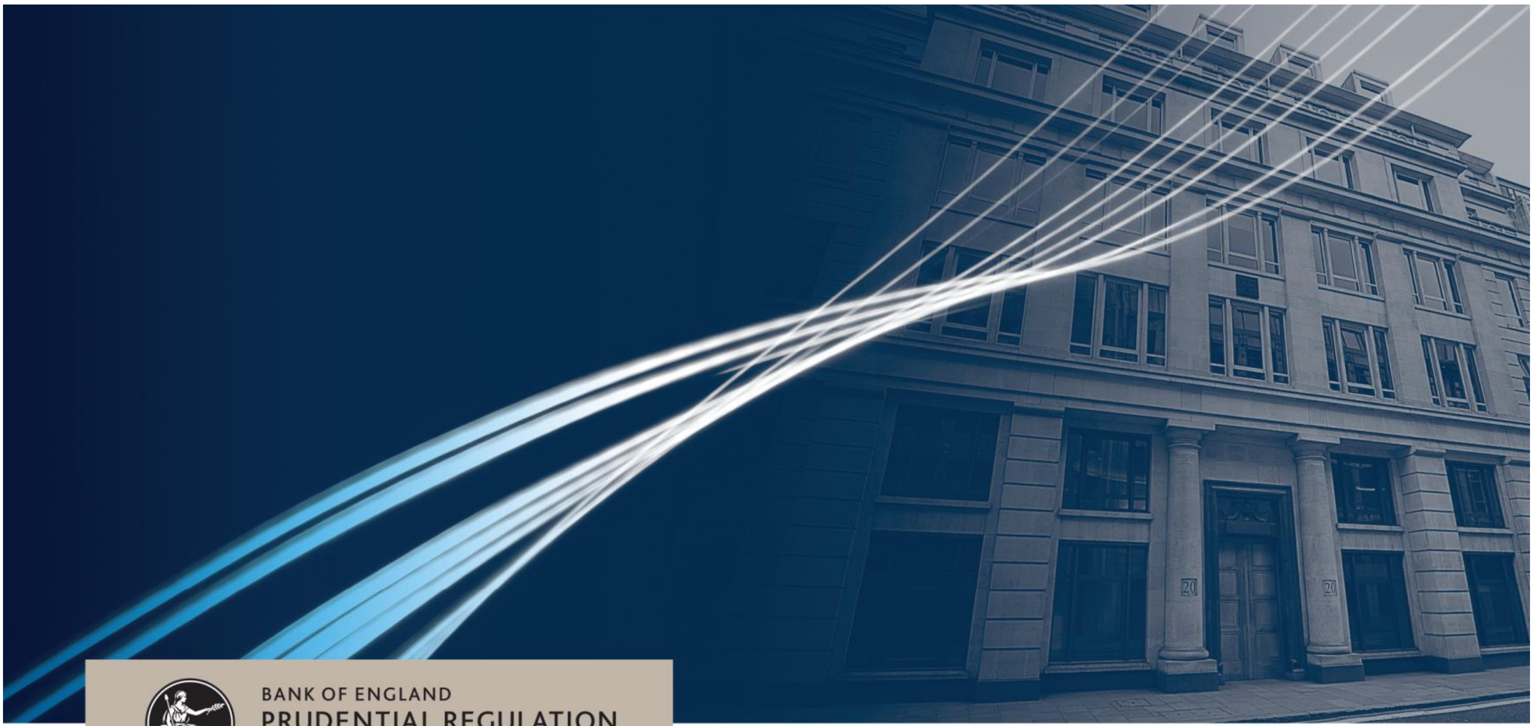

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP8/17

Strengthening accountability in banking and insurance: optimisations to the SIMR, and changes to SMR forms

June 2017

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

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Responses are requested by Monday 14 August 2017 for the proposals in Chapter 4, and by Friday 22 September 2017 for the proposals in the remaining chapters.

Please address any comments or enquiries to:
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Contents

1 Overview

1.1 In this consultation paper (CP), the Prudential Regulation Authority (PRA) sets out proposed amendments and optimisations to the Senior Insurance Managers Regime (SIMR) (see Chapter 2). It also includes a proposal to strengthen governance through requiring insurers to take steps to encourage board diversity (see Chapter 3). This CP also proposes consequential amendments to the Senior Managers Regime (SMR) forms following Policy Statement (PS) 12/17 'Strengthening individual accountability in banking and insurance: amendments and optimisations'[1] (see Chapter 4).

