



Application for a licence

Guidelines Licensed insurers

Insurance Policy
Prudential Supervision Department

December 2010

Part 1 – Introduction

Purpose of this guideline

- 1 This document sets out the Reserve Bank of New Zealand's (the Reserve Bank) guidelines on the licensing process for persons carrying on insurance business in New Zealand. These guidelines relate to the application for a licence as an insurer under the [Insurance \(Prudential Supervision\) Act 2010](#) (the Act).
- 2 The Act requires a person carrying on insurance business in New Zealand to be licensed. The purpose of this guideline is to provide a general overview of the licence application process. It covers the licensing requirements of the Act and the approach that the Reserve Bank will take in assessing licence applications so that applicants may know what to expect.
- 3 Separate guidelines will cover other topics related to the Act in more detail.
- 4 This guideline relates solely to the requirements under the Act, and does not cover requirements of other legislation that may also be of relevance to licensed insurers.
- 5 Nothing in this guideline overrides the provisions of the Act or any regulations, nor does it affect other legislated requirements that apply to licensed insurers.

Availability of information following enactment

- 6 Some of the more detailed requirements of the Act are explained in regulations which are expected to be available by early 2011.
- 7 There is sufficient information within the Act and this guideline to begin preparing an application. Full details of the relevant regulations for finalising a licence application will be available soon.

Contact with the Reserve Bank

- 8 Responsibility for making a licence application and meeting key dates rests with the applicant. Each applicant is encouraged to enter into a dialogue with the Reserve Bank to discuss their licensing plans. Our expectation is that applicants will familiarise themselves with the Act and the background information available on the [Reserve Bank website](#) prior to such discussions.
- 9 Contact details can be found on the [Insurance contact page](#) of the Reserve Bank website.

Part 2 – Who should apply for a licence

Scope of the Act

- 10 The Act applies to any person carrying on insurance business in New Zealand as defined in [section 8](#), with the meaning of a contract of insurance being defined in [section 7](#). Some types of person have been specifically excluded whilst exemptions from some parts of the Act may be available to certain persons.

Who should apply for a licence

- 11 All persons who come under the [section 8](#) definition of carrying on insurance business in New Zealand who are not exempt, either automatically, or on request under [sections 8\(2\),\(3\) & \(4\)](#) and [section 9](#) must apply for a licence.

The Act does not apply to:

- 12 Crown entities and similar government bodies, trade associations providing ancillary insurance benefits to their own members, and bailees and innkeepers who are specifically exempted from the Act under [sections 8\(2\), \(3\) & \(4\)](#). The exemption is automatic and these types of entity do not need to apply to the Reserve Bank to confirm the exemption.
- 13 Entities whose insurance activity represents occasional or incidental contracts of insurance. This exemption is available on application and these entities must obtain a declaration, as described in [section 9](#), from the Reserve Bank to be exempted from the licensing requirement.
- 14 Certain specific types of contract which could otherwise be regarded as insurance, as detailed in [section 7\(3\)](#).
- 15 Arrangements where the provider has the discretion, rather than an obligation, to pay a benefit, such as discretionary mutual funds.

Partial exemptions

- 16 Some insurers may be eligible for exemptions from certain parts of the Act, as listed below:
- (a) An overseas insurer supervised by a recognised overseas regulator, as detailed in [sections 38, 59 & 119](#).
 - (b) Lloyd's, as detailed in [section 204](#).
 - (c) A small friendly society that has annual gross written premium income less than \$1,500,000, as detailed in [section 238](#).
 - (d) A small insurer already carrying on insurance business by 7 September 2010 that has annual gross written premium income less than \$1,500,000, as detailed in [section 238](#).

Part 3 –Transitional arrangements for existing insurers

The purpose of transitional arrangements

- 17 From 7 March 2012 all insurers carrying on insurance business in New Zealand must be licensed. The transitional arrangements allow existing insurers (i.e. those who were carrying on insurance business in New Zealand before 7 September 2010) to continue to do so, under a provisional licence, whilst their full licence application progresses. Transitional arrangements, including a description of the insurers to which they may apply, are described in [sections 243 to 248](#).

Notification Forms

- 18 Existing insurers must notify the Reserve Bank of whether their intention is to continue to carry on insurance business in New Zealand or not, using the [notification form](#). The form must be returned to the Reserve Bank by 5 January 2011.
- 19 Insurers only need to provide the Reserve Bank with their completed notification form to fulfil the notification requirement. Notification of intention is a separate requirement to making a licence application.

