Response to the

Reserve Bank of New Zealand

on

Audit requirements for insurer data returns

Due Date: 16th December 2017

Submitted by: Union Medical Benefits Society Limited (UniMed)

December 2017

Thank you for the opportunity to provide a submission on the proposal of introducing audit requirements for insurer data returns.

Background

Union Medical Benefits Society Limited (Trading as UniMed) is an Incorporated Society registered in November 1979 under the Industrial and Provident Society Act 1908. Its principal product and service is health insurance. The Society is domiciled and incorporated in New Zealand and is a not for profit Public Benefit Entity.

The Society was granted a licence by the Reserve Bank of New Zealand (RBNZ) on 23 May 2013 to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010 (IPS Act). As a consequence of being a licensed insurer the Society is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 (FMC Act).

UniMed's key market segment is 'Group' schemes as opposed to selling 'Retail' products. UniMed manages this via a network of independent brokers and a small employed sales force.

Reason for Submission Request

The stated reason for this submission is that the RBNZ has been analysing the data collection experience from licensed insurers since 2013 and the RBNZ's staff have been assessing the quality of these returns. A wide range of issues regarding the quality of the data in the returns was identified and these issues hamper the use of this data for supervisory and disclosure purposes.

Examples include:
- Mis-classification of items by product group
- Mis-classification of items by revenue or expense line
- Difficulties with presentation of life insurance liabilities and the taxation thereon
- Weaknesses in valuation methods used for general insurance classes
- Mistakes in metadata entry – dates, contact details, control fields etc.
- Generally poor systems for generating statistical information

The RBNZ is considering a number of initiatives to raise the quality of the data.

These include:
- 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
- Stricter enforcement with respect to insurers that consistently fail to meet standards for quality and timeliness

As the RBNZ already requires the auditor to complete an audit/review of the year-end Insurer Solvency Return the RBNZ is also considering requiring a reasonable assurance audit of the year-end Insurer Return and Insurer Solvency Return. This requirement carves out solvency projections and catastrophe risk charges, and may take the form of a 'limited assurance' engagement.

Questions for Consultation

Insurer Return

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

a. No

~~***b. Yes, on a temporary basis until data quality improves***~~

~~***c. Yes, on a permanent basis***~~

UniMed does not support the introduction of an Insurer Return audit/review because UniMed is solely a provider of health insurance, which requires no extra actuary involvement to complete this return. Information contained in the Insurer Return is based only on the annual audited financial statements.

2. What would your organisation expect the audit fee to be for

a. a reasonable assurance audit of the Insurer Return?

> The extra cost is estimated at $3,000 for the auditor to retain the services of an actuary to check the Appointed Actuary's work plus a further $3,000 for the Auditor to review the report and provide a reasonable assurance audit of the Insurer Return as this is separate from the standard audit.

b. a limited assurance review of the Insurer Return?

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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

UniMed would not expect that the extra effort and cost would identify any deficiencies in processes and systems as the annual Insurer Return is a direct reflection of the audited financial statements. All of this information has already been audited and there is no actuarial adjustment or other modifications that would require review.

b. a limited assurance review.

UniMed would not expect that the extra effort and cost would identify any deficiencies in processes and systems as the annual Insurer Return is a direct reflection of the audited financial statements. All of this information has already been audited and there is no actuarial adjustment or other modifications that would require review.

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

As explained, UniMed has no expectations of there being system or process deficiencies that would come to light through the prosed audit/review as the information is a direct reflection of the audited annual financial statements.

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?

It is reasonable to expect that any extension to the annual audit process by including a reasonable assurance audit that involves a second actuary's review and then a review of the resulting report by a senior auditor or the audit partner would equate to 2-3 additional weeks to the audit process.

b. a limited assurance review?

It is reasonable to expect that any extension to the annual audit process by including a limited assurance audit that involves a second actuary's review and then a review of the resulting report by a senior auditor or the audit partner would equate to 2-3 additional weeks to the audit process.

