

## **Invitation to Tender (ITT):**

### **Provision of Research Services**

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| Reference | FRC2020 -013 Endorsement Board -<br>Research Project |
| Date      | April 2020   |

## 1. Background

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit and high-quality risk management. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality. The FRC on behalf of the UK Endorsement Board has a requirement for Research Services.

## 2 Project / Requirements

The objective of the project is to assist the staff of the UK Endorsement Board in their ex ante impact analysis of IFRS 17 *Insurance Contracts* (IFRS 17) by providing economic expertise in specified areas. This will serve as an input to the assessment of whether the use of IFRS 17 is likely to have an adverse impact on the economy of the UK, including on economic growth.

### Background to the project

#### *The endorsement of international accounting standards*

SI 2019/685<sup>1</sup> gives power to the Secretary of State to endorse new or amended international accounting standards, and to delegate this responsibility to a body. The intention is to delegate these functions to a newly formed independent UK endorsement body. This body, the Endorsement Board (EB), is currently being established and is likely to be operational later this year. During the establishment of the EB, the government and the FRC are overseeing the work of the EB when developing advice for consideration by the Secretary of State.

The EB will work in the UK public interest, with a view to ensuring a high degree of transparency and international comparability of financial statements, and the efficient allocation of capital, including the smooth functioning of capital markets in the UK.

#### *IFRS 17*

IFRS 17 is expected to have a substantial impact on the financial reporting of insurers, ensuring their accounts are prepared on a basis more consistent with non-insurance entities. The current insurance contracts standard, IFRS 4, does not specify how to account for insurance contracts and instead permits the use of national GAAP. This results in a lack of comparability both between the accounts of different insurers (if, for example, they operate in multiple jurisdictions and apply multiple national GAAPs) and with other non-insurance entities. Initial implementation and ongoing application of the standard are likely to involve significant costs for many insurers. In addition to these direct effects, it is possible that the move to IFRS 17 will influence the business and economic decisions of insurers, lenders and investors.

EB staff are undertaking an impact analysis to consider the effects of the standard, including its potential direct and indirect economic impact, drawing on various sources including *the*

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<sup>1</sup> <http://www.legislation.gov.uk/ukxi/2019/685/made>

*external economic research project which is the subject of this Invitation to Tender.* The primary objective of this project is to provide evidence and analysis to assist EB staff in developing their assessment of whether the use of IFRS 17 is likely to have an adverse impact on the economy of the UK, including on economic growth.

### **Target participant group**

Although IFRS 17 may need to be applied by entities that are not primarily insurers<sup>2</sup>, this research project should focus on how IFRS 17 affects insurers and financial groups with substantial insurance activities. The assessment should cover both the insurance and reinsurance markets and should assess both the direct effect on entities applying IFRS 17 and the wider knock-on impact on the sector.

### **Project scope and objectives**

The project should address the issues, and provide the information, set out below.

#### *Sector overview*

- Quantitative overview of the insurance market in the UK:
  - Size of market, analysed by main product type
  - Information to provide an understanding of the importance of the sector to the UK economy and the functioning of financial markets
  - Major developments and changes in the sector (market and entities) – both over the last 5 years and expected in the future
- Data on UK insurance entities:
  - Numbers of entities by type/market segment
  - For each entity:
    - size measured in terms of gross written premiums
    - listed status
    - ultimate ownership and, if owned outside the UK, whether EEA/RoW
    - whether subject to Solvency II
    - whether UK GAAP or IFRS applied
    - for the 10 largest, their principal geographic markets
- Data on investors active in UK insurance entities:
  - Numbers of investors that are insurance specialists
  - Numbers of generalist investors active in insurance sector
  - Numbers of other principal types of users, e.g. buy-side or sell-side analysts, ratings agencies

#### *Competition in product markets*

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<sup>2</sup> This is because the scope of IFRS 17 is to ‘insurance contracts’ rather than ‘insurance entities’

