15 December 2017

Adrian Allot
Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand

Dear Adrian,

Please find attached, on the following pages, a **submission** from OnePath Life (NZ) Ltd ("OnePath") on **the consultation paper on Audit Requirements for Insurer Data Returns** ("the paper").

OnePath notes the various issues that the Reserve Bank ("RBNZ") has faced in collecting data from insurers. While OnePath supports strong robust processes and ensuring that submitted data is accurate, we also wish to consider the costs in imposing additional audit requirements on the industry and also question whether this would be the most efficient approach.

At the end of this paper, we also make some comments on the further consultation paper on **Sign-Offs for Insurer Data Returns** ("the further paper").

About OnePath

OnePath is one of New Zealand's leading providers of insurance. OnePath insurance solutions include:

- Personal insurance such as Life, Trauma Cover and Income Covers; and
- Business insurance covering shareholder protection, loan repayment protection and key person protection.

OnePath is fully owned by ANZ Bank New Zealand Limited, the largest financial institution in New Zealand.

Contact for submission

OnePath welcomes the opportunity to discuss any of our submissions directly with Reserve Bank officials. Contact details, if required, are:

Michael Bartram
Chief Actuary
OnePath Life NZ
Phone 09 252 6282 or 027 875 1516

We would like to thank the Reserve Bank for the opportunity to have input into these two matters.

Yours sincerely,

Craig Mulholland
Chief Executive Officer
OnePath Life (NZ) Limited

Introduction and overview

At OnePath, we do have a full and robust internal sign-off process for Insurer Returns that appears to be working well. When we initially commenced submitting insurance data, there was some initial communication with the RBNZ as we refined our understanding of what the requirements were but now have been reporting as part of an established ongoing process without any significant issues.

Broadly our focus in this submission is on the costs versus benefits of having an additional audit requirement when internal review processes may be both more efficient and more effective. We also note that the Insurer Returns are used for statistical data rather than published financial information. While still important and needing to be accurate, we further submit that an audit is probably less appropriate in this context.

Note our responses herein are written in the context of life insurance, where our expertise lies.

We also note that Part 1 of the Insurer Return should be reconcilable to the company's financial statements which are already subject to an audit. We question the concept of a further audit on a set of numbers that are reconcilable to a statement that has already been audited. Moreover, Part 2 of the Insurer Return should in aggregate agree with Part 1. If simple reconciliations are carried out and other checks preformed internally, then many of the simple mistakes cited such as misclassification of items by revenue or expense should be resolved.

Rather than an audit, we propose that the companies submitting data could instead sign-off that they have performed such simple reconciliations and validations, with any unusual items noted. We note the Reserve Bank in intending that insurers validate their returns before submitting; which we support.

Specific Points on the Consultation Paper

We welcome that the Reserve Bank is itself taking initiatives to improve data quality – particularly publications of fuller definitions and guidance. We have found ambiguity in some of the current definitions therefore we welcome clarification so that the RBNZ expectations can be clearly understood.

In the consultation paper, the Reserve Bank lists a number of issues with data including misclassification of product group or misclassification of items of financial data.

However there are some broader issues also noted here as follows:

- **Deferred Tax**

  The paper notes "difficulties with the presentation of life insurance liabilities and the taxation thereon". This is arguably not a 'data quality' issue. We are aware there may be a number of different approaches taken with regard to deferred taxation of policy liabilities in the industry for financial reporting purposes. This is an area OnePath has specifically taken advice on; however other insurers may be following different approaches. It is a difficult area, with the interaction of tax accounting standards and actuarial standards, and is not necessarily directly related to the Reserve Bank data requirements as such. We also note that auditors in New Zealand have signed off on a variety of approaches, so arguably imposing a further audit here would not necessarily by itself resolve this issue. We note this issue of varying approaches may be rectified in the next few years with the new financial reporting standard for insurance: IFRS 17, where policy liabilities are explicitly calculated gross of tax and allowance for deferred taxation on these is dealt with via a separate reserve.

We also note that it is not clear if the issue the RBNZ has is regarding the Insurer Return or the Solvency Return. With regard to the Insurer Return, the RBNZ has issued explicit guidelines on the presentation of the deferred tax element of policy liabilities. It is unclear whether the problems the RBNZ reporting relates to is in insurers following these guidelines or a broader issue. Further, the current solvency standard requires insurers to follow their published financial reporting on this point. We ask that the RBNZ is more explicit in where this problem lies before we can comment further.

- **Statistical Information**

  The paper cites "generally poor systems for generating statistical information". We note some of the challenges with statistical information – particularly around the number of lives (where a single life could have multiple policies and benefits, across multiple systems). While insurers may be able to accurately report the number of policies and the number of benefits, getting the exact number of lives is likely to be more problematic particularly if we wish to avoid double-counting where there might be multiple benefits (in the same insurance class). There might be different methods of achieving an apportionment of lives to benefits. We submit that reasonable approximations should be acceptable here. However, an audit would be problematic when there is potentially more than one such approach and is unlikely to add value.

- **Simple Mistakes**

  The paper notes "mistakes in metadata entry – dates, contact, detail, control fields etc". We submit that external audit firm is unlikely to be the most efficient or appropriate entity to find such errors but would be better suited to thorough checks by the submitting insurer. One example: if the contact details are incorrect, an external party might not have an easy way to ascertain this but the insurer itself should be able to realise this immediately on review.

