15 December 2017

Adrian Allott, Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Emailed to: adrian.allott@rbnz.govt.nz

Dear Adrian,

Submission on Consultation Paper: Audit requirements for insurer data returns

This submission is from AA Insurance Limited (AAIL), 99 Albert Street, Auckland. Thank you for the opportunity to submit on the consultation paper regarding audit requirements for insurer returns.

About AAIL

AAIL is a direct personal lines insurer, which operates in New Zealand under a joint venture agreement between the Australian financial services group Suncorp and the NZAA.

AAIL employs over 690 people and currently operates the AA Insurance brand in New Zealand.

At present AAIL writes insurance policies to the value of approximately $360m per annum across domestic motor, domestic home & contents, and pleasure-craft portfolios.

AAIL is a Qualified Financial Entity (QFE) and our QFE advisers deal directly with consumers. Our submission is limited to our perspectives on fire and general insurance (a 'financial service' and 'category 2 product' under the current legislation).

Please find our responses to the questions set out in the Cosultation Paper below.

Insurer Return

1. Do you support the idea of introducing an Insurer Return audit/review requirement?

No, we do not support a blanket audit/ review requirement for all insurers. At AAI we have not had any issues regarding data quality since the initial returns and those were principally classification issues. As such, we see limited benefit of such a requirement. We would support an audit/ review where issues are identified for specific insurers or where there may be concerns around the quality of systems to produce the required information.

2. What would your organisation expect the audit fee to be for

- **a. a reasonable assurance audit of the Insurer Return?**
- **b. a limited assurance review of the Insurer Return?**

This is difficult to respond to without discussing with our external auditors. We assume that the RBNZ will receive responses on this matter direct from the audit firms.

3. How effective do you believe an audit requirement would be in identifying deficiencies in the processes and systems contributing to the Insurer Return? Please answer separately in respect of

a. **a reasonable assurance audit, and**
b. **a limited assurance review**.

Firstly, we are not aware of any recent data quality issues so we believe the benefit of a review or audit would be minimal. Our Insurer Return is reconciled to the Financial Statements, where possible, and the reconciliation provided in the return along with a commentary. Results by product or non-financial statement items such as risk units and sum insured are not focussed on by the external auditor so this level of detail may require a considerable amount of extra work by them.

4. Please discuss the timeframes that you believe would be reasonable for the remediation of systems and processes identified as deficient by audit.

The timeframe would depend on the nature and scale of issues or deficiencies identified. System changes can take some time, especially where there is complexity in the calculations or multiple systems involved. We therefore believe that a specific timeframe is not appropriate, instead this should be discussed with the RBNZ as the matters arise. Where any issues are identified we would try and resolve as quickly as possible but at least within twelve months so that the next audited/reviewed insurer return is rectified.

5. To what extent do you believe the time to complete the Insurer Return will be impacted if it is subject to

a. **a reasonable assurance audit?**
b. **a limited assurance review?**

If an audit/review was imposed, we would ideally undertake this work at the same time as the review of the Solvency Return to ensure it would be as efficient as possible from us and our external auditors. This would require additional resourcing from our finance team and our external auditors at this already busy time. Our reporting timescales are very short, so additional work on this at the same time as the statutory audit could potentially cause risks in meeting this timescale. Completing after the statutory audit is finalised would likely increase the cost of compliance.

6. How much lead time would you require, from notification of the requirement to implementation, should the RBNZ decide to impose an Insurer Return audit/review requirement?

While an audit plan can be adjusted, it would be preferable to know the requirements at least six months in advance so that the audit planning reflects scope of work and the fee. We would recommend that this is discussed with the audit firms directly.

7. What types of insurers do you believe should be in-scope for an Insurer Return audit/review requirement, and why?

As a general insurer we cannot comment on life or health insurance, however for general insurance we believe that the scope should include all insurers that have known data quality issues or those that pose significant risk to data integrity or quality.

8. How frequently should an audit/review of the Insurer Return be performed (given that one is required)?

An audit/review should occur annually, this will align with the current process of audits of annual financial statements.

Does your answer differ by size and/or nature of the insurer, or by level of assurance provided?

No, our answer does not differ by size, nature of insurer or the level of assurance provided.

9. Have you identified any benefits and costs (other than those listed in the introduction) of introducing an audit requirement for the Insurer Return?

In addition to the cost mentioned there is also a potential increase for internal staffing costs to resource financial control processes.

Insurer Solvency Return

10. Has the existing audit/review of the Insurer Solvency Return been beneficial in improving the quality of the data submitted?
In what respects?

Initially the review provided some benefits in ensuring that there was an external view of the completion of our return, however recently there is little value added. From a Board perspective, however it provides more comfort and assurance to them on our solvency calculation and return.

11. What would your organisation expect the audit fee to be for

a. a reasonable assurance audit of the Solvency Return?
b. a limited assurance review of the Solvency Return?

While it is currently standard practice for a limited assurance review to be performed for the Solvency Return at a price already agreed upon with our auditors, we cannot advise what the fees are likely to be for a reasonable assurance audit. The audit firms should be able to provide a better view of the relative costs.

12. How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge?

The catastrophe risk is already reviewed by our actuaries on a six monthly basis and commentary included in the FCR. The greatest challenge in relation to the Catastrophe Risk capital charge is that is highly dependent upon the assumptions and catastrophe model selected. There may be an opportunity for the actuary to comment on these in the FCR.

What approach could work in practice?

While this is not mandatory, we already include commentary on the Catastrophe Risk Charge in our FCR.

General

13. Do you foresee any difficulties in contracting assurance professionals to perform a reasonable assurance audit of returns to the RBNZ, e.g. with respect to their capacity to evaluate data systems and infrastructure?

We believe that the audit firms are in a better position to comment on this.

14. Do you have any other comments you would like to make?

We consider that RBNZ's initiative to publish fuller definitions and guidance for completing returns may be more beneficial in improving data quality than the introduction of an audit requirement.