1.2 Chapters 2 and 3 of this CP are relevant to all Solvency II insurance firms (ie UK Solvency II firms, the Society of Lloyd's and Lloyd's managing agents, and third country (re)insurance branches), and to large non-Directive firms (large NDFs).[2]

1.3 Chapter 4 of this CP is relevant to banks, building societies, credit unions, and PRA designated investment firms (collectively known as Relevant Authorised Persons (RAPs)).

1.4 The policy proposals in this paper have been designed in the context of the current UK and EU regulatory framework. The PRA proposes to keep its policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

Responses and next steps

1.5 The consultation on the proposals in Chapters 2 and 3 closes on Friday 22 September 2017, and for the proposals in Chapter 4 on Monday 14 August 2017.

1.6 The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP8_17@bankofengland.co.uk.

1.7 The PRA intends to publish the final rules on the proposals in Chapters 2 and 3 in 2017 Q4 and proposes that rules would be implemented two months after their publication.

1.8 The PRA intends to publish the final rules and forms for the proposals in Chapter 4 in 2017 Q3.

1.9 The PRA plans to consult shortly, alongside a corresponding consultation by the Financial Conduct Authority (FCA), on further proposals that are being designed in the context of the Bank of England and Financial Services Act 2016. These will amend the SIMR to enable the extension of the Senior Managers & Certification Regime (SM&CR) to all insurance firms and are expected to become effective from late 2018.

2 Proposed optimisations to the SIMR

2.1 The PRA proposes the following amendments and optimisations to the SIMR:

- creating a new PRA Senior Insurance Management Function (SIMF) – the Chief Operations function (SIMF24);

1 May 2017: www.bankofengland.co.uk/pra/Pages/publications/ps/2017/ps1217.aspx.
2 Defined in the PRA Rulebook as insurance firms that are out-of-scope of Solvency II and having assets relating to all regulated activities with a value of more than £25 million, as included in the firm's two most recent reported annual accounts.

- creating a new PRA Prescribed Responsibility (PR) for the firm's performance of its obligations in respect of outsourced operational functions and activities;
- creating a new PRA SIMF, the Head of Key Business Area function (SIMF6), for individuals who are responsible for large business areas or divisions within a firm;
- requiring that the Chairman function (SIMF9) (Chair) and Chief Executive Officer function (SIMF1) (CEO) roles may not be held by a single individual at 'large firms' (as defined in the proposed definition in the Rulebook Glossary - see paragraph 2.19); and
- requiring that a Non-Executive Director (NED) oversight SIMF role at a 'large firm' that is part of a group may not be performed by a group executive (ie an individual performing some executive function within that same group).

2.2 The proposals in this chapter have been designed to bring the SIMR more closely into line with the SMR as the PRA moves to a more integrated regime.

2.3 The draft rules to implement these proposals are set out in Appendix 2. The PRA is also proposing to update Supervisory Statement (SS)35/15 'Strengthening individual accountability in insurance'[1] to reflect the above proposals, as set out in Appendix 1.

Chief Operations function

2.4 The PRA proposes to introduce a new PRA SIMF known as the Chief Operations SIMF (SIMF24) for Solvency II insurance firms and large NDFs. The Chief Operations SIMF would be the most senior individual responsible for managing the internal operations and technology of a firm.

2.5 The proposed Chief Operations SIMF recognises the importance of the operational continuity, and resilience of, the operations, systems and technology on the safety and soundness of firms and the protection of their policyholders, and the corresponding need to ensure appropriate accountability for these areas at the most senior levels in firms. The PRA's proposals envisage that individuals in scope of the proposed Chief Operations SIMF may hold the job title of Chief Operating Officer ('COO') but may also hold job titles such as Chief Administrative Officer ('CAO') or Head of Operations and Technology ('O&T'). Not every individual with these job titles would necessarily come into scope of the proposed new Chief Operations SIMF; this will be determined by their specific responsibilities.

2.6 SIMF24 is the exception to a general expectation that SIMFs can be shared but not split. SIMF24s may be shared or split among two or more individuals provided that the split accurately reflects the relevant firm's organisational structure and that comprehensive responsibility for operations and technology is not undermined. For instance, where a relevant firm has two distinct but equally senior individuals (eg a Chief Operating Officer and a Chief Information Officer (CIO)) with overall responsibility for its internal operations and technology respectively, it may be appropriate for the SIMF24 to be split among them. Where the SIMF24 is split, the PRA does not expect it to be split among more than three individuals.

