30 June 2017

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

By email: ipsareview@rbnz.govt.nz

Dear Richard,

Issues Paper – Review of the Insurance (Prudential Supervision) Act 2010 (IPSA)

Fidelity Life welcomes the opportunity to submit on the Issues Paper: Review of the Insurance (Prudential Supervision) Act 2010 (IPSA review). Overall Fidelity Life is supportive of IPSA and its purposes to promote a sound and efficient insurance sector and to promote public confidence in the insurance sector. We support the approach of the Reserve Bank of New Zealand (RBNZ) to maintain a cost-effective regulatory regime that enables policyholder protection and a sound insurance sector.

Fidelity Life's purpose is to protect New Zealanders and their way of life. Our industry is facing significant regulatory and technology change. Fidelity Life is transforming too – we're a progressive company and believe consumers' interest should come first – that people should be able to get independent financial advice easily through competent financial advisers who are held to high standards of ethical behaviour so that more people are protected by life insurance. We believe the New Zealand way of life is worth protecting.

This submission focuses on two key issues: underinsurance and policyholder protection. Many New Zealanders do not have insurance to cover them if they are out of work due to sickness. This means that people's biggest asset – their ability to earn income – isn't protected when circumstances change. This can place huge financial pressure on families. It is essential that IPSA provides a legislative framework which promotes public confidence in insurers.

The second issue of concern to Fidelity Life is that of policyholder protection. We believe that IPSA should put New Zealand policyholders' interests first. Under the current regime there is a risk that the interests of New Zealand policyholders rank behind overseas policyholders where the licensed insurer is a branch of a foreign insurer. Such vulnerabilities must be addressed if public confidence in the insurance sector is to be maintained.

Response to specific questions

Fidelity Life submits in response to questions 1, 2, 4, 6, 7, 9, 14, 19, 21 and 24 in the IPSA review.

Question 1: Do you have any comments to make on the discussion in Part 1 of the Issues Paper?

Fidelity Life supports the RBNZ's philosophy of supervision and regulation. IPSA and the prudential supervision framework have improved the soundness of the insurance sector without constraining efficiency. Further, we support the RBNZ approach, that the prudential regulation regime should emphasise self and market discipline.

Question 2: Do you consider that the Review should assess the current scope of IPSA in terms of the nature of insurance contracts or entities that are subject to the legislation? Please provide commentary in support of your view.

Yes. Consideration should be applied to appropriately regulating products that may not be called "insurance" but have all the features of a contract of insurance. This could be achieved by amending IPSA to provide the RBNZ with a designation power to declare an entity to be providing "Insurance Services", equivalent to the power of the Financial Markets Authority (FMA) under s562 of the Financial Markets Conduct Act 2013. These changes would ensure that the RBNZ has a strong understanding of the extent of insurance provided in New Zealand without imposing unnecessary compliance costs.

Question 4: Are you aware of any currently non-licensed (under IPSA) insurance business activity in New Zealand that you consider should be within the scope of regulation in some form to enhance the effectiveness of the framework?

Fidelity Life notes with concern the findings of the May 2017 International Monetary Fund "Detailed Assessment of Observance – Insurance Core Principles" (IMF Report) that there is no information available on the extent of insurance being provided outside the RBNZ perimeter. This could damage public confidence in the insurance sector.

Question 6: Do you consider that the Review should reassess the application of the legislation to insurers operating as branches? Please provide commentary in support of your view.

Yes. The IMF Report identified New Zealand insurance policyholders of foreign branches being potentially in a vulnerable position in light of possible overseas policyholder preference. The IPSA review should assess whether policyholders would be better protected if overseas insurers were required to hold a certain amount of assets in New Zealand. The requirements for rating agencies to take account of home country preference should also be reviewed. It is important for all consumers of insurance that they have confidence in the insurance industry and the potential for policyholder vulnerability must be addressed.

Question 7: In the context of overseas insurers, what do you consider are the most significant risks posed to the New Zealand economy or New Zealand policyholders that need to be taken into account.

It is important that there is adequate protection of New Zealand policyholders, the IPSA review should consider an “assets in New Zealand test” in conjunction with a statutory fund test as a way to protect New Zealand policyholders.

Question 9: In the context of overseas insurers, do you consider a statutory fund framework may help protect the interests of New Zealand policyholders? Please provide commentary in support of your view.

We agree that in the context of overseas insurers the IPSA review should consider whether statutory funds could provide additional protection to New Zealand policyholders. Such funds would have the advantage of restricting the ability of a distressed parent to take funds out of New Zealand, ensuring that those funds remain available for New Zealand policyholders.

Question 14: Are there any areas of the framework that may pose particular concerns when considering overseas insurers (branch operations)?

If an overseas insurer is in distress, New Zealand policyholders may not be adequately protected because of the effectiveness of New Zealand distress management provisions operating in conjunction with overseas insolvency law or regulatory provisions. Care needs to be taken to ensure that New Zealand policyholders are not prejudiced by a home country policyholder preference.

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? Please provide commentary in support of your view.

Disclosure obligations should be reviewed to ensure that they are meaningful and relevant to consumers. We would be supportive of these matters being managed at a regulatory oversight level rather than by requiring formal written disclosure to policyholders. It would be sufficient to require consumers and policyholders to be referred to a website and free phone number where they can obtain the current information at any time.

Question 21: Do you consider that the Reserve Bank (or other authority) has a role in providing appropriate industry data to the market? Please provide commentary in support of your view.

Yes, the RBNZ has a role to play in providing appropriate industry data to the market. Important industry issues such as underinsurance should be identified and prioritised. Underinsurance in New Zealand is a significant issue. This means people’s biggest asset, their ability to earn income, isn’t protected when circumstances change and this can place huge financial pressure on families.

We agree with the suggestion in the IMF Report that ‘The RBNZ and the FMA jointly review the adequacy of current and proposed new published reporting on aggregate data and trends in the insurance sector, working with industry bodies as appropriate, to ensure the availability of appropriate information, for use by policy-makers and private stakeholders.'

Question 24: Are there any further issues you would like to raise that you consider should be within scope of the Review? Please provide commentary in support of your view.

The insurance industry is changing in response to a wide range of social, technological and global economic forces. The International Association of Insurance Supervisors has identified that it is foreseeable that emerging technologies will have a significant impact on insurers' business models. It is imperative that New Zealand's insurance supervisory systems and practices keep up with these 'FinTech' developments, so consumers can access appropriate advice and insurance protection, policyholders' interests are protected and insurers can manage the issues and opportunities presented.

It is critical that New Zealand has a regulatory framework that maintains New Zealand policyholder protection without inadvertently stifling innovation. The IPSA review should evaluate whether the current regulatory framework is able to adequately keep up with FinTech.