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Aide Memoire: IPSA Review – Modernising Insurance Prudential Regulation

Purpose

1. The purpose of this Aide Memoire is to respond to your feedback on: RBNZ #6234 *IPSA Review – Modernising Insurance Prudential Regulation*, in advance of our meeting on 26 February.

You requested additional information on:

- updates to the Insurance (Prudential Supervision) Act's (**IPSA's**) principles and purposes to promote competition and align with the Deposit Takers Act (**DTA**);
- which decisions would be subject to further consultation; and
- two specific proposals that we recommended, but that industry raised some concerns with.

Executive summary

1. Following consultation with industry, we do not recommend amending the **purposes and principles** of IPSA. The purposes and principles already emphasise the importance of an efficient market, and the need to maintain competition. This is in contrast to the DTA, that does not refer to *efficiency* explicitly. There is an option to add a proportionality principle (similar to the DTA). However, we do not consider this would meaningfully change the approach to regulation, as the concept is already captured and applied in practice (e.g. we have a distinction between small and large insurers for supervision). Industry also did not support amendments to the purposes and principles.
2. The IPSA review has spanned 8 years, and six public consultations. Accordingly, we do not consider **additional policy consultation** is efficient or necessary at this point in the process. There are two significant opportunities for public consultation post Cabinet approval of policy. The first is the consultation on an exposure draft of the Bill (scheduled for 2026). Following introduction, the Bill would be subject to Select Committee process, whereby full public submissions would be called for and considered.

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3. The two proposals you have identified for discussion are standard regulatory procedures internationally, and domestically in other contexts.
- The **on-site supervision power** mirrors that in the DTA and was an important recommendation of the IMF when they reviewed our regulatory regime in 2016/17. It is also part of the AML/CFT legislation and is soon to be included in the Financial Markets Conduct Amendment Bill in relation to conduct matters.
 - The **pre-approval of directors and officers** is a more efficient way to ensure suitability of appointments. Currently, the RBNZ can only remove directors and officers after they have already been appointed, which is disruptive and inefficient. Requiring the regulator to approve a position before the appointment prevents unnecessary costs and disruption of a post-appointment removal. The pre-approval process is consistent with international practice and the approach to deposit takers (**DTA**).
4. Further detail is set out in the remaining part of the Aide Memoire.

Appendix 1: Statutory objectives for insurance prudential regulation – international context

Appendix 2: Statutory objectives of IPSA and the DTA – similarities and differences

Further detail

1. IPSA's purposes and principles

Summary

We recommend that the purposes and principles of the Insurance (Prudential Supervision) Act 2010 (**IPSA / the Act**) remain unchanged, as the purposes are already explicitly anchored to a **sound** and **efficient** market, and the principles include the need to maintain competition within the insurance sector.

This contrasts with the banking equivalent purposes in the DTA, which do not include an explicit reference to efficiency.

We consulted on options for amending the purposes and principles, and industry opposed substantive changes, commenting that amendments are likely to create legal uncertainty on how existing provisions will be interpreted.

However, if you wished to further emphasise the desirability of right-sized and tailored regulation, you could choose to add a proportionality principle similar to that in the DTA.

This would complement the existing principle in section 4(g) “maintain competition within the insurance sector”.

Detail

Current state – soundness and efficiency

The current purposes of IPSA are to:

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

In achieving the purposes of IPSA, the Bank is required to consider the principles in section 4 of that Act. There are 10 principles, which include the need to maintain competition in the insurance sector and the need to avoid unnecessary compliance costs.

In 2023, we consulted on amending the Act's purposes and principles. At the time, we concluded that the purposes and principles are broadly appropriate, but considered there was scope to consider whether they aligned with the rest of the Reserve Bank's legislative framework.

The Reserve Bank's legislative framework underwent a comprehensive review between 2017-2021 (**RBNZ Act Review**). An outcome of the RBNZ Act Review was to include an overarching financial stability objective within the Reserve Bank Act 2021 (**RBNZ Act**): the objective of “protecting and promoting the stability of New Zealand's financial system”. Each sectoral act for deposit takers, insurers and financial market infrastructure, would then have their own specific principles and purposes that sit underneath this objective.

Deposit Takers Act (DTA)

The main purpose of the DTA is to “promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy by protecting and promoting the stability of the financial system”.

