

Policy Statement | PS26/15

The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms

November 2015



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This policy statement contains the final rules to implement the proposals made in Consultation Paper 27/15 in relation to the prudential regime, and Consultation Paper 26/15 in relation to the Senior Insurance Managers Regime, for non-Solvency II firms.

Contents

1	Overview	7
2	Feedback on responses to CP26/15	9
3	Feedback on responses to CP27/15	10
4	Consequential updates to SS1/14 and SS9/14	11
	Appendices	14

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback on responses to the Consultation Paper (CP) 26/15 *Senior Insurance Managers Regime: implementation proposals for non-Solvency II firms*¹, together with CP27/15 *The prudential regime for non-Solvency II insurance firms and consequential amendments*².

1.2 The appendix sets out the final rules for:

- the replacement of the current Approved Persons Regime (APR) with the new Senior Insurance Managers Regime (SIMR)(the rules in the appendix complement the rules attached to Policy Statement PS 21/15³);
- the prudential regime for those insurance firms that are outside the scope of the Solvency II; and
- other consequential amendments to the PRA Rulebook that relate to all insurance firms.

1.3 In CP26/15, the PRA proposed rule changes for firms that are outside the scope of Solvency II in relation to the:

- application of the SIMR to those firms with assets of more than £25 million in relation to regulated activities;
- appointment of actuarial function holders and with-profits actuaries at some of these firms;
- transitional arrangements for these firms;
- forms relating to the SIMR for these firms; and
- retention of records by these firms in respect of the allocation of responsibilities to their senior managers.

1.4 In CP27/15, the PRA proposed draft rules that would only apply to firms outside the scope of Solvency II from 1 January 2016. The PRA did not propose significant changes to policy but presented rules that reflect the current prudential regime in a more coherent and consistent manner in line with other Parts in the new PRA Rulebook⁴.

1.5 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 section of the PRA Rulebook. All of these firms are described collectively in this PS as non-Directive firms (NDFs). In accordance with the definition of ‘small non-directive insurer’ in PS 21/15, NDFs with assets of £25 million or less in relation to regulated activities are termed in this PS ‘small NDFs’, while other NDFs are termed ‘large NDFs’.

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

² PRA CP27/15 *The prudential regime for non-Solvency II insurance firms and consequential amendments*, August 2015; <http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2715.aspx>

³ PRA PS21/15 *The Senior Insurance managers Regime: a streamlined approach for non-Solvency II firms*, August 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2115.aspx

⁴ Available at www.prarulebook.co.uk

1.6 The PRA is required by the Financial Services and Markets Act 2000 (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 only one change of policy as a result of the responses received. This is to modify the period over which the asset threshold is assessed for the purpose of distinguishing large NDFs from small NDFs. This will provide firms with more time to prepare for any change between small and large NDF status, and thereby reduce costs. Chapters 2 and 3 set out feedback to responses received to the PRA's proposals.

1.7 The PRA is required by 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 rule¹. In the PRA's opinion, where the final rules included in this PS differ from the draft of the proposed rules, this should reduce potential costs for firms. The impact on mutuals is no different.

¹ Section 138K of FSMA.

2 Feedback on responses to CP26/15

2.1 This chapter sets out feedback to responses received to proposals set out in CP26/15 for the implementation of a new SIMR for NDFs. Respondents generally welcomed the PRA's proposals to introduce a simpler and more coherent approach to the new Rulebook for NDFs.

2.2 Clarification was sought by respondents on whether the threshold of £25 million assets to distinguish small NDFs from large NDFs would be applied in relation to all assets of the firm or only to those assets held in relation to regulated activities. The PRA can confirm that as envisaged both in Chapter 2 of PS21/15, and also in the rules attached to that PS, the £25 million threshold in the definition of a small NDF will be applied only in relation to assets that are held relating to the regulated activities of a firm.

2.3 A concern was expressed by some respondents regarding the application of the proposed threshold of £25 million of assets to distinguish small NDFs, to which the SIMR rules in PS21/15 would apply, from large NDFs for which it was proposed in CP26/15 that SIMR governance rules similar to Solvency II would be applied.

