Collection of New Zealand Insurer Data

Reserve Bank of New Zealand Consultation

INSURER RETURN SUBMISSION

From

ICNZ Insurance Council of New Zealand

June 2015

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1. INTRODUCTION

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

2. INSURANCE COUNCIL OF NEW ZEALAND

ICNZ is the industry representation body 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 28 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

We wish initially to make a number of high level comments which highlight our overall concerns with the data collection process and the disparity between the different data collection returns that RBNZ is seeking.

3.1 **The Insurer Return (IR) and the Quarterly Insurer Survey (QIS) differ in a number of areas**. There was an expectation from insurers that the IR and the QIS would be subsets of each other so that data would be consistent across the whole of the data collection process. Consistency would simplify and reduce the compliance costs of collection as well as reduce the risk of errors.

The main difference is in the classes of business used in each return. The data collected in the IR is different from that collected in the QIS. The table below shows the inconsistencies. This lack of consistency in the reports between the classes of business will have repercussions when the data is prepared, analysed and reported by RBNZ. This is particularly so in the comparison of quarterly and half yearly information which won't be able to be done in a meaningful way. In our view, data should be consistent across the QIS and IR to allow for more useful, accurate and efficient reporting. Failure to align the classes will result in higher costs of compliance and more potential for misreporting.

ICNZ has been collecting data for decades in a consistent manner across classes of business. The IR general insurance reporting classes almost mirror the ICNZ quarterly reporting classes, as shown in the table below. We suggest RBNZ fully adopts the ICNZ classes for the QIS and IR for simplicity and consistency across the industry. Insurers are already reporting in this way so this would suit their current reporting systems. We would be happy to discuss the detail of the classes further if required.

Data Collection Class Comparison				
Quarterly Insurer Survey		**Insurer Return**		**Insurance Council Classes**
Commercial Property		Commercial Property		Commercial Property & BI
		Commercial Motor		Commercial Motor
Motor, Marine & Aviation		Marine and Aviation		Marine Hull & Cargo
Liability		Liability		Liability
		Other Commercial (n.e.c)		
Domestic Property		Domestic Property		Domestic Building & Contents
		Domestic Motor		Private Motor
Health Insurance		Personal Accident		Personal Accident
		Travel		Travel
		Other Personal Lines		
Other Non-Life		Unallocated		Livestock, Other
Non-Life Adjustment				
				Earthquake

3.2 Life Insurance Orientation - It is still apparent that the data collection requirements have been drafted with a life insurance orientation. There are a number of examples where life insurance concepts have been included for data collection, e.g. insured benefit, policy count, lapses and terminations, expiries and transfers and adjustments. General insurers do not and have never collected this type of information that is being asked for because these life insurance concepts are not relevant for general insurance. We are at a loss to understand why RBNZ need for this information and would appreciate an explanation from RBNZ as to why this information needs to be created and collected. Without good reason(s), we do not support RBNZ's request for this information.

3.3 Timeline - Insurers are concerned that the RBNZ is proceeding with too much haste on the data reporting project. While there has been a generous amount of time for consultation on the IR there appears to be only one month between the receipt of insurer submissions and the publication of the finalised requirements by the RBNZ. This doesn't give insurers a lot of confidence that serious issues with the insurer returns will be considered carefully. Data reporting has the potential to have considerable value for government, insurers and other stakeholders but rushing this project could result in information which is of lesser value than if the project is carefully thought through. The important objective of this project should be to produce an output that is of value to all stakeholders, not just the RBNZ.

3.4 Compliance Burden - The requirement to submit a QIS, IR and solvency return at the half-year dates, creates a multiple compliance burden. If the IR was designed as a more detailed version of the QIS, then the QIS could be disposed of at the half-year dates (for those insurers that have a year-end date coinciding with a quarter date).

3.5 Consultation - ICNZ believes that if it clearly understood at the outset of consultation what the RBNZ was seeking to achieve, it would be able to advise what data needed to be collected to do that. This might avoid instances where the bank is requesting information that insurers don't collect or have difficulty collecting.

3.6 Insurer Return Layout

As a suggestion, for ease of reference, the individual lines on the IR worksheet should all be numbered. We suggest the numbering protocol 1.1.1 could be adopted, where the first digit is the part number, the second digit is the section within that part and the third digit could be the line number. E.g. In part one, section 1.2, the Total Assets line could be numbered 1.2.1. Line numbers will make it easier for those compiling and reconciling the reports and will allow for more accuracy in discussions between insurers and RBNZ. We also recommend that the pages are numbered for ease of reference.

3.7 Unclosed Business At Period End

Because of an information lag in regard to bound risks at balance date, insurers need to estimate business that is unclosed at period end. The unclosed business process increases complexity and level of estimations in the IR return. This unclosed business will affect in particular GST/government levies and the entire exposures section (for example policy counts and insured benefits).

3.8 Data Not Aligned With Financial Accounts – there are some examples where information being requested does not match up with balance sheet information, e.g. risk margins. This makes it a lot more difficult to compile the data and reconcile to the financial accounts.

4 SPECIFIC CONCERNS WITH THE INSURER RETURN

This following section contains some of the more targeted concerns that insurers have with the insurer return.

- **Section 3.1 - Inwards Reinsurance -** some insurers can't identify this separately.
- **Section 3.1 - Outwards Reinsurance –** Some insurers can't split this by class of business.
- **Section 3.1 - Premium Debt –** insurers generally do not split this by class of business.
- **Section 3.1 - Third-Party Claim Recoveries** – insurers do not generally split this by class of business.

