



**Insurance NED briefing**

30 November 2016

# Today's agenda

- 1) Key regulatory themes for 2017 – Andrew Bulley
- 2) Reserving and other issues – Tamsin Abbey
- 3) Robotics and Cognitive Automation – John Middlemiss

**Please feel free to ask questions as we go along**

# Key regulatory themes for 2017

Andrew Bulley, Partner

# Key Regulatory Themes for Insurance Sector Boards in 2017

- **Risk margin/longevity off-shoring** - protecting policyholder interests
- **Search for yield and illiquid investments** - ensuring appropriate risk oversight and underwriting controls
- **Avoiding “model drift”** - i.e. a fall in sector capital strength post IMAP approvals
- **Data**  
Key Solvency 2 market disclosures  
PRA peer and outlier analysis
- **Cyber risk management** - any lessons from the banking sector?
- The **FCA’s “vulnerable consumer” agenda**

# Reserving and other issues

Tamsin Abbey, Partner

# Reserving in 2016

## Update and outstanding issues

### During 2016

- Solvency II went live on 1.1.2016
- Brexit was voted for on 23.6.2016
- Interest rates have been low and volatile
- The non life market premiums stayed soft.
- Go live date for IFRS 17 agreed as 1.1.2021.
- The PRA, FCA and Lloyds continued to be strategically

### Future changes

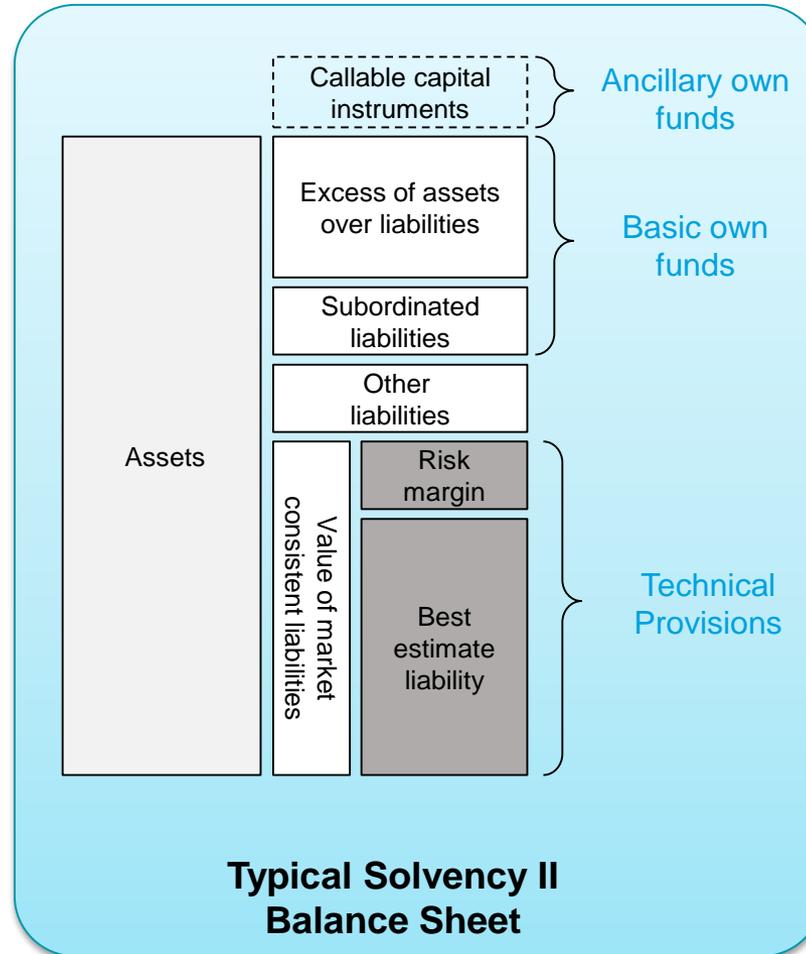
- The first full Solvency II audit is year end 2016.
- Explicit transparency between booked (IFRS) and best estimate reserves (Solvency II) is public.

# Balance Sheet components from Solvency I to Solvency II

There are a number of differences between Solvency I, Solvency II and IFRS 17 proposed Balance Sheets. At a high level the following differences exist:

Goodwill	Shareholder equity
Tangible assets	Retained earnings, etc
	Subordinated liabilities
	Other liabilities
	Insurance liabilities

**Typical Solvency I Balance Sheet**



**Typical Solvency II Balance Sheet**

Goodwill	Shareholder equity
Tangible assets	Other liabilities
	Contractual Service margin
	Risk adjustment
	Best estimate liability

**Proposed IFRS 17 Balance Sheet**

# What to look out for – standard questions

## Judgement

- Where has it been applied? How has it changed from prior periods? Why?
- For the key assumptions what would be reasonable alternatives?
- Has management given you a view as to the relative uncertainty around the assumptions?
- Has pressure been applied?