2.4 These respondents questioned the proportionality of the proposed large NDF regime for firms in excess of this threshold, as well as being concerned that the application of this specific threshold could result in new and unanticipated approvals of individuals being needed at short notice where a firm transitioned from small NDF to large NDF status.

2.5 As explained in CP12/15 and PS21/15, 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. Setting this threshold in sterling rather than euros means that it will be more attuned to the business models of NDFs.

2.6 As indicated in CP26/15, the PRA confirms that it intends to apply the principle of proportionality, so that these firms may have the flexibility to combine responsibilities for different functions and allocate them to a single individual. This would be subject to satisfactory transparency, accountability and appropriate management of conflicts of interest.

2.7 In addition, as indicated in PS21/15, the PRA may consider the use of waivers to the fuller set of SIMR rules that will apply to large NDFs if these rules are considered to be disproportionate for particular firms.

2.8 However, the PRA acknowledges that there may still be some concerns over the short period of time that a firm may have to amend its governance arrangements if it changes from small NDF to large NDF status. Accordingly, the PRA is amending the definition of a large NDF so that it will apply to all NDFs with assets relating to regulated activities of more than £25million at two consecutive year-ends, as included in the balance sheet in their latest two reported annual accounts. This should mean that firms will have more time to recognise that they may transition between small NDF and large NDF status, and prepare for any changes to their governance arrangements.

2.9 There were no comments received on the proposed rules relating to the role of actuaries, transitional arrangements, forms, and record retention requirements, for all NDFs, as described in Chapters 3 to 6 of CP26/15. The corresponding rules have therefore been made¹.

2.10 The PRA confirms that, as described in Chapter 4 of CP26/15, individuals currently approved to perform a Controlled Function (CF), and who will be moving from a current PRA CF to an equivalent PRA Senior Insurance Management Function (SIMF), or from a current PRA CF to an FCA Significant Influence Function (SIF) will need to notify the regulators by 8 February 2016 if they wish to grandfather to the new SIMR². See Table A for details.

3 Feedback on responses to CP27/15

3.1 This chapter sets out feedback to responses received to proposals set out in CP27/15 for the implementation of a recast prudential regime for NDFs. Respondents generally welcomed the PRA's proposals to introduce a proportionate, simpler and more coherent approach in the PRA Rulebook for NDFs.

3.2 Respondents sought clarity on the distinction between the application of the rules to large NDFs and small NDFs and whether friendly societies were included. The PRA has clarified the rules to reflect the intention that a large NDF and small NDF can equally be an insurance company or friendly society. Therefore large NDF friendly societies will need to apply the large NDF rules and the friendly society rules.

3.3 Respondents noted a misalignment between the friendly society and insurance company capital rules regarding the resilience reserve and treatment of the valuation of land. The PRA recognises that across the PRA Rulebook the Friendly Society Parts and Insurance Company Parts are not aligned. As set out in CP27/15, the PRA has not sought to change the policy intent of the current rules. The PRA has sought to increase the coherence and simplify the rules already in force. Hence, the draft rules reflected the current PRA rules from which they have been recast and the resilience reserve requirement for friendly societies is recast at Friendly Society – Liability Valuation 6.4. In line with the original intention, the PRA will not restructure or delete the resilience reserve requirements at this time.

3.4 Feedback was also received on the lack of transitional provisions for firms moving between small and large NDF status. As stated in 2.8 of this document the PRA is amending the definition of large NDF to address this concern.

3.5 Respondents also commented on the with-profits rules stating that firms should be required to maintain assets in each with-profits fund sufficient to cover all liabilities, and not just with-profits policy liabilities. These comments reflected a concern that had also been raised in relation to the same rule's application to Solvency II firms. However it is important to note that firms writing with-profits insurance business need to consider not just PRA rules but also rules maintained by the FCA. For example, NDFs, other than friendly societies, must comply with INSPRU 1.1.27R in the FCA Handbook which requires a firm to hold admissible assets in each of its with-profits funds sufficient to cover technical provisions in respect of all business written in that with-profits fund.

¹ Final rules are available at <http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx> and in the PRA Rulebook

² Information and materials, including links to forms, are available at the dedicated Strengthening Accountability webpage at <http://www.bankofengland.co.uk/pr/Pages/supervision/strengtheningacc/default.aspx>

3.6 The PRA considers that the rule relating to maintenance of assets in the with-profits fund to cover with-profits policy liabilities advances the PRA objective in respect of the benefits security of all with-profits policyholders and is consistent with the policy originally consulted on in CP22/14¹.

