



## **Senior Insurance Managers regime – Questions and answers**

Since the publications on 13 August 2015 on the Senior Insurance Managers Regime<sup>1</sup> (SIMR), the PRA has received some questions from industry participants on the application of the new regime to Solvency II insurers. These are set out below with the PRA's response. It is not a comprehensive list, and the responses do not supersede the need for firms to be aware of the PRA's requirements and expectations, and any other legislative or regulatory requirements. Dual-regulated firms are reminded that they will also need to refer to the FCA's policy. We encourage firms to raise any queries about the PRA's policy with their usual supervisory contact.

### **1. If a firm assesses a role as a Key Function (KF) and that function is being provided centrally by the group, would that cause the KF to become a Senior Insurance Management Function (SIMF)?**

A key function may be performed centrally within a group, subject to the individuals having sufficient time and resource, and the ability to address any resulting conflicts of interest; and to the combination of duties not preventing the individuals from carrying out all their responsibilities in a sound, honest, and objective manner.

If there is an individual within the group who has overall group responsibility for that key function, then that individual will be the group key function holder. They may then seek to become a SIMF 7 (if they meet the definition for that role – see paragraphs 2.5-2.9 in SS35/15), and/or may seek where relevant to be approved for a particular SIMF role (eg SIMF 5) in relation to the regulated firm(s), ie as the individual responsible for performing and delivering a corresponding controlled function for that firm(s).

There will also still need to be an individual senior insurance manager or key function holder within the firm (eg a CEO or director) who has responsibility for the oversight of that key function in relation to the firm.

### **2. Can a key function, such as internal audit, be outsourced to a third party provider? Is it possible for someone in the service provider to be the key function holder under the SIMR?**

There is no prohibition on a third-party provider acting as an outsourced provider for a firm of a key function, such as internal audit services, as long as the firm can meet the outsourcing requirements in the PRA's rules, along with those in Article 274 of the EU Solvency II Delegated Regulation<sup>2</sup>. Indeed, for those firms lacking suitable resources, the PRA can see the merits of outsourcing the internal audit function, as for example, this could reinforce the independence of this role. However, this internal audit function should not be outsourced to the external auditor.

There is a potential choice for firms over whether the (executive) head of internal audit (SIMF 5) should be internal to the firm or an external appointment. The former would mean that there is someone in this role with regular access to and contact with the firm, while the latter might provide more independence and wider experience. A consideration for the firm is who should be accountable for ensuring effective delivery of the key function.

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<sup>1</sup> CP26/15 'The Senior Insurance Managers Regime: implementation proposals for non-Solvency II firms'; [www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp2615.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp2615.aspx);  
PS20/15 'Strengthening individual accountability in banking: UK branches of non-EEA banks'; [www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2015.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2015.aspx);  
PS21/15 'The Senior Insurance Managers Regime: a streamlined approach for non-Solvency II firms'; [www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2115.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2115.aspx);  
PS22/15 'Strengthening individual accountability in insurance - responses to CP26/14, CP7/15 and CP13/15'; [www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2215.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps2215.aspx) and [www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss3515.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss3515.aspx);  
SS35/15 'Strengthening individual accountability in insurance'; [www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss3515.aspx](http://www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss3515.aspx)

<sup>2</sup> Commission Delegated Regulation (EU) 2015/35; <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R0035>

In either event, the individual in an SIMF 5 role would need to have the relevant skills, experience, and resource, to carry out this role, and the firm would need to meet the requirements of Article 271 of the EU Solvency II Delegated Regulation. For smaller firms, the PRA recognises that a proportionate approach should be applied when considering the suitability of an individual within the firm for such an SIMF 5 role, which reflects the usually less complex systems and smaller scale/scope of the business that is to be monitored.

The PRA does not see the SIMF 5 role as akin to a directorship, rather the SIMF 5 holder is part of senior management reporting in to the board.

There is a range of possibilities for the structure of the actuarial function, including the use of outsourcing. It is possible to have an internal or external Chief Actuary as set out in the recent PRA policy (see chapter 14 of PS2/15). The situation would need to be explored by each firm individually, due to the specific way each firm is organised and arranges their outsourced work.