- Analysis of extent to which UK insurers face competition in the UK market from non-UK businesses, with a distinction made between EEA and RoW (primarily US and Japanese) competitors, detailing market share by main market segment, in order to judge the extent of competition from entities that might not have to apply IFRS 17.
- Analysis of UK insurers' activities in overseas markets, split between EEA/US/Japan, providing market share using gross written premiums, broken down into main product lines.
- Assessment of principal factors driving competitiveness and changes in competitive landscape over last decade
- Assessment of potential impact of IFRS 17 on competitiveness:
  - UK insurance sector v EU and ROW
  - Barriers to entry
  - Attractiveness of UK as place to do insurance business

#### *Products and pricing*

- Assessment of potential impact of IFRS 17:
  - on product mix and availability
  - on pricing
  - on innovation
- Assessment to include as appropriate:
  - Quantitative analysis of market by main product group
  - To the extent possible, analysis of profitability by product type/group
  - Assessment of principal factors driving product design and pricing

#### *Competition in capital markets<sup>3</sup>*

- Competition from non-UK insurers in the UK primary equity market:
  - Data on amount of equity raised in the UK equity markets by UK and EEA and RoW insurers in the last 10 years
- Competition from non-UK insurers in the UK debt market:
  - Data on number and amount of debt issued by UK and EEA and RoW (US and Japan) insurers in the last 10 years

#### *Cost of capital*

- Determination of the Weighted Average Cost of Capital (WACC) for entities listed on the UK capital markets
- Comparison of the average cost of capital for insurers with that for other industry sectors that have a high correlation with the insurance sector (banks, industrial goods & services, media, technology, telecommunications, travel & leisure, and financial services)

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<sup>3</sup> The purpose is to judge the extent of competition for capital from entities that might not have to apply IFRS 17

- Assessment of principal driving factors and changes over last decade
- Assessment of potential impact of changes in investor perception driven by IFRS 17

*Investing behaviour of insurers*

- Analysis of current mix of investment assets held by UK insurers
- Analysis of any significant changes in asset mix over last decade
- Assessment of factors driving investment mix
- Assessment of potential impact of IFRS 17 on mix of investments held

*Other economic effects*

- Assessment and to the extent possible quantification of any other potential impacts of implementing IFRS 17 on the UK economy (including growth and GDP, UK employment, taxes, dividends paid by insurers/reinsurers)

**Suggested approach and data sources**

While it is expected that much of the information required for the project will be able to be gathered from desktop research (a review of literature and an analysis of secondary data), the successful supplier may also need to conduct interviews with UK market participants.

The successful supplier will be expected to consider relevant work carried out by the European Financial Reporting Advisory Group (EFRAG) and its advisers.

**Deliverables, milestones and project timing**

The key deliverable is a written report summarising the results of the quantitative analysis and qualitative assessments listed above.

The overall project timings are contained in section 4 below - **Timelines**.

The final report will be made public on the website of the EB.

**Liaison arrangements.**

In addition to the above milestones, the successful supplier will be expected to work in close consultation with EB staff throughout. A schedule of regular progress updates and meetings (including face to face if possible but also video/conference calls, as appropriate) will be agreed between the staff and the supplier.

An initial meeting will be required shortly after the contract is awarded.

## Your tender response

The proposal should be no more than 7 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline of project milestones.
- Details of the proposed approach. This should include, as appropriate, the techniques, methodology, and external data sources to be used, including your rationale for choosing them.
- A demonstrable understanding of the insurance sector, and an understanding of the role of financial reporting in driving economic behaviours.
- Details of personnel to be involved including their role for this project and their relevant experience.
- Your organisation's experience of similar projects and relevant research capability.
- Arrangements for managing this work and quality assuring outputs, including how you would like to work with EB staff during the project.
- A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined in section 4 above. If your proposal includes options, including additional deliverables, these should be costed separately where it makes sense to do so.
- Where a Tender Response Document / template is provided please ensure you align with that format.
- Project team CVs can be included in an annex, along with any additional information about your organisation that you think is relevant.

Bids should identify any real or perceived conflicts of interest. Bids will be assessed against the following principal criteria:

- evidence of understanding the brief;
- suitability of approach;
- experience in the area; and
- cost.

