



# Preparing for SMCR in the Insurance Sector

*Senior Managers and Certification Regime*



# Learning objectives

- Background
- Senior Managers Regime
- Certification Regime
- Conduct Rules – Individual
- Conduct Rules – Senior Managers
- Implementation



# Parliamentary Commission on Banking Standards

*Established in June 2012 to consider the professional standards and culture of the UK banking sector following the 2007-2008 financial crisis.*



PCBS recommended a new regulatory framework to:

- focus accountability on a narrower number of the most senior individuals;
- encourage individuals to take greater responsibility for their actions; and
- make it easier for firms and regulators to hold individuals to account.

***July 2013: Government endorsed findings and confirmed it would implement PCBS' main recommendations***



# Timeline

**Oct 2015**

HM Treasury announce that all regulated firms will be subject to SMCR

**7 March 2016**

SMCR commenced for banks, building societies and PRA designated investment firms.

SIMR replaced the Approved Persons regime for dual-regulated insurance firms

**10 Dec 2018**

Extension of SMCR to Insurers (replacing APR and SIMR)

**9 Dec 2019**

Extension of SMCR to all financial services firms



## Opinion: What do you think?

Why is SMCR being extended to all insurance firms?



# Why is SMCR being extended to all insurance firms?

- Parliament has amended FSMA to extend SMCR to all regulated firms
- To strengthen individual accountability and align more closely with the banking sector
- Clearer allocation of responsibilities
- Senior Individuals will be fully accountable
- Firms not regulators will be responsible for making sure their employees are fit and proper, on an ongoing basis
- Improve standards of conduct in staff at all levels



## Opinion: What do you think?

Which types of insurance firms  
is SMCR being extended to?



# Application - Insurance Sector

From 10/12/18 SMCR will apply to all insurance and reinsurance firms regulated by the FCA and the PRA, this includes:

Insurers

Reinsurers

ISPVs

The Society of  
Lloyd's

Managing Agents

UK branches of  
third-country  
firms and EEA  
firms

SMCR will be extended to firms regulated by the FCA only on 9/12/19, this will include insurance intermediaries





## SMCR - Details

- Replaces the Senior Insurance Managers Regime (SIMR) and Approved Persons Regime
- Application is proportionate to the size of the firm.  
*E.g. Requirements are more extensive for Solvency II Insurers or Large Non-Directive Firms (NDFs)*
- Applies on a legal entity basis



## SMCR - Aims:

- Encourage staff to take personal responsibility for their actions
- Improve conduct at all levels
- Make sure that firms and staff clearly understand and can show how responsibility is allocated

“This is about individuals, not just institutions. The new Conduct Rules will ensure that individuals in financial services are held to high standards, and that consumers know what is required of the individuals they deal with. The regime will also ensure that Senior Managers are accountable both for their own actions, and for the actions of staff in the business areas that they lead.”

Jonathan Davidson, FCA Executive Director of Supervision- Retail and Authorisation



# SMCR: Key Features

Senior  
Managers  
Regime  
(SMR)

Certification  
Regime

Conduct  
Rules

*“The regime embraces a very simple proposition – a senior manager ought to be responsible for what happens on his or her watch. That is what shareholders, consumers as well as the FCA really want.*

*The challenge of responsibility – and suppressing the instinct to evade responsibility – is a cultural one”.*

Mark Steward, FCA Director of Enforcement and Market Oversight, 19 January 2017



# Senior Managers Regime

- Senior people who perform 'senior management functions' need PRA or FCA approval
- Every Senior Manager will have a 'Duty of Responsibility'
- Every Senior Manager must have a 'Statement of Responsibilities' – *This replaces 'scope of responsibilities' document required under SIMR*
- Solvency II firms and large non-directive firms require 'responsibilities maps' - *This replaces the current 'governance maps'*



## Opinion: What do you think?

Why are Statements of  
Responsibilities required for  
Senior Managers?



