



CIVIL LIABILITY BILL AMENDMENT – INSURERS PASSING ON SAVINGS

Issued 28 August 2018

ICAEW welcomes the opportunity to comment on the Civil Liability Bill Amendment – Insurers passing on savings published by HM Treasury on 8 August.

We do not believe the information as currently requested in the amendment would form a suitable subject matter for audit, and when provided by the insurance companies may not be sufficiently consistent and comparable between insurance companies, and therefore it must be more precisely defined. Please see our suggestions as to how this may be achieved within this response.

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ANSWERS TO SPECIFIC QUESTIONS

Scope of new reporting requirements

Counterfactual figures

1. Without clearer and more precise guidance it would be very challenging for insurance companies to isolate the hypothetical effects of the bill not having been passed from a number of other matters. These may include assumptions already “priced in” to premiums, the effect of the use of reinsurance, and the impact of the wider environment and other activities going on within the company to drive efficiency for example.
2. On the current proposed basis of preparation we do not think the counterfactual information would be comparable between companies which may serve to frustrate the purpose for which it is being provided.
3. A proxy for the counterfactual information could possibly be looking at information from before and after the reforms on a line of business basis, however, as above, it would be challenging to isolate the effect of the reforms in this information.

Location of firms

4. It may be more precise to describe firms as “domiciled in England & Wales” to ensure the relevant firms are captured by the requirement.

Process for reporting new requirements

5. Audit is not the appropriate form of engagement for the information described in this consultation.
6. We understand that HM Treasury is seeking an assurance that the information requested has been prepared on a reasonable and supportable basis. An audit applies to historical financial statements, and is one of a range of possible assurance engagements which can provide comfort to the addressee of the report or opinion about the information upon which it is based.
7. In order to provide assurance, suitable criteria are required, such that the subject matter (the information which has been prepared and presented for these purposes) can be measured against that criteria to show that it has been suitably constructed, calculated and presented. The current requirements do not have the required specificity or clarity in order to be considered suitable criteria, which makes it very difficult to provide assurance on this basis, especially in a manner which would be robust, consistent and comparable between insurance companies. As such we do not think that any assurance purported to be provided in this regard would be useful. Therefore the information required must be more precisely defined.
8. We suggest the following information is requested in order to increase clarity and increase the possibility of assurance:
 - Mean figures for claims, costs and premium prices will be more straight forward to obtain and more consistent with how actuarial estimates are currently used.
 - Clear disclosure of the original pricing basis
 - The use of technical price may be a better metric than premium
 - Specify the ‘year’ under consideration, ie, calendar year vs underwriting year v accident year
 - Disclosure of gross and net information would isolate the effect of reinsurance

- Providing a year to year ‘bridge’ could also help highlight the effect of other movement
- A clear view of the required level of actuarial involvement (being mindful of the associated costs and benefits)

This list is not intended to be exhaustive, merely to highlight some of the areas where increased precision is required.

9. Even with increased precision, we would caveat that it is unlikely that work would be able to be performed on expected amounts, customer benefits and the further comments as these have no basis in historical accounting records.
10. The most pragmatic and practical way to proceed may be with an “agreed-upon procedures” engagement. This is potentially more appropriate in these circumstances and would likely be a more efficient and affordable way of ensuring the information has been professionally examined.
11. Any agreed-upon procedures and tests should be sufficiently detailed so as to be clear and unambiguous, and discussed and agreed in advance with the engaging parties so that the factual findings are useful to them and, depending upon the engagement, others to whom the report is made available. The practitioner’s report does not express a conclusion, and therefore it is not an assurance engagement in the technical sense.
12. The information contained within the requirements is likely to be commercially sensitive, and therefore there would need to be a strong case for publication, rather than simply sharing with the Financial Conduct Authority.

Impact of new reporting requirements

13. The requirements may be particularly burdensome for small insurers, and would increase depending upon the nature of assurance work that is required. The costs of preparing the information and engaging an assurance provider would likely exceed the savings made before they could be passed on to the customer.
14. Given the concentration of policies with large insurers (of approximately 90 insurance companies, the largest 20 cover 85% of the market) it may be appropriate to consider a de minimis limit for reporting and assurance.