

15 December 2017

Reserve Bank of New Zealand
Prudential Supervision Department
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Attn: Adrian Allott, Senior Adviser

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By email: Adrian.allott@rbnz.govt.nz

Dear Mr Allott,

AUDIT REQUIREMENTS FOR INSURER DATA RETURNS

1 Introduction

- 1.1 Thank you for the invitation to provide feedback on the proposed additional audit requirements in the proposal document dated October 2017.
- 1.2 Sovereign is generally supportive of the initiatives to improve the consistency and delivery of data. However, our view is that the proposed audit requirements may add little benefit for Sovereign when balanced with the further resources consumed. A focus on measures to improve the quality of the returns, for example through expanding definitions and guidance, and targeted review and feedback on non-compliance, should be given time to demonstrate improvements before introducing further audit requirements.
- 1.3 We therefore support the use of further assurance measures as another tool to improve the consistency of data across the sector, but only after first allowing other initiatives to be implemented.

2. Specific feedback

- 1.4 Appendix one sets out Sovereign's specific responses in relation to the Changes.

Please do not hesitate to contact us if you wish to discuss any aspect of the above.

Yours faithfully

David Dashwood
Head of Financial Control
Sovereign Services Limited

Appendix One – Specific Responses

No	Question	Response
1.	<p>Do you support the idea of introducing an Insurer Return audit/review requirement?</p> <p>No</p> <p>Yes, on a temporary basis until data quality improves.</p> <p>Yes, on a permanent basis.</p>	<p>Yes, but consider delaying the implementation of the requirement to allow time for other more cost-effective initiatives to first take effect to better understand whether the other initiatives deliver sufficient improvements.</p>
2.	<p>What would your organisation expect the audit fee to be for:</p> <p>a) a reasonable assurance audit of the Insurer Return?</p> <p>b) a limited assurance review of the Insurer Return?</p>	<p>This will depend on the final scope of the audit.</p>
3.	<p>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:</p> <p>a) a reasonable assurance audit, and</p> <p>b) a limited assurance review.</p>	<p>Sovereign’s Insurer Returns are subject to continuous review and approval by senior management across the divisions involved including actuarial, business intelligence and finance. The review considers alignment to RBNZ definitions and rigorous analytical comparisons. The financial statements that are the basis of the amounts included in Insurer Returns are subject to a full annual audit, and half year audit review.</p> <p>Due to the existing controls already being in place, we believe Sovereign would derive little value from a limited assurance review, because, as per discussions with our auditors, the scope of this review would generally cover the mapping of the general ledger accounts to the Insurer Return and general enquiry and analytical review. There may be value in a reasonable assurance audit depending on the agreed scope, for example if this were to include substantiating splits of general ledger amounts.</p> <p>The introduction of further assurance over Insurer Returns may not be as beneficial for Sovereign compared with smaller to medium sized insurers with potentially less sophisticated controls and procedures.</p>
4.	<p>Please discuss the timeframes that you believe would be reasonable for the remediation of systems and processes identified as deficient by audit.</p>	<p>Any possible future deficiency would need to be assessed on a case by case basis.</p>

No	Question	Response
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?	We believe four months is sufficient time to prepare and undergo any of the proposals.
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?	At least six months' notice in advance of financial year end, we believe, will enable the scope, cost and planning activities to be completed by our external auditor.
7.	What type of insurers do you believe should be in-scope for an Insurer Return audit/review requirement, and why?	Sovereign believes that all insurers should be required to meet these standards. Without all insurers being scoped in, reliance cannot be placed on the aggregate published data.
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?	Annually to align with the full audit of the financial statements.
9.	Have you identified any benefits and costs (other than those listed in the introduction) of introducing an audit requirement for the Insurer Return?	Nothing specific over and above the responses in this submission.
10.	Has the existing audit/review of the Insurer Solvency Return been beneficial in improving the quality of the data submitted? In what respects?	Sovereign has adopted a "reasonable assurance" audit approach in relation to its Insurer Solvency Returns. Initially, new operational insights regarding potential process improvements were identified and implemented. However, as time has progressed, there have been fewer and fewer process improvements identified.
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?	a) Approximately \$40,000 b) Approximately \$20,000
12.	How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge? What approach could work in practice?	No comment.
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?	Not for Sovereign. But it may be only the larger audit practitioners who may be able to offer this service if actuarial assurance ability is also required.

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No	Question	Response
14.	Do you have any other comments you would like to make?	None.