KPMG

Insurance Non Executive Director's Forum

The Non-Executive Director (NED) roundtable is facilitated by the KPMG Insurance team, and provides excellent peer exchanges and discussion on the challenges facing NEDs in the Insurance sector. This document outlines the key takeaways and areas for consideration arising from the most recent (October 2015) peer exchange and discussion.

The session was chaired by Brian Morrissey, Head of Actuarial Advisory Services at KPMG, and the focus was on how to get a handle on the reporting challenges of Solvency II, and getting the numbers 'right'. Non-Executive Directors discussed the challenges through their own experiences and the shared experiences of the wider group.

Key takeaways

There will be a learning period for Boards of Directors to get comfortable with the numbers under Solvency II; need for transparency in the level of conservatism across own funds and capital.

Responsibility of the Board to ensure that the Actuarial Function Holder clearly articulates the areas of judgement; use of benchmarking would be useful so that directors have a context for challenge around assumptions and judgements.

To date, the FLAOR/ORSA may have been viewed largely as a compliance exercise led by the CRO, but expectation for the second iteration is to include other functions in the process such as marketing and sales. This will help to better embed risk management within firms.

Getting comfortable with the numbers

- Need an anchor perspective on the balance sheet (e.g. IFRS) and all adjustments to flow from that to understand the Solvency II position; at the outset, the focus will be on Solvency I to Solvency II but that analysis will not be relevant going forward.
- Solvency II is complex, apart from the huge volume of detail, some major areas can have a material impact on figures which include contract boundaries, ring fenced funds, deferred tax, defined benefit pension schemes, management actions, best estimate view and how to reflect events not in the data supporting the best estimate position.
- There may be a significant increase in own funds available, particularly on the Life side, but there will be a learning period to get comfortable with the new balance sheet and how it impacts the insurer's dividend policy.
- There is a need for transparency on the level of conservatism in the figures across own funds and capital – it will be very clear at outset relative to the Solvency I position but may become a little less clear over time.

How to challenge 'expert judgement'

- Actuaries will now have an enhanced reporting and communication role at Boards where they may have been less visible in the past.
- Communication skills of actuaries to articulate what the analysis means and facilitate focus on key judgments will therefore be essential.
- Ability to present using benchmarking data can provide value and it may be easier for external parties to provide this perspective.
- There is a risk of losing sight of the bigger picture as part of the detailed Solvency II analysis and of Group think at Board level e.g. dramatic decline in premiums in the domestic Non-Life sector over the past 10-12 years – Boards need to be able to challenge this pricing behaviour.

FLAOR/ORSA

- An observation was made during the discussion that 2014 was mainly a compliance exercise led by the CRO which is understandable as firms were still getting used to this process, particularly outside of the direct Life space where Financial Condition Reports were required.
- Danger that good Risk Management is based on an "honours mark" ORSA, and shifts away from business units who need to be hands-on risk managers.
- Expectation for 2nd iteration of ORSA is to include other functions such as marketing and sales.
- Focus should be on the process rather than final report and how is the CRO framing the message to the rest of business.
- Don't just assume that Standard Formula is appropriate – there may be aspects of the business where it does not fit, and this needs to come through in the ORSA.
- ORSA is a means of keeping Solvency II up-to-date with business developments and should be seen as a tool for the strategic management of capital.

QRTs – what does good look like?

- Boards cannot, and should not, replicate what management do so the focus has to be on controls and processes akin to how a Boards get comfort over audited financial information through top down due diligence on the key forms. This is particularly so in PRISM rated Medium-Low and Low companies where there may be less Board interaction.
- Role of the auditor remains important but not necessarily on each cell being correct but on the robustness of the IT system, data integrity and consolidation of information.
- There is a need to continue to invest in IT infrastructure to allow better automation across QRT production and across finance generally, although achieving automation will be challenging.
- There is scope to be on the 'front foot' by getting Internal Audit involved in QRT activity during 2016 – don't wait for the CBI to impose requirements when it consults next year on the role of external assurance.
- No clear view of what 'good' looks like yet, as many companies are only beginning to look at QRTs now, particularly in the case of PRISM-rated Medium-Low and Low companies.
- Interrogation of numbers by Regulators and auditors should prompt in time greater challenge of the contents of the QRTs and the key forms.

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