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Fees Policy Team
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## AFM Response to FCA CP24/6, Regulatory Fees and Levies: rate proposals for 2024-25

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 implications for our members.

### 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). As a whole, mutual insurers manage the savings, pensions, protection and healthcare needs of over 26 million people in the UK and Ireland, collect annual premium income of over £23 billion, and employ nearly 23,000 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].

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[1] ICMIF and AFM, 2023: https://financialmutuals.org/wp-content/uploads/2023/10/UK-Market-Insights-2023.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

4. We welcome the opportunity to respond to this consultation paper. It is helpful as well to be able to review this paper in conjunction with the recently published FCA Business Plan for 2024/25. The Business Plan[4] recognises the continuity of effort required towards achieving FCA's three-year strategy. Whilst there are few new initiatives in the business plan, we recognise that there remains plenty of work to do to deliver on FCA's main commitments.

5. However, the business plan is light on detail of how resources will be allocated, and whether and what additional resources are being deployed, other than for a range of 'exceptional projects'. Hence we were surprised that, whilst the rate of UK inflation has now fallen to 3.2%, and the latest ONS data on quarterly earnings growth indicates that average employee earnings were rising at an annual rate of 5.6%[5], by comparison, FCA's annual funding requirement has risen by 10.7%.

6. Meanwhile, the number of firms in every one of the 27 fee blocks that FCA administered in 2023/24 fell, in many cases significantly, indicating that the number of firms FCA supervises has fallen by around 10% in the year. As a result, the cost of regulation to every firm has increased by a rate many times the rate of inflation, and to a much greater degree than market forces enable firms to raise their own prices.

7. Those rapidly escalating costs not only include direct levies from FCA, but also the costs of implementing new initiatives. In response to the recent consultations on diversity and inclusion, we highlighted that the total bill to industry over three years was estimated by FCA and PRA to amount to £1.7 billion, with no clear indication of benefits. We remain concerned that for mutuals, who have no shareholders, the higher costs of regulation will be passed onto consumers. This is not reflected in the statement on page 3 setting out the impact on mutuals.

8. Last year in our response to the fees consultation[6], we highlighted the anomaly in the number of fee-payers in the A.4 block of life insurers. We were pleased that FCA acknowledged and explained this overstatement in PS23/10, and that the autumn consultation (CP23/22) removed the relevant funeral plan providers from this block. Notwithstanding that, based on the more consistent data in the PRA fee consultation, the number of regulated life companies declined in the year 2023/24 by

[4] https://www.fca.org.uk/publications/business-plans/2024-25
[5] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/april2024
[6] https://financialmutuals.org/wp-content/uploads/2023/02/AFM-response-to-FCA-on-regulated-fees-2023-24.pdf

9.3%[7], meaning that the £57.6 million in FCA fees will now be shared across 138 firms at an average of £417,391 per firm, an increase of 16.3% in the year. Similar changes in the number of GI firms and their fees mean each firm will be paying an average increase in the FCA levy of 12.2%. Given the strong focus by FCA on firms' value for money, it is inequitable for FCA to be raising its fees by such significant rates at a time when the insurance sector is contracting, based both on the number of participants and the amount of gross written premium. FCA sought to explain in paragraph 2.9 of PS23/10 how it sought to align fees with the resources committed to each fee-block. However, we have to query whether supervisory staff are working productively, and whether data is being deployed effectively, if there is a need for the resources FCA expects to devote to life firms to rise in correlation with fees, i.e. by over 16% this year.

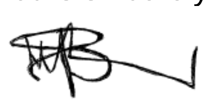
9. We accept the need to raise the minimum fee in line with rates for other fee-payers, and note that FCA plans to raise this fee by 8.75%. It is not clear from the commentary (in paragraph 3.4) whether the income threshold for paying variable fees for some firms is being reviewed this year, and whether this may mean more firms will be required to pay the variable rate; we would welcome greater clarity on this, and whether there is any cliff edge for firms that exceed the threshold.

10. In Chapter 4, we note that FCA intends to raise application fees by 8.75% in line with the increase in the ORA. However, as we explain above, with the number of incumbents regulated in all fee-blocks falling, the ORA increase has been allocated across a smaller number of fee-payers, and there is an argument to increase the fee for applications by greater than the ORA, to reflect the underlying rise in prices levied to pre-existing firms.

11. We have no comments on the fees raised for other organisations.

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,



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[7] https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/regulated-fees-and-levies-rates-proposals-2024-25-consultation-paper