Collection of New Zealand Insurer Data

Reserve Bank of New Zealand Consultation Document

SUBMISSION

From

ICNZ Insurance Council of New Zealand

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1. INTRODUCTION

The Insurance Council of New Zealand (ICNZ) thanks you for the opportunity to provide a submission on this consultation paper on The Collection of New Zealand Insurer Data by the Reserve Bank of New Zealand (RBNZ).

This ICNZ submission has been prepared after consultation with ICNZ members and represents a general insurance industry consensus. We understand that a number of ICNZ members will be making individual submissions and while on some issues they may present additional positions, in the main the industry is fully behind this submission.

2. INSURANCE COUNCIL OF NEW ZEALAND

ICNZ is the industry representative for fire and general insurers in New Zealand. We aim to assist our members in the key areas that affect their business through effective advocacy and communication.

ICNZ currently has 31 members who collectively write more than 95 percent of all fire and general insurance in New Zealand. ICNZ members, both insurers and reinsurers, make up a significant part of the New Zealand financial services system. ICNZ members currently protect more than half a trillion dollars' worth of New Zealanders' assets.

ICNZ plays an active role in representing the insurance industry. Our members are licensed under the Insurance (Prudential Supervision) Act 2010 ("IPSA") and are signatories to the Fair Insurance Code, which requires our members to act ethically. We also perform an important role in informing and educating consumers about key insurance issues and risks.

3. HIGH LEVEL COMMENTS

(i) **Comments from our previous submission still apply** - In the ICNZ email submission on Key Insurance Data in May 2014, the Council recommended that RBNZ focus on a collection of high level statistics available from financial information rather than going into minute granular detail. The consultation paper shows that this recommendation has not been taken up, but the Council still holds to that position and questions the value of the detail required.

(ii) **Proposed format does not fit with the General Insurance industry** - In the proposed format of the data templates it appears that RBNZ has taken an overall life insurance view of the industry and is forcing general insurers into a life insurance type of reporting. This is particularly clear when looking at Section 5 for measuring general insurance exposure which is an exact copy of Section 6 which is life insurance exposure. The concepts of annual benefit, single premium, paid benefits and claims are life concepts. Lumping general insurance into the same bucket as life insurance will give misleading information. General insurance needs a separate return from life insurance.

(iii) **Commercial sensitivity of data is important –** In the overall approach to developing a data reporting collection system the RBNZ needs to be aware of the commercially sensitive nature of the information that they will be requesting and reporting on. The data must be regarded as private information and not released in a way that can identify individual insurers' market positions. This is particularly important for single line insurers whose market position can be exposed if GWP is reported in an industry ranking table.

Because of this very problem the Insurance Council has recently changed its rules for reporting ICNZ Quarterly data, to allow single line insurers with less than 0.5% of market share of GWP to not have their company's GWP reported in the ICNZ ranking table.

(iv) **It is unclear what data will be made public –** Insurers are seeking a better understanding of how data that is collected will be reported publically. A large amount of detailed data is being collected and it would help if there was a better understanding of how granular the public reporting is proposed to be.

(v) **Workload for insurers increases due to duplication -** RBNZ appears to be heavily underestimating the amount of work that is required to produce the returns. While the quarterly returns are a cut down version of the larger full and half year returns, in the main they will still require full information to be prepared in many areas in order to provide the cut down data. At full year and half year reporting time insurers are required to produce financial accounts, quarterly report, half year or full year report and the solvency report. This is a significant amount of work, presenting information in 4 different ways. It is ICNZ's strong recommendation that the requirement for the quarterly return in the full year and half year quarters, be removed. These quarterly returns will, because of the timeframes and workloads, be prepared in haste without full reconciliations to the financial data. The information in these returns will then be duplicated when the full or half year returns are completed. There will inevitably be differences between these returns and there is potential for large amounts of time required to be spent reconciling differences. This would be a meaningless task because the full or half year return completely overrides the quarterly return.

The financial reporting workload for insurers is heaviest around financial year end and half year end. RBNZ is proposing the addition of a detailed full or half year data report and at the same time a duplicate slightly cut down quarter end report. This is a significant addition to workloads at the busiest time of the year and RBNZ should understand this and eliminate the requirement for the quarterly returns at full and half year ends.

(vi) **Inconsistencies in data collected will make analysis difficult -** Because of the wide range of financial year ends within the insurance industry, RBNZ will be collecting and reporting on data that is a mixture of year end, half year and quarterly management account information. This will give a slightly distorted picture of the industry. We expect that RBNZ will report financial data quarterly, in aggregated format regardless of whether it is quarterly data or full year/half year data and in spite of the inconsistencies. This is not unreasonable and will be useful, as long as it is published with the caveat about data being from different stages of the financial cycle. However, it may be advantageous for all stakeholders, for RBNZ to consider collating and reporting once a year on just the full year financial data from each of the insurers, in one annual report so that an industry view is achieved which compares apples with apples.

