

IPSA Review – Purposes and Principles

To	Hon Nicola Willis Minister of Finance	Date	11 April 2025
Authorised by	Jess Rowe Director, Prudential Policy Financial Stability Group	Report no	#6259
Prepared by	Annette Crequer Manager, Policy and Regulatory Stewardship	Security	In-Confidence

Action Sought

Action sought	Deadline
<p>Agree to the recommendations in this report.</p> <p>Direct officials, subject to your feedback on this report, to draft a Cabinet paper seeking Cabinet approval of your policy decisions.</p>	28 April 2025

Reserve Bank Contact for Telephone Discussion (if required)

Name	Position	Telephone
Benjamin Hammond	Senior Analyst, Prudential Policy	s 9(2)(a)

Actions for the Minister's Office Staff

Return the signed report, with any feedback, to the Reserve Bank.

Note any feedback on the quality of the report.

Attachment: *RBNZ#6247 Appendix 3 Proposed policy recommendations*

Executive Summary

1. We have provided advice (RBNZ#6247) on our recommended approach to amend the Insurance (Prudential Supervision) Act 2010 (**IPSA**). This was informed by significant consultation, including a consultation on IPSA's purposes and principles which we recommended be undertaken as a result of the introduction of the Deposit Takers Act 2023 (**DTA**) and lessons learnt operationalising the DTA.

The current purposes most effectively achieve your desired objectives.

2. Industry feedback did not support changes to the purposes and principles as they were considered fit for purpose. Industry raised concerns that changes create uncertainty and the potential to increase compliance costs.
3. Overall, we agree with this assessment, and therefore do not recommend changes to the purposes and principles on a net benefit basis. This is particularly in light of your focus on efficiency, which the current purposes of IPSA preserves.
4. You have emphasised that competition in the insurance market should be given a high weight and want to ensure the legislation promotes the right balance between efficiency and stability.
5. Accordingly, based on your objectives, we continue to be of the view that the current purposes in IPSA most effectively achieve your desired objectives when compared to other potential articulations e.g. the DTA purposes (where efficiency is not explicitly called out).

The impact of changes to principles is marginal, and your desired objectives are reflected in current principles. Adding further principles risks operational complexity.

6. In terms of the principles of IPSA, we continue to recommend against changes as this would result in additional legislative complexity. Additional principles would not provide any material benefit over and above the concepts contained in the current principles.
7. However, the costs and benefits associated with additional principles and requirements such as requiring reference to international frameworks and adding a proportionality framework, are small and manageable. If you put weight on the signalling effect of these matters, then we can include these in a Cabinet paper.
8. We recommend against changing "maintain" to "promote" competition as IPSA's provisions do not enable the Reserve Bank to actively promote competition, especially if it conflicts with financial stability. It may raise expectations as to our ability to influence fundamental market dynamics, notwithstanding regulation is an, intentionally, small part of the way markets operate. An outline of the insurance sector's competition and market dynamics is provided in appendix 1, for your information.
9. Competition, as a mechanism to achieve efficiency, is already appropriately embodied in the purposes. For example, we test whether policies are competitively neutral and entities face similar levels of regulations when making recommendations. However, if you do wish to make this change, we can include it in a Cabinet paper.

The Treasury's view is that:

10. There would be value in adding to IPSA: (i) a proportionality principle, accompanied by a requirement for a proportionality framework for decision-making; and (ii) an international norms principle (both in line with the equivalent principles in the Deposit Takers Act 2023 (DTA)) – whilst noting that the risks, downsides, and costs identified by the Reserve Bank in this advice do not appear significant.

11. If you wanted the legislative framework to place greater emphasis on competition, you could change the competition principle from the desirability of 'maintaining' to 'promoting' competition – but noting this would be inconsistent with the equivalent provision currently in the DTA.
12. There should be a consistent approach to the DTA for the Reserve Bank to pre-approve officers and directors within 20-working days.

