Institute and Faculty of Actuaries

Senior Insurance Managers Regime (SIMR): A new regulatory framework for individuals

Nick Dexter, Senior Advisor, PRA

15 September 2015

Institute and Faculty of Actuaries

Agenda

- Main features of the new SIMR (10 mins)
- Case studies
  - Table discussions (10 mins)
  - Feedback (around 4 case studies – 5 mins each)
- Questions (5 mins)

Main features of the SIMR

- A focused set of Senior Insurance Management Functions and NED roles for which individuals will need pre-approval by the PRA

- A Solvency II requirement on firms (and groups) to ensure that all persons performing **key functions** are fit and proper

- A requirement on firms (and groups) to provide the PRA with relevant information about persons who will be **responsible** for a key function

- 11 **prescribed responsibilities** to be allocated to senior persons

- A set of **conduct rules** that will apply to all senior insurance managers

- A requirement on firms to **consider the conduct** of their **key staff**, in line with the PRA's conduct standards, as part of their **ongoing** Fit & Proper assessment by firms

Institute and Faculty of Actuaries

Important new features in SIMR for SII insurers - 1

- **Key functions**

  - These will include any function that is of **specific importance to the sound & prudent management** of the insurer – eg that could lead to significant losses, or to failure in the ongoing ability of a firm to meet policyholder obligations

  - Level of attention in the **F&P assessment** of individuals by firms should be **proportionate** to importance of the individual's role, and includes training needs

Important new features in SIMR for SII insurers -2

- <u>**Governance maps**</u>

  - **Clear and coherent** presentation showing lines of responsibility and reporting, within both the firm and any wider group
  - Should be **updated** quarterly, and whenever there is a significant change
  - **Available to PRA/FCA on request**, and relevant section of map to be submitted following a change in structure or responsibilities
  - Should demonstrate **effective** governance structure

Institute and Faculty of Actuaries

Practical issues for SIMR transition

- Firms will need to consider
  - **Who** will be their key function holders (KFHs) at 1 Jan 2016
  - Which of these KFHs are **not currently approved** under the PRA or FCA **APR**
  - **Which** of these individuals will **need to be approved** for the SIMR on 7 March 2016. This category could include Group Entity SIMF, Chief Actuary, and for GI firms a Chief U/W officer.
- Individuals who will need **approval** from 7 March 2016, must submit **'Form A'** applications **in good time** to ensure this deadline can be met.
- **Grandfathering** forms will need to be submitted by 8 Feb 2016 at the latest for those individuals currently approved under the APR, and who will continue to be **performing** the same role in an **'equivalent' function** on 7 March 2016
- Even if individuals are to be grandfathered, firms will still be **responsible for ensuring** (on an ongoing basis) that the **individual** is **'fit' for the role** they will be performing

Some key messages

- The PRA's new SIMR will ensure that :
  - The PRA can focus its F&P assessments on the most senior managers, and NEDs at firms (and groups)
  - Firms have a clear responsibility for ongoing business conduct of their key staff
  - There are clear lines of accountability and responsibility for all senior managers
- The PRA's **SIMR** for insurers is <u>not</u> the same as the banking SMR:
  - No presumption of responsibility for senior managers
  - No criminal sanctions for managers of failed institutions
  - No 'certification' required from firms for their employees

Institute and Faculty of Actuaries

Timelines

- Consultation on the main proposals in CP26/14 closed on **2 February** 2015
- CP 7/15 covered NED related issues in the SIMR for insurers (and the SMR for banks) and closed **27 April**
- A further technical consultation CP13/15 covered forms and transitional arrangements (including grandfathering); and closed **15 May**
- Policy statement PS3/15 on the SIMR, with first tranche of final rules, was issued on **23 March**
- PS22/15 and SS35/15 were issued on **13 August** to cover SIM Functions, NEDs, conduct rules, forms, and transitional arrangements for Solvency II firms
- Further, PS21/15 and CP26/15 were also issued on **13 August** in respect of non-Solvency II firms.
- The rule changes set out in PS3/15 relating to key functions and governance maps are needed to ensure the regime is Solvency II compliant, and operationally effective, and will be commenced on **1 January 2016**

