

# SENIOR INSURANCE MANAGERS REGIME FOR SOLVENCY II INSURERS

## Alignment to Employment Life Cycle





## Introduction

At the beginning of 2015, a City HR Taskforce was convened to consider how organisations could plan for the Senior Managers and Certification Regime (SMCR) and the Senior Insurance Managers Regime (SIMR). Whilst the PRA and FCA rules **come into force on 7th March**, many insurance organisations will have already complied in most respects under Solvency II which takes effect from 1st January 2016.

The role of the City HR Taskforce has included identifying the issues, knowledge sharing across the market and working collaboratively to seek longer term answers in relation to SIMR.

This multi-disciplinary team comprises HR leaders responsible for project managing the programme alongside risk and compliance colleagues from over 30 organisations of differing size within the City HR membership. External support is provided from three leading law firms, a management consulting firm and a global systems provider who are providing expertise on specific facets of the new regulations.

The City HR Taskforce is approaching this issue in three parts.

### PART ONE: SETTING THE SCENE

*The impact of SIMR on the employment life cycle from an HR, Risk, Compliance and Legal Perspective. **Release Date: 30th June 2015.***

The initial findings have been grouped into a matrix which aligns the employment cycle to governance and regulatory requirements. The same process has been undertaken for the Senior Managers and Certification Regime and this was published on 26th May 2015. These details are available from the City HR office.

**The Employment Life Cycle Matrix is attached alongside the list of SIMF and SIF roles and a provisional list of prescribed responsibilities for these categories required by the PRA and FCA.**

### PART TWO: PLANNING FOR IMPLEMENTATION

*The identification of what needs to happen, when and how using shared market approaches together with expert insights and tools. **Full Pack Completion Date: 30th June 2015***

**The work in progress includes a Process Map, Scenario Planning and Training Programmes** for all levels of staff within the organisation. Training will be available from City HR from September 2015.

### PART THREE: IMPLEMENTATION AND ON-GOING MAINTENANCE

*The view from the Regulators, employee communications and programme finalisation together with on-going maintenance post implementation – **Completion Date: February 2016.***

Whilst the work of the City HR Taskforce is independent and is not endorsed in any way by the Regulators, we are pleased that the **PRA and FCA will be presenting on SMCR and SIMR, with a Q&A session, at a specially convened City HR Seminar on 1st July 2015.**

After this meeting, the Taskforce's programme will continue to explore difficult issues seeking collaboration with other professional bodies in the City.

**THIS WORK DOES NOT SUBSTITUTE ANY OF THE WORK BEING UNDERTAKEN BY LLOYD'S OF LONDON OR THE PROFESSIONAL INSTITUTE OR REPRESENTATIVE BODIES WITHIN THE INSURANCE SECTOR. ITS PURPOSE IS TO PROVIDE GUIDANCE TO CITY HR MEMBERS WITHIN THE INSURANCE SECTOR AND LEVERAGES THE KNOWLEDGE BEING SHARED IN RELATION TO SMCR.**

We hope that members find this work both useful for organisational planning and for understanding the shared resource available from City HR. Naturally, there is no one universal solution to meeting the specific needs of each organisation, and members must therefore seek their own independent advice to ensure that their plans are fit for purpose by March 2016.

We would welcome any feedback on this work or new members to the taskforce and you may contact any of the programme leaders below via City HR on [andreaeccles@cityhr.co.uk](mailto:andreaeccles@cityhr.co.uk). Grateful thanks are extended to the Taskforce, who will be formally acknowledged in our Part Two release in June. Our Co-Chairs on this programme are:-

Marian Bloodworth Taskforce Co-Chair Berwin Leighton Paisner LLP	Joanne Owers Taskforce Co-Chair Fox Williams LLP	Louise Redmond Taskforce Co-Chair, Education Risk Culture Insights
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## SENIOR INSURANCE MANAGERS REGIME