However, the PRA would always still expect an appropriate key function holder (or SIMF) within the firm to be designated with the overall oversight responsibility for the outsourced key function. The key function holder within the firm who has this oversight responsibility could be a director (eg the chair of the audit committee), or senior manager, who has the relevant capability to carry out that oversight role.

The allocation of the controlled functions and any other key function holders to internal or external staff would need to be justified. The key principles to address here are:

- There should be no ambiguity over exactly who is carrying out the different areas of work and who is responsible for them.
- It should be also be clear where critical decisions and judgements are being made. Individuals making these decisions should be accountable.
- The governance processes should be well defined to ensure sufficient review of outsourced work is being carried out.

### **3. Will key functions be extended to lower managers who hold some responsibility for the functions?**

The PRA expect firms (and groups) to determine their key functions, and then to appoint individuals to be responsible for each of those key functions (ie as 'key function holders') in line with the expectations set out in paragraphs 2.23 to 2.34 of SS35/15.

In the context of these key functions, the concept of having or performing a key function is then derived from the Solvency II EU texts. Having considered the wording of these texts, the PRA considers a sensible assumption that should be made would be that the term performing a key function does have quite a wide scope, and is likely to include most people performing tasks for that function (see for example paragraph 1.21 in the EIOPA final report on the Systems of Governance Guidelines<sup>3</sup>), and not just the above key function holders, but also potentially individuals who may be 1 or 2 levels of seniority below the key function holder.

The PRA believes that the fit and proper assessment of these individuals should then be performed proportionately, with relatively more attention being given to the assessment of conduct for senior individuals.

The PRA's expectations in relation to the assessment of an individual's ongoing conduct are set out in paragraphs 3.4 to 3.9 of SS35/15. In applying the criteria in these paragraphs, the PRA expects that firms act proportionately and take appropriate account of the individual's specific role and level of responsibility.

As envisaged in paragraph 4.11 of SS35/15, the firm's existing cycle of performance reviews and appraisals is likely to provide an appropriate baseline for the ongoing fit and proper assessment. This cycle is very likely to already include an assessment of whether the individual is performing

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<sup>3</sup> EIOPA-BoS-14/253 EN 'Guidelines on system of governance';  
<https://eiopa.europa.eu/publications/eiopa-guidelines/guidelines-on-system-of-governance-solvency-ii>

with integrity, and with the due skill, care and diligence appropriate to their role. Where relevant, this could also take account of whether the person had been open in any dealings with the regulator, as indicated in paragraph 3.14 of SS35/15.

For new appointments, the PRA expects that the firm's recruitment procedures would, as a matter of course, include an assessment of the individual's skills and competences, and experience, that are relevant to their intended role. In addition, the procedures for considering a person's past business conduct, and financial soundness, as outlined in paragraphs 4.9 and 4.10 of SS35/15, might be expected to take account of the specific role and level of responsibility they would have within the firm.

**4. Do we need to seek approval for those already approved but going into new functions?**

If they are currently approved for an SIMF (or FCA SIF) at that firm (or group) and moving to a new SIMF, then they would need to complete Form E.

If they are currently in a KFH role but not in an SIMF (or FCA SIF), and moving to an SIMF role, then they would need to complete Form A.

If they are currently in a KFH role (or an SIMF role), and moving to another KFH role, but are not becoming an SIMF (or FCA CF), then they would need to complete Form M (but with only updates needed to any previous information already provided to PRA).

**5. Is the SIMR from both a PRA and FCA perspective expected to impact UK branches of incoming EEA insurance firms?**

From a PRA perspective, the SIMR will not be relevant for branches of incoming EEA firms (unless they have some 'top-up' Part 4A permission as well – in which case they would come within the scope of the PRA's SIMR for non-Directive firms (NDFs).

As the FCA solo regulate these branches for their UK activities, readers should also seek the FCA's perspective.

**6. Does the PRA consider the Human Resources director to be a key function holder because of the obligations placed on HR from the implementation of SIMR, ie reference checking; criminal records checking; background and credit checks?**

This will depend on an assessment of the specific role of the HR director, in the context of the business model, governance structure, and risk profile of the firm; and taking account as well of the factors set out in paragraphs 2.23-2.24 of SS35/15.

