



# **Conditions of licence and licensing policies**

## **Licensed insurers**

Operational Policy

Prudential Supervision Department

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## A. INTRODUCTION

1. The [Insurance \(Prudential Supervision\) Act 2010](#) (the [Act](#)) empowers the Reserve Bank of New Zealand (the Reserve Bank) to, as part of its functions under the [Act](#), issue licences to persons who apply to carry on insurance business in New Zealand who meet the requirements of the [Act](#) and to undertake prudential supervision of licensed insurers.
2. As required by [section 54](#) of the [Act](#), this document sets out the policies on which the Reserve Bank acts:
  - in determining applications for licence;
  - in imposing, varying, removing, or adding conditions of licence; and
  - in determining requests for approvals of transfers and amalgamations.
3. In addition this document sets out the policies on which the Reserve Bank acts in carrying out other aspects of its prudential supervision role.

## B. PURPOSES OF INSURER LICENSING AND SUPERVISION

4. Insurance licensing policy is aimed at ensuring that only insurers of appropriate resource and financial strength, that can provide evidence of their ability to comply with all prudential requirements relating to matters to which the Reserve Bank is required to have regard when assessing an application for licensing, are able to become licensed insurers. Subject to the [Act](#), impediments to the entry of new licensed insurers are kept to a practical and reasonable minimum in order to maintain competition in the insurance sector and choice for consumers.
5. The Reserve Bank carries out its insurer licensing and supervision functions for the purposes of:
  - promoting the maintenance of a sound and efficient insurance sector; and
  - promoting public confidence in the insurance sector.
6. The purposes are achieved by:
  - establishing a system for licensing insurers; and
  - imposing prudential requirements on insurers; and
  - providing for the supervision by the Reserve Bank of compliance with those requirements; and
  - conferring certain powers on the Reserve Bank to act in respect of insurers in financial distress or other difficulties.

7. In achieving the purposes of this [Act](#), the Reserve Bank must take into account the following principles that are relevant to the performance of functions or duties imposed, or the exercise of powers conferred, on the Reserve Bank by the [Act](#):
- the importance of insurance to members of the public in terms of their personal or business risk management:
  - the importance of maintaining the sustainability of the New Zealand insurance market:
  - the importance of dealing with an insurer in financial distress or other difficulties in a manner that aims to:
    - adequately protect the interests of its policyholders and the public interest; and
    - ensure that any failure, or possible failure, of the insurer does not have the potential to significantly damage the financial system or the economy of New Zealand:
  - the importance of recognising:
    - that it is not a purpose of the [Act](#) to eliminate all risk of insurer failure; and
    - that members of the public are responsible for their own decisions relating to insurance:
  - the desirability of providing to the public adequate information to enable members of the public to make those decisions:
  - the desirability of consistency in the treatment of similar institutions (while recognising that the New Zealand insurance market comprises a diversity of institutions):
  - the need to maintain competition within the insurance sector:
  - the need to avoid unnecessary compliance costs:
  - the desirability of sound governance of insurers:
  - the desirability of effective risk management by insurers.
8. The [Act](#) is designed to ensure that all licensed insurers meet a transparent set of prudential requirements. The Act does not provide for a failure-proof regime, nor does it provide an assurance that all insurers are of equal risk.
9. Soundness and efficiency of the insurance sector will be achieved using the powers within the [Act](#), including licensing conditions, disclosure and monitoring requirements, and necessary intervention and distress management action.

10. The Reserve Bank's role, as regulator, ensures a minimum industry standard which is supervised against and aims to minimise rather than to eliminate the potential for licensed insurers to fail. Where situations of distress or exit do occur, the Reserve Bank's role is to ensure, to the extent possible, these are managed in an orderly manner so as to minimise any adverse impacts on policyholders and the wider insurance sector.
11. In carrying out its role as prudential regulator of the insurance sector, the Reserve Bank recognises that, to the extent possible, consistency in treatment of persons carrying on insurance business in New Zealand is important in order to maintain competition within the sector.
12. Subject to meeting the Reserve Bank's supervisory objectives, prudential requirements and monitoring will be applied on a competitively neutral basis that is relatively non-intrusive in nature, to minimise compliance costs on insurers and unnecessary regulatory intervention.

## C. ENTITLEMENT TO LICENCE

13. The purpose of licensing is to ensure that insurers are "fit for business" by demonstrating that they have the capacity to manage the business they undertake and to identify and manage their risks effectively, and that they have sufficient financial strength. There is no upper limit on the number of licensed insurers.
14. The Reserve Bank will, to the extent possible, apply consistent treatment to both locally incorporated applicants and branches of overseas applicants at the time of licensing and on an on-going basis. This approach may incorporate a degree of variation to reflect the diversity of products offered by insurers and consequent need for differential prudential requirements for each class of insurance business may be required. This approach will also have regard to home jurisdiction supervisory recognition as permitted under the Act where recognition may be given to an overseas applicant's home jurisdiction regulatory requirements in certain areas.
15. Certain small insurers that were carrying on insurance business in New Zealand at the date the Act came into force, and as defined under the [Insurance \(Prudential Supervision\) Regulations 2010](#) (the [Regulations](#)), or are friendly societies, are exempted from certain licensing and on-going requirements. This exemption recognises that compliance costs may be onerous for existing small insurers.
16. [Section 19\(1\)](#) of the [Act](#) requires the Reserve Bank to satisfy itself as to the following matters when assessing entitlement to a licence:
  - a. the applicant holds a current financial strength rating that complies with [section 60](#) (unless a rating would not be required immediately after the issue of a licence as a result of the application of [section 60\(2\)](#));
  - b. the applicant has the ability to carry on its business or proposed business in a prudent manner;

