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Audit requirements for insurer data returns: AIA New Zealand submission on the Consultation Paper

1. Introduction

About AIA

- 1.1. AIA New Zealand is a member of the AIA Group. Established in New Zealand in 1981, AIA operates in New Zealand as a branch of AIA International Limited, a company incorporated in Bermuda. It is ultimately owned by AIA Group Limited, which is listed on the Hong Kong Stock Exchange. AIA New Zealand is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.
- 1.2. AIA New Zealand offers a range of risk management products that focus on the needs of customers. The bulk of AIA New Zealand's offering is life and related insurance, although it also offers some health insurance. AIA New Zealand distributes its products through a network of financial advisers across New Zealand.
- 1.3. AIA New Zealand is a member of the Insurance & Financial Services Ombudsman Scheme (IFSO), the Health Funds Association of New Zealand (HFANZ), and the Financial Services Council (FSC). Standard and Poor's reaffirmed AIA New Zealand's insurer financial strength rating at AA- in June 2016.

About this submission

- 1.4. AIA New Zealand welcomes the opportunity to provide feedback on the audit requirements for insurer data returns. AIA New Zealand supports the Reserve Bank of New Zealand's ('RBNZ') ongoing initiatives designed to raise the quality of insurer data returns.
- 1.5. However, in relation to the RBNZ's proposal to require a reasonable assurance audit of the year-end Insurer Return and the Insurer Solvency Return as a way of ensuring more quality assurance is provided prior to submission, AIA New Zealand considers that there are more effective ways to improve the quality of insurer data returns that are focused on improving the quality upfront rather than auditing an output. We would prefer an approach that is focused on improvements to the Insurer Returns process and forms.
- 1.6. Our comments on the specific questions posed by the RBNZ in the consultation paper are set out below.

2. Questions for consultation – Insurer Return

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



- 2.1. No, as the cost involved would be significant and would outweigh any possible benefit derived from the audit requirement. We propose that RBNZ rather considers alternative approaches to improve data integrity such as holding workshops, providing additional guidelines and continuing its dialogue with insurers. If the data quality remains unsatisfactory despite these interventions, then we would support an audit requirement on a temporary basis until data quality improves.
- 2.2. Specifically in relation to the Insurer Return we consider that the current sign off from the Appointed Actuary to be sufficient from an accountability perspective.

What would your organisation expect the audit fee to be for (a) a reasonable assurance audit of the Insurer Return; and (b) a limited assurance review of the Insurer Return?

- 2.3. We estimate that a reasonable assurance audit of the Insurer Return would cost us at least \$20,000 extra in audit fees.
- 2.4. For a limited assurance review of the Insurer Return we expect the additional audit fees to be about \$10,000.

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.

- 2.5. We consider that a reasonable assurance audit would be more effective in identifying deficiencies in the processes and systems contributing to the Insurer Return; a limited assurance review would be more focused on the return itself.

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

- 2.6. The timeframes to remediate deficiencies identified in an audit would depend on the type of issues identified. The timeframe could range from three to twelve months or more depending on internal compliance rules, system development time, and/or resource priority.

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; and (b) a limited assurance review?

- 2.7. For a reasonable assurance audit, it is likely that we will require at least a month longer to prepare the Insurer Return. For a limited assurance review, this is likely to defer our preparation of the Insurer Return by at least two weeks.

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?

- 2.8. We estimate that we will require at least a six month lead time to implement an audit requirement in order to get all the necessary group approvals as well as engaging auditors.
- 2.9. We also suggest that if an audit requirement were to be introduced that this should be delayed until after the implementation of IFRS 17 given that the information contained in the Insurer Return will anyway need to change under IFRS 17.

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



2.10. To ensure industry data integrity, all insurers should be treated similarly by RBNZ.

How frequently should an audit /review of the insurer return be performed (given that one is required)? Does your answer differ by size and/or nature of the insurer, or by level of assurance provided?

2.11. We consider an appropriate frequency to be annually after year end; our answer does not differ by size and nature of the insurer or level of assurance provided.

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

2.12. We consider that introducing an audit requirement for the Insurer Return will not materially increase the level of confidence in the quality and integrity of the data produced by Insurers and that the requirement will add a disproportionate cost.

3. Questions for consultation – Insurer Solvency Return

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

3.1. Robust methodology and extensive internal checks and control are embedded in the valuation process to ensure the accuracy of the Insurer Solvency Return. The existing audit/review gives an extra assurance but we do not rely on the audit to identify errors.

What would your organisation expect the audit fee to be for (a) a reasonable assurance audit of the Solvency Return; and (b) a limited assurance review of the Solvency Return?

3.2. Please see our responses at paragraphs 2.3 and 2.4.

How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge? What approach could work in practice?

3.3. We consider that the Catastrophe Risk Charge is by its nature is subjective and, as it is based on extreme, rare events, it is difficult to put a reasonable estimate on the impact of these type of events. Therefore we expect that imposing an audit on this Charge would be challenging, particularly for an auditor who is not an expert on extreme events.

4. Questions for consultation – General

Do you foresee any difficulties in contracting assurance professionals to perform a reasonable assurance audit of returns to RBNZ in respect to their capacity to evaluate data systems and infrastructure?

4.1. We do not anticipate particular difficulties in contracting assurance professionals should an audit be required. However we do expect additional consulting time would be required with the auditors to understand the scope and requirements of any audit.

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

4.2. We suggest that the RBNZ holds workshops with all insurers to ensure consistent interpretations and expectations regarding the Insurer Return and Insurer Solvency Return and that these are also held prior to introducing major changes to the Returns.

4.3. We consider that an approach focused on improving the data quality upfront is preferable to imposing an audit requirement.



- 4.4. We would welcome the opportunity to work with the RBNZ either directly or through the FSC to find alternative solutions to data quality issues, particularly where those solutions are focused on improving the data quality upfront.

Questions

- 4.5. Thank you again for the opportunity to provide this submission. I would be pleased to answer any questions that you may have. I can be contacted on (09) 488 8800 ext. 680 or at jackie.waddams@aia.com.

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