

Welcome to this lecture from the Insurance Institute of London



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The implications of moving SIMR to SM&CR



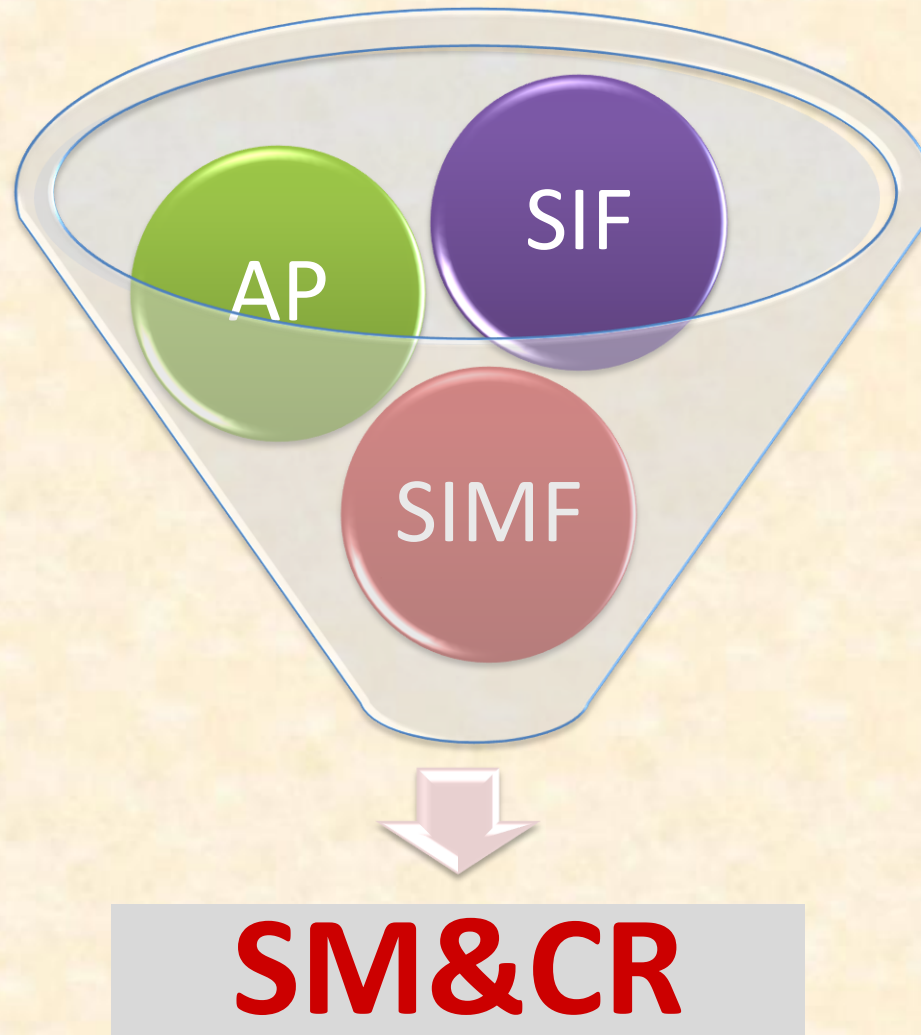
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What we're on about



- a) Key changes resulting from the implementation of the full SM&CR
- b) The nature of regulatory oversight over individual professionals and managers
- c) How personal behaviour impacts on organisational culture and the mitigation of conduct risk

(a) Implementing the full SM&CR



Levelling the playing field

- Individual Accountability
 - SM&CR since March 2016
 - SIMR since March 2016
 - Full SM&CR from 7th March 2017 (yesterday!)
- “Accountability II”
 - SM&CR replaces SIMR and applies to all firms in 2018



Senior Managers and Certification Regime (SM&CR)

Senior Managers

- Main board
- Other specified functions

Certification Regime

- Material Risk Takers
- “Significant harm” roles

Conduct Rules

- Applicable to everyone (almost)

SMR - issues for firms

- Accountability and governance structures
- Allocation of responsibilities
 - Prescribed responsibilities and business functions
- Management Responsibilities Map
 - Detail and consistency
 - Shared and divided roles
 - SM seniority and reporting
 - Group governance
- Functions and treatments
 - Significant Influence Functions
 - Key Function holders and Persons in Key Functions
 - Notified / Standard NEDs

Issues for individual SMFs

- Prior approval from regulator
 - Can be conditional
- Statement of Responsibilities
 - Allocation of Responsibilities
- Statutory duty of responsibility to prevent breaches
- Annual review of fit and proper status
- Formalised handover arrangements
- Reasonable steps
- Criminal sanction for failure of firm?