- c. the applicant has the ability to comply with [subpart 2](#) and the [Regulations](#) (solvency);
- d. in case of an applicant who carries on, or proposes to carry on, business as a life insurer, the applicant has the ability to comply with [subpart 3](#) and the [Regulations](#) (statutory funds);
- e. the applicant has the ability to comply with the proposed conditions of licence (if any);
- f. the applicant holds and has the ability to maintain a minimum amount of capital that is specified in an applicable solvency standard;
- g. the applicant has complied with [section 18\(1\)\(a\) and \(b\)](#) and the fit and proper policy that is provided is satisfactory;
- h. the applicant has complied with [section 18\(1\)\(c\)](#) and the risk management programme that is provided is satisfactory;
- i. the applicant's incorporation and ownership structure, ownership, governance structure, and financial strength are appropriate, having regard to the size and nature of the applicant's business or proposed business, including-
  - the size and type of insurance business that is, or is proposed to be, carried out;
  - the size and type of risks that are, or are proposed to be, insured;
- j. in the case of an applicant that is an overseas person-
  - the law and regulatory requirements of the applicant's home jurisdiction that apply to the applicant and relate to the matters specified in [section 19\(3\)](#) are appropriate, having regard to whether that law and those requirement are, in terms of achieving the purposes of the [Act](#), at least as satisfactory as the law and regulatory requirements of New Zealand that relate to those matters and apply to insurers incorporated in New Zealand;
  - the nature and extent of prudential supervision that applies to the applicant and to insurers generally in the applicant's home jurisdiction are appropriate, having regard to whether the prudential supervision is, in terms of achieving the purposes of this [Act](#), at least as satisfactory as the nature and extent of prudential supervision that applies to insurers incorporated in new Zealand
- k. the applicant-
  - is registered under the [Financial Service Providers \(Registration and Dispute Resolution\) Act 2008](#); or
  - complies with [section 13\(a\)](#) of that Act;

- l. the applicant has the ability to comply with the [Anti-Money Laundering and Countering Financing of Terrorism Act 2009](#) (if the applicant is, or will be, a reporting entity under that Act);
- m. the applicant complies with any other prescribed requirements.

## Policies

- 17. The policies the Reserve Bank applies when considering each of the matters above are set out below. Further guidance on a number of areas can be found on the [Reserve Bank's website](#).
- 18. While the policies in this document guide the actions of the Reserve Bank, the Reserve Bank will deal with insurers on a case-by-case basis, subject to the overall framework of the [Act](#). The Reserve Bank is not restricted in departing from the policies in this document, where appropriate.

## D. MATTERS FOR ENTITLEMENT TO LICENCE

### (a) Applicant holds a financial strength rating

- 19. An insurer is required to obtain and subsequently maintain a current financial strength rating from an approved rating agency unless the insurer is:
  - (a) a captive insurer;
  - (b) an insurer where the only kind of insurance business carried on in New Zealand is reinsurance;
  - (c) an insurer that is included in a class of insurers that is the subject of an exemption under [section 238\(1\)\(a\)\(ii\)](#) of the [Act](#) (i.e. small insurers under the [Regulations](#)).
- 20. Approved rating agencies are can be found on the [Reserve Bank's website](#).
- 21. Insurers will only be entitled to a licence if they have a rating at the time of issue of the licence. An indicative rating from an approved rating agency will suffice.

### (b) Carrying on business in a prudent manner

- 22. Applicants for licence must refer to the Guidelines for [Carrying on Business in a Prudent Manner](#) available on the [Reserve Bank's website](#). In assessing the ability of an applicant to carry on business in a prudent manner, the Reserve Bank is required to confine its consideration to the matters set out in [section 20\(2\)](#), as elaborated in paragraphs 23 – 39 below.

## **Financial and human resources**

### *Financial resources*

23. In assessing whether an applicant has appropriate financial resources the Reserve Bank may take into account the strength of the parent and whether any parental support is available. The consideration around parental support may not necessarily require a formal arrangement.
24. The Reserve Bank will also consider any capital buffers over the minimum solvency and capital requirements. The controls to manage financial risks should be appropriate given the strength of governance and the likelihood of parental support. Other factors the Reserve Bank may take into account include the quality of capital and the liquidity position of the applicant.

### *Human resources*

25. The Reserve Bank must also be satisfied that the insurer has an appropriate complement of staff with the requisite qualifications and experience to effectively operate its insurance business and to meet its commitments under the [Act](#). Relevant information to submit to the Reserve Bank, at a minimum, includes the insurer's organisational structure chart and details on major outsourcing providers and what activities they are employed in. Persons performing technical roles such as audit and actuarial matters should possess the necessary experience, skill and knowledge required for their role(s) and hold applicable professional qualifications where required.

### **1) Internal controls or proposed internal controls**

26. Insurers are required to satisfy the Reserve Bank that they have internal control functions with the necessary authority, independence and resources to support the various insurance businesses conducted. Internal controls include activities in the areas of information management, legal compliance and audit. Control functions add to the governance checks and balances of the insurer and are a source of support for the insurer's board of directors in the fulfillment of its risk, compliance and control oversight duties.
27. The Reserve Bank must be satisfied that the insurer's procedures for the effective identification and management of operational risk, including internal audit and qualitative reviews of underwriting and claims, are appropriately set out in its risk management programme. The Reserve Bank requires the directors to attest to the adequacy of the insurer's internal controls for the purpose of ensuring compliance with the [Act](#).
28. Where the insurer intends to operate in areas where it lacks experience or where the Reserve Bank has concerns regarding the adequacy of the insurer's internal controls, the Reserve Bank may require the insurer to obtain a report on the adequacy of systems and controls from an independent party.

## **2) Size and type of insurance risk**

29. The insurer is exposed to insurance risk in the areas of product design, pricing, underwriting and claims management that may result in insurance claim volumes that are higher than planned. This area is also covered in the risk management programme. The Reserve Bank monitors the insurance risk undertaken and imposes a standard licence condition requiring licensed insurers to notify the Reserve Bank of any new type of insurance risk not covered by the specified solvency standard.
30. The Reserve Bank must also be satisfied that the size and types of insurance risks are appropriate to the insurer's financial position and ability to handle them, and the capital requirement associated with each class of insurance business offered by the insurer is determined and reported in accordance with the requirements of the applicable solvency standards.