## Controls

- How well have actuals tracked previous assumptions? (analysis of surplus / profit).
- For key assumptions where do your assumptions benchmark against the industry?

## Regulation

- What have you been shown that demonstrates that the reserves comply with all the accounting and regulatory requirements?

## Technology

- Are the controls over the (extensive) actuarial systems weaker than those applying elsewhere in the organisation?
- Is a lack of awareness of current technology compromising the quality of the control environment?

# 2016 year end Life Reserving

## Some relevant questions

### IFRS reserves

- What is the basis for the IFRS reserves? Solvency I, II or something else?
- Have you introduced any simplifications for the purposes of the IFRS accounts?
- How does any of the risk mitigation put in place to manage Solvency II volatility affect the IFRS reserves, profits and volatility of profits? (likely to be a mismatch, particularly for long tailed books)

### SII assurance

- Have we performed a dry run of the Solvency II process with the auditors? What were the findings?
- Solvency II requires best estimate assumptions. Compared to the IFRS reserves, how much prudence is there? Where does it arise? How well is it understood?
- What transitionals are you using? What is the impact on the results as they amortise off?
- How sensitive is our SCR position to macro-economic movements?

### Regulatory interest

- What has the impact of the latest FCA announcements been on the reserves?
- For example, exit charges, legacy book reviews?
- PRA: focused on Solvency II: Risk margin, matching adjustments new IM, PIM applications

### Yield enhancement

- Have you moved into new types of assets to enhance yield? Examples would be equity release, infrastructure and other unrated assets.
- Do we get credit for the value this will create or are there other processes to be followed?
- What is the risk appetite for these asset types? Do you have the specialist skills to manage them?

### Brexit

What is the Brexit strategy and how involved have we been in industry feedback?  
Are there plans to change the corporate structure under the different possible outcomes?  
What impact would these have on the IFRS and Solvency II reserves and capital?

# 2016 year end Non Life Reserving

## Some relevant questions

### IFRS reserves

- IFRS reserves likely to be Solvency I.
- The margins in the IFRS booked reserves can be seen by comparison to Solvency II best estimate liabilities. Does this margin tie up with our stated risk appetite?
- What will our articulation of this difference be?
- Claims inflation and premium rate movements are key assumptions – how are they justified?

### SII assurance

- Have we performed a dry run of the Solvency II process with the auditors? What were the findings?
- Solvency II requires best estimate assumptions. Compared to the IFRS reserves, how much prudence is there? Where does it arise? How well is it understood?
- If PPOs are material, how are the discount rates set?

### Regulatory interest

- Given the soft market – how do you know the reserves are sufficient? In particular, are prior year releases justified?
- For a reserve release, did the data or the methodology change? How is this justified?
- How do you monitor the changes to the risks covered?

### Catastrophes

- What catastrophes are being considered?
- Are you affected by the BHP dam break?
- Due to changes in risk coverage, will eg attritional property, cargo or oil rig claims affect us?

### Brexit

- What is the Brexit strategy and how involved have we been in industry feedback?
- Are there plans to change the corporate structure under the different possible outcomes? How will passporting affect us?
- What impact would these have on the IFRS and Solvency II reserves and capital?

# IFRS 17

## Update and outstanding issues

### Go live date agreed

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- 1 January 2021
- Final standard Q1 / Q2 2017
- Main outstanding issues
  - Grouping
  - With profits

### First steps

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#### High level gap analysis

- Financial and business impact
- Implementation plan (finance transformation)

Transition from current IFRS reporting to IFRS 17 – profit & loss impact

Balance sheet and profit & loss look very different

### Non life insurers

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- Consider messaging around change in any margin in reserving as closer to Solvency II principles
- Transition for non retail insurers could be complex

### Life Insurers

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- Transition potentially complex as retrospective application of new standard
- Additional granularity of calculations puts pressure on data, people and systems