4. Consultation Paper Questions

The focus for the second part of this submission will be on the individual questions posed in the consultation document.

1. *Do you have any comment on the proposal to require all insurers to provide a practice submission?*

The Council believes the proposal to get insurers to provide a practice submission is an excellent idea. This will assist insurers in understanding the requirements of the reporting before the process goes "live". It will also allow the Reserve Bank to test their processes.

General insurers would also benefit from feedback on the practice returns which could be given at an industry level and where issues relate specifically to an insurer, directly to the insurer concerned.

2. *Do you have any comments on other aspects of the expected path to implementation?*

The path to implementation seems to be very optimistic around the planned dates. Is RBNZ allowing sufficient time between the closing of submissions and the publication of the submissions and amendments made to templates. There are some serious questions to be considered in the submissions and submitters will need to be assured that RBNZ is taking these points seriously.

The publication of the amended templates is due in November 2014. RBNZ will need to allow sufficient time for insurers to prepare their practice submission. By using the previous financial year end data there is potential for considerable time saving, however as this will be the first return, insurers will need to develop their reporting structures, system changes and develop their processes for completing the information. These dates seem very optimistic, especially taking into account the Christmas period which leaves the final template date of 2015 under threat. If data collection commences from 1 July 2015, with the first returns due 30 September 2015, this should be achievable. However, if the mid 2015 date means insurers are required to prepare their first returns for the April – June quarter, this would be extremely difficult for many of our members. The 30 June date is financial year end for many of our members and to require a first "live" run for the quarterly return, full year return and solvency return would place a large amount of stress on insurers' resources.

3. *Do you have any comments on the objectives of the data collection?*

The objectives of the data collection as outlined in the consultation document look reasonable. Insurers however question whether the amount of detail being requested in data returns is too granular and asks the Reserve Bank to consider whether it is necessary to collect information to this level.

In addition, insurers have developed their reporting over many years and focus on the metrics which are key to them. Much of the information collected is not what insurers use to track their business which would suggest that the information collected will not satisfy the outcomes envisaged by the RBNZ.

The RBNZ objective of standardising data is understandable, however if standardisation requires insurers to be forced into reporting along the lines of life insurers then standardisation will produce nonsensical information. The ICNZ believes that separate returns should be sought for general insurers and life insurers.

4. *What are your expectations of published data? Is there any data that you think Reserve Bank should or should not publish?*

In the ICNZ May 2014 high level submission on Key Data Reporting, we made the point that insurers are required to provide similar levels of information to Statistics New Zealand and the Reserve Bank. We suggested that these returns should be combined. Paragraph 16 of the consultation document however, says that Statistics New Zealand surveys do not meet the Reserve Bank's data requirements with the increased amount of information now being sought from insurers. However with the amount of data being collected, it may be appropriate for RBNZ's aggregated data to be used for Statistics New Zealand purposes. We suggest that RBNZ and ICNZ should jointly approach Statistics New Zealand with a proposal that they take the information they seek from the RBNZ returns. This will reduce the reporting burden on insurers and should be a relatively simple thing for RBNZ to do.

ICNZ proposes a further consultation on the report format should be undertaken when the format of reporting by the RBNZ is finalised. It is important however that RBNZ understands the commercial sensitivity of data. The industry has historically not shared its information for commercial reasons. It is important that an individual company's data is not compromised.

5. *Do you have views or concerns regarding submission of data, security or use in publications?*

Insurance Council members agree with online submission proposal though a secure upload facility.

Regarding the proposal in paragraph 30 to publish summary results from data collection, it would be useful for RBNZ to have a formal round of consultation around the reporting format and data content when a more concrete proposal is available.

6. *Are the proposed reporting frequencies and schedules (including standard reporting dates for the quarterly survey) reasonable?*

The ICNZ members do not believe that the reporting frequencies and schedules are reasonable.

ICNZ believes the concept of quarterly reporting as proposed, is reasonable for the larger companies, but to require 2 reports at the full and half year is unreasonable. This is a duplication of resources and cost at a time when financial reporting resources within the individual companies are already under strain. ICNZ proposes that RBNZ remove the requirement to file quarterly returns at the full and half year reporting quarters.

If quarterly returns are required at the full and half year quarters, this raises the potential for material inconsistencies between the different reports. Quarterly reports will potentially not have the same level of information as the full and half year reports, especially around reserving and accruals.