Path towards implementing the SIMR

Date	Requirement
1 Jan 2016	Solvency II firms and groups must have governance maps in place, which include a list of Key Function Holders and their responsibilities.
1 Jan 2016	New applications for the approval of individuals under the SIMR can be made using the new forms and should include a Scope of Responsibilities form.
8 Feb 2016	***Deadline for firms to submit Grandfathering Notification (Form K).***
7 Mar 2016	SIMR comes fully into effect, including the new set of Senior Insurance Management Functions and conduct standards (replacing the current SUP10B, APER, and FIT).
7 Mar 2016	Individual (currently) approved persons notified to us by firms will be grandfathered into an equivalent PRA (or FCA) function under the SIMR.
7 Sept 2016	Solvency II firms and groups must have a Scope of Responsibilities in place for all Senior Insurance Management Functions. The PRA will request this as part of the supervisory approach.
7 Sept 2016	Solvency II firms and groups must have notified PRA of all Key Function Holders

Institute and Faculty of Actuaries

Institute and Faculty of Actuaries

Case Studies

Session overview

- Each table to discuss the allocated case studies, and have a look at some of the others if you have time
- Where the question asks about responsibilities, each person on the table should allocate a score where:
    1. No responsibility
    2. Some responsibility
    3. Jointly responsible
    4. Mainly responsible
    5. Completely responsible
- We will ask for feedback from a selection of tables for their comments on the situation in the case studies an under what circumstances the answer may change.

Institute and Faculty of Actuaries

A few points

- Case studies help avoid an abstract debate
- An opportunity to discuss in small groups and to discuss the new regime
- Case studies deliberately high level so the circumstances which may apply may impact your answers
- So, how would your answer vary in different situations?

Case Study Themes

Topic	Case Study	Table
Culture and Challenge	1 2	1/6
Model Sign-Off	3 4	2/7
Executive v non-executive responsibility	5	3/8
Sub-committees chairs	6	4/9
Holding the executive to account	7	4/9
When to advise the PRA	8 9	5/10

Case 1

A firm's head of model risk had become worried that the company's models were underestimating exposure to credit and market risk. Despite escalating concerns to a variety of senior management the head of model risk was not listened to and eventually left the firm. Subsequently, major losses were incurred and it appeared that the models had underestimated the credit and market risk.

What is this case about?

Culture and challenge.

Questions for discussion:

To what extent are the subsequent problems faced by the firm the responsibility of:

- The Chief Actuary?
- The CRO?
- The Chair of the Risk Committee?

Institute and Faculty of Actuaries

Case 2

A firm's board in discussing the kind of risk culture they wish to see in the business has decided a key impact will be the independence, authority and expertise of the Head of Internal Audit and the Chief Risk Officer. The board asks the CEO to come forward with measures whereby this is put into effect including collecting evidence of the impact on behaviours throughout the firm over time .

What is this case about?

Culture and challenge.

Question for discussion:

To what extent do you believe this would create a positive culture of risk management in the firm?

What role should the Chief Actuary play in this?

Case 3

An error has been discovered by external audit in a firm's model of credit spread risk. It has led to the overstatement of capital/solvency by 100bp or 60% of the surplus above the required level. The model was approved by the Board Risk Committee (RiskCo) after a training session and discussion about key aspects of the model design. RiskCo then relied upon the recommendation of the Chief Risk Officer (CRO) supported by the recommendation of external consultants who provided independent validation.

What is this case about?

Responsibility for model sign off.

Questions for discussion:

To what extent are the subsequent problems faced by the firm the responsibility of:

- The Chief Actuary?
- The CRO?
- The Chair of the Risk Committee?