Licences

- 20 Two forms of licence will initially be permitted:
- (a) A provisional licence (issued under [section 244](#)) available to an insurer already carrying on insurance business in New Zealand before 7 September 2010 that has not yet fully satisfied the requirements for the issue of a full licence under [part 2](#) of the Act.
 - (b) A licence issued under [part 2](#) of the Act to an insurer that is in full compliance with the requirements of the Act.

- 21 A provisional licence allows existing insurers to continue in business beyond 7 March 2012, by which date all insurers must be licensed. All provisional licences will expire no later than 7 September 2013, by which time an insurer must hold a full licence. The 18 month period between 7 March 2012 and 7 September 2013 is to allow existing insurers, operating under a provisional licence, time to satisfy the Reserve Bank of their entitlement to a full licence.
- 22 An existing insurer that is not intending to continue to carry on insurance business in New Zealand must still obtain a provisional licence by 7 March 2012. This will be known as a “run-off licence”. Run-off licences will expire no later than 7 September 2013 by which time the insurer must have run off or transferred its insurance liabilities to another insurer.

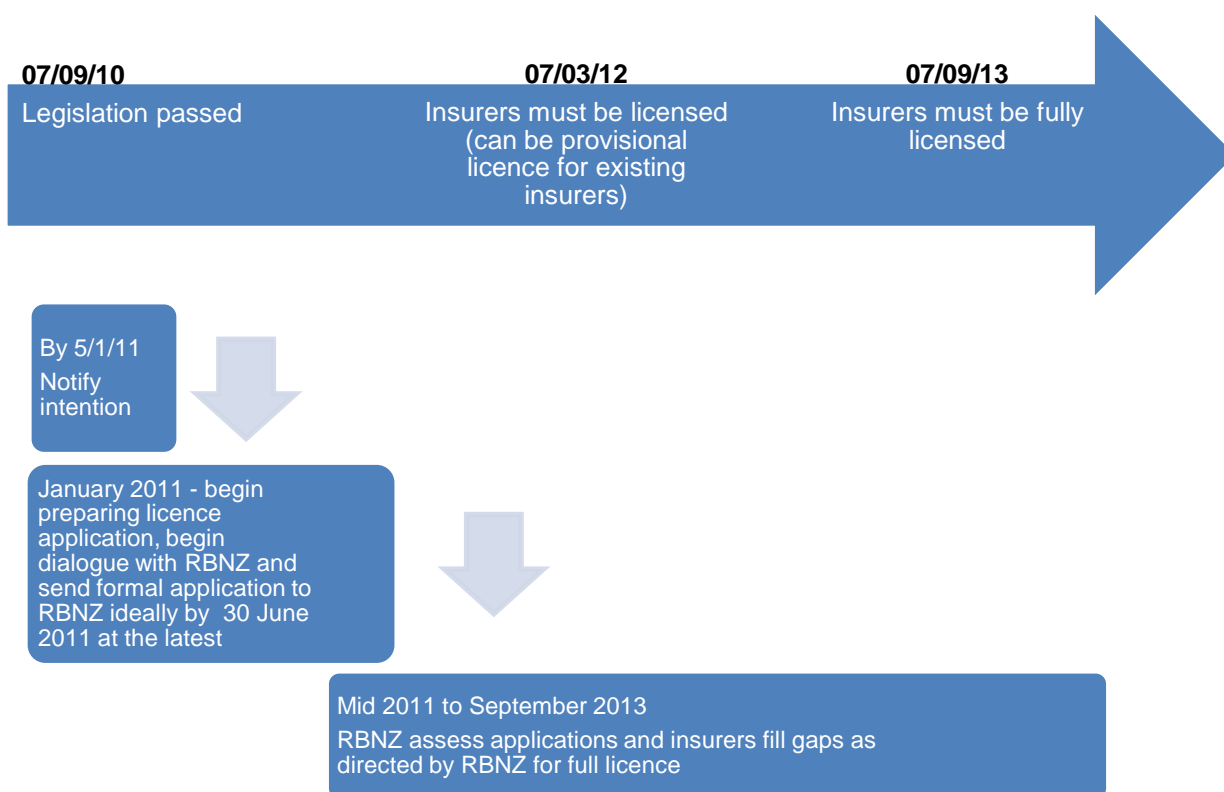
Making a licence application – existing insurers wanting to continue to carry on insurance business in New Zealand

