensure reporting requirements are only applied to firms in the scope of IFRS17.

12. 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,

Martin Shaw
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Association of Financial Mutuals