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To that end, the DTA contains four additional purposes:

- Promote the safety and soundness of deposit takers.
- Promote public confidence in the financial system.
- Avoid or mitigate the risks to the stability of the financial system or risks from the financial system that may damage the broader economy.
- Support New Zealanders having reasonable access to financial services and products (to the extent not inconsistent with the main purpose and the other additional purposes).

In achieving the purposes of the DTA, the Bank is required to consider the principles in section 4. These include principles relating to proportionality, maintaining competition and avoiding unnecessary compliance costs. There is also a requirement for the RBNZ to develop, consult on and publish a proportionality framework that demonstrates how we apply regulation in a proportionate manner.

Appendix 2 outlines differences and similarities between the purposes and principles of the DTA and IPSA.

Consultation - Updating IPSA's Purposes and Principles

In response to the 2023 IPSA Omnibus Consultation, industry supported maintaining the Act's current purposes and principles. They expressed a strong desire to retain '*efficiency*' as an IPSA purpose, primarily as a counterweight to '*soundness*'. Industry considered the concept of *efficiency* was important in keeping unnecessary compliance costs down and helping make insurance affordable.

Generally, respondents opposed adding provisions to *promote access* to insurance (i.e. financial inclusion) and *policyholder protection*. Industry commented that enhancing policyholder security may inadvertently raise costs of providing services to policyholders and noted that policyholder protection was already a focus of the Financial Markets Authority (**FMA**) through the Conduct of Financial Institutions (**CoFI**).

There were mixed industry views on whether IPSA should reference the Reserve Bank's *broader financial stability objective*, similar to that in the DTA (Appendix 2, refers). With some respondents arguing it would acknowledge the importance of the insurance regime to the Reserve Bank's overall mandate and financial stability objective. Other respondents raised concerns the change would risk conflating the characteristics and stability risks of the banking sector with the insurance sector.

'Competition' and alignment with the DTA

The current purposes and principles of the Act largely meet your objective that the Act should take into account competition.

The first purpose of the Act requires the promotion of a *sound* and *efficient* insurance sector. Efficiency includes competitive concepts like allocative efficiency, cost efficiency and dynamic efficiency. In addition, the maintenance of competition is already included as a principle of the Act.

If you wished to further emphasise the importance of right-sized regulation to support competition, and thus efficiency, a 'proportionality' principle could be added. A proportionality principle drafted in the same way as the DTA would require the Reserve Bank to take into account insurer's systemic and overall risk profile, and the impact they have on the broader insurance industry, when applying prudential regulatory functions.

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The importance of proportionality is reflected in the International Association of Insurance Supervisors (**IAIS**) Insurance Core Principles,¹ and the Reserve Bank already takes a proportional approach to supervision. For example, we concentrate our supervisory resources on those licensed insurers that have the greatest risk of failure and most significance to financial stability.

Appendix 1 outlines the insurance prudential mandates in a select number of other jurisdictions, as well as the expectations laid out in the IAIS Insurance Core Principles.

The Treasury, as part of their advice (T2024/3394, refers) noted that adding ‘proportionality’ was an example of a low-risk fruitful change.

We do not consider it necessary to include a specific principle in the legislation, as proportionality is a core part of good regulatory design and is built in our regulatory impact assessment process. In addition, it overlaps with other principles such as “the desirability of consistency in the treatment of similar institutions (while recognising that the New Zealand insurance market comprises a diversity of institutions).”

Accordingly, we do not consider adding the principle would provide a marginal benefit over and above the status quo. It could also add complexity to the legal framework (which is a key lesson from the development of the DTA). Depending on design, it can also have unintended consequences (e.g. entities are disincentivised from growing as they may face higher regulatory requirements).

¹ The internationally recognised ‘Insurance Core Principles’ notes: “*The ICPs establish the minimum requirements for effective insurance supervision and are expected to be implemented and applied in a proportionate manner. Therefore, proportionality underlies all the ICPs.*” [IAIS-ICPs-and-ComFrame-adopted-in-December-2024.pdf](#)

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2. What proposals would be subject to further consultation

Summary

We do not recommend any further consultation with industry on any of the substantive policies within the package. The proposals have been through an exhaustive consultation process, involving six public consultations, as part of the IPSA Review (2016-present) and we recommend the amendment Bill to proceed through a full Select Committee stage.

We plan to release an exposure draft Bill, released in the first quarter of 2026, which provides an opportunity for further feedback from the public. Following this, any consideration by Select Committee will call for a full range of public submissions.

Accordingly, at this stage, we do not consider it necessary or efficient to undertake additional public consultation.

