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Insurance Solvency Standards and NZ IFRS 16 Leases

This submission is from the Financial Services Council of New Zealand Incorporated (FSC) on the consultation paper: Insurance Solvency Standards and NZ IFRS 16 Leases. We recognise that the Reserve Bank has been proactive in identifying the upcoming change and seeking industry input.

The Financial Services Council is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 35 members comprise 95% of the life insurance market in New Zealand, and manage funds of more than \$47.5bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver, professional services and technology providers to the financial services sector.

We strongly support initiatives that are designed to deliver:

1. Strong and sustainable consumer outcomes;
2. Sustainability of the financial services sector; and
3. Increasing professionalism and trust of the industry.

We therefore support the proposed changes.

Our members highlight that adoption of the compulsory standard will result in a timing difference between assets and liability recognition, potentially resulting in a temporary negative impact on solvency levels. However, analysis indicates that this impact will only materially affect those entities who are close to their solvency threshold, or where entities have significant value, long term lease arrangements. In this latter event, even a large value solvency charge is likely to still be relatively immaterial to an entity, based on the relative size of their solvency requirements.

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Yours sincerely

Richard Klipin
Chief Executive Officer