AUDIT REQUIREMENTS FOR INSURER DATA RETURNS

SUBMISSION BY LLOYD'S

This submission is in relation to the Reserve Bank of New Zealand Consultation Paper: Audit Requirements for Insurer Data Returns dated October 2017.

Lloyd's was granted a licence to carry on insurance business in New Zealand on 19 June 2013. The unique structure and nature of Lloyd's was recognized in the drafting of the Insurance (Prudential Supervision) Act 2010, in particular sections 200 to 212, and in the formulation of specific data collection returns for Lloyd's.

Lloyd's is required to provide the following returns:

- The Lloyd's annual report;
- The Lloyd's financial year end solvency return submitted to the UK PRA;
- The Lloyd's financial half year solvency return as submitted to the UK PRA;
- Insurer Return for Lloyd's;
- Quarterly Insurer Survey for Lloyd's;
- Insurer Solvency Exempt Return.

Audit requirements are proposed by the RBNZ in relation to Insurer Solvency Returns (which do not apply to Lloyd's) and Insurer Returns (which may apply to Lloyd's).

In relation to the Insurer Return, the RBNZ's preferred option (for large and medium size insurers) is for:

> "A 'reasonable assurance' engagement with respect to the year-end Insurer Return, presenting an opinion "that the data as reported is consistent with audited financial statements and prepared in accordance with the definitions and guidance documents provided by the RBNZ".

The RBNZ's 'possible alternative' is:

> "A 'limited assurance' engagement in which the auditor provides a 'meaningful' and 'not inconsequential' level of assurance having performed a limited review of the data."

That would apply either to all insurers; or alternatively insurers with poor data quality histories only.

Lloyd's does not consider that there is any significant advantage in imposing an audit requirement in respect of the Insurer Return for Lloyd's ('Lloyd's return'). The data required in the Lloyd's return is limited and does not include data in relation to assets.

The data provided by Lloyd's is compiled from the data of 56 Managing Agents, managing the business of more than 83 syndicates. Each of those Managing Agents conducts business in numerous jurisdictions, including New Zealand. It would be impracticable to conduct audits on those syndicates in respect of the New Zealand business they write.

It would also be impracticable to audit the returns as against the audited financial statements. Lloyd's does not produce financial statements specific to its New Zealand business. Lloyd's pro forma financial statement (PFFS) is prepared so that the financial results of Lloyd's and its members taken together and their net assets can be compared as closely as possible with general insurance companies. The PFFS include the aggregate of syndicate annual accounts, members' funds at Lloyd's and the Society of Lloyd's financial statements. Therefore an opinion could not be provided against the year-end Lloyd's return to its PFFS.

The majority of the data for the Lloyd's return is provided by Xchanging, an outsource provider of policy, premium and claims processing services to the Lloyd's market. Xchanging's systems are subject annually to an independent service auditor's controls assurance report (ISAE 3402 Type II).

Whilst Lloyd's does not consider that there is any significant advantage in imposing an audit requirement in respect of the Lloyd's return, if there had to be an audit of Lloyd's data, we would recommend that such an audit is based upon an 'agreed upon procedures' review, which would provide comfort over the controls, processes and procedures that Lloyd's uses to ensure business transactions are accurately processed and the subsequent data reported appropriately within the Lloyd's return. If the RBNZ decide to impose an audit on Lloyd's return, we would welcome the opportunity to have further discussions with yourselves on the potential nature and scope of such an audit.

With the specific questions you have asked as part of this consultation we would respond as follows:

Insurer Return

1. Do you support the idea of introducing an Insurer Return audit/review requirement?
   a. No
   b. Yes, on a temporary basis until data quality improves
   c. Yes, on a permanent basis

   Lloyd's believes that the Reserve Bank should be taking a more risk-based approach which would avoid insurers incurring permanent costs.

2. What would your organization 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?

Lloyd's does not believe it is possible to comment at this time as it would require detailed discussions with our auditors.

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

   Lloyd's believes that there would be sufficient value in an 'agreed upon procedures' review as mentioned above.

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

   If such deficiencies were identified, it would be dependent upon the deficiencies and the nature of the change required.

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?

   In the case that Lloyd's has an 'agreed upon procedure' review we believe the Insurer Return process would not be impacted.

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?
   If Lloyd's audit were to be based upon an 'agreed upon procedures' review, then at least 12 months lead time would be required to enable the appropriate walk through of our process and procedures with the auditors enabling an appropriate audit scope to be determined.

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

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?

Lloyd's would always encourage a risk based approach where high performance is met with less frequent audit requirements.

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

Insurer Solvency Return

As this Return is not applicable to Lloyd's, we have no comments.

General

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?

    Lloyd's would not foresee a difficulty in contracting an assurance professional to conduct an 'agreed upon procedures' review.

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