



# **Exemptions for small insurers**

## **Guidelines Insurance Sector**

Operational Policy  
Prudential Supervision Department

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## Purpose of this guideline

- 1 This document sets out the Reserve Bank of New Zealand's (the Reserve Bank) guidelines in relation to exemptions from certain provisions of the [Insurance \(Prudential Supervision\) Act 2010](#) (the Act) for eligible licensed insurers. This guideline relates to the process a licensed insurer must undertake when determining its eligibility to operate under the exemption provided under [clauses 9 - 13](#) of the [Insurance \(Prudential Supervision\) Regulations 2010](#) (the Regulations) promulgated in accordance with [Part 5](#) of the Act. (All section references in this guideline are to the Act and clause references are to the Regulations unless otherwise specified).
- 2 Persons who were carrying on insurance business in New Zealand before 8 September 2010 and who have an annual gross premium income of less than the amount set by regulation in accordance with section 238 of the Act (currently this is NZ \$1.5 million) will, once licensed, be exempt from certain requirements under the Act. These exemptions are provided on the basis that the licensed insurer continues to have an annual gross premium income threshold of less than the threshold amount (refer [section 238](#)). The exemptions provided are outlined below.
- 3 For the purposes of this exemption, the annual gross premium income is determined before the deduction of reinsurance premiums.
- 4 This guideline relates solely to the requirements under the Act and Regulations, and does not cover requirements of other legislation that may also be of relevance to licensed insurers.
- 5 Nothing in this guideline overrides the provisions of the Act or the Regulations.

## Exemptions

- 6 [Section 238](#) of the Act and [clauses 9](#) and [11](#) of the Regulations provide for exemptions from certain requirements of the Act for licensed insurers that have an annual gross premium income of less than NZ \$1.5 million. The exemptions are as follows:

- (a) [section 19\(1\)\(d\)](#) and [subpart 3 of Part 2](#), requiring a licensed life insurer to comply with the requirements for statutory funds and the appropriate regulations;
- (b) [section 19\(1\)\(f\)](#), requiring a licensed insurer to maintain a minimum amount of capital. (Note: This exemption is solely from the minimum capital requirement and licensed insurers are still required to comply with the relevant solvency standard);
- (c) [section 60](#), requiring a licensed insurer to hold a current financial strength rating from an approved rating agency;
- (d) [section 81](#), requiring a licensed insurer to prepare and file annual financial statements, and half year financial statements;
- (e) [section 19\(1\)\(k\)](#), providing a licensed insurer with an exemption from being an issuer for the purposes of [section 4\(1\)\(da\)](#) of the [Financial Reporting Act 1993](#) (FRA).

## Notice of intention

- 7 Licensed insurers intending to rely on exemptions under [clause 11](#) of the Regulations must notify the Reserve Bank of their intention to operate under the exemption within 20 working days of the start of the relevant period.
- 8 A licensed insurer must send the Reserve Bank a notice of the intention to rely on the exemption.
- 9 The notice of intention to rely on the exemption for small insurers must specify that:
  - (a) in the case of [clause 9\(1\)\(a\)](#) of the Regulations, the annual gross premium income derived from life policies (being those that meet the definition of [life insurance](#) under the Act) for the immediately preceding financial period (before the deduction of any reinsurance premiums) is less than NZ \$1.5 million;

- (b) in any other case, the annual gross premium income for the immediately preceding financial period (before the deduction of reinsurance premiums) is less than NZ \$1.5 million.

### **Quantification of annual gross premium income**

10 The annual gross premium income of an insurer is to be determined in the following manner:

- (a) for [clause 9\(1\)\(a\)](#) of the Regulations, a licensed insurer's annual gross premium income derived from policies which meet the definition of [life insurance](#) under the Act for the immediately preceding accounting period as specified in the statement of financial performance before the deduction of reinsurance premiums;
- (b) for all other exemptions, its annual gross premium income for the immediately preceding accounting period as specified in the profit and loss account before the deduction of reinsurance premiums.

11 The annual gross premium income is to be calculated using the accounting year of the licensed insurer.

12 [Clauses 9\(2\)\(a\)](#) and [11\(2\)\(a\)](#) of the Regulations allow for the annual gross premium income of a licensed insurer to be split between life and non-life insurance for the purposes of the exemption from establishing and maintaining a statutory fund.

### **Evidence of eligibility for exemption**

#### ***On application for a licence***

13 On application for a licence insurers who wish to rely on these exemptions must be able to show the following:

- (a) that they were carrying on insurance business in New Zealand before 8 September 2010; and

- (b) for insurers who have a portion (or all) of their business as life insurance and who are seeking an exemption for establishing and maintaining a statutory fund will need to show their annual gross premium income for life policies was less than NZ \$1.5 million before the deduction of reinsurance premiums; or

- (c) for all other licensed insurers, that their annual gross premium income was less than NZ \$1.5 million before the deduction of reinsurance premiums.

14 Under [clause 10](#) of the Regulations, insurers that intend to rely on the exemption for small insurers must provide the following information:

- (a) a copy of the immediately preceding statement of financial performance including the annual gross premium income before any deductions of reinsurance premiums which:

- (i) for licensed insurers that are reporting entities, must be prepared in accordance with generally accepted accounting principles;

- (ii) for a licensed insurer that is an exempt company, must be prepared in accordance with [section 12](#) of the [FRA](#); or

- (iii) in any other case, gives a true and fair view of the matters to which it relates and complies with any other financial reporting requirement to which the licensed insurer is subject; and

- (iv) must be audited, or otherwise reviewed to the Reserve Bank's satisfaction, by a qualified auditor.

15 Before the licence is issued under [Part 2](#) of the Act, the insurer must provide the Reserve Bank with:

- (a) a notice that the insurer intends to rely on either or both of the exemptions under [clause 9](#) of the Regulations; and
- (b) a copy of the statement of financial performance together with the qualified auditor's report on that statement.

### ***On continuation to rely on the exemptions***

16 Under the Regulations, [clauses 11](#) and [12](#) of the Regulations deal with the exemptions on an ongoing basis. [Clause 12](#) of the Regulations requires a licensed insurer to provide the Reserve Bank with the following evidence when notifying of its intention to rely on the exemption:

- (a) a copy of the immediately preceding statement of financial performance including the annual gross premium income before any deductions of reinsurance premiums which:
  - (i) for licensed insurers that are reporting entities, must be prepared in accordance with generally accepted accounting principles;
  - (ii) for a licensed insurer that is an exempt company, must be prepared in accordance with [section 12](#) of the [FRA](#); or
  - (iii) in any other case, gives a true and fair view of the matters to which it relates and complies with any other financial reporting requirement to which the licensed insurer is subject.

17 The statement of financial performance must be audited, or otherwise reviewed to the Reserve Bank's satisfaction, by a qualified auditor; and

- (a) a copy of the reviewed statement of financial performance must be provided to the Reserve Bank within 20 working days after the statement is required to be signed under the [FRA](#); and

(b) within 20 working days of the start of the relevant period, the licensed insurer must provide the Reserve Bank with a notice that the licensed insurer intends to rely on 1 or more of the exemptions under [clause 11](#) of the Regulations in respect of the relevant period; and

(c) the notice required under [clause 12\(d\)](#) of the Regulations must specify that:

- (i) in the case of [clause 11\(1\)\(a\)\(iii\)](#) of the Regulations, the licensed insurer's gross premium income derived from life policies for the immediately preceding accounting year (before the deduction of any reinsurance premiums) is less than NZ \$1.5 million;
- (ii) in any other case, the licensed insurer's gross premium income for the immediately preceding accounting year (before the deduction of any reinsurance premiums) is less than NZ \$1.5 million.

18 The notice referred to above must contain the actual annual gross premium income of the licensed insurer and it is expected to contain an attestation from the board of the licensed insurer that the information provided is fair and accurate.

### **Conditions**

19 Licensed insurers that are eligible for an exemption under [section 238](#) of the Act and [clause 11](#) of the Regulations will be subject to conditions relating to the following matters:

- (a) that the licensed insurer must, within 20 working days of the conclusion of the previous financial year, provide the Reserve Bank with confirmation of its intention to operate under the exemption; and
- (b) that during the previous year the annual gross premium income was less than NZ \$1.5 million.

## Length of exemption

- 20 A licensed insurer that was carrying on insurance business in New Zealand before 8 September 2010 may rely on the exemption provided under [section 238](#) of the Act and [clause 11](#) of the Regulations so long as their annual gross premium income remains less than the NZ \$1.5 million threshold.
- 21 The licensed insurer must notify the Reserve Bank within 20 working days of the start of the relevant financial period of their intention to rely on the exemption in the current financial period.

## Breach of annual gross premium income and transitional path

- 22 Licensed insurers that breach the annual gross premium income threshold during their financial year will no longer be eligible for the exemptions detailed in [section 238](#) of the Act and clause 11 of the Regulations from the subsequent financial period following breach.
- 23 If a licensed insurer operating under the exemption breaches the threshold of NZ \$1.5 million the licensed insurer is required to notify the Reserve Bank. Upon notification the Reserve Bank will work with the licensed insurer to set transitional conditions for achieving full compliance with the Act.
- 24 If a licensed insurer can foresee they are likely to breach the threshold of NZ \$1.5 million they must notify the Reserve Bank. Upon notification the Reserve Bank will work with the licensed insurer to set transitional conditions for achieving full compliance with the Act.

## Late notification

- 25 If a licensed insurer fails to notify the Reserve Bank within the given timeframe provided for in [clause 12\(d\)](#) of the Regulations the licensed insurer may not be able to rely on the exemption.
- 26 However, the circumstances surrounding the late notification of the licensed insurer may be taken into consideration.

- 27 Should the licensed insurer be in a position where it cannot rely on the exemption, the Reserve Bank will work with the licensed insurer to set transitional conditions for achieving full compliance with the Act.

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