

INSURANCE INSIGHTS

News for Insurance Internal Auditors

Welcome to the January 2017 edition of Insurance Insights, a regular round-up from PKF Littlejohn's Financial Services team of the main developments affecting the insurance market.

In this edition, as we look ahead to the next 12 months, we identify four key overarching themes that Internal Auditors in the insurance sector should consider adding to their agendas.

What to expect in 2017

Internal Auditors in the insurance sector have become accustomed to uncertainty, change and increasing complexity over the past few years, and there is little doubt that 2017 will deliver more of the same. To help you make better sense of the year ahead, we've identified four key overarching themes and issues that you should consider adding to your agenda over the next 12 months.

1. Continuing soft market conditions

Last year, in response to the PRA's concerns over the continuing soft market conditions in the UK general insurance sector, PKF Littlejohn called on Internal Auditors to adopt a 'soft market mindset' and launched an [Internal Audit Pricing Health Check](#) to help the sector bring its pricing governance and internal control procedures into line with regulatory expectations. The recent failures of Enterprise Insurance Company plc and Gable Insurance AG remind us of the PRA's concerns over the need for firms to ensure appropriate business strategies and the role of Boards in providing a suitable level of oversight and challenge.

We suggest that this soft market mindset is sharpened over the coming months in response to the continued challenging market conditions. As insurers implement their 2017 business strategies and plans, Internal Auditors must consider the risks presented by any new strategies that are being adopted - whether in underwriting, reinsurance or investments - and include them in their Internal Audit plans for 2017. The PKF Littlejohn team will continue to monitor the market conditions and keep you abreast of what we recommend Internal Auditors should be doing in this area.

2. Brace for Brexit

In December 2016, Lloyd's announced that it will move some of its operations to mainland Europe in response to the UK's vote to leave the EU. As stated by John Nelson, Lloyd's Chairman: "Insurance is a mobile business [and] we need to put our plans in place – at least on a precautionary basis".

Although more information about the UK's negotiating stance is emerging, there is still a great deal of uncertainty at the current time. Insurers need to establish appropriate contingency plans to prepare for the impact of Brexit, and Internal Auditors should play a key role in this process. We suggest that you should:

- Establish your own view on the risks that Brexit poses to your organisation so that you can assess and challenge the Brexit risk assessment that your organisation has undertaken. For example, the risks might include the loss of passporting rights, the potential need for your organisation to change its corporate structure, and a requirement to relocate all or part of your business's operations (perhaps by setting up a subsidiary or branch in the EU). Any such relocation will bear its own risks, including the ability to relocate existing staff and access local talent, and the regulatory risks arising from a change in regulator.
- Understand the Brexit decision making process in your organisation. In accordance with the Financial Services Code, Internal Auditors are expected to include key corporate events within their scope; where events are sufficiently high risk (such as Brexit), it may warrant involvement on a real time basis.
- Be ready to flex your Internal Audit plans so that you can respond to Brexit risks as they crystallise in 2017. Our discussions with Heads of Internal Audit in the insurance market indicate that few companies plan to undertake a specific Brexit review; however, it is important that you're sufficiently agile to readily respond as developments take place, such as the triggering of Article 50.

We will launch a Brexit analysis tool in the next few weeks to provide a framework to help you assess the Brexit-related risks and opportunities facing your organisation.

3. Crack cyber risk

Barely a week goes by without hearing about another cyber-attack in the news. We have seen first-hand the challenges that our clients are facing in tackling cyber-security issues, which are being exacerbated by the adoption of new technologies such as those that facilitate alternative distribution channels and flexible working practices for staff. Although the level and sophistication of cyber-attacks is increasing, some businesses have yet to adopt those aspects of the basic IT system and data security controls needed to ensure that they are adequately protected.

Cyber security will undoubtedly remain a key issue for 2017 and Internal Auditors need to respond to the challenge of keeping up-to-date with the emerging cyber risks and how they can be tackled from an Internal Audit perspective. Look out for a seminar that we will be hosting later in the year on this subject.

4. Conduct risk challenges

Conduct risk has been an important topic for insurers and their Internal Auditors over the last few years and a considerable amount of work has been done in seeking to address the conduct risk expectations of the FCA and Lloyd's. Despite this, compliance with conduct risk continues to prove a challenge. For example, in its July 2016 thematic review of the approach to and compliance with conduct minimum standards for management information (CR13), Lloyd's found that "there is a general need across the market to improve the proactive nature of monitoring conduct risk through the review of adequate conduct management information". The review found that only six managing agents were meeting the standards.

It is clear that there is a considerable amount of work still to do and Internal Auditors have an important role to play in ensuring that their conduct risk and management information frameworks are appropriate and properly embedded within their organisations. At the time of the thematic review, only seven managing agents had carried out an Internal Audit review of conduct management information, and we anticipate that this will be a key priority for Internal Audit functions in the early part of 2017. We will hold a seminar about conduct risk in the Spring; your invitation to the event will follow shortly.

Once again, Internal Auditors have a busy 12 months ahead of them. But you are not on your own: PKF Littlejohn's Internal Audit team of experienced professionals has in-depth knowledge of the key risks and challenges facing the insurance sector. [Contact us](#) to find out how we can help you.

We hope you've found this issue useful. If anyone within your business would like to receive future issues, please send their details to Ruby Crowley (rcrowley@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Insurance - Internal Audit team members.

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