



# Audit requirements for insurer data returns: consultation paper feedback statement

September 2018

## Background

The Reserve Bank is undertaking a series of actions aimed at improving the quality of data collected from licensed insurers. These include

- Modifying the signatories on returns to engage the right people,
- Assessing what data may be fit for use and publication,
- Improving definitions and guidance given to insurers,
- Use of automatic validation in insurer data return spreadsheets,
- Enhanced enforcement, and
- Strengthening audit requirements (the subject of this paper)

As part of this process, a consultation paper was released in October 2017 inviting comment on proposals to strengthen audit requirements for insurer data returns. This paper summarises the feedback received and presents the approach the Reserve Bank has decided to implement. The underlying submissions will be published on the Reserve Bank's website (unless contributors have requested that they not be published).

## Feedback received

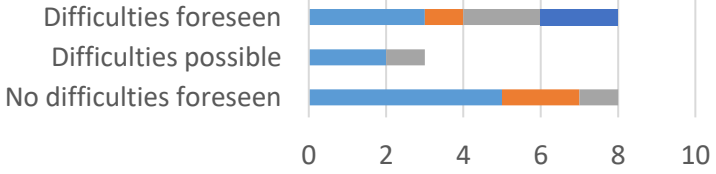
### Responses to questions raised in the consultation paper

The following table sets out the questions asked in the consultation paper and summarises the responses provided.

Legend for respondents: ■ Life ■ Health ■ General ■ Auditors ■ Associations

Question	Answer																								
1) Do you support the idea of introducing an Insurer Return audit / review requirement?	<table border="1"> <caption>Data for Question 1</caption> <thead> <tr> <th>Response</th> <th>Life</th> <th>Health</th> <th>General</th> <th>Auditors</th> <th>Associations</th> </tr> </thead> <tbody> <tr> <td>Maybe</td> <td>2</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Risk-based</td> <td>2</td> <td>1</td> <td>4</td> <td>0</td> <td>0</td> </tr> <tr> <td>No</td> <td>6</td> <td>2</td> <td>3</td> <td>0</td> <td>4</td> </tr> </tbody> </table>	Response	Life	Health	General	Auditors	Associations	Maybe	2	0	0	1	0	Risk-based	2	1	4	0	0	No	6	2	3	0	4
Response	Life	Health	General	Auditors	Associations																				
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No	6	2	3	0	4																				
2) What would your organisation expect the audit fee to be for a reasonable assurance audit / limited assurance review?	<ul style="list-style-type: none"> <li>• Reasonable assurance fees are expected to be around twice the cost of limited assurance fees.</li> <li>• Fees are expected to range from \$2000 (for a small, simple insurer) to over \$100,000 (for a large, complex business).</li> </ul>																								
3) How effective do you think a reasonable assurance audit / limited assurance review would be in identifying deficiencies in the processes and systems contributing to the Insurer Return?	<table border="1"> <caption>Data for Question 3</caption> <thead> <tr> <th>Response</th> <th>Life</th> <th>Health</th> <th>General</th> <th>Auditors</th> <th>Associations</th> </tr> </thead> <tbody> <tr> <td>Moderate</td> <td>2</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Low</td> <td>3</td> <td>2</td> <td>0</td> <td>0</td> <td>1</td> </tr> <tr> <td>Minimal</td> <td>4</td> <td>1</td> <td>5</td> <td>0</td> <td>2</td> </tr> </tbody> </table>	Response	Life	Health	General	Auditors	Associations	Moderate	2	0	1	0	0	Low	3	2	0	0	1	Minimal	4	1	5	0	2
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Question	Answer
<p>4) Please discuss the timeframes that you believe would be reasonable for the remediation of systems and processes identified as deficient by audit.</p>	
<p>5) To what extent do you believe the time to complete the Insurer Return will be impacted if it is subject to a reasonable assurance audit / limited assurance review?</p>	
<p>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?</p>	
<p>7) What types of insurers do you believe should be in-scope for an Insurer Return audit / review requirement, and why?</p>	
<p>8) How frequently should an audit /review of the Insurer Return be performed? Does your answer differ by size and / or nature of the insurer, or by the level of assurance provided?</p>	
<p>9) Have you identified any other benefits and costs of introducing an audit requirement for the Insurer Return?</p>	<p>No respondents identified any “other benefits” of introducing an audit requirement, and most insurer respondents envisioned additional costs in the form of</p> <ul style="list-style-type: none"> <li>• Management and staff time, esp. for smaller insurers</li> <li>• Systems and process changes resulting from audit findings.</li> </ul>
<p>10) Has the existing audit / review of the Insurer Solvency Return been beneficial in improving the quality of the data submitted? In what respects?</p>	

