

Response to the
Reserve Bank of New Zealand

on the

**Consultation Paper- Audit Requirements for
Insurer Data Returns**

15 December 2017

Strictly Confidential



EXECUTIVE SUMMARY

This submission has been prepared by BNZ Life Insurance Limited (BNZ Life) in response to the Reserve Bank of New Zealand (RBNZ) consultation paper regarding audit requirements for insurer data returns. We welcome this opportunity to provide a response to the draft code and appreciate the industry consultation on this matter.

BNZ Life is in agreement with the RBNZ that the Insurer Data Returns process could be refreshed for the benefit of both RBNZ, and the industry. However, the introduction of mandatory audit checks in data returns may fail to address the underlying causes of any data quality issues, particularly in the absence of any moves to review the data requirements against industry standards and practices. BNZ Life submits that the information required from insurers should be reconsidered with the aim of ensuring RBNZ's intended supervisory and monitoring outcomes can be achieved through data that is collated by industry as part of its business activity. This should ensure the data reflects actual business practices, and does not need to be re-structured into a form that may be a more artificial construct. BNZ Life submits that this lack of alignment between the data captured to enable the safe and efficient operation of an insurance business, and some components of regulatory reporting, is the underlying cause of current inconsistencies in data standards and quality. If done effectively, BNZ Life submits that there would be improved outcomes for RBNZ, and avoid unnecessary costs being imposed on industry.

BNZ would be happy to meet with RBNZ to discuss what alternative information could be provided to meet RBNZ's objectives.

Should the RBNZ have any questions in relation to this submission, please contact:

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SUBMISSIONS

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

BNZ Life does not see any potential benefit from introducing a mandatory Insurer Return audit or review until the data analysis work has been undertaken with RBNZ and industry, as proposed in the Executive Summary. At that point, BNZ Life would support an assessment of the merits of mandatory auditing if data quality has not significantly improved. The creation of any extra assurance requirements would appear to potentially increase insurer overheads without a material benefit to the industry or RBNZ.

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

- a) A reasonable assurance audit?
- b) A limited assurance review?

BNZ Life would provisionally estimate the audit fee at:

- a) \$30,000-\$40,000 per return, and
- b) \$20,000 per 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? Please answer separately in respect of

- a) A reasonable assurance audit, and
- b) A limited assurance review

BNZ Life is of the view that the lack of alignment between the data utilised to support industry practice, and the deficiencies in the design of the Insurer Return itself contribute to inaccurate and inconsistent data across insurers. The information required as part of the Insurer Return process is typically in a form that insurers do not capture or collate data in, making it difficult to supply the information mandated by the Insurer Return.

BNZ submits that the first step should be to gather input from the industry on the Insurer Return content and process with reference to RBNZ's required industry and supervisory outcomes. BNZ Life submits that there would be strong industry support for such engagement and it is willing to play a lead role in driving this with industry.

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

In the absence of an audit, this is difficult to determine. BNZ Life submits however that the alignment of industry collated data and the Insurer Returns would materially reduce remediation timeframes. As a rule of thumb, changes to data collection at originator, collections, reporting and testing can take in the order of 18 - 24 months to successfully embed, along with associated business changes.

Question 5: To what extent did 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?

The introduction of either the reasonable assurance audit, or the limited assurance review, would add an estimated two weeks to the Insurer Return process for management teams across the industry. The engagement with external audit professionals, as well as planning and support for the audit itself, would place further time pressure on insurers.

It is also likely that the audit itself would be of a higher degree of complexity, making any audit or review lengthier. As noted in answer 3, BNZ Life submits the Insurer Return could be amended to avoid some existing misinterpretation when preparing data. The interpretation that insurers currently have to apply would make any subsequent assurance work more challenging to complete.

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?

BNZ Life would very likely be able to contract an audit resource in a timely fashion.

Given that the information on the Insurer Return will change with the implementation of IFRS 17, BNZ Life submits that any audit or review requirement should not be imposed until after those changes have been made.

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

If an audit or review were to be implemented, BNZ Life believes it would be appropriate for the scope to focus on insurers that are known to have had material issues with previous Insurer Data Returns. In this regard, it is proposed that originators with a history of data quality issues should be subject to reasonable assurance annual audit requirements, and insurers who are effective compliers may be subject to limited assurance on a biannual basis.

Given that many insurers are already taking the time to complete accurate Returns, the requirement is likely to impose unnecessary costs onto the wider industry in the absence of a risk based approach.

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?

BNZ Life notes that it would seem reasonable and fair that insurers with previous instances of non-compliance with Insurer Return audits are audited most frequently. This risk based approach would prove a more effective way of supporting insurers with any genuine issues, as opposed to basing the review process around size. The size of an insurer does not necessarily impact on the likelihood of issues being found, or of their severity being of a material level.

BNZ Life submits that it would be practical to have a frequency level of any audit or review commensurate to the materiality of any issues noted.

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?

No.

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

The existing audit requirement for the Solvency Return may provide insurance boards with some comfort over the data.

Question 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

BNZ Life would expect a reasonable assurance audit review to cost \$30,000-\$40,000 per return.

The limited assurance review of the Solvency Return currently costs \$18,000.

Question 12: How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge? What approach could work in practice?

BNZ Life submits that it would be helpful for RBNZ to provide further clarity by the issuance of guidelines that lay out the thinking behind the catastrophe charge and more explicitly identify the types of events that should be considered. This would ensure a greater level of consistency amongst insurers.

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?

BNZ Life is confident that, were a reasonable assurance audit of returns introduced, sufficient assurance expertise could be accessed via our existing supplier relationships.

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

The initiatives laid out in the consultation paper to improve data quality are an encouraging step forward in potentially improving the quality of industry data without implementing a full assurance check. In particular, tighter enforcement for insurers who do not adhere to the standards expected by RBNZ and the industry is to be commended.

BNZ Life would be very supportive of continued consultation about data quality improvement initiatives.