# Robotics and Cognitive Automation

John Middlemiss

blueprism



ARRIA  
NATURAL LANGUAGE GENERATION

UiPath  
Robotic Process Automation



ORAVN  
Power of Understanding



NICE®



Fusion  
Click | Automate | Unify

sas

nanorep  
Guiding the Digital Experience



NUANCE

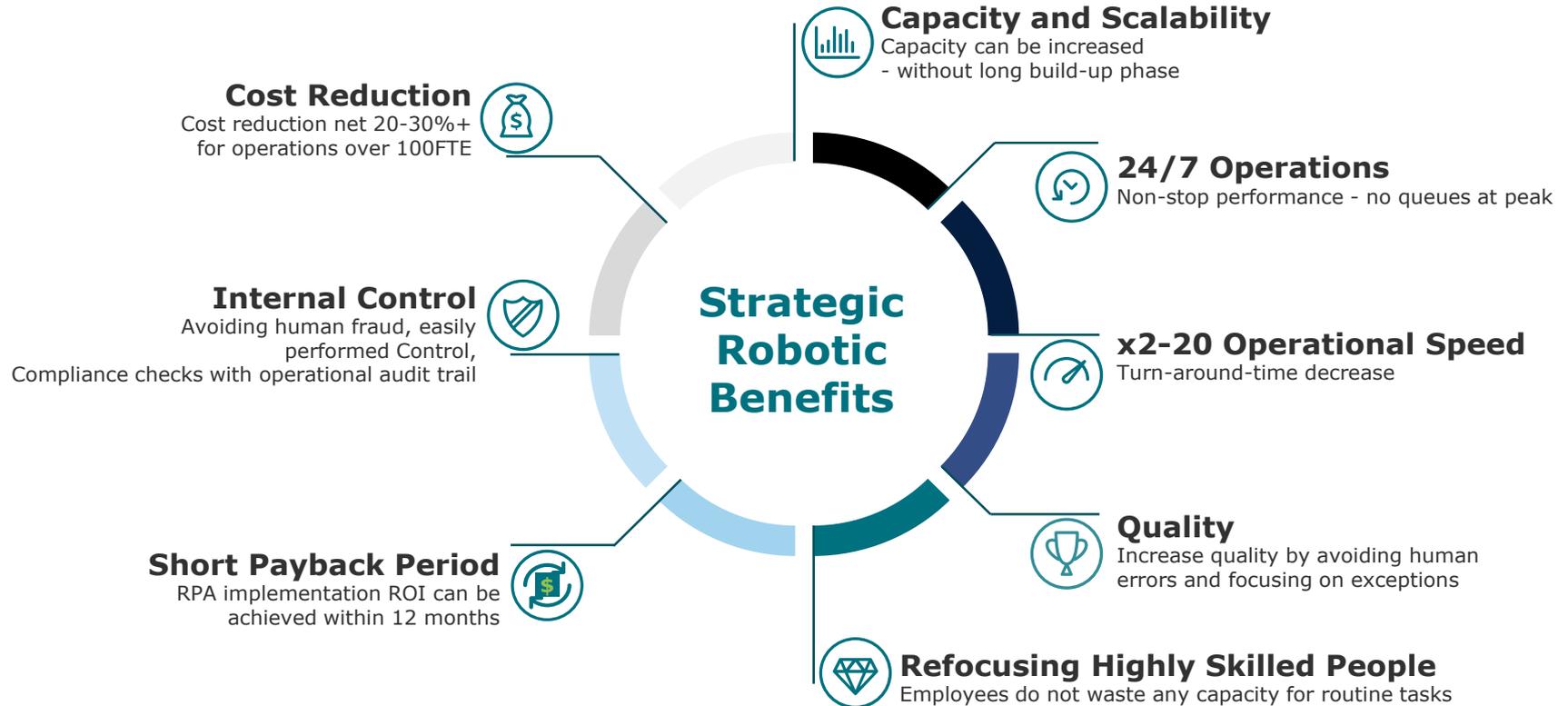
KORE



IBM Watson

