Institute
and Faculty
of Actuaries

CP17/26: Individual accountability - extending the Senior Managers and Certification Regime to insurers

IFoA response to Financial Conduct Authority

3 November 2017

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.

Institute and Faculty of Actuaries

Governance & Professionalism Policy
Strategy & Competition
Financial Conduct Authority
25 The North Colonnade
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London E14 5HS

3 November 2017

Dear Sirs

IFoA response to FCA Consultation Paper CP17/26: Extending the Senior Managers & Certification Regime to all FCA firms

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. Members of our Life and General Insurance Boards have contributed to this response. We have limited our response to those questions where actuaries are able to add specific comment. You should also be aware of our response to the PRA in its equivalent consultation.[1]

General Comments

2. The IFoA supports the FCA's intent to regulate proportionately, particularly in relation to different types of insurer for whom adherence to the full proposals would cause an excessive administrative burden. However, we are concerned that some of the proposals do not reflect the business structures within firms, which may lead to greater compliance costs, not reflected in the Cost Benefit Analysis, without necessarily providing greater protection to customers. It is not clear the purpose of paragraph 1.12 will be met for all firms by making these changes. We suggest that reviewing business structures firm by firm could lead to a better outcome.

3. We would also welcome clarity about the overall purpose of the changes. We note the intention to "drive up standards of individual behaviour in financial services" (para 1.31). However, we are unclear about what specific behaviours the FCA is wishing to change.

4. We are unsure about broadening the remit of the regime at this time. We would prefer the insurance market to have more certainty about the regulatory and commercial landscapes after the UK leaves the EU before introducing further changes. This will be of particular relevance to those insurers with third-country branches.

5. Although we have not provided specific answers to the questions about third-country branches, we would expect the number of such entities to increase following the UK's exit from the EU. Similarly we would prefer any extension of the regime for EEA branches to remain on hold until the exact trading status of the UK is clearer.

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Q1: Does the proposed list of FCA Senior Managers cover the appropriate roles, ie the most senior decision makers within a firm?

6. The extension of the regime brings more roles into the remit of SIMR. Although each firm will have a different structure for managing its business, it is likely that all key decision makers will be included. As noted in our general comments, the changes required may be disproportionate for some firms.

Q2: Are there any other roles that the FCA should consider specifying as SMFs?

7. We do not believe any other roles should be included in the SMF.

Q3: Are there any proposed Senior Managers that the FCA should consider excluding?

8. We would refer to our opening comments about the remit of the regime and the possibility of more cost than benefit for customers. We would support the FCA considering the current business structures of individual firms and applying any extension of the regime proportionately.

Q4: Do you agree with our proposal to introduce a Conduct Risk Oversight Officer for Lloyd's?

9. Again we are unsure of the benefit arising from the creation of such a role. Lloyd's places great emphasis on its reputation and carries out extensive management of conduct risk. This already has a significant impact on the work of IFoA members who work there; therefore we believe it is unnecessary to appoint a Conduct Risk Oversight Officer.

Q5: Do you agree with the proposed Overall Responsibility SMF?

10. It appears that this SMF may require a large number of applicants. Business functions may not sit neatly with named individuals, so firms may decide to register more individuals than may be necessary.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours faithfully

Jules Constantinou
President-elect, Institute and Faculty of Actuaries