



Jack Middleton
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

29 January 2015

Dear Jack,

AFM Response to PRA consultation CP26/14, Senior insurance managers regime (SMIR)

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Respond to the consultation proposals and highlight any specific implications for our members.
2. The Association of Financial Mutuals (AFM) represents 52 member companies, and in most of our member companies, customers present and future are the owners of the business. Between them, AFM members manage the savings, pensions, protection and healthcare needs of over 20 million people in the UK and Ireland, and have total funds under management of over £100 billion. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.
3. We accept the general principle that individuals with senior responsibilities within financial services firms must be fit and proper, and properly held to account for any failings. It is reasonable therefore that the PRA should seek to introduce a senior managers regime in insurance in addition to that which the Parliamentary Committee on Banking Standards has sought in banking. We share the more general view that both industry and regulatory reputation was tarnished by the failure in the past to adequately punish those senior bankers with a clear responsibility for the financial crisis.

4. That said of course, the risks of systemic failure in banking do not translate in a comparable way into insurance. In any event, the requirements of Solvency 2, and the limited consideration of insurers in the Financial Services (Banking Reform) Act 2013, mean that the nature of the senior managers regime in insurance must have a more limited purpose. With that in mind, it is helpful to see in paragraph 2.7 that the nature of (criminal) sanctions covered in the banking reforms have not been carried over into the SMIR.
5. With regard to the specific content of the consultation, we have a number of comments. We understand that a further technical consultation will follow, and it would be helpful within that to see consideration of:
 - a. Grandfathering: including transitional arrangements, and how current APRs are migrated across;
 - b. For smaller mutuals, where it will be necessary to create and fill new functions, what timelines and expectations PRA has for recruiting and demonstrating suitability;
 - c. For smaller mutuals, where some will only have two executives, who will therefore combined roles, whether there should be any maximum number of roles an individual might take on. The references to proportionality in chapter 2 and appendix 2 are helpful in this regard, as are the messages around avoiding conflicts, transparency and competence: this suggests that each organisation would be expected to decide for itself the maximum roles one person might undertake, but further clarity from PRA would be helpful.
6. The text implied that PRA would require pre-approval of a narrower class of individuals than at present. This is welcome, though in practice executive directors who fall outside the SIMR will still need pre-approval from the FCA. Also, we understand that the number of individuals who will be required to be “fit and proper” will expand, and this will increase costs for organisations.
7. Some of our members have begun to consider how to develop their ‘governance map’ and how to copy this across into the ORSA. Their feedback suggests this document will be helpful in explaining to supervisors the respective roles taken on by individuals. It should also be a helpful developmental document internally, in clarifying roles and responsibilities and in supporting commentary elsewhere in the ORSA. The consequence of this though that is that the production of the governance map may be relatively complex and time-consuming.

8. We are responding separately to the FCA on their consultation. We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,

A handwritten signature in black ink, appearing to be the initials 'AB' followed by a stylized flourish.

Chief Executive
Association of Financial Mutuals