

London Market insurance principles and practices

LM2: 2018 edition

Web update 1: 27 November 2017

Please note the following update to your copy of the 2018 edition of the **LM2** study text.

Chapter 5, new section D1, page 5/9

Please insert the following text for this new section:

D1 Regulation applicable to insurers

Currently (2017), insurers are subject to the Senior Insurance Managers Regime (SIMR) which replaced the old Approved Persons Regime in 2016.

SIMR focuses on those holding critical, high-level roles at insurers subject to Solvency II (i.e. those regulated in the UK). Functions within an insurer categorised as 'control functions' are known as Senior Insurance Management Functions (SIMFs).

Be aware

Individuals appointed to a SIMF will have to be pre-approved by the PRA before assuming their responsibilities.



These include the functions of:

- chief executive;
- chief finance;
- executive director;
- chief risk;
- head of internal audit;
- group entity senior insurance manager;
- third country branch manager;
- chief actuary;
- with-profits actuary;
- chief underwriter; and
- underwriting risk oversight (Lloyd's only).

In addition to the functions subject to PRA approval above, there are several others which require FCA approval instead. These are known as Significant Influence Functions (SIFs) and include:

- any directors not subject to PRA approval;
- apportionment and oversight;
- compliance;
- CASS operational oversight;
- money laundering reporting officer;
- significant management function not otherwise approved by the PRA; and
- customer.



Consider this

How do you think the potential overlap between regulators is managed?

If an individual's function is regulated by the PRA but they also perform an FCA-regulated function, the PRA manages both.

D1A Prescribed responsibilities

Firms are expected to allocate identified responsibilities to those individuals holding roles which fall under either SIMF or SIF and, in a few circumstances, to non-executive directors. These prescribed responsibilities should form part of a wider governance map for the business.

Examples of prescribed responsibilities include:

- leading development of a firm's culture and standards; and
- allocating the firm's capital and maintaining liquidity.

D1B Conduct standards

The conduct standards expected under SIMF are similar to those that existed under the Approved Persons Regime, but with the added responsibility for oversight of any delegated responsibilities and a responsibility linked to the PRA's insurance objective.



Be aware

The PRA's insurance objective is 'to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders'.

If you hold a SIMF, you need to adhere to all of the PRA's eight standards. However, if your role is a key function, but not a SIMF, then only standards 1–3 apply.

PRA conduct standards

Standard 1: You must act with integrity.

Standard 2: You must act with due skill, care and diligence.

Standard 3: You must be open and cooperative with the FCA, the PRA and other regulators.

Standard 4: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.

Standard 5: 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.

Standard 6: 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.

Standard 7: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

Standard 8: 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.

The FCA also has standards which include the fair treatment of customers. The first tier FCA rules apply to all FCA and PRA approved persons, and the second tier only to those holding SIFs.

FCA rules

First tier – individual conduct rules

Rule 1: You must act with integrity.

Rule 2: You must act with due skill, care and diligence.

Rule 3: You must be open and cooperative with the FCA, the PRA and other regulators.

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

Rule 5: You must observe proper standards of market conduct.

Second tier – Significant Influence Function (SIF) holder conduct rules

SIF 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.

SIF 2: You must take responsible 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.

SIF 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.

SIF 4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

D1C Approved Persons Regime for intermediaries

For those regulated firms that are **not** insurers, i.e. intermediaries and brokers, current regulation still uses the concept of approved persons who perform certain functions and must be approved prior to their appointment.

SIMR does not apply to brokers. However, the FCA is currently consulting on whether to extend SM&CR to include them. A policy statement on the subject is due in Summer 2018, following consultation in late 2017. Until any change takes effect, the Approved Person Regime will continue to apply.

Chapter 5, new section D2, page 5/9 (previously D1 Senior Managers and Certification Regime (SM&CR))

Please insert the following text (in bold) after the third bullet point ending 'before carrying out their roles'.

Quite simply the regulators want SM&CR to:

- **encourage staff to take personal responsibility for their actions;**
- **improve conduct at all levels; and**
- **make sure firms and staff clearly understand and can demonstrate who does what within the firm.**

Please replace the Be aware box at the end of page 5/9 with the following:

Be aware

SM&CR has been in force for banking firms since March 2016 and will continue to be extended to other financial services firms in 2018. The Approved Persons Regime will continue to apply to brokers and SIMR to insurers until any changes take effect.



Chapter 5, new section D2C (previously D1C Rules of Conduct)

Pages 5/11–5/12

Replace text up to and including '4. You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice' on page 5/12 with the following:

D2C Rules of Conduct

Under SM&CR, the regulators will have the power to make rules of conduct, which will apply to senior managers, certified persons and other employees.

The PRA conduct standards are likely to be identical to the previous standards under SIMF/SIF, including which roles are subject to each standard.

Firms are responsible for considering whether individuals have followed the standards, as part of their analysis of whether individuals are fit and proper.

The FCA also has standards, which will mirror the previous regime (SIMF/SIF) for those performing controlled functions. As with the PRA standards, a number of these have to be followed by all PRA/FCA approved persons and some (the second tier) only by those who hold a significant influence function.

Activity, Page 5/13

Replace 'Write your thoughts here and see if they agree with the points made below:' with '**Write your thoughts here**'.

Pages 5/13–5/14

Delete old section D1D and **renumber** current sections D2 and D3 as D3 and D4.