2.7 The PRA acknowledges that the individual with overall responsibility for the operations and technology of a firm may have a wider set of responsibilities, either within the firm or its group, and in accordance with the PRA's current rules in Insurance - Allocation of

1 September 2016: www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss3515update.aspx.

Responsibilities 5 and Large Non-Solvency II Firms – Allocation of Responsibilities 5, a summary of all these responsibilities would be set out in the 'scope of responsibilities' record that is maintained for that individual.

2.8 Where firms have significant levels of operational infrastructure and oversight based either at group level or outside the United Kingdom, the PRA acknowledges that it may be appropriate for the Chief Operations SIMF of a firm to sit at group or parent-entity level and/or outside the United Kingdom. Where relevant, the proposed Chief Operations SIMF would also apply to incoming third country branches which have an individual performing that function in respect of the activities of the branch.

Prescribed Responsibility (PR) for the oversight of outsourced operations

2.9 To complement the proposed Chief Operations SIMF, the PRA proposes to create a new PR for Solvency II firms and large NDFs in the Insurance –Allocation of Responsibilities, and Large Non-Solvency II Firms - Allocation of Responsibilities Parts respectively. This new PR would be for the firm's performance of its obligations in respect of outsourced operational functions and activities, under Conditions Governing Business 7, and of outsourced operational functions under Non-Solvency II Firms – Governance 5 respectively.

2.10 As with the other PRs in Insurance - Allocation of Responsibilities 2.1, and Large Non-Solvency II Firms - Allocation of Responsibilities 2.1, firms would need to allocate this PR to an individual approved by the PRA for a SIMF (such as the proposed new Chief Operations SIMF), or by the FCA for a 'relevant senior management function'.

2.11 Third country branch undertakings would also be subject to the new PR. However, the PR would only apply to the activities of the UK branch (rather than the firm as a whole), in line with the general approach taken with regard to the application of PRs (and other rules) to incoming third country branch undertakings.

2.12 Small run-off firms already have a PR that includes the oversight of their systems and controls, and this would be expected to encompass any outsourced operations, so the PRA is not proposing any additional new prescribed responsibility for small run-off firms.

Head of Key Business Area function (SIMF6)

2.13 The PRA proposes to establish a new Head of Key Business Area function (SIMF6) in the Insurance - Senior Insurance Management Functions, and Large Non-Solvency II Firms - Senior Insurance Management Functions Parts. This is aimed at bringing into the scope of the SIMR those individuals in Solvency II insurance firms (other than third country branch undertakings) and large NDFs who are responsible for the management of business areas and divisions that are sufficiently large and complex to have a potential impact upon the safety and soundness of these firms.

2.14 The PRA proposes that an individual will be in scope of the new SIMF6 if the business area or division of the firm they are responsible for:

(a) has gross total assets equal to or in excess of £10 billion; and

(b) accounts for more than 20% of the firm's gross revenue;

and the person performing that function does not report to a person performing a SIMF6 role in respect of that same business area or division.

2.15 The PRA proposes that the gross total assets of the business area or division and the percentage of the gross revenue of the firm would be determined on the basis of either:

(a) the assets and revenues for both the business area or division and the firm, for the firm's financial year immediately preceding that in which the person is allocated with the specified responsibilities; or

(b) if the threshold amount is not met for that period, on the basis of the annual average amount calculated across a rolling period of five years (calculated by reference to the firm's annual accounting date) and where the firm, business area, or division has been in existence for less than five years, the calculation will be made on the basis of the annual average amount for the period during which the firm or that business line or division has existed (calculated by reference to the firm's annual accounting date).

2.16 The proposed SIMF6 function is not intended to encompass individuals who are already acting in another SIMF role.

Separation of Chair and CEO roles within 'large' insurance firms

2.17 For banking firms, Senior Management Functions 8.2 requires separation of the Chair and CEO roles. The PRA does not have a corresponding rule for insurers, though Article 258 of Commission Delegated Regulation (EU) 2015/35 ('the EU Solvency II Delegated Regulation') requires firms to have measures in place to address potential conflicts of interest. In addition, SS35/15 sets out that the PRA will consider how any such conflicts would be managed satisfactorily if a firm were to seek approval for a single individual to combine these two roles (other than on a temporary basis). Moreover, the Corporate Governance Code published by the Financial Reporting Council (FRC)[1] requires listed firms (on a comply-or-explain basis) to separate the roles of Chair and CEO.