## **3) Reinsurance arrangements**

31. The insurer is required to provide the Reserve Bank information on
  - (a) its reinsurance strategy, including how it uses reinsurance to reduce its gross exposures;
  - (b) the reinsurer selection process and on-going management of associated credit risk; and
  - (c) its compliance with the contractual terms of its reinsurance arrangements.
32. The Reserve Bank must also be satisfied that the capital requirement associated with the potential risk of losses arising from failure to fully recover on reinsurance contracts, including losses due to reinsurer failure and contract dispute, is determined and reported in accordance with the reinsurance risk capital charge calculation within the applicable solvency standard(s).

## **4) Non-insurance business**

33. Non-insurance business involves activities undertaken for third party customers that do not involve the bearing of risk under a contract of insurance.
34. There is no restriction on the types of business that can be offered by an insurer under the [Act](#). However, insurers are required to provide the Reserve Bank with a description of the nature and size of non-insurance business they conduct or intend to conduct, including details of business conducted via separately incorporated entities.
35. Where material non-insurance business is conducted by the insurer, the accuracy and integrity of capital adequacy measures, and the meaningfulness and comparability of solvency disclosures may be materially impaired. The Reserve Bank must be satisfied that non-insurance business is identified and its financial treatment complies with the regulatory requirements within applicable solvency standards.

36. Where the non-insurance business will be material relative to the total activities of the insurer, the Reserve Bank may require the insurer to quarantine these activities into a separate legal entity so as to not risk undermining the insurance business.

**5) *Related party transactions***

37. An insurer must identify and manage related party risk exposures in accordance with the procedures set out in its risk management programme. The Reserve Bank must be satisfied that related party transactions are identified and that their financial treatment complies with the regulatory requirements within applicable solvency standard(s).

38. In relation to security interests, the Reserve Bank policy is that licensed insurers should not grant security interests in favour of creditors or other entities.

**6) *Any other prescribed matters***

39. The [Act](#) empowers the Reserve Bank to prescribe, by regulation, other matters which it may consider under the heading of “Carrying on Business in a Prudent Manner”. The Reserve Bank will make regulations where it deems it necessary.

**(c) Ability to comply with Subpart 2 (solvency requirements)**

40. [Subpart 2](#) includes matters relating to the requirements imposed by the solvency standard, including financial condition report and solvency capital. It also provides for risk management, matters relating to actuarial review, and supply of financial statements to the Reserve Bank.

*Solvency margin*

41. Solvency calculations are designed to ensure that an insurer has sufficient assets to meet its obligations to its policyholders and creditors under a range of adverse circumstances.
42. The solvency standards issued in accordance with the [Act](#) take a risk-based approach when determining the amount of capital an insurer must hold. The solvency standards provide a basis for calculating capital on an individual basis for each insurer.
43. A policy on the amount of capital an insurer will hold to provide a buffer against losses arising from unanticipated events should be included in an insurer’s risk management programme. An insurer’s capital position is reflected through the solvency margin, expressed as a dollar amount, reported to the Reserve Bank. The Reserve Bank may also set a solvency margin by other measures, such as a ratio or percentage. Refer to the Reserve Bank’s [Risk Management Programme guideline](#) for further information on the solvency policy
44. The Reserve Bank has the ability to impose solvency-related conditions of licence. This is discussed further in this document under the heading “Maintaining a solvency margin” including maintaining minimum capital (paragraph 102).

45. The insurer must satisfy the Reserve Bank that it is able to comply and maintain a solvency margin as defined within the applicable solvency standard both on a solo and a group basis, if applicable. When assessing a licensed insurer's ability to comply, the Reserve Bank will take into account the licensed insurer's current position, its track record, and plans to remedy any deficiencies in the near future as long as these plans are credible. If parental support is required to meet the solvency requirements this will be required to be in a binding formal arrangement.
46. The Reserve Bank has issued [solvency standards](#) for different categories of insurance business: life, non-life, captive and life-captive. The calculation of the solvency margin prescribed within a solvency standard is risk-based whereby a minimum amount of capital is required to be held against each of the identified risks relevant to the insurer's insurance business. If the Reserve Bank is not satisfied that the methods and capital charges specified in the solvency standard are appropriate to the risk profile of the insurer, the Reserve Bank has the power to issue a solvency standard to apply to the insurer or to a specified class of insurers.
47. Where an insurer is subject to more than one solvency standard, the minimum capital requirement applicable to the insurer will be the higher, or highest, of the minimum capital requirement amounts within the applicable solvency standards. The minimum capital requirement will not be cumulative.
48. The Reserve Bank acknowledges that for reasons of cost and simplicity an overseas insurer may wish to use the solvency calculation prepared under the law or regulatory requirements of its home jurisdiction. The Reserve Bank may exempt an overseas insurer from compliance with the prescribed solvency standard or part of a solvency standard subject to satisfying itself that:
  - (a) the overseas insurer is required, under the law or regulatory requirements of its home jurisdiction, to comply with standards or requirements similar to those covered by the New Zealand solvency standard (or part of a solvency standard);
  - (b) the overseas standards and requirements cover the New Zealand business of the overseas insurer and are at least as satisfactory as the New Zealand solvency standard (or part thereof); and
  - (c) the nature and extent of prudential supervision applying to the overseas insurer in respect of the overseas standards and requirements is at least as satisfactory as that applicable to New Zealand incorporated insurers in respect of the New Zealand solvency standard (or part thereof).
49. An overseas insurer granted an exemption from compliance with the prescribed solvency standard or part of a solvency standard will be required to calculate and report its solvency position in accordance with the regulatory requirements of its home jurisdiction. However, the Reserve Bank is empowered, at its discretion, to require an overseas insurer to prepare a solvency calculation in accordance with the applicable solvency standard issued by the Reserve Bank. Discretion in this area may be exercised in certain circumstances including where there are concerns around the solvency position of the licensed insurer and the Reserve Bank wants further information on the insurer.

