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audit requirements for insurer data
returns.docx

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Dear Sir

Audit requirements for insurer data returns

We welcome the opportunity to provide comments on the consultation paper issued in October on the audit requirements for insurer data returns. We have reviewed that paper, and our comments in response to the questions posed for consultation are set out below.

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

We consider that the level, scope, frequency and permanence of an audit requirement for the insurer returns is a matter for the RBNZ, as prudential supervisor, and the licensed insurers, to determine. We do note, however, that the lack of consistency (in the absence of specified requirements) has been a poor situation, and that the proposals will result in consistency.

A view shared by a number of market participants and assurance providers is that fuller definitions and guidance for completing insurer returns is necessary to improve the quality of submissions. We support the RBNZ's initiative in this regard. It would be beneficial to embed fuller definitions and guidance before the potential introduction of an assurance requirement.

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?**

As an assurance provider, our fee for either a reasonable or limited assurance engagement on the insurer return, would be dependent upon on a number of factors, including:

- the size and complexity of the insurer's business;
- the degree of subjectivity of management's estimates and the level of manual adjustments applied to data extracted from the insurer's financial reporting systems in the preparation of the insurer return; and
- the effectiveness of manual and IT controls relevant to the preparation of the insurer return.

To complete an assurance engagement on the insurer return, we estimate that our fees would be approximately 1.25 to 2.0 times the equivalent fee to undertake an assurance engagement on the insurer solvency return, reflecting the additional audit professional and actuarial specialist effort required to complete the engagement.

Please see our further comments in response to Question 11.

Our estimate of assurance fees reflects the substantial amount of work required on the granular information reported in the insurer return, a lot of which does not directly reconcile or connect to the subject matter separately audited either in the statutory financial statements or the insurer solvency return. As an example, and of particular highlight, is the insurance exposure data, reported in sections 2.8, 3.7 and 4.7 of the insurer return.

Our estimate is indicative only and would be subject to the usual commercial arrangements with our clients and a more comprehensive scoping exercise with each insurer.

- 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.**

The question posed references the identification of deficiencies in the processes and systems contributing to the insurer return. As we understand it, the subject matter of the assurance requirement proposed in the consultation paper is the insurer data return.

As an assurance provider, we would obtain an understanding of the processes, systems and manual and IT internal controls relevant to our assurance engagement, audit and would share with our clients any deficiencies in internal control that we have identified in the performance of that work.

Our opinion, however, would be on the insurer data return itself, not on the effectiveness of the insurer's internal controls, processes and systems.

If the RBNZ sought specific assurance on the insurer's internal controls this would be the subject matter of a separate assurance engagement.

Further clarity on the scope and subject matter is required.

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

If remediation of systems and processes was identified as deficient by audit, the timeframes needed would depend on the nature and complexity of the issue, and determined following the insurer's own risk management practices as established by management and directors.

- 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?**

No comment.

- 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?**

No comment.

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

Please see our response to Question 1. We have no other comments.

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?

Please see our response to Question 1. We have no other comments.

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 comment.

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

As an assurance provider, we report to those charged with governance on all adjusted and unadjusted solvency misstatements identified, and share with our clients any deficiencies in internal control relevant to our assurance engagements that we have identified in the performance of that work.

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?

As an assurance provider, a limited assurance engagement on the full-year insurer solvency return has been most typical, and in line with the prescribed minimum assurance requirements at this time. Our fees for this type of work have been based on the amount of time required to complete the engagements, and have been dependent upon a number of factors:

- the size and complexity of the insurer's business;
- the degree of subjectivity of management's estimates in forming their evaluation of actual solvency capital, risk charges, and minimum solvency capital, and the process for the production of the insurer solvency return;
- the level of manual adjustments applied to data extracted from the insurer's financial reporting systems in the preparation of the insurer solvency return; and
- the effectiveness of manual and IT controls relevant to the preparation of the insurer solvency return.

Our fees can vary from approximately \$5,000 to \$100,000 for a limited assurance engagement on the insurer solvency return.

To complete a reasonable assurance engagement on the insurer solvency return, we estimate that our fees would be approximately 1.5 to 2.0 times the equivalent fee to undertake a limited assurance engagement, reflecting the additional audit professional and actuarial specialist effort required to complete the engagement.

Our estimate of reasonable assurance fees is indicative only and would be subject to the usual commercial arrangements with our clients and a more comprehensive scoping exercise with each insurer.

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

The assessment of the Catastrophe Risk Charge is highly subjective. A number of different earthquake models are used currently, with a number of different assumptions applied in the settings and calibration of each model.

An insurer accreditation and approval process for earthquake models, akin to the RBNZ BS2B capital adequacy framework for registered banks, would provide a more readily



auditable evaluation of the Catastrophe Risk Charge. Fuller definitions and more specific guidance on models and assumptions would also be beneficial.

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?

Should the RBNZ introduce an assurance requirement on the insurer data returns, as has been proposed in the consultation paper, we would be pleased to provide such services. This type of work would be compatible with our appointment and role as statutory auditor to a number of licensed general, health and life insurers.

As with the existing audit and assurance services performed in connection with insurers' statutory financial statements and insurer solvency returns, an assurance engagement on the insurer data return would be delivered by our experienced audit professionals, working in conjunction with, and support from, our actuarial, accounting and IT audit specialists. Accordingly, our firm has the requisite capability, capacity and institutional knowledge of our audit clients to undertake this type of work.

The question posed references the evaluation of 'data systems and infrastructure'. As with our comments in response to Question 3, the subject matter of the assurance requirement proposed in the consultation paper is the insurer data return. As an assurance provider, our opinion would be on the insurer data return itself, not on the effectiveness of the insurer's internal controls, data systems and infrastructure. If the RBNZ sought assurance on the 'data systems and infrastructure' this would be the subject matter of a separate assurance engagement. Again, further clarity on the scope and subject matter is required.

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

We have no other comments.

Yours sincerely

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