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The general insurance industry continues to face ongoing challenges in relation to profitability, over-capacity, competitive threats and the pace and scale of innovation. Internal Audit need to ensure it has sufficient breadth, relevance and adaptability in relation to these risks.

The tough market pressures facing general insurers of the last few years look set to continue into 2020. Whilst there are some hopes that rates may be turning, and actions taken to re-assess poor-performing accounts in 2018 are improving 2019 results, over-capacity and growing threats from new market entrants and international competition are likely to continue to pressure profitability. In addition, continued economic doubts, through the threat of trade wars, growing nationalistic tendencies across the globe, slow growth worldwide and instability caused by Brexit to the Eurozone, place further pressures on investment returns and demand for growth. Despite such pressures to enhance profitability and growth prospects, insurers must invest to embrace new technologies and innovate to meet continually evolving consumer demands.

Internal Audit (IA) continues to play a key role in supporting business in managing, monitoring and providing assurance on the risks arising from diverse strategic challenges such as these. Increasingly, as IA plans for 2020 progress, the challenge facing the IA function is the breadth of assurance needed, and balancing the breadth of assurance alongside pressures on resourcing levels, largely to align to cost-reduction programmes we are observing in many insurers.

Our overall view remains consistent with previous publications: that, to be ‘match fit’ in the future, the future IA function will need to -

• Be strategically positioned within the organisation
• Be well-enabled by talent, technology and process
• Operate with an agile and innovative culture

in order to provide assurance that provides insight and foresight.

This publication sets out a series of ‘hot topic’ thematic areas for consideration in your 2020 IA planning. Page 3 sets out some considerations for Heads of IA in relation to Evolving and Innovating the Assurance Approach, to ensure breadth and sufficiency of coverage with increasingly stretched resources.

This publication has taken consideration of the report issued in 2018 and thematic points of future considerations for Head of IA.
The future IA function will need to be strategically positioned within the organisation, well-enabled by talent, technology and process and operate with an agile and innovative culture, to guarantee that assurance provides insight and foresight.

More for less, value driven

Internal audit functions are increasingly challenged to play their part in business-wide cost-reduction programmes. This presents IA with the challenge of providing breadth in the IA plan with potentially limited resources. In our view, it is often important that second and third line of defence resource is not reduced until the dust has settled from the impact of business-wide cost reductions. For example, to assess where risk management or controls may have been impaired and to ensure that newly implemented, leaner processes are well controlled and effectively manage risks.

IA also face challenges in ensuring: (i) sufficiency of coverage across all areas of the business (over a reasonable period of time) through a risk based planning approach; and (ii) coverage across scope areas for consideration as set out in the CIIA’s ‘Guidance to IA in financial services’ (‘FS Code’). This is to ensure appropriate coverage is performed to fulfil the annual assessment reporting (to the Audit Committee (‘AC’) on the overall effectiveness of governance, risk management and controllership.

We consider this is best addressed through introducing more varied assurance approaches alongside the traditional, full-scope IA review approach. Favourably, technology developments, such as data analytics or robotics and automation, are making such varied approaches more readily available to IA, which:

(i) allows IA to provide assurance over business processes that are increasingly applying data management/ mining tools and approaches
(ii) enables IA processes and approaches using such technology.

2020 IA planning should look to expand horizons in the assurance approach to add value, by increasing breadth of coverage, driving efficiencies and providing value through assurance in ways that spot potential risks and issues before they crystallise.

Data analytics

Whilst IA is increasingly using data analytical (‘DA’) approaches, we see variations in the extent and efficiency of DA usage and quality of assurance and reporting. For 2020 IA planning, we recommend that IA functions should ensure there is a clearly defined and articulated vision and strategy for using: (i) a considered framework for using and reporting on data analytics; and (ii) agreement from the AC for any investment needed for longer term value.

Robotics/ artificial intelligence

Business models are increasingly using technology through predictive learning, artificial intelligence (‘AI’) and robotics. IA needs to have a clear vision and strategy on how it will provide assurance over such innovative technologies and processes. This raises the question: ‘How do you audit a robot?’. It is important to assess how and where such technology is used within the business and outlining proposed approaches to provide IA assurance. IA also needs to assess the specialist resource skills required to undertake such assurance work. IA also needs to plan how and where it can embrace robotics/ AI in its own processes: for example, provide assurance in relation to issue tracking or for continuous monitoring. Using such technologies will further impact on future resourcing levels and the skill set required as more laborious processes are automated.