IPSA Review – Purposes and Principles

Section 1: Background

14. Following the Reserve Bank’s review of IPSA (**the IPSA Review**), in December 2024 we recommended a package of reforms to modernise insurance prudential regulation in New Zealand (RBNZ#6247 refers). The Treasury provided you with advice alongside ours (T2024/3394 refers).
15. You agreed “in principle” to progress amendments to IPSA. However, before making any further decisions you asked for additional advice on on-site inspections and pre-approval of directors and officers and to meet with us to discuss our proposals.
16. You noted you were open to reconsidering further updates to principles and purposes in IPSA to promote competition and align with the Deposit Takers Act 2023 (**DTA**).
17. We subsequently met with you in and provided supporting advice for that meeting (RBNZ#6255 refers). At that meeting you confirmed comfort with the proposed policy changes, but you asked for further advice and options on how IPSA’s purposes and principles could be amended to promote competition, and reduce regulatory burden.
18. This report responds to that request for further advice. It also seeks your formal agreement to the full set of policy changes and next steps, including seeking Cabinet agreement to these policy changes and preparing an exposure draft of legislative amendments to give effect to these changes, which would be publicly consulted on in January 2026.
19. This report is divided into five sections: Section 1 contains background on legislative purposes and principles; Section 2 details options to amend IPSA’s current purposes; Section 3 details options to amend IPSA’s principles. A summary of the policy package (Section 4) and next steps concludes the report (Section 5).

IPSA review’s terms of reference

20. In August 2023, the previous Cabinet agreed (CAB-23-MIN-0387) to expand the IPSA Review’s previously set terms of reference (CAB-16-MIN-0072) by including the ability to make minor changes to IPSA’s purposes and principles.
21. We supported the ability to consult and review IPSA’s purposes and principles, as this would provide us the ability to consider IPSA’s purposes and principles alongside the Reserve Bank’s other more recently reviewed legislation (the Reserve Bank Act 2021 (**RBNZ Act**), the Financial Markets Infrastructure Act 2021 (**FMI Act**) and the DTA).

Purpose clauses generally signal Parliament’s intent and have a more substantive impact than principles

22. IPSA’s purpose clause is designed as a *policy purpose clause*; that is, the clause signals the high-level policy approach intended by Parliament - bridging the gap between policy and law. Clauses like these are useful in setting the policy direction of

a regime and the decision-making criteria. Policy purpose clauses have a more substantive impact on the administration of the legislation than principles.¹

23. Principles are often applied in a similar, but lesser, way to purpose clauses by setting out high-level statements of core policy that are used to guide decision-makers. The IPSA principles guide the exercise of powers and duties conferred on the Reserve Bank by IPSA.
24. In short, the ‘purposes’ of the Act set the aims of the legislation, while ‘principles’ guide the exercise of power.

LDAC guidance – Simple and achievable decision-making frameworks are generally preferred