### *Financial condition report*

50. The [Act](#) provides for solvency standards to include requirements relating to reports about the financial condition of a licensed insurer. Solvency standards require the appointed actuary to prepare a Financial Condition Report for the licensed insurer to be included with its financial statements. This will show the insurer has the ability to comply with the financial condition report requirement.

### *Appointment of actuary and actuarial review*

51. The Reserve Bank will accept that the insurer has the ability to comply with its actuarial reporting obligations an important factor will be where the appointed actuary has met the insurer's fit and proper policy requirements. Having met these requirements it will be taken that the appointed actuary will be able to perform the review required in [section 78](#).

### *Supply of financial statements*

52. When determining whether an insurer has the ability to comply with the financial reporting requirements the Reserve Bank will consider the insurer's past accounts and level of compliance. A history of previous as well as current compliance is likely to be sufficient to satisfy the Reserve Bank of the insurer's ability to comply with the requirements under [section 81](#).

## **(d) Ability to comply with Subpart 3 and regulations (Statutory funds)**

53. The [Act](#) requires a life insurer to have and maintain at least one statutory fund in respect of its life insurance business. The segregation of life insurance business into a statutory fund is designed to better protect long-term life insurance policyholder interests.
54. A statutory fund is a fund established in the records of the life insurer that separates life insurance assets from other company funds and any other statutory funds. All life insurers must meet regulatory requirements in relation to the establishment and maintenance of statutory funds. However, overseas insurers operating in New Zealand through branches may be exempted from compliance with this subpart subject to the Reserve Bank satisfying itself that:
- (a) the overseas insurer is required under the law or other regulatory requirements of the home jurisdiction to maintain a statutory fund (or similar arrangement) in respect of its life insurance business;
  - (b) there is no overseas policyholder preference in relation to payments out of the statutory fund or arrangement; and
  - (c) the nature and extent of prudential supervision that applies in respect of the statutory fund or arrangement of the overseas insurer is at least as satisfactory as that applicable to a statutory fund under [subpart 3](#).

55. Overseas insurers who do not qualify for exemptions will be required to enter legal arrangements satisfactory to the Reserve Bank that ensure assets representing the statutory fund are held in New Zealand and available to a New Zealand liquidator to be applied in accordance with [section 116](#) in the event of the insurer's insolvency.
56. Insurers will only be granted a licence if they can demonstrate substantial progress towards establishing an operable statutory fund, to the extent the Reserve Bank is satisfied they have the ability to comply with the subpart.

**(e) Ability to comply with proposed conditions of licence**

57. The [Act](#) empowers the Reserve Bank to grant a licence to an insurer subject to conditions imposed under [section 21\(2\)](#) of the [Act](#). The insurer must be able to demonstrate the ability to comply with proposed conditions of licence upon licensing and on an on-going basis.
58. The policy relating to conditions of licence is elaborated on in Part E of this document.

**(f) Ability to hold prescribed minimum capital**

59. A minimum capital requirement is imposed on insurers to demonstrate a financial commitment by new entrants and existing insurers within the insurance industry. The minimum capital requirement is not a substitute for a fully calculated risk-weighted capital requirement; rather, it is a minimum capital requirement for insurers; and larger insurers will need to have much greater amounts of capital, commensurate with the size of their operation and nature of their business, as is required under the applicable solvency standard. Small insurers, as defined by the [Regulations](#), may be exempted from the requirement to hold and maintain a minimum level of capital.

**(g) Complied with section 18(1)(a) and (b) and fit and proper policy is satisfactory**

60. The [Act](#) requires insurers to establish and maintain, and take all practicable steps to comply with, a fit and proper policy, which is a policy that governs the qualifications, requirements, and other criteria that a person must satisfy in order to be appointed and to continue to hold a position as a director or relevant officer. Applicants must also provide the fit and proper certificates required by [section 18\(1\)\(a\) and \(b\)](#). [Section 37\(1\)](#) requires licensed insurers are required to provide the Reserve Bank with a fit and proper certificate no later than 20 days after the appointment of a new director or relevant officer. The Fit and Proper Standard sets out the matters that a licensed insurer must take into account when determining a person's fitness and propriety. The [Regulations](#) also impose a requirement for fit and proper reassessments to be conducted at least once in every three-year period to ensure that the person who holds the position remains a fit and proper person. The Reserve Bank has provided guidance on the process an insurer may undertake to determine fitness and propriety of directors and relevant officers, and expands on matters that an insurer must take into account in making this determination. This guidance can be found on the [Reserve Bank's website](#). The Reserve Bank is required to assess whether the fit and proper policy of an applicant is satisfactory. In assessing whether an applicant's fit and proper policy is satisfactory the Reserve Bank will

assess it against the [Act](#) and the [Regulations](#), the Fit and Proper Standard and the Reserve Bank's guidance. Once licensed, an insurer must obtain the Reserve Bank's approval before its fit and proper policy is amended in a material way.

## **(h) Risk management**

61. The [Act](#) requires insurers to be subject to, and take all practicable steps to comply with on an on-going basis, a risk management programme that is considered satisfactory by the Reserve Bank. The Reserve Bank expects the risk management programme to provide it with a good understanding of the insurer's risks, risk appetite and tolerances and how it manages its risks. The governing body and senior management of the insurer are responsible for ensuring that all matters in relation to the risk management programme are complied with. Compliance on an on-going basis is reported through an annual attestation signed by two directors of an insurer (or New Zealand Chief Executive Officer in the case of an overseas insurer) in a form specified by the Reserve Bank.
  
62. The insurer must provide the Reserve Bank a copy of a risk management programme that sets out procedures, documentation and record-keeping it will use for the effective identification and management of all types of risks prescribed in [section 73\(2\)](#) of the [Act](#). The risk management programme must be appropriate to the operations of the insurer taking into consideration the type and size of insurance businesses conducted, the insurer's corporate structure, its funding structure, the market sector in which it operates and its business strategy. The Reserve Bank has provided [guidance](#) on the matters to be considered in developing a risk management programme that would satisfy the requirements of the [Act](#). This [guidance](#) provides insurers with further information of the Reserve Bank's policies in this area and can be found on the [Reserve Bank's website](#). In assessing whether an applicant's risk management programme is satisfactory the Reserve Bank will assess it against the [Act](#) and the [Reserve Bank's guidance](#). Once licensed, an insurer must obtain the Reserve Bank's approval before its risk management programme is amended in a material way.

## **(i) Incorporation and ownership structure**

63. The Reserve Bank has published [guidelines](#) on its website as to its policies in relation to incorporation and ownership.
  
64. The Reserve Bank does not require local incorporation for branches of overseas insurers operating in New Zealand as a condition to be licensed. The Reserve Bank, however, will have regard to any aspects of the law and regulatory requirements in the home country of an overseas insurer which could impact adversely on the operation of the overseas insurer's business in New Zealand. These matters will be weighed against the benefits to be derived from the overseas insurer's presence in the local market. If necessary, the insurer may be required to seek an insurance licence as a locally incorporated insurer in order to provide some degree of insulation from the effects of foreign laws and regulations, or of licensing arrangements in the home jurisdiction.

## **Ownership**

65. The Reserve Bank requires information on owners holding 5% or more of the insurer's voting rights. Where the owner is a legal person, the Reserve Bank may request information on the nature and scope of business, financial soundness and strength of significant owners. The Reserve Bank may also seek information on the owner from relevant overseas regulators if the owner is regulated in other jurisdictions. More information on the Reserve Bank's position can be found in the [Governance guideline](#).
66. At a minimum, the necessary qualities of a significant owner relate to:
- (a) financial soundness; and
  - (b) integrity demonstrated in personal behaviour and in business conduct.
67. If the insurer is operating as part of a group, the insurer must provide information on the group's corporate structure. The Reserve Bank may request details and evidence, if any, of any financial support provided to the insurer (e.g. letter of guarantee) by the parent or any member of the group or any other information (e.g. financial statements) that will assist the Reserve Bank in gaining an understanding of the operation of the parent or the group.

## **Governance structure**

68. An insurer must have sound corporate governance arrangements at the time of licensing and on an on-going basis. The Reserve Bank must be satisfied that the governance structure is able to ensure effective oversight of the insurer's operations taking into consideration the size and nature of its insurance business. The Reserve Bank has provided guidance on the matters to be considered in satisfying the governance structure requirements of the [Act](#) and disclosure requirements to shareholders, policyholders and other stakeholders. This guidance can be found on the [Reserve Bank's website](#). The guidelines provide a standard that will be satisfactory to the Reserve Bank.
69. The guidelines do not apply to branches of overseas insurers operating in New Zealand. Where the insurer is a branch of an overseas person, the Reserve Bank will look to the overseas insurer's New Zealand Chief executive officer (NZ CEO), who may be ordinarily resident in New Zealand (as defined in [section 6\(4\)](#)), to ensure appropriate governance of the branch. Overseas insurers will still require governance arrangements that are satisfactory to the Reserve Bank.
70. In some circumstances, the Reserve Bank may accept as independent an independent director of a parent or sister company. The Reserve Bank's criteria for concurrence are:
- (a) the director clearly has the qualifications and experience to maintain independence;
  - (b) the parent or sister company board should have overall responsibility for the group or oversee significant business activities; and
  - (c) the proposed cross-directorships have a sound business rationale.

71. Where an insurer operates as part of an integrated corporate group the Reserve Bank will not object to the composition of a parent/sister board (which meets the composition requirements) doubling as the board of the insurer.
72. The Reserve Bank also places considerable emphasis on a requirement for directors (or NZ CEO in the case of overseas insurers) to annually certify to the insurer's compliance with all matters required in the [Act](#), the Standards, and other legislation. This policy is intended to emphasise that directors have ultimate responsibility for the on-going viability of the insurer and to strengthen incentives for them to take an active interest in key matters affecting the soundness of the insurer. An on-going certification requirement is therefore imposed on insurers as a standard condition of licence.

### **(j) Applications from overseas person**

73. Under [section 19\(1\)\(j\)](#), an overseas insurer applicant is not entitled to be issued with a licence unless the Reserve Bank is satisfied that the home jurisdiction has a legal, regulatory, and prudential supervision regime that is at least as satisfactory as New Zealand's under the [Act](#). This does not require a detailed matching for equivalence of each of the law and regulatory matters stipulated under [section 19\(3\)](#) but an overall assessment taking into account core standards, as well as those where the overseas jurisdiction has higher standards and those that are considered to be lower.
74. The Reserve Bank will also take into consideration assessments of the home regulator's observance of the International Association of Insurance Supervisors' Core Principles for the Supervision of Insurance (IAIS ICPs) when assessing the equivalence of supervisory regimes. The Reserve Bank will use information available in the home regulator's website (e.g. legislation), International Monetary Fund's Financial System Stability Assessment report on the home regulator's supervisory practices, and third party consultant reports in relation to home jurisdiction law and regulatory requirements provided by the insurer. The Reserve Bank may also communicate with the relevant overseas supervisor to verify the overseas insurer's ability to comply with home regulatory requirements.
75. The Reserve Bank will also consider the level of physical presence in New Zealand the overseas person is proposing as part of its consideration of the licence application.
76. The [Act](#) refers to the NZ CEO and New Zealand Chief Financial Officer (NZ CFO) of an overseas insurer. The definitions in the [Act](#) allow for the relevant officers in these positions to be a person nominated by the insurer and agreed to in writing by the Reserve Bank. The positions of CEO and CFO carry considerable responsibilities under the [Act](#). Overseas insurers will need to demonstrate to the Reserve Bank that the persons occupying these positions have sufficient status within the insurer to be in a position to fulfil these responsibilities.
77. Depending on the nature and extent of an insurer's business in New Zealand the Reserve Bank may allow an insurer to have a non-resident NZ CEO and/or NZ CFO. When considering this the Reserve Bank will take into account:

