

11 November 2020

Dear Insurer

**Reserve Bank updated expectations regarding the maintenance of insurer capital**

At 8:30am this morning the Reserve Bank published a regulatory update announcement covering bank capital, Loan-to-Value Ratio consultation, and bank and insurer dividend restrictions.

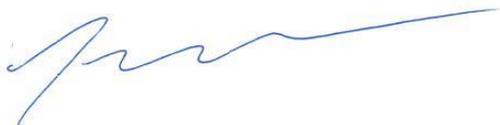
Given the market sensitivity of this information we were unable to share it with industry ahead of the announcement. This letter expands on the statement around insurer dividend restrictions. Insurers should contact their Reserve Bank supervisors in the first instance for any follow-up questions.

In July the Reserve Bank wrote to all insurers explaining our expectations that insurers should take steps to protect their capital positions given the severe economic uncertainty that was facing the country, partly (but not only) as a result of Covid-19. In that letter we noted the Reserve Bank's view that it would be irresponsible of insurers to unnecessarily reduce capital for the time being (such as through the use of dividends or similar payments) and advised that we would review and comment further on this position during November 2020.

Risks to insurers remain higher than usual. However, the Reserve Bank no longer considers it necessary for all insurers to withhold dividend payments in order to support financial stability. Therefore we are withdrawing this generalised guidance. Nevertheless we expect that each insurer will only make dividend payments where it is prudent for that insurer to do so, having clearly taken into account their own stress testing analysis and thoroughly considered all the potential risks faced by the insurer in the Covid-19 economic and health environment that continues to prevail around the world.

The Reserve Bank may, in the future and on an industry-wide or more targeted basis, reapply similar restrictions if it considers that risks warrant such action. The Reserve Bank will continue to closely monitor insurer solvency risks and further information on the Reserve Bank's outlook for the insurance industry will be published in the Financial Stability Report on 25 November.

Yours sincerely



**Geoff Bascand**  
Deputy Governor/General Manager Financial Stability