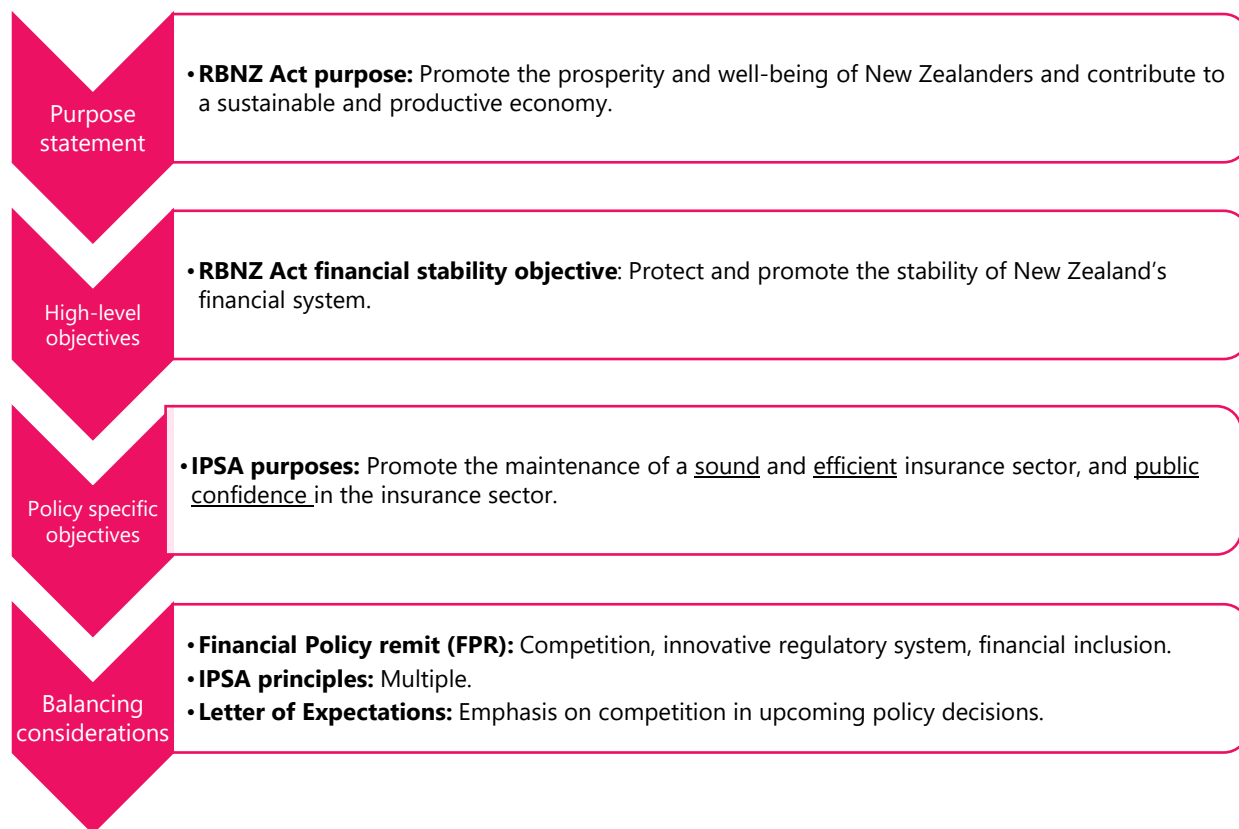
25. The Legislative Design Advisory Committee (**LDAC**), who advise on legislative design in New Zealand, cautions to be particularly careful when retrofitting a purpose clause to legislation as it can be very difficult to ensure that the purpose is consistent with the substantive provisions.²
26. LDAC also warns that:
 - **“Less may be more”** - when designing purposes and principles it is prudent to ensure that there are not too many to be taken into account, as it will result in unworkable and complex decision.
 - **Creating unintended legal effects and risks judicial review** - caution should be used when changing purposes and principles of existing legislation to prevent unintended legal effects on the interpretation of the amended legislation.

IPSA’s current framework

27. IPSA’s current purposes are to:
 - promote the maintenance of a sound and efficient insurance sector; and
 - promote public confidence in the insurance sector.
28. In achieving the purposes of IPSA, the Reserve Bank is required to consider the principles of that Act. There are 12 principles, which include the need to maintain competition in the insurance sector and the need to avoid unnecessary compliance costs. The full list of principles is included in Appendix 2.
29. IPSA’s purposes and principles must also be viewed in their context alongside the RBNZ Act (including its purpose statement and the Reserve Bank’s financial stability objective), and the Letter of Expectations (**LoE**). Further, the Reserve Bank’s Board must consider the Government’s Financial Policy Remit (**FPR**) when acting in relation to the Reserve Bank’s prudential strategic intentions and prudential standards. Figure 1 provides a stylised depiction of this surrounding context.

¹ Legislative Design and Advisory Committee (LDAC), *Designing purpose provisions and statements of principle*, Legislative Guidelines: 2021 edition. <https://www.ldac.org.nz/guidelines/supplementary-materials/designing-purpose-provisions-and-statements-of-principle#statements-of-principle-fe5f7dfa>

² Legislative Design and Advisory Committee (LDAC), *Designing purpose provisions and statements of principle*, Legislative Guidelines: 2021 edition. <https://www.ldac.org.nz/guidelines/supplementary-materials/designing-purpose-provisions-and-statements-of-principle#statements-of-principle-fe5f7dfa>

Figure 1: Reserve Bank's decision-making environment

Section 2: Options for changes to Purposes

Criteria

30. Having regard to LDAC guidance, along with the IPSA Review terms of reference, we have established the following criteria to identify and analyse the options in this report:
- **Effectiveness:** whether in practice the decision-maker (the Reserve Bank) is able to achieve the purposes and give sufficient weight to the principles in light of the tools and powers conferred to the decision-maker by IPSA.
 - **Legislative framework:** whether the purposes and principles fit or are otherwise not incoherent with the domestic legislation framework, including the RBNZ Act and other sectoral prudential legislation.
 - **International coherency:** whether IPSA is coherent when considered alongside comparable countries' legislation and the International Association of Insurance Supervisors Insurance Core Principles (**ICPs**). The ICPs are the globally accepted framework for insurance supervision. The IMF evaluates countries against the ICPs as part of their Financial Sector Assessment Programme (**FSAP**).
 - **Government priorities:** consideration of Parliamentary, Government and Ministerial intent, as outlined in select committee scrutiny of Reserve Bank activities, LoE and FPR (having regard to competition, innovative regulatory system and financial inclusion).³
31. Industry feedback is also considered when evaluating the options.