2.18 While some smaller firms may be able to make a case for combining these two roles, the PRA does not believe this would be appropriate for larger firms. Accordingly, the PRA proposes to make a rule for Solvency II firms and large NDFs, in the Insurance - Senior Insurance Management Functions and Large Non-Solvency II Firms - Senior Insurance Management Functions Parts that, for 'large firms' (which would be defined as proposed in the following paragraph), the Chair and CEO roles may not be combined. The expectations set out in SS35/15 in relation to the management of potential conflicts of interest that might arise if these roles were combined would continue to apply for all other insurance firms within a group.

2.19 The PRA proposes to define a 'large firm' for the purposes of these proposals as a firm with annual premium income (gross of reinsurance) of more than £1 billion in each of the previous three financial years, or with assets (including any reinsurance) related to regulatory activities of more than £10 billion at the end of each of the last three financial years.

Separation of executive and oversight roles within 'large firms' and groups

2.20 The PRA has encountered several instances where firms have proposed that senior group executives should take on a NED chairing role for some of their large insurance subsidiaries. The PRA believes that this may give rise to significant conflicts of interest, which would be difficult to manage properly.

1 www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance.aspx.

2.21 Accordingly, the PRA proposes to introduce a rule in the Insurance - Senior Insurance Management Functions, and Large Non-Solvency II Firms - Senior Insurance Management Functions Parts, forbidding a group executive (ie an employee or officer of the parent company or some other group company who performs an executive function) from taking on a NED oversight SIMF role (ie SIMF9, SIMF10, SIMF11, SIMF12 or SIMF14) for any insurance firm that is a 'large firm' (as per the definition proposed in paragraph 2.19 above) within a group. This would in particular preclude a Group CEO (or CFO) from taking on a NED chairing role at an insurance firm that is a 'large firm' within a group. This requirement would then apply in respect of both Solvency II insurance firms (other than third country branch undertakings) and large NDFs. This is consistent with the expectation set out in SS5/16 'Corporate governance: Board responsibilities'.[1]

2.22 All insurance groups will also continue to be expected to have an appropriate level of independent presence on the board of all their significant PRA regulated subsidiaries, as indicated in Chapter 12 of SS5/16; and to consider carefully how they would address the potential conflicts of interest that could arise if a group executive were to take on a NED chairing role for any other PRA regulated insurance subsidiary (ie other than a 'large firm'), as indicated in paragraphs 2.16, 2.16A, and 2.39 of SS35/15.

Amendments to forms

2.23 The PRA proposes to make consequential amendments to: Long Form A; Short Form A; Form E; and the Scope of Responsibilities (SoR) form, for both Solvency II firms and large NDFs, as set out in Appendix 4. These forms are specified in the Senior Insurance Managers Regime – Applications and Notifications, and Large Non-Solvency II Firms - Senior Insurance Managers Regime – Applications and Notifications Parts. These amendments would facilitate the application of the proposed modifications to the SIMR outlined in this chapter of the CP.

3 Diversity at boards of large insurers

3.1 The PRA proposes to require Solvency II insurers and large NDFs to have a policy to consider a broad set of qualities and competences when recruiting board members and have a policy to promote diversity among board members. This proposal is designed to promote a diverse board composition. This should help to improve the effectiveness of the board, enabling it to run the business more prudently and to ensure the firm's safety and soundness and better protection of the firm's policy holders. It complements existing industry initiatives to improve diversity on boards, and is consistent with the FRC Corporate Governance Code[2], which requires listed firms (on a comply-or-explain basis) to include in their annual report a description of the board's policy on diversity.

3.2 A board should provide effective challenge across the full range of the firm's business and have the capacity to explore key business issues rigorously. The problems arising from 'groupthink' have been exposed in particular as a result of the financial crisis.[3] More effective challenge and including a broader set of perspectives should help boards to identify a wider range of risks and be better positioned to understand their impact, in turn providing greater protection for policy holders. Although diverse board composition is not on its own a guarantee of board effectiveness, one of the ways in which challenge can be encouraged and be more robust is through having sufficient diversity of approach, skills and experience on the

1 March 2016: www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss516.aspx.
2 Financial Reporting Council's 'UK Corporate Governance Code': www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx.
3 See Preface 3, Financial Reporting Council's 'UK Corporate Governance Code'.

board, so that potentially complex and technical issues can be thoroughly probed and discussed.

3.3 These proposals support existing requirements for firms to take into account 'appropriate diversity of qualifications, knowledge and relevant experience' when assessing the fitness and propriety of the board.[1] The proposals are consistent with the expectations set out for all regulated firms in SS5/16, as well as the rules in General Organisational Requirements 6 for CRR firms.