Continuous monitoring/ auditing

The agility of businesses has increased the need for speed in identifying and addressing potential risks and control issues. Establishing continuous monitoring and auditing approaches brings an opportunity for real time assurance. Embedding routine continuous monitoring and auditing approaches provides an opportunity for streamlined assurance over the long term with less intensive resource input. Key challenges include: (i) assessing the cost and investment initially required; (ii) assessing data quality (and completeness) to ensure a good fit for continuous monitoring; and (iii) ensuring alignment and synergy of any similar monitoring approaches undertaken within first and second lines of defence. IA plans should outline a vision for using continuous monitoring and incorporate how the above challenges will be addressed.
Culture

Regulatory focus and IA professional standards have required IA to increase its focus on assessing culture (specifically risk and control culture). We observe a wide range of practices for assessing culture, such as; subjective commentaries based on interactions from each audit; sophisticated measurement approach to culture; or specific audits scoped around culture.

As a requirement of the CIIS FS Code, it is important that IA plans and defines its approach to measuring and assessing culture and communicates and agrees this with the AC.

Insight and foresight

To enhance the value of assurance, IA should look for ways, in its strategic planning, to provide wider insight and foresight in its reporting.

Insight comes from bringing wider market perspectives to the reporting and assurance - benchmarking and maturity profiling on how processes and controls compare to peers and wider industry typical/good practices. Foresight comes from assessing whether a control environment is sustainable in the medium to longer term and/or highlighting emerging risks that can impair risk and controllership in the future.

As part of IA planning, IA should assess how and where such considerations would benefit the insurer and how sources of such information can be obtained. This may often require IA functions to optimise co-sourcing relationships; itself an important area to identify, articulate and include in the IA plan.
Political and economic uncertainties continue to present risks to insurers, in terms of appropriate pricing of insurance risk and managing investment risk. Market consolidation, competitive threats from new entrants, and international rivals, present additional risks. IA needs to ensure consideration of these within the 2020 planning process.

Brexit
Currently many insurers are developing the first draft of their 2020 IA plans for discussion with executive management and AC’s. The future of Brexit remains unclear, along with uncertain economic forecasts. Whilst the future remains unknown, all insurers have conducted a risk and impact assessment. IA should closely review this, to identify any gaps in management’s assessment and to identify areas where assurance on risk mitigation will bring value. It is also possible that adverse economic conditions, post-Brexit, may result in increased underwriting and claims fraud and an increased underlying cost of claims if international trade tariffs rise. IA should assess controls and processes to identify and manage fraud risks to support prevention and mitigation.

Customer trends
Customer trends are changing across all business environments; insurance is no exception. Customers are demanding more technology-led service propositions, obtaining increasing information on rate comparisons and service quality, and sharing information on providers’ poor service widely and with speed. Insurance business models are adapting to embrace these changes in multiple ways. IA needs to adapt to these changes by understanding such technology and service developments, assess the impact on the customer journey and ensure assurance is at a timely intervention point when most relevant to the implementation and embedding of business model changes. Once embedded, technology and digital developments often lend themselves well to data analysis and continuous assurance approaches.

Competition
The UK insurance industry - most notably in relation to the Lloyd’s and London Market - face increasing pressures through over-capacity, placing continual pressure on rates and profitability. Such overcapacity arises through the continued growth of overseas international insurance hubs (such as Singapore and Bermuda), new (local) entrants in emerging market jurisdictions and alternative risk transfer products, fuelled by capital markets. These factors require consideration in business plans, forecasting and in rating forecasts. IA should consider including strategy and financial planning in its 2020 IA plan.

Trade wars
Economic uncertainties are prevalent globally, with increasing nationalistic postures and, significantly, a large-scale trade war between the US and China. UK insurers are impacted in three main ways (i) the potential restriction on international growth and expansion, (ii) international insurance business and (iii) investment returns. All three require assessment by IA as part of 2020 planning. We have observed a trend of changing investment risk appetites and more aggressive investment strategies across a number of insurers; for example, increasing the proportion held in equities and investment in longer term investment portfolios such as infrastructural debt. Such changes require a thorough due diligence and risk assessment process at inception and robust ongoing investment performance and risk monitoring. IA should assess the impact of the global trading environment on the insurer’s business model, and the impact of any changes in investment strategy and risk.