³ Financial Policy Remit, issued by the Minister of Finance, December 2024. [Our Financial Policy Remit - Reserve Bank of New Zealand - Te Pūtea Matua](#)

Options for changes to the purposes

32. We have analysed three design options for IPSA’s purposes:
- a) **Status quo [recommended]** – to promote the maintenance of a sound and efficient insurance sector and promote public confidence in the insurance sector.
 - b) **Elevate ‘financial stability’ as a main objective** – A main ‘financial stability’ objective would be created with additional purposes of soundness, efficiency and public confidence.
 - c) **Add policyholder security** – The current framework would remain, but promotion of policyholder security would be included as a purpose. This would align with the ICPs and most international regimes.⁴

Summary

33. Our analysis is outlined in Table 1 with further detail following. In summary, the current purposes of ‘promoting a sound and efficient insurance sector’ and ‘promoting public confidence in the insurance sector’ capture the key outcomes and strike the appropriate balance that we understand you want to achieve from the regime considering economic growth, competition, and reducing regulatory burden.
34. The inclusion of ‘efficiency’ aligns with the Government’s current focus on promoting competition and innovation across the financial system as outlined in the new FPR.
35. Industry preferred the status quo given the existence of ‘efficiency’ as a counterbalancing purpose.

Table 1: IPSA purposes evaluation: Options are evaluated against the status quo

Table key: + Achieves criteria, 0 neutral and - Fails to achieve criteria

Evaluation criteria	a. Status quo [RBNZ / TSY preferred option]	b. Financial stability	c. Add policyholder security
1. Effectiveness (achievable and able to give sufficient weight)	0 Substantive provisions of IPSA are designed with current purposes in mind.	- IPSA’s provisions largely focus on the purpose of soundness. This change could raise questions regarding the supervision of small insurers.	0 IPSA includes some provisions that protect policyholders, such as a ring-fenced asset scheme for life insurers and disclosure requirements.

⁴ This is distinct from a policyholder guarantee scheme which is common in overseas jurisdictions (including the UK and Australia). The previous Government, consistent with our advice, agreed not to progress work on a policyholder guarantee scheme.

Evaluation criteria	a. Status quo [RBNZ / TSY preferred option]	b. Financial stability	c. Add policyholder security
2. Legislative framework	<p style="text-align: center;">0</p> <p>Consistent with the FMI Act. But different from the DTA*</p>	<p style="text-align: center;">0</p> <p>The change could be redundant as the RBNZ Act's financial stability objective applies to the Reserve Bank.</p> <p>This option would align with the DTA.</p>	<p style="text-align: center;">0</p> <p>Policyholder protection (during insurer distress) is currently a principle.</p>
3. International coherency	<p style="text-align: center;">0</p> <p>IMF provided a pass mark, when comparing with international expectations.</p> <p>Although noted that, 'Protect policyholders' was missing.</p>	<p style="text-align: center;">-</p> <p>This option is comparable to the status quo, but may create unnecessary uncertainty.</p>	<p style="text-align: center;">+</p> <p>This option would align with Australia, UK and the internationally recognised ICPs.</p>
4. Govt priorities	<p style="text-align: center;">0</p> <p>The status quo includes 'efficiency' as a purpose.</p>	<p style="text-align: center;">-</p> <p>'Efficiency' would be retained as an additional purpose under this option. However, it would be read in the context of financial stability.</p>	<p style="text-align: center;">-</p> <p>Although 'efficiency' would be retained under this option, it would need to be weighed up against a greater number of purposes.</p>
Industry feedback	<p style="text-align: center;">0</p> <p>Industry supported the retention of 'efficiency'.</p>	<p style="text-align: center;">0</p> <p>Industry had mixed views on this option. Some acknowledged the benefit of legislative alignment, others questioned whether it would have any material impact.</p>	<p style="text-align: center;">-</p> <p>Industry opposed this option and instead supported the retention of current purposes. Highlighting that this option would likely lead to uncertainty and additional costs.</p>

*You have received advice on the comparable provisions in the DTA (Treasury report T2025/738).

