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Strengthening accountability: extension of the Senior Managers & Certification Regime to insurers

Today the PRA has published proposals to extend the Senior Managers and Certification Regime (SM&CR) to insurers. These proposals seek to implement a consistent but proportionate regulatory framework to strengthening individual accountability and promoting effective corporate governance for all PRA-regulated firms.

In March 2016 the PRA implemented the Senior Insurance Managers Regime. The proposals would update this regime to align with the equivalent regime for deposit takers while reflecting the unique characteristics of insurers.

In relation to Certification the PRA proposes to:

- require insurers to annually assess and certify the fitness and propriety of employees performing functions deemed capable of causing 'significant harm' to the firm or its customers;
- apply the PRA's Conduct Rules to all key function holders (KFHs) and material risk-takers at large insurers;
- require firms to notify the PRA of internal disciplinary action against individuals within scope of the SM&CR due to breaches of the Conduct Rules.

For Senior Managers, the regime would include:

- the ability for the PRA to approve Senior Managers in insurance firms subject to conditions and time limits; and
- a statutory duty of responsibility, which will enable the PRA to hold Senior Managers in insurance firms accountable if a breach of a regulatory requirement takes place in their area of responsibility and the Senior Manager failed to take reasonable steps to prevent or stop the breach.

The proposals will reflect the important roles of underwriters and actuaries in the running of insurance firms and are consistent with Solvency II governance requirements.

The proposals are also proportionate, with fewer requirements for small insurers not in scope of Solvency II and which have less than £25m of assets. There will be a streamlined regime in place for these firms. This reflects the smaller size of these firms, their corresponding impact on the PRA's statutory objectives and the simpler structure of their governance arrangements.

In tandem, the FCA has published proposals for the application of a SM&CR to insurers. The regulators have worked closely together to ensure that their respective proposals are consistent and co-ordinated.

The PRA welcomes feedback on the proposals. The consultation will close on Friday 3 November 2017.

Final rules are expected to be published in 2018 and implemented when a commencement date has been set by HM Treasury.

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Notes to Editors

1. The Bank of England and Financial Services Act 2016 amends FSMA so as to enable the PRA and FCA to apply a SM&CR to all regulated firms, including insurers.
2. The SM&CR replaces the Approved Persons Regime as part of implementing the recommendations in the final report of the Parliamentary Commission on Banking Standards (PCBS) to support a change in culture at all levels in banks, building societies, credit unions and PRA-designated investment firms.
3. The regime also facilitates the recommendations in the Fair and Effective Markets Review (FEMR). A key part of the FEMR recommendations was the use of so-called 'regulatory references' to prevent so-called 'rolling bad apples' moving from one firm to another, across the financial services industry.
4. The PRA's conduct standards of integrity; application of due skill, care and diligence; and openness with the regulator, apply to all individuals within scope of the SM&CR. There are then five additional senior insurance manager conduct standards that apply to senior managers and key function holders, covering control of the business; compliance with regulatory standards; oversight of any delegated activities; notifications to the regulator; and due regard to the interests of policyholders in the protection of their insured benefits.
5. This CP should be read in conjunction with the FCA's [CP17/26: Individual accountability - extending the Senior Managers and Certification Regime to insurers](#).
6. PRA [CP14/17: Strengthening individual accountability in insurance: extension of the Senior Managers and Certification Regime to insurers](#).