30 June 2016

Richard Johnson, Senior Adviser
Prudential Supervision Department
Reserve Bank of New Zealand

ipsareview@rbnz.govt.nz

Dear Mr Johnson

Submission on the Issues Paper: Review of the Insurance (Prudential Supervision) Act 2010

Thank you for the opportunity to provide feedback to the Reserve Bank of New Zealand (**Reserve Bank**) on the Issues Paper: Review of the Insurance (Prudential Supervision) Act 2010 (**Review**).

While OnePath Life (NZ) Limited (**OnePath**) considers the Insurance (Prudential Supervision) Act 2010 (**IPSA**) to be working well, with little required in the way of material changes, we welcome the Review and fully support the Reserve Bank's aim of minimising costly compliance requirements, without compromising soundness objectives or undermining a level playing field for insurers.

There are some key messages which we would like to specifically draw to the Reserve Bank's attention. Further detail on these points is set out in the attached Appendix I.

Key messages

1. The requirements to disclose financial strength ratings in writing before entering into or renewing a contract of insurance can lead to significant compliance costs in some cases, and more flexible options for disclosing this information to policyholders should be considered.
2. Consideration should be given to reviewing the life solvency standard as soon as possible, in the light of the possible implications of IFRS17.

OnePath's specific responses to the questions asked in the Issues Paper are set out in the attached Appendix II.

About OnePath

OnePath is one of New Zealand's leading providers of insurance. OnePath insurance solutions include:

- Personal insurance such as Life, Trauma Cover and Income Covers; and
- Business insurance covering shareholder protection, loan repayment protection and key person protection.

OnePath is fully owned by ANZ Bank New Zealand Limited, the largest financial institution in New Zealand.

Contact for submission

OnePath welcomes the opportunity to discuss any of our submissions directly with Reserve Bank officials. Contact details, if required, are:

Alistair Robertson, Head of Regulatory Affairs
[redacted]

Once again, we thank the Reserve Bank for the opportunity to have input into the Issues Paper: Review of the Insurance (Prudential Supervision) Act 2010.

Yours sincerely

[redacted]

Craig Mulholland

Chief Executive Officer

OnePath Life (NZ) Limited

Appendix I – Key messages

OnePath addresses each of the key messages in turn.

1. **The requirements to disclose financial strength ratings in writing before entering into or renewing a contract of insurance can lead to significant compliance costs in some cases, and more flexible options for disclosing this information to policyholders should be considered**.

   OnePath appreciates the importance of financial strength ratings, and their key role in market discipline and the overall prudential regime. However, OnePath considers that greater flexibility in the methods of disclosing financial strength ratings could reduce compliance costs, whilst still ensuring that consumers are able to access up to date and relevant information.

   The requirements to disclose financial strength ratings to policyholders in writing before entering into or renewing a contract of insurance can lead to significant costs in changing collateral and related systems. OnePath submits that the Review should consider whether the objectives of disclosure could be met by permitting this to occur via a website or other method, with policyholders advised of the availability of the information when they enter into and renew their insurance contracts. OnePath notes that adopting this approach would align with the disclosure requirements for registered banks, where there is no requirement to provide prior written disclosure of credit ratings to depositors, but with information publicly available via banks' disclosure statements. We provide further detail on the compliance costs of the current approach in our response to question 19.

2. **Consideration should be given to reviewing the life solvency standard as soon as possible, in the light of the possible implications of IFRS17.**

   OnePath submits that consideration should be given to reviewing the life solvency standard as soon as possible, in particular in light of the possible implications of the new international financial reporting standard IFRS17. It will be of great importance to the industry to ensure that changes in IFRS17 do not inadvertently affect the level of capital the Reserve Bank requires insurers to hold.

Appendix II – Specific feedback sought

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

OnePath considers that IPSA, and the New Zealand approach to the prudential regulation and supervision of insurers, are working effectively with no significant areas of concern. Accordingly, we have no specific comments on the discussion in Part 1 of the Issues Paper. However, as is reflected in our Key Message 1, we consider that the efficiency of the regime could be enhanced, without undermining market discipline, by reviewing the requirements for disclosure of financial strength ratings.

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.

OnePath considers that it is in the best interests of consumers to ensure that all providers of insurance to New Zealand consumers are captured by the IPSA requirements, regardless of whether those providers are technically "carrying on insurance business in New Zealand" or entering into a "contract of insurance" for the purposes of IPSA. OnePath therefore supports this review objective.

However, as is discussed further in our response to Question 5, we consider it is important to ensure that the IPSA regime does not restrict access to overseas reinsurance, and that the Review should consider this objective when assessing the current scope of IPSA.

Question 3: 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?

OnePath is not aware of any entities that are unduly burdened by the costs of complying with IPSA. However, as is reflected in our Key Message 1 and our response to Question 19, we do consider that the requirements for disclosure of financial strength ratings could be modified to reduce the compliance burden for licensed insurers, without compromising the aims of the IPSA regime.

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?