## Cost /Financials

- The tenderer should provide a fixed fee for the work exclusive of VAT however inclusive of all expenses. Tenderers should detail their cost in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless and except if the scope has materially changed from what is set out / agreed. Changes to the scope / cost must be mutually agreed.  
**FRC do not anticipate tender bids over £50,000 excluding VAT.**

**References**

- FRC reserves the right to take up references. You will be required to provide references within the Tender Response Document. References must be relevant to the FRC requirement and within the last five years.

**2. Use of ITT & publication**

2.1.1. All documents contained in this ITT are confidential and must be used solely for the purposes of this ITT. The documents can only be passed on to third parties on a strictly 'need to know' basis for the purposes of the tenderer preparing and submitting a tender.

2.1.2. Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media

**3. Questions & Clarifications**

3.1.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

3.1.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to [procurement@frc.org.uk](mailto:procurement@frc.org.uk) in the following format.

| Nature of query / clarification | Query / Clarification |
|---------------------------------|-----------------------|
|                                 |                       |

3.1.3. FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

3.1.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

3.1.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

**4. Timelines**

| DATE/TIME                        | ACTIVITY  |
|----------------------------------|---|
| 14/04/2020                       | Publication of the Invitation to Tender   |
| By 27/04/2020<br>by 12.00 noon   | Deadline to submit clarification questions  |
| 29/04/2020<br>by 5.00 p.m.       | Deadline for publication of responses to clarification questions<br>Note: FRC will endeavour to meet this timeline.   |
| 11/05/2020<br>by 12.00 noon      | Deadline for supplier submission of tender to the FRC.  |
| 15/05/2020                       | Tender Outcome  |
| w/c 18 <sup>th</sup> May<br>2020 | Contract commence   |
| Key project milestones           | <ul style="list-style-type: none"> <li>• Agreement of approach and methodology and resolution of any questions over scope – <b>by 22nd May 2020</b></li> <li>• Formal interim progress meeting – <b>by 10<sup>th</sup> July 2020</b></li> <li>• 2<sup>nd</sup> formal interim progress meeting – <b>by 12 August 2020</b></li> <li>• Delivery of first draft report – <b>by 4<sup>th</sup> September 2020</b></li> <li>• Delivery of confidential near-final report <b>by 25 September 2020</b></li> <li>• Delivery of final report – <b>by 16<sup>th</sup> October 2020</b></li> </ul> |
| 30 October 2020                  | Contract end  |

**5. Conduct**

- 5.1.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.
- 5.1.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.
- 5.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
- 5.1.4. The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.
- 5.1.5. If the tenderer engages in any of the activities set out in this paragraph or if FRC considers the tenderer's behaviour is in any way unethical FRC reserves the right to disqualify the tenderer from the procurement.
- 5.1.6. The tenderer represent and warrant that a conflict of interest check has been carried out and that check revealed no conflicts of interest.
- 5.1.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform NEST and submit proposals to avoid such conflicts.
- 5.1.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. NEST is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

## 6. Due Diligence

6.1.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.

6.1.2. Neither FRC, nor its representatives, employees, agents or advisors:

- makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the ITT and supporting documents; or
- Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

6.1.3. It's the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

6.1.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

## 7. Submitting a Tender

7.1.1. Tenderers must submit their tender response within the deadline to [procurement@frc.org.uk](mailto:procurement@frc.org.uk).

7.1.2. Where a Tender Response Tender is provided, potential providers must align their tender response with that format.

7.1.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

## 8. Evaluation

8.1.1. FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

## 9. Acceptance of Tender & Notification of Award

9.1.1. FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

9.1.2. FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. FRC also reserves the right to award more than one contract to fulfil the requirement.

9.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

9.1.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

9.1.5. Nothing in the documentation provided by FRC to the tenderer during this procurement or any communication between the tenderer and FRC or FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from FRC.

## 10. Additional Information

10.1.1. Please use the attached Tender Response Document for your reply.

10.1.2. The draft Terms and Conditions (T&C's) that will apply to this proposed Agreement are attached. Annex 1 of the T&C's will be based on your response to the Supplier due diligence questionnaire. Suppliers should accept the T&C's with no material changes.

10.1.3. The Supplier's Due Diligence questionnaire (Processor or Controller) should be completed and returned. The questionnaire can be found in the Tender Response Document.