

The Insurance Prudential Supervision Bill

A New Era in Insurance Regulation

Topics Covered

- **Key Bill content**
- **Progress to date and Indicative Timetable toward enactment**
- **Changes from Consultation Draft Bill earlier in the year**
- **Transitional Provisions**
- **Solvency and Capital Considerations**

Key Bill Content

- **All insurers must be licensed, no exemptions except government entities**
- **Bill applies to life, non-life and health insurers**
- **Initial implementation requirements on insurers but thereafter comparatively light-touch in its ongoing application for compliant insurers**
- **Strong emphasis on director and senior management obligations**
- **Focus on competitive neutrality to the extent practicable, recognising the realities of the small but diverse NZ insurance market**
- **Home / Host regulatory recognition for branches of overseas insurers, but must meet NZ standards**

Key Bill Content cont'd

Prudential obligations on insurers:

- **Credit ratings**
- **Fit & Proper policy, and Risk management programme**
- **Solvency standards**
- **Life insurers must have statutory funds**
 - **Provisions based on Australian Life Insurance Act 1995**
- **Financial reporting requirements**
 - **Includes requirement for actuarial review**
- **Financial condition report**
- **Registration under the Financial Service Providers Act and ability to comply with AML Legislation**

Key Bill Content cont'd

Prudential supervision:

- **Bank empowered to issue licences and obliged to supervise insurers**
- **Bank to approve all corporate amalgamations and transfers of policyholder liabilities**
- **Wide powers for Bank to obtain information from insurers and their associated persons**
- **Search and seizure powers in serious cases**

Progress to date and indicative timetable

- **Consultation on draft Bill closed 22 June**
- **Further development of the Bill was informed by consultation inputs (see later)**
- **The Bill was introduced to Parliament on 29 October – First reading expected about now (Dec 8 or 10 at this point)**
- **Enactment of the Bill is targeted for around end Q3 2010**
- **Transitional Path to Compliance (see later)**

Key Changes from Consultation Draft

- **Some relocation:**
 - Stat Funds (part in regs) and Solvency (part in licensing)
- **Definitions:**
 - Contract of insurance (using exclusionary approach)
 - Carrying on Insurance Business in New Zealand
 - Life Policy, Composite Policies, Disability Income business
 - Actuary and Appointed Actuary
- **Accounting-Related matters:**
 - Timeframe for reporting, and definition of accounting period
 - Changes to terminology to avoid confusion with accounting terms
- **Home/Host treatment**
 - Clarification of scope
- **Ratings:**
 - Disclosure requirements
 - Exemptions
- **Amalgamations and transfers:**
 - Simplified legal processes
 - Bank approval of changes in controlling interest
- **Exemptions, Transitionals and Consequentials**
 - Now more fully detailed

Indicative transitional provisions

- **Bank prepares policy framework and regulations, incl solvency standards**
- **Cut-off date for existing insurers to apply for licence**
- **Existing insurers receive provisional licences while Bank processes applications and insurers make any changes required to meet licensing standards**
- **Provisional licences expire at either date of Bank approval or final commencement date**
- **Transitional period likely to last 2 - 3 years**

Solvency and Capital Considerations

- **Solvency Standards will exist within regulations**
- **Working closely with NZSA in the development of appropriate standards for non-life and life insurance**
- **Seeking as much commonality as possible between life and non-life solvency standards**
- **New non-life standard was put out for consultation earlier this year, and its further development will be informed by consultation responses**
- **Work on refining the existing NZSA life solvency standard has commenced**

Regulations and Guidelines

- **The Act will be accompanied by a significant number of Regulations. Work on these is well underway**
- **Currently prioritising requirements to ensure most efficient transitional path to compliance**
- **Guidance notes to be published for a number of compliance requirements**

Development of the RBNZ Regulatory Team

- **Currently 4 persons (Policy-focused)**
- **Recruitment of Supervisory team about to commence, both within New Zealand and overseas**
- **Supervisory team to comprise a mix of highly skilled and experienced Actuarial, Public Policy, Accounting / Economic and Insurance Industry backgrounds**
- **Total insurance team strength approximately 13/14 persons by June 2011**