OnePath is not aware of any insurance business activity that is presently unlicensed and should fall within the scope of IPSA.

Question 5: Do you agree that overseas insurers provide valuable support to the New Zealand insurance market? Please provide commentary in support of your view.

OnePath considers that overseas insurers increase choice and competition within the market. Access to overseas reinsurers is also of crucial importance to the New Zealand insurance industry. OnePath considers that a prime objective for the Review should be to ensure that the New Zealand insurance market retains access to offshore reinsurers, and that off shore reinsurers who currently provide reinsurance without being licensed remain able to do so. Any broadening of licensing requirements for overseas reinsurers could be problematic for historical arrangements if the reinsurer is not interested in becoming licensed in NZ. Further, it may restrict future purchase of specialised reinsurance, to the detriment of the New Zealand insurance industry.

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.

OnePath considers that the Review should reassess the application of IPSA to insurers operating as a branch within New Zealand. In our view, the interplay between the insolvency laws of other jurisdictions and regulatory actions in those jurisdictions may mean that assets within, or allocated to, a branch are not available to support claims in a distress scenario. This has the potential to undermine policyholder protection. As far as possible, New Zealand policyholders should enjoy the same level of protection, irrespective of whether the individual insurer is locally incorporated or operating as a branch. Consumers cannot be expected to make a distinction between local and overseas-based insurers operating in the market.

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?

Similar to our answer to Question 6 above, OnePath considers that the most significant risk to New Zealand policyholders that needs to be taken into account in the Review is the risk that assets of a New Zealand branch operation may not be available to support New Zealand claims in a distress scenario. As is reflected in our response to Question 6, we consider that disclosure alone is unlikely to adequately protect consumers in this context.

Question 8: Do you consider that there is opportunity to clarify or enhance the effectiveness of the statutory fund framework? Please provide commentary in support of your view.

OnePath notes that as the statutory fund framework has not been tested, it is difficult to comment on its effectiveness. However, we consider that the nature of the duties in sections 87 and 105 of IPSA (for a life insurer and its directors, respectively, to give priority to the interests of policyholders of life policies referable to a statutory fund over the interests of shareholders or members in relation to the administration, management and investment of the fund) could benefit from clarification. In our view, this would be best achieved through additional Reserve Bank guidance, which could address common scenarios in which these interests may conflict (for example, payment of dividends out of statutory fund assets).

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.

OnePath considers that a New Zealand statutory fund framework for overseas non-life insurers could help to ameliorate the issues raised in our response to Question 6, and therefore help protect the interests of NZ policyholders, though the question as to the accessibility of the assets of the fund would need to be carefully considered as part of the Review. As noted above, we do consider it to be important not to restrict access to overseas reinsurers, and therefore the potential impact on any changes on reinsurance capacity in New Zealand would need to be carefully considered.

Question 10: Do you consider that the expectations placed on the directors, chief executive officer, chief financial 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.

OnePath considers that the provision for non-executive board members with independence requirements has been effective. The requirements are working as designed and we do not consider that any further prescription of relevant officer duties is required. Our board has not raised any concerns in this regard or indicated a need for further prescription.

We note that some of the functions of the Appointed Actuary role are effectively covered in the NZ Society of Actuary standards, notably some of the detail of the Financial Condition Report. We suggest the Reserve Bank should keep this in mind in considering any amendments in respect of this role.

Question 11: Do you consider that the Review should encompass further consideration of an insurer's key control functions (paragraph 84) to promote effective risk management and consistent application of requirements across the sector?

OnePath considers that the current risk management requirements, and the relatively low degree of prescription, are appropriate.

To the extent that the Reserve Bank considers that further prescription is desirable, OnePath considers that, in the interests of efficiency and minimising compliance costs, the Reserve Bank should seek to align risk management requirements with existing banking risk management requirements under Australian Prudential Regulation Authority and Reserve Bank prudential standards. This will assist those licensed insurers which are bank subsidiaries, by avoiding inconsistency and duplication of requirements.

Question 12: Do you consider that there may be opportunities to enhance the enforcement framework? Please provide comment in support of your view.

OnePath supports the Reserve Bank having a wider range of enforcement tools at its disposal. This will allow the Reserve Bank to be more proactive in enforcement, by allowing a range of responses which are proportionate to the relevant matter.

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

OnePath supports the distress management framework being considered within the Review, and considers that additional distress management tools could enhance the Reserve Bank's ability to facilitate good outcomes.

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

OnePath considers that particular concerns arise regarding whether the Reserve Bank can effectively implement distress management tools where there is an overseas incorporated insurer operating through a branch in NZ.

Question 15: Do you consider that the current approach to prudential capital requirements by reference to a solvency margin and conditions of licence should be within scope of the Review? Please provide commentary in support of your view.

We consider that the current approach to prudential capital should be within the scope of the Review. However, we note that the Issues Paper raises the question of whether the Reserve Bank should be able to vary factors and methodologies within the solvency standard for individual companies. If such an approach were followed, this could mean direct comparison of insurers (for example on company websites) by members of the public would be less meaningful. We suggest comparisons should be carried out on the same basis and using the same methodology, with perhaps a further calculation on another basis if required.