Mergers & Acquisitions
Over-capacity, pressures on profitability and the rise of international insurance groups outside of the UK has resulted in an increase in merger and acquisition (‘M&A’) activity across the insurance industry. Most notably, there have been a number of changes in ownership and consolidation within Lloyd’s, the London Market and across the insurance broking community. The FS Code guides IA functions into involvement in ‘key corporate events’; potential M&A activity provides an ideal example of such an event. IA should, in its 2020 planning, identify any intentions for M&A activity and discuss with management the optimal approach and timing of IA involvement in the process. This could be through: (i) reviewing and challenging management information upon which the acquisition decision is made; (ii) involvement in, or challenging, due diligence processes; (iii) review of post-acquisition integration plans and projects; and (iv) a defined plan of assurance for the acquired business, pre or post-integration, to aide the understanding of risks within the acquired business.
Regulatory pressures continue across the insurance market. Whilst many are not new, increased focus on specific areas, and the cost of non-compliance increases the need for effective compliance framework.

**GDPR**

Most IA functions undertook reviews to assess GDPR compliance before or immediately following the GDPR effective date in May 2018. Recent announcement of planned fines - notable examples being in the airline and hotel industries - highlight that the scale of non-compliance can be significant and bring reputational damage. Examples to date highlight that fines have been levied where there have been data breaches allegedly as a result of information security issues. IA should review how it can best provide assurance over ongoing GDPR compliance. We set out considerations in relation to information security later also (see "Technology and Security"). An approach for IA, to provide assurance on the continued compliance with and embedding of, GDPR regulatory requirements, may be through assessing the overall effectiveness of the three lines of defence model.

**SMCR**

The Senior Managers and Certification Regime (‘SMCR’) has been implemented for insurance firms since December 2018. Whilst we have seen good traction across insurers to implement governance requirements and train staff on the requirements, sustainable, ‘people management’ processes, which underpin much of the SMCR regime, often require further work to implement and embed. IA should assess, as part of 2020 planning, the extent to which these underlying processes are implemented and embedded, including how conduct standards have been embedded into recruitment and performance management processes. Insurers are also likely to take time to embed a culture of ‘individual accountability’, with clarity on responsibilities across executive teams and refinements to governance and Committee arrangements and management information, to ensure such individual accountabilities can be fully and appropriately discharged. Again, IA should consider the extent to which this presents a challenge to the insurer and include reviews, as appropriate, in the 2020 IA plan.

**Operational resilience**

Operational resilience is an outcome of a firm’s practices, processes and culture to work effectively to mitigate the risk of operational disruption and consumer harm. The UK Regulators published a joint Discussion Paper with the Bank of England on this topic in July 2018 and then also confirmed operational resilience amongst their top priorities in their 2019/20 Business Plan. Insurers are expected to address operational resilience effectively by focusing on business services rather than systems. IA plans must include operational resilience as a standalone theme, with specific objectives and areas of assessment, although the outcome will also benefit from the combined results of other audits including risk management, cyber resilience, systems and processes, outsourcing, recovery planning, incident response and business continuity. We comment further in relation to operational resilience later in this article.

**Financial crime**

Financial crime risks remain significant to insurers, with robustness and scrutiny needed in customer take-on processes to ensure compliance with sanctions, financial crime and anti-money laundering requirements. IA needs to assess the optimal way to provide assurance on these risk, recognising the key role also played by the first and second lines of defence (notably the Compliance function) in this area. An approach for IA could be to assess the effectiveness of the governance framework, the oversight and challenge provided by the Compliance function to ensure robust ‘Know Your Customer’ processes, controls and governance is in place.

**Conduct**

The FCA continues to focus on conduct within insurance to ensure fair outcomes for customers, transparent disclosure and communication of insurance cover and a fair price to the consumer for the underlying insurance product (in relation to pricing and commissions). The FCA is particularly focussed on ensuring fair pricing (see ‘Underwriting Pricing and Practices’) and the treatment of vulnerable customers, for example in relation to selling practices. IA could assess the effectiveness of product governance and complaints handling, which should include a focus on underlying issues in these areas. Ongoing continuous monitoring and data analytical approaches are also effective ways to assess whether fair customer outcomes are consistently achieved.
Soft market conditions has resulted in increased regulatory scrutiny on price adequacy and pricing governance. IA has a key role in assessing the robustness of rating models and forecasts of underwriting performance. Risks are also increasing through cyber insurance exposures and potential reputational and regulatory implications from dual pricing practices, an area of focus in 2019 with the FCA’s fair pricing reviews.

