

PKF's insurance seminar in Gibraltar

29 November 2022

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Introduction

Daniel Delgado
Partner, Gibraltar

Today's speakers



Daniel Delgado
Partner

☎ +350 200 71876
✉ ddelgado@pkf-canillas.gi



Ricard Willshire
Director

☎ +44 (0)20 3650 3676
✉ rwillshire@pkf-l.com



Neil Coulson
Partner

☎ +44 (0)20 7516 2270
✉ ncoulson@pkf-l.com

Agenda

Introduction

Daniel Delgado
Partner, Gibraltar

Welcome message

The Hon Albert Isola MP,
Minister for Digital & Financial
Services

PRA developments in the UK

Neil Coulson
Partner, London

FCA developments in the UK

Richard Willshire
Director, London

Gibraltar implications & Q&A

PKF globally



- More than 21,000 partners and staff
- Operating out of 440 offices
- Present in over 150 countries
- Member of the Forum of Firms

PKF Canillas Limited



- PKF's Gibraltar member firm
- Founded in 1990 by Pepe Canilla
- 3 partners (Pepe Canilla, Victor Canilla, Daniel Delgado) & 1 director (Pedro Alvarado)
- Growing team of qualified and trainee accountants
- Extensive local knowledge and client base
- Full range of services:
 - Accounting & payroll
 - Audit & assurance
 - Consultancy
 - Recovery & insolvency
 - Tax

PKF Littlejohn LLP



- Over 2,000 PKF partners and staff in the UK
- 9th largest audit practice in the UK
- £182.5 million annual fee income
- Over 100 years' experience in the insurance market
- Largest auditor of insurance intermediaries in the UK

PKF Littlejohn Canillas Limited



- Licensed statutory audit firm in Gibraltar
- High quality insurance audit services in Gibraltar
- Insurance audit specialists
- In-house actuaries and IT specialists
- Efficient and responsive
- Will work seamlessly across the UK and Gibraltar



HM Government of Gibraltar

**The Hon Albert Isola MP,
Minister for Digital & Financial Services**

PRA Developments in UK

Neil Coulson
Partner, London

PRA Business Plan 2022-23 (Issued April 2022)

Competitiveness

- Strong & simple – ease of entry & exit (including FSCS regime) - international engagement

Financial resilience of insurers

- Stress test (life: rates, liquidity, longevity) (general: natural catastrophe, cyber attack) - internal model scrutiny
- Life insurance – covid impact – economic outlook – credit risk
- General insurance – claim inflation – contract uncertainty risk

Solvency II Review

Operational resilience

- Third party (risk management, impact tolerances, continued delivery, cloud services) – cyber stress test

Governance & risk management

- SMCR reviews – governance & controls over regulatory reporting – diversity & inclusion

Emerging risks

- Ukraine – climate change – digitalisation– artificial intelligence – claims inflation

Regulation - competitiveness

- Increasing focus on regulator having a responsibility for aiding competitiveness
- Retain strong regulation
- Keep engaged internationally but simplify UK regulation where possible
- Make entry and exit to the market easier
- Improved dialogue with regulator

Solvency II changes - capital

HMT – Review of Solvency II – Response – Nov 22

Risk margin

- 30% lower for general insurer
- 65% lower for life and PPO

Investment flexibility

- Long term and sub BBB investments less penalised
- Insurers demonstrate rationale investment profile

Matching adjustment

- More granular
- Refinements to dovetail with investment flexibility changes

Solvency II changes - Reporting

Administration and reporting changes

- Remove capital requirements for UK branches
- New mobilisation regime
 - PRA more accessible – lower capital floor – reduced start-up requirements for personnel, governance and reporting – detail to come
- Solvency II threshold increased by 300% to £15m GWP or 200% to £50m for GTP
- Various QRT templates removed, reduced frequency, increased threshold, simplified – ongoing review
- A few additional forms and extra disclosures but overall ongoing cost reduction expected

