

INSURANCE INDUSTRY LICENSING UPDATE

OCTOBER 2013

GENERAL UPDATE

The licensing process, which was completed by the 9 September 2013 licensing deadline, resulted in 96 full licences being issued. Of these, 87 were to insurers previously granted a provisional licence. Three insurers are continuing under provisional licences, as permitted under certain prescribed circumstances.

The licensing process has been accompanied by rationalisation of the sector, including 15 transfers of insurance business between insurers, restructuring activity and insurers exiting the market.

The Reserve Bank's insurance role also includes oversight of matters that relate to unlicensed entities. Only licensed insurers are permitted to use certain words in their name, such as 'insurance' and 'underwriter' unless the person is identified as not being subject to the prohibition, such as loss adjustors, promoters and some industry associations. This is covered in sections 219-220 of the Insurance (Prudential Supervision) Act 2010 (the Act).

Our focus is now shifting to implementing a supervisory structure in line with the Reserve Bank's risk-based approach to

prudential supervision. This process will include defining reporting requirements for licensed insurers.

With the licensing process now complete, compliance breaches are being dealt with more stringently.

ANNUAL FINANCIAL REPORTING

The solvency standards require the annual solvency returns to be accompanied by a certification, auditor's report, financial condition report and financial statements be provided to the Reserve Bank within 5 months and 20 days of the balance date. It is likely that some of these items will be ready earlier than others and well ahead of the 5 months and 20 days deadline. It would be helpful for the Reserve Bank to be provided with the solvency return and any other components of the reporting as soon as they are available. We will assess the 'accompanied by' requirement in terms of having received all required components of the return within the 5 months and 20 days deadline. The solvency standards do not require all components to be provided at the same time.

S78 REPORTS

The Reserve Bank again wishes to draw insurers' attention to section 79 of the Act. This section requires the appointed actuary's report under section 78 to accompany the auditor's report on the financial statements when the auditor's report is registered with the Companies Office or included within a company's annual report. The appointed actuary's report is therefore a publicly available document, similar in concept to the auditor's report.

FINANCIAL REPORTING CHANGES

Insurers will be aware of changes that will affect financial reporting timeframes.

The [Financial Reporting Bill](#) is described as being intended to replace the Financial Reporting Act 1993, and seeks to amend about 80 other Acts. Schedule 2 of the Bill details the consequential amendments to the Insurance (Prudential Supervision) Act 2010.

The Reserve Bank is reviewing how this impacts current reporting requirements, existing references to timeframes in the Act and general alignment of reporting requirements. Further information will follow.

SOLVENCY DISCLOSURES

The Reserve Bank's solvency standards say that a licensed insurer must disclose the current solvency margin in its annual financial statements and on its website (if

any). The solvency margin disclosed should be the margin determined as at the balance date or interim accounting period.

The solvency margin is the excess of Actual Solvency Capital over the Minimum Solvency Capital, as defined within the applicable solvency standards, expressed as a dollar amount.

For overseas insurers that have been granted an exemption from the Reserve Bank's solvency standards, the New Zealand financial statements should include the equivalent of the solvency margin for the legal entity, determined by the home jurisdiction's regulatory capital requirements.

SOLVENCY RETURNS

The solvency return form (i.e. spreadsheet) is currently being reviewed, and the Reserve Bank is also considering issuing a guide to completing the solvency return, in order to reduce the need for questions. The review of the solvency return form includes bug fixes, updates for new solvency standards issued since the form was created and amendments to existing solvency standards; improving useability, and improving the quality of information provided. Changes in solvency standards or guidance for interpreting solvency standards are both out of scope for this review. The actuarial community has been invited to provide input and to include feedback from insurers/other users where applicable. We anticipate finalising the review of the solvency return form in late 2013.

FIT AND PROPER CHANGES

The Reserve Bank continues to see examples of fit and proper certificates that are not meeting the minimum requirements. The requirements were laid out in the July 2012 update, then in August 2012 the Reserve Bank's Fit and Proper Certificate Guideline was updated and an email issued advising of this.

Licensed insurers must provide a fit and proper certificate for new directors (except for exempt overseas insurers) and relevant officers within 20 working days after appointment, to comply with section 37(4) of the Act.