**Pricing models**

Increased focus on the underlying profitability of underwriting has resulted in increased regulatory scrutiny on business forecasting and how rating models are deployed to ensure accurate and consistent prices across classes of business and alignment of rates to overall risk appetite statements. Within the Lloyd’s and the London Market, practices vary widely in relation to the extent, sophistication and application of pricing models to underwriting decisions. IA should assess, in its 2020 planning, whether the following are valuable areas for coverage: (i) business forecasting processes; (ii) pricing model usage and testing; (iii) pricing model governance; and (iv) data quality and governance for data used in pricing decisions.

**Pricing governance**

Regulatory scrutiny in relation to pricing practices and rate adequacy has increasingly had regard to the quality of pricing governance, including: (i) roles and responsibilities under SMCR in relation to pricing decisions; (ii) the quality of management information in relation to actual price compared to technical price and explanation of variances; (iii) oversight and challenge provided by executive management and the Board; and (iv) effectiveness of communication between underwriting, claims and actuarial functions. IA should consider the risks associated to pricing governance and whether potential scope areas outlined above, should be included in IA’s planned coverage in 2020.

**Delegated underwriting**

A key tool for business expansion and growth continues to be through delegated authorities, either through third party administrators, Managing General Agents or overseas delegation to support international business underwriting. However, poor management of delegated underwriting (and delegated claims handling) continues to present risks and challenges to insurers. Regulatory oversight has been significant in recent years, with a number of thematic reviews conducted. Continued poor practices is likely to result in continued regulatory concern. 2020 IA plans should consider the scale of delegated underwriting, new authorities established in recent years and the consistency of the framework to govern, manage and oversee delegated performance.

**Dual pricing/ Fair pricing**

2019 saw a Super Complaint raised by the Citizens Advice Bureau in relation to dual pricing practices across a number of business sectors, including insurance, particularly the way in which such practices seemingly penalise customer loyalty. The FCA has also initiated reviews, from 2019 into 2020, relating to fair pricing in financial services. There is increasing discussion and debate across insurers, and at Board level, on the need to address practices that may be perceived to be unfair to customer segments. IA should, as part of 2020 planning, assess whether such practices exist and the risks they may pose. Assurance approaches, such as data analytics, can be usefully deployed to identify dual pricing practices and potential customer detriment that may have arisen as a consequence.

**Cyber insurance**

Whilst a number of insurers are now writing tailored cyber-related insurance products, there remains a risk of insurance exposures arising as a consequence of cyber security breaches in insured customers. Controls are being enhanced to review wordings and ensure robust underwriting practices are in place to make sure such policy exposures are knowingly entered into, rather than mistakenly accepted. IA approaches in relation to cyber insurance include: (i) reviewing product governance and control for policies designed to provide cyber insurance risk; (ii) reviewing risk management practices which sometimes accompany such cyber insurance products, to assist clients in managing cyber risks and incident management response should a cyber attack occur; and (iii) assessing the controls in place to identify silent cyber exposures and to stay alert to potential policy wording amendments that may be required. This would include assessing how underwriting, claims and actuarial functions obtain cyber insurance claim business intelligence (both internally from notified claims and from wider market intelligence and insight) and share such information to act with speed to amend wordings and policy coverage as appropriate.
Operational disruption can impact financial stability, threaten the viability of individual firms, or cause harm to consumers, policyholders and market participants. Operational resilience represents the ability to prevent, respond to, recover and learn from operational disruptions.

Governance and risk management
UK insurance firms must adapt their governance arrangements and risk management processes to include operational resilience amongst their objectives and areas of oversight. Senior Management must be able to demonstrate they have full control of the systems and processes that help prevent operational disruption, support the continuity of services and effective recovery from incidents. Risk management frameworks must be adapted to include consideration of the incidents that pose a risk to operational stability in a business environment that is more prone to system failures and cyber attacks. IA plans must include operational resilience as a standalone thematic audit, where the outcome will combine the results of other audits in relevant areas including risk management, cyber resilience, systems and processes, outsourcing, recovery planning, incident response and business continuity.

