



Statutory audit market study
Competition and Markets Authority
7th Floor, Victoria House
37 Southampton Row
London, WC1B 4AD

22 January 2019

AFM Response to CMA Statutory audit

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 issues raised in the update paper that have potential consequences for members of AFM.

About AFM and its members

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 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff¹.

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, <https://www.icmif.org/publications/market-insights/market-insights-uk-2016>

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 paper](#)

1. We are pleased to receive and comment on the CMA's 'Statutory audit services market study, update paper'. Our members all prepare an annual report and accounts; those reports are designed primarily to meet their statutory obligations, as well as the informational needs of their customers and, where relevant, those customers that are also members.
2. Our members who meet the threshold for inclusion in the Solvency 2 Directive also produce an annual 'Solvency and Financial Condition Report' (SFCR), and also meet the definition of a Public Interest Entity (PIE), as defined by the European Audit Directive, and interpreted for the UK by the Financial Reporting Council (FRC).
3. These public reports are subject to intensive audit scrutiny, though with regard to the SFCR, the Prudential Regulatory Authority has recently agreed that around 150 smaller UK insurers should be exempted from an external audit of the report, following extensive lobbying from AFM and others on the cost and value of extra audit requirements.
4. Our response to the market study paper focuses on the possible extension to all PIEs of some of the remedies proposed in the paper, as per paragraph 4.18 of the paper. We do not believe the work by CMA has extended to our members who, compared to the vast majority of PIEs, are very small organisations.
5. We consider therefore that the proposal to focus enhanced oversight of audit committees should be restricted to FTSE 350 companies in the first instance, with a view to extending to other similar-sized organisations in future.
6. We do not consider that adopting the definition of PIE as a basis for defining remedies in the paper is valid. This is because the definition of PIE is much broader, and in the case of AFM members, includes many organisations with a turnover of less than £10 million. For these organisations, the enhanced audit regime would be disproportionate to the size and complexity of the organisation. Where the focus of AFM members is on generating value for customers, not profits for external shareholders, the extra costs of complying would be potentially ruinous. The additional protection afforded would be limited, given the highly regulated regime our members operate in, and the extra scrutiny would run contrary to the conclusions raised by PRA, as mentioned above.

We would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals