



# Insurance Industry Update

June 2014

The purpose of the Insurance Industry Update is to keep licensed insurers informed of current initiatives and to provide clarification on licensing, supervision, compliance requirements and related matters. The update is prepared by the Reserve Bank's Insurance Oversight Team. It is not policy or legal advice in itself and should not be interpreted in isolation.

## General update

Work is progressing on a number of key projects and initiatives, some of which are covered in this update:

- Financial reporting changes
- Risk governance review
- Insurance data collection
- Fit and proper reassessments
- Policy initiatives

Our focus is now fully on designing a risk-based framework for business-as-usual supervision. This is a significant piece of work and requires careful consideration of many factors and related work streams. The sector will be kept informed of developments.

The Reserve Bank published its latest six-monthly Financial Stability Report (FSR) in May 2014. The FSR assesses and reports on the soundness and efficiency of the New Zealand financial system. It includes commentary on the insurance sector which may be of interest. Reports can be

accessed from this [link](#) or via the Financial Stability Report page of the Reserve Bank's website.

## Financial reporting changes

From 1 April 2014, several significant changes were made to legislation affecting financial reporting requirements. These included repealing the Financial Reporting Act 1993, bringing into force the Financial Reporting Act 2013, and making material amendments to the Financial Markets Conduct Act 2013 and the Companies Act 1993. The Insurance (Prudential Supervision) Act 2010 (IPSA) was amended as a result of this, as were the associated regulations. In addition, an earlier amendment in September 2013 to section 81 of IPSA reduced reporting timeframes for interim financial information.

These changes will affect licensed insurers. In general, for annual balance dates from 31

March 2015, financial statements (for insurers not exempt from section 81 of IPISA) will be required to be given to the Reserve Bank within 4 months of balance date. The same 4 month timeframe already applies to interim financial information.

In addition to the requirements of section 81 of IPISA, the Reserve Bank imposes reporting timeframes on insurers in a number of different ways:

- Solvency standards set out timeframes for the provision of annual and half-yearly solvency returns and associated financial information.
- Solvency exemptions under section 59 of IPISA specify timeframes for demonstration of solvency on a home basis, and for the provision of a Financial Condition Report.
- Conditions of licence impose a certification requirement in respect of annual and half-year balance dates.

The Reserve Bank is considering aligning reporting timeframes for its own requirements, to the recent legislative changes. No decisions have yet been made in this area. Any change recommended to solvency standards would be consulted on as part of the planned wider consultation on solvency standards mentioned elsewhere in this update. Proposed changes to conditions of licence would also be subject to consultation with each individual insurer. If a decision is taken to align the reporting dates, it is likely that this would be phased in for insurers to coincide with the

application of the new legislative reporting timeframes.

In addition to considering reporting timeframes, the Reserve Bank is reviewing other changes to the financial reporting legislation, to revise any of its documentation as required. For example, where documents refer directly to the Financial Reporting Act 1993, this will need to be updated.

### **Insurance data collection**

The Reserve Bank is establishing a regular insurance data collection and reporting system. This is required for efficient prudential supervision of insurers and monitoring and analysis of developments at the sectoral level. Publication of some insurance statistics will occur late in 2015.

The design of an insurer return and reporting of key information is well underway. The design will take into account the Insurance (Prudential Supervision) Act 2010 and Regulations, and be appropriate to the New Zealand industry.

We intend to consult on a proposal around August 2014. There will be some explanatory seminars by the Reserve Bank during the consultation. Depending on the feedback there may be further consultation before requirements are finalised. The aim is for implementation in 2015 and we plan to have a practice submission by insurers before the requirements come into effect.

## Risk governance review

In February the Reserve Bank announced in a speech<sup>1</sup> that it will undertake a thematic review of the quality of risk governance across the sector.

The objectives of the review are to:

- assess the quality of risk governance within a sample of licensed insurers;
- gauge the overall quality of risk governance amongst licensed insurers based on the sample assessment;
- use the information to provide material for supervisors for follow up; and
- provide feedback to the sector.

The review will be in four parts:

1. selected insurers will be issued a notice under section 121 of IPISA which will list the information required. Examples of information we will ask for include minutes of Risk Committee meetings (or the equivalent covering risk governance) and copies of reports provided to the Board from that committee;
2. desk-based review of the material collected;
3. meetings with the Chair of the Risk Committee (or equivalent committee) and a separate meeting with the CEO, Risk Manager (or equivalent) and the primary contact person. We plan to hold these meetings between July and November this year; and
4. feedback on the findings.

Reflecting our risk-based approach, the

review will include the top 10 locally incorporated insurers (by gross written premium) and up to a further 10 insurers comprising different types of insurers to get representation across the sector.

The sampling approach is being used so that the review is meaningful in terms of coverage and manageable. When a sampling approach is taken again in future, we will take into consideration insurers that have already been reviewed as well as considering the inclusion of insurers, from a risk-based perspective.

Naturally, insurers will want to know as soon as possible whether they have been selected and what is involved. Selected insurers will be contacted with further detail in the coming weeks.

## Fit and proper reassessments

Regulation 6 of the Insurance (Prudential Supervision) Regulations 2010 states that the fit and proper policy of an insurer must require fit and proper reassessments of each director and relevant officer to occur at least once in every 3-year period.

The Reserve Bank expects that reassessments should be comprehensive enough for the board of directors to be satisfied that the director or relevant officer remains a fit and proper person to hold the position. The Reserve Bank does not consider a self-assessment to be sufficient to meet the requirement.

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<sup>1</sup> Dean, R on behalf of Brady P (2014) 'The Reserve Bank's approach to supervising insurers, and the role of directors', speech to the Finity Consulting Directors Forum, 19 February 2014  
[http://www.rbnz.govt.nz/research\\_and\\_publications/speeches/2014/5633005.html](http://www.rbnz.govt.nz/research_and_publications/speeches/2014/5633005.html)

Please note that fit and proper reassessments by a licensed insurer do not of themselves trigger a requirement to provide an updated section 37 certificate to the Reserve Bank.

During the course of reassessments, or at any time, if a question arises about the fitness and propriety of a director or relevant officer, then the Reserve Bank expects to be advised promptly. Should the person remain in the role a rationale is to be provided to the Reserve Bank from the directors as to why the person remains fit and proper.

The Reserve Bank can at any time, by written notice, request that a new section 37 certificate be provided or conduct its own inquiry into the fitness and propriety of a director or relevant officer.

## Policy initiatives

The Reserve Bank continues to work on improving and clarifying the Reserve Bank's solvency standards in a number of areas, many of which stakeholders were consulted on over the last year or so.

These consultations will result in changes to the solvency standards, and the Reserve Bank is of the view that an efficient process would be to consult stakeholders on a consolidated set of revised solvency standards.

We intend to undertake a consultation on the consolidated revision in the fourth quarter of 2014.

The draft consolidated solvency standards will include:

- revisions to the definition of capital instruments held by insurers;
- new requirements for financial reinsurance;
- treatment of guarantees; and
- other minor solvency and drafting issues.

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