

18 December 2017



Adrian Allott  
Senior Adviser Prudential Supervision Department  
Reserve Bank of New Zealand  
PO Box 2498  
Wellington 6140

Majestic Centre, Level 24  
100 Willis Street  
P O Box 24 031, Wellington 6142  
Tel (04) 474 3178  
Fax (04) 470 9151

Via email to [Adrian.Allott@rbnz.govt.nz](mailto:Adrian.Allott@rbnz.govt.nz)

Dear Adrian

**Subject: Audit requirements for insurer data returns**

Thank you for the opportunity to respond to the Reserve Bank's (RBNZ) consultation in respect of additional audit requirements for insurer data returns. I have set out in this document responses where appropriate to the questions posed within the consultation document.

In short, our view is that the current requirements are fine and there should be no extension of the assurance requirements.

In respect of the solvency return and submission, the current requirement for a non-audit assurance engagement is appropriate and proportionate. The sign off requirements from the Appointed Actuary and the Board are aligned with the current method of distributing ownership and accountability within IPSA and we think any change to this would not only bring significant added cost to the process, but we are also not sure what additional assurance it would add to the process.

In respect of the insurer data returns, we do not wish for additional cost to be imposed on the entire industry to manage the poor delivery of data from some market participants. Requiring these data returns to be subject to any form of assurance engagement (audit or otherwise), would add a lot of time and cost into the process that we do not think is justified. There is no such requirement for any of the other industry body data collections and we cannot see why there is a need to impose such a requirement on this particular set of data.

If you would like to discuss any of this in any more detail then feel free to get in touch on the below contact details.

Kind regards

A handwritten signature in black ink, appearing to read "MSchollum", with a long horizontal line extending to the right.

Mark Schollum  
Head of Finance

Cigna Life Insurance New Zealand Ltd

[Mark.Schollum@cigna.com](mailto:Mark.Schollum@cigna.com)

04 470 9791

*Attached: Appendix 1 – Detailed question set*

**Appendix 1 – Detailed Question Set**

**Insurer Return**

Question	Cigna Response
1. Do you support the idea of introducing an Insurer Return audit/review requirement?	No
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?	I don't have a firm view on what the costs for each of the options would be, however I don't expect that they would be materially different. They would however be additional costs to market participants not currently being incurred. Based on the additional fees we incur to support the current assurance engagement in relation to the solvency returns, I would expect that such a fee might be in the vicinity of \$30-\$60k per annum. In addition to the external cost, there is also the internal time cost that will increase significantly as we would be required to take the audit team through the work completed to prepare the returns.
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.	I would expect that unless such a request was specifically required as part of the scope of works to be completed, then an audit (review) process would not be effective.
4. Please discuss the timeframes that you believe would be reasonable for the remediation of systems and processes identified as deficient by audit	These would need to vary based on the severity of any deficiency identified.

Question	Cigna Response
<p>5. To what extent do you believe the time to complete the Insurer Return will be impacted if it is subject to</p> <p>a. a reasonable assurance audit?</p> <p>b. a limited assurance review?</p>	<p>The time required will increase due to the additional step in the process. With this increase comes cost, that would very quickly be passed onto the consumer. We would estimate that the additional time cost maybe in the vicinity of an additional 50% over and above current time spent.</p>
<p>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?</p>	<p>I would have thought that a minimum of 12 months would be reasonable given the need to obtain agreements with external audit firms to complete the work. I wouldn't want to see any shorter timeframe than that.</p>
<p>7. What types of insurers to you believe should be in-scope for an Insurer Return audit/review requirement, and why?</p>	<p>I don't believe any should be included as I don't think an audit requirement is necessary. However to the extent one was implemented, I think it would only be fair to apply this industry wide.</p>
<p>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?</p>	<p>While the size and nature of an insurer should have no bearing on the frequency of audit, perhaps the frequency could be tied to the nature of any previous non-compliance identified. I would have thought a reasonable starting point might be to audit every 2<sup>nd</sup> or 3<sup>rd</sup> year's insurer return if such a requirement was imposed.</p>
<p>9. Have you identified any benefits and costs (other than those listed in the introduction) of introducing an audit requirement for the Insurer Return?</p>	<p>No. The proposal adds additional costs with no identifiable benefits to the industry or individual participants.</p>

### Insurer Solvency Return

Question	Cigna Response
<p>10. Has the existing audit/review of the Insurer Solvency Return been beneficial in improving the quality of the data submitted? In what respects?</p>	<p>Not substantially. The current sign off requirements of the Appointed Actuary and presentation to and approval by the Board provide the necessary hurdles for sign off. I do not think the notion of having an audit firm provide a reasonable assurance opinion has improved the quality of the information submitted – the current process would deliver the same quality of outputs even without this requirement.</p>

Question	Cigna Response
<p>11. What would your organisation expect the audit fee to be for</p> <p>a. a reasonable assurance audit of the Solvency Return?</p> <p>b. a limited assurance review of the Solvency Return?</p>	<p>Please see response to question 2.</p>
<p>12. How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge?</p> <p>What approach could work in practice?</p>	<p>We would benefit from more defined clarity from the RBNZ about the purpose and intended benefits of the Catastrophic Risk Charge. That would allow greater analysis of how the Charge could be improved to drive consistency of application across the industry. I am not sure that a layer of external assurance will necessarily achieve that outcome any better than improved guidance notes.</p>

## General

Question	Cigna Response
<p>13. Do you foresee any difficulties in contracting assurance professionals to perform a reasonable assurance audit of returns to the RBNZ; eg, with respect to their capacity to evaluate data systems and infrastructure?</p>	<p>While we have not confirmed availability of our external auditors, it would be reasonable to assume that their workload is already high and it would certainly be our preference to use one firm for all of this assurance work should it be required. On that basis, I expect it would be potentially challenging to confirm capacity until such time as there is a clear view of what the requirements are.</p> <p>Industry use of different consultancies is also not a guarantee of consistency.</p>
<p>14. Do you have any other comments you would like to make?</p>	<p>No.</p>