Regulatory readiness
The Regulators understand that disruption of services can harm consumers, which is why operational resilience continues to be a high priority in their business plans to ensure consumer protection. The PRA and FCA are planning to develop a regulatory and supervisory framework at the end of 2019 that provides a common set of expectations and regulatory standards around operational resilience. In the meantime insurers must continue to demonstrate operational resilience by meeting existing regulatory obligations as well as their contractual duties to policyholders. IA can help firms prepare for supervisory work that the PRA/FCA will undertake by testing insurers’ operational resilience through questionnaires, simulations, skilled persons’ reports, thematic reviews and ethical hacking.

Key business services and products
The Regulators have confirmed that focusing on continuity of business services is the key to ensuring strong operational resilience. Ultimately it is the business services and the supply of products that must be resilient. Insurers must assume that disruption will occur and systems will fail, and ensure that they have the appropriate processes and controls in place to prevent, respond to and recover from incidents. Audit work in this area will focus on a firm’s approach to operational resilience to ensure there is a services-focussed plan that clearly identifies the most important business services and products to prioritise the essential ones when recovering from disruption.

Customer impact assessment
Insurers must be able to assess the impact of any operational disruption affecting the services they provide, and maintain an impact tolerance statement with clear metrics to be able to measure the severity of incidents and the potential harm caused to policyholders. Internal audit plans should include a review of the effectiveness of the tools used for the quantification of the impact of disruption by type of service/product, type of customer, level of importance of the business services and any specific parameters that are calibrated to individual client profiles. In addition firms will be tested on their approach to treating customers fairly through the clarity and transparency of their impact tolerance statement and timeliness of communication plans to inform policyholders of any incidents promptly, explain the level of harm caused and the solutions adopted.

Incident response and recovery
Business continuity and incident response are standalone IA themes (p. 10 and 11) that contribute substantially to demonstrating operational resilience. Insurers must have effective plans to adopt alternative systems for the provision of vital services further to incidents and be able to return to business as usual promptly when the disruption is over. Audit work will focus on assessing a firm’s ability to provide substitute products and restore the supply of essential services, whilst also considering the quantum of harm that an incident may have caused. An important aspect that the Regulators focus on is how firms keep track of historic incidents, record actual impact of disruption on policyholders and run root cause analysis to learn and evolve from past experience and make informed decisions on any improvements required to strengthen their overall operational resilience.
Technology developments are improving insurer business models and customer connectivity, but present a range of risks and challenges for successful implementation. Ensuring robust information security throughout the technology supply chain, quality customer experience and maintaining operational resilience are vital during implementation.

Cyber resilience

Whilst a known and significant risk for a number of years, cyber risk continues to be a key risk facing businesses, given the ‘cat and mouse’ nature of cyber crime. It therefore remains a regular, routine area for IA focus. IA functions are increasingly looking for fresh ways to approach cyber assurance, and to expand typical approaches such as penetration testing and assuring against standards such as Cyber Essentials Plus. Increasingly we are seeing assurance being provided in disparate ways such as Board Room simulation, to test senior management reactions in the event of a cyber attack. Also, as first and second line risk management approaches embed into ‘business as usual’ processes, IA’s role should evolve to assess the effectiveness of the overall governance and risk management framework in place, through first and second lines of defence and information security governance.

Cloud technology

The increasing trend towards cloud based technology brings effective capacity management, access to innovative technology and specialist resources and robust security risk management. Oversight remains key, the insurer has primary responsibility to make sure service provision is robust, reliable and secure. 2020 IA planning should include an assessment of existing, or planned, cloud technology usage and an examination of contractual terms, service level agreements, rights of access for audit and routine governance and oversight. Clarity of responsibilities internally, required under SMCR, is also an area for focus.

Automation and AI

Insurance processes continue to undergo significant change, with increased automation in relation to policy administration, claims first notification of loss and chatbox technology to assist in customer enquiries and sales. Artificial intelligence and predictive learning also continues to deepen its presence in insurance business models, identifying underwriting and claims frauds, supporting pricing model enhancements and improving risk management and monitoring practices. IA needs to obtain a full understanding of where such technologies are being deployed, and develop appropriate assurance approaches. It is likely IA will need to embrace new technologies and AI processes themselves in order to audit such developments in the business, requiring investment in assurance activity for the longer term gain.