The fit and proper certificate needs to contain a summary of information that is relevant to consideration of whether the person satisfies the licensed insurer's fit and proper policy. The Act specifies in section 37(4)(c) that the certificate must state that the directors have considered the fitness and propriety of a person after due inquiry by them. This means that a licensed insurer will need to obtain sufficient information to establish that the individual is fit and proper for the designated role and that there are no issues of a sufficiently serious nature to cause the licensed insurer not to appoint the individual. This requires more than accepting information provided at face value and responsibility rests with the insurer to carry out appropriate checks to verify the accuracy and completeness of information provided. The level of inquiry should be sufficient for the directors to be prepared to give the certification and will depend on what is reasonable in the circumstances.

A copy of the relevant officer's or director's curriculum vitae should be provided with the fit and proper certificate.

POLICY INITIATIVES

The Reserve Bank continues to work with the insurance industry regarding insurers' measurement of solvency, by improving the Reserve Bank's solvency standards in certain areas. A summary of our work on solvency standards follows:

Quality of capital held by insurers.

Useful input on the proposals, set out within our consultation paper, has been received from industry about how the qualifying criteria for capital instruments could be revised in some areas. A summary of submissions received will be published shortly on the Reserve Bank's website and the Reserve Bank intends to update the solvency standards in due course (see below).

Financial reinsurance. Following industry submissions on our consultation paper in this area, the Reserve Bank intends to issue a second consultation paper during October 2013. This will include a summary of submissions received on the first consultation paper.

Guarantees and off-balance sheet exposures.

A summary of submissions received on this consultation paper will be published shortly on the Reserve Bank's website. The Reserve Bank may consult further with industry on aspects of its proposals.

Revised solvency standards. Once the above consultation processes are complete, we intend to also update our solvency standards for the necessary revisions in respect of the quality of capital, financial reinsurance, guarantees and off-balance sheet exposures. Revised solvency

standards are expected to be published during Q1 of 2014.

Upcoming initiatives. The Reserve Bank plans to consult the industry in relation to the level at which related products are grouped for life solvency calculation purposes, and a review of the treatment of taxation within the solvency standards is planned. Dialogue is also under way between the Reserve Bank and the New Zealand Society of Actuaries about the calculation methodology for the catastrophe risk capital charge within the non-life insurance solvency standard.

TRANSFERS

For proposed transfers, the Reserve Bank is required to approve or decline an application and in doing so have regard to the interests of policyholders. Some insurers have had unrealistic expectations of the time it takes to obtain an approval. This appears to be due to the Act's requirement for a decision to be made within 20 working days, without sufficient appreciation of the extent of full and finalised information needed to complete a transfer application (which starts the 20 working day clock). Typically the iterations of information for a proposed transfer result in extending the duration of assessments to months rather than weeks.

INSURANCE (PRUDENTIAL SUPERVISION) AMENDMENT ACT 2013

In the last couple of updates we outlined some changes being made to the legislation. The Insurance (Prudential Supervision) Amendment Act 2013 received

Royal Assent on 3 September 2013 and the Insurance (Prudential Supervision) Act 2010 has now been reprinted as at 4 September 2013. See the attached [link](#) for a current copy of the Act.

RBNZ WEBSITE UPDATED

In June 2013 the Reserve Bank's [website](#) was re-designed to better meet user needs. The new site was launched during the weekend of 22-23 June 2013. As well as improving the look of the website, the re-design was intended to result in better site structure and page layouts. The changes are based on results and feedback from extensive user testing. The site is also being optimised for use on mobile phones and tablet computers.

Some URLs changed during the re-design so if you had [rbnz.govt.nz](#) pages bookmarked, you may need to add new URLs to your list.

http://www.rbnz.govt.nz/regulation_and_supervision/insurers/

You can read more about the changes [here](#), or if you have any questions please email web@rbnz.govt.nz.

This newsletter is intended to provide an update on licensing and related matters. It is not policy or legal advice in itself and should not be interpreted in isolation.

If you are an insurer and have any questions, please call your assigned supervisor or send an email to insurance@rbnz.govt.nz.