

12 December 2017



Adrian Allott
Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand
P O Box 2498
WELLINGTON 6140

Dear Adrian,

CONSULTATION PAPER: AUDIT REQUIREMENTS FOR INSURER DATA RETURNS CAPTIVE INSURANCE COMPANIES

Introduction

This submission is in support of the New Zealand Captive Insurance Association's submission to the Reserve Bank on the Consultation Paper outlining suggested changes in respect of the audit requirements for insurer data returns. Our submission is from the perspective of an organisation who has an established captive insurance subsidiary company, Unison Insurance Limited (UIL).

Background

Unison Networks Limited (Unison) and its subsidiaries (together the Group) provide electricity distribution and line function services to around 111,800 customers, as well as fibre optic network interconnections and related services throughout the Hawke's Bay, Taupo and Rotorua regions. The Unison Group is wholly owned by the Hawke's Bay Power Consumers' Trust on behalf of Hawke's Bay electricity consumers.

There is currently a very limited insurance retail market place for what are known as "T & D assets" (transmission and distribution equipment including poles, pole-mounted assets, wires and underground cables). To address this gap, in 2009, Unison established UIL, as Unison's captive insurer, in order to provide cost effective cover for Unison's uninsured risk.

Unison, as a 'Lifeline Utility', has an obligation under the Civil Defence and Emergency Management Act 2002, amongst other matters, to ensure we are able to function to the fullest extent possible, during and after an emergency. The establishment of UIL, is a measure undertaken by Unison to assist the meeting of this obligation by providing a fund to spread the costs of a catastrophic event over time, rather than recover costs from consumers at the time of the event. UIL provides a vehicle to better manage Unison Group's risk compared to similar entities where T & D assets remain uninsured.

Response to Consultation Paper

From our perspective the Reserve Bank's regulation of UIL as a Captive Insurer already imposes significant compliance costs with no discernible benefit to UIL, its parent (Unison), stakeholders in the general insurance industry or the general public.

In particular, we wish to provide a submission on questions 1, 2, 3, and 14 of the Consultation Paper, as outlined below:

Question 1:

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

We do not support introducing an Insurer Return audit or review on the basis that:

- UIL's operations as a captive insurer are very simplistic, as it only writes one class of business (Material Damage / Business Interruption) and only one insurance policy per annum.
- Introducing an Insurer Return audit or review would increase already high compliance costs without providing any benefit to the UIL, its parent (Unison), stakeholders in the general insurance industry or the general public.

Question 2:

What would your organisation expect the annual fee to be?

Based on the current audit requirements for UIL the expected cost of the proposed Insurer Return audit or review is between \$2,000 and \$5,000. Although this may not seem a substantial amount it is a material amount for UIL.

Question 3:

How effective do you believe an audit requirement would be in identifying deficiencies in the processes and systems contributing to the Insurer Return?

From Unison's perspective we believe that an audit/review requirement is unnecessary for captive insurers, as this would not materially impact the quality of the information submitted by UIL. As mentioned in 1 above, UIL is a simplistic insurer, and therefore it is easy to correctly classify premiums written by product group. Also, UIL's Insurer Return is completed at the same time we complete the annual financial statements and the Insurer Solvency Return, with involvement from UIL's appointed actuary.

Question 14:

Do you have any other comments?

We believe that captive insurers should not be in-scope and should be specifically exempted. The proposed audit/review requirement increases compliance costs without providing any benefit to the captive, its parent or, stakeholders in the general insurance industry or the general public.

We would be happy to discuss the arrangements we have in place at Unison and UIL if that would assist the Reserve Bank's understanding.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'D Hope', with a long horizontal flourish extending to the right.

Duncan Hope
GROUP FINANCIAL CONTROLLER