7. *What are your thoughts on the content of the proposed quarterly survey and the quality of the data collected?*

While the proposed quarterly survey is a cut down version of the full or half year survey, it will still require a considerable amount of work to produce the data that is requested. Most companies will use the management accounts for periods outside the full or half year ends and these are generally not as detailed or accurate as the full financial reporting under NZGAAP. Most insurers do not update their reserves for quarterly reporting and in other significant ways do not meet NZGAAP for management accounts.

8. *Do you have any comment on the proposed sign off requirements and attestations?*

ICNZ is pleased to see that CEO attestations will be sufficient for the quarterly reports. If Directors were required to sign the reports this would have added considerable time and expense.

RBNZ might wish to add some flexibility in the event of a CEO not being available and allow a CFO to sign these in the event of this occurring.

9. *Do you have any comments regarding the process for correcting and updating previously submitted data?*

ICNZ is happy with the proposals for correcting half year and annual returns. For corrections to quarterly returns outside of the half year and annual return periods, insurers are happy to advise RBNZ of major errors. However RBNZ should not expect quarterly returns to be as accurate as the full and half year returns, as quarterly returns are based on management accounts and the annual returns are based on full NZGAAP accounts.

In the consultation document it appears that Paragraph 39 and 55 are contradictory. Paragraph 39 states that "We expect that the source for financial data requested in the quarterly survey would be insurers management accounts" whereas Paragraph 55 states "Financial information should be based on the insurers accounting and must comply with NZGAAP". Management accounts may not fully comply with NZGAAP and should not be expected to comply. Those companies that do not update claims reserving in each quarter's management accounts, might not fully update levels of expense accruals and cost provisions. Taxation and asset valuations may also not be updated at management account level.

10. *Do you have any comments on the structure of data collection?*

As mentioned earlier, ICNZ believes that general insurance and life insurers should have separate templates with another template for companies that are involved in both life and general.

11. *Would it be easier for insurers to provide the same granularity of data in quarterly survey as the annual return?*

We understand this question to be asking whether the full and half year report template would be just as easy to produce as the quarterly survey report. While insurers still believe that there is a considerable amount of work involved in producing the cut down quarterly report as opposed to the annual report, they do not believe that there is any need for the detailed granular level of data to be collected all year round.

12. *Please help provide an estimate of how much cost (time and effort) is likely to be required to set up systems for regular reporting to the Reserve Bank based on the proposal.*

This is the “how long is a piece of string” question and is very difficult to answer. The cost will include staff time, external contractors, systems processing, reconciliation, CEO sign-off and supervision. We believe insurers will look to make system changes to provide automated data reporting for the quarterly returns, however there will always be a considerable amount of manual input.

One medium sized insurer estimated a $100,000 setup cost and around $10,000 - $20,000 for ongoing quarterly and annual returns. However, there is a lot of guesswork in these figures.

The cost will vary significantly across insurers depending on the number of administrative and accounting systems used internally and the degree of automation that is undertaken. There will be a trade-off between the time taken in automation and the time taken to complete the regular reporting. While automation is ultimately desirable it is reasonable to expect a manual process initially due to the timeframes proposed and the risk that requirements may change in the short term.

Proportionately costs will be much greater for smaller insurers than larger ones.

13. *Can you use existing reporting systems?*

Insurers will be expected to use existing reporting systems as much as possible, but inevitably systems will need to be customised to provide the data in the format required.

For most insurers, management and financial accounting systems are not typically set up to report by line of business.

While all the required information is contained in the core administration systems, for some items (e.g. premium & claims), significant effort will be required to automate a reporting system and fully reconcile back to finance systems.

Some revenue items (expenses) may be analysed for internal cost allocation, but are not generally included in the finance system, and some items (investment income) are not allocated at all.

Some items are treated inconsistently between management reporting and financial reporting. For example, reinstatement premiums are often included in claim costs for management accounting purposes, but in reinsurance costs for financial reporting.

14. *What is your estimate of the ongoing regular reporting cost (assuming systems for regular reporting are in place)?*

The cost will vary significantly across insurers depending on the number of administrative and accounting systems used internally and the degree of automation that is undertaken. There will be a trade-off between the time taken in automation and the time taken to complete the regular reporting. While automation is ultimately desirable it is reasonable to expect a manual process initially due to the timeframes proposed and the risk that requirements may change in the short term.

15. *Do you have suggestions for further reductions to the compliance costs?*

Compliance costs can be reduced by keeping data collection at the highest level necessary to support prudential supervision requirements and in line with what insurers currently use to manage their businesses.

The scrapping of the requirement for insurers over $100 Million to complete quarterly returns at full and half year ends will also reduce compliance costs.

16. *Do you have any comments on the overall coherence of the data collection??*

We have concerns about the way the data collection does not necessarily follow the way insurers currently report within their businesses.