Features of Certification



What certification means in practice

- Fit and proper assessment by firm
- Certificate acts as tangible confirmation
 - Shows aspects of involvement
 - Composite if more than one function
 - Valid 12 months max
- Fit and proper status subject to formal annual review
- Integration with performance appraisal



To be fit and proper

- Honesty
 - Integrity
 - Reputation
 - Financial soundness
 - Competence and capability
 - T&C criteria
 - Proportionate knowledge, skill and experience (refer to JD)
 - Time
- Personal characteristics (including being of good repute and integrity)
 - Level of competence, knowledge and experience
 - Qualifications
 - Undergone or is undergoing all training to perform function effectively

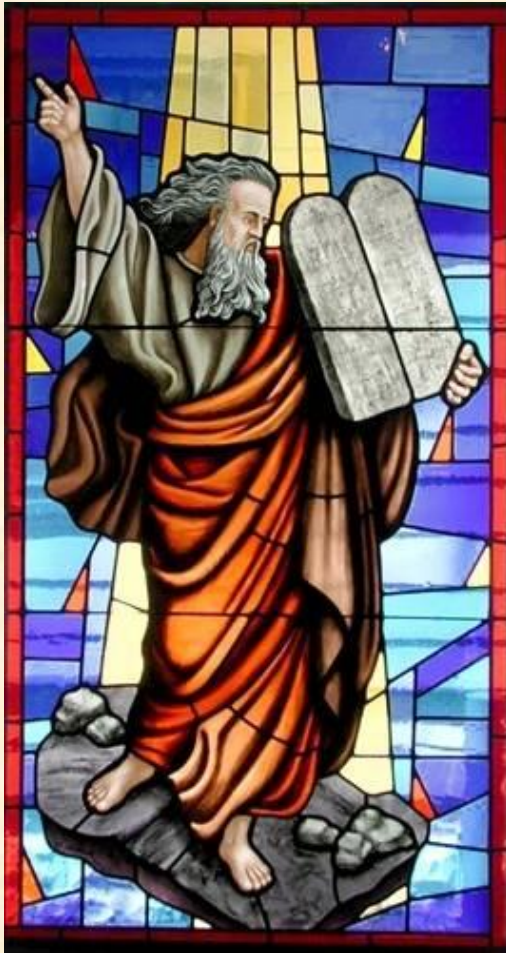
Certification - practicalities

- Format
- Level of detail
 - Multiple functions
 - “Unused” competencies
- Statements of Professional Standing
- Mid-term events
 - Changes to role
 - Change of status
 - Revised certificate until renewal date
- Record of every certificate holder
- Disciplinary implications
- Implications of non-renewal
 - Explanation to the individual
 - Notifying the regulators
- Regulatory references

(b) Regulatory oversight of people



Conduct Rules / Code of Conduct



- Who?
 - Senior managers
 - Certification staff
 - Everyone else (almost)
- What?
 - General awareness
 - Role specific understanding

Individual Conduct Rules

1. You must act with integrity
2. You must act with due skill, care and diligence
3. You must be open and cooperative 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*

Senior Manager Conduct Rules

You must take reasonable steps to ensure that:

1. the business of the firm for which you are responsible is controlled effectively
 2. the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system
 3. 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
- *When exercising your responsibilities, you must pay due regard to the interests of current and potential future policyholders in ensuring the provision by the firm of an appropriate degree of protection for their insured benefits*