### TASKFORCE TIMETABLE

#### PART ONE:

Employment Life Cycle linked to risk, compliance and legal

SMCR: Published 26<sup>th</sup> May 2015

SIMR: Published 30<sup>th</sup> June 2015

#### PART TWO:

Process Map, Scenarios and Training Programme Outline

Published by 30<sup>th</sup> June 2015

#### PART THREE:

PRA and FCA Seminar for City HR Members

(see [www.cityhr.co.uk/events](http://www.cityhr.co.uk/events))

1<sup>st</sup> July 2015

Employee Communications via specific training

September – December 2015

Identification and resolution of issues, seeking collaboration with other professional/expert bodies

On-going

Review of emerging guidance and developments as published by the Regulators or other relevant bodies

On-going

Final deadline for submission of grandfathering notifications

8<sup>th</sup> February 2016

Solvency II goes live

1<sup>st</sup> January 2016

SMCR and SIMR go live

7<sup>th</sup> March 2016

### CONTEXT

There are two main drivers for the introduction of the Senior Insurance Managers Regime: first, the Solvency II Directive, which comes into force on 1 January 2016 and introduces new requirements upon firms within its scope to ensure the fitness and propriety of those performing key functions; and second, the reform of the regulatory regime for personal accountability in the banking sector, which the PRA in particular is keen to extend (to the extent permitted by the legislation) to insurers. It should be noted that the PRA and the FCA have not adopted the same approach towards the reform of personal accountability in the insurance sector, with the PRA adopting new terminology (e.g. 'Senior Insurance Management Function' or 'SIMF' holder) similar to that used in the Senior Managers and Certification Regimes for banks, and the FCA opting to retain the 'SIF holder' terminology currently in use under the Approved Persons regime.

The Senior Insurance Managers Regime will apply to all insurance and reinsurance firms within the scope of Solvency II, including the Society of Lloyd's, managing agents and UK branches of foreign firms. It will require affected firms to allocate certain Prescribed Responsibilities between their pre-approved senior managers, to ensure that all of their Key Function Holders are fit and proper and comply with the new Conduct Rules and to produce a Governance Map showing where accountabilities for key functions fall within the organisation. Firms which fall outside the scope of Solvency II are to be subject to a more limited regime change, with a narrower range of Senior Insurance Management Functions and SIF Holders to be prescribed by the PRA and FCA, and no requirement to produce a Governance Map or to monitor the fitness and propriety of Key Function Holders, but with the same changes proposed as for other insurers in respect of the introduction of new Conduct Rules.

It is important to note that the reform of the individual accountability regime for insurers is not governed by the Banking Reform Act 2013, and therefore differs from the banking regime in several key respects: for example, there will be no reverse burden of proof for senior managers in insurance companies; and the criminal offence of reckless mismanagement will not apply.

### TIMEFRAME

The proposed changes will come into force in two stages, with a deadline of 1 January 2016 applying to the implementation of the regime relating to Key Function Holders under Solvency II, and a deadline of 7 March 2016 applying in relation to the new regime relating to Senior Insurance Management Functions. In practice, however, since there is significant overlap between the categories of 'Key Function Holders' and 'SIMF holders', we expect that many firms will prefer to complete their implementation of both aspects of the regime by 1 January 2016.



## **SENIOR INSURANCE MANAGERS REGIME FOR SOLVENCY II INSURERS** **Implications for the Employment Life Cycle**

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**Health Warning – subject to change when PRA and FCA Final Rules are published in Spring/Summer 2015**