3.4 The PRA considers firms are best placed to determine themselves the details of their policy to promote diversity. However, the PRA considers that effective diversity policies should be specific to each firm, robust, set out the actions that are likely to promote greater diversity in the future, and be reviewed regularly by the board.

4 Proposed changes to SMR forms

4.1 This chapter sets out proposed consequential changes to SMR forms, following the rule changes for RAPs published in PS12/17.

4.2 PS12/17 sets out the final rules on the following optimisations to the SMR:

- the extension of certain Conduct Rules/ Conduct Standards to Notified NEDs, which include a requirement under Section 64C of the Financial Services and Markets Act 2000 (FSMA) to notify the PRA of internal disciplinary action relating to a breach of any applicable Conduct Rule by a Notified NED in a RAP within seven business days of the relevant disciplinary action (section 64C notifications);

- a new Chief Operations PRA SMF (SMF24) for the individual with responsibility for the internal operations and technology of a firm; and

- a new PRA PR for the firm's performance of its obligations under the Outsourcing Part of the PRA Rulebook, to complement the Chief Operations SMF.

4.3 Appendix 5 outlines the proposed consequential changes to the relevant forms, and Appendix 3 contains the corresponding draft rule instrument to implement these changes.

4.4 Since the substance of this policy has been consulted on and finalised, this chapter and the consequential changes outlined in Appendix 5 are open for consultation for two months until 14 August 2017.

4.5 In accordance with the final rules that were published with PS 12/17, RAPs will be required to notify the PRA of internal disciplinary action against Notified NEDs in RAPs relating to breaches of the Conduct Rules occurring on or after 3 July 2017. The PRA proposes that firms

- use the updated Form L (which is the PRA form currently used for section 64C notifications involving employees subject to the PRA Certification rules) when the final, revised version of this form is published with the Policy Statement that will follow this CP; and

1 Article 273(3) of Commission delegated regulation (EU) 2015/35: http://eur-lex.europa.eu/mwg-internal/de5fs23hu73ds/progress?id=Kj5aBWGGby15JR95eBqkvkA99lhnWbdMn3gdfo7wHsw,&dl.

- in the event that a section 64C notification involving a Notified NED needs to be made between 3 July 2017 and the date of publication of the revised Form L, the PRA intends to issue a waiver by consent, modifying the Notifications Rules so as to allow firms to make such notifications under Notifications 7.1 and using the Notifications form (which can be found in Notifications 10.3) during that period.

4.6 The PRA proposes that RAPs will be required to submit notifications or applications (using the relevant revised forms) relating to the Chief Operations SMF, new PR, or changes to their SMF6 population from 12 November 2017.

5 The PRA's statutory obligations

5.1 Before making any rules, FSMA requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;[1]
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons;[2]
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,[3] insurance objective[4] (if applicable), and secondary competition objective;[5] and
- an explanation of the PRA's reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles.[6]

5.2 The PRA is also required by the Equalities Act 2010[7] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

Proposed new Head of Key Business Area function (SIMF6), Chief Operations SIMF (SIMF24), and corresponding Prescribed Responsibility for the oversight of outsourced operations

5.3 The proposals for a new Head of Key Business Area function and Chief Operations SIMF will lead to some incremental costs for firms. For most firms, the initial cost of complying with these proposals is likely to be limited to submitting a Form E or Short Form A to the PRA/FCA requesting the relevant individual is approved for the new SIMF, in addition to any continuing responsibilities for an FCA controlled function (or relating to other PRA SIMFs). This should significantly expedite and facilitate firms' implementation of this proposal.

5.4 However, the PRA anticipates that the cost for firms of complying with these proposed new SIMFs will be limited because:

1 Section 138J of FSMA.
2 Section 138K of FSMA.
3 Section 2B of FSMA.
4 Section 2C of FSMA.
5 Section 2H(1) of FSMA.
6 Sections 2H(2) and 3B of FSMA.
7 Section 149.

- the new Head of Key Business Area function (SIMF6) would only be relevant to the largest insurance firms, and there are likely to be relatively few business areas within these firms that meet the proposed threshold criteria;
- as is the case with all other SIMFs except for the three mandatory functions, ie CEO (SIMF1), Chief Finance (SIMF2), and Chair (SIMF9) (and those SIMFs corresponding to the mandatory Solvency II key functions), firms would be required to have an individual approved as a SIMF24 only where they have someone performing that function, thereby helping to ensure that the proposed new SIMF applies proportionately; and
- the majority of individuals that would be covered by the proposed new SIMFs are likely to be already in scope of either the PRA's SIMR or the FCA's Approved Persons Regime (APR).

