



Institute
and Faculty
of Actuaries

CP2/18 Changes in insurance reporting requirements

IFoA response to Prudential Regulation Authority

13 April 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



CP2/18
Rachel Evans
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

13 April 2018

Dear Rachel,

IFoA response to Consultation Paper CP2/18: Changes in insurance reporting requirements

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's consultation paper (CP) on changes in insurance reporting requirements. This response has been drafted by members of the IFoA who are heavily involved in the production and review of insurers' reporting to meet the requirements of Solvency II (SII).
2. As the PRA will realise, SII has led to a significant increase in the volume and granularity of reporting in comparison to SI. We believe the current requirements are disproportionate in some areas, and this adds to the reporting burden for insurers to provide. We therefore welcome the proposed reforms to the National Specific Templates (NSTs) which will reduce the reporting burden, especially for smaller firms.
3. We acknowledge that in assessing its reporting requirements, the PRA needs to balance:
 - a) requiring more information from firms to increase its understanding of their associated exposure/ risk profile and
 - b) reducing reporting requirements without compromising the PRA's ability to supervise firms with an appropriate evidence base.

The IFoA supports the objective of SII Pillar III in increasing the level of transparency over insurers' risk profiles.

4. In this response, we have restricted our comments to the PRA's proposals for changes to NSTs. Wider changes to insurance reporting requirements may be possible following the UK's departure from the EU (and any transition period), but we presume comment on such changes is outside the scope of this consultation.

Comments on specific proposals for NSTs:

NS.01 With-profits value of bonus

5. The proposal to restrict the need for this template to firms with a net with-profits best estimate liability of more than £500m is a welcome change, and should help a number of firms with relatively small with-profits funds.

NS.02 With-profits assets and liabilities

6. As with the previous comment, the proposal is welcome and again should help firms with relatively small with-profits funds. Some helpful clarification is given in the associated LOG (guidance to complete template).

NS.05 Revenue account life

7. The IFoA supports the change to remove information relating to balance sheet reconciliations. These items are generally covered in other Quantitative Reporting Templates (QRTs).

NS.06 Business model analysis (life)

8. We note the proposal that the transitional measure on technical provisions (TMTP) be identified separately. Although this may be helpful for the purposes of the PRA's analysis, we understand that this information can be deduced from the existing QRTs.

NS.07 Business model analysis (non-life)

9. We welcome a number of the changes proposed for this template. Relevant points to raise are the:
 - a) alignment of the NST with SII reporting templates, which should reduce any duplication in effort;
 - b) simplification of the template format/ layout, which we agree should be an improvement;
 - c) replacement of 'number of policies in force' with 'number of contracts' or 'sum insured in force'. We expect this should be easier to produce in general terms; however, sum insured can be a problem for certain types of insurance, e.g. with motor insurance where there is no sum insured, the cover for third party liability being unlimited, or for personal accident where the amount paid out varies according to the injury sustained.
10. We also note that the PRA proposes (unspecified) additional information to assess the adequacy of net reserves for prior years. Although this information may be useful to the regulator, and may be information firms would have to hand, the impact depends on what additional information is required, and whether the format is suitable.
11. In relation to the proposal to ask for a split of gross written premium between new and renewal business, this may give rise to significant additional work for some insurers who, for example, do not have flags on their policies to indicate whether they are new or renewal.
12. The definition of 'renewal' business will have a bearing on the impact, as the definition may not be clear. For example, in the London Market, changes in policy terms are common and it can be unclear whether the changes are sufficient to be regarded as a new policy or a renewal. Even in personal lines, for example, it is unclear whether the "renewal" of a motor policy that adds an additional driver or a vehicle constitutes a new policy or a renewal?.
13. The PRA proposes for the same information to be provided for the plan years as for the reporting years. Although this makes the template consistent in each year this will require additional information for firms to produce which may be difficult to obtain/estimate.

NS.09 Best estimate assumptions for life insurance risks

14. We welcome the proposal to exempt firms from reporting data for other product lines where one or two product lines cover more than 50% of the business. This is likely to help reduce the effort required in tabulating this information.

NS.10 Projection of future cash flows (Best Estimate – non-life; liability claim types)

15. The proposed new requirement to report on the mean term of claim provisions for asbestos, health hazards, pollution and other latent claims should not be onerous provided a clear definition of such liabilities is given. It would also be useful to provide the rationale for why this requirement is being introduced to help firms understand and produce reliable information.

NS.11 Non-life claim development information

16. We welcome the simplifications proposed for this template.

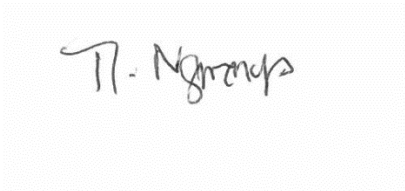
Comments on updates to SS11/15 'SII: Regulatory Reporting and exemptions'

17. The exemption for category 4 & 5 firms (and willingness to exempt category 3 firms, if justified) for quarterly reporting is welcome. Many firms are still likely to produce and use the information for internal management on a regular basis, but would save effort involved in external reporting.

Should you wish to discuss any of the points raised in further detail please contact Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk / 0207 632 2146) in the first instance.

Yours sincerely

Marjorie Ngwenya

A handwritten signature in black ink, appearing to read 'M. Ngwenya', is centered within a light gray rectangular box.

President
Institute and Faculty of Actuaries