



Insurance Industry Update

April 2016

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 few months since our last update and work has progressed on a number of key projects and initiatives around the business-as-usual supervisory framework. This update provides further detail on the following items:

- Insurance (Prudential Supervision) Act 2010 (the Act) review
- Insurer data collections update
- Certification requirements
- Statutory funds review update
- Continuity obligations

In addition, work continues on refining 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 over the next few months 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 since the start of 2016 and we

appreciate the efforts made to assist the Reserve Bank in fulfilling its obligations.

Insurance (Prudential Supervision) Act 2010 (the Act) review

The Reserve Bank will review the Insurance (Prudential Supervision) Act (IPSA) over 2016-2017. IPSA provided the first comprehensive framework for the prudential regulation and supervision of insurers in New Zealand. The Reserve Bank considers that IPSA has had a positive effect on the soundness of the insurance industry and that the legislation has worked well in most areas.

However, good regulatory practice requires timely review of new legislative regimes to ensure that the regime is working as intended and is fit for purpose. It has been over 5 years since IPSA was enacted and in this time the Reserve Bank and industry have gained sufficient experience with IPSA to undertake a review.

The Reserve Bank considers that the legislative purposes of IPSA remain appropriate, so the review will be done on

the basis of the existing purposes of IPSA, namely to:

- Promote the maintenance of a sound and efficient insurance sector; and
- Promote public confidence in the insurance sector.

A Terms of Reference for the review is available on the Reserve Bank website, along with other relevant information-see [IPSA review](#).

The review seeks to ensure that IPSA provides for a cost effective, risk-based supervisory regime. The Reserve Bank considers that there are likely to be opportunities to reduce the administrative costs associated with IPSA, for example by reducing the fragmentation of policies across regulatory instruments or by greater use of generally applied requirements instead of individually applied requirements. The review will also consider whether the requirements for overseas insurers adequately balance the goals of recognising home country regulation versus adequately protecting New Zealand policy holders.

The Reserve Bank will be undertaking work on defining the scope of the review over 2016. Formal public consultation is expected to commence in quarter 4 of 2016, with the release of an Issues Paper. The Issues Paper will set out what the Reserve Bank sees as the key issues to consider in the review and invite stakeholders to comment on those issues or suggest other issues that should be included with the review. The Reserve Bank will engage the industry over 2017, prior to issuing an Options Paper for public consultation. If legislative change occurs, it would be in 2018 at the earliest. The intended timetable for the public documents is:

Issues Paper(s)	Q4 2016
Options Paper(s)	2017
Exposure draft	2018

The Reserve Bank has also set up an email address that stakeholders can use to make comments outside of the formal consultation process. The email address is: ipsareview@rbnz.govt.nz

In addition to the formal engagement process the Reserve Bank welcomes comments or feedback on the operation of IPSA at any time, including prior to the release of the Issues Paper. The Reserve Bank encourages stakeholders to submit issues they may have identified with the operation of the Act or areas where they consider that the costs imposed by the Act outweigh benefits.

Insurer data collections

As of March 2016 about half of the insurers have reported using the Insurer Return and/or Quarterly Insurer Survey, and the remaining half will commence reporting within the next six months or so. Thank you for your efforts so far in implementing the insurer data collections.

We encourage insurers to be proactive if they have questions of interpretation or difficulties in providing some of the requested data. The comment fields should be used to explain how they have reported if it is unclear, if any figures appear unusual, or if approximations have been used.

We have provided specific feedback to each insurer based on some high level checks of the reporting. Discussions with insurers have been very useful to us in better understanding the different accounting

treatments that are used and some of the differences between insurers in their businesses, and hence to improve the quality and consistency of reporting. Where there are reporting errors we usually request a resubmission of the returns. Any resubmission should have a new sign-off and be provided using the secure upload facility.

It has been our experience to date that our high level review of the year end Insurer Return alongside annual financial statements will often raise questions or issues that were previously unidentified in any earlier data reporting by the insurer.

On 11 March 2016 we updated the Forms, Definitions and Guidance to improve clarity and consistency of reporting. There will likely be a further similar update later in 2016. Insurers should regularly check our website to ensure they use the correct version and incorporate the latest guidance. Generalised feedback and information on any updates will also be provided from time to time through our subscription email list.

We will consult on a proposal for publication of insurer data. This will be later in 2016 than we originally envisaged. We appreciate your co-operation and patience.

Certification requirements

The requirement on licensed insurers to provide the Reserve Bank with a Certification at the full year and half year is specified in the licence conditions. The condition specifies that the Certification must be signed by two directors (or the New Zealand chief executive officer in the case

of overseas insurers) and what the certification should state.

Licensed insurers should familiarise themselves with the requirement as the Reserve Bank is observing various adaptations of the content and form of the Certification. The intention of the Certification is that this be provided verbatim, in line with what is specified in the licence condition. Licensed insurers should adopt the wording provided in the licence condition as this will avoid the need to have it re-completed and potentially also then being provided outside of the required timeframe.

Statutory funds review update

The Bank has recently conducted a review of the operation of life insurance statutory funds, set up under Part II, Subpart 3 of the IPSA. The review was based on submissions made by the 20 insurers that are required to operate statutory funds. Some of the submissions were cursory, whilst others provided more comprehensive information.

The purpose of a statutory fund is to provide a dedicated pool of assets to support an insurer's obligations towards its life insurance customer base. Existence of such a pool is important to the insurer as a going concern (e.g. to understand the profits arising from the life insurance business) and in a wind-up situation to ensure priority for life policyholders.

To the extent that we have information, there appears to be a reasonable level of compliance with the provisions of the law, although there are some issues in particular situations. These

include mingling of statutory fund assets with the other assets of the insurer, mis-direction of cashflows and inadequate reporting of profit allocation.

The Bank will be addressing these issues with the companies concerned as well as providing enhanced guidance later in 2016 to the life industry on the operation of statutory funds.

Continuity/Compliance with prudent manner obligations

Licensed insurers are required to carry on business in a prudent manner, as defined in section 20 of the IPSA. This includes ensuring financial and human resources are adequate and that there are appropriate internal controls.

The Reserve Bank is seeing instances of requests from new or temporary staff, requesting general guidance on reporting obligations and/or basic compliance requirements. Licensed insurers are expected to ensure that they have good processes and record keeping in place and that procedures exist, to ensure smooth hand-over and compliance continuity during absences or when staff leave the organisation.

The Bank is able to provide clarification and guidance on specific matters that arise, however the primary onus for training new staff on the obligations under the legislation remains with the licensed insurer.

- 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.

Please direct any questions as follows:

For licensed insurers

- Designated insurers – to the designated supervisor.