# Why are Statements of Responsibility required?

- So that firms can ensure Senior Managers' roles and responsibilities are clearly allocated
- To provide individuals with a clear understanding of the extent of their individual accountability
- Allows regulators to hold named individuals to account
- Helps to instil a greater culture of personal accountability



## Opinion: What do you think?

Have you heard of the  
Duty of Responsibility?  
Do you know what it is?





# What is the Duty of Responsibility?

If a firm breaches regulatory requirements, the Senior Manager responsible for that area could be held accountable if they didn't take reasonable steps to prevent or stop the breach.



# Certification Regime

- Applies to employees whose role can cause significant harm to the firm or its customers.
- Certain roles are defined as 'certification functions'.
- Firms will need to check and annually certify that they are fit and proper to perform their role



# Conduct Rules

- Set minimum standards of individual behaviour in financial services.
- Aim to improve individual accountability and awareness of conduct issues across firms.

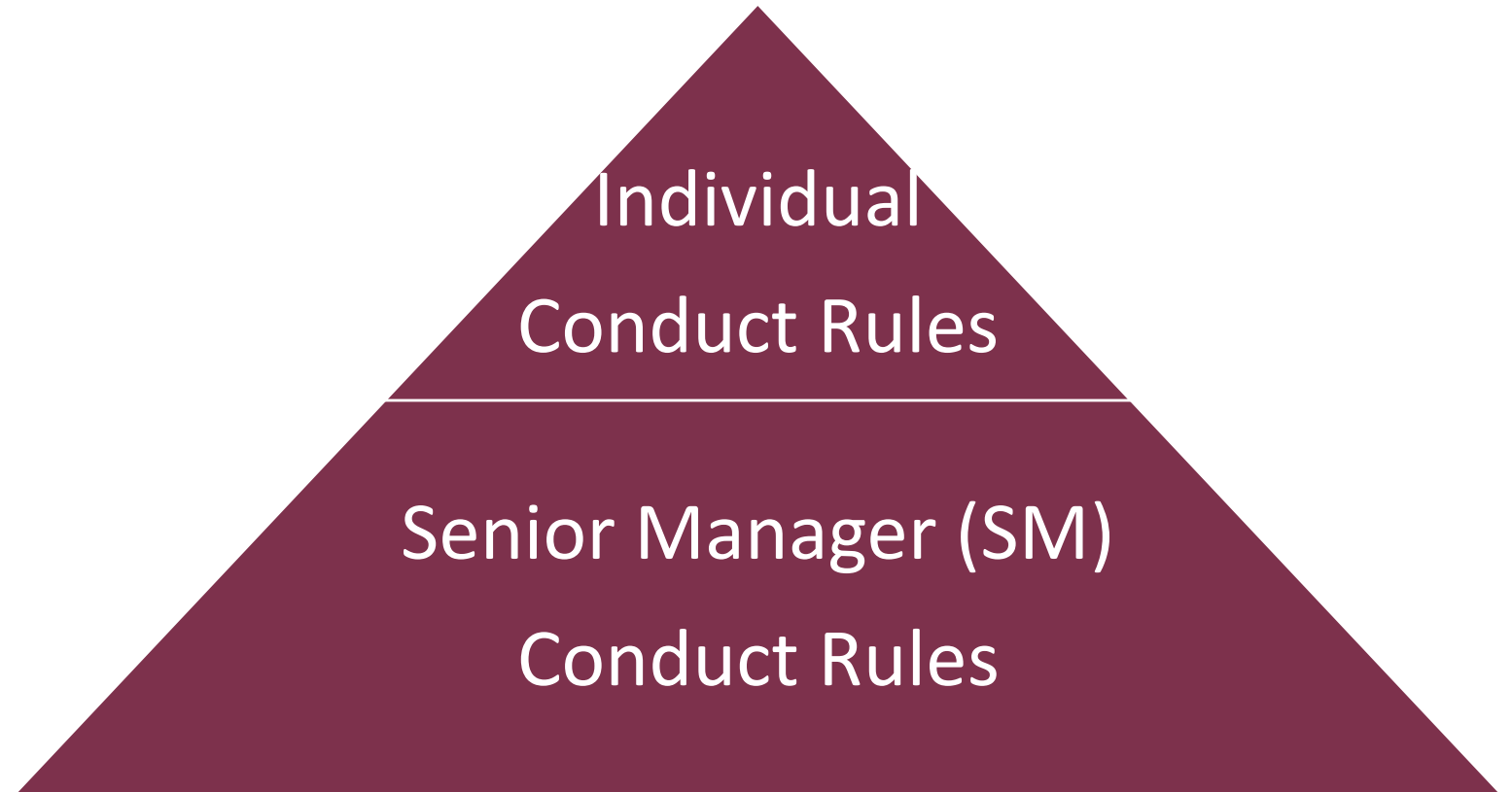
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# Conduct Rules - Two tiers