Context for analysis

Criteria 1: Effectiveness

36. We have found through both operational experience and external reports⁵ that the current purposes are broadly appropriate when considering the outcomes prudential insurance legislation should aim to achieve. The status quo strikes the appropriate balance between soundness and efficiency (e.g. competition and regulatory burden).
37. IPSA contains few provisions that are solely focused on achieving an efficient sector (that is, provisions that are not related to ‘soundness’ or ‘public confidence’). Nevertheless, the presence of ‘efficiency’ as a purpose acts as a useful counterbalance to soundness and helps to prevent the “financial stability of a graveyard”.⁶
38. As warned by LDAC, adding additional purposes to an established Act is unlikely to be effective because the provisions of the Act may not directly support the delivery of the new purpose. There are some provisions that are directly related to ‘policyholder security’ within IPSA (the ring fencing of life insurer assets is an example).

Criteria 2: Legislative framework (Appendix 3 compares IPSA with domestic and international purposes and principles)

39. IPSA’s current legislative structure is akin to the Banking (Prudential Supervision) Act 1989 (**BPSA**), which is being replaced by the DTA. The DTA’s structure is different with ‘financial stability’ as its main purpose. In the context of the DTA, ‘efficiency’ was deemed to no longer be needed as a counterweight to soundness given the concept of financial stability encapsulates both resilience but also other important long-term enablers, including competition, innovation, efficiency and inclusivity.
40. The Financial Markets Infrastructures Act 2021 (**FMI Act**) is similar in design to BPSA and the IPSA status quo by having the ‘maintenance of a sound and efficiency financial system’ as one of four purposes.
41. The DTA also contains a ‘financial inclusion’ subordinate purpose (‘to support New Zealanders having reasonable access to financial products and services’). This option was consulted on during the Omnibus consultation and would align with the FPR which specifically outlines ‘financial inclusion’ as desirable alongside ‘competition’. IPSA does contain a principle recognising the importance of insurance to the public.
42. We recommend against adding a separate financial inclusion purpose as this could increase insurance pricing for households, be inconsistent with the purpose of efficiency and likely be counterproductive to financial stability (by potentially requiring insurers to offer products that may not align with their own risk portfolio).
43. Comparisons with BPSA, the DTA and other Reserve Bank legislation are helpful in recognising the importance of balancing soundness goals with other outcomes that are important. However, exact alignment is not necessarily appropriate given the differences between insurers and deposit takers and the markets they operate in. For

⁵ The IMF’s assessment against the Insurance Core Principles was carried out in New Zealand in 2016. The Trowbridge-Scholtens report (**T-S report**) on the Reserve Bank’s supervision of CBL Insurance Limited, dated 6 May 2019. The T-S report (an independent report commissioned by the Reserve Bank, by John Trowbridge and Mary Scholtens QC) did not raise any concerns with the Act’s purposes and principles.

⁶ Former British chancellor Geroge Osborne was quoted saying, “Britain does not want the financial stability of a graveyard”, 2011.

example, the insurance industry has significantly less ‘contagion risk’ than the banking industry, that is, the failure of one entity having a severe impact on other insurers or the market as a whole. This means broader objectives like financial stability are less relevant for insurance prudential regulation than the deposit taking equivalent.

44. As illustrated in Figure 1: *Reserve Bank’s decision making framework*, adding financial stability is unlikely to make any material difference to the operation of IPSA given the financial stability objective contained in the RBNZ Act.

Criteria 3: International coherency

45. The inclusion of ‘efficiency’ in IPSA’s purposes is not the international norm. The international principles expect the objectives of insurance regulation to be, to:⁷
- protect policyholders;
 - promote the maintenance of a fair, safe and stable insurance market; and
 - contribute to financial stability.
46. The IMF’s most recent FSAP assessment of New Zealand in 2016 gave us a pass mark (‘largely observed’⁸) regarding the statutory objectives of IPSA.
47. However, the IMF did recommend that IPSA make explicit reference to ‘policyholder protection’ as either a purpose or principle (see Principle: Option d). We have recommended that policyholder protection is included as a distress management sub-part objective (proposal #33, RBNZ#6247 refers). Adding a policyholder protection purpose would place greater weight on the ‘soundness’ of the sector and individual insurers and deemphasise other balancing considerations which would not align with current Government priorities.