Detail

Prior consultation

As part of the IPSA Review six consultation periods occurred between 2016-2024. However, four of 40 current proposals have not been explicitly consulted on:

- #4 The ability to set a requirement for overseas insurers to locally incorporate, where they meet a specified 'size and importance' threshold.
- #20 Require notification to (rather than approval from) the Reserve Bank prior to significant influence being obtained, where transaction relates to an overseas insurer.
- #37 Introduce a ministerial direction power in relation to any use of public funds in the event of entity failure.
- #40 Providing a regulation-making power to enable the Minister of Finance to extend the scope of matters on which the Reserve Bank could set standards.

Proposals #4 and #20 impose a lower compliance burden upon affected insurers, relative to the alternative options canvassed during consultation.² Proposals #37 and #40 reflect similar DTA requirements, promote your interests as Minister and provide greater legislative flexibility.

Proposal #40 would in theory expand the possible scope of IPSA standards. However, the decision to pass regulations (and the scope of any expansion) would sit with the Minister. Any regulations (and further standards under those regulations) would be subject to prior public consultation and approval by the Executive Council.

Exposure draft

Following further discussions with you, we propose to publicly release an exposure draft of the Amendment Bill (**the Bill**), and that the Bill will be subject to a full Select Committee process. An exposure draft is not designed to re-consult on policies. Instead, it is designed to help ensure the legislation accurately captures the intended policy intent and to test assumptions.

We propose that you would go to Cabinet Economic Policy Committee (**ECO**) prior to the exposure draft being published seeking agreement on the policies. Following the exposure draft we propose you would go to Cabinet Legislation Committee (**LEG**) for approval of the Bill. This is consistent with Legislation Design and Advisory Committee (**LDAC**) guidelines.

You could return to ECO after the exposure draft if further policy changes were desired.

² The two alternative proposals canvassed during consultation, were to require all overseas insurers to hold assets in New Zealand, and to require approval of significant influence changes, instead of notifying the Reserve Bank. Insurers raised concerns the proposals would increase barriers to enter the NZ insurance market.

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3. Specific policy proposals

You requested additional information on two proposals that industry raised concerns with:

- Proposal #17: Introduce a requirement for licensed insurers to obtain the Reserve Bank's **prior approval to appointment of relevant officers and directors**.
- Proposal #24: Introduce a power the Reserve Bank to conduct **on-site inspections** of licensed insurers without notice.

Pre-approval of officers (#17)

Currently, licensed insurers are required to provide a fit and proper certificate to the Reserve Bank within 20 working days after the appointment of a new director or relevant officer (CEO, CFO or Appointed Actuary). The Reserve Bank has the power to challenge an appointment, and remove the appointee from their position, if it has reasonable grounds to believe that the appointee is not a fit and proper person to hold the position.

The current process does not provide a meaningful opportunity for the Reserve Bank to raise concerns about candidates prior to appointment. Given that the Reserve Bank's removal power is post-appointment in nature, any removal is highly disruptive and may be operationally costly to an insurer.

Industry has raised concerns about a pre-approval process. They were concerned primarily about how the timeframe for approvals would interfere with recruitment processes, especially for smaller entities.

We note that the proposal would align with the requirements in the DTA, with the exception that the DTA requires the Reserve Bank to provide notice of a decision within *20-working days* after receiving all of the required information. We had consulted on a similar timeframe for IPSA.

Adding a 20-working day requirement could be an effective way of reducing uncertainty for industry. We expect to be well within the 20-working day window for small and medium sized insurers (78 of the 84 licensed insurers - those with less than \$500m of gross annual premiums per year). However, there are risks pre-approval for appointments for large insurers may take longer.

Pre-approval powers are common overseas, including Australia and the United Kingdom.

#24: On-site inspection without notice

Historically, the Reserve Bank's approach to prudential regulation and supervision has been an outlier internationally, with a focus on self and market discipline, relative to 'regulatory discipline'. In the supervision context, this 'light-touch' approach has been reflected in desk-based monitoring of compliance against prudential requirements, an approach which is largely reactive and relies on taking the information supplied by entities at face value.

By contrast, this package of proposals aims to further support regulatory discipline by providing a broader range of legally enforceable requirements (via standards) and additional tools to independently test and verify information provided by insurers. On-site inspections are a well-accepted and internationally orthodox approach to monitoring compliance. New Zealand failed aspects of the banking and insurance assessments during the 2016 IMF external audit (the FSAP), due in part to the absence of an on-site power. Those insurers with offshore parent entities will be very familiar with this prudential power.