Question	Answer																
11) What would your organisation expect the audit fee to be for a reasonable assurance audit / limited assurance review of the Solvency Return?	<ul style="list-style-type: none"> <li>• Fees are seen as being similar in pattern to those for the Insurer Return.</li> <li>• Reasonable assurance fees are expected to be around 50% greater than limited assurance fees.</li> <li>• Fees are expected to range from \$5000 (for a small, simple insurer) to over \$100,000 (for a large, complex business.)</li> </ul>																
12) How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge? What approach could work in practice?	Most respondents noted the difficulty in auditing such figures because they are both subjective and based on sophisticated models. One suggestion was that the Reserve Bank should provide more guidance, while another was to engage an independent actuary to review the capital charge.																
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?	 <table border="1"> <caption>Data for Question 13 Chart</caption> <thead> <tr> <th>Category</th> <th>Blue</th> <th>Orange</th> <th>Grey</th> </tr> </thead> <tbody> <tr> <td>Difficulties foreseen</td> <td>3</td> <td>1</td> <td>4</td> </tr> <tr> <td>Difficulties possible</td> <td>2</td> <td>0</td> <td>1</td> </tr> <tr> <td>No difficulties foreseen</td> <td>5</td> <td>2</td> <td>1</td> </tr> </tbody> </table>	Category	Blue	Orange	Grey	Difficulties foreseen	3	1	4	Difficulties possible	2	0	1	No difficulties foreseen	5	2	1
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### Major themes from responses

Many insurers and industry organisations were against the RBNZ's proposal to introduce an Insurer Return audit requirement, although audit firms were more nuanced in their commentary. Insurers perceive little benefit from an audit requirement, but envisage significant additional costs as auditors review material that is either (a) not in the financial statements or (b) presented in a different way or at a more disaggregated level level.

Insurers generally believe that other actions should be taken first, including

- A temporary audit requirement for insurers that are high-risk or that have a history of poor data quality.
- A reconciliation between the financial statements, Insurer Solvency Return and the Insurer Return.
- Fuller guidance from the Reserve Bank on how to complete the returns.
- Revision of the reporting framework to deal with IFRS 17 (due for implementation in January 2021).

Audit firms commented that the subject matter of the return should guide the type and level of assurance provided, and the associated cost that will be incurred by insurers.

## Decisions

The Reserve Bank has decided to defer introduction of an audit requirement for the Insurer Return. This is in order to:

- allow other initiatives to proceed and their impact to be assessed, prior to imposing a requirement that carries considerable additional cost for insurers, and
- allow any such requirement to be framed in the context of IFRS 17 and the changes that this new standard is likely to engender in insurance data collections.

The Reserve Bank has decided to require that audits of year-end Insurer Solvency Returns provide '*reasonable assurance*', commencing with the first audit in 2019. Auditors will be asked to provide assurance that "that the data as reported is compliant with the Solvency Standard, consistent with audited financial statements and prepared in accordance with the definitions and guidance documents provided by the RBNZ". Projections and catastrophe charges will continue to be carved out of this requirement, however.