Criteria 4: Government priorities

48. Set out in the FPR, the Government has outlined that competition, innovation and financial inclusion are factors that should be considered when setting prudential strategy and prudential standards.
49. The status quo is consistent with Government priorities by having ‘efficiency’ as a purpose of the Act. In addition, the maintenance of competition is included as a principle of the Act.

Consultation feedback

50. During the Omnibus Consultation industry were consulted on both the alternative options alongside the status quo. Industry preferred the status quo, opposing:
- the removal of the ‘efficiency’ purpose;
 - any explicit extension of language around ‘policyholder protection’; and
 - any provisions to specifically promote ‘access to insurance’.

⁷ IAIS, [Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups](#), December 2024.

⁸ For a principle to be considered partly observed, the IMF observes that there are sufficient shortcomings to raise doubts about the supervisor’s ability to achieve observance. We therefore treat a ‘Partly observed’ grade as constituting a fail grade, while ‘Largely Observed’ and ‘Observed’ as pass grades.

Section 3: Options for changes to Principles

51. We have identified four options for changes to the Act’s principles, which are:
- a) **Competition** – changing the competition principle from the desirability of ‘maintaining’ to ‘promoting’ competition in the insurance sector.
 - b) **Proportionality** - the inclusion of ‘desirability of taking a proportionate approach to regulation and supervision’ as a principle of the Act.
 - c) **International norms** - the inclusion of maintaining awareness of practice, guidance or standards of international organisations as a principle of the Act.
 - d) **Policyholder interests** – expanding the scope of an existing principle to ‘adequately protect the interests of policyholders’, not just during insurer distress.
52. Changes to the principles would affect what the Reserve Bank is required to consider when making decisions under the Act. Options are assessed against the same criteria used in section 2.

Summary

53. Our analysis is outlined in Table 2 with further detail following.
54. In summary, legislative principles can be used as an effective way to guide decision makers. Adding principles that act as balancing concepts alongside soundness, is a viable option to further emphasise government priorities or according to LDAC, ‘bridge the gap between policy and law’.
55. However, when considered in light of government priorities, we recommend against making any changes to the principles, given that ‘efficiency’ is already included as a purpose, along with maintenance of competition as a principle.
56. In addition, there are already effective mechanisms for the government to emphasise government priorities, including the FPR and LoE.
57. Adding or changing principles risks unintentionally diluting current principles and risks creating an unworkable and complex decision-making framework.

Table 2: IPSA principles evaluation options are evaluated against the status quo:

Table key: + Achieves criteria, 0 neutral and - Strongly fails to achieve criteria

Evaluation criteria	a. Promote competition	b. Proportionality	c. International norms	d. Policyholder interests
1. Effectiveness (consistent with the Act’s tools and other purposes / principles)	-	+	+	+
	The change from ‘maintaining’ to ‘promotion of competition’ would be novel in New Zealand’s prudential regulation.	Due to the overlap in current purposes and principles, the Reserve Bank takes into account proportionality and awareness of international norms when exercising its powers under the Act.		Policyholder interests can be explicitly considered when administering the Act, without disruption.

Evaluation criteria	a. Promote competition	b. Proportionality	c. International norms	d. Policyholder interests
2. International coherency	0 UK has an 'advancement' of competition and competitiveness as a balancing consideration.	+ 'Proportionality underlies all the ICPs' – IAIS and IMF	0 Referencing 'awareness of international standards' is uncommon in comparable jurisdictions.	+ IMF recommended that IPSA make explicit reference to 'policyholder protection'.
3. Legislative framework	- The ability for the Reserve Bank to take into account the promotion of competition given current provisions of IPSA may be limited and be inconsistent with current purposes.	0 Both are contained within the DTA. Our experience with setting standards and regulations under the DTA indicates that it can be challenging to take into account an extensive list of principles when making decisions.	0	- DTA does not contain an equivalent 'policyholder interests' principle.
4. Govt priorities	+ Would signal alignment with Govt priorities	0	0	- A policyholder interest principle could place greater weight on 'soundness', in comparison to Govt priorities.

Context for analysis

Criteria 1: Effectiveness

58. As noted by LDAC, the inclusion of too many guiding principles can result in unworkable and complex decision-making (bearing in mind that the Reserve Bank must also have regard to the content of the FPR when setting prudential strategic intentions or issuing standards). The Depositor Compensation Scheme levies process is an example of where a complex statutory framework, that required you to take into account the riskiness of deposit takers, can reduce the number of possible design decisions that can be made (without having to seek further legislative amendments or risk judicial review).
59. Currently, the Reserve Bank considers and implements proportionality (Option b) and has regard to international norms (Option c) in its current decision-making on insurance regulation and supervision through current principles, as it does with policyholder interests during insurer distress.