Industry, during consultation, were concerned about a power to carry out on-site inspections without notice, arguing that this was unnecessary and could prove complex.

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Note, that while a 'without notice' requirement is fairly standard internationally, in practice and in most circumstances, notice would be given to an insurer so that it has adequate time to prepare for an inspection.

The Reserve Bank is now empowered to complete on-site inspections for deposit takers under the DTA. We are currently completing work on how this is operationalised once the rest of the DTA is enforced in 2028. Similarly, the Reserve Bank has been carrying out on-site inspections for 15 years under the AML/CFT regime.

In addition, MBIE are proposing under a Financial Markets Conduct Amendment Bill to introduce on-site inspection powers for the FMA to, without notice, enter and remain at a place of a financial markets' participants for compliance monitoring purposes. We understand MBIE are seeking Cabinet approval for introduction of the Bill this month.

The Treasury have been consulted on this Aide Memoire.



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Appendix 1: Statutory objectives for insurance prudential regulation – international context

IAIS Insurance Core Principles (2024)

The ICPs outline a framework for international best practice in insurance prudential regulation and supervision. The ICPs are used by the IMF to benchmark a jurisdiction’s insurance framework during a Financial Sector Assessment Programme (FSAP). The IAIS’ expectations for the mandate or objectives of insurance regulation are laid out in ICP1.2. These are to:

- protect policyholders
- promote the maintenance of a fair, safe and stable insurance market, and
- contribute to financial stability

Table 1 below provides a comparison of IPSA’s primary purpose and principles with the mandates for insurance prudential regulation in Australia and the United Kingdom.

Comparisons across jurisdictions and legislation are difficult and therefore some judgment in categorising is used.³

Table 1: International comparisons

| | New Zealand (IPSA) | Australia (APRA) | UK (PRA) |
|--|--------------------|------------------|---|
| Primary purpose | | | |
| Overarching - Financial stability / soundness | ✓ | ✓ | ✓ |
| Policyholder security | ✗ | ✓ | ✓ |
| Efficiency | ✓ | ✗ | ✗ |
| Secondary purposes / objectives | | | |
| Other | | | - Competition - Competitiveness and growth |
| Selected balancing considerations or principles | | | |
| Competition | ✓ | ✓ | (see above) |
| Compliance costs | ✓ | ✗ | ✓ |
| Proportionality | ✗ | ✗ | ✓ |

³ We have grouped the various objectives and considerations into the respective legislation’s ‘Primary Purposes’, ‘Secondary purposes’ and ‘Balancing considerations’ (that is, principles that the regulator has to take into account). For example, APRA must, “balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality”, against the promotion of financial stability. We have interpreted these balancing objectives as acting like statutory principles in the New Zealand context, but a case could equally be made that they are secondary or subordinate purposes.

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Appendix 2: Statutory objectives of IPSA and the DTA – similarities and differences

Caution should be used when comparing the two Act's. The deposit taking and insurance sectors are unique and have different characteristics. The banking industries importance to financial stability outweighs that of the insurance sector.

Similarities

Purposes

- Both contain the purpose of *promoting public confidence* (although, the DTA focuses on the financial system, while IPSA is focused on the insurance sector).

Principles

- Both contain principles of *maintenance of competition* and *avoiding unnecessary compliance costs*.
- Both contain principles relating to *effective risk management* and the provisions of *adequate information* for persons to make informed decisions.

Differences

Purposes

- The DTA's main purpose of *protecting and promoting the stability of the financial system* is consistent with the RBNZ Act's overarching financial stability objective. IPSA does not explicitly link back to the RBNZ Act (nor does the Financial Market Infrastructure Act 2021).
- One of IPSA's primary purposes is to promote the *maintenance of a sound and efficient sector*. 'Efficiency' does not appear in the DTA as a statutory purpose, although aspects of efficiency do appear in the set of principles under the DTA (i.e. *compliance costs* and *competition*).
- The DTA includes a subordinate purpose of *reasonable access to financial products and services*. This 'financial inclusion' purpose is not included in IPSA.

Principles

- The DTA contains a recognition of *international practices and guidance*, this is absent within IPSA.
- The DTA contains a *proportionality* principle, whereas IPSA does not.
- The DTA contains a financial inclusion principle (*diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders*), whereas IPSA does not.