5.5 Therefore, the PRA would not expect to have to approve many individuals for the new SIMFs who are currently outside of scope of the PRA's SIMR or the FCA's APR, thereby limiting the cost of this proposal for both firms and the PRA.

5.6 In addition, these individuals (if not already in a PRA SIMF or an FCA relevant senior management function) would become subject to all of the PRA's conduct standards. This could lead to additional costs (eg any increase in compensation and/or Directors and Officers insurance cost) associated with increased personal accountability. However, this is not expected to give rise to any significant costs for firms, as firms should already be applying the PRA's conduct standards to those individuals who are key function holders.

5.7 The PRA recognises that creating a corresponding PR for the firm's performance of its obligations in respect of outsourced operational functions and activities, under Conditions Governing Business 7 or Non-Solvency II Firms – Governance 5, may lead to a potential cost for those firms with such outsourced arrangements, as they will need to identify the Senior Insurance Manager responsible for the area, agree to allocate this responsibility to them and update their Scope of Responsibilities (SoRs) and Governance Maps; but firms are expected already to have an identified key function holder with responsibility for the oversight of any outsourced key functions, such as claims management or IT (see paragraphs 2.25 and 2.31 of SS35/15), so any additional costs are expected to be minimal.

5.8 The proposed new Chief Operations SIMF, along with the new PR for outsourced operational functions, would help encourage individual accountability by enhancing the PRA's ability to hold to account the most senior individual responsible for the firm's operations and technology.

5.9 The proposed new Head of Key Business Area function would help encourage individual accountability by enhancing the PRA's ability to hold to account the most senior individual responsible for key business area functions, for which the sound management of the function is of significance to the ongoing safety and soundness of the firm.

Proposed separation of Chair and CEO roles within 'large' insurance firms

5.10 The proposal will lead to some incremental costs (eg increase in compensation costs) for those firms that would otherwise combine these two roles. However, the PRA anticipates that the cost for firms of having separate individuals in these two roles will be limited as almost all 'large' firms already separate the roles of CEO and Chair.

5.11 This proposal will help ensure the independence of these two key roles, so as to enable appropriate challenge of key decisions, for ensuring the ongoing safety and soundness of firms, and the protection of policyholders.

Separation of executive and oversight roles within 'large' insurance firms and groups

5.12 The proposal may lead to some incremental costs, such as increased compensation costs for affected individuals. However, the PRA anticipates that the associated cost for firms and groups will be limited, as most large insurance subsidiaries already have a chair of the board and chairs of key board committees, who are independent of the remainder of the group. Other large insurance subsidiaries may be able to appoint one of their existing INEDs to an oversight SIMF role on the board of the firm, which would limit their additional costs.

5.13 The PRA believes the proposal will help to ensure the board (or committee) is able to act in the best interests of the firm without undue influence from the group, so as to ensure its safety and soundness and safeguard its policyholders in line with the PRA's insurance objective. It can also help to ensure that there is independent consideration of decisions and associated risks, and proper challenge of executive views and decisions, without dominance by group executives in the discussion.

Diversity policies

5.14 This proposal is designed to promote a diverse board composition thereby improving the effectiveness of the board to run the business prudently, consistent with the firm's safety and soundness and the protection of policyholders. This policy should encourage challenge and is one of the ways in the long run to reduce the risks and costs from groupthink. The PRA anticipate that there will be some small additional costs for firms associated with introducing a policy to promote diversity on their boards, and in searching for candidates for board roles. However this rule has been in place for CRR firms since April 2015 and has not produced significant additional costs. The PRA would not expect a great deal of additional work to be necessary for firms to implement these proposals.

Consequential changes to SMR forms

5.15 The PRA does not believe there will be any significant additional costs arising for RAPs as a result of the updates to the forms that are proposed in this CP. These updated forms are intended to facilitate the application of the policy that has been set out in PS12/17.

Compatibility with the PRA's objectives

5.16 The proposals in this CP seek to enhance the effectiveness of the SIMR, which in turn seeks to strengthen individual accountability and improve corporate governance in PRA-regulated insurance firms, thereby advancing the PRA's safety and soundness and insurance statutory objectives.

5.17 The PRA considers that the proposals in this CP are compatible with its secondary objective of facilitating effective competition, as they will help to ensure that larger insurance firms and groups operate under comparable governance standards to each other, which, together with a more streamlined approach for smaller firms, should ensure that compliance burdens are proportionate and do not materially increase barriers to entry or exit.

