INSURANCE IRELAND

Insurance Ireland response to CP104 – External Audit of Solvency II Regulatory Returns/Public Disclosures

Insurance Ireland welcomes the publication of the CBI's publication of CP104 on External Audit of Solvency II Regulatory Returns / Public disclosure. We support measures which third party assurance provide over information to be made available to the public, as a further support for building public confidence in the insurance industry in line with the aims set out in paragraph 1.4.

Part 1 – General Observations

Lack of clarity around proposals:

The CBI proposals are not entirely clear as there are certain key gaps e.g. "Reasonable assurance opinion" is not described. For example we believe that the level of work required in relation to the audit of the valuation of technical provisions should have been more fully explored in the paper. It is also not clear who the "actuarial expert" can be. It is therefore difficult without further information to provide definitive comments on the proposals.

Impact on competitiveness:

The CBI should ensure, through appropriate benchmarking, that its proposals are not inconsistent with requirements being put in place in other EU countries and that there is no negative impact on the attractiveness of Ireland as a place to do business.

Volume of work/timing:

We would have concerns about the sheer volume that is being included in scope here. Considering that under solvency 1 there were only a small number of core forms to be audited, the volume increase (as per appendix 2) included in this proposal will be a huge challenge to get a detailed audit completed and signed off in time for the 20 week timeline. Firms will need to consider timing of completion of year end processes, audit work and subsequent internal and external reporting. In addition the submission of Pillar 3 reporting (SFCR/RSR/QRT/Directors Accuracy Cert/Audit reports/ NSTs, Financial Stability Templates, ECB requirements) reduces over the next three calendar years to 14 weeks. This will be extremely challenging and we note that these deadlines may be reviewed as part of the review of Solvency II.

Costs

We have heard from some members that initial discussions with auditors are indicating a very significant increase in audit costs as a result of this proposal. Whilst these discussions may still be at an early stage we would highlight that the possibility of greatly increased audit costs is a serious concern for our members.

Proportionality:

We would question whether the proposals are proportionate. For smaller/low impact companies the cost burden on carrying out a full assurance review will be material. Additionally, specific consideration should be given to the treatment of closed books of business.

Non-31st December Reporting Dates:

Directors Accuracy Certificate – Firms who have 30 June (or earlier) reporting dates will have to comply with Article 36 of SI 485 this year. Any delays in communicating these requirements may impact on completion of Pillar 3 reporting by Boards. On a general point, most of the communications/information notices that come from the CBI are based on 31 Dec year ends. Whilst the majority of industry fall within that category, some do not and communications do not take into account non-31 Dec reporting dates. It would be very helpful if this matter was considered by CBI in future communications with industry.

Specific Proposals:

We would query in terms of cost vs value the requirement to auditing the claims development triangles (S.19.01) and would propose that this be removed.

Part 2 – Detailed Comments on text

Comments on section 3, Introduction

3.1 - Reasonable assurance opinion is not described. It seems that this will emerge from the discussion between the Central Bank and Chartered Accountants Ireland (CIA) following the consultation period. See comments on section 4 below.

Comments on section 4, Background

4.4 – Sets out that the Central Bank and CAI will develop external guidance, including the format of the audit report following the consultation period. It is of concern to firms, who will meet the cost of the audit, that they are unable to provide views on the full detail.

Comments on section 5, Costs and benefits of the proposal

5.2 – While it is accepted that in the period up to when IFRS4 Phase 2 becomes effective that the SFCR allows for some consistency of reporting between firms, the consultation paper does not reference the position of an audit opinion on S2 public disclosures after IFSR4 Phase 2 becomes effective.

5.5 – It is not clear how the audit of the relevant elements of the SFCR would lead to a more effective auditor-supervisor dialogue. Insurance Ireland would be interested in understanding how this opinion has been reached.

Comments on Section 6: The Central Bank's proposal on External Audit of Solvency II Returns/Public Disclosures.

Numbers refer to the provisions in Section 6 of the consultation paper

1. Section 6 and cost impact of opinion.

   Important provisions in this section refer to reasonable assurance opinion and partial scope of the Opinion. With only partial detail of what is to be the subject of a reasonable assurance opinion it not possible to provide comment or questions other than on a partial basis. Firms are concerned about the scope of audit requirements as well as the standard expected of the Opinion. These concerns about costs relate to the following provisions of this section in which requirements are not fully defined:

   3. In not requiring an audit to be carried out on internal models including that part of a partial internal model the Central Bank is placing the standard formula firms at a cost disadvantage. While accepting that the cost for internal model firms would be prohibitive, their exclusion will impact the cross firm consistency deliverable referred to above.

   5. The opening balances to be audited should state the extent of the balances to be checked and the nature of the opinion to be delivered. As part of the discussion with the CAI the Central Bank should specify which opening balances it will require to be audited.

   10. The consultation paper allows for reliance to be placed on an actuarial expert but no other bodies, such as the incumbent auditor. Is it the intention that reliance on others is restricted? There is a need to define who an 'actuarial expert' can be.

   11. It is unclear what information in each QRT will be subject to an opinion from an auditor which makes it difficult to respond to the scope. Is it the intention that the guidance to be provided following consultation with the CAI will identify the items of the QRTs to be audited, or is the full QRT to be reviewed?

   13. For the qualitative elements to be audited the consultation paper states 'these may include…' without the specifics of what is to be audited. Clarity would be required in order to ensure audit scope can be sized and the auditor can restrict their opinion to those particular requirements.

   14. This provision requires the auditor to assess the information in the SFCR outside the scope of those elements required to be audited. This is moving to a position where most if not all of the SFCR is to be audited. Is this intended? The scope of the audit requirements needs to be specific to ensure opinions across firms can be comparable and not subject to individual auditor interpretation.

   16. As the 'reasonable opinion' has not been agreed it is not possible to comment on it.

2. Other provisions of section 6 for which clarification is sought.

   1. What will the requirements be for those firms continuing reporting on a Solvency I basis? Is this covered in paragraph 4.3?

   4. The document states that the Partial Internal Model is only in scope of audit to the extent that the standard formula modules are used. However, differences between standard and Internal Model appears to be in the scope of SFCR review (page 15 E.4)). How do they do one without the other where the partial internal model is used?

9. Is use of the incumbent auditor mandatory? If not what requirements would the Central Bank impose on a firm with respect to the second auditor?

10. What is the definition of an 'auditors' expert'? Does it include the work carried out by a reviewing actuary, and if so what is the expectation in any year when a review is not required? Does it cover actuarial staff employed by the audit firm or the undertaking's Head of Actuarial Function and work supporting carried out by them in meeting their obligations? There appears to be duplication and overlap between these differing obligations.

12. Can you please confirm that the period ended the 31 December 2014 is the base reference year for all years up to 31 December 2023 when the 'look back' will first reach 10 years?

15. It is not clear who the Central Bank deems responsible for ensuring the data in the publically disclosed QRTs and the XBRL submission is consistent.