New Zealand Captive Insurance Association

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Dear Richard

ISSUES PAPER: REVIEW OF INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010
CAPTIVE INSURANCE COMPANIES

Introduction

This submission to the Reserve Bank on the Issues Paper outlining the scope of the review of the Insurance Prudential Supervision Act 2010 (**the Act**) is from the New Zealand Captive Insurance Association (**the Association**). Our particular interest in the review of the Act is the potential impact it has on the captive insurance industry. This submission deals with that issue alone.

Background

A captive insurer as defined in the Act means an insurer that—
(a) is a subsidiary of an entity that is not an insurer (the parent); and
(b) only insures risks of the parent or of other subsidiaries of the parent (or both)

The Association believes that captive insurers are an entity as described in paragraph 44 of the Issues Paper which states:

> **The legislation may capture or apply requirements to entities or contracts in a manner that is disproportionate to the risk presented to the soundness of the New Zealand insurance sector or public confidence in the sector.**

The current legislation places additional compliance burden and associated costs on captive insurers without providing benefits to the captive, its parent, stakeholders of the general insurance industry or the general public.

Response to Issues Paper

The Association wishes to provide a submission on Question 3 (noted below).

New Zealand Captive Insurance Association

Do you consider that there are entities where the current provisions of the legislation result in inappropriate compliance costs or inappropriate regulatory obligations relative to the risks being addressed by the legislative framework?

The Association believes that the compliance requirements (noted below) significantly increase compliance costs without providing any benefit to the captive, its parent, stakeholders in the general insurance industry or the general public:

- Requirement to comply with the Financial Market Conduct Act.
- Requirement to be an Issuer.
- Requirement to complete a semi-annual filing.

Small insurers are currently granted exemptions from the requirement to comply with the Financial Market Conduct Act and the requirement to be an Issuer. In our view small insurers (as they insure the general public) provide a greater risk to the soundness of the New Zealand insurance sector or public confidence in the sector than captive insurers whose only policy holder is their parent or subsidiary of the parent.

The requirements of the Act, noted above, are not consistent with other legislation that provides reduced compliance burden in the form of exemptions for related party entities and related party transactions, such as the Financial Service Provider Act and the Anti-Money Laundering and Countering Finance of Terrorism Act.

The last requirement noted above to complete a semi-annual filing again significantly increases compliance costs without providing any benefit to the captive, its parent or stakeholders in the general insurance industry. Captive insurers have a lower risk profile than other insurers. In the majority of instances, captive insurers write only one or two policies. Therefore the main difference between the information reported annually and half-yearly is the earning or deferring of insurance premium and reinsurance premium. The additional disclosure has no public benefit and therefore does not warrant the additional time and cost required to comply with these additional disclosure requirements.

The Association has received feedback from captive insurers indicating the additional costs incurred in adhering to or completing the abovementioned compliance points. Indications of this are noted below:

-	Additional audit fee*	$2,000 - $12,000
-	Additional actuary fee*	$2,000 - $3,000
-	Additional management fee*	$2,000 - $5,000
-	Cost associated with time spent	$3,000 - $7,000
-	**Total additional compliance cost**	**$9,000 - $27,000**

*The above costs are additional to the normal cost of audit, actuarial analysis and management. In one instance the costs associated with this compliance exceeded 25% of total expenses.

We can be contacted through Jessica Schade on [redacted] or by email at Jessica.schade@willistowerswatson.com.

Yours sincerely

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New Zealand Captive Insurance Association