Regulatory principles

5.18 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Two of the principles are of particular relevance:

- The principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction. The proposals in this CP seek to enhance the effectiveness of the SIMR without imposing undue implementations costs for firms, and they include a number of proposals that would apply only to larger firms.

- The principle that a firm's senior management is responsible for the firm's activities and for ensuring that its business complies with regulatory requirements. The proposals in this CP seek to further entrench the notion of senior manager accountability by promoting a clearer and more consistent allocation of responsibilities to senior individuals. In addition, firms would be responsible (through their senior managers and directors) for developing and implementing their own diversity policy for the membership of their board.

Government economic policy

5.19 On Wednesday 8 March 2017, HM Treasury made recommendations to the Prudential Regulation Committee (PRC)[1] about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the objectives of the PRA and apply the regulatory principles set out in FSMA. The PRA has considered the implications of the proposals in this CP on each of the aspects of economic policy referred to and the PRA considers that three of these aspects are of particular relevance to these proposals.

Competitiveness

5.20 The PRA believes that these proposals are consistent with robust institutions and a resilient system, and will not materially affect London's position as leading international financial centre.

Innovation

5.21 The PRA considers that the proposals on diversity should facilitate the introduction of innovative approaches by firms. In addition, the proposals recognise that some insurance firms may have a business model under which they outsource some of their operational functions and activities, and enables a proportionate approach to be applied to the oversight of such activities through a nominated senior manager at the insurance firm.

Better outcome for consumers

5.22 The PRA considers that the proposals are consistent with delivering better outcomes for consumers. A number of the proposals are differentiated between smaller firms and 'large firms', which should help to improve the ability of new entrant and smaller insurers to compete with larger insurers.

Impact on mutuals

5.23 In the PRA's opinion, the impact of the proposals in this CP on mutuals is expected to be no different from the impact on other firms. In particular, mutuals will be able to develop a diversity policy that is relevant to their own circumstances.

Equality and diversity

5.24 The PRA carried out a full equality impact assessment as part of the development and implementation of the SIMR. The PRA considers that the proposals in chapters 2 and 4 of this CP do not give rise to additional equality and diversity implications. The diversity policies in chapter 3 of this CP will improve equality and diversity within Solvency II firms and large NDFs.

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1 March 2017: www.bankofengland.co.uk/pra/Documents/chancellorletter080317.pdf.

Appendices

1	**Proposed new text to be included in SS35/15 'Strengthening individual accountability in insurance', available at www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp817.aspx**
2	**Draft instrument: SOLVENCY II FIRMS AND NON SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME (AMENDMENT) (NO X) INSTRUMENT [DATE], available at www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp817.aspx**
3	**Draft instrument: CRR FIRMS, NON CRR FIRMS: SENIOR MANAGERS REGIME AMENDMENT (No Y) INSTRUMENT [DATE], available at www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp817.aspx**
4	**Draft forms for the SIMR for insurers, available at www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp817.aspx**
5	**Draft forms for the SM&CR for RAPs, available at www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp817.aspx**

Appendix 1 – Proposed new text to be included in SS35/15 'Strengthening individual accountability in insurance'

2.14A In addition, Insurance – Senior Insurance Management Functions 13 requires that at 'large firms', the Chairman function (SIMF9) (Chair)and Chief Executive Officer (SIMF1) (CEO) roles must not be combined with a single individual, and that for any insurance firm, within a group, that is a 'large firm' (as defined in the Glossary of the PRA Rulebook), a group executive (ie an employee or officer of the parent company or some other group company who performs an executive function) may not take on a NED oversight SIMF role (ie SIMF 9, SIMF10, SIMF11, SIMF12 or SIMF14) for that firm. This means for example that a Group CEO (or CFO) should not take on a NED chairing role for an insurance firm that is a 'large firm' within a group.

2.15 Where neither PRA rules nor the EU Solvency II Delegated Regulation prevent an individual from performing a combination of SIMFs, or of SIMFs and other roles, the PRA may still decide not to approve the individual to perform the desired combined functions (and roles) in some circumstances, such as where the PRA considers that:

- there could be a significant conflict of interest from combining the functions or roles (other than on a temporary basis), that would be difficult to manage satisfactorily, such as Chair of the board (or a board committee) and CEO; or

- the individual's qualifications, training, competencies and/or personal characteristics render them fit and proper to perform one function or role but not the other(s).

