New Zealand Society of Actuaries (Inc)

7 October 2014

Steffi Schuster
Project Manager, Insurance Sector Data Collection
Macro-Financial Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Dear Steffi,

Submission on the proposed collection of NZ insurer data

The New Zealand Society of Actuaries ("the Society") welcomes the opportunity to comment on the consultation paper issued by the Reserve Bank of New Zealand ("RBNZ") in August 2014 on the collection of NZ insurer data. The Society appreciates the effort the RBNZ goes to in consulting insurers and industry bodies on these matters.

The Society currently represents over 300 members, including most Appointed Actuaries of NZ insurers, covering both the life and general insurance sectors. Members of the Society have been involved in gathering and analysing insurance data for many years, particularly in the life insurance sector. Therefore, the Society has the necessary skills and experience to advise the RBNZ on optimal ways to collect data from insurers to use for meaningful industry analysis.

Overall, the Society supports the principle of collecting insurer data to ensure the industry remains financially sound and industry trends are identified. However, the Society believes that the collection of insurer data in the format proposed will not meet all of the RBNZ's objectives for the following reasons:

1. Lack of definition results in less informative data;
2. Incomplete insurer participation will prevent complete and sensible aggregation across insurance sectors;
3. Standardisation does not make sense across the life, general and health insurance sectors;
4. Elements of the Insurer Return and Quarterly Insurer Survey are impractical; and
5. The path to implementation is optimistic.

These reasons are discussed in further detail in an attachment to this submission. The issues they present are, however, not insurmountable and potential solutions are also discussed.

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The Society **recommends** the RBNZ consider facilitating workshops, with members of the Society and representatives of other industry bodies, to define what the data will be used for and then determine an efficient way to collect the required data. This is likely to reduce the compliance cost and time to implement.

Included in this submission are some comments on the proposed structural change to the solvency return format, which the Society believes is too soon given that a solvency standard consultation is underway.

Note that the Society does not comment on the confidentiality of data, time & effort or reporting system changes required. These issues are not of primary concern to the Society and our comments are limited to matters that are technical in nature. It is for this reason that the Society has chosen not to answer each question proposed by the RBNZ, but instead outline key concerns with the current proposal and guidance on ways to address these concerns.

As mentioned above, the Society's members have significant experience in gathering and analysing insurance data. The Society is therefore well suited to advising on an efficient and informative way to collect data. We would value any opportunity to meet with RBNZ officials to discuss the proposal further, or any other related prudential supervisory matters.

Yours sincerely
for New Zealand Society of Actuaries (Inc)

Paul Rhodes
President

Attachment 1: Supporting information

The following sections provide supporting information to the five reasons why the Society believe the objectives of the proposed data collection will not be met. A further section is provided to comment on the changes to the solvency return format.

Lack of definition results in less informative data

Many items in the Quarterly Insurer Survey and Insurer Returns lack definition. Without proper definitions, it is likely that different insurers will take different approaches. This will reduce the ability to aggregate data sensibly across the industry, or potentially result in analysis that is misleading and will be ultimately discredited by industry participants.

An example of a lack of definition within a data collection process is the current Financial Services Council (FSC) lapse rate statistics. Some life insurers report their lapse rates on a benefit (or rider) basis, which results in higher lapse rates than other insurers that report their lapse rates on a policy basis. Lapse rates are expected to differ by distribution channel and sales method, so there are reasons for particular products to have higher or lower lapses than the industry average. These, and other, issues have led to a number of industry participants discrediting the reliability of the FSC lapse rates as it is not always a fair and reasonable comparison.

A further example is the use of judgement when determining if a health insurance Surgical policy has a “gap” or not. We question the need to identify surgical policies with gap and those without. This is not a distinction that insurers use and while we note that it may be relevant for consumers we do not see the relevance for the RBNZ as prudential supervisor.

The Society **recommends** that any data collection be prescriptive with unambiguous definitions for all items that are otherwise undefined in accounting or solvency standards. This would ensure better consistency across the industry, which will mean the data will become more useful and informative.

Incomplete insurer participation will prevent complete and thus sensible aggregation

For the Quarterly Insurer Survey, a threshold has been proposed to exempt smaller insurers. It was noted at a consultation session that this would mean roughly 80% of the industry would be captured within the quarterly process. Even with smaller insurers submitting data on the same date (due to the timing of their year-end), there will not be full industry participation at any date during the year.

This will result in a reduced ability to aggregate across the industry compared to the existing Insurance Council of New Zealand (ICNZ) statistics, which captures 95% of the general insurance industry each quarter.

The Society appreciates that the threshold proposed is to avoid unnecessary compliance costs on smaller insurers. As an alternative approach, the Society **recommends** the RBNZ consider reducing the frequency and/or quantity of data requested so that substantially all insurers in the industry are able to participate at one (or more) dates during the year. Key statistics covering all insurers will be more useful than a wider range of statistics covering only 80% of the industry.

