



LAW & ORDER

Insurers must act now to prepare for SMCR extension

The new senior insurance managers' certification regime introduces a number of changes – and the compliance deadline is looming



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On December 10 the UK's Senior Manager and Certification Regime (SMCR) will extend to almost all insurers. The SMCR replaces and builds on the Senior Insurance Manager Regime (SIMR) and changes the way most individuals working in the insurance sector are regulated. With the looming deadline and raft of changes, in-scope insurers need to be acting now.

There are three core components to the SMCR: the senior managers regime; the certification regime; and a set of behavioural standards called the conduct rules. The senior managers regime and conduct rules will be familiar ground to insurers who have grappled with the SIMR. However, the certification regime will be a fundamental change in approach requiring significant forward planning and administration.

Senior managers performing senior management functions (SMFs) will still need pre-appointment regulatory approval and existing Prudential Regulation Authority (PRA) SMFs will continue to be relevant. Governance

Insurer management need to be aware of the additional responsibilities the extended SMCR will introduce
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maps and scopes of responsibilities will also continue under the new regime, although rebranded as “responsibilities maps” and “statements of responsibilities”.

The regime introduces important new developments, such as a “duty of responsibility” for senior managers of large insurers, who may be held personally accountable if they fail to take reasonable steps to prevent wrongdoing in their area of responsibility.

Also new is a handover rule for large insurers, requiring reasonable steps are taken to ensure

those in senior manager roles have the relevant materials they need to do their job properly, in addition to a set of Financial Conduct Authority (FCA) SMFs that will replace the FCA's existing senior insurance functions.

Insurers should be reviewing their senior managers' roles, scopes of responsibilities and governance maps; offering bespoke training for senior managers on their regulatory requirements, in particular the new duty of responsibility, and preparing handover policies to address the new handover rule.

Shifting the burden

The certification regime will replace the existing approved persons regime, extending to a greater number of employees, and will shift the regulatory burden of certification directly on to insurers. The regime will apply to all individuals (other than senior managers) performing “certification functions” – in essence, any employee whose role may have an impact on customers, markets and the insurer, including key function holders and material risk takers. Insurers will need to assess and self-certify, on at least an annual basis, that each

employee carrying out a certification function is “fit and proper” to perform it. Fitness and propriety is to be assessed by reference to PRA and FCA guidance.

Insurers need to identify their certified employee population by December 10, 2018 and will then have 12 months to complete the certification process. Steps should be taken to review existing appraisal processes and adjust these, as well as performance management and disciplinary processes, to ensure any issue relevant to the assessment of fitness and propriety is taken into account.

Approved persons in insurers are already subject to conduct rules under the SIMR and the APR. The SMCR's conduct rules will apply, however, to a much broader range of employees, covering all employees working in financial services (excluding ancillary staff). Each in-scope employee who fails to comply with the Conduct Rules could be subject to direct enforcement by the FCA or PRA. Insurers will need to ensure each of their employees is aware of whether they are subject to the conduct rules and, for those in scope, provide training so they have a broad understanding of the rules and their direct application. ■

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