



Insurance Industry Update

May 2017

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:

- Review of the Insurance (Prudential Supervision) Act 2010
- Insurance Data Collections
- Insurer secure upload facility
- Thematic review-Disclosures
- Catastrophe risk survey 2016

Review of the Insurance (Prudential Supervision) Act 2010: stakeholder discussion forum

On 30 March 2017 the Reserve Bank published an [Issues Paper: Review of the Insurance \(Prudential Supervision\) Act](#) for the review of the Insurance (Prudential Supervision) Act 2010 for consultation.

The Reserve Bank will be hosting two stakeholder discussion forums in Auckland

and Wellington as detailed below. These forums will provide an opportunity for stakeholders to discuss the Issues Paper and the review in general. The forum will include a brief introduction to the Issues Paper by representatives of the Reserve Bank followed by a question and answer session and discussion.

Auckland:

Monday 22 May 2017
10:30am – 12:30 pm
Rydges Auckland, 59 Federal Street,
Auckland

Wellington:

Wednesday 24 May 2017
10:00am – 12:00 noon
Reserve Bank Museum, 2 The Terrace,
Wellington.

Information about the Review is available on the Reserve Bank website [here](#).

Insurance Data Collections-update

The insurer data collections were implemented mid-2015, with reporting of Insurer Returns and Quarterly Insurer Surveys started by late 2016 for all licensed insurers. As you may be aware, we have significant concerns about the quality of some of the data received. Accordingly, we have been looking at ways to address this issue whilst at the same time making improvements to our processing of the returns.

We have identified some changes to improve the quality of data reporting. Most of these relate to processes (by insurers and by the Reserve Bank), rather than changes to the content of data:

- Publication of fuller definitions and guidance for completing returns
- A requirement for insurers to validate elements of their returns prior to submission
- A broadening of sign-off requirements to include management, finance and actuarial functions
- Stricter enforcement with respect to insurers that consistently fail to meet standards for quality and timeliness
- Consideration of the introduction of an audit requirement for the year-end insurer return.

We will communicate with insurers well ahead of any changes being implemented. Where there are impacts on insurers, opportunity will be provided for feedback and/or formal consultation as appropriate. In the meantime, we strongly encourage insurers to review all of their returns before submission, as we have noticed an increasing incidence of basic errors.

Examples include the wrong dates on the cover page, missing insurer name on the cover page, missing sign-off, and links to external files (which creates a problem loading the returns).

We look forward to working with you to achieve our common goal of a high-quality industry-wide dataset.

Insurer secure upload facility

We continue to see problems with the insurer secure upload facility being used correctly. The submission type from the drop-down options affects our business processes, and so if the incorrect type is selected this creates extra work to process the upload.

The submission type to select may be specified in a section 121 notice or instructions in a form. For example, the Catastrophe Risk Survey 2016 specifies the use of “Insurer other” as the submission type, which should not be confused with the Insurer Catastrophe Claims Return which is used for regular reporting of actual events such as the Canterbury and Kaikoura earthquakes and submitted using the “Insurer Catastrophe Claims Return” option.

Each return in the insurer data collections has a separate submission type with the return code in brackets, for example (IR) Insurer Return. Any workings and associated reporting should use “Insurer financial & solvency”.

If there are multiple files for more than one submission type, please upload each type

separately. Multiple files can be attached to a single upload, but different types of submissions should be submitted separately. Since multiple files can be attached, please don't zip up the files.

If you are being asked to log in then you have opened a different secure upload facility (which some insurers may use for the managed funds survey).

In February we modified some labels and wording on the secure upload page to improve clarity. Your assistance in correctly using the insurer secure upload facility is appreciated.

Thematic review-Disclosures

In the [December 2016 Industry Update](#) we advised that the Reserve Bank intended to undertake a review of compliance with disclosure (Financial Strength Rating and Solvency) obligations some time in 2017.

In February, 36 licensed insurers were selected to participate in the review and advised of the material that was to be supplied to the Reserve Bank.

The Reserve Bank's Insurance Oversight Team is currently in the process of completing a desk-based review of the material provided and collating observations, themes and issues. The findings will inform a Report which will be issued to the industry and in some cases individual feedback will be provided to some participants.

Early indications are that compliance levels range across a wide spectrum, from poor to good and with no examples of perfect compliance. Overall there appears to be a higher proportion of compliance at the poor end of the spectrum. Results have differed between designated versus portfolio-managed insurers, with portfolio-managed insurers generally performing worse than their designated peers, with some exceptions.

We are currently working to complete the review in June 2017 at which time the industry will be provided with a report, while some insurers will be asked to respond to the Bank about their compliance.

Catastrophe risk survey 2016- results

Catastrophe risk is the potential for accumulation of many claims from a common cause in a short period of time. This is wider than just natural disasters. Recently we published some generalised feedback on the catastrophe risk survey that was conducted in late 2016 / early 2017. The report is available on the [publications and reports for the insurance sector webpage](#). All insurers should read the report, including the best practices we have identified.

The survey provided qualitative information on the processes and governance of insurers' assessment of their catastrophe risk. We found that most insurers are assessing and managing their catastrophe risks appropriately given their

circumstances. However, there are weaknesses for some insurers. The most common weaknesses are limiting their assessments to the solvency standard requirements (for the type of risks and their calibration), and placing too much weight in the assessment on recent experience which may not fully reflect the range of future catastrophes.

For insurers with a designated supervisor we will discuss the survey at their next prudential consultation meeting. For insurers with portfolio supervision, we will shortly provide specific feedback in writing only for insurers where we have identified particularly significant or unusual weaknesses.

We envisage repeating the survey in a year or two in order to monitor if significant weaknesses have been addressed.

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.