



Insurance Industry Update

December 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

It has been another very busy year for the Insurance Oversight team. As the year draws to a close, momentum remains high on a number of key projects and initiatives that are in progress.

This update provides further detail on the following items:

- Policy initiatives
 - Revised solvency standards
 - Variable annuities consultation
- Licence amendments
- Insurer data collection
- Risk governance review
- Section 78 reports
- Financial Strength Rating reviews

In addition, steady progress is being made on the development of the supervisory

framework for business-as-usual supervision. Further information will be provided on this during 2015.

Engagement from insurers has remained high during 2014 and we appreciate the efforts made to assist the Reserve Bank in fulfilling its obligations.

The Insurance Oversight Team would like to take this opportunity to wish you all a very Merry Christmas and a safe and happy New Year. We look forward to working with the industry in 2015.

Policy initiatives

Revised solvency standards

On 17 December 2014 the Reserve Bank issued revised versions of the following solvency standards:



- Solvency Standard for Life Insurance Business;
- Solvency Standard for Non-life Insurance Business;
- Solvency Standard for Non-life Insurance Business in Run-off;
- Solvency Standard for Captive Insurers Transacting Non-life Insurance Business; and
- Solvency Standard for Civic Assurance.

The revised standards incorporate a number of changes that were consulted on as a package in September 2014. The main substantive changes are in respect of the following areas: the solvency treatment of reinsurance; revisions to the definition of capital; and the solvency treatment of guarantees. The revised standards also incorporate a number of amendments aimed at clarifying the application of the solvency standards, updating the solvency standards to take account of other legislative changes and enhancing disclosure requirements.

The revised standards incorporate changes made since the September 2014 consultation version. These changes are set out in the Reserve Bank's Response to submissions: Solvency Standard Reissue 2014. This is available on the New Regulatory Initiatives page of the Reserve Bank website at this [link](#).

The new standards commence on 1 January 2015, except for certain provisions relating to reinsurance. Conditions of licence will be amended throughout 2015 so

that individual insurers will be required to calculate a solvency margin under the revised solvency standards as at and from their 2015 balance date. Insurers will continue to be subject to the existing standards until that time.

The Solvency Standards for Non-life Insurance Business – AMI Insurance Limited and Captive Insurers Transacting Life Insurance Business have been revoked.

Variable annuities

The Reserve Bank has released a summary of submissions in response to feedback it has received from the recent consultation. The summary of submissions includes a near final set of requirements. Those requirements will be formerly incorporated into the Reserve Bank's solvency capital requirements in the first quarter 2015.

Licence amendments

As mentioned above, the reissued solvency standards will largely become effective from 1 January 2015. These will need to be applied to individual insurers by modifying conditions of licence for insurers subject to Reserve Bank solvency standards. In addition, changes are being made to reporting and disclosure timeframes, which will affect all insurers.

As a result of this and as signalled in our June and September Industry Updates, we will be undertaking a process throughout 2015 to make any necessary changes to



licences and notices, in advance of each insurer's 2015 balance date. Where we propose to modify a condition of licence, this is subject to consultation with the insurer in accordance with section 22 of the Insurance (Prudential Supervision) Act 2010. There will also be changes required to exemption notices that contain out-of-date legislative references, or that require adjustments in respect of disclosure requirements. Lastly, we intend to clarify the wording of the section 59 exemption notices in some areas.

Your supervisor will be in touch in advance of your 2015 balance date regarding any proposed changes. At this stage, we intend that this will happen during the month preceding your balance month (for example, insurers with a 31 March balance date should be contacted during February 2015). We would then consult as required on any proposed changes to conditions, and notify you of any other changes to be made. Amended documentation would then be issued in the month of the balance date (so an insurer with a March balance date would receive its amended documentation in mid-March 2015).

Insurer data collection

In November we released a paper summarising submissions received in relation to the consultation on the collection of insurer data, along with the Reserve Bank's response.