- 23 The Reserve Bank anticipates the following sequence for licence applications:
- 24 Insurers consider the requirements of the Act and their licensing intentions, and send their notification of intention form to the Reserve Bank by 5 January 2011 (contacting the Reserve Bank to discuss issues as needed).
- 25 From late 2010 the Reserve Bank posts guidelines on the Reserve Bank website to help insurers understand the Act's requirements across a range of licensing matters (the information update service will notify you of this).
- 26 From early 2011 regulations providing more detail on some important aspects of the Act will be published. Subscribe to [information updates](#) to receive email notification as new information is made available.
- 27 From January 2011 insurers continue the process of scoping the requirements of the Act, developing a gap analysis comparing their current level of compliance against the requirements of the Act and preparing an action plan to meet full compliance.

28 Also from January 2011, insurers begin the process of interacting with the Reserve Bank to discuss licensing issues as needed. These preparations will culminate with insurers formally providing the Reserve Bank with a provisional licence application. The Reserve Bank will have numerous licence applications to process. Our standard is to notify a final decision within six months. However, this could be longer if the original application is incomplete or raises new issues for us. For this reason, it is important that provisional licence applications are submitted by 30 June 2011 at the latest.

29 Once an insurer has been granted a provisional licence, ongoing dialogue will continue between the Reserve Bank and the insurer regarding the achievement of full licence requirements. The insurer will continue to provide the Reserve Bank with the remaining licensing material until it has satisfied the Reserve Bank that it meets all requirements for a full licence under [part 2](#) of the Act (which must be by 7 September 2013).

30 The timeline below provides an overview of this continuous licensing process:



Key dates for licence applications

31 The relevant deadlines relate to the dates by which insurers must be licensed, and are:

- (a) June 2011 – We request that existing insurers target this date for submitting their provisional licence applications to the Reserve Bank for assessment (to assist the Reserve Bank to complete the provisional licensing process by 7 March 2012).
- (b) 7 March 2012 - Deadline for obtaining a licence (which may be a provisional licence or a full licence). Licensing regime starts for all insurers, including new start-ups.
- (c) 7 September 2013 - All insurers must be operating under a full licence.

Part 4 – The Licensing Process

Insurers intending to continue carrying on insurance business in New Zealand

What to send the Reserve Bank

- 32 Provisional licensing requirements for existing insurers who intend to continue to carry on insurance business in New Zealand are covered in [section 244](#). Applicants should provide the Reserve Bank with the following information:
- (a) A covering letter confirming the type of licence they are seeking (i.e. a provisional licence as an insurer carrying on in business or a full licence if the applicant considers that all licensing matters are covered in the application).
 - (b) A copy of their risk management programme that complies with [section 73](#).
 - (c) A copy of their fit and proper policy that complies with section 34.
 - (d) Documentation relating to all other licensing matters covered by section 19 (i.e. providing as much detail on each of the section 19 requirements as is reasonably practicable at the time the application is made).
 - (e) A licensing action plan to provide the Reserve Bank with the insurer's overview of the extent to which each of the licensing matters has been addressed in this part of the application, and itemising the insurer's view of the remaining issues to be addressed, with indicative dates as to when further information will be provided.
- 33 The Reserve Bank will acknowledge receipt of the application to the primary contact person (as named on the [notification form](#)).

34 Provisional licence holders then work their way through the agreed action plans, providing the Reserve Bank with satisfactory evidence of full compliance on each of the outstanding requirements. The Reserve Bank will assess each licensing matter and, once it is satisfied that all requirements have been met, will issue the insurer with a full licence.

35 The licensing process for existing insurers continues in one process, which begins when an insurer opens a licensing dialogue with the Reserve Bank, continues through to a formal provisional licence application being submitted and ends when the Reserve Bank signs off on the last outstanding licensing matter.

Deficient licence applications

36 A provisional licence application may be deficient because it does not meet the requirements of the Act in one or more of the following areas:

- (a) The risk management programme does not comply with section 73.
- (b) The fit and proper policy does not comply with section 34.
- (c) Based on its assessment of the licensing information provided, the Reserve Bank has material concerns about the insurer's ability to meet full licensing requirements by 7 September 2013.