Digital and customer connectivity

Digital technology is replacing more traditional mediums for customer interaction, with the volume of policy sales and claims notifications for retail insurance increasingly being through digital means rather than call centres. There are obvious service resilience and security issues from such technology, in addition to further potential risks, for example; increased risk of fraud, the risk of disruption to the customer journey or loss of customer connection for customers that may struggle with (or have a low appetite for) new technologies. IA has a role to play in ensuring digital developments are fully thought through in relation to the underlying customer base, including how customer surveys, product governance and complaints inform the insurer on the effectiveness of new digital processes and their success. IA also needs to ensure the assurance approach for auditing digital projects is developed to ensure timely, relevant assurance.

Business continuity planning

Whilst not a new risk area, business continuity and disaster recovery planning (‘BCDPR’) requires frequent review and assessment by insurers, to ensure plans keep pace with new technology implementation, cloud based service provision, increased use of outsourcers, changing terrorism threats to premises and staff and the increasing trend of remote working by staff. IA should consider, in developing the 2020 IA plan, the frequency with which BCDRP is reviewed in its design and content, how BCDRP is subject to appropriate oversight, review, approval and how it is frequently and thoroughly tested through the business, and within outsourced activities.
GOVERNANCE AND CULTURE

Whilst a key area for focus in relation to governance will be embedding both the spirit and requirements of SMCR, wider governance aspects should also be considered by IA in developing its 2020 IA plan. Furthermore, business behaviour and culture remain under the spotlight of customers and regulators, providing a further area for IA focus.

**Reputational risk management**

Boards are increasingly focussing on how brand and business reputation is maintained or enhanced, recognising the speed and extent to which reputational damage can harm the longer term success and value of the business. Risk registers are increasingly noting key brand drivers specifically, Board level discussions are focussing on the key risks to reputation and how these are protected and how risks are managed. IA has a role to play in providing assurance over reputational risk management, through challenging the areas identified by the business in which reputational damage could arise and assessing the effectiveness of key controls that manage and mitigate these risks. IA can also challenge the extent to which executive management, and the Board, routinely consider and assess reputational risks.

**Incident response**

Things go wrong, but often it is how a business deals with such wrongs that drives customer and regulatory perception of the culture in the business which influences the insurer’s reputation. Simulations help prepare for such events. For 2020, as SMCR embeds, assessing the effectiveness of incident response will also include an assessment of the way in which the individual accountabilities under SMCR inter-relate with the incident management processes. IA can play a role in reviewing the approach to such simulations, including the underlying events and incidents, to ensure a range of possibilities are included. IA can also assess the clarity of responsibilities for handling incidents across executives and Board members.

**Outsourcing and supply chain management**

Recognising the importance of outsourcing and third parties to the customer experience and operational resilience, it is imperative that insurers maintain robust governance and oversight of all such arrangements and evidence this in a way that would meet regulatory expectations. Recognising the increased importance being placed on organisational and risk culture (and the conduct standards in place under SMCR), insurers should consider how they assess and measure the culture in place at outsourcers and third parties. IA planning for 2020 should consider: (i) the extent to which governance arrangements are appropriately structured and evidenced; and (ii) how culture is assessed and measured, in outsourced and third party arrangements.

**Measuring culture**

A wide range of professional bodies are advocating increased focus on culture in recent years, and increased regulatory focus on culture. Defining cultural expectations, embedding firm values and integrating this into people management processes (through recruitment, training, performance management and remuneration) are all key to successfully embedding the desired culture. For 2020 IA planning, IA functions should also consider whether it is appropriate to assess and assure on the wider business framework for setting desired cultural expectations, communicating these and measuring whether the desired culture is embedded. An ‘outcomes’ based approach can also be adopted, comparing IA perspectives on culture, from audits undertaken during the year, to assessments undertaken by the business.

