



Insurance Industry Update

December 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

Engagement from all insurers has remained high during 2016 and we appreciate the efforts made to assist the Reserve Bank in fulfilling its obligations.

The designated/portfolio supervisory approach has continued to work well during 2016 and has assisted in our continued refinement of business-as-usual supervision. We thank the portfolio insurers for their continued use of the portfolio team communication channels and the designated insurers for completing the first annual cycle of prudential consultation meetings.

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 2017.

The Reserve Bank published its latest six-monthly Financial Stability Report (FSR) in November 2016. 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.

Insurer data returns

The Reserve Bank is still experiencing a number of issues with the quality of returns being submitted, and unfortunately this will delay when the data is suitable for publication.

We would like to see finance and actuarial teams working closely together to get the returns right first time – this will reduce the need for review and resubmission.

Note that from 1 January 2017 we expect full compliance with the data collection requirements.

Reserve Bank website change – Insurer register

The format of the [insurer register](#) has recently changed. Financial strength ratings and Declarations and exemptions are now included as part of the insurer register.

The webpage addresses have changed, so if you have saved links to the site please update your bookmarks.

Thematic review – Actuarial

Appointed actuaries are an important part of the governance framework established under IPSA, and later in 2017 we will look at how effectively they are functioning. This review will include looking at the Financial Condition Report as the appointed actuary's main tool for communication with stakeholders.

Thematic review - Disclosures

The Reserve Bank intends to undertake a thematic review of compliance with disclosure (Financial Strength Rating and Solvency) obligations during 2017.

A thematic review that focuses on disclosure compliance has been chosen because of the Reserve Bank's approach to prudential supervision which relies on a 'three pillars' approach to supervision: self-discipline, market discipline, and regulatory discipline. An aim of the market discipline pillar is to reduce the information asymmetry between licensed entities and market participants. Disclosure compliance has also been chosen because there have been a disproportionately high number of compliance issues noted in this area.

Licensed insurers that are to be part of the review have not been chosen yet but selection will be based on ensuring good industry coverage, including most large insurers (reflecting their importance to the financial system) and a selection of other insurers to capture a range of insurers by type and size.

Insurers will be required to provide material that will assist in our assessment. This material should largely be readily available and not onerous on insurers to produce.

Once the scope and approach has been further developed we will issue selected insurers with a statutory notice that will detail what is required and by when. Further information will be made available in the New Year.

IPSA review

The [terms of reference](#) for the review of the Insurance (Prudential Supervision) Act were released following Cabinet consideration in April 2016. At that stage it was anticipated that an *Issues Paper* would be released in Q4 2016. The publication of this paper is now proposed to be in Q1 2017.

Further information on the review is available on the Reserve Bank's website at: <http://www.rbnz.govt.nz/regulation-and-supervision/insurers/review-of-the-insurance-prudential-supervision-act-2010>

Any questions, comments or submissions in respect of the review are welcome to: ipsareview@rbnz.govt.nz

FSAP

During August, representatives from the IMF conducted the insurance segment of the IMF's New Zealand Financial Sector Assessment Programme (FSAP), a comprehensive review of New Zealand's financial system. It involved an assessment of New Zealand's compliance with the Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS).

The IMF's report covering findings and recommendations is expected to be published around April 2017. More details are available in this link to the [Reserve Bank Bulletin Vol. 79, No. 7, April 2016](#).

Supervisory reminders

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 IPISA. This includes ensuring financial and human resources are adequate and that there are appropriate internal controls.

The Reserve Bank is still receiving 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 Reserve 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.

Enforcement - We remind insurers that failure to comply with requirements of the Insurance (Prudential Supervision) Act 2010 is an offence with insurers liable to potential fines. The Reserve Bank expects insurers to be fully compliant with all requirements and may take enforcement action against insurers who do not meet their obligations. Enforcement action may include the issuing of public warnings to insurers who the Bank considers on reasonable grounds have not met their statutory obligations.

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. Certifications that are not in line with the licence conditions will be rejected and required to be re-signed by two directors (or the NZ CEO) before the Bank accepts the licence condition has been met.

Prudential consultation meetings - Each insurer with a designated supervisor has at least one prudential consultation meeting a year. These meetings are important. They are a key component of the Reserve Bank's supervisory framework. They are also an opportunity for senior management and directors to talk directly to supervisors about key industry trends, and regulatory and supervisory issues.

The meetings are usually timed to follow submission of end-of-year returns to the Reserve Bank, and while there may be some flexibility around times, directors and management are asked to make themselves available at the agreed times.

Supervisors are currently scheduling meetings for the first half of 2017. Thank you in advance for your co-operation.

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.