Solvency II changes – Insurance Holding Company

Refined definition of Insurance Holding Company – from July 2023

- PRA retains discretion on application of rules
- Basic rule to qualify as Insurance Holding Company to which capital and regulation applies:
 - Exceed 2 of 3 of the following:
 - 50% of consolidated revenues (net of RI)
 - 50% of consolidated assets (more prudent of gross or net)
 - 50% of group SCR
- Classified as Mixed Activity Insurance Holding Company – if only exceed 1 of above

Emerging Risks

- **War in Ukraine**
 - Impact on investments – supply chains – future escalation
- **Climate change**
 - More active supervision of management of threats – reporting – risks/opportunities
- **Digitalisation**
 - Increased cyber risk – increased model reliance - increased outsourcing (systemic risk from third party provider concentration) – market disruptors – personal data – crypto assets
- **Artificial intelligence**
 - Data risks - speed & complexity - systemic risk

Claims inflation

Dear chief actuary letter from PRA 20-10-22

- Signs of claims inflation, including social inflation around the world
- Institute & Faculty of Actuaries risk alert & Lloyd's reserving guidance letter
- Until actual data supports judgements – consider uncertainty – claims & actuarial functions
- Explicit consideration of different types and drivers of inflation – not just CPI – Ogden rate – fixed/variable costs
- Inflation adjusted reserving techniques no longer widely used
- Consider beyond one year impact – duration and changing levels – slower emergence for longtail
- Consider impact on policy limits & attachment points – including reinsurance & availability
- Capital requirements – internal model – validation – impact on investments – growth impact – exchange rates – premium effects
- Risk management – scenario & stress tests – pressure on availability of staff resources

FCA Developments in UK

Richard Willshire
Director, London

Regulatory Developments in UK

- Most Gibraltar insurers closely linked to the UK personal lines market
- Increased attention in UK by the FCA on insurance intermediaries
- Three significant impacts during 2022:
 - General Insurance (GI) Pricing Practices and fair value
 - Appointed Representative regime
 - Consumer Duty

The FCA has been clear in its expectations on UK intermediaries and Gibraltar carriers.

It is important for Gibraltar insurers to be aware of these changing requirements and ensure:

- You are aware how this is affecting your UK intermediary partners
- You are satisfied your intermediaries are dealing with this appropriately
- You are prepared for how this may potentially have an impact on you as an insurer

Pricing practices & fair value – Summary

Pricing remedy

- Renewal price no greater than Equivalent New Business Price (ENBP)

Auto-renewal & cancellations

- Easy to cancel for all retail customers

Reporting requirements

- Supervision of home & motor markets & monitoring of firms
- Pricing data templates annually by calendar year

Pricing practices & fair value – Summary

Product governance

- Processes to ensure fair value to customers
- New rules on premium finance & product governance from October 2021 & within 12 months must update distribution arrangements

Pricing practices & fair value – One year on

The original implementation guidance was to October 2022.

February 2023 will see the first instance of annual reporting on value measures

Similarly March 2023 will see the first full cycle Senior Management attestation for pricing practices for price setting intermediaries.

