



By email to: CP27_23@bankofengland.co.uk

Strategy and Policy Approach Division
Prudential Regulation Authority
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AFM Response to PRA CP27/23, PRA Approach to Policy

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 provide broad support for the draft Approach document.

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>

Introductory comments

4. We welcome the opportunity to respond to this consultation paper. We consider that the draft paper sets out well the range of responsibilities PRA has, as well as its approach to fulfilling them. As evidenced by changing government standards even since the publication of the Discussion Paper (on the net-zero principle and SDR rules), it is important that the approach to policy is flexible enough to take account of changes in the responsibilities given to the PRA, but also that its approach is reviewed regularly to take account of new powers and regulatory principles, as well as changes in the financial services landscape.
5. We agree with the approach to *clustering*, as set out in Table 1 on pages 7 to 10 of the draft paper. We agree that clustering regulatory principles can be a helpful way of summarising activity and in utilising resources effectively. There is a risk in so doing that some elements within a cluster group get less focus, or that a high-level approach obscures problems in resource allocation towards specific responsibilities. We think this in part can be remedied by a commitment to annual reporting on the progress made against each of the clusters, and of the elements within each cluster. To illustrate, the 'competition grouping cluster' includes important responsibilities for PRA on proportionality, on differences between businesses and on the impact on mutuals, as well as the responsibility to consumers. The PRA annual report often accounts for how it has delivered on the latter of these, but avoids reference to how it recognises the differences between businesses, or how it assess the impact of its work on mutuals (other than as part of the CBA for new policy proposals).
6. We consider the approach to PRA's *competitiveness and growth objective* to be appropriate. We consider that a thoughtful and thorough approach to implementing this objective can be delivered effectively without jeopardising standards more generally, or impinging on delivery of the primary objectives. It is helpful for PRA to confirm that the pursuance of financial stability remains its key role, but also that in achieving this, PRA is contributing to making the UK more attractive to investors. It is helpful to see the evidence on what makes a financial centre attractive, from PRA surveys and academic literature (in boxes 2 and 3), and that these are areas where the PRA is already active and has the powers to act alongside government.
7. A balance needs to be struck between enabling overseas firms and investors to access the UK market, and to ensure consumer protection is not diluted as a result. In insurance, most of the insurance provider

failures that the FSCS has had to deal with are overseas firms that have passported into the UK.

8. As the Approach Document highlights, part of the answer to this is for PRA to continue to broadly match *international standards*. It is encouraging though to see that PRA recognises that whilst broad equivalence with other leading jurisdictions is vital, this does not hinder PRA in pursuing actions that are appropriate to the UK domestic market. However, determining which jurisdictions to achieve equivalence to is not always easy to predict, and will vary over time. And where the Approach Document lists many of the international institutions with which the PRA engages, it is a regret that these still do not include EIOPA and other EU rule-makers.
9. We agree that the PRA's approach to *stakeholder engagement* is an important element of the Approach Document. In recent years we have seen a significant increase in the nature of engagement afforded by PRA towards our sector, and are pleased that this often takes place earlier in the process. It is also encouraging that PRA is considering carefully when to involve small firms in thematic reviews and survey work, and when this might present a disproportionate amount of work for them.
10. As the document states, PRA has a new requirement to establish a CBA panel. It is concerning to see that almost 12 months after starting the recruitment process, the chair and appointees have still not been named, and the PRA website has no active page about their role. We look forward to seeing an early update on this.
11. 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', written in a cursive style.

Martin Shaw
Head of Policy
Association of Financial Mutuals