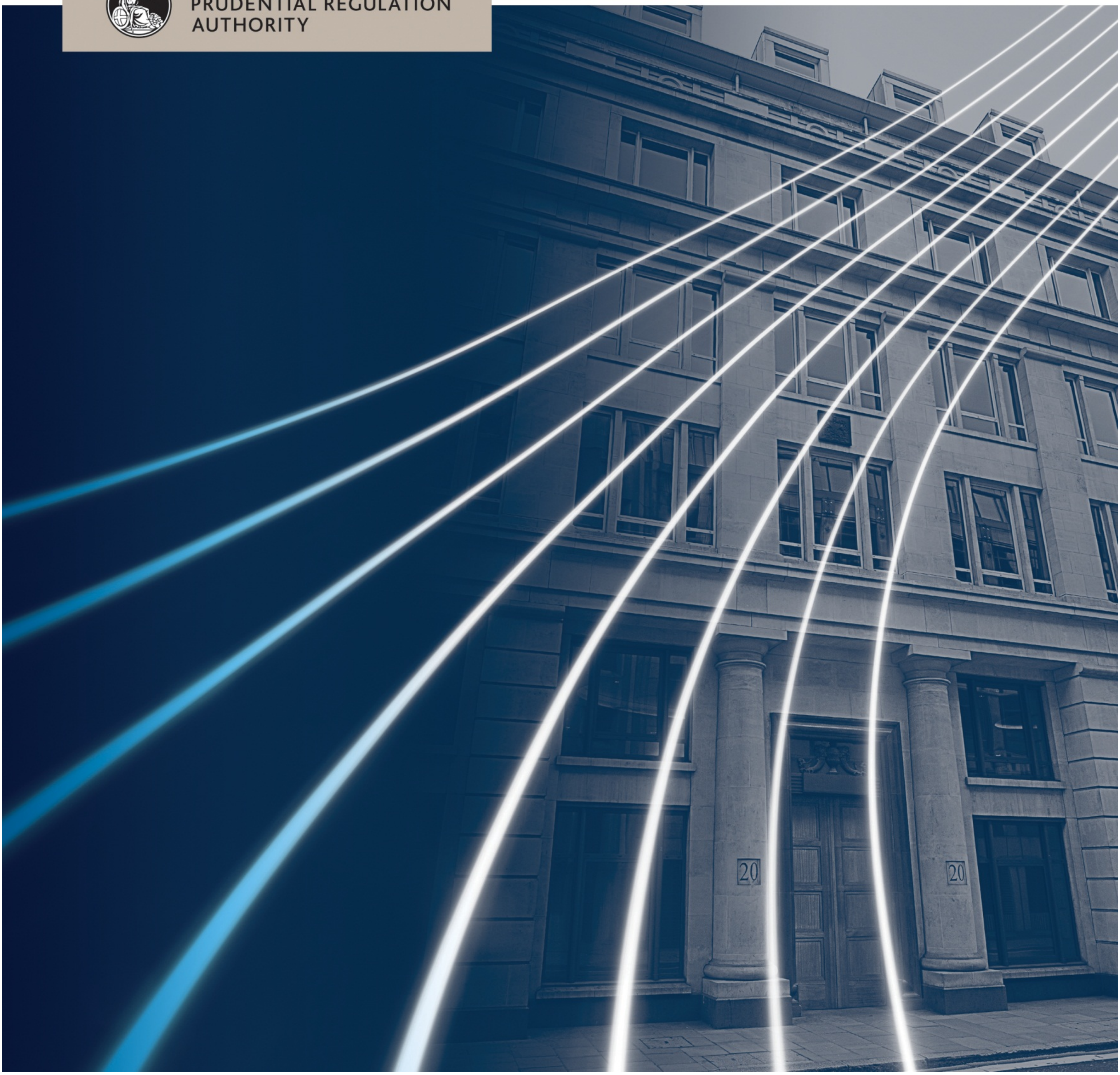
Policy Statement | PS21/15

The Senior Insurance Managers Regime: a streamlined approach for non-Solvency II firms

August 2015

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Policy Statement | PS21/15

The Senior Insurance Managers Regime: a streamlined approach for non-Solvency II firms

August 2015

This policy statement contains the final rules to implement the proposals made in Consultation Paper 12/15 in relation to the streamlined approach taken to the Senior Insurance Managers Regime for non-Solvency II firms.

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback on responses to the Consultation Paper (CP) 12/15, 'Senior Insurance Managers Regime: a streamlined approach for non-Solvency II firms'.[1] The appendix sets out final rules to revise the current Approved Persons Regime (APR) for those insurance firms that are outside the scope of Solvency II.

1.2 In CP12/15 the PRA proposed changes in relation to the:

- scope of the Senior Insurance Managers Regime (SIMR);
- criteria for fitness and propriety; and
- the conduct of individuals working for non-Solvency II insurance firms.

1.3 This PS is relevant to those insurance firms that are not within the scope of Solvency II. In addition, these rules will cover certain run-off firms, so long as these firms are not subject to the Solvency II rules in accordance with Transitional Measures 2 in the Solvency II Firms sector of the PRA Rulebook. All of these firms are described collectively as non-Directive firms (NDFs) in this PS. The final rules in this PS are not relevant to those NDFs with assets of more than £25 million, for which the PRA has published proposals in CP26/15.

