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Adrian Allott
Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
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Dear Adrian,

Audit requirements for insurer data returns

The Co-operative Bank ('Co-op Bank') and its wholly owned licensed life insurance business Co-operative Life Limited ('Co-op Life') welcome the opportunity to provide feedback on the Consultation Paper: Audit requirements for insurer data returns (October 2017).

Co-op Bank and Co-op Life are supportive of the need for quality data to be provided by insurers and acknowledge the initiatives being undertaken by the Reserve Bank of New Zealand ("the RBNZ") to promote this, including:

- Publication of fuller definitions and guidance for completing returns;
- A requirement for insurers to validate elements of their returns prior to submission;
- A broadening of sign-off requirements to include management, finance and actuarial functions; and
- Stricter enforcement with respect to insurers that consistently fail to meet standards for quality and timeliness.

These initiatives appear well designed to ensure more quality assurance before return submission. We are therefore concerned that the proposal to increase the audit / review requirements of the respective insurer data returns will have limited additional benefits and may incur considerable cost for the insurer.

We have addressed our specific concerns in our responses to your questions on the following pages.

Questions for Consultation

Insurer Return

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

Co-op Bank does not support the introduction of an Insurer Return audit/review requirement. Whilst it is not currently clear what specific concerns the RBNZ has about the quality of existing returns, we believe that the above listed initiatives and specific targeting of insurers with identified data quality issues will be beneficial and can be achieved without undue cost to other insurers.

If an Insurer Return audit/review were introduced on a 'temporary basis until data quality improves', we would be concerned that the definition of 'quality improves' is opaque and subject to interpretation. Clarification is also required on whether the insurer industry would continue to be subject to audit/review requirements even if just one insurer was deemed to be failing to meet quality and timeliness standards.

2. What would your organisation expect the audit fee to be for a reasonable assurance audit of the Insurer Return or a limited assurance review of the Insurer Return?

Given the relative size of Co-op Life's insurer business, we would anticipate the likely cost of an audit of between \$[] and \$[] (exclusive of GST). This is a significant cost to Co-op Life and would increase its audit fees by more than 50%.

This indicative fee range reflects the substantial amount of work required on the granular information reported in the insurer return, a lot of which does not directly reconcile or connect to the subject matter separately audited either in the statutory financial statements or the insurer solvency return. An example is the life insurance exposure data, reported in section 2.8 of the insurer 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 reasonable assurance audit, and a limited assurance review.

An audit/review requirement may identify deficiencies in systems and processes surrounding the compilation of the Insurer Return, though we expect that the primary focus of the assurance engagement would be on verifying the data contained in the return rather than assessing the quality of the systems and processes that generate it. As a result, an audit/review may not identify process deficiencies or may only identify the issues that the RBNZ is already aware of. Therefore the cost of imposing this requirement may significantly outweigh the actual benefit.

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

This is a difficult question to answer as it would depend on the changes required to underlying systems and the resources available to make these changes. Co-op Life believes that administrative changes could be made quite quickly and it is therefore realistic to expect these to be in place for the next insurer data return.

More complex changes could take between 6 to 12 months or longer to implement. Therefore, consultation should be undertaken with the insurer when an issue is identified and an appropriate

timeframe agreed dependent on the specific circumstances of the deficiency. Having a blanket timeframe for the remediation of all deficiencies is not practicable.

5. To what extent do you believe the time to complete the Insurer Return will be impacted if it is subject to a reasonable assurance audit or a limited assurance review?

Insurers currently have 4 months to complete and submit the Insurer Return. Co-op Bank and Co-op Life believe that this timeframe would be sufficient to complete the return and for either a reasonable assurance audit or limited assurance review to be undertaken.

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?

The amount of lead time to implement an Insurer Return audit/review requirement would be dependent on how long it took for the various audit firms and the RBNZ to agree on the scope of the audit/review opinion. In our opinion a minimum lead time of 12 months would be prudent.

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

Co-op Bank and Co-op Life's view is that the requirement for an Insurer Return audit/review should only be imposed on Insurer's where the RBNZ has highlighted continuing deficiencies in their submissions.

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?

Co-op Bank and Co-op Life's would prefer that the Insurer Return was not subject to audit/review. If this is required then triennially would be our preferred option. However, there is potential risk of an audit/review being overlooked if this is required on a triennial basis, so this would need to be well managed by the RBNZ and the industry.

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

Co-op Bank and Co-op Life have not identified any other benefits or costs of introducing an audit requirement for the Insurer Return.

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?

This is a difficult question to answer. If the existing audit/review of the Insurer Solvency Return was identifying errors that were then corrected prior to submission, then this process is definitely beneficial to improving data quality. However, if the Solvency Return is error free then the audit/review is less beneficial.

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

The Solvency Return audit fee incurred by Co-op Life would likely double, increasing from \$[] to \$[] (exclusive of GST). This additional cost reflects the additional audit team and actuarial specialist time required to complete the engagement.

12. How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge? What approach could work in practice?

Co-op Bank and Co-op Life have no specific comment to make on this question.

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 see no difficulties in contracting assurance professionals to undertaken a reasonable assurance audit of the returns to RBNZ. This would most likely be undertaken by the existing external auditors.

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

We have no further comments to make.

Conclusion

As noted above, Co-op Bank is strongly supportive of the need for a high-quality industry-wide dataset. However, we do not believe that a requirement for an industry wide audit/review of relevant returns will deliver a level of benefits for the industry and the RBNZ commensurate with the additional cost it would incur.

Rather, we encourage promotion of the initiatives listed at the start of this letter, on-going engagement with insurers, a focus on materiality and repeat offenders, and regular socialising of identified issues across the insurer sector.

Yours sincerely

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The Co-operative Bank

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