In answer to the specific questions raised in the paper:

Insurer Return

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

Generally no; although it may be useful for some companies for a limited time where there have been ongoing issues or the quality of data is in doubt.

But in most cases we do not believe this would add significant value, for the reasons expressed below.

Firstly, Part 1 of the Insurer Return should be reconcilable to the company's financial statements which are already subject to an audit.

One of the items the Reserve Bank noted was misclassification of items by revenue or expense line. This should be picked up with a simple reconciliation of part 1 back to the Financial Statements, which the company could provide to the Reserve bank explaining where there are differences.

The financial information in Part 2 of the Insurer Return then is a disaggregation of such information into Insurance Classes.

Although such disaggregation is not available in the Financial Statements, an insurer should have methods to verify that such disaggregation is materially correct. For example, in OnePath's case we carry out a (monthly) analysis of profit to compare the items from the actuarial model versus the actual items in the accounts for each type of business (that broadly aligns with Insurance Classes).

We would further expect such classes to be stable over time; any sudden movements would be noted and should be commented on by the insurer. In aggregate Part 2 will be reconcilable to Part 1 and thence to the Audited Financial Statements.

Items such as policy liability and its components are generally calculated via a 'bottom-up' approach policy by policy, which should enable correct grouping by Insurance class for reporting in Insurer Return.

Rather than external audit, we submit that ensuring such internal checks and reconciliations are carried out internally would be a more reasonable approach.

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?

We would need to engage our auditors in this exercise before they are able to quote. They have indicated that Part 2 of the Insurer Return could be significantly costly given the audit it is required by each insurance class. Our current audit fee for financial statements and solvency is currently in the region of $300K - $400K. One might expect an audit of the Insurer Return to form a reasonable proportion of this amount.

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.

In terms of Part 1 of the Insurer Return, we believe an audit is unlikely to provide significant value – this information is already audited in the financial statements which Part 1 should be reconcilable to.

Rather than audit this information again, a far more effective and economic control would be to reconcile Part 1 to the financial statements with differences clearly explainable.

In terms of Part 2 in aggregate this should equal the totals in Part 1. We submit that an insurer should have internal processes to check the veracity of the split by insurance classes described above.

We believe such checks and reconciliations constitute a more efficient method of identifying deficiencies in process than an external audit.

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

Timeframes may obviously vary depending on what action was required – noting any required changes to systems in particular can be onerous.

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?

It is difficult to estimate without doing it, but time in terms of passing across data, taking auditors through systems, meeting and explaining items with auditors could add a few weeks to the process.

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?

We suggest it should be applicable to the Insurer Return due no less than 6 months away to ensure appropriate planning is undertaken.

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

We believe that particularly those insurers where there have been problems should be in scope rather than the whole industry bear the costs.

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

If one is required, then it could be considered a one-off exercise if the same processes are followed thereafter, particularly for a reasonable assurance review.

We don’t believe just large insurers should be singled out.

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

We are unaware of any other benefits.

We do note here that an audit would be very difficult where the definitions are unclear or ambiguous (for example, currently there is some business that could be classified in more than one of the available insurance class categories, although we don't believe this was the intention of the Reserve Bank).

Insurer Solvency Return

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

In what respects?

Apart from giving some assurance to various parties, there have been no material issues highlighted by auditors in our case over the last few years.

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?

Note our current base fee for limited assurance is $35K. Our auditors have yet to indicate the additional quantum for a reasonable assurance, but we do note that this will require more time from high cost professionals.

We do note that although classed as 'limited assurance', the review undertaken by our auditors does appear to be quite thorough; it is uncertain what other aspects they could meaningfully review or audit and whether there would be any benefits of a reasonable as opposed to a limited assurance.

12. How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge?

The catastrophe charge as a whole is currently an area of judgement. This would make it problematic to audit, apart from certain prescribed elements, notably the pandemic charge. Rather than an audit, this is an area where the Insurer Board should seek that their own comfort that due consideration has been given to 'reasonable' catastrophic events. As appropriate they may require peer review (external or internal).

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?

We note this is specialised area; so there could be constraints, Costs will increase further if said professionals had to come from overseas.

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

See initial discussion above.

Sign-Offs of Insurer Data Returns

While OnePath is broadly comfortable with an increased sign off, we make the following points (using the same terminology that is made in the further paper):

- There is a requirement to provide the name of the analyst primarily responsible for pulling the return together. For OnePath, different aspects of the report are performed by different people which is then checked, reviewed and verified (by different people again). There is no single 'preparing' person. We submit that a single point of contact and responsibility rather than a single preparer would be appropriate.

- Further to this, as these returns cover a broad range of information (actuarial, financial, investments, statistical) it strengthens the point that there is a single point of contact within the insurer where the Reserve Bank can follow up on queries.

- We note the MFR is a signatory on the QIS but not the IR, while the CFO signs off the IR but not the QIS. We do note that one very useful check we employ is that the QIS is consistent with the IR; so arguably it should involve the same people signing off. The financial information in each of these returns is very similar.

- We also submit that some of the sign-offs do have the ability to be delegated, notably that of the CEO, if they happen to be out of the office when the return is being finalised. Arguably such delegation could apply to the other signatories as well. We note that this doesn't mean the CEO and other officers are not accountable.