AMP Financial Services

Submission on:
Consultation Paper: Audit requirements for insurer data returns

December 2017

About AMP Financial Services ("AMP")
AMP comprises all of the AMP Limited New Zealand-based financial services businesses (excluding AMP Capital). AMP Limited is listed on the Australia and New Zealand stock exchanges. AMP Financial Services includes:

AMP Life Limited - a licensed insurer and provider of life, trauma, total and permanent disability, and income protection policies in New Zealand and Australia. AMP Life operates in New Zealand as a branch of an overseas insurer. It has around 20% of the contemporary life insurance market and the majority of the conventional life insurance market.

AMP Services (NZ) Limited – in addition to providing administrative services to the New Zealand business of AMP Life, AMP Services is a qualifying financial entity and operates a financial advice business with more than 150 Authorised Financial Advisers, the largest assemblage in the New Zealand market, and has a similar number of QFE Advisers. Through this adviser network, it distributes both AMP Life and third party life insurance products, 'AMP general insurance' underwritten by Vero, and Southern Cross health insurance.

High Level Observations and Key Issues

AMP welcomes the opportunity to provide feedback on the Reserve Bank's *Consultation Paper: Audit requirements for insurer data returns*.

AMP supports the Reserve Bank's desire to ensure data returns contain high quality data that is prepared on a consistent basis across the industry. However, AMP believes other activities should precede introducing an audit requirement because those have a high likelihood of allaying the Bank's concerns, would be more efficient, and would be less burdensome to insurers.

It is not clear from the Consultation Paper what data issues currently exist and whether these issues are material. While the Reserve Bank has analysed the Insurer Returns submitted by insurers and provided direct feedback to insurers on concerns about their returns, there has been very little public comment on the nature of the issues being identified across the industry. As such, it is difficult to gauge whether the issues the Reserve Bank is concerned about are systemic or firm-specific; and whether they persist or may have already been dealt with.

However, there are two key factors related to the design of the Insurer Returns that create ongoing challenges for insurers:

First, the way in which the Insurer Return requires some data to be categorised is different to what insurers produce for other purposes, and in some cases is inconsistent with IFRS. These differences mean insurers need to manually adjust classifications to derive the numbers requested in the Insurer Return. Further, in some cases, the Reserve Bank's expectations in relation to classifications were not initially clear from the Insurer Return template and instructions, and insurers have only been able to confirm what is expected through individual feedback from the Reserve Bank.

The Reserve Bank has acknowledged the need for further guidance in this area and has indicated that it intends to provide some. We consider that further guidance would be a useful next step toward resolving the outstanding data quality concerns, and welcome engagement by the Reserve Bank with insurers in developing this guidance. We would also encourage the Reserve Bank to review its Insurer Return template and instructions in consultation with insurers. We believe these steps would help to improve data quality, and might avoid any need to impose an audit requirement.

In the absence of such guidance and engagement from the Reserve Bank, it is likely that auditors would face the same challenges with interpreting the requirements as insurers have. As a result, any audit requirement might not address this aspect of the data quality issues as effectively as the Reserve Bank expects. AMP suggests that the Reserve Bank should defer any decision to introduce an audit requirement until it has provided further guidance on its expectations in this area and had the opportunity to determine whether that guidance will deliver the improvements sought.

Second, the Insurer Returns require breakdowns of movements in policies and premiums that are not required for other purposes and that the systems of insurers were not designed to calculate. As a result, some insurers have needed to produce estimates of these breakdowns. In order to more accurately determine this information, insurers in this position would need to make costly changes to IT systems. While the Reserve Bank has indicated a preference that insurers make these upgrades to their systems, it has not yet engaged with industry on what benefit this information is providing, whether the improvements from such expenditure is are likely to be material, or whether the benefits of improving the data quality justify such expenditure. As such, it is unclear whether imposing an audit requirement would remedy concerns the Reserve Bank has in this area. However, introducing an audit requirement would, by itself, be unlikely to deliver a consistent and proportionate outcome across the industry.

AMP's responses to the specific questions posed

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

No. We consider that the costs of an audit/review requirement would outweigh benefits (insofar as those have been detailed up until now).

As noted above, while the Reserve Bank has previously raised a number of concerns with individual insurers, it is unclear whether the issues are systemic or specific to certain insurers, whether the issues remain or have already been addressed, and whether any remaining issues are material in the context of the primary uses of the data.

Where there are remaining concerns that need to be addressed, we do not believe the proposed audit requirement would represent an efficient next step to improve data quality. We suggest the Reserve Bank should first engage with industry on the challenges and data quality concerns around the Insurer Returns. We note the Reserve Bank has indicated it intends to publish further guidance in this area, and we would welcome this as a next step.