- (a) the proportion of the insurer's business or proposed business relative to the size of the New Zealand insurance market. The higher the proportion of the New Zealand insurance market an insurer has, or is proposing to have, the less likely the Reserve Bank will be to allow an insurer to have a non-resident NZ CEO and/or NZ CFO;
  - (b) the level and effectiveness of supervision of the NZ CEO and/or NZ CFO from the home jurisdiction of the insurer; and
  - (c) the level of understanding of the New Zealand insurance market held by NZ CEO and/or NZ CFO.
78. The Reserve Bank will also need an assurance that the person will be available to meet with the Reserve Bank in New Zealand if the Reserve Bank so requires.
79. An insurer will need to provide sufficient evidence that its proposed appointed actuary has the appropriate skill and understanding of the New Zealand actuarial standards, as well as the New Zealand insurance market, to be appropriate for the role. The Reserve Bank expects the appointed actuary to be a Fellow of the New Zealand or Australian Societies to ensure there is an appropriate level of knowledge of the New Zealand insurance market.
80. When considering a licence application from an overseas insurer, [section 19\(3\)](#) of the [Act](#) requires the Reserve Bank to have regard to the following law and regulatory matters of the overseas insurer's home jurisdiction –
- (a) the licensing, registration, or authorisation of insurers
  - (b) the supervision of insurers
  - (c) solvency and capital standards that apply to insurers
  - (d) financial reporting, accounting, and auditing standards
  - (e) corporate governance standards
  - (f) matters concerning insurers that are insolvent or otherwise in serious financial difficulties
  - (g) the disqualification of persons from being directors or relevant officers of an insurer.
81. The policies the Reserve Bank applies when considering each of these matters are set out below.

## 1) The licensing, registration, or authorisation of insurers

82. The Reserve Bank will assess the home jurisdiction's requirements in relation to obtaining, keeping and cancelling a licence and other matters specified in [Subpart 1](#) of [Part 2](#) of the [Act](#). Relevant provisions include the authority of the regulator to require insurers carrying on insurance activities to have a licence, set conditions to be issued or to keep a licence and give its written approval before an insurer undertakes a transfer or amalgamation of its insurance business.

## 2) The supervision of insurers

83. The Reserve Bank will assess the home jurisdiction's requirements in relation to supply of information by insurers and other parties, investigations and disclosure of confidential information for the purposes of prudential supervision and other matters specified in [Part 3](#) of the [Act](#). Relevant provisions include the authority of the regulator to obtain any additional information needed from insurers, associated persons and other persons to fulfil its statutory responsibilities. The Reserve Bank will also review the overseas regulator's authority to investigate the affairs of the insurer, including the ability to carry out on-site examination at the insurer's place of business. Conditions to share information with other parties will also be assessed on the basis that this may be critical in a distress or crisis management situation.

## 3) Solvency and capital standards that apply to insurers

84. The Reserve Bank will assess the home jurisdiction's solvency requirements and other matters specified in applicable solvency standards issued by the Reserve Bank. In particular, the Reserve Bank must be satisfied that the home jurisdiction's solvency calculation is risk-based where a minimum amount of capital is required to be held against each of the identified risks relevant to an insurer's insurance business.
85. An overseas insurer that operates a branch in New Zealand that is granted an exemption under [section 59](#) of the [Act](#) will be required to calculate and report its solvency position in accordance with the regulatory requirements of its home jurisdiction. In addition, the solvency standards empower the Reserve Bank (at its discretion and on a case-by-case basis) to require an overseas insurer to report the position of its New Zealand branch operation according to the requirements of the New Zealand standard. This requirement will enable the Reserve Bank, if it considers necessary, to make a direct assessment of the fairness of the home regulator's solvency model available to overseas insurers in comparison with parallel solvency outcomes that would be required of a locally incorporated insurer. Discretion in this area may be exercised in certain circumstances including where there are concerns around the solvency position of the licensed insurer and the Reserve Bank wants further information on the insurer.

#### 4) **Financial reporting, accounting, and auditing standards**

86. The Reserve Bank will assess the home jurisdiction's financial reporting, accounting and auditing standards and other matters specified in [section 81](#) of the [Act](#). Relevant areas would be the frequency of financial reporting to the regulator and the information on financial performance and risk position required in the reports. The Reserve Bank considers actuarial and auditing arrangements to be important given the complex nature of the insurer's financial statements and reliance on the valuation of insurance liabilities disclosed within financial statements.

#### 5) **Corporate governance standards**

87. The Reserve Bank will assess the home jurisdiction's corporate governance standards and other matters specified in the Reserve Bank's guidance which can be found on the [Reserve Bank's website](#). Relevant to the review will be ensuring that the directors have appropriate duties and there is a separation between ownership and management.

#### 6) **Matters concerning insurers that are insolvent or otherwise in serious financial difficulties**

88. The home jurisdiction's distress management regime and other matters specified in [Part 4](#) of the [Act](#) will be assessed by the Reserve Bank. Distress management powers enable a regulator to take necessary corrective action to safeguard policyholders' interests during a period of rapid deterioration in the financial or business condition of an insurer or, for insolvent insurers, provide for an orderly resolution process.

#### 7) **The disqualification of persons from being directors or relevant officers of an insurer**

89. The Reserve Bank will make an assessment of the home jurisdiction's powers to remove and disqualify a director or relevant officer from holding a relevant position and other matters specified in [sections 39 to 41](#) and [222](#) of the [Act](#). In other words the insurer must come from a jurisdiction that has a fit and proper regime.
90. In addition to the above matter, the Reserve Bank will also seek information relating to any policyholder preferences that exist under the law of an overseas insurer's home jurisdiction. That is, in an insurer is liquidated would home country and foreign policyholders have equal entitlement to payments from the liquidator or would home country policyholders have, in substance, a prior claim to payment over foreign policyholders.