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?

Audit planning for UniMed's 30 June 2018 balance date has already begun. It would be reasonable to expect if changes are to be made to the audit then these would need to be for UniMed's 30 June 2019 balance date.

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

Insurers to be included in the audit/review requirements should be limited to those Insurers that require additional actuarial calculations in the Insurer Returns to those that are already included in the audited financial statements. This would be better targeted toward those Insurers that provide General or Life Insurance.

As solely a provider of Health Insurance UniMed is content that there is no benefit for health insurance providers to be include, as the information in the Insurer Return is extracted directly from the audited annual financial statements which have been audited.

8. How frequently should an audit/review of the Insurer Return be performed (given that one is required)?

The frequency of the audit review for those Insurers selected as a result of question 7 should at a minimum of biennial while Insurers that have a track record of accurate returns should be extended out further (e.g. triennially) so they incur less compliance cost and the audit/review still occurs often enough to incorporate any reporting changes.

Does your answer differ by size and/or nature of the insurer, or by level of assurance provided?

Yes, as answered above. Only the Insurers that require extra actuarial work to complete the Insurer Return should have the audit/review obligation included and at a minimum of biennial while triennially would incur less compliance cost and occur often enough to incorporate reporting changes.

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

Yes. Further to the Insurer's externally generated compliance costs identified in the introduction, the Insurer will also face internal compliance costs. The most significant of these would be the extra staffing required to meet the increased work load for managing the changing reporting deadlines and the relationship with external reviewers.

Insurer Solvency Return

10. Has the existing audit/review of the Insurer Solvency Return been beneficial in improving the quality of the data submitted?

UniMed has not identified any improvements in data quality from the inclusion of the existing audit/review as UniMed and the Appointed Actuary work closely together in completing the audited financial statements which are the basis of the return.

In what respects?

The current Insurer Solvency Return is based on numbers as already audited. Further figures that require estimations in their calculation are discussed with the Appointed Actuary who works on the Insurer Solvency Return. As part of the current audit process, an independent actuary is contracted by the auditor to check the Appointed Actuary's estimates. UniMed is reassured of the high standard of this work as all reporting audit/review work has provided positive support of the results.

11. What would your organisation expect the audit fee to be for

a. a reasonable assurance audit of the Solvency Return?

> The extra cost is estimated at $3,000 for the auditor to retain the services of an actuary to check the Appointed Actuary's work plus a further $3,000 for the Auditor to review the report and provide a reasonable assurance audit of the Solvency Return as this is separate from the standard audit.

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12. How can a greater degree of assurance be obtained with respect to the Catastrophe Risk Charge?

As solely a provider of health insurance, the calculation of a catastrophe risk charge is not complex when compared to insurers providing General and/or Life Insurance. This is why UniMed does not believe that all insurers need to be included in the proposed change.

However, UniMed does support that the best person to assess the catastrophe risk is an actuary, as this is their field of expertise. As the Appointed Actuary's calculation forms part of the critical estimates and assumptions Directors signing off as part of the annual financial statements should always considered the assessment for appropriateness.

What approach could work in practice?

As solely a provider of health insurance, the calculation of catastrophe risk is relatively simple and the current situation works well for UniMed.

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?

As part of the current annual audit process, assurance professionals already assess the Insurer's data systems and infrastructure in forming a view as to the reliability of the financial information and its security. Therefore, the question's examples are irrelevant to the question posed.

Specifically, the area of difficulty that assurance professionals may encounter is in the assessment of the critical estimates and assumptions that actuaries use in their calculations. In most cases, the auditor would contract an independent actuary for the task. The assurance professional must then form their own opinion as to the reliability of both the appointed and the independent actuaries' reports.

Further, the increased work that would be required in providing an assurance audit on the returns to the RBNZ will also be added time pressures for both the assurance professionals and the contracted independent actuaries to meet the already short year-end reporting deadlines.

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

No further comments.