



Insurance Industry Update

July 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:

- Supervisory framework
- Licence amendments
- Material changes - Risk Management Programme
- Overseas insurer - non-resident Chief Executive or Chief Financial Officer and Appointed Actuary equivalent qualification
- Insurer data collection

Supervisory framework

In previous updates we advised that progress was being made on the development of a supervisory framework.

By way of brief background, the purpose of the Insurance (Prudential Supervision) Act 2010 (the Act) is to:

- (1) promote the maintenance of a sound and efficient insurance sector; and
- (2) promote public confidence in the insurance sector.

Following the passing of the Act in 2010, the Reserve Bank commenced a phased introduction of regulation and prudential oversight of the insurance industry and the process started with licensing. Over this period the Reserve Bank commenced supervising licensed insurers and engaged with the industry.

Our attention has turned to the development of a structured supervisory framework to further support the purposes of the Act. The implementation of this framework is the next stage in the evolution of prudential oversight of licensed insurers.

All licensed insurers are subject to supervisory oversight. The regulatory

framework set out in the Act places responsibility and accountability for an insurance business primarily with the insurer's board and senior management. Put differently, effective self-discipline and market-discipline are central to meeting the objectives of the Act. Supervisory activities will reinforce these disciplines. For example in the context of self-discipline, directors and senior management of licensed insurers can expect that the Reserve Bank will hold them accountable for full compliance with regulatory requirements.

Supervisory resources are finite, and consistent with international best practice the Reserve Bank's supervisory framework for financial institutions is risk based. In practical terms, this means that those licensed insurers of greatest significance to the purposes of the Act are to be subject to a greater intensity of supervision. A licensed insurer's significance has been determined by gross annual premium; and total assets. A risk overlay is to be added over time; with supervisory attention also directed towards those licensed insurers having both the greatest risk of failure and significance to financial stability.

The Reserve Bank has commenced the first step towards implementing the supervisory framework. Licensed insurers have been divided into two groups.

- Designated insurers

Licensed insurers requiring a greater intensity of supervision will have a designated supervisor. Supervision of these insurers is designed to enable early identification and resolution of prudential issues. In addition to compliance monitoring, supervisors will build an understanding of the business model,

strategy, governance and risks. Analysis and review of information provided to the Reserve Bank and regular and structured engagement will facilitate this including at least one annual prudential consultation meeting following end-of-year returns.

- Portfolio managed insurers

A specialised team of supervisors within the Insurance Oversight team will supervise all other licensed insurers on a portfolio basis. Prudential oversight is oriented towards ensuring requirements are met and that supervisory matters are resolved promptly. Our objective is to understand risk across the portfolio and to identify, at a high-level, risks or issues affecting groups of licensed insurers or market segments. Engagement will be prioritised by need and in response to events and issues. Regular newsletters, industry engagement and workshops (as required) will provide an opportunity for portfolio-managed insurers to maintain regular contact with the Reserve Bank.

On 27 May 2015 the Reserve Bank wrote to licensed insurers advising them of the changes, which group they fall into and how they should make contact effective from 2 June 2015. Designated insurers have been provided with the contact details of their designated supervisor. Portfolio insurers have been asked to make contact through the dedicated phone number, +64 4 471 3980, or by e-mail at portfolio@rbnz.govt.nz.

Portfolio managed insurers should ensure that the address portfolio@rbnz.govt.nz is added to their email Contacts List to ensure communication is received.

Further updates will be provided as we work towards full implementation of the framework.

Licence amendments

As previously advised, the solvency standards reissued last year largely became effective from 1 January 2015. These are being applied to individual insurers by modifying conditions of licence for insurers subject to Reserve Bank solvency standards. In addition, changes are being made to reporting and disclosure timeframes that will affect all insurers. Other changes are also being made, relating to notices under sections 59 and 121 of the Act.

The process to modify conditions of licence is subject to consultation with the insurer, in accordance with section 22 of the Act.

We have commenced making the necessary changes in advance of each insurer's 2015 balance date. We will be in touch in advance of your 2015 balance date regarding any proposed changes. We intend that this will happen during the month preceding your balance month (for example, insurers with a 31 March balance date were contacted during February 2015). Amended documentation will then be issued in the month of the balance date.

Material changes - Risk Management Programme

Section 73 of the Insurance (Prudential Supervision) Act 2010 ('IPSA'), subpart 4, states that a licensed insurer must obtain the Reserve Bank's approval before the risk management programme is amended in a material way.

In order for the Reserve Bank to be satisfied that a risk management programme remains appropriate, licensed insurers must obtain the Reserve Bank's approval for material changes. Changes that are considered to be a strengthening of the risk management programme will not usually be considered to be a material change. This is because a licensed insurer's risk management programme would already have been assessed during licensing and considered to meet the requirements. Licensed insurers should consider materiality in context and include consideration of individual changes and cumulatively.

The Reserve Bank intends to develop a form for licensed insurer's to use when seeking approval of material changes to a risk management programme. In the meantime, insurers are asked to provide the following information to support a request:-

1. Track change version of the policy.
2. Clean version of the policy.
3. Summary of changes - outlining the changes, rationale, materiality comment and any other comments.
4. Legislative compliance comment – detailing how the legislative requirements will be met after the proposed changes.

For changes that are not considered to be material, the licensed insurer should provide the Reserve Bank with an updated copy of the risk management programme.

Overseas insurer - non-resident Chief Executive Officer or Chief Financial Officer and Appointed Actuary equivalent qualification

Insurers are reminded of the requirement to obtain Reserve Bank approval in the following circumstances: -

1. If an overseas licensed insurer intends to have as its New Zealand Chief Executive Officer or New Zealand Chief Financial Officer a person that is not ordinarily resident in New Zealand
2. If a licensed insurer intends to appoint a person who is not a Fellow of the New Zealand Society of Actuaries (Inc) as its appointed actuary

The Reserve Bank is in the process of developing a form for licensed insurers to use for this purpose. When this is finalised it will be made available on the Reserve Bank website. In the interim, licensed insurers should make contact with the Reserve Bank for instructions.

Insurer data collection

Thank you to the many insurers and other stakeholders who have provided feedback on the draft returns through submissions and trial returns. We have reviewed all of these. We have now achieved good consistency between Insurer Return and Quarterly Insurer Survey. An update has been provided summarising the feedback and our responses, near final draft versions of the returns and definitions, timelines for finalisation of requirements, and the other steps on the path to implementation. This can be found on the [New Regulatory Initiatives](#) page of the Reserve Bank's website. Further feedback is being sought on a few aspects through meetings in Auckland and Wellington.

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.