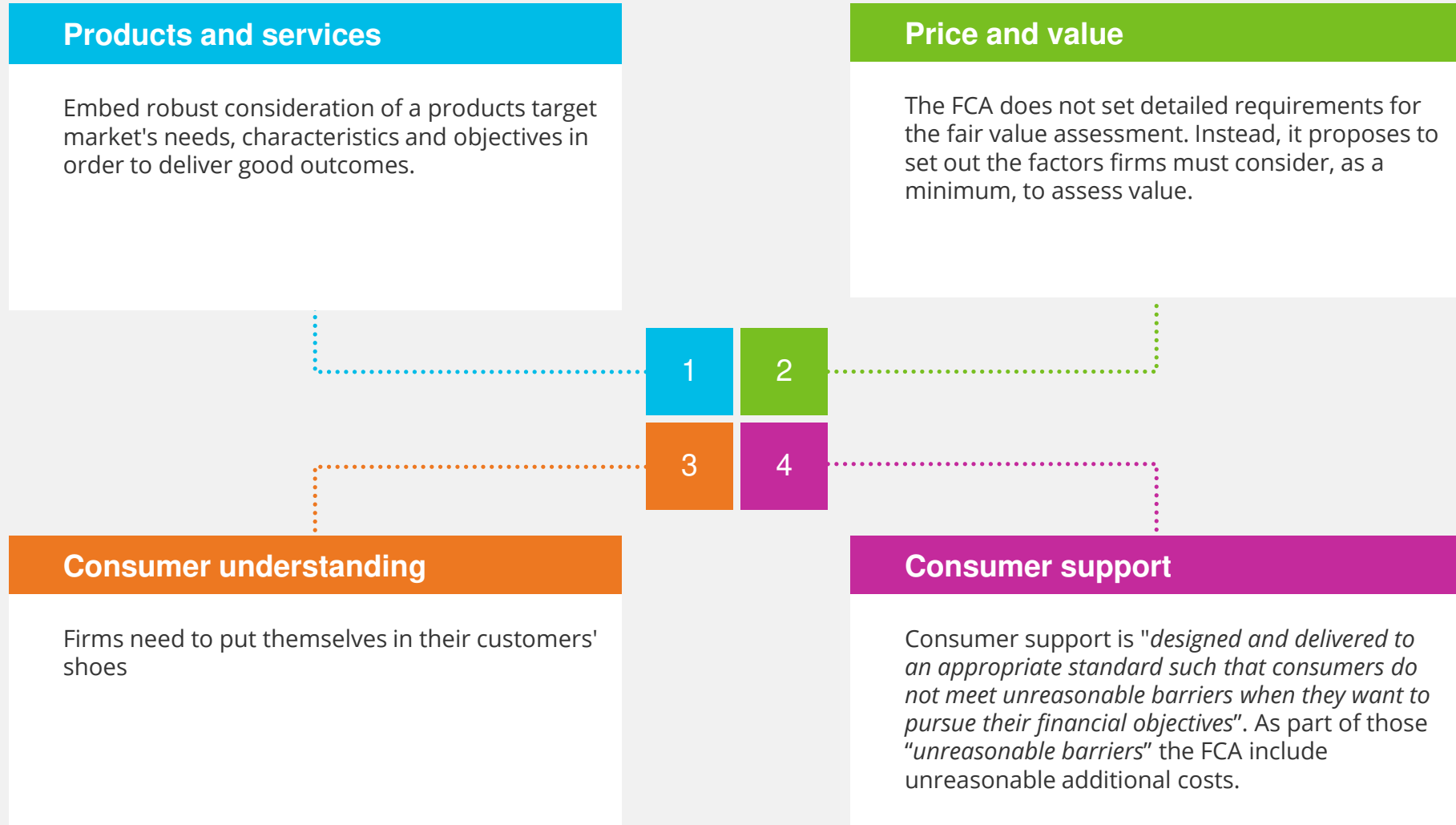
Appointed Representatives

Targeted supervision to reduce most significant risks

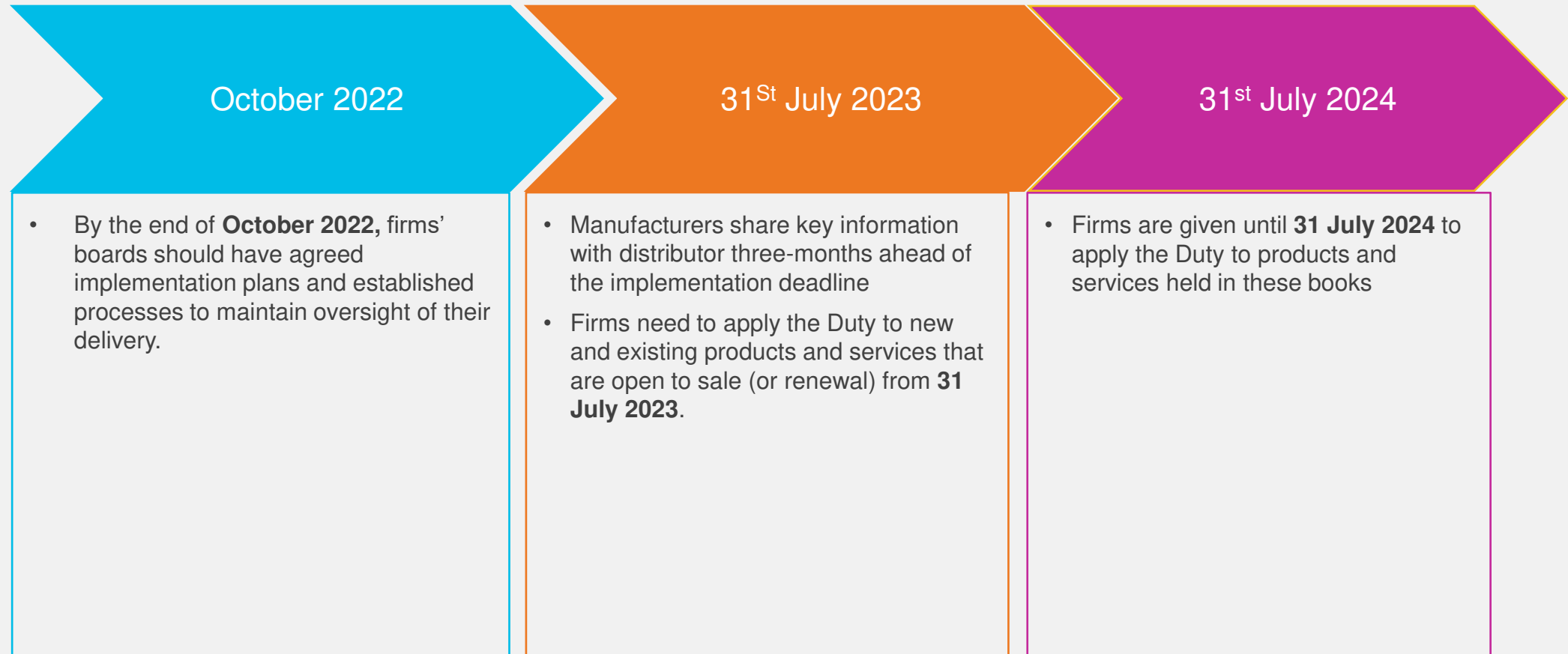
- New requirements come into force 8th December 2022, requiring:
- More timely information on principals and their ARs

Principle firms will be asked for data on their current AR's early December 2022 and will have until the end of Feb 2023 to respond.

Consumer Duty – Key Impacts



Implementation and impact



Sustainability and Environment, Social and Governance (ESG)

Richard Willshire
Director, London

Sustainability and ESG

- Growing in importance across stakeholders (regulatory, investors and consumers) since the Paris Agreement (2015)
- UN developed 17 Sustainable Development Goals (SDGs) with individual country commitments to implement these by 2030.
- Since COP26 (2021) there has been an increased focus on the ESG reporting requirements imposed by UK businesses and oversight bodies – including FCA and PRA.
- There is no currently agreed reporting standard – however, Taskforce of Climate-related Financial Disclosures (TCFD)

Mandatory ESG reporting for the largest and Premium Listed firms in the UK

Subsequent implementation through the largest organisations and filtered down to met 2025 coverage of UK registered entities.

Gibraltar implications

Daniel Delgado
Partner, Gibraltar

Where we are

- Post-Brexit UK focus
- Ongoing UK passporting for financial services through the Gibraltar Authorisation Regime (GAR)
- UK Financial Services and Markets Act 2000 amended to allow this
- Requires certain conditions to be met:
 - compatible with certain objectives, such as financial stability and consumer protection
 - relevant law and practice between the UK and Gibraltar is sufficiently aligned
 - co-operation between the UK and Gibraltar Governments, the respective independent regulators and the FSCS

What we've experienced

Common focus areas to the PRA Business Plan

- Financial resilience
 - Claims audits
 - Regulation of insurance groups
- Governance
 - Internal audit
 - Regulated individuals
- Emerging risks
 - Claims inflation

What's to come?

- Effects of UK Solvency II review
- ESG reporting
- Digitalisation
- AI

▀ Question and answer



Any questions?



PKF Littlejohn LLP

15 Westferry Circus,
Canary Wharf, London E14 4HD
Tel: +44 (0)20 7516 2200

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