The paper described some changes to the proposed data collection, in the light of the feedback received. The Reserve Bank has decided to revise the implementation timeline, to allow more time to consider some aspects.

The paper summarised revised quarterly reporting requirements. In this, financial and exposure data will be requested from insurers with gross annual premium above \$50M or total assets of \$500M or more. Insurers that only have reinsurance business in New Zealand are not required to report. The Reserve Bank will run workshops to support the process around the trialling and implementation of the Quarterly Insurer Survey. The first practice submission is scheduled for February 2015. This voluntary submission will be followed by a compulsory submission in May 2015. The current plan is to target the June 2015 quarter as the official start of the quarterly data collection.

More time is required to review the Insurer Return. An updated version of the data template, along with supporting material, is expected to be released in February. Following this release, insurers will be asked to participate in practice submissions.

The new solvency return will be made available in the New Year and will allow for both the current and new versions of the solvency standards.

The paper can be accessed through this [link](#).



Risk governance review

The review of the quality of risk governance within a sample of insurers is nearing completion. Thanks to the insurers involved, we gained valuable insights into risk governance frameworks and behaviours. We will publish general feedback on our website after we have provided feedback to participating insurers. An email alert will be issued in the New Year when the report is available.

In general, we are pleased with the progress being made in relation to risk governance, taking into account the changes many insurers have made to governance structures and risk management frameworks during the recent licensing process. Most insurers regard themselves as being part way through a journey of implementation and improvement towards full implementation of their risk framework. With that in mind, our public feedback will focus on key themes which differentiate quality of risk governance, including themes arising between different corporate forms and governance structures.

Our conclusions note that we observed a variety of governance and risk management frameworks and quality is more dependent on the behaviours relating to implementation of the frameworks rather than the structure of the frameworks themselves. Having said that, better quality risk governance tends to exist within insurers that channel risk information from all areas of the business and not just from a risk function. Sources of information,

particularly reports generated by internal control functions such as internal audit, and the existence and quality of those internal control functions, is also a differentiator of quality. These conclusions and other observations will be covered in more detail in the published report.

Thank you again to all insurers involved in the review. If you would like to share your feedback on the review process, please send us your thoughts through your usual Reserve Bank contact.

Section 78 Reports

For overseas insurers, a section 78 report is required in respect of any financial statements or group financial statements an insurer is required to register or lodge under any Act, such as the Financial Markets Conduct Act 2013. This includes the company or group itself and the New Zealand branch.

This is set out in the Insurance (Prudential Supervision) Act 2010 in section 77(1). Section 77(1) refers (via section 81(1)) to the insurer and the “financial statements or group financial statements” of the insurer that are required to be registered or lodged under any Act.

Therefore the financial statements required to be lodged or registered under any Act includes company and branch financial statements and both need a section 77 review and section 78 report. Note that for



the company financial statements, the New Zealand appointed actuary can rely on the work of other relevant experts. For example, for overseas insurers incorporated in Australia this may rely on the work of the Australian appointed actuary.

The New Zealand Companies Office is monitoring filings of financial statements, for the correct inclusion of section 78 reports, and has rejected filings where the requirement has not been met.

Financial Strength Ratings

The Insurance (Prudential Supervision) Act 2010 requires most licensed insurers to have a current financial strength rating. These insurers are required to comply with various provisions including disclosing whether an overseas policyholder preference exists, advising the Reserve Bank of a change in rating or credit watch warning and disclosure to the policyholder of the current rating before entering into or renewing a contract of insurance.

The Reserve Bank is required to keep a public register of licensed insurers and this must include the:

- name of each licensed insurer; and
- current financial strength rating of each licensed insurer (unless the insurer is not required to have such a rating).

The Financial Strength Rating section of the Reserve Bank's register can be viewed at this [link](#).

To enable the register to be kept up-to-date and to keep the Reserve Bank informed, insurers are asked to ensure that they provide the Reserve Bank with the rating report from the approved rating agency each time a review occurs, generally annually.

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