- Consideration of the internationally-recognised ICPs throughout the IPSA Review is a practical example of taking into account international norms.
- Similarly for proportionality, we concentrate our supervisory resources on those licensed insurers that have the greatest risk of failure and most significant impact on the sector. That said, inclusion of these additional principles would reinforce what the Reserve Bank considers as good (and current) regulatory practice.

Criteria 2: Legislative Framework

60. There is significant overlap between the principles included in the DTA and IPSA, Appendix 2 compares IPSA with international and domestic legislation. They both contain principles relating to competition, compliance costs, effective risk management and adequacy of information.
61. Unlike IPSA, the DTA does contain a proportionality principle (Option b) and an international awareness principle (Option c).
62. The DTA also requires the Reserve Bank to prepare and publish a framework for taking proportionality principle into account when developing standards. Considering proportionality would be an important consideration when drafting standards, to ensure the standards are commensurate with differences in size, complexity and business models of insurers. However, creating a legislated requirement for this principle, as compared to other important principles, including competition and compliance costs would be superfluous.
63. The DTA does not contain an equivalent 'policyholder interests' principle.
64. In addition, the DTA contains a financial inclusion principle. In comparison, IPSA contains a principle recognising the importance of insurance to individuals and businesses. Although less explicit, this principle requires the Reserve Bank to consider the value New Zealanders receive from accessing a wide pool of insurance products.

Criteria 3: International coherency

65. The internationally recognised ICPs do not specifically outline which principles or balancing factors decision makers should consider when making decisions under insurance prudential legislation. However, the ICPs set the expectation that effective insurance supervision is implemented and applied in a proportionate manner, and that 'proportionality underlies all the ICPs'.⁹
66. The IMF, in its 2016 FSAP recommendations, suggested that the purposes or principles of IPSA make explicit reference to the objective of policyholder protection, and this would align with both the UK and Australia. Option D refers to 'policyholder interests', and not 'policyholder protection', to better reflect government priorities. 'Interests' encapsulate the impact on premium levels and insurance products offered, this would better allow for consideration of competitive factors.

⁹ 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

Criteria 4: Government priorities

67. The RBNZ Act allows the Government of the day to signal the importance or desirability of a specific matter through the issuance of the FPR. The current FPR signals the desirability of competition, innovation and financial inclusion.
68. Of the options canvassed, amending the current competition principle would be most consistent with your goals as Minister. The inclusion of an international principle and a proportionality principle are largely focused on avoiding unnecessary compliance costs by supporting alignment with global standards and tailoring requirements to the riskiness of the insurer.
69. With regard to Option D (policyholder interest), the principle could place greater weight on the strengthening of the soundness of the insurance sector (notwithstanding the use of 'interests' and not 'protection'), although other policyholder interests including competitive premiums and high service levels are consistent with desired outputs that promoting competition is designed to achieve.

Consultation

70. We consulted on the role of 'policyholder interests' during the 2023 Omnibus consultation. Industry was against any explicit extension of language around policyholder protection.
71. Some were concerned that policyholder protection was too broad, with particular risk of blurring jurisdictional boundaries with the FMA. Some argued that IPSA already contains mechanisms that protect policyholders, so the legislation did not need reinforcing in this respect. Multiple respondents went on to say that, if we were to address this issue, they would prefer a reference to 'policyholder security'.
72. We did not consult on the other options canvassed in this report. It is unlikely industry would have strong views on the other options.

Section 4: IPSA Review policy package (RBNZ #6247)

73. You agreed in principle to progress amendments to IPSA (an Amendment Bill) (RBNZ #6247 refers). For reference, the proposed policy changes from that report are contained in the attachment. In summary, the proposed package focused on seven broad changes:
 - **Adjusting the regulatory scope** (including removing licensing requirements for certain insurers).
 - **New standards** (provide greater certainty to insurers on prudential requirements).
 - **Adjustments to the fit and proper regime** (including pre-approval for the appointment of relevant officers and directors).
 - **Simplified regulatory approvals** (simplify the regulatory approvals process and align thresholds with the Minister for Business Innovation and Employment administered legislation).
 - **Graduated supervision and enforcement powers** (including additional information gathering powers and on-site inspection powers without notice).