Standardisation does not make sense across sectors

There are a number of key differences between the life, general and health insurance sectors that make standardisation difficult. These include:

- *Different accounting standards.* Life and general insurers have two different accounting standards – NZ IFRS4 Appendix C and NZ IFRS4 Appendix D. Health insurers may use either standard. Allowances for these differences have been made in the Insurer Returns; however, they are a key reason why standardisation does not make sense across sectors.
- *Life insurers have statutory fund(s).* Statutory funds have been recently established for life insurers. Therefore, the concept of hypothecating assets is familiar and sufficient capital buffers are often held within a statutory fund. However, hypothecation is an unfamiliar term to general insurers and there may not be any distinction between assets backing insurance liabilities and shareholders' assets.
- *Annually renewable versus guaranteed renewable contracts.* General and health insurance contracts tend to be renewable annually or more frequently, and in the case of general insurance are often re-underwritten each year. In some sense, this means all premiums written during the year are new business. This is the approach adopted when accounting for acquisition costs within Financial Statements. Conversely, life insurance contracts are typically guaranteed renewable on the same terms and conditions and the concepts of new business and lapse rates are more familiar.
- *Different definitions.* Life insurers refer to annual premium, while general insurers refer to written premium. There are a number of other terms within the proposed data collection that are life insurance specific and would be foreign to most general insurers.
- *Coinsurance arrangements.* Some general insurance risks are co-insured where two or more insurers share the premiums and claims. Care would need to be taken to ensure this is accounted for appropriately in any measures of exposure.

It is the Society's view that the life, general and health insurance sectors are too different to have a standardised data collection format. It is **recommended** that the RBNZ cater for life, general and health insurance requirements specifically. In particular:

- Reconsider and remove the requirement to split out investments backing insurance liabilities as well as the detailed reasons for exit, at least for non-life insurances.
- Provide a robust definition of premium and number of policies (or "risks") used for measuring exposure that addresses the subtle differences between sectors.

Elements of the Quarterly Insurer Survey are not practical

The Society believes that movements in exposure, detailed accounting information and prior year claims incurred are not practical to collect as frequent as quarterly.

The movements in exposure are a life insurance concept and do not relate to how a general or health insurer would manage its business, particularly for sum insured measures. It was noted that a reason for requesting a movements in exposure items within the data collection is because of concerns around the high lapse rates experienced in the Australian life insurance market. The Society questions this motivation because high lapse rates on term or group life business present challenges for profitability but not necessarily challenges for the financial soundness of the industry due to the way in which profits are recognised. We also note that if such issues arise in New Zealand the RBNZ has the ability to request additional information under Section 121 of the Insurance (Prudential Supervision) Act 2010 ("IPSA") at that time from insurers that are likely to be impacted.

Requiring detailed accounting information on a quarterly basis seems impractical because it is not clear what all the detail can be used for. Prior year claims incurred information for general insurers also may not be practical as not all general insurers conduct outstanding claims valuations on a quarterly basis, which means the data collected may not meet NZSA Professional Standards nor will it be necessarily comparable across insurers.

We also note that hypothecation to product lines is not required in management accounts, in statutory accounts or by IPSA. It is therefore not performed consistently by insurers. It is unclear to us how reporting large volumes of accounting information by product class will assist the RBNZ to achieve its objectives. The requirement to do so will increase complexity and the cost of compliance, despite it only being an approximation for many insurers. We understand that the purpose is to allow the RBNZ to better understand the matching of assets and liabilities; however, in our view, this is adequately covered within the requirements of the Financial Condition Report, as well as the Interest Rate Risk and Resilience Charges.

The Society **recommends** the RBNZ split the data collection into two parts:

(1) A short, simple Quarterly Insurer Survey including high-level financial performance indicators from the management accounts plus basis measures of exposure. The measures of exposure should include a premium measure, consistent with current industry practice and split by categories of business. A number of policies, or risks, measure may also be included, provided that the measure is defined appropriately and allowances are made for general insurance policies insuring multiple locations.

(2) A more detailed half-yearly submission to provide financial statements in a standardised format. This submission would not include any detail otherwise captured in the Quarterly Insurer Survey.

Path to implementation is optimistic

RBNZ need to be practical about the timeframes to successfully implement a data collection process. The Society has conducted a number of mortality experience investigations in the past and our experience has shown that it is important to allow sufficient time between the various phases.

Analysing the feedback from the industry will take some time and insurers will need time to build processes around the final format. Even after data has been collected, the RBNZ will need to allow time to ask questions around inconsistencies or large changes in an insurer's data before publishing. Insurers are unlikely to invest in resources for implementing changes until the return formats are finalised. It is therefore sensible to allow a period of months between each phase, particularly between finalising the requirements and the date of the first return, to ensure quality data can be collected in an efficient manner.

In principle, the Society supports a practice submission. However, the Society **recommends** the RBNZ arrange workshops to define outputs and then determine data required. A workshop-based approach to implementation is likely to require less resource and be quicker than the proposed path to implementation.

Solvency return format change is too soon

A new solvency return format has been issued as part of the consultation on NZ insurer data collection. However, the solvency standards are currently under consultation and the Society **recommends** the RBNZ wait until the solvency standard consultation is complete before changing the solvency return format.

Appointed Actuaries play a key role in reviewing all calculations and comments within a solvency return. These reviews can take time, particularly at busy half-year and year-end reporting periods. It is the Society's view that a practical approach to phasing in any changes is necessary. That is, allow months between finalisation of a solvency return format and implementation for an insurer.

With any changes to the solvency return format and the proposed new data collection, the RBNZ may want to consider integrating the processes more. For example, checks against balance sheet items currently in the solvency return could actually be done within the data collection, which would reduce the need for directors to sign off on checks.