



## SENIOR INSURANCE MANAGERS REGIME: A NEW REGULATORY FRAMEWORK FOR INDIVIDUALS

ICAEW welcomes the opportunity to comment on the consultation paper *Senior insurance managers regime: a new regulatory framework for individuals* published by Prudential Regulation Authority on 26 November 2014, a copy of which is available from this [link](#).

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## MAJOR POINTS

### The need for reform

1. We support the work of the Prudential Regulation Authority (PRA) in proposing a new regulatory framework for senior insurance managers. We agree with the notion that the Senior Insurance Managers Regime (SIMR) will be broadly aligned with the regime for banks. While insurers are under different legislative frameworks, the similarities between financial services firms warrant similar expectation of senior managers; behaving with integrity, honesty and skill. Solvency II measures relating to fitness and propriety will also have to be included in the Financial Conduct Authority's (FCA) updated Approved Persons Regime.
2. The list of controlled functions appears to cover the senior insurance managers who are effectively running an insurance company and support the proposals for the regulator to focus on a smaller number of individuals for pre-approval. This allows it to look more closely at the most senior individuals' suitability in controlled functions (CFs) while passing on the responsibility of oversight for other heads of businesses to these CFs.
3. An organisation's holistic view of risk should be a particular focus for the PRA. We do not feel that the proposed PRA list fully captures the practicalities of oversight. The compliance function is an important element in the three lines of defence. It is surprising that the head of compliance is not included in the PRA list of senior manager functions when the head of internal audit and the Chief Risk Officer are.
4. We agree that the CFs, and consequently pre-approval, should include the actuarial and underwriting functions as they play a unique and critical role in ensuring the safety and soundness of an insurer. We are aware that in certain cases outsourcing arrangements are in place which will have an effect on the nature of the controlled functions. We would encourage the regulator to provide clarity on these circumstances.
5. We also agree that the scope of appointment to a CF should be more granular and role specific than those covered under the current Approved Persons Regime (APR) and that the PRA does not expect individuals performing a CF to have ultimate authority over any areas they manage. It is correct the allocation of individual responsibilities is not intended to undermine the collective fiduciary, legal and regulatory responsibilities of the board.
6. A particular aspect of the previous APR was its focus on being an entrance test rather than an ongoing test of fitness and propriety. The large number of individuals caught under the regime made it impractical to have an ongoing assessment, other than for the most senior individuals. Going forward firms will be required to undertake their own initial and regular assessment on a broader group of people, which will serve to uphold standards and further incentivise proper behaviour.
7. Firms will be required to develop Governance Maps, including the allocation of individual responsibilities as an important tool of supervising insurers. However there are many aspects and dynamics of how any business operates that are not easy to capture in a formal job description or a governance map. This is particularly true when dealing with difficult issues or in a crisis when the priority is the problem at hand. Keeping organisational charts updated is likely to be a significant bureaucratic task, often done in retrospect. Firms often use matrix management structures as the most efficient way of allocating responsibilities. The proposals suggest a simple approach to allow regulators to easily identify individuals to be held accountable but this might not reflect the reality of the organisational structures in place.
8. The proposals do not sufficiently distinguish between executive functions, whose role is to implement boards' decisions and manage the business and non-executive functions, which are about oversight. This distinction cannot be overstated. One of the key principles of the corporate governance code is that non-executives should be independent as this allows them

to provide more effective challenge to the executives who are actively involved in the operation of the business.

9. We would encourage the PRA and FCA to work closely together on regulating senior managers. Between them the authorities seem to capture an appropriate set of senior management roles but their allocation may allow some individuals focus on one regulator or the other when both should be equally important.