**7. Under the PRA Chief Actuary role, can the PRA confirm that a proposed applicant holding an overseas actuary qualification which does not currently issue a practising certificate, will not have their application refused on this basis. In short, will the PRA insist on some form of practising certificate for those individuals intended to be appointed to the Chief Actuary role, like the ones now available to IFoA members?**

The PRA does not insist on individuals for the Chief Actuary role having a practising certificate. However, an individual in the Chief Actuary role will be expected to be able to demonstrate that they have the knowledge and experience to meet the requirements in rule 6.1(2) of Solvency II firms: Conditions governing business.

**8. With regard to the 11 prescribed responsibilities, is 'performance' being interpreted as first line of defence and is 'monitoring' representative of second line? Is there are clear distinction or are we to assign the responsibilities to the relevant individuals at 'face value'?**

The PRA believes that the wording of each responsibility should be taken at 'face value'. The aim is to ensure that the activities associated with each responsibility are performed with due skill, care and diligence and with appropriate oversight.

**9. In accordance with our current operating model, we have two individuals performing what will become the SIMF 22 Chief Underwriting Officer role; split between facilitated and retained business. With this in mind, can this SIMF be split between two individuals?**

Please see paragraphs 2.17-2.19 of SS35/15.

**10. Where an SIMF holder is also undertaking an FCA controlled function (for example, a CEO (SIMF 1) who is also a board director (CF1)), should both functions be listed on the governance map for persons who are also key function holders, or should the CF just be listed within their scope(s) of responsibilities?**

Yes, the governance map should encompass all the key roles and responsibilities of each key function holder. This would include any board director roles, irrespectively of whether these are approved separately as an FCA CF role, or whether these are deemed to be covered within the scope of an SIMF role through the application of PRA and FCA rules.

**11. Does the PRA require details of ongoing fitness and propriety assessments to be included with grandfathering applications (where the applicant is also a key function holder) and/or notification forms for key function holders?**

No, details of ongoing fitness and propriety assessments do not need to be included with grandfathering applications, nor in the notification forms for key function holders. However, firms will need to complete all relevant sections of Form M for notifications of existing KFJs who are not being grandfathered to (or seeking approval for) an SIMF role, and send this form to PRA by 7 September 2016.

**12. Does the SIMR apply to the UK branch of a non-EEA, non-Solvency II reinsurance undertaking, where the branch solely carries out reinsurance activities (a third-country pure reinsurance branch) and is in run-off? If yes, under which rules?**

SIMR does apply to all UK branches of non-EEA firms that come within the Glossary definition of a 'third country branch undertaking' (see PRA 2015/31 in PS2/15<sup>4</sup>). This definition includes 'third country pure reinsurance branches', whether or not these are in run-off. We may though be able to consider waivers from some of these rules for firms in run-off that are out of scope of Solvency II, subject to the firms meeting the statutory criteria for such a waiver.

**13. Can any directors of a UK insurer who are group executives but are not based in the United Kingdom be considered 'notified NEDs' (and therefore not be directly subject to full ambit of the SIMR rules), or must they necessarily also be considered SIMF 7 controlled function holders because they are on the board (and therefore subject to the full ambit of the SIMR rules)?**

This will depend on the level of influence these individuals have over the management of the UK subsidiary. As members of the UK board, this level of influence is likely to be fairly strong, and in line as well with the expectations set out in SS35/15, the (rebuttable) presumption would be that they should be SIMF 7.

**14. Would the PRA expect insurers to identify underwriting and finance/accounting as separate and distinct key functions? Those two functions would appear to fit the definition of key functions for most insurers, but Solvency II and the new rules seem to suggest that they don't necessarily have to be separate and could instead be part of, eg the risk management or overall internal control functions?**

The finance function at all insurance firms, as well as the underwriting function at general insurance firms, would usually be considered to be key functions. These functions would then usually have to be separate from the control functions (eg risk management), so as to meet the Solvency II requirement that each function shall be free from influences that may compromise the function's ability to undertake its duties in an objective, fair and independent manner.

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<sup>4</sup> PS2/15, 'A new regime for insurers', March 2015; [www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps215.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps215.aspx)