



# Insurance Industry Update

December 2018

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 Supervision Team. It is not policy or legal advice in itself and should not be interpreted in isolation.

## General update

It has been a busy year for the Insurance Supervision team. A number of changes in the resourcing of the team and some changes to our insurance policy and supervision work have resulted in a long gap since our last update in March 2018. As this year draws to a close, momentum remains high on a number of key projects and initiatives that are in progress.

The Insurance Supervision 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 2019.

This last update of 2018 provides further detail on the following items:

- Supervision Department
- Financial Stability Report
- CBL
- Solvency overview
- Amended Solvency Standards
- Data Returns-update
- Data Collection issues

- Conduct & Culture review of Life Insurers
- Climate Change
- Appointed Actuary Thematic Review
- Relationship Charter
- Insurance (Prudential Supervision) Act 2010 review-update

## Supervision Department

The Bank has undergone some recent structural and senior leadership changes.

The details of the key changes can be found [here](#).

What was previously the Prudential Supervision Department (PSD) is now split into Financial System Policy and Analysis, which will be headed up by Toby Fiennes, and the Supervision Department.

With effect from 1 December 2018, this new Supervision Department is led by Andy Wood, who was previously Senior Manager, Supervision in PSD.

From an insurance industry perspective, there is no operational change in terms of our ongoing supervision of licensed

insurers. The Insurance Supervision Team, managed by Richard Dean, will continue to report to Andy.

## Financial Stability Report

The Reserve Bank published its latest six-monthly [Financial Stability Report](#) (FSR) in November 2018. 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.

## CBL Insurance Limited (In Liquidation)

CBL Insurance Ltd was placed into liquidation by the High Court in November. The [Court's judgement is available](#) to read details about the case.

The placement of CBL Insurance Ltd into liquidation in November 2018 was taken in the public interest and for the purposes of the Insurance (Prudential Supervision) Act 2010. This decision was based on CBL Insurance's failure to meet solvency conditions, breaches of directions and ongoing misreporting to the Reserve Bank.

There are undoubtedly lessons to be learned. It is important for maintaining confidence in the insurance sector and in the regulatory regime that serious breaches of requirements and lack of candour by regulated entities be dealt with appropriately.

The Reserve Bank has commissioned an independent review of its supervision of

CBL Insurance Limited to identify lessons for itself and the insurance regulatory regime.

John Trowbridge (former Member of the Australian Prudential Regulation Authority (APRA) responsible for insurance, and experienced insurance actuary and management consultant) and Mary Scholtens QC (an experienced public and administrative counsel with expertise in regulatory decision-making processes) are conducting the review.

The review will cover the period from licensing in 2013 through to the interim liquidation. Key findings from the independent review will be made public in 2019.

[Further information](#) on CBL can be found on the Reserve Bank's website.

## Solvency

Aside from CBL, the insurance sector as a whole is meeting its minimum capital requirements. However, capital strength has declined and a number of insurers are operating with small buffers. The insurance industry must ensure it has sufficient capital to maintain solvency in all business conditions. There will be more supervisory focus on solvency in 2019.

Please refer to pages 30-31 of the November 2018 [Financial Stability Report](#) for further details.

## Amended Solvency Standards

On 23 November 2018, the Reserve Bank issued amended versions of the:

- Solvency Standard for Life Insurance Business 2014; and
- Solvency Standard for Non-life Insurance Business 2014.

The amendments:

- set out how any right-of-use assets and corresponding lease liabilities arising under the accounting standard NZ IFRS 16 Leases will be treated under the solvency standards. The changes apply from the start of the reporting period on or after 1 January 2019 to align with the mandatory application date of NZ IFRS 16.
- require a “reasonable assurance” level of audit on the annual insurer solvency returns. This requirement applies for annual returns provided to the Reserve Bank for balance dates from 1 January 2019 onwards. The level of audit is expected to be consistent with the requirements under the [International Standard on Assurance Engagements \(New Zealand\) 3000](#).
- Consolidate the major earthquake risk return period into the Solvency Standard for Non-life Insurance Business 2014 rather than include this requirement in a separate document. There has been no review of or change to the requirement.

