

30 June 2017

Mr R Johnson
Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Emailed to: ipsareview@rbnz.govt.nz

Dear Richard

Submission on Issues Paper, March 2017

Deloitte is a leading provider of professional services in New Zealand and globally. The Insurance (Prudential Supervision) Act 2010 ("IPSA") is the primary regulation for New Zealand insurers, some of whom are our clients. It is important, therefore, that we take this opportunity to participate in the Reserve Bank's (RBNZ) IPSA review, although we do so independently and not on behalf of any client. We understand that our clients may make their own submissions to the review.

We support RBNZ's approach to insurance supervision, based upon market discipline with a reliance on fit and proper persons, with appropriate oversight by the Bank through formal reporting mechanisms. We acknowledge that this is a different approach to some other jurisdictions, notably Australia's. The IPSA review is, therefore, a good opportunity to consider and potentially improve upon RBNZ's approach to supervision and reporting.

We note your intention that the scope of the IPSA review be wide-ranging, including on matters not mentioned in the Issues Paper. As such we urge consideration of several other matters, including:

- Whether or not it is appropriate, first and foremost, for RBNZ to carry out an independent review of IPSA; and
- That IPSA should provide for merits review or strengthened appeal rights for Reserve Bank decisions, which would align more closely with the Australian regulatory regime.

Otherwise we limit our comments to the following questions raised in the issues paper (and have no comment to make on the other questions raised in the paper).

[Question 2] The phrase "carrying on business in New Zealand" must be clearly defined in the Act.

[Question 6] The Review should reassess the application of the legislation to insurers operating as branches in New Zealand. The legislation could adapt to include consideration of overseas policyholder preference, New Zealand Statutory funds, reinsurance with locally licenced reinsurers, and so on.

[Question 7] In the context of overseas insurers, the most significant risks posed to the New Zealand economy or New Zealand policyholders are events that result in the diminution of the assets available.

[Question 8] There is certainly the opportunity to clarify or enhance the effectiveness of the statutory fund framework. Consideration should be given to having separate funds for unit linked business and separation between participating and pure risk policies.

[Question 10] We believe that the expectations placed on the directors, chief executive officer, chief financial officer and appointed actuary, would benefit from being considered within the IPSA Review. Furthermore, it may be appropriate for the review to consider a Purpose Statement for the Appointed Actuary, such as that proposed in the recent APRA discussion paper on the role of the Appointed Actuary.

[Question 12] We agree that there should be a wider range of enforcement responses. Currently, compliance penalties are mostly or exclusively upon conviction, which results in uncertainty, costs, and delay.

[Question 15] We certainly believe that the prudential capital requirements (by reference to a solvency margin and conditions of licence) should be within the scope of the IPSA review. A timelier and more considered approach is warranted, which would allow RBNZ to respond appropriately to changes in insurer circumstances or the market more generally.

For example, of current concern to general insurers and their Appointed Actuaries, at least, is the regulatory response that would occur now, after a catastrophic event. Onerous solvency requirements, applied immediately after the event but when there is still great uncertainty, may lead to insurers breaching statutory solvency and having to raise capital, or take other drastic courses of action, whether such courses of action are ultimately necessary or reasonable.

[Question 16] As in question 15, above, consideration should be given to clarifying the Reserve Bank's prudential response to deterioration in reported solvency levels. There should be a different response to different levels of breach, taking into account the circumstances of the breach, the degree of the breach, and the level of insurance provisions even without the imposition of regulatory capital charges. At the very least, clearer consequences for insurers will avoid ambiguity and, probably, lead to better capital management across a broader spectrum of solvency positions.

[Question 19] The current disclosure requirements are reasonable. There is no escaping that disclosure comes at a cost, however, so the RBNZ needs to ensure that all reporting requirements can be demonstrated to add value, now and in the future. Thus reporting requirements should be part of this, and any future, IPSA review.

Requiring insurers to maintain financial strength ratings appears to be a leftover from the previous regulatory regime, when there was no solvency standard or fit and proper regime, among other things. The value that financial strength ratings provide in the current regulatory regime is not at all clear, however. Whether or not to continue with the requirement should be considered within the current IPSA review.

[Question 21] The Reserve Bank certainly has a role in providing appropriate industry data to the market. However this is clearly a point of contention between the industry and regulator.

Unfortunately the RBNZ's data gathering activity appears not to have been carried out at all successfully to date. However, our sense is that, with proper consultation between the industry and regulator, and more experienced general insurance practitioners at the Bank able to specify data collection and reporting, with proper consideration of existing management and statutory reporting by insurers, the process could become successful and the regulator regain credibility with the industry.

[Question 22] The Review should reassess the manner in which requirements are currently specified and the mix between requirements set out in legislation, standards or guidance. It is inevitable, given the current regulatory regime has only been in existence for a few years, that there will be some "settling down" required. The IPSA review provides the opportunity to establish just how the legislation, standards and guidance should work together, with the benefit now of (some) hindsight.

We appreciate having the opportunity to respond to this phase of the IPSA review. We would welcome the opportunity to discuss our points in more detail with you, should you need. Likewise we will look forward to participating in the next stages of the review, in due course.

Yours sincerely

A large black rectangular redaction box covering the signature area.

Richard Beauchamp

Partner

For Deloitte Limited (as trustee of the Deloitte Trading Trust)