At paragraph 84 'Investments backing insurance liabilities' is defined as "…the portion that support insurance liabilities ***plus*** related solvency requirements ***plus*** an appropriate capital buffer held to maintain solvency continuously." (Emphasis added).

This is not how insurers manage their investment portfolios. General insurers manage their investment portfolios as two portfolios – one that backs net technical liabilities and one that represents net shareholder liabilities, including capital and reserves held, such as solvency requirements and internally set capital buffers. Technical investments therefore match net technical liabilities only and do not include licence condition amounts or additional internal buffers. Each insurer will have its own working definition of 'net technical liabilities' but typically that will comprise: outstanding claims reserves; unearned premium reserve (the accounting measure and not the actuarial measure of premium liabilities); premium debtors; corresponding reinsurance balances (reinsurance recoverable on claims; reinsurance creditor); etc.

Most insurers do not have class of business splits of balance sheet financial data and if required to report this would need to make some arbitrary splits. Also, class of business splits in the Profit and loss are typically only done down to the underwriting result.

17. *In your view how do the definitions align with your firm's or industry practice?*

The general insurance classes align reasonably well with the classes reported in the ICNZ statistics collected from members. Most insurers should be able to produce this information, however in Paragraphs 90-95 in the definitions under the heading Exposure, general insurers don't use all of these concepts. In the Insurer Return, in Question 5 where information is sought on general insurers exposure, many of the lines of information being asked for are not collected by general insurers and more properly apply to life insurers. These include cancels from inception, voluntary early exit, involuntary early exit, net transfers, and end of term exit.

Much of this information would not be available from general insurers and it appears that this is a cut and paste from Section 6 where RBNZ is looking to collect data on life insurance. General insurance and life insurance are different industries and don't fit together as well as RBNZ is assuming under Section 5. We are happy to meet and discuss this more fully to allow RBNZ to gain greater understanding of how general insurers' measure exposure.

More explanations are going to be required around the meaning of policies, especially for motor (are these meant to measure each vehicle or each policy – one policy can cover many vehicle in a fleet insurance scheme). Questions also arise around property insurance – does 1 body corporate policy count as 1 policy, even where it covers 350+ individual flats? Also co-insurance policies where a number of insurers insure one particular risk. Where there are 4 insurers co-insuring 1 risk, is this counted as 1 risk for each of the insurers where they take a portion each or a quarter of a risk for each insurer. Also what is sum insured (e.g. if there is a contents policy with $50k of cover but there is a liability aspect of $1m, what is reported?).

It may be advantageous for RBNZ and ICNZ members to meet to discuss these issues more fully.

18. *Do you have any comments on any of the data items in the survey?*

Sections 1.1 1.2 and 1.3 of the full/half year return imply that liability adequacy test is applied at line of business level. Accounting standards do not currently require this level of granularity.
These sections also require the risk margin to be calculated separately for gross claims and reinsurance recoveries. The accounting standard only requires risk margins to be determined for net claims liabilities.

2.1 Assets (certainly specific assets) are not allocated to lines of insurance business. There is no accounting requirement to do this. To provide such an allocation may imply a level of security which does not in fact exist.

In section 4.1, management and financial accounting systems are not typically set up to report by line of business.

While all the required information is contained in the core data for some items (premium & claims), significant effort will be required to automate such a reporting system and fully reconcile back to finance systems.

Some revenue items (expenses) are allocated, based on external analysis, and some items (investment income) are not allocated at all.

Note also some items are treated inconsistently between management reporting and financial reporting. For example, reinstatement premiums are often included in claim costs for management accounting purposes, but in reinsurance costs for financial reporting.

Section 5, the general insurance industry does not typically collect exposure data.

Clear definitions will need to be included to get consistent data across the general insurers.

Terms in common usage by both life and general insurer do not necessarily mean the same thing in both sectors. In particular general insurance contracts are commonly written for a one year term so a policy that renews could be expected to appear as both an “end of term exit” and “addition” within the tables currently included in the proposal documents.

Clarification as to what constitutes a riders/additional benefits should be provided. Are they included if they increase the value of exposure and/or if they broaden the scope of coverage.

In section 9, the claims development for gross claims are a note to the financial accounts at the full year. There is no requirement to produce this note at the half year. The development of reinsurance recoveries (and therefore net claims) is not currently required.

5. CONCLUSION

ICNZ has presented a number of suggestions above, which we would be happy to work with RBNZ to help develop an understanding for all parties on what is required and what can feasibly be produced by general insurers. Insurers recognise the need for RBNZ to gather consistent data that will provide meaningful information for supervision and for all stakeholders who have an interest in the data.

We would appreciate an opportunity to meet with RBNZ to discuss the suggestions in this submission.

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