- **Section 3.5 – Levies and taxes** – GST and the Fire Service levy taxes plus the EQC levy are often outside the core systems of the insurers. Many insurers and most reinsurers don't monitor these taxes for management accounting purposes. These taxes are also outside of the reported financial results of the insurers and we question why this information is required.

- **Section 3.6 – Commission Expense –** general insurance products are generally one year terms and then they are renewed. General insurers do not identify separately, information on commissions on new business and commissions on renewal business. This information is often not available because it is coded to one account, Commission Expense. This is another example of a life insurance concept being imposed on general insurance business.

- **Section 3.6 – Acquisition Expenses –** we suggest for the purposes of data collection that acquisition expenses (excluding commissions) and other insurance expenses (excluding claims handling expenses) be combined into the one sum. Insurers find it difficult to allocate costs objectively across these two expense lines and there is no consistency in the industry splits. Unless the two lines are combined the results will be inconsistent and misleading.

- **Section 3.5, 3.6,and 3.7 –** For Profit and Loss data in these sections of the IR, when completing the IR for the 2nd half of the year, does the RBNZ require 6 monthly data or year to date (i.e. 12 month) data?.

- **Section 3.8 – Exposure**
  Section 3.8 seeks to measure exposure by gathering data on policy counts however insurers have stated before that policy counts will give misleading information. There are examples where one domestic property policy can cover hundreds of separate units and one motor policy can cover hundreds of motor vehicles in a fleet. Insurers recommendation is that data should be collected on the number of risks; i.e. the number of separate properties and the number of separate motor vehicles, etc. Insurers are able to provide data on the number of risks in most cases although there are some exceptions (e.g. Marine Cargo and Machinery Breakdown) where alternatives may need to be discussed. If there is a desire to retain the terminology "policy count" in order to remain consistent across the three branches of the industry, we suggest, for general insurers the definition of policy count in the insurer return definitions be changed to "the number of risks covered by policies".

  The Guidelines should also include guidance on how to count co-insured policies, that is consistent with the QIS.

  There is also a lack of clear guidance on exposure data where the QIS requires Sums Insured and the IR requires the Probable Maximum Loss. These terms mean different things to different insurers and need to be consistent between the two returns. Insurers do not necessarily calculate PMLs for every risk they underwrite. Whilst some insurers may write some risks on a PML basis, they would not PML every risk that they write. We stress the need to declare sums insured as opposed to PMLs. One point of possible interest is that no two insurers will come up with exactly the same PML on a risk as it is a subjective estimate. Therefore, to reiterate, it is the sums insured and not PML that needs to be declared for this to be meaningful and useful.

- **Section 3.8 – Terminations, Expiries And Changes In Cover**
  A lot of the information being asked for in this section is foreign terminology for general insurers. General insurance products are overwhelmingly, single year or shorter terms unlike life and health products. General insurers do not measure separately, terminations, non-renewals, lapses and expiries. For some insurers this information is not available at all and for most insurers it is certainly not available split by class of business. If general insurers have not seen the need to collect this information in the past we question why the regulator would see the collection of this data as necessary.

- **Section 3.8 - Terminations, Expires and Changes in Cover** - when the RBNZ refers to lapses, terminations and new business, the split presently required is by risk count, premium and exposure. The split can be achieved by most insurers by Policy and Premium but not by Risk Count or Sum Insured. A possible alternative is to record values as at the end of the previous financial year and at the end of the current financial year and provide a retention ratio.

5 DEFINITIONS

There is a lack of clarity in the definitions which will make it difficult to attain consistency of reporting across the industry. Below are some of the more obvious examples where the definitions lack clarity or appear wrong.

- **Foreign Insurance Business –** This definition is not clear and insurers will have different interpretations of the data requirements. Does this mean to measure all global risks written by New Zealand insurers? Is it meant to measure overseas domiciled subsidiaries of a New Zealand insurer?

- **Outstanding Claims** – The definition of outstanding claims (page 18) is given as the term used for life insurance valuation methods. We believe this should be the definition for the general insurance industry and should have the phrase "and includes risk margins" appended to the end of the second sentence.

  We believe the definition of gross outstanding claims liabilities (page 13) which is given as the definition for general insurance valuation methods, should be the definition for life insurance.

- **Intangible Assets –** There is no definition of intangible assets. We believe the definitions document should make it clear that this definition should align with the definition under IFRS.

  As a matter of course, we believe the guidelines should make it clear that if a financial term is not defined in the guidelines its meaning should automatically default to the definition under IFRS.

- **GST** – Insurers believe that net GST receivable/payable should not be recorded in tax assets or tax liabilities, but rather in Trade Receivables/Other Payables in order to be consistent with insurer's financial accounts.

- **Transfers and Adjustments –** does this definition relate to complete books of insurance business that are transferred from one insurer to another or is this the policy count measure for individual policyholder transfers from one insurer to another?

6 CONCLUSION

There are a number of suggestions above that are crucial for the operation of a successful data reporting regime. ICNZ has collected and reported insurer data for many decades and we have seen the importance of having clear definitions and guidelines in order to ensure consistent and accurate data is obtained. We urge RBNZ to consider carefully the recommendations above and we're happy to meet to clarify any of the information if it is felt necessary.

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