#### (k) **Financial Service Providers (Registration and Dispute Resolution) Act 2008**

91. Section 19(1)(k) of the [Act](#) requires an applicant for an insurance licence to either:
- (a) be registered under the [Financial Service Providers \(Registration and Dispute Resolution\) Act 2008](#) (the FSP Act); or
  - (b) comply with [section 13\(a\)](#) of the FSP Act.

92. The FSP Act requires financial service providers, including entities acting as insurers, to be registered. Under [section 48](#) of that Act, financial service providers must be members of a dispute resolution scheme in respect of financial services provided to retail clients.
93. [Section 13](#) of the FSP Act sets out the qualifications for registration as a financial service provider.
94. The Reserve Bank considers that the requirement to comply with [section 13\(a\)](#) of the FSP Act as an alternative to registration under that Act is only intended to apply to insurers starting up an insurance business in New Zealand. An applicant in this position will need to outline when it will be registered and what steps it needs to take to become registered.
95. From 8 September 2013 the Reserve Bank will be recognised under the FSP Act as a Licence Provider and, in accordance with [section 13\(c\)](#) of the FSP Act an applicant will need to be a licensed insurer before qualifying as a Financial Service Provider.

## **(I) Anti-Money Laundering and Countering Financing of Terrorism Act 2009**

96. The Reserve Bank is the responsible authority for the supervision of banks, non-banks depositor takers and life insurers under [section 130\(1\)\(a\)](#) of the [Anti-Money Laundering and Countering Financing of Terrorism Act 2009](#) (AML/CFT Act). The Reserve Bank's document entitled "[Insurance Business Coverage Guideline: AML/CFT](#)" provides guidance to assist businesses that provide insurance to determine their AML/CFT Act obligations.
97. Life insurers are reporting entities that will be monitored for the purposes of the AML/CFT Act. Certain classes of life insurance are exempt from all or part of the AML/CFT obligations in accordance with the [Anti-Money Laundering and Countering Financing of Terrorism \(Exemptions\) Regulations 2011](#).
98. Life insurers that are reporting entities are required to comply with the AML/CFT Act from 30 June 2013. Within a month of this date, life insurers are required to provide the Reserve Bank with:
  - (a) a certification from the insurer's AML/CFT compliance officer appointed under [section 56](#) of the AML/CFT Act that the insurer has established a compliance programme under [section 56](#); and
  - (b) a statement from the AML/CFT compliance officer as to when the first audit report is expected to be completed under [section 59](#) of the AML/CFT Act.

## (m) The applicant complies with any other prescribed requirements

99. The [Act](#) empowers the Reserve Bank to prescribe, by regulation, other matters which it may consider under the heading of “Matters for entitlement to licence”. The Reserve Bank will seek regulations where appropriate cases arise.

## E. CONDITIONS OF LICENCE

100. An insurer may be licensed unconditionally or subject to conditions that the Reserve Bank may consider appropriate to impose under [section 21\(2\)](#). [Section 21](#) of the [Act](#) enables the Reserve Bank to set conditions of licence specific to individual insurers. Such conditions may be necessary to accommodate certain insurer-specific matters which may arise with individual insurers as well as set some general conditions that apply to all, or most, insurers.
101. In terms of [section 21\(2\)](#) of the [Act](#), a licence may be subject to any of the following conditions:
- (a) a condition that relates to any of the matters referred to in [section 20](#) (which relates to carrying on business in a prudent manner), including any matters prescribed by regulations made for the purposes of [section 20\(2\)\(g\)](#):
  - (b) a condition that requires an insurer to maintain a solvency margin in accordance with an applicable solvency standard (including requiring the insurer to maintain a minimum amount of capital in accordance with the standard):
  - (c) a condition that requires a life insurer to maintain solvency margins in respect of the statutory funds of the insurer in accordance with an applicable solvency standard (including requiring the insurer to maintain a minimum amount of capital in accordance with the standard):
  - (d) a condition that requires a specified amount or proportion of the insurer's insurance business to relate to New Zealand policyholders (whether that amount or proportion is defined in terms of premium revenue, amount of insurance liability, a combination of premium revenue and amount of insurance liability, or in any other way):
  - (e) in the case of an insurer that has not yet commenced carrying on insurance business in New Zealand, either or both of the following:
    - (i) a condition that specifies the time period within which the insurer must commence carrying on insurance business in New Zealand:
    - (ii) a condition that specifies an amount of insurance business in New Zealand that the insurer must have within a specified period (whether that amount is defined in terms of premium revenue, amount of insurance liability, a combination of premium revenue and amount of insurance liability, or in any other way):

- (f) a condition that requires the insurer or the directors of the insurer (or both) to certify that any conditions have been complied with (being certification that is given at the time or times and in the manner specified in the condition):
- (g) a condition that requires a certificate given under paragraph (f) to be verified by the appointed actuary or another person specified in the condition (being verification that is given at the time or times and in the manner specified in the condition):
- (h) any other prescribed conditions or conditions that relate to prescribed matters.

102. The policies the Reserve Bank applies when considering each of these matters are set out below.

### **1) Carrying on business in a prudent manner**

103. The Reserve Bank reserves the right to require specific conditions in relation to any of the matters considered in assessing the ability of the insurer to carry on its business in a prudent manner. This may include setting a limit on the extent to which insurers can perform non-insurance business, disallowing related party exposures in excess of an agreed threshold or particular types of related party transactions, specifying the size and types of insurance businesses that can be carried on, or requiring third party assessment on the appropriateness of internal controls or reinsurance arrangements of the insurer. In general, specific conditions may be imposed where there is a potential threat to the capacity of the insurer to meet its obligations to policyholders or where the insurer lacks experience in certain businesses proposed to be undertaken.