**Corporate social responsibility**

The focus on corporate behaviour and reputation has also, in recent years, resulted in increased focus on corporate social responsibility (‘CSR’) and how businesses are seen to be doing the right thing, particularly regarding their carbon footprint, and also in the treatment of staff, through the supply chain, within the local community and in charitable sponsorship. Whilst typically not an area to which IA has provided assurance, the increased focus on this topic presents a case to feature this in its 2020 planning considerations. This would include an assessment of: (i) the clarity of corporate positioning in relation to CSR; and (ii) how practices and behaviours through the insurer bring these to life within the business model.
IFRS 17

IFRS 17 will require insurers to either customise or overhaul their current financial reporting processes and systems, actuarial models, financial statements and business planning (forecasting) models. The key to an effective implementation lies in early engagement with all stakeholders to facilitate a comprehensive project implementation plan and develop an early understanding of the key challenges impacting an organisation. Implementation costs are likely to be substantial especially for those entities which cannot leverage modelling and reporting capabilities created during Solvency II implementation. IA will play a key part in ensuring appropriate internal controls are designed and implemented; and that stakeholders across the company are aware of what is required of them. To enable greater stakeholder confidence and minimise the risk of re-work at a later stage, IA can plan and deliver early and continuous assurance that all necessary steps are being taken to achieve adherence with the requirements of the new Standard and changes in data, systems and process architecture to facilitate compliance with the Standard. 2020 IA plans should consider IA’s role in: (i) reviewing IFRS 17 project plans to ensure accuracy of scope and timeliness of delivery; (ii) reviewing the design of the IFRS 17 target operating model to ensure that it is likely to deliver compliance and is aligned with firm strategy; (iii) assessing the appropriateness of governance and risk management framework providing oversight around the newly developed actuarial models; and (vi) assessing the adequacy and effectiveness of controls over data accuracy and completeness.

Taxation

The Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion (CCO) legislation came into force on 30 September 2017 as part of the Criminal Finances Act 2017. Penalties for non-compliance include unlimited fines, criminal prosecution and reputational damage. Organisations need undertake specific actions to demonstrate a defence including a risk assessment, development of policies and procedures, clear communications across the business, whistleblowing and training. Aligned to this, IR35 reforms will be extended to the private sector. From April 2020, some businesses will have to determine the employment status of every gig worker, freelancer or contractor they use, and potentially deduct PAYE and NIC. As insurance groups implement their Brexit plans, new operating models will create various tax issues, therefore managing tax risk, including compliance with laws and minimising tax leakage, should be high on the Board agenda.

Strategy and planning

Soft rates, continued pressure on profitability and, on occasions, poor performing pricing models has resulted in financial results on occasions being outside of expectations. Furthermore: (i) project spend overruns and the failure to fully achieve cost reduction programmes can impair actual profitability compared to forecasts; and (ii) stress testing can often fail to add to planning processes in a way that fully informs management and the Board when making business decisions, especially in times of such potentially volatile political and economic uncertainty. In developing 2020 IA plans, IA could assess: (i) the quality of strategy and business planning processes, including the way in which stress tests are developed, reviewed and challenged through governance; (ii) the manner in which hindsight reviews are undertaken to continually refresh and improve planning processes and forecasting; and (iii) assess whether appropriate rigour and challenge is provided, at a relatively granular level, on specific accounts with a track record of poor performance and profitability, to ensure future results prove more successful.

Investment income

As outlined in an earlier section, ‘Global landscape’, we highlight changes in investment strategy and risk appetites as a way in which insurers are examining the underlying capital base and seeking better use of available funds to enhance profitability. Whilst the size of investment portfolios means investments is always a core area for routine IA attention, IA planning for 2020 should assess the extent to which the investment portfolio is changing and, if so, the nature and risks of underlying investments causing this change. As market and credit risks underlying investments increases, one would anticipate increased scrutiny and monitoring of risks by the Risk function also. IA could consider, in its scope, the quality of second line oversight.

Claims trends

A number of underlying macro-economic and political events gives rise to the potential for adverse trends in underlying claims costs, as a consequence of trade wars and Brexit. For example, increased fraud risk from economic downturns and/ or increased cost of repairs to cars or property from higher than expected cost inflation. As well as identifying such trends at an early stage, it is essential for underwriting and pricing to respond quickly to any such trends and to enhance claims management processes to mitigate downward trends in financial performance that may result. IA should consider the extent to which such risks may be present in the Insurer and develop approaches to monitor and identify. Data analytical approaches may be a key tool to support such continual monitoring.