1.4 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on material changes to the original cost benefit analysis and the impact of rules on mutuals, where the final rule differs from the draft of the proposed rule.[2] In the PRA's opinion, where the final rules included in this PS differ from the draft of the proposed rules, these changes do not alter the PRA's assessment of costs and benefits and there is no particular impact on mutuals.

1.5 The PRA is required by FSMA to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them, and to publish details of any significant differences in the rules as made. There has been no substantial change to policy as a result of the responses received. The most significant change is that the PRA may consider the use of waivers to the fuller set of SIMR rules that will apply to NDFs with assets of more than £25 million if these rules are considered to be disproportionate. Chapter 2 sets out feedback to responses received to the PRA's proposals.

1 PRA CP12/15 'Senior Insurance Managers Regime: a streamlined approach for non-Solvency II firms', March 2015; www.bankofengland.co.uk/pra/Documents/publications/cp/2015/cp1215.aspx
2 Section 138K of FSMA.

2 Feedback on responses to CP 12/15

2.1 This chapter sets out feedback on responses received to proposals set out in CP12/15 to implement a new Senior Insurance Managers Regime (SIMR) for firms that are outside the scope of Solvency II. The respondents generally welcomed the PRA's proposals to introduce a streamlined approach to the SIMR for NDFs.

2.2 The only substantive comment made by respondents was a concern regarding the application of a proposed threshold of £25 million assets (in respect of regulated activities) to distinguish 'small NDFs', to which these rules would apply, from larger NDFs to which it was proposed that SIMR governance rules similar to Solvency II could be applied.

2.3 These respondents were either opposed to the threshold, or considered that it should be aligned with one of the thresholds in the Solvency II Directive for distinguishing firms in scope of Solvency II.

2.4 The proposed threshold is considered to be appropriate by the PRA for the particular business model of insurers. It is intended to facilitate a smooth transition of firms from NDF status to possible full Solvency II status, and setting this threshold in sterling rather than euros means that it will be more attuned to the business models of NDFs. Firms should refer to CP 27/15, published alongside this PS, which sets out proposals for these NDFs in more detail.[1]

2.5 There is one slight change that is being made to the definition of the Small Insurer Senior Management Function (SIMF 25) in the rules on which the PRA consulted in CP12/15. This change is intended to make it clear that this function is not intended to necessitate the approval of branch managers or of any relatively junior staff.

2.6 However, firms will still be able to include within SIMF 25 those individuals who are allocated in due course one or more of the proposed four prescribed responsibilities (or alternatively to have these responsibilities allocated to an individual approved by the Financial Conduct Authority (FCA) in relation to a 'relevant senior management function').

2.7 The overall effect of the PRA rules is that firms covered by them will not be required to allocate the prescribed responsibilities until 7 March 2017. However, firms will be expected to make suitable preparations to ensure that, with effect from 7 March 2017, the responsibilities are allocated either to a person approved by the PRA for SIMF 25, or to a person approved by the FCA in relation to a 'relevant senior management function'. A 'relevant senior management function' is defined in the PRA Rulebook as comprising any of the following FCA controlled functions:

(i) CF1 Director function;

(ii) CF2a Chair of the nomination committee function;

(iii) CF2b Chair of the with-profits committee function;

(iv) CF3 Chief executive function;

(v) CF5 Director of unincorporated association function;

[1] PRA CP26/15 *'The Senior Insurance Managers Regime: implementation proposals for non-Solvency II firms'*, August 2015; www.bankofengland.co.uk/pra/Pages/publications/cp/2015/cp2615.aspx

(vi) CF6 Small friendly society function;

(vii) CF10 Compliance oversight function;

(viii) CF28 Systems and control function; and

(ix) CF51 Actuarial conduct function holder in Solvency II third country insurance undertakings.

2.8 The PRA believes that this change to the rules will make the operation of these rules clearer. This change is not expected to add any significant costs for firms.

2.9 In addition, the PRA has amended rule 2.2 in the Allocation of Responsibilities Part of the PRA Rulebook, to make it clear that firms will be expected to establish and mantain records with effect from 7 March 2017 of the full set of signifcant responsibilties allocated to each senior insurance management function holder. A similar minor change has been made to Fitness and Propriety 4.1, in relation to applications for new senior insurance management function holders that are made after the commencement date. This is not expected to add any significant costs for firms.

2.10 Some individuals at firms may be performing a combination of functions, in relation to regulated activities, that could be regarded as needing separate approval from both the PRA and the FCA. Following discussion between the regulators, the PRA has included a rule to the effect that, where an individual is approved by the PRA for SIMF 25, then subject to appropriate conditions (including notification to the regulators), any FCA governing functions (FCA CF1, CF2, CF3, CF5, and CF6) will be absorbed within the PRA function. The PRA believes that this will lessen the potential administrative burden on firms. However, this will mean that both at the approval gateway and on an ongoing basis, the firm and the regulators will need to consider all the activities performed by the individual when considering their fitness and propriety. This will then enable a coherent regulatory approach to be applied.

Appendix

1	**PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015 available at www.bankofengland.co.uk/pra/Pages/publications/ps/2015/ps2115.aspx**