



Insurance Industry Update

December 2015

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 a number of months since our last update and work has progressed on a number of key projects and initiatives.

This update provides further detail on the following items:

- 2015 licence modifications
- Insurer data collections
- Solvency disclosure
- Fit and Proper-Summary of Information
- Reserve Bank website change

In addition, good progress has been made on the establishment of the designated/portfolio supervisory approach as outlined in the Bank's update of July 2015 for business-as-usual supervision. We plan to review our experience in the first half of next year and there may be some changes. We will keep the industry informed and engaged on this development during 2016.

Engagement from insurers has remained high during 2015 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 2016.

2015 Licence modifications

We are close to completing the 2015 licence modification project. All licensed insurers should now have received either our consultation letter or their modified Licence Conditions. These were aligned to insurer's financial reporting dates through 2015. If you have not received either of these please contact either your designated supervisor or Portfolio supervision as appropriate.

The main intention of this project was to bring all licence conditions and exemptions in line with the latest solvency standards issued by the Reserve Bank in December 2014. Certain Section 121 Notices are also being issued at the same time. Please note that unless specifically revoked by the Reserve Bank, all other existing Notices and Exemptions will remain in place.

Insurer data collections

The insurer data collections are in the process of being implemented. This includes Insurer Solvency Return, Insurer

Solvency Exempt Return, Insurer Return, Quarterly Insurer Survey, and Insurer Foreign Business Return. The NZ Insurer Data Collections webpage contains the latest versions of the Forms, Definitions, some instructions and Guidance. Please check this webpage regularly for any changes because insurers are expected to use the correct versions for their returns. While we aim to keep major changes to a minimum, there is often a need for minor changes for various reasons.

The relevant section 121 notices for the insurer data collections have now been issued to insurers. Insurers are expected to comply with all requirements, such as using the secure upload facility provided (not email), submitting completed returns in excel format (not pdf), signing off the completed returns, etc.

We encourage insurers to be proactive in discussing with the Bank any issues they are facing in completing their returns, or questions of interpretation. We may agree with insurers a transition towards accurate data whilst ensuring there is sufficient quality in the interim. There are comment fields in the returns to explain any approximations used and to explain what you have reported.

We are giving insurers specific feedback on their returns where we have questions or have identified problems, and to answer queries raised with us. Due to the volume and the newness of reporting, it may take a while for us to check completed returns and provide feedback – thank you for your patience. In some cases we require correction of errors and resubmission of the returns.

In addition we will use subscription emails, newsletters and Guidance to provide generalised feedback and to clarify some common issues. If there is sufficient interest we could also hold a few workshop sessions on the returns. There will be further feedback through 2016 and we expect this will include updates to Guidance and minor changes to some Definitions to make them clearer. We will advise by notice on the webpage and through our subscription email list whenever general aspects of the reporting are changed.

We will consult on a proposal for regular publication of some of the information in 2016. The timing for commencing publication is not yet finalised as it is dependent on the data being complete (for many insurers the first Insurer Return is not due until 30 April 2016 or even later for some insurers), and of reasonable quality.

Thank you for your efforts to implement the returns and provide good quality information.

Solvency disclosure

The solvency standards reissued last year largely became effective from 1 January 2015. These have been applied throughout 2015 to individual insurers by modifying conditions of licence for insurers subject to Reserve Bank solvency standards. The solvency standards include requirements on insurers to publicly disclose their Actual Solvency Capital, Minimum Solvency Capital, Solvency Margin and Solvency Ratio in respect of each Solvency Standard applicable to it and an aggregate disclosure of these measures in respect of its total business. A licensed insurer must disclose this information in their annual financial statements and on their website (if any). Financial statement solvency disclosure

must include a comparison to the prior financial year.

For an overseas insurer, the appropriate disclosure may be included within the New Zealand branch financial statements only.

This disclosure must be updated within 10 working days following the required date for submission of each of the Annual and Half-yearly Solvency Returns to the Reserve Bank to reflect the information in those returns.

Fit & Proper-Summary of Information

The Reserve Bank continues to see examples of fit and proper certificates that are non-compliant. Any non-compliant fit and proper certificates are considered a breach of a licensed insurer's requirements under the Act. 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. For overseas insurers subject to a section 38 exemption, please be reminded that fit and proper certificates for relevant officers are still required by the Reserve Bank.

Each 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. If there is an adverse fit and proper finding the insurer should include the circumstances taken into account when concluding that fitness and propriety is not impaired.

The Summary of Information should make it clear what 'due inquiry' has occurred to confirm an individual's fitness and propriety. The 'due inquiry' should not just be limited to an individual's qualifications and experience as this would only summarise two aspects of the fit and proper requirements. We would expect to see a summary that showed that there was 'due inquiry' for each fit and proper policy criteria. This can be achieved by summarising the checks that were made to confirm that the fit and proper criteria were met. We do not wish to receive the material used to assess the criteria but rather we require a description ('Summary of Information') of what 'due inquiry' was undertaken.

The Summary of Information can be provided as a separate document. This is often the most practical way to provide a compliant Summary of Information. Where the Summary of Information is provided as an additional document the fit and proper certificate signed by the directors should clearly refer to it. A copy of the relevant officer's or director's curriculum vitae should

be provided with each new fit and proper certificate.

Reserve Bank website changes

The RBNZ Web team are in the process of upgrading the RBNZ website. The upgraded RBNZ website is expected to go-live early in the New Year.

This process may break links to our website that external stakeholders have bookmarked. Please be aware that following the website update you may need to re-bookmark as appropriate.

Please direct any questions as follows:

For licensed insurers

- Designated insurers – to the designated supervisor.
- Portfolio insurers – +64 4 471 3980, or by e-mail at portfolio@rbnz.govt.nz

For general inquiries, +64 4 471 3951 or insurance@rbnz.govt.nz.