



Submission to the Reserve Bank of New Zealand on the Consultation Paper: Audit requirements for insurer data returns

December 2017

Background

The Health Funds Association of NZ (HFANZ) appreciates the opportunity to make a submission on the Consultation Paper: Audit requirements for insurer data returns.

HFANZ is the industry body representing health insurers. Members include friendly societies, mutual, and subsidiaries of public companies. HFANZ's eight members together account for over 80% of lives covered by PHI in New Zealand. It is noted that individual HFANZ members may be making their own submissions on the consultation paper, and these may differ in some aspects from the general position in this submission.

A list of HFANZ full members is attached as an appendix to this submission.

HFANZ Submission

1. Summary

This submission suggests the RBNZ defer consideration of audit requirements until the effectiveness of the other initiatives in place or proposed can be better ascertained. This might be for up to 12-18 months.

If there is then any residual concern around data quality, then the proposed measures could be considered in the context of the specific objective to be achieved and the anticipated costs and benefits of the proposed options and alternatives.

General context

HFANZ understands that issues relating to data quality are less significant in the health insurance sector, where insurers all have rigorous processes and local reporting under their current licensing arrangements.

HFANZ would like to reiterate concerns made in previous submissions around the cumulative impact of regulatory and compliance costs and the possible negative effects these can have on consumers and choice.

There is a need to carefully weigh the likely benefits of proposed regulatory requirements with the additional costs – not just to industry participants, but to broader society. Additional compliance costs in the insurance sector are ultimately borne by consumers in the form of higher premiums.

Consultation paper

The consultation paper contains some commentary around the wider benefits of having good data, but it appears to lack a clearly defined objective and assessment of costs and benefits.

The paper notes various initiatives underway or planned to improve the quality of data. It would be expected that these would have a positive impact over time to improve data quality, potentially to the point where any residual concerns with the quality of data are no more than minor.

Ideally, a precautionary approach would suggest waiting for these measures to take effect, particularly measures relating to fuller definitions and guidance. The need for better clarity in definitions has been a theme of previous submissions, so it is not surprising that differing interpretations may have resulted in some variance across earlier data returns.

Current audit requirements and practices

There are already strong audit requirements for financial statements. To the extent that the financial information in the insurer data returns is ultimately derived from these statements, this would appear to provide sufficient safeguard as to the robustness of financial data.

In addition, many insurers already have some form of internal audit/review process ahead of the final sign-off or attestation requirement for CEO/directors.

Taken together, these factors would appear to mitigate the potential benefit from adding a further audit overlay.

Monitoring data quality

While the consultation paper lists some anecdotal examples of data errors, it would be helpful to have quantitative information on the relative scale of the issues identified in the context of overall data reporting, together with some tracking over time. These should answer questions like:

- How big an issue are data errors relative to the overall industry data?; and
- How fast are the issues identified being resolved over time?

If, as this submission recommends, consideration of further audit requirements are postponed for some period, this would provide a good opportunity to track the improvement in data quality arising from the other initiatives underway or planned. Such information would no doubt be beneficial down the track in undertaking an assessment of whether further audit requirements are indeed warranted.

Preferred approach

HFANZ supports taking a cautious approach to adding further compliance costs by:

- Deferring a decision on further audit requirements for a period of 12-18 months;
- Monitoring and tracking the improvements in data quality from the other initiatives underway or planned; and
- In the event residual concerns remain around data quality, undertaking a more thorough assessment of the likely costs and benefits of alternative options.

Thank you again for the opportunity to make this submission. I am happy to provide such further comment or clarification as may be required on any of these points. A detailed response to each question is attached.



Roger Styles
Chief Executive

Responses to specific questions in the consultation paper

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

a. *No*

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? *Not Applicable*

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.

Because other initiatives are being implemented at present, it is difficult to comment on the expected marginal impact these would have.

4. Please discuss the timeframes that you believe would be reasonable for the remediation of systems and processes identified as deficient by audit. *By the time of next audit / one year.*

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? *Both of these will lengthen return times, although (b) less so.*

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?

Feedback from members suggests at least 12 months, possibly longer depending on the final form of any audit requirement imposed.

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

In the event audit requirements are imposed, these could be on large and medium insurers, with some form of benefit for those with good data quality – this might take the form of a longer period between audits.

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

In the event audit requirements are imposed, these could be triennially, with some form of benefit for those with good data quality – this might take the form of a longer period between audits.

Does your answer differ by size and/or nature of the insurer, or by level of assurance provided? *No.*

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

Additional costs are ultimately reflected in insurance premiums paid by consumers. These may result in some consumers downgrading, reducing or cancelling cover at the margins.

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

Yes. Anecdotal evidence suggests the limited audit has been satisfactory as part of broader measures. There is no perceived significant additional benefit from strengthening the requirement.

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? *Not applicable.*

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

This does not appear to be an issue in relation to health insurance, where this charge is comparatively small. In the event further assurance requirements are considered, it could be reasonable to exclude health insurance from the need for these.

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? *No comment.*

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

HFANZ reiterates its view that a cautious approach be taken before imposing further compliance costs to the industry and consumers. In addition, existing and planned initiatives to lift data quality must be given time to take effect. Ideally, the impact of these should be monitored by RBNZ in order that the improving data quality can be tracked over time, and the level of any residual concern can be ascertained at some future date.

Appendix: HFANZ full members

The following insurers are full members of HFANZ:

- Health Service Welfare Society Limited
- AIA International Limited
- Education Benevolent Society Incorporated
- Manchester Unity Friendly Society
- Police Health Plan Limited
- Southern Cross Medical Care Society
- Sovereign Assurance Company Limited
- Union Medical Benefits Society Limited