The Individual Conduct Rules and the Senior Manager Conduct Rules apply to all SMs and all NEDs in the scope of the Senior Managers Regime





# Individual Conduct Rules

1. You must act with integrity

2. You must act with skill, care and diligence

3. You must be open and co-operative with the FCA, the PRA and other regulators

4. You must pay due regard to the interests of customers and treat them fairly

5. You must observe proper standards of market conduct



# You make the call - is it an ICR breach?

## Breach or Non-Breach

1. When Sarah joined the firm a few months ago she exaggerated her past experience. She recorded two-week's work experience at an insurer as a 4 month permanent role.
2. Paul is asked by his manager to prepare information for the FCA on the past year's customer complaints. He realises the data is corrupt, as it includes some bogus claims. He decides to include the data collected anyway, reasoning that more disclosure is better than less. He does not inform his manager that the data is corrupt.
3. When using a meeting room, Tony sees a flip chart which illustrates the firm is about to be taken over. This is not public knowledge. Excited by the news, Tony shares it with colleagues, friends and family.

Breach

Breach

Breach



# Senior Manager Conduct Rules

1. You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively
2. You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system
3. You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively
4. You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice

*The 5 Individual Conduct Rules and the 4 Senior Manager Conduct Rules apply to all Senior Managers and all Non-Executive Directors that are in the scope of the SMR.*



# Is it a breach of Senior Manager Conduct Rules?

## Breach or Non-Breach

1. Mark is the firm's Claims Manager, however, his firm outsources the majority of its claims handling to a third party provider. He is aware that the provider is experiencing resourcing issues and that there have been a number of delays in claims handling. Mark knows this will be resolved when additional staff are employed so he takes no further action.
2. The CEO has identified an exciting new business opportunity which he is pursuing with a very tight deadline. While the Head of Underwriting has expressed reservations about the timelines and does not think this will allow sufficient time to clearly understand the new line of business, he agrees with the CEO to proceed because it will be very profitable.
3. After the sudden departure of his firm's compliance officer, Martha the Senior Manager responsible, temporarily handed over the compliance function to an external consultant, who has the necessary qualifications.

Breach

Breach

Non-Breach





# Some key implementation dates for Insurers

**By 3 Dec 2018**

Confirm to FCA which individuals that hold APR approvals will be converted to which SMFs

**By 10 Dec 2018**

All Senior Managers (SMs) must be identified

Firms to have completed Statement of Responsibilities for all SMs

All Certification staff must be identified

All Senior Managers and Certification Staff must be trained on Conduct Rules

Senior Managers and Certification staff must abide with Conduct Rules

**By 9 Dec 2019**

Firms must complete the certification process of identified certification staff

All other staff must be trained on Individual Conduct Rules



Questions, comments  
or concerns?



## Next steps

- Call \_\_\_\_\_ on \_\_\_\_\_ if you need information or guidance
- Call \_\_\_\_\_ on \_\_\_\_\_ if you need to raise concerns
- Access self-study courses on our e-learning portal for further training [or optionally – Complete your mandatory training on our corporate e-learning portal]



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