

New Zealand Captive Insurance Association

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Dear Adrian,

CONSULTATION PAPER: AUDIT REQUIREMENTS FOR INSURER DATA RETURNS CAPTIVE INSURANCE COMPANIES

Introduction

This submission to the Reserve Bank on the Consultation Paper outlining suggested changes in respect of the audit requirements for insurer data returns is from the New Zealand Captive Insurance Association (**the Association**). Our particular interest in the proposed changes 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 Insurance Prudential Supervision Act 2010 (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)

All captive insurers licenced in New Zealand under the Act are supervised by the portfolio management team as they have a lower risk profile than other insurers.

Response to Consultation Paper

The Association wishes to provide a submission on questions 1, 2, 3, and 14 as outlined below).

Question 1:

Do you support the idea of introducing an Insurer Return audit/review requirement?

The Association does not support introducing an Insurer Return audit or review on the basis that:

- Those insurers licenced as captive insurers in New Zealand predominantly write only one class of business (Material Damage / Business Interruption). Their operations are considerably more simplistic than other insurers and therefore easier to correctly classify premiums written by product group.

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- The additional compliance requirements significantly increase compliance costs without providing any benefit to the captive, its parent, stakeholders in the general insurance industry or the general public.

Question 2:

What would your organisation expect the annual fee to be?

The Association has contacted the members on the expected cost of the proposed audit requirements. The cost is between \$2,000 and \$10,000. Although this may not seem a substantial amount it is a material amount for the size of the captive insurers currently licenced under IPSA.

Question 3:

How effective do you believe an audit requirement would be in identifying deficiencies in the processes and systems contributing to the Insurer Return?

The Association believes that an audit requirement is unnecessary for captive insurers, and would not materially impact the quality of the process and systems currently in place for completion of the Insurer Return. This is based on the following:

- As stated under question 1 above. Those insurers licenced as captive insurers in New Zealand predominantly write only one class of business (Material Damage / Business Interruption). Their operations are considerably more simplistic than other insurers and therefore easier to correctly classify premiums written by product group.
- There are no captive insurers writing life business in New Zealand.
- All captive insurers have the Insurer Return, Insurer Solvency Return and Audited Financial Statements completed at the same time with the involvement from the Appointed Actuary.

Question 14:


Do you have any other comments?

The Association believes that captive insurers **should not** be in-scope and should be specifically exempted. The proposed audit requirement increases compliance costs without providing any benefit to the captive, its parent , stakeholders in the general insurance industry or the general pulic.

The definition for "Medium Insurer" should be for all insurers who write annual Gross Written Premium in excess of \$10 Million.

We can be contacted through Jessica Schade on 021 909 203 or by email at Jessica.schade@willistowerswatson.com.

Yours sincerely



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