As is reflected in our Key Message 2, we submit that consideration should be given to reviewing the life solvency standard as soon as possible, in particular in light of implications from the new international financial reporting standard IFRS17, to ensure that these changes do not inadvertently affect the level of capital the Reserve Bank requires insurers to hold.

Question 16: Do you consider that consideration should be given to clarifying the Reserve Bank's prudential response to deteriorations in reported solvency levels? Please provide commentary in support of your views.

OnePath considers it makes sense for the Reserve Bank to be able to engage early to better facilitate good outcomes for policyholders in the event of distress, and as such supports this element being included in the Review.

However, we caution against a 'one size fits all' approach with regard to pre-defined responses for distressed insurers. The approach to distress management should recognise that distressed insurers might be exposed to very different types of risk and that the most appropriate action to take place in one distressed scenario might be quite different from the best response in another.

Question 17: Do you consider the Review should reassess the current framework for approval of material transactions and policy changes? Please provide commentary in support of your view.

OnePath has been through an amalgamation and a transfer without issue and we consider that the process works effectively as designed. However, now that the regime has been in place for some time and the Reserve Bank has examples of amalgamations and transfer, we submit that the Reserve Bank should consider refining the “any other information” requirement, to facilitate an efficient process for all parties.

Question 18: Do you consider that approval by the Reserve Bank is more or less effective than alternative mechanisms e.g. court based systems?

OnePath considers that Reserve Bank approval is more effective than alternative options, as it provides for greater flexibility and efficiency than court based systems.

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.

The requirements to disclose financial strength ratings to policyholders in writing before entering into or renewing a contract of insurance can lead to significant costs in changing collateral and related systems.

OnePath submits that the Review should consider whether the objectives of disclosure could be met by permitting this to occur via a website or other method, with policyholders advised of the availability of the information when they enter into and renew their insurance contracts. OnePath notes that adopting this approach would align with the disclosure requirements for registered banks, where there is no requirement to provide prior written disclosure of credit ratings to depositors, with that information being publicly available via banks’ disclosure statements.

The requirements to provide written disclosure of financial strength ratings are particularly problematic when the ratings change. We estimate at least $40,000 of expenses was incurred to meet the requirements following the recent change to OnePath’s financial strength rating, which does not take into account the considerable amount of staff time allocated to this exercise.

The effort required to meet the requirements was considerable. In particular we were required to update our systems, engage with our third party suppliers, update application and collateral materials, destroy and replace printed stock, re-record our call centre interactive voice response (IVR) declarations, update websites, issue public notices, and support staff and advisers with internal communications and updates to tools, brochures and other collateral such as letter templates.

We are not aware of any policy changes having occurred as a result of this exercise. We therefore consider that more flexible disclosure requirements would strike a more appropriate balance between policyholder protection and compliance costs.

Question 20: Do you consider that there is information that is not currently required to be disclosed that would be beneficial to market participants? Please provide commentary in support of your view.

We do not consider there to be any further information about licensed insurers in respect of which a disclosure requirement would benefit market participants.

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.

OnePath considers that this information would likely be of more interest to the industry than to the market. For listed companies, it would likely be of interest to investors and market commentators. We therefore consider there may be some scope for the Reserve Bank to provide relevant industry data. However, we note that some data which licensed insurers submit to the Reserve Bank is commercially sensitive, and it will be important to undertake industry consultation before releasing any data to the market.

Question 22: Do you consider that the Review should reassess the manner in which requirements are currently specified and the mix between requirements set out in legislation, standards or guidance? Please provide commentary in support of your view.

OnePath has found most of the requirements easy to navigate. However the statutory fund requirements are fragmented and we consider the Review should reconsider the manner in which these requirements are currently specified. We also suggest updating the Reserve Bank's guidelines in relation to transfers and amalgamations (for further context please see our response to question 17).

Question 23: Are there any aspects of the current requirements that you consider would be better specified using different regulatory tools?

OnePath considers that the regulatory tools adopted to specify the current requirements are appropriate.

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

OnePath considers that following the introduction of prudential regulation for insurers, there may no longer be a strong justification for including, in the conditions of registration for registered banks, a condition requiring the relevant banking group's insurance business to be not greater than 1 % of the banking group's consolidated assets. OnePath notes that this condition of registration applies to its parent (ANZ Bank New Zealand Limited) and to other registered banks in New Zealand.

In addition, OnePath considers that the director liability provisions of IPSA should be considered as part of the Review, in particular director liability for loss to statutory funds, which may be acting as a disincentive to directors taking up positions with New Zealand insurers.

Question 25: Are there any areas of the legislation that you consider are now redundant or you feel could have clearer drafting or require technical corrections?

No.

Question 26: Are there any areas of the legislation that you consider, having regard to the purposes of the legislation, unduly restrict competition or innovation within the New Zealand insurance market? Please provide commentary in support of your view.

No.