The amended solvency standards and further information, including the Reserve Bank’s response to consultation feedback, are available on the Reserve Bank website.

For more information, please refer to the links below:

- [Amended solvency standards](#)
- [Consultation feedback on changes to the solvency standards due to NZ IFRS 16 Leases](#)
- [Consultation feedback on audit requirements for insurer data returns](#)

## Data Returns

Data quality initiatives continued to move forward in September 2018. We announced that, while there will be no Insurer Return audit requirement at this time, we will be requiring year-end audits of Insurer Solvency Returns to be completed to a “reasonable assurance” level.

We also notified the industry that a ‘relevant officer’ will be required to sign the Quarterly Insurer Survey and provided more substance to the term “reasonable enquiries”. Finally, we held three valuable workshops with industry participants in Auckland and Wellington.

The information & views given at these workshops will inform the next version of definitions and guidance for the Insurer Return and the Quarterly Insurer Survey.

## Data Collection issues

We have noticed a number of errors that some insurers continue to make regarding submission of their returns to the Bank.

Insurers are reminded of the need to take care to correctly use the insurer secure upload. This includes:

- using the secure upload when required - data is uploaded from these folders so emailed reporting requires extra manual work;
- selecting the correct option from the drop-down list – reduces the risk of being chased up for information already provided but misfiled;
- ensuring the date is correct on the cover page – if the date is wrong (e.g. the date for the previous return) the data can be corrupted in our system because it will be loaded against the wrong date; and
- reporting by the due date.

The industry's co-operation in this regard would be appreciated by the Bank.

## Conduct and Culture review-Life Insurers

Conduct and culture within banks and insurers has received a lot of attention from regulators in New Zealand during 2018.

Between August and November 2018, the Financial Markets Authority and the Reserve Bank undertook a thematic onsite review of the conduct and culture within a number of life insurers in New Zealand.

Whilst the life insurance sector was prioritised for review, this should not mean that other sectors within the insurance industry should not be actively considering conduct and culture risks within their business. All licensed insurers are expected to continually monitor, assess and update their conduct and culture governance frameworks.

A publically available report on life insurers is expected to be published in late January 2019. Individual feedback letters will also be provided to each life insurer reviewed.

## Climate Change

The November 2018 [Financial Stability Report](#) provided some high level commentary on the impact of climate change on New Zealand's financial system. The Reserve Bank has a strong interest in this area from a financial system soundness and efficiency aspect.

The Reserve Bank will engage further with insurers in 2019 and beyond to understand how they are incorporating climate related risks and challenges within their businesses. This will involve more in-depth discussions as part of the Insurance Supervision team's prudential consultation meetings with our designated insurers.

On the 13 December 2018, the Reserve Bank published a strategy focusing on how the Bank can contribute to efforts to mitigate the effects of climate change. The details can be found [here](#).

## Appointed Actuary thematic review

The Reserve Bank's Industry Insights & Thematics team (IIT), part of the Financial System Policy and Analysis department, are currently in the early stages of scoping an industry wide thematic review due during 2019.

This thematic review will encompass the Appointed Actuary regime including Financial Condition reporting. Our supervisory framework places significant reliance on Appointed Actuaries, and it is important to review the impact of their activity and the continuing suitability of the regime.

Further information will be provided by the IIT to the industry in Q1 2019.

## Relationship Charter

The Reserve Bank aspires to maintain the best "regulator/regulated" supervisory relationships possible. The Reserve Bank has started to consult on a newly established "Relationship Charter" between the Bank's supervision department and the entities it supervises.

This Charter represents a mutual undertaking of how relevant parties will work together to achieve this aspiration. This will include commitments around behaviours and communications.

We intend to discuss it in more detail with the insurance sector in Q1 2019.

## IPSA review update

A reminder that the Reserve Bank suspended active work on this Review from April 2018 following a review of resourcing and priorities. This deferment will be reviewed regularly and we will notify the industry when work on the IPSA review resumes.

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](mailto:portfolio@rbnz.govt.nz)

For general inquiries, +64 4 471 3951 or [insurance@rbnz.govt.nz](mailto:insurance@rbnz.govt.nz).