RBNZ review of IPSA

26 June 2017

Submission by: Education Benevolent Society Incorporated
License Number: 441954

Background information:

1. The Education Benevolent Society Incorporated (EBS) trading as HealthCarePlus appreciates the opportunity to provide feedback regarding the IPSA review.

2. EBS is a small union owned health insurer. The Society’s Constitution states that:

   The Society exists to enhance Union membership and align with the collective principles of Unionism. It is run by education Union members, for education Union members, their families and whānau. EBS is a financially sustainable organisation, dedicated to the ongoing health of members, their families and whānau.

3. IPSA has prompted significant improvements to governance and business practice within EBS including:

   - a review of the Society’s constitution,
   - the appointment of 2 independent directors with governance and insurance experience
   - formation of 2 Board Subcommittees including an Audit, Risk and Investment Committee,
   - a review of the operating model,
   - a legal compliance review and,
   - a fully upgraded Risk Management Framework with integrated policies and procedures.

4. As a result of these actions, our members benefit from stronger governance and a more disciplined business model. From this perspective, EBS believes that IPSA has achieved the desired outcomes of emphasising self and market discipline, and addressing the information asymmetry that can exist between insurer and customer (ref para 28 of Issues Paper).

5. The EBS business model is at the very low end of the risk spectrum. The Board has a low tolerance for risk. EBS mitigates insurance risk by only underwriting primary health insurance (not major medical) with low benefit levels which are capped at low annual maximums.
6. The implementation of IPSA has resulted in a considerable increase in regulatory cost. We estimate that between financial years 2010 to 2016, EBS premium income increased by less than ten per cent, business mix did not significantly change, but the cost of complying with regulation increased by a factor of five. While EBS welcomes the benefits of IPSA, the cost impact does raise questions as to whether, from an EBS customer perspective, IPSA can be said to support efficiency and whether the cost of the regime is being kept low (again, ref para 28 of Issues Paper).

7. Any further increases in the cost of governance would need to be very critically evaluated on whether it would improve outcomes for our members, and whether it would threaten the value for money of our products and our purpose as set out in our Constitution.

Issues:

EBS will only be responding to selected questions.

**Question 3:** Do you consider that there are entities where the current provisions of the legislation result in inappropriate regulatory obligations relative to the risks being addressed in the legislative framework?

8. As a small insurer with low exposure to risk and volatility EBS is subject to the same compliance regime and costs as larger insurers underwriting risks that are significantly greater in terms of quantum, volatility and exposure. As outlined above, EBS believes that the current level of regulatory obligations on small insurers such as EBS is sustainable, but any further imposition of requirements that resulted in greater costs would be both unnecessary and unlikely to deliver better outcomes overall.

**Question 10:** Do you consider that the expectations placed on the directors, chief executive officer or appointed actuary of insurers, would benefit from being considered further within the Review? This may include clarifications of current expectations or expansion of responsibilities.

9. EBS would welcome increased clarity around roles and responsibilities. It believes that the current regulatory responsibilities are appropriate for its level of risk and does not support an expansion of responsibilities. Any expansion of director’s responsibilities could make securing appropriately qualified directors difficult and costly especially for smaller and/or not for profit insurers.

10. Smaller insurers are currently disadvantaged as they have no ability to engage directly with the regulator. Access is only via an impersonal portal. EBS would welcome, say, quarterly forums with the Reserve Bank where smaller insurers can share experiences, discuss best practice, engage with and provide feedback to the regulator.

11. In addition, EBS would welcome the opportunity to receive informal feedback from the Reserve Bank on its compliance activity. Discussion would be preferable to only receiving a formal notice on non-compliance. In the absence of an ongoing working relationship with a
person at the Reserve Bank, it is hard to be sure whether EBS is over-complying or whether there are simpler ways to comply.

**Question 12:** Do you consider that there may be opportunities to enhance the enforcement framework?

12. EBS supports a process for early proactive, informal engagement, dialogue and feedback as described in the preceding paragraph rather than intervention and enforcement action after non-compliance.

**Question 13:** Do you consider the distress management framework within IPSA should be considered within the Review to enhance the expected effectiveness of the framework, particularly for smaller licensed insurers?

13. It is not clear what is being considered here, or what the motivation for any change might be. EBS supports in principle a distress management framework that takes account of the quantum, volatility and exposure to risk and not just the size of the insurer.

**Question 15:** Do you consider that the current approach to prudential capital requirements by reference to a solvency margin and conditions of license should be within the scope of the Review?

14. EBS is a small insurer with a healthy solvency margin: as at 31 Dec 2016, calculated minimum solvency requirement was significantly under the overall minimum capital requirement ($1.31m versus $3m) and actual total solvency capital was significantly in excess ($9.36m). Reserve Bank figures\(^1\) show that some insurers, including EBS, have significant higher solvency ratios, solvency margins as proportions of gross annual premium or net assets compared to other insurers in the same business line.

15. EBS would be interested in exploring the possibility of insurer-specific solvency margins set outside legislation which ‘levels the playing field’ in terms of the proportionate cost of required capital for such insurers, compared to larger insurers with riskier business and lower solvency ratios.

**Question 16:** Do you consider that consideration should be given to clarifying the Reserve Bank’s prudential response to deteriorations in reported solvency levels?

16. EBS has no preference as to whether a clarified response would be an improvement, but we would expect it to take account of the quantum, volatility and exposure to risk and not just the size of the insurer. We would also look for some flexibility in approach which suggests a limit to how far response can be pre-determined.

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\(^1\) For example, figure A44 in Cole & Allott “Insights from New Zealand solvency returns for the 2015 financial year”
Question 19: Are there any aspects of the current disclosure requirements that you consider do not provide useful information or are unduly onerous or costly to prepare?

17. EBS supports the hosting of key data including Financial Strength Rating only on the organisation’s website with suitable signposts on written material. This is to minimise the need for expensive reprinting of material every time such information changes.