Institute
and Faculty
of Actuaries

CP8/18: External audit of the public disclosure requirement

IFoA response to Prudential Regulation Authority

11 July 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all of stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

Institute and Faculty of Actuaries

CP8/18
Accounting and Audit Policy Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

11 July 2018

Dear Sir/ Madam,

IFoA response to Consultation Paper CP8/18: External audit of the public disclosure requirement

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's consultation paper (CP) on proposed changes to the external audit of the public disclosure requirement. The IFoA's Life and General Insurance Standards and Consultations Committees and Boards have been involved in the drafting of this response. Members of the Committees and Boards are heavily involved in the production and review of insurers' reporting to meet the requirements of Solvency II (SII), including in an external audit capacity.

2. We welcome the intention behind the PRA's proposals within the CP i.e. to improve the proportionality of the public disclosure audit requirement. We recognise that smaller firms may have faced a proportionately higher burden in meeting the SII public disclosure requirement.

3. We expect that many Category 4 and Category 5 firms, and some Category 3 firms would fall out of the external audit requirement of the Solvency and Financial Condition Report (SFCR), as a result of the PRA's proposals. For these firms, this is likely to be a positive development, as they would only have to pay for actuarial review of the technical provisions and the risk statements in the UK GAAP Report and Accounts.

4. From a public interest perspective, policyholders and the wider public would still gain comfort on the financial security of a firm via audit of the firm's Report and Accounts. This means the risk of there being a significant issue in the SII figures, but not captured in the GAAP position, is quite small, which may help support the approach of not auditing the SII figures.

5. We recognise that, by virtue of their size, smaller firms are likely to pose less risk to the PRA's objectives. We also acknowledge that for such firms, the PRA would continue to monitor the quality of their regulatory data and public disclosure.

6. We do however have a concern that smaller firms may be less familiar with aspects of the SII process, and so may have a greater risk of making an unintentional error. Although most significant issues are likely to have been cleared out over the last couple of years of there being external audit, there is still the potential for new issues to arise.

7. We believe that certain elements which are audited such as the split of technical provisions by line of business, and the requirement to look at the Expected Profit in Future Premiums (EPIFP) are likely to be of less importance to the public interest than the overall SII balance

sheet and Solvency Capital Requirement (SCR). In addition, firms where the SCR was significantly below the absolute minimum capital requirement should be excluded.

8. However, instead of removing the SFCR from external audit scope for smaller firms, we suggest a ‘middle ground’ approach could be considered. Possible approaches include:

   - the PRA could identify entities where there have been significant movements or where they have concerns and then trigger a form of review process (this might look like a mini S166 or an audit);
   - the PRA could trigger a review process if the SCR coverage ratio fell below a certain threshold.

9. We also suggest that professional certification could help maintain transparency and public confidence in the results within the SFCR, in lieu of external audit. This could include, for example, certification from the relevant Chief Actuary that the technical provisions had been reviewed and were considered appropriate.

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

Jules Constantinou

President
Institute and Faculty of Actuaries