



Institute  
and Faculty  
of Actuaries

# **CP26/14 Senior insurance managers regime: a new regulatory approach framework for individuals**

Consultation response to the Prudential Regulation  
Authority

2 February 2015

## **About the Institute and Faculty of Actuaries**

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Senior Insurance Managers Regime  
Jack Middleton  
Prudential Regulation Authority  
20 Moorgate  
London  
EC2R 6DA

2 February 2015

Dear Jack

### **IFoA response to CP26/14 Senior insurance managers regime**

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Prudential Regulation Authority's (PRA) consultation paper on the development of a Senior Insurance Managers Regime. The IFoA's Life Consultations and Standards Subcommittee have led the drafting of this response. Members of this group are actively engaged with the implementation of Solvency II by insurers and include members performing, or who have performed, controlled function roles.
2. Our response to specific matters follows the order in which they appear in the consultation paper with comments on the PRA rulebook and supervisory statements included within the relevant section.

### **General Comments**

3. We welcome the PRA's approach to this matter in aligning the Senior Insurance Management Functions to those of banks and in providing clarity as to how the current Approved Persons regime will be adapted to the new governance requirements of Solvency II.
4. We understand that an external actuary appointed to the actuarial function would need, as proposed by section 2 of CP24/14, to be a Fellow of the IFoA (or, in relation to general insurance business, a Fellow of the Casualty Actuarial Society and Member of the IFoA). This would seem to us to follow from the definition given to 'actuary' in the PRA Handbook Glossary, and it would be helpful if the PRA could confirm whether our interpretation reflects the intended definition.
5. We agree that the Chief Actuary role should be included within the controlled functions that require pre - approval from the PRA before taking up appointment. The IFoA has published proposals to introduce a compulsory practising certificate for its members, who perform the Chief Actuary function, as defined in this paper. Additionally, we are proposing to introduce a Practising Certificate, which would be available on a voluntary basis to our members who hold the Chief Risk Officer role. We believe that these proposals further the public interest in the maintenance of high standards for those IFoA members performing significant public interest functions. As the PRA will be aware, IFoA members performing the actuarial function holder role in life insurance companies at present are required to hold an IFoA Practising Certificate. It seems appropriate to extend this regime to general insurers.

6. The IFoA is now further consulting on the criteria that need to be met to obtain such a Practising Certificate. We believe such certification could be an important element for both individuals and firms in evidencing the requirements for the Chief Actuary role.

## **Section 2: Senior Insurance Managers Regime (SIMR)**

### **Scope of SIMR**

7. We have no comments on this section.

### **Allocation of responsibilities**

8. We have no comments on this section.

### **Conduct standards for individuals**

9. We welcome the requirements for a Governance Map for each firm as this will support transparency and accountability.

#### **Appendix 4: Draft Supervisory Statement – Application of the PRA’s conduct standards and associated notifications**

10. We are generally very supportive of the conduct standards listed in Appendix 4.
11. In relation to Conduct Standard 4, and in particular at paragraph 3.15, we have some concerns that the provision is drafted too widely. We would suggest that it is made clear that the vacancies referred to are those which affect the operation of the function – rather than any vacancies existing in the business.
12. We would welcome some clarification around how a key function holder should establish whether key information has been disclosed to the PRA; for example, is it sufficient for the key function holder to receive confirmation from the senior manager responsible; or is it necessary to have clear evidence of disclosure?
13. We feel it would be helpful for the PRA to give due credit to approved persons with listed companies for their compliance with the UK Corporate Governance Code.

### **Fit and Proper Assessments**

14. Our comments on this section of the paper are covered in Section 3.

#### **Appendix 1.2: PRA Rulebook: Solvency II Firms – Fitness and Propriety Instrument**

15. With reference to paragraph 3.1, it would be helpful if the PRA were to clarify the extent of ‘relevant information’ required to be provided by employers in such a reference process. We are mindful of the possible impact of this requirement in the context of any duty of confidentiality which might ordinarily be owed by employers.

### **Insurance Special Purpose Vehicles (ISPVs)**

16. The more restricted roles required for an ISPV appear reasonable in most cases. The specific roles appropriate for a particular ISPV are, we envisage, likely to depend upon the circumstances of that particular ISPV.

## **Section 3: PRA’s approach to the regulatory lifecycle**

### **Authorisations**

17. Where firms choose to use an external consultant to perform the controlled function, it is not clear what due diligence insurers need to perform on their own checks or whether the firm the key function holder works for may perform such due diligence in some areas.

Appendix 2: Draft Supervisory Statement – Scope of SIMR for insurers, identification of key functions, and allocation of responsibilities to individuals

18. Paragraph 2.10 mandates that each CF must normally be held by a separate individual, who must be the most senior employee or officer responsible for managing that area. In some instances, the Chief Actuary may not directly manage that function (for example a Chief Actuary performing a second line of defence role may be allocated responsibility, but may not be responsible for managing that area).

**Governance Maps**

Appendix 1.3: PRA Rulebook: Solvency II Firms – Allocation of Responsibilities Instrument

19. Paragraph 5.1 sets out the detail for the governance map. The principle of a governance map is a good one and the map itself could provide useful material for new NEDs and executive directors - in addition to the PRA Supervisory team. However, for a governance map to retain its utility it will need to be kept up to date at all times and this is likely to be quite onerous for larger firms.

**Ongoing internal assessment of individuals' fitness and propriety by insurers**

Appendix 3: Draft Supervisory Statement – Assessing fitness and propriety and providing references

20. We would welcome clarification from the PRA about whether a person may be authorised to carry out controlled functions in more than one firm – for example, can an actuary working in an external consultancy become the Chief Actuary for more than one firm?
21. We note the PRA's statement that it will not normally seek a statement of personal assets and liabilities for aspiring key function holders. However, we would welcome some clarity over example circumstances in which this may be undertaken and where this should be provided.
22. We note the requirement to request references from previous employers to establish their fitness and propriety to carry out a controlled function. This may cause a practical difficulty for individuals, who are currently employed with another firm and are not ready to discuss their plans for a new role until a job offer has been secured.
23. We would suggest that the concession to allow references to be required after the appointment to unexpected vacancies should similarly apply when the applicant works for a rival firm.

Should you wish to discuss any of the points raised in further detail please contact Steven Graham, Technical Policy Manager ([steven.graham@actuaries.org.uk](mailto:steven.graham@actuaries.org.uk) / 0207 632 2146) in the first instance.

Yours sincerely,



David Hare,  
**Immediate Past President, Institute and Faculty of Actuaries**