4 Consequential updates to SS1/14 and SS9/14

4.1 This PS also includes updates to Supervisory Statements 1/14² and 9/14³ available in Appendix 8 and 9 respectively in order to align the phrasing and references with the incoming Solvency II rules and NDF rules. There is no change in the policy intent.

Table A – Equivalent functions for NDFs

Column 1	Column 2	Column 3
NDFs with assets of £25 million or less (in respect of regulated activities)		
PRA or FCA CF	PRA SIMF	FCA Function
Director (CF1)	Small Insurer Senior Management function (SIMF25)	FCA Director function (CF1) (see Note)
Non-executive director (CF2)	Small Insurer Senior Management function (SIMF25)	
Chief executive (CF3)	Small Insurer Senior Management function (SIMF25)	FCA Chief executive function (CF3) (see Note)
Director of unincorporated association (CF5)	Small Insurer Senior Management function (SIMF25)	FCA Director of unincorporated association function (CF5) (see Note)
Small friendly society (CF6)	Small Insurer Senior Management function (SIMF25)	FCA Small friendly society function (CF6) (see Note)
Actuary (CF12)	Small Insurer Chief Actuary function (SIMF20)	
With-Profits Actuary (CF12A)	Small Insurer With-Profits Actuary function (SIMF21)	
Systems and Controls (CF28)	Small Insurer Senior Management function (SIMF25)	
NDFs with assets of more than £25 million (in respect of regulated activities)		
PRA or FCA CF	PRA SIMF	FCA Function
Director (CF1)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20)	FCA Director function (CF1) (see Note)

¹ CP22/14 *The PRA's approach to with-profits insurance business*, October 2014;

www.bankofengland.co.uk/pr/Pages/publications/cp/2014/cp2214.aspx

² The update to SS1/14 is available at <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss114update.aspx>

³ The update to SS9/14 is available at <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2014/ss914update.aspx>

	Chief Underwriting Officer function (SIMF22)	
Non-executive director (CF2)	Group Entity Senior Insurance Manager function (SIMF7) Chairman function (SIMF9) Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	Chair of the Nomination Committee function (CF2a) Chair of the With-Profits committee function (CF2b) (see Note)
Chief executive (CF3)	Chief Executive function (SIMF1)	
Director of unincorporated association (CF5)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF 20) Chief Underwriting Officer function (SIMF22) Chairman function (SIMF9) Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	FCA Director of unincorporated association function (CF5) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits committee function (CF2b) (See Note)
Small friendly society (CF6)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF 20) Chief Underwriting Officer function (SIMF22) Chairman function (SIMF9) Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	FCA Small friendly society function (CF6) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits committee function (CF2b) (See Note)
Actuary (CF12)	Chief Actuary function (SIMF20)	
With-Profits Actuary (CF12A)	With-Profits Actuary function (SIMF21)	
Systems and Controls (CF28)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5)	

Significant management (CF29)	Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20) (general insurance firms only) Chief Underwriting Officer function (SIMF22)	
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Note: For NDFs with assets of £25 million or less relating to regulated activities see SUP TP 8.2.3R; for NDFS with assets of more than £25 million relating to regulated activities see SUP TP 7.2.3 R in the *FCA Handbook*.

Appendices

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- 1 **PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime – technical rules and actuarial functions available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 2 **PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms: Senior Insurance Managers Regime available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 3 **PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms: Senior Insurance Managers Regime – technical rules available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 4 **PRA Rulebook: Non-Solvency II Firms Regime Instrument 2015 available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 5 **Handbook (Rulebook Consequentials) Instrument 2015 available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 6 **PRA Rulebook: Glossary and Insurance Consequentials Instrument 2015 available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 7 **SS43/15: Non-Solvency II Insurance Companies – Capital assessments available at www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2615.aspx**

 - 8 **SS1/14 update: Mutuality and with-profits funds: a way forward, November 2015 available at <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss114update.aspx>**

 - 9 **SS9/14 update: Valuation risk for insurers, November 2015 available at <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2014/ss914update.aspx>**
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