### **2) Maintaining a solvency margin including maintaining minimum capital**

104. All insurers must have sufficient financial strength demonstrated by compliance with a solvency margin within an applicable solvency standard. The Reserve Bank may impose a higher amount of solvency margin or set a level of solvency margin by means of a ratio, percentage of another amount, or in any other way, by way of a condition of licence in order to mitigate any increased risk where individual circumstances warrant.

### **3) Solvency margin in respect of statutory fund**

105. The solvency standard for Life Insurance Business currently requires a life insurer to calculate a solvency margin separately for each Life Fund. The Reserve Bank may impose a higher solvency margin or set a level of solvency margin by means of a ratio, percentage of another amount, or in any other way, by way of a condition of licence in order to mitigate any increased risk for certain life insurance statutory funds.

106. We have decided to adopt the following principles in respect of the calculation of the solvency margin for a statutory fund:

- (a) the purposes of promoting a sound and efficient insurance sector, as well as to promote public confidence in the insurance sector;

- (b) in general, solvency related conditions are to be used where the standard treatment is insufficiently conservative, and are not to be used to substantially reduce the conservatism of the standard treatment; and
- (c) where three or more insurers are in similar circumstances that the standard treatment does not adequately address the increased risks they face relative to other insurers, there is would usually be a preference to amend relevant solvency standards or create a new solvency standard, where this is possible.

#### **4) Amount or proportion of an insurer's insurance business to relate to New Zealand policyholders**

107. The Reserve Bank will prevent New Zealand being used as a licensing regime of convenience for insurers that may wish to obtain a licence in New Zealand where a material reason for doing so is international regulatory arbitrage.

#### **5) An insurer that has not yet commenced carrying on insurance business in New Zealand**

108. The [Act](#) empowers the Reserve Bank to impose conditions on an insurer that has not yet commenced carrying on insurance business in New Zealand as follows:
- (a) a condition specifying the time period within which the insurer must commence carrying on insurance business in New Zealand:
  - (b) a condition specifying a minimum amount of insurance business that the insurer must have written within a specified period (whether that amount is defined in terms of premium revenue, amount of insurance liability, a combination of premium revenue and amount of insurance liability, or in any other way).
109. These conditions are intended to demonstrate commitment of the insurer to the New Zealand insurance market and so as to avoid latent insurers in the market. Setting conditions also enables the Reserve Bank to cancel the licence granted under [section 30\(1\)\(a\)\(iii\)](#) of the [Act](#) if this is necessary.

#### **6) Certification that conditions have been complied with**

110. The Reserve Bank relies on the insurer and the directors of the insurer (or both) to certify compliance with all licensing matters under the [Act](#), the [Regulations](#), and other requirements imposed on the insurer under other enactments. As a standard condition the Reserve Bank requires the directors of the insurer to certify to specific licensing matters in addition to the annual certification statement required under the [Act](#) in the event of changes or potential changes to the structure, operation or business of the insurer that have been raised to or identified by the Reserve Bank.

## **7) Certification to be verified by the appointed actuary or another person specified in the condition**

111. The Reserve Bank may impose a condition requiring the appointed actuary or another person to verify specific information provided to the Reserve Bank by the insurer, given the importance of actuarial methodologies and other technical calculations used to attest to compliance with applicable solvency standards and under the rules relating to statutory funds. Failure to apply the requisite standards under the [Act](#) could lead to the inability of the Reserve Bank to promptly identify insurers in distress.

## **8) Any other prescribed conditions or conditions that relate to prescribed matters.**

112. The [Act](#) empowers the Reserve Bank to prescribe, by regulation, other matters which it may consider under the heading of “Conditions of Licence”. Currently there are no such further matters prescribed.

## **F. BANK MAY MODIFY CONDITIONS OF LICENCE**

113. [Section 22](#) of the [Act](#) empowers the Reserve Bank to vary, add to, or remove conditions of licence at any time after the licence is issued. Where there is a change in supervisory policy, the circumstances of an insurer have changed or the Reserve Bank otherwise considers it necessary the Reserve Bank may vary, add to, substitute or remove conditions of licence.
114. In accordance with the [Act](#), insurers will be given at least seven days’ notice of a proposed change, which will include a statement of the Reserve Bank’s reasons. Insurers will have a reasonable opportunity to make submissions before any change is made to conditions of licence and the Reserve Bank will have regard to any submissions made by affected insurers before it applies any such changes.
115. At the discretion of the Reserve Bank, transitional arrangements may be incorporated in an insurer’s conditions of licence where a change in policy could have substantial effect on the insurer.

## **G. TRANSFERS AND AMALGAMATIONS**

116. A transfer or amalgamation of all or part of a licensed insurer’s business requires Reserve Bank approval. The Reserve Bank considers whether the policyholders of the licensed insurer(s) will be disadvantaged by the transaction. This will include an evaluation of any potential financial impacts upon the policyholders and the financial strength and integrity of the new owner(s), as well as requiring appropriate actuarial report(s).
117. The onus is on the licensed insurer(s) to demonstrate to the Reserve Bank that the policyholders of the licensed insurer(s) will not be disadvantaged by the transfer or amalgamation. This involves the preparation of actuarial report(s). The licensed insurer(s) must also provide the Reserve Bank with a summary of policyholders’ views on the proposed transfer or amalgamation.

118. The Reserve Bank may allow for a joint application and actuarial report to be filed by the insurer(s). The Reserve Bank may require an independent actuarial review to be completed. The [Act](#) allows the Reserve Bank to arrange for an independent actuarial report on a proposed transfer or amalgamation. This report may be requested after the Reserve Bank has reviewed the actuarial report(s) provided on behalf of each licensed insurer. A licensed insurer and every other party to the proposed transaction is required to provide the actuary with information requested in order to assist with preparation of the report.
119. The Reserve Bank has released a [guideline](#) on transfers and amalgamations to assist licensed insurers with their applications.