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To Adrian Allot, Senior Adviser

Prudential Supervision Department
Reserve Bank of New Zealand

[TO BE SENT TO ADRIAN.ALLOTT@RBNZ.GOVT.NZ]

SUBMISSION ON THE RESERVE BANK OF NEW ZEALAND'S CONSULTATION PAPER: AUDIT REQUIREMENTS FOR INSURER DATA RETURNS

Introduction

1 We thank the Reserve Bank of New Zealand (*Reserve Bank*) for the opportunity to respond to its Consultation Paper: Audit Requirements for insurer data returns (the *Consultation Paper*).

2 We have considered the proposed amendments in the Consultation Paper and set out our submission below. For completeness, terms used in this submission have the same meaning as set out in the Consultation Paper.

Submission

3 If the Reserve Bank has identified a deficiency in the quality of data supporting an Insurer Return, then Manchester Unity Friendly Society (*Manchester Unity*) would support the introduction of an audit/review requirement for large and medium size insurers on a temporary basis, until data quality improves. We believe this is a proportionate response, and should only last as long as is required to lift standards. If standards drop, the requirement could be re-introduced either generally or specifically for particular insurers.

4 Manchester Unity also submits that:

4.1 The requirement should be limited to large and medium size insurers, as contemplated by the Consultation Paper. It should not apply to "small insurers" falling within the Regulation 13 exemption under the Insurance (Prudential Supervision) Act 2010 (*IPSA*)(*Exempted Insurers*).

4.2 If an Insurer Return audit requirement is imposed on Exempted Insurers (which as indicted above we do not support), the frequency of the Insurer Return audit for those insurers should be every five years (rather than every three years, as proposed by the Reserve Bank).

Small insurers should not be subject to an Insurer Return audit

5 Manchester Unity submits that the Reserve Bank should not impose an Insurer Return audit on Exempted Insurers on the basis that:

5.1 it is essential that any obligation imposed on insurers is *proportionate,* and does not give rise to costs which are disproportionate to any benefits gained;

5.2 the cost for Exempted Insurers to comply with an Insurer Return audit would be unnecessarily burdensome, and disproportionate to the benefit of increased data quality the Reserve Bank would receive (especially given the limited number of Exempted Insurers);

5.3 the volume of data that the Reserve Bank receives from Exempted Insurers is not at a level which would justify an audit requirement;

5.4 the relatively low volume of data provided by Exempted Insurers means that any quality issues can be more easily addressed by Exempted Insurers than large insurers, which alleviates the need for an assurance engagement. This has been our experience in the past, where Manchester Unity has been requested (and able) to make amendments to its Insurer Solvency Return, and it is now confident that the quality of data it submits is of the requisite standard;

5.5 further, the audit requirement will involve additional time in the returns process (the Insurer Return is currently required to be filed four months after the balance date), which creates unnecessary additional administrative pressure on these insurers; and

5.6 finally, but importantly, the risk profile (from a systemic perspective) of Exempted Insurers is not at a level where the costs involved with an audit are justified.

6 Essentially, Manchester Unity considers that the policy factors that underpin the Regulation 13 exemption apply equally here.

7 Accordingly, we submit that any Insurer Return audit requirement should not apply to Exempted Insurers.

Alternatively, medium-small insurers should only be required to complete an Insurer Return audit every five years

8 Alternatively, Manchester Unity submits that if Exempted Insurers were to be included as "medium insurers" for the purposes of the Consultation Paper, and would be required to complete an Insurer Return audit, the frequency of that audit should be extended to every five years. We submit this on the basis that:

8.1 as discussed above, the costs for medium-small insurers to comply with an Insurer Return audit every three years would not be justified, when balanced against the potential benefits; and

8.2 while we acknowledge that the provision of high quality data by insurers to the Reserve Bank can help meet the purposes of the IPSA, a five year review for Exempted Insurers will inevitably still uncover deficiencies in data systems, and still produce an increase in the quality of data being submitted to the Reserve Bank.

9 Accordingly, if our submission at paragraph 4.1 is not accepted, we submit that the Insurer Return audit should only have to be completed every five years for Exempted Insurers.

Conclusion

10 Thank you again for the opportunity to submit on the Consultation Paper. If you require any further information, please do not hesitate to contact me.

Yours faithfully

Sanjiv Jetly
Chief Executive Officer