- **Refined distress management provisions** (adjustments to improve insurers' moratorium rights and revising the threshold for statutory management).
 - **Amendments to improve the Act** (including updating the penalty levels to align with comparable regulatory regimes).
74. However, you requested further information on the proposals that raised industry concern:
- Introducing a requirement for licensed insurers to obtain the Reserve Bank's prior approval the appointment of relevant officers; and
 - Introducing a power for the Reserve Bank to conduct on-site inspections of licensed insurers without notice.
75. Further information was provided (RBNZ#6255 refers) and officials met with you in late February 2025 to discuss the proposals. You stated comfort with the policy proposals, aside from seeking further advice on the purposes and principles as contained in this report.
76. For completeness, this report seeks agreement to the policy proposals previously agreed to in-principle, including those you previously requested further information on.

Section 5: Consultation and Next Steps

Consultation

77. The Ministry for Business, Innovation and Employment (**MBIE**) and the Financial Markets Authority (**FMA**) have been consulted on this report and support our recommendations.
78. The Treasury has been consulted on this advice. Its views, based on the Reserve Bank's advice herein, are that:
- *Proportionality and international norms principles:* There would be value in adding: (i) a proportionality principle, accompanied by a requirement for a proportionality framework for decision-making; and (ii) an international norms principle, to IPISA (both in line with the equivalent principles in the DTA). For example, this would provide clearer expectations and ensure that the Reserve Bank takes these matters into account into the future, would more closely align this regime with the equivalent regime for deposit takers in the DTA, and in the case of the proportionality principle promote competition – whilst noting that the risks, downsides, and costs identified by the Reserve Bank in this advice do not appear significant.
 - *Promoting competition principle:* If you wanted the legislative framework to place greater emphasis on competition, you could change the competition principle from the desirability of 'maintaining' to 'promoting' competition – but noting this would be inconsistent with the equivalent provision currently in the DTA.
 - *Pre-approval of directors and officers:* You previously indicated interest in the Reserve Bank's proposals about pre-approval of directors and officers given industry had raised concerns. One issue is whether there should be a requirement for the Reserve Bank to provide notice of their decision with a specified timeframe:

- i. there would be value including a timeframe to provide clarity to industry and would be consistent with the approach in the DTA.
- ii. a 20-working day timeframe (in line with the equivalent requirement in the DTA) seems sensible unless there are practical reasons why this would be impossible or inappropriate from the Reserve Bank’s perspective. In the Reserve Bank’s previous advice to you they noted that they “*expect to be well within the 20-working day window for small and medium sized*” and that “*there are risks pre-approval for appointments for large insurers may take longer*”. If a 20-working day timeframe is considered inappropriate, a longer timeframe could also be considered. The length of time could potentially be an item subject to further consideration and consultation by the Reserve Bank as part of the next part of their process.

79. s 9(2)(f)(iv)

[Redacted]

Next steps

- 80. Following your decisions on the purposes and principles of IPSA, we propose to draft a Cabinet paper that you can take to Cabinet in June 2025 for approval of the substantive policies.
- 81. We also seek approval to release an exposure draft of an amendment Bill, which give effect to the policy proposals. The exposure draft would be released in January 2026 and seek public comment on the drafting of the policies.
- 82. A proposed timeline for the progression of an amendment to IPSA is provided below.

Item	Date
Your decisions on IPSA’s purposes and principles and any outstanding concerns with the remaining policies.	Ideally by 28 April 2025
Provide you a draft Cabinet paper	1 May 2025
Ministerial consultation on draft Cabinet paper	May 2025
Cabinet committee and Cabinet	Early June 2025
Public release of an exposure draft	Jan - Feb 2026
Report back to you on possible drafting amendments	March 2026
Cabinet confirming the Amendment Bill	April 2026
Introduction of the Bill in the House	Mid 2026

Recommendations

- a) **Note** that drawing upon external reports and operational experience, we have found IPSA's current purposes and principles to be broadly appropriate when considering government priorities and the outcomes prudential insurance legislation should aim to achieve.
- b) **Note** that, changes to IPSA's principles compared to changes to the purposes would be a lower legal and operational risk option to signify Government policy aims and to factor these matters into Reserve Bank decision-making. However, there are already existing principles and effective mechanisms in place for the Government to regularly