Managing with due skill, care and diligence

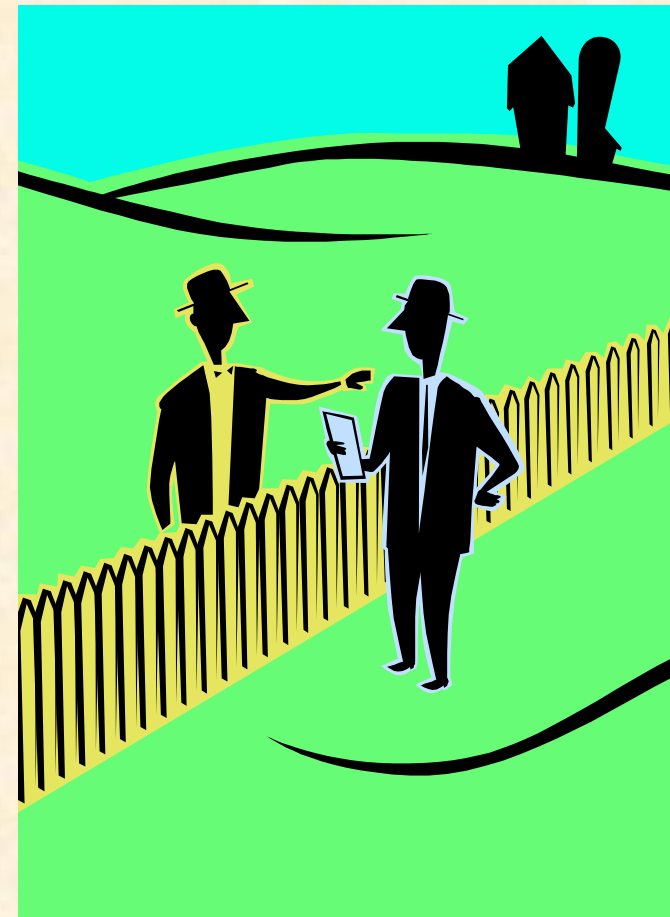
- Sufficient understanding and control
- Regulatory compliance
- Delegation is appropriate and overseen effectively
- Continuing understanding of delegated issues
- Understanding of risks (especially expansion, unusual profitability, unusual transactions, etc)
- Veracity of explanations from subordinates
- Competent Employee Rule - expectations of supervisors

(c) Personal behaviour, culture and conduct risk

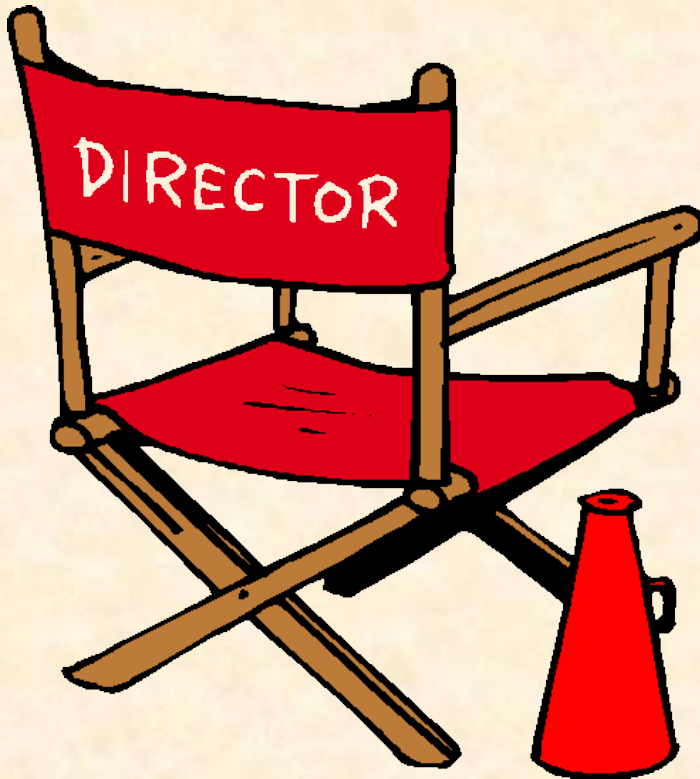


What is conduct risk?

- The risk that actions or inactions ultimately result in poor client outcomes and/or damage to the integrity of the UK financial services industry
- Firm and its employees behaving within risk appetite perimeter
- Promoting trust
 - Organisational culture
 - Individual professionalism



Shaping the firm's culture



- Tone from the top
 - Willingness to buy-in
- Practices and cues that signal success
 - Recognition and incentives
- Narratives setting out what is to be achieved
- Capabilities of the firm and those within it

FCA and culture – joining the dots



Corporate culture and the role of boards

- How can the board influence and shape culture?



- Bringing the values to life



- Building trust with stakeholders



- How can boards assess, measure and monitor culture?

SM&CR and culture

- Clear accountability for personal decisions and conduct
- Reasonable steps through governance and controls
- Accountability for team's conduct and competence



Takeaways – food for thought

- Familiarise everyone with concept of individual accountability
 - Impact on culture
- Review SIMR arrangements
 - Governance Map detail and consistency
 - Scope of Responsibilities expanded
- Planning for certification
 - Criteria for determining and appraising fit & proper internally
- Awareness of Conduct Rules
 - Making them role relevant
 - Context of professionalism



Any questions?



Over to you?

- a) What are likely to be the biggest challenges for firms in moving to SM&CR?
- b) What will be significant challenges for individuals under SM&CR?
- c) Where in the firm should operational responsibility for SM&CR delivery lie?

The implications of moving SIMR to SM&CR

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