## Implications for the Employment Life Cycle

STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
<p><b>PART A:</b></p> <p><b>PREPARATION</b></p> <p><b>Setting the tone at the top</b></p>	<p><b>Working with the board or ExCom (in conjunction with compliance, risk, legal, business units and other relevant parties) to:</b></p> <ul style="list-style-type: none"> <li>■ <b>Agree the strategy and responsibilities</b> for the implementation of SIMR process including               <ul style="list-style-type: none"> <li>• the requirements at Board level from HR, risk, compliance, legal and the business as a whole and by division, and any steering committee.</li> <li>• the key sponsor(s), functional leadership and programmatic set up including decision-making channels</li> </ul> </li> <li>■ <b>Align HR Policies with Board Governance and Vision</b> particularly relating to               <ul style="list-style-type: none"> <li>• Culture and values: setting and embedding</li> <li>• Conduct standards</li> <li>• Risk management</li> <li>• Succession planning</li> </ul> </li> <li>■ <b>Understand how business strategy will capture the requirements of SIMR – and the responsibility allocated to HR, risk, compliance, IT, Legal and business divisions for management - in respect of:</b> <ul style="list-style-type: none"> <li>• Allocation of responsibilities</li> <li>• The Governance Map</li> <li>• Recruitment procedures</li> <li>• Employment contracts, job descriptions and relevant internal policies</li> <li>• Demonstrating that all role profiles and performance measurement aligns to the regulatory standards for Fitness and Propriety</li> </ul> </li> </ul>	<p><b>Working with the board or ExCom (in conjunction with HR, legal, business units and other relevant parties) to understand internal governance and the employment cycle detailed under ‘Implications for HR Processes’</b></p> <ul style="list-style-type: none"> <li>■ <b>Agree the strategy and responsibilities</b> for the implementation of SIMR including the requirements at Board level from HR, risk, compliance, legal and the business as a whole and by division, and any steering committee with a compliance and risk focus</li> </ul> <p><b>Compliance issues around</b></p> <ul style="list-style-type: none"> <li>• Training and employee communication</li> <li>• Exits and Terminations</li> <li>• Whistleblowing</li> <li>• Management Information Reporting</li> <li>• Record Keeping</li> </ul>	<p><b>Working with the board or ExCom (in conjunction with HR, risk, compliance, business units and other relevant parties) to understand internal governance and the employment cycle detailed under ‘Implications for HR Processes’</b></p>





STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
<p><b>PART B:</b></p> <p><b>DETAILED IMPACT ON THE EMPLOYMENT LIFE CYCLE</b></p> <p><b>Recruiting new staff</b></p>	<ul style="list-style-type: none"> <li>■ <b>Job description and specification/role profile</b> – where recruiting for a SIMF or SIF role, be aware that role profile documents must align with any allocated Prescribed Responsibility. Where recruiting for Key Function Holders, be aware that role profile documents must align to regulatory requirements for Fitness and Propriety. Ensure all recruitment documentation communicates:               <ul style="list-style-type: none"> <li>• <b>Board’s top down approach to culture</b>, values and behaviours</li> <li>• <b>the regulatory implications</b> of the role</li> <li>• the relevant <b>Conduct Rules</b></li> </ul> </li> <li>■ <b>Person specification</b>– to be aligned to required behaviours</li> <li>■ <b>Attraction methods</b> – education of third party recruiters and care with job adverts</li> <li>■ <b>Interview</b> process – to be aligned to required competencies and behaviours</li> <li>■ <b>Assessment tools</b>– to include attitude, ethics and values</li> <li>■ <b>Psychometric testing</b> – to test for alignment of thinking style to required competencies and behaviours</li> </ul> <p>Also ensure clarity around reporting lines, remits and line management responsibility and competence of Key Function Holders.</p>	<ul style="list-style-type: none"> <li>■ Setting standards for references</li> <li>■ Setting standards for fitness and propriety for SIMFS, SIFs and Key Function Holders</li> <li>■ Advising on scope and meaning of Conduct Rules</li> <li>■ Applications for approval of each SIMF (Form A for new applications or Form K for Grandfathering)</li> <li>■ Fit and proper assessments of prospective Key Function Holders</li> <li>■ Assessment and notification of fitness and propriety for Key Function Holders</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewing precedent employment contracts and NED letters of appointment to ensure alignment with requirements of new Senior Insurance Managers Regime</li> <li>■ Review Employment Policies</li> <li>■ Review Employee handbook including conduct, disciplinary procedures and whistleblowing</li> <li>■ Training/briefing for those involved in hiring regarding questions to be asked</li> </ul>



STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
<b>On-boarding process</b>	<ul style="list-style-type: none"> <li>■ Update offer <b>letter and supporting documents</b>, including staff handbook</li> <li>■ Update <b>Induction Programme</b> for all staff</li> <li>■ Update <b>process for taking up references</b> to ensure that references are required going back 5 years and that criminal records checks are obtained</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewing non-standard references</li> <li>■ Challenging incomplete references</li> <li>■ Referring to regulator as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>■ Review offer letter format and conditions of offer/contract</li> <li>■ Update referencing procedure</li> </ul>
<b>Training new and existing staff</b>	<ul style="list-style-type: none"> <li>■ Review and update <b>Graduate Training</b> Programme</li> <li>■ Review and update <b>Leadership Development</b> Programme</li> <li>■ Review and update <b>Management Development</b> Programme</li> <li>■ Review and update <b>Regulatory and Compliance</b> Training</li> <li>■ <b>Prepare training to all employees</b> about SIMR and the organisation's expectations regarding culture, values and behaviours</li> </ul>	Setting standard and content for: <ul style="list-style-type: none"> <li>■ SIMF training</li> <li>■ NED training</li> <li>■ Conduct Rules Training</li> <li>■ Monitoring attendance at training</li> </ul>	<ul style="list-style-type: none"> <li>■ Review updated training modules</li> <li>■ Take all reasonable steps to ensure SIMFs and SIFs are fully aware of responsibilities under the new Conduct Rules</li> <li>■ Train SIMFs and SIFs on appropriate delegation techniques and need to record same</li> <li>■ Amend contracts/appraisals to include reference to compulsory attendance at training</li> </ul>
<b>Transitioning existing staff into new regime</b>	<ul style="list-style-type: none"> <li>■ <b>Review grandfathering</b> of individual's previous SIF application against new standards</li> <li>■ Review and update <b>employee handbook and contracts</b></li> <li>■ Organise <b>Risk and Compliance</b> talk on SIMR</li> <li>■ Update <b>content of intranet</b></li> </ul>	<ul style="list-style-type: none"> <li>■ Track SIF roles across to new SIMF/SIF and Key Function Holder roles</li> <li>■ Grandfathering applications where appropriate using Form K</li> <li>■ Where grandfathering does not apply, prepare fresh application for approval using Form A</li> </ul>	<ul style="list-style-type: none"> <li>■ Once Prescribed Responsibilities have been allocated, consider contractual impact</li> <li>■ Recording responsibilities may involve contractual change – consider how best to achieve, (most likely by negotiation) and timescale</li> <li>■ Consider absence handling, flexible working and job and responsibility sharing of SIMF or SIF function</li> </ul>



STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
	<ul style="list-style-type: none"> <li>■ Ensure <b>alignment of all HR Policies with statements of the firm's culture and values</b> as articulated by Board</li> <li>■ Consult with Compliance on grandfathering</li> </ul>		
<b>Succession planning</b>	<ul style="list-style-type: none"> <li>■ Ensure <b>talent pipeline</b> of individuals ready, willing and able to assume <b>SIMF, SIF and Key Function Holder roles</b></li> <li>■ Assume continual monitoring of conduct and propriety of those on the succession plan</li> </ul>		
<b>Performance management / disciplinary processes</b>	<ul style="list-style-type: none"> <li>■ <b>Update performance management processes</b> to reflect new conduct rules (e.g. new duty to pay due regard to the interests of customers and treat them fairly)</li> <li>■ <b>Consider measurement of behaviours and risk</b> as part of the evaluation process and integrate conduct monitoring</li> <li>■ <b>Amend existing appraisal process</b> to align with testing the fitness and propriety of Key Function Holders, SIMFs and SIFs</li> </ul>	<ul style="list-style-type: none"> <li>■ Assessing compliant / non-compliant scores for balanced scorecard purposes</li> </ul>	<ul style="list-style-type: none"> <li>■ Review existing performance management systems</li> <li>■ For SIMFs, SIFs and Key Function Holders - align metrics used in annual appraisal process to those required to assess fitness and propriety for regulatory purposes</li> </ul>
<b>Reward</b>	<ul style="list-style-type: none"> <li>■ Ensure that <b>reward is aligned to performance</b></li> <li>■ Communicate how reward is aligned to performance and conduct and how this is impacted by the new regime</li> </ul>	<ul style="list-style-type: none"> <li>■ Advising Remuneration Committee on compliant/non-compliant scores</li> </ul>	<ul style="list-style-type: none"> <li>■ Review contracts and bonus plan rules – consider whether necessary to re-define Cause?</li> </ul>
<b>Whistleblowing</b>	<ul style="list-style-type: none"> <li>■ Ensure that <b>speak up policies</b> are in force to encourage early disclosure of problems</li> </ul>	<ul style="list-style-type: none"> <li>■ Investigating whistleblowings</li> </ul>	<ul style="list-style-type: none"> <li>■ Review whistleblowing policy and procedures for raising concerns</li> </ul>



STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
	<ul style="list-style-type: none"> <li>■ Appoint a <b>Whistleblowers Champion</b> and ensure that the prescribed responsibilities are understood.</li> <li>■ Review the final outcome of the consultation on whistleblowing (closed 22/5/15) and liaise with senior management, risk, compliance and legal to ensure that requirements are implemented and communicated to all employees.</li> </ul>	<ul style="list-style-type: none"> <li>■ Reporting whistleblowings, and any breaches discovered therefrom, to regulators</li> </ul>	<ul style="list-style-type: none"> <li>■ Review appointment terms for Whistleblowing Champion and amend as necessary subject to consultation outcome</li> </ul>
<b>Exits and Terminations</b>	<ul style="list-style-type: none"> <li>■ Review <b>leavers procedure</b></li> <li>■ <b>Termination policy</b> should be reviewed</li> <li>■ <b>References</b>– update reference procedure to go back 5 years</li> </ul>	<ul style="list-style-type: none"> <li>■ Investigations</li> <li>■ References</li> <li>■ Reporting to regulators</li> <li>■ Process Form C, etc</li> </ul>	<ul style="list-style-type: none"> <li>■ Review settlement agreement wording and leaving arrangements including warranties for full handover and disclosure of any regulatory breaches</li> </ul>
<b>Reporting and record-keeping (throughout the employment life cycle)</b>	<ul style="list-style-type: none"> <li>■ <b>Enhancements to HR metrics</b> to be provided to the Board and Compliance, to include:               <ul style="list-style-type: none"> <li>• Evidence of fitness and propriety</li> <li>• Incidences of conduct rule breach</li> <li>• Employee turnover / reasons for leaving</li> <li>• Training data</li> <li>• Performance data</li> <li>• Employee survey data – what does it tell us about culture / values</li> <li>• Whistleblowing instances</li> </ul> </li> <li>■ <b>HR audit to cover:</b> <ul style="list-style-type: none"> <li>• Job descriptions</li> <li>• Training</li> <li>• Recruitment</li> <li>• On-boarding process (including references)</li> <li>• Succession plans</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Advise on metrics for assessing fitness and propriety for SIMFs, SIFs and Key Function Holders</li> </ul>	<ul style="list-style-type: none"> <li>■ Implement systems for keeping information relating to fitness and propriety on employee files for SIMFs, SIFs and Key Function Holders</li> </ul>



