



## **CONDIE COMMENTARY**

### **PRA Consultation Paper: CP26/14 Senior Insurance Managers Regime: A New Regulatory Framework For Individuals**

Welcome to this **CONDIE COMMENTARY** the objectives of which are to provide a high level overview of this most important consultation paper recently published by the Prudential Regulation Authority. We hope the contents provide insight into the PRA's aims and set a clear agenda of action for your organisation.

#### **Consultation Paper Overview**

CP26/14 puts forward changes to the regulatory framework for the approval of individuals who wish to carry out key roles in insurance companies. With the effective date of Solvency II now less than a year away, the PRA wishes to give insurers a reasonable lead-time to prepare for, and respond to, the revised framework.

There will be no surprise that the regulator is proposing a stricter, more extensive authorisation regime and compliance with conduct standards, with more key roles coming within the regulatory purview and greater examination of individuals who wish to attain, or retain, regulatory approval to do their jobs. The PRA notes that there will be "**practical repercussions**" for regulated firms.

#### **The Senior Insurance Managers Regime ("SIMR")**

The proposed SIMR seeks to ensure that the senior persons who are "effectively running insurers" or have responsibility for other key functions behave with integrity, honesty and skill. The way that these attributes (and others) are assessed will be heightened, as discussed below. The scope of the SIMR embraces Controlled Functions ("CFs") together with "key function holders".

The proposed list of CF's now includes:

- Chief Executive Officer
- Chief Finance Officer
- Chief Risk Officer
- Head of Internal Audit
- Chief Actuary (and With-Profits Actuary where appropriate)
- Chief Underwriting Officer
- Group Entity Senior Insurance Manager (where the firm is part of a wider Group)

It should be noted that the FCA is consulting separately on which executive functions should be included within their Approved Persons Regime - see CP14/25. Also, the PRA will be issuing a CP in early 2015 in regard to Non-Executive Directors.

### **A "Rigorous Recruitment Process"**

A vital part of the SIMR is the need for firms to carry out their own fit and proper and full due diligence assessments for all those who will carry out a CF or perform a key function. **The requirements are onerous**, with the PRA expecting a "rigorous recruitment process" that requires detailed references to be sought as well as financial soundness and criminal record checks. Where a person who has held a CF moves to a new insurer, the previous employer must provide a comprehensive reference, including details of any breach of conduct during the period of employment or any wanting in fitness and propriety.

This will raise the question of **risk-managing** both the inwards and outwards referencing process and firms are advised to involve their Head of HR and employment advisers as soon as possible to set in place appropriate processes.

### **Governance Maps**

A new rule in the CP introduces the concept of "Governance Maps". The PRA will require all firms to create and maintain a written record of key functions, names of role holders (and details of their responsibilities), reporting lines and any relationships with Group companies. The PRA will require the Map to be kept up to date and available to them at all times. The **implications** for firms are that the Map must be accurate, reflecting the actual responsibilities of executives and be supported by job descriptions and evidence of experience, skills and training for the roles assigned.

### **Key Actions**

Firms will have to affirm (or make appointments to) the Controlled Functions and key function holders and ensure they are positively vetted to meet the PRA's expectations on experience, skills, qualifications and business track record. Taking a risk-based approach to the recruitment process will be required to ensure compliant due diligence and also to structure the "outward" staff referencing appropriately.

Work on the Governance Map should be started straight away, including the associated job descriptions and training and education requirements.

Firms must review the CP in full and those wishing to make their own response to the PRA should do so by the closing date of 2 February 2015. Note that other CPs and the Solvency II Directive and Regulations should also be reviewed and the PRA announcements monitored for further CPs.

For assistance with the development of your framework and Governance Map, contact [mark.butterworth@condierisk.co.uk](mailto:mark.butterworth@condierisk.co.uk).

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