



Insurance Industry Update

March 2014

GENERAL UPDATE

In the December 2013 Industry Update we advised that our focus was on implementing business-as-usual processes and designing a supervisory framework.

On 19 February 2014 the Reserve Bank delivered a speech to the Finity Consulting Directors Forum in Auckland. The main focus of the speech was to describe the Reserve Bank's approach to supervising licensed insurers as well as touching on the recent licensing effort. It also explained -

- the philosophical approach to insurance regulation and supervision,
- what insurers and their directors can expect from the Reserve Bank as supervision is implemented,
- the characteristics the Reserve Bank is looking for in boards and directors.

The speech explained that it is still early days in the implementation of the legislation, and that the supervisory framework and processes to support the business-as-usual supervisory model is a work in progress. Three key messages were made at the conclusion, as follows: -

1. The approach will be risk-based, which will see focus of limited resources on

those insurers that are large and/or at higher risk of failure,

2. That strong boards and governance are seen as critical to the success of the industry,
3. An early supervisory thematic focus on governance and risk management is expected.

The Reserve Bank will keep the sector informed of developments and seek input along the way.

A full copy of the speech is available [here](#).

RELEVANT OFFICER / DIRECTOR - CHANGES

In the December 2012 Industry Update we highlighted the need for insurers, whether or not they are exempt from providing a section 37 fit and proper certificate for new directors, to notify the Reserve Bank in a timely manner of changes of Relevant Officers and Directors.

There are still some examples of this not happening.

Notification can be as simple as an email to the insurer's designated supervisor.

OVERSEAS INSURER GOVERNANCE

We were recently asked to clarify the applicability of the [Governance Guidelines](#) to New Zealand branches of overseas insurers, in particular whether the inclusion of a corporate governance statement is expected in the annual report. This is mentioned in paragraph 24 of the Governance Guideline.

For overseas insurers that are exempt from the section 37 requirement to provide a fit and proper certificate for new directors, the exemption is solely from the requirement to provide fit and proper certificates for new directors only. The exemption does not apply to other governance matters. New Zealand branches of overseas insurers are still expected to disclose their governance structures as per the Governance Guidelines.

PUBLICATION OF FINANCIAL STRENGTH RATINGS

Under section 54A of the Insurance (Prudential Supervision) Act 2010 (the Act) the Bank is required to maintain a public register of licensed insurers which must include the current financial strength rating (unless the insurer is not required to have such a rating). The Bank must take all reasonable steps to ensure that the information is available to members of the public at all reasonable times.

Section 63 of the Act requires insurers to notify the Reserve Bank of changes to a rating or a credit watch warning. Many insurers also routinely notify us when a

rating has been reviewed, regardless of whether the rating has changed or not. If you are not already doing this, please let your supervisor know the date and outcome of each rating review and also send the Reserve Bank a copy of the rating report, if one has been issued.

While the date of the financial strength rating is not published on the website, the review date is captured in our tracking system to assist in the follow-up and to ensure that we meet our obligations to publish up-to-date information.

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. An update of our work on the solvency standards will follow in subsequent Insurance Industry Updates.

The Insurance Industry Update is intended to provide a briefing on licensing, supervision 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.