The costs associated with the introduction of an audit requirement and any remediation activity the Reserve Bank might require, although initially absorbed by insurers, ultimately would be passed on to consumers. We believe this would be undesirable in the absence of clear benefits.

Question 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?

Our auditors have advised us that they consider there is currently insufficient information and guidance available for them to scope the required engagement and to provide a reasonable estimate of the fees they would charge for such an engagement. As such, we are not yet able to provide an estimate of the cost of having an audit or review of the Insurer Return.

Question 3: How effective do you believe an audit requirement would be in identifying deficiencies in the processes and systems contributing to the Insurer Return?

We do not believe that an audit requirement would, for most insurers, lead to the identification of material deficiencies in processes and systems that are not already known. We consider insurers are best placed to understand the risks and limitations associated with their data systems, and to assess the costs and benefits of making particular upgrades. For its own part, AMP has processes and controls in place in relation to the preparation of

Insurer Returns, which have been developed to address the feedback and guidance from the Reserve Bank, and to manage the risks associated with data system limitations.

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

This depends on the extent of the remediation expected by the Reserve Bank. One of the significant challenges faced by a number of insurers is that the granular breakdown of data goes beyond what their IT systems were designed to produce, and beyond what is required for any other purpose. If the introduction of an audit requirement led to insurers needing to make upgrades to their data systems so that the relevant data was able to be produced directly from the systems, this would involve a substantial amount of work and cost. In such a scenario, we would ask the Reserve Bank to ensure that the extent of work involved in making any such upgrades was reflected in the timeframes allowed.

Question 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 requirement ultimately is introduced, we would ask that the Reserve Bank allows an additional month to submit the Insurer Returns. Typically, we complete the Insurer Return after the audit of the financial statements and, accordingly, any audit of the full year Insurer Return would need to be completed after the financial statements but within the timeframe for completing the Insurer Return. While we do not yet have clarity as to what an audit of the Insurer Return would involve, it would certainly involve testing and meetings in addition to that undertaken for existing audit engagements, and would therefore require additional time and resources.

Question 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?

We believe that lead time of at least six months should be provided to allow insurers and their auditors sufficient opportunity to understand the impacts of an audit/review requirement and to adjust their business processes to accommodate additional processes/steps.

We also believe it would be preferable for the Reserve Bank to review the design of the Insurer Returns, and finalise and publish any guidance before any audit requirement was implemented. The value of any audit requirement would be significantly enhanced if insurers had a reasonable opportunity to first ensure they had addressed the areas where the Reserve Bank has outstanding concerns. Additionally, the publication of guidance would enable auditors to comprehend the Reserve Bank’s expectations, and more effectively scope their engagements.

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

As noted above, we are not convinced the introduction of an audit requirement is the best next step. However, if such a requirement was introduced to address systemic or widespread concerns, then all insurers should be in scope. Alternatively, if the remaining data quality issues are firm=specific or concentrated in particular sectors, the Reserve Bank could consider limiting the requirement for audit/review to those insurers or sectors of the insurance market that are known to have data quality issues.

Question 8: 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?

In the absence of comprehensive detail about the issues the Reserve Bank seeks to address, it is impossible to comment definitively on this. However, if the Reserve Bank is primarily seeking to gain assurance that feedback previously given has been implemented and that processes and systems for producing the returns are adequate, we consider a lower frequency would be appropriate. The AML/CFT regime requires assurance every two years and provides a potential benchmark. Conversely, if the Reserve Bank still has specific material concerns, it may be reasonable to impose a higher frequency. However, in this case, it would seem reasonable that insurers with current compliance issues in relation to the preparation of Insurer Returns should be audited more frequently than those where there are no material concerns. In our view the size and nature of the insurer should not be a factor (unless the data from an insurer(s) is so trivial as to be immaterial).

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

The proposal would add additional time and cost for insurers. In addition to the financial costs highlighted in the Consultation Paper, there would be significant time and effort for insurers to manage Insurer Return audits/review.

In addition, we consider that introducing an audit requirement could result in the need to remediate deficiencies, purely to obtain an unqualified audit report, where the cost of doing so outweighed any benefit. This might also take resources away from development or improvement of other systems and processes which would have more benefit and impact on improving the insurer’s management data, reducing risk and generating good customer outcomes.

We have not identified any areas of potential benefit beyond those discussed in the paper.

Question 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?

At this stage, despite the absence of details, our auditors have indicated they believe they would be able to provide an audit of the Insurer Returns, and accordingly we do not anticipate significant difficulties with being able to engage an auditor to undertake this work.

However, there is a lack of guidance as to how some of the requirements of the Insurer Returns should be addressed, what materiality thresholds should be applied, and the nature of the work the Reserve Bank expects to be undertaken by auditors. As these points are clarified, it is possible that some challenges might be identified.