2.16 The PRA envisages that a person may in certain cases be approved to carry out Controlled Functions (CFs), or CFs and other roles, in more than one firm, subject to the individual having sufficient time and resource, and the ability to address any resulting conflicts of interest, and to the combination of duties not preventing the person from carrying out all their responsibilities in a sound, honest, and objective manner.

2.16A In particular, the chair of a board (or board committee) needs to be able to ensure the board (or board committee) is able to act in the best interests of the firm without undue influence from the group, so as to ensure its safety and soundness and to safeguard its policyholders; and the chair of a board (or board committee) needs to be able to play a pivotal role in facilitating the board culture described in chapter 6 of SS 5/16 "Corporate governance: Board responsibilities".

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2.22 However, if a third country branch undertaking has some individuals who are appointed to either the chief finance officer, chief risk officer, chief actuary, chief underwriting officer, chief operations, or head of internal audit functions, and whose role is dedicated to the undertaking's operations in the UK, then the PRA expects firms to apply for the approval of such individuals for the relevant functions. They may also wish to have some additional individuals approved, so as to be able to meet the requirement to have all the Prescribed Responsibilities, as set out in Insurance - Allocation of Responsibilities 2.3, allocated to an approved person.

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Chief Operations function

2.22H The individual holding the Chief Operations SIMF should be the most senior individual responsible for managing the internal operations and technology of a firm, and this is expected to include responsibility for the operational continuity and resilience of, the operations, systems and technology of the firm. The latter includes, but may not be necessarily limited to, the mechanisms and networks that support the operations of a firm, including data entry, data storage, data processing and reporting services, but also monitoring, business and decision support services.

2.22I SIMF24 is the exception to a general expectation that SIMFs can be shared but not split. SIMF24s may be shared or split among two or more individuals provided that the split accurately reflects the relevant firm's organisational structure and that comprehensive responsibility for operations and technology is not undermined. For instance, where a relevant firm has two distinct but equally senior individuals (eg a Chief Operating Officer and a Chief Information Officer (CIO)) with overall responsibility for its internal operations and technology respectively, it may be appropriate for the SIMF24 to be split among them. Where the SIMF24 is split, the PRA does not expect it to be split among more than three individuals.

2.22J The PRA expects that individuals in scope of the proposed Chief Operations SIMF may hold the job title of Chief Operating Officer ('COO') but may also hold job titles such as Chief Administrative Officer ('CAO') or Head of Operations and Technology ('O&T'). Not every individual with these job titles will necessarily come into scope of the Chief Operations SIMF: this will be determined by their specific responsibilities. The individual with the responsibilities for managing the internal operations and technology of a firm may have a wider set of responsibilities, either within the firm or its group, and a summary of all these responsibilities would be set out in the 'scope of responsibilities' (SoR) that is maintained for that individual in accordance with Insurance - Allocation of Responsibilities 5 or Large Non-Solvency II Firms – Allocation of Responsibilities 5.

2.22K Where firms have significant levels of operational infrastructure and oversight based either at group level or outside the United Kingdom, it may be appropriate for the Chief Operations SIMF of a firm to sit at group or parent-entity level and/or outside the United Kingdom. Where relevant, the proposed Chief Operations SIMF will also apply to incoming third country branches which have an individual performing that function in respect of the activities of the branch.

2.22L Where a firm splits the Chief Operations SIMF among two or more individuals, the responsibilities of each relevant individual should be unambiguously clear and set out in their respective SoR.

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2.23 In accordance with ~~the rules in~~ the Conditions Governing Business Part ~~of the Rulebook~~ and the EU Solvency II Delegated Regulation, the system of governance of each Solvency II insurance firm and group needs to cover at least the following key functions: risk-management, compliance, internal audit, and actuarial. In addition, all of the SIMFs (as defined in the rulebook) are considered to be key functions. The system of governance may also include additional key functions that are of specific importance to the sound and prudent management of the firm, as assessed by the firm or group concerned.

…

2.25 The PRA does not consider that key function is intended to be a closed category. In order to facilitate consistency, the PRA suggests that firms may wish to consider whether the following functions would meet the criterion of being of specific importance to the sound and prudent management of the firm, so as to be considered a key function:

- investment function (see 2.27 below);
- claims management function (especially for general or health insurance firms);
- operational systems (and controls) function (if not covered by a Chief Operations SIMF – see 2.22H to 2.22K above)
- IT function (if not covered by a Chief Operations SIMF – see 2.22H to 2.22K above); and
- reinsurance function (if separate from the other key functions, eg risk management).