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By email to: ipsareview@rbnz.govt.nz

Re: IPSA issues paper

QBE Insurance (Australia) Limited (**QBE**) is a member of the Insurance Council of New Zealand (**ICNZ**). QBE has had an opportunity to review a draft submission prepared by ICNZ on the Insurance (Prudential Supervision) Act 2010 (**IPSA**) issues paper released by the RBNZ in March 2017, which it broadly supports, except as outlined in this letter.

As a branch of an overseas insurer, QBE would like to add to ICNZ's points in relation to the questions raised in the issues paper regarding overseas insurers and disclosure:

- **Branch exemptions** – in our view, it is appropriate for RBNZ to have a power to grant exemptions (with the imposition of bespoke conditions as relevant), provided that the RBNZ remains satisfied that the home jurisdiction's regulatory requirements will provide equivalent controls and protections as under IPSA. This is a pragmatic solution as it ensures that New Zealand requirements do not unnecessarily add to compliance costs which ultimately impacts on the affordability of insurance, where there is already sufficient regulation in place. In addition, whilst we understand the ICNZ's view that there should be a level of transparency in the rationale for RBNZ's decisions on exemptions, we believe this should be limited to outlining high level principles that apply generally. We do not support granular disclosure of the basis of exemptions for specific insurers as these exemptions are necessarily granted on a case by case basis and will be dependent on commercially sensitive material provided by each insurer.
- **Solvency** – in our view, rather than imposing a risk to New Zealand policyholders, local branches of overseas insurers are often protected by a significantly larger pool of capital than that which would be required to be held if the branch was incorporated as a subsidiary in New Zealand. We believe that under the current regime, RBNZ has the ability to, and does, review whether the home jurisdiction's solvency requirements will meet the capital needs of the New Zealand business, such as large catastrophe events. If the home jurisdiction's regulatory requirements do not provide adequate capital protection, then RBNZ has the power to refuse to grant a solvency exemption and can instead require compliance with the RBNZ Solvency Standards requirements. As such, we consider the existing arrangements that enable the Reserve Bank to consider and determine the most appropriate cause of action in the specific circumstances are appropriate and should not be changed. As outlined in the ICNZ submission, overseas insurers provide critical support to the New Zealand insurance market. Further, some types of risks to policyholders in New

Zealand would not otherwise be able to be insured with a local insurer due to the nature or scale of the risk. Overseas insurers may also have economies of scale or other features that allow them to provide a different proposition to a New Zealand policyholder, allowing for product differentiation and a greater choice for consumers of insurance in the New Zealand market. Also, as outlined in the ICNZ submission, given recent increases in the cost of insurance caused by increased government levies (particularly the Earthquake Commission premium increase and the Fire and Emergency New Zealand levy), artificially adding additional costs could lead to a lower uptake of insurance by New Zealanders, increase the protection gap, and expose the economy to greater risk than if the market had not been distorted so significantly by government intervention.

- **Overseas policyholder preference** – we query whether the current overseas policyholder preference disclosure is broadly understood in the direct insurance market – but also whether this in itself results in a risk of significant disadvantage to local policyholders in all cases that needs to be disclosed. In our view, it is more appropriate for the insurer to maintain a sufficient level of capital to meet all policyholders' claims (i.e. those in the home jurisdiction and New Zealand) and the current regulatory framework grants the power to RBNZ to do this via exemptions (and attached conditions).
- **Disclosure** – QBE supports ICNZ's comments on electronic disclosure. This would allow for supporting detail to be provided for less-financially literate consumers and give the industry flexibility to adapt to technological advances in the future. In addition, we submit that where an insurer holds more than one financial strength rating from multiple approved rating agencies, the requirement should be to only disclose one rating (provided the ratings are substantially similar). We agree with the ICNZ that where an intermediary has direct contact with the potential insured, it should be the intermediary's responsibility under the legislation to ensure that the disclosure is made to the insured.

QBE will be more than happy to provide any further assistance or explanation, should you wish to contact us.

Yours sincerely


Bill Donovan
General Manager - New Zealand Operations