37 The Reserve Bank will provide feedback to the applicant to help them identify and understand the deficiencies in the application. The applicant will be expected to address those deficiencies within the timeframes set out in the Act or as otherwise established by the Reserve Bank. Outcomes from this process may include that the insurer is able to make changes and comply with the Act or that the insurer is unable to comply and reconsiders their intentions (i.e. whether to carry on insurance business in New Zealand or go into run off or to transfer their insurance liabilities). The date of 7 September 2013 (for full compliance or full runoff/transfer) will be a key consideration here.

Provisional licence

Provisional licence conditions for insurers intending to continue to carry on insurance business in New Zealand

- 38 [Sections 247](#) and [248](#) explain conditions that can be applied to a provisional licence. Conditions can include:
- (a) Conditions specifying the requirements of the Act with which the insurer must fully comply (including modified requirements).
 - (b) Conditions specifying the requirements of the Act with which the insurer must partially comply (including modified requirements).
 - (c) Conditions requiring certain actions by the insurer within a specified timeframe (the Reserve Bank envisages that licence conditions will be applied to require the completion of the remaining licensing criteria within a specified period of time).

Insurers that intend to cease carrying on insurance business in New Zealand

What to send the Reserve Bank

- 39 Provisional licensing requirements for existing insurers that intend to cease carrying on insurance business in New Zealand are covered in [section 245](#). Applicants should provide the Reserve Bank with the following information:
- (a) A covering letter confirming the type of licence they are seeking (i.e. a provisional licence as an insurer exiting insurance business by 7 September 2013), and contact details for the primary contact person.
 - (b) Details of their intended exit strategy showing how and by when they intend to exit (if exit is by transfer of insurance policies to another insurer, section 243 is relevant to the transitional phase).

Provisional licence conditions for these insurers

- 40 [Section 248\(1\)\(c\)](#) lists the types of conditions that can be applied to a provisional licence for an insurer that intends to cease carrying on insurance business in New Zealand.

Licence applications for new insurers

- 41 The provisional licensing regime does not apply to new insurers wanting to commence carrying on insurance business in New Zealand after 7 September 2010. New insurers can only carry on insurance business after satisfying the Reserve Bank of their compliance with all licence matters as outlined in [section 19](#) and obtaining a full licence.

Full licence process

For existing insurers

- 42 If an insurer is in a position to satisfy all of the licensing requirements in [section 19](#), it may apply for a full licence before the deadlines outlined in this guideline, and need not go through the transitional provisional licensing process. However, applicants whose applications for a full licence are deficient may be issued with a provisional licence by the Reserve Bank as long as the requirements for a provisional licence are satisfied.

For new insurers

- 43 Insurers who want to commence carrying on insurance business in New Zealand after 7 September 2010 must obtain a full licence before commencing business. These insurers will need to provide the Reserve Bank with information to satisfy all licensing requirements as described in [section 19](#).
- 44 New insurers must provide the Reserve Bank with:
- (a) A covering letter confirming the type of licence they are seeking (i.e. a full licence) and contact details for the primary contact person.

- (b) Specific documentation relating to each licensing matter covered by [section 19](#).
- (c) New insurers are encouraged to contact the Reserve Bank to discuss their plans.
- (d) The check-list at the end of this guide lists all the licensing requirements.

45 As discussed in paragraph 28, we will notify an applicant of our final decision within six months of receiving full information on all relevant criteria.

Compliance with other legislation

46 If licences are approved before 7 March 2012 (the date on which certain other insurance-related legislation will be repealed as per [sections 239 – 241](#) of the Act) it is possible that a new insurer will need to comply with the requirements of both this Act and the pre-existing legislation that remains in force. The Reserve Bank will discuss this situation with the applicant.

Overview of timeframes

47 The timeframes for an insurer already carrying on insurance business in New Zealand before 7 September 2010 are:

Timeframe	Requirement
By 5 January 2011	Notify Reserve Bank of intentions regarding carrying on insurance business in New Zealand using the notification form
By 30 June 2011	Apply for a provisional licence*
By 7 March 2012	Licence (which may be a provisional licence) must have been obtained
By 7 September 2013	All insurers carrying on insurance business in New Zealand must be fully licensed or have ceased carrying on insurance business

* Note that this date is indicative and that insurers are responsible for providing the Reserve Bank with licensing material in time to meet the 7 March 2012 deadline for licensing contained within the Act. The Reserve Bank anticipates receiving provisional licence applications from upwards of 125 insurers and that the licensing process may involve several weeks for some insurers and several months for others.

