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Dear Adrian

Feedback on Consultation Paper: Audit requirements for insurer data returns

Thank you for the opportunity to submit our views on the abovementioned consultation. Our comments in this submission focus on the assurance engagement requirements. We trust that our comments will be helpful to the Reserve Bank of New Zealand (“the RBNZ”) in determining their next steps.

PwC New Zealand¹ is part of the global network of PwC firms. The firm is New Zealand’s largest professional services firm, with 7 offices and more than 1,500 partners and staff. Our firm has extensive experience across a range of professional services that are valued by a wide variety of entities and individuals that participate in financial and capital markets and investment activities in New Zealand. In responding to this consultation, we draw on our areas of expertise in Actuarial services and as Chartered Accountants providing assurance and other related services.

Our General Comments

The RBNZ collects data from licensed insurers in support of its functions under section 12 of the Insurance (Prudential Supervision) Act 2010. The RBNZ has issued this consultation paper in order to seek feedback on proposals for the provision of assurance services in respect of the Insurer Return and the Insurer Solvency Return. In so doing, the RBNZ has posed 14 questions for consultation. We have provided responses to those questions that we feel we are in a position to answer as an assurance services provider. Accordingly, we have not responded to questions 1, 7, 8, 9, 10 and 13. We would also like to make the following thematic observations.

In the consultation paper, the RBNZ has asked questions regarding reasonable and limited assurance engagements. The determination of whether the scope of an assurance engagement will be to provide reasonable or limited assurance is based on both the requirements of the client and the subject matter material upon which the assurance practitioner will opine. Where the assurance practitioner is required to reach an opinion regarding the client’s compliance with particular rules and or regulations, then the standards *ISAE (NZ) 3000 Assurance engagements other than audits or reviews of historical financial information* and *SAE 3100 Compliance Engagements* would apply. Under these standards, either a reasonable assurance or limited assurance engagement may be completed. There is a clear difference in the level of assurance provided, as follows:

¹ This response is being filed on behalf of PwC New Zealand, a separate legal entity within the network of member firms of PricewaterhouseCoopers International Limited. References to “PwC”, “we” and “our” refer to PwC New Zealand.



- for a reasonable assurance engagement we would opine that the entity has complied, in all material respects, with the requirements;
- for a limited assurance engagement we would opine that nothing has come to our attention that causes us to believe that the entity has not complied, in all material respects, with the requirements.

Whilst the RBNZ consultation paper seeks feedback on the relative merits of reasonable assurance verses limited insurance, it is worth bearing in mind that the subject matter material may not always be suitable for the performance of a reasonable assurance engagement. Reasonable assurance works best where there are clear, definitive and finite requirements with which the entity has to comply, and we would form our opinion as to whether or not the entity has complied “in all material respects.” Forming such an opinion becomes increasingly difficult where the requirements are more loosely defined, where the data reported is more granular, and where the entity is able to apply judgement in determining the extent to which “requirements” are applicable. Therefore, where requirements are less defined the engagement is more likely to result in a limited assurance opinion, in which we would opine that “nothing has come to our attention” in respect of non-compliance. As such, the level of assurance that is able to be provided will be influenced by the requirements that the RBNZ sets for the insurers.

If you have questions, or would like to discuss any aspect of our submission, please do not hesitate to contact Karl Deutschle, Assurance Partner (karl.p.deutschle@nz.pwc.com; 09-355-8067).

We understand the submission is subject to the Official Information Act 1982, and have no objection to the release of any information contained in our submission, or its publication on the RBNZ’s website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K. Deutschle', written in a cursive style.

Karl Deutschle
Partner



RBNZ Questions for Consultation

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

No response

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?

PwC response

We agree our fees directly with our clients. We would arrive at a fee after considering a number of variables, including:

- the scope of the engagement and level of assurance to be provided;
- our assessment of the risks involved;
- the level of materiality that is required or that we plan to apply; and
- the quality of a client's systems and processes.

In relation to materiality, an engagement that can leverage the assurance work carried out for the purposes of the audit of the financial statements will be significantly lower in cost than one that does not. There will therefore be a significant impact on costs if the materiality requirements for the assurance engagements over either the solvency returns or the data returns are stricter than the requirements for the financial statements. Where the amounts subject to audit are consistent with those used for financial reporting, as in the Solvency Return, costs are generally lower than if this is not the case.

A reasonable assurance engagement provides a higher level of assurance than a limited assurance engagement and involves more procedures being completed. As such, our fees for a reasonable assurance engagement would be higher than those for a limited assurance engagement. A reasonable assurance engagement is typically at least double the cost of a limited assurance engagement.

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. a reasonable assurance audit, and
 - b. a limited assurance review.

PwC response

The scope of either the reasonable assurance or limited assurance engagement would not be sufficient to enable us to provide assurance on the effectiveness of internal controls, but matters may be identified during the course of the engagement which would be reported to the client.

The consultation paper does not establish the requirements that the RBNZ would place on insurers and hence the full scope of a required assurance engagement, and the assurance standards that would apply, is unclear at this stage. From the information in the consultation



paper, we have concluded that the required assurance engagements would be *ISAE (NZ) 3000 Assurance engagements other than audits or reviews of historical financial information* and *SAE 3100 Compliance Engagements*. Under these standards, any review of internal control systems is performed only to the extent required to enable us to express an opinion on the entity's subject matter information and/or their compliance with applicable rules or regulations.

In the event that RBNZ require specific assurance over processes and systems, then *SAE 3150 Assurance Engagements on Controls* would apply. The scope of an assurance engagement completed under SAE 3150 is:

“to provide an assurance report on the suitability of the design of controls to achieve identified control objectives, and, if applicable, fair presentation of the description of the system, implementation of the controls as designed and/or operating effectiveness of controls as designed”.

The extent to which an assurance engagement may identify deficiencies in the processes and systems contributing to the Insurer Return would be dependent on the requirements that the RBNZ put in place for insurers, including the specified type of assurance engagement.

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

PwC response

We believe that it would be for the RBNZ and insurer to agree on what would constitute a reasonable timeframe for any required remediation. The nature of the remediation could have a significant impact on what would be a reasonable timeframe.

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?

PwC response

In principle, whilst the level of assurance provided impacts the level of work required to provide that assurance, we do not believe this should affect the time taken by the insurer to complete the Insurer Return. Many insurers seek to complete the process of their Solvency Return in tandem with the audit of their financial statements, and do so well within the four month statutory window for completion of the financial statement audit. However, the introduction of an insurer return audit would need to be incorporated into this process and this may place pressure on the insurer's personnel and timeframes.

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?

PwC response

We would be in the hands of our clients who would need to amend their reporting timelines to accommodate the assurance work. We have the capacity, experience and expertise to build this in to our assurance work for our insurance clients with little lead-time.



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

No response

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

No response

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 response

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

No response

11. What would your organisation expect the audit fee to be for a:
a. a reasonable assurance audit of the Solvency Return?
b. a limited assurance review of the Solvency Return?

PwC response

Please refer to the response provided to question #2 above.

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

PwC response

Given the subjectivity involved in this area of the solvency return, and that the Appointed Actuary is responsible for determining the methodology and assumptions used to calculate the Catastrophe Risk Charge, we believe it is difficult to provide more than limited assurance in this area.

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 response

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

PwC response

We have no comments further to those contained herewith including our covering letter.