Case 4

The firm is developing a new capital model. Most of the work is being carried out by specialists recruited for this purpose. The board is asked to sign the model off on the recommendation of the CEO who explains the Chief Actuary and the CRO recommend this to the board. The supporting papers sent to the board are technical in nature and several board members express the view that whilst they do not completely understand the papers they are happy to rely on the supporting recommendation of the specialists.

What is this case about?

Responsibility for model sign off.

Questions for discussion:

Would you expect the board to act on the CEO's recommendation?
What actions might they take before approving the model?

Case 5

Over time the CRO has been unable to gain the confidence of the Risk Committee. After discussion between the Chair, the Chair of the Risk Committee and the CEO, the CRO remained in post being defended by the CEO. After a serious operational loss an external review has revealed significant failings in the whole of the risk framework.

What is this case about?

Non-Executive v Executive responsibility

Questions for discussion:

To what extent are the subsequent problems faced by the firm the responsibility of:

- The Chief Actuary?
- The CRO?
- The CEO?
- The Chair of the Risk Committee?
- Board Chair?

Case 6

An output of the firm's Risk Appetite Framework is a set of limits for the treasury operation. It transpires from the annual work of the external auditors that these limits had been breached on a number of occasions resulting in significant risks being taken at various points in the year that had produced substantial treasury profits. The external auditors flagged this as a significant item in their closing report to the Audit Committee. Treasury limits were not included in reports to the Risk Committee, and the treasury operation had received a clean internal audit during the year.

What is this case about?

Responsibility of sub committee chairs.

Questions for discussion:

To what extent are the subsequent problems faced by the firm the responsibility of:

- The Chief Actuary?
- The CRO?
- Head of Internal Audit?
- The CEO?
- The Chair of the Risk Committee?
- The Chair of the Audit Committee?

Institute and Faculty of Actuaries

Case 7

A Chief Actuary has material reservations about the behaviour of the CEO. The CEO's behaviour has been to influence material recommendations of the actuarial/risk function such that risks are being nuanced to appear lower than is actually the case. The Chief Actuary is experienced and well respected and has spoken about this to the Chair and Senior Independent Director (SID) after having tried to get the CEO to take notice. Subsequently the firm has experienced major losses on some exposures.

What is this case about?
Holding the executive to account

Questions for discussion:

To what extent are the subsequent problems faced by the firm the responsibility of:

- The Chief Actuary?
- The CRO?
- The CEO?
- The Chair of the Risk Committee?
- The SID?
- Board Chair?

Institute and Faculty of Actuaries

Case 8

The PRA has indicated to the board Chair and SID that the RiskCo Chair has fallen short of the standards expected – this has been particularly apparent in the recent meetings with the PRA supervisory team and PRA risk specialists where the RiskCo Chair appeared ill prepared for meetings and was very defensive when supervisors challenged the Governance aspects of the regulatory requirements.

What is this case about?

When to advise the PRA.

Question for discussion:

Should the Chairman

A. Ignore the PRA's concerns
B. Advise the Chair of RiskCo to leave
C. Take soundings from the board before deciding how to progress
D. As C but also speak to senior PRA Supervisor to get more information

Case 9

The board has approved material changes to the board risk appetite limits. The PRA is only made aware of this some two months later when reviewing MI sent in by the firm in the normal course of events.

At what point should the limit changes being material have been flagged up to the regulator?

What is this case about?
When to advise the PRA.

Question for discussion:

At what point should the limit changes being material have been flagged up to the regulator?

A. The MI route is acceptable.
B. This should have been flagged up specifically to the PRA before the board made its decision
C. This should have been flagged up specifically to the PRA but it is acceptable to wait until the board has made its decision.

Institute and Faculty of Actuaries

Any Questions?

Institute and Faculty of Actuaries

Institute
and Faculty
of Actuaries

Further Information

More information on the SIMR can be found within the 'Supervision' section of the PRA website, on a webpage called

Strengthening Accountability

www.bankofengland.co.uk/pra/Pages/supervision/strengtheningacc