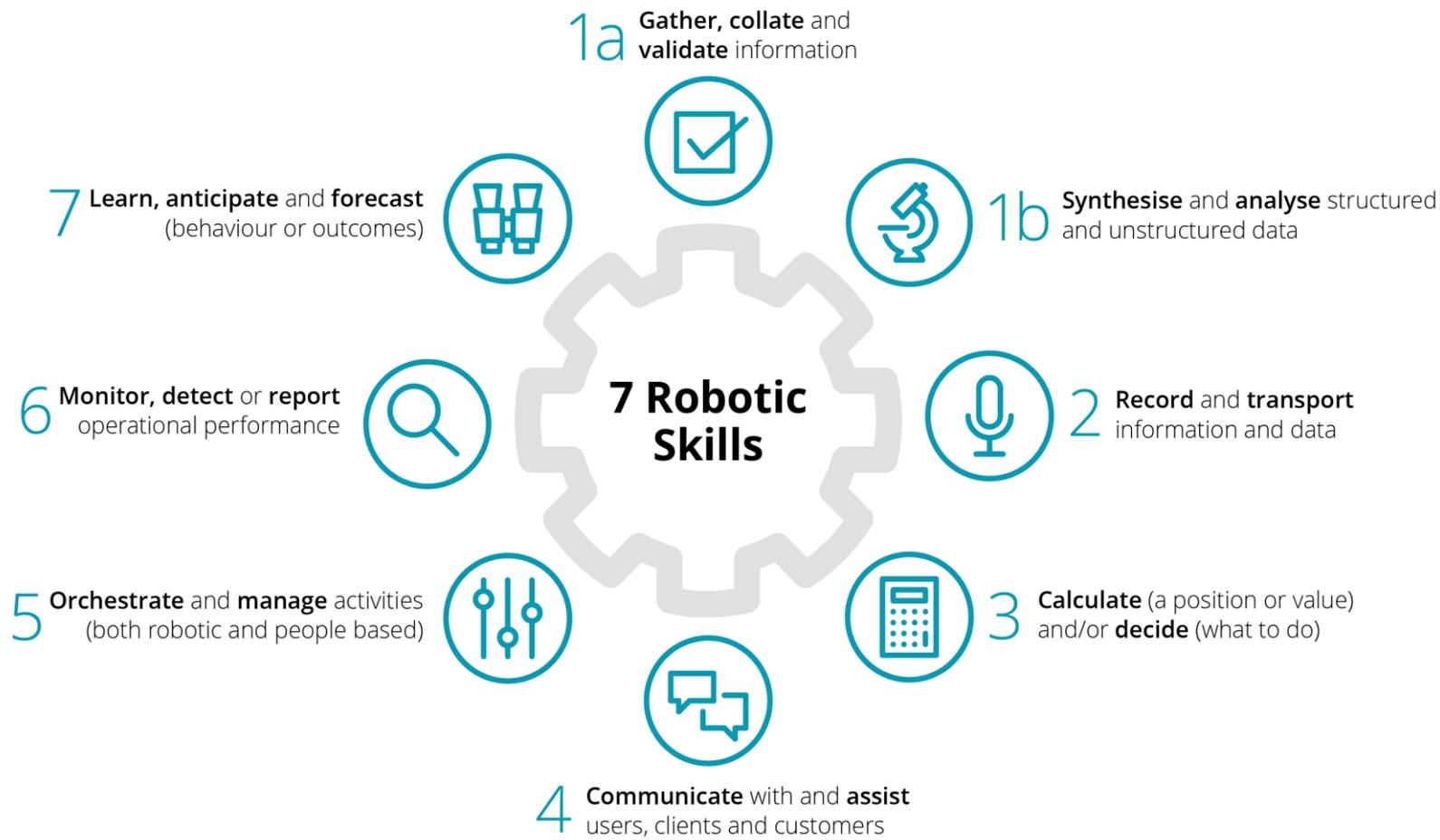


# Strategic robotic benefits



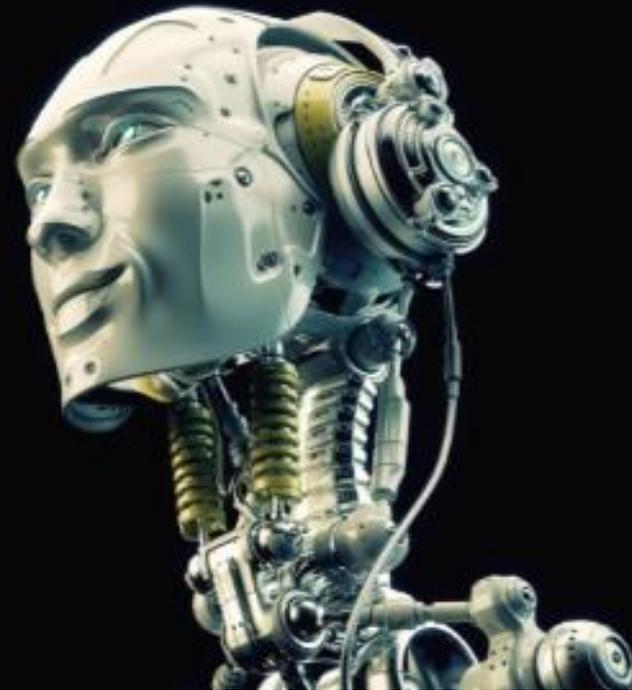
# The 7 Robotic Skills

These 7 Robotic Skills are available to drive automation within Insurers



# 7 COOL CAREERS OF THE FUTURE

## #2: HEAD OF HUMAN-ROBOTIC WORKFORCE INTEGRATION



**Thank you**

Next briefing – 26<sup>th</sup> April 2017