STAGE IN EMPLOYMENT LIFE CYCLE	IMPLICATIONS FOR HR PROCESSES	INPUT NEEDED FROM COMPLIANCE AND RISK	INPUT NEEDED FROM LEGAL
	<ul style="list-style-type: none"> <li>■ Need to translate conduct rules to measurable items, set thresholds and establish monitoring, review and governance</li> <li>■ <b>Capturing and storing SIMR data</b> <ul style="list-style-type: none"> <li>• Aligning HR systems to provide integrated information relating to SIMR</li> <li>• Consider HR dashboards to capture and monitor data</li> <li>• Establish business and system requirements to manage and update changes in roles and responsibilities for approved individuals and record changes</li> <li>• Update retention policies to ensure that all documentation relevant to the allocation of roles and responsibilities is retained for 10 years</li> </ul> </li> <li>■ Review impact of guidance on people policies emanating from other official sources such as the PRA, FCA, EIOPA, Lloyd's, Solvency II Guidance and guidelines issued by the professional institutes and representative bodies for the Insurance Sector.</li> </ul>		
<b>Outsourcing risk</b>	N/A	Legal and Compliance to work together in relation to the management of outsourcing risk in relation to any Key Functions that are outsourced to a third party provider	Legal and Compliance to work together in relation to the management of outsourcing risk in relation to any Key Functions that are outsourced to a third party provider



## Annex 1 – List of SIMF / SIF roles for which regulator approval is required

PRA SIMFs	FCA SIFs
Chief Executive Officer (SIMF1)	Executive Director (where not approved by the PRA) (CF1)
Chief Finance Officer (SIMF2)	Chair of Nominations Committee (CF7)
Chief Risk Officer (SIMF4)	Head of Compliance (CF10)
Head of Internal Audit (SIMF5)	CASS Oversight (CF10A)
Group Entity Senior Insurance Manager (SIMF7)	MLRO (CF11)
Chairman (SIMF9)	Significant Management (where not approved by PRA) (CF29)
Chair of Risk Committee (SIMF10)	Customer Function (CF30)
Chair of Audit Committee (SIMF11)	
Chair of RemCo (SIMF12)	
Senior Independent Director (SIMF14)	
Head of Third Country Branch (SIMF19)	
Chief Actuary (SIMF20)	
With-Profits Actuary (SIMF21)	
Chief Underwriting Officer (SIMF22)	
Underwriting Risk Oversight Function (Lloyd's only) (SIMF23)	



## Annex 2 – List of prescribed responsibilities required to be allocated to SIMFs or SIFs

Prescribed responsibilities
1. Overseeing assessment of fitness and propriety for those performing key functions (including SIMFs and SIFs)
2. Leading the development of the firm's culture by the governing body as a whole
3. Overseeing the adoption of the firm's culture in its day-to-day management
4. Overseeing the production and integrity of financial information and its regulatory reporting
5. Management of the allocation and maintenance of the firm's capital and liquidity
6. Development and maintenance of firm's business model
7. Performance of the firm's ORSA (Own Risk and Solvency Assessment)
8. Induction, training and professional development of all of the firm's key function holders
9. Maintenance of the independence, integrity and effectiveness of the firm's policies and procedures on whistleblowing*
10. Oversight of firm's remuneration policies and practices*

\*Must be allocated to a non-executive director

This matrix has been developed by the City HR Association - for the benefit of its members - in conjunction with the programme co-chairs at Berwin Leighton Paisner LLP, Fox Williams LLP and Risk Culture Insights. This document is a general guide and is not intended to be comprehensive or constitute legal advice. This document will be subject to change in light of published guidelines from the PRA and FCA and firms should therefore seek their own professional advice including specific legal advice on how to implement SMCR/SIMR within their own firms. Please contact [andreaeccles@cityhr.co.uk](mailto:andreaeccles@cityhr.co.uk) to be kept informed of this work, to join our taskforce or to attend supporting events. This matrix may not be published, copied, adopted or distributed without the written agreement of the City HR Association Limited (June 2015).