An insurer who was not already carrying on insurance business in New Zealand before 7 September 2010 will need to be licensed by 7 March 2012 when the licensing regime under the Act commences.

Draft licence applications

48 The Reserve Bank is willing to receive licensing material in draft form for discussion in the early stages of the preparation of a licensing application.

Licensing fees

49 There is provision within [section 17\(2\)\(b\)](#) to impose licensing fees. No such fees currently apply.

Next steps

50 Please subscribe to the Reserve Bank's information update service to be notified of further information, including further guidelines, as they become available.

Checklist of licensing requirements	Related sections
Comply with section 19 : Entitlement to licence	
19(1)(a): Current financial strength rating (unless exempted)	60
19(1)(b): Ability to carry on business in a prudent manner	20
19(1)(c) Ability to comply with subpart 2 : <ul style="list-style-type: none"> • Satisfactory solvency • Financial strength rating & disclosure of overseas policyholder preference • Risk Management Programme • Appointment of actuary and actuarial review • Supply of Financial Statements 	55 – 59 60 – 72 , 19(2) 73 – 75 76 – 80 81
19(1)(d) Ability to comply with subpart 3 in relation to statutory funds <ul style="list-style-type: none"> • Life insurer to have at least 1 statutory fund • Other requirements in relation to statutory funds 	82 – 119 , 19(2)
19(1)(e) Ability to comply with the proposed conditions of licence. Applicants should consider any applicable conditions listed under section 21(2) and these conditions include conditions applicable to all applicants and conditions that may be applied by the Reserve Bank in respect of a single licence application: <ul style="list-style-type: none"> • Any conditions applied by the Reserve Bank in relation to section 21(2)(a); carrying on business in a prudent manner • Requirement to maintain a solvency margin in accordance with the applicable solvency standard • Requirement to maintain a solvency margin in respect of the statutory funds in accordance with the applicable solvency standard • Requirement for a specified amount or proportion of the applicant’s insurance business to relate to New Zealand policyholders • In respect of applicants who have not yet commenced insurance business in New Zealand, a time-limit within which insurance business must be commenced and/or a requirement specifying the amount of insurance business in New Zealand the applicant must have within a specified period • A requirement that the licensed insurer and/or the directors of the licensed insurer certify that the conditions have been complied with • A requirement that the appointed actuary verifies the certificate referred to above in relation to section 21(2)(f) • A requirement to meet any other prescribed conditions set by the Reserve Bank 	21
19(1)(f) Ability to maintain the minimum capital requirement specified in the applicable solvency standard	56(a)(i)
19(1)(g) Provide a copy of a fit and proper policy that complies with section 34 and has been certified by the directors in accordance with section 18(1)(b)	18(1)(a) & (b) 34 – 36

19(1)(h) Provide a copy of a risk management programme that complies with section 73 and the risk management programme that is provided is satisfactory	18(1)(c) 73 – 75
19(1)(i) The applicant’s incorporation and ownership structure, ownership, governance structure and financial strength are appropriate. Consider: <ul style="list-style-type: none"> • Size and type of insurance business • Size and type of insurance risks 	
19(1)(j) For overseas applicants, the Reserve Bank will consider the law and regulatory requirements of the home jurisdiction, including: <ul style="list-style-type: none"> • Licensing, registration or authorisation of insurers • The supervision of insurers • Solvency and capital standards that apply to insurers • Financial reporting, accounting and auditing standards • Corporate governance standards • Matters concerning insurers that are insolvent or otherwise in serious financial difficulties • The disqualification of persons to be or to act as directors or relevant officers of an insurer 	19(3) & (4)
19(1)(k) Requirement to be registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 or to comply with section 13(a) of that Act	19(5)
19(1)(l) The applicant has the ability to comply with the Anti-Money-Laundering and Countering Finance of Terrorism Act 2009 (if the applicant is a reporting entity under the Act)	
19(1)(m) The applicant complies with any prescribed requirements that the Reserve Bank may require	237(1)(c)

Please note:

This checklist provides an overview of topics covered by licensing criteria. It is not necessarily exhaustive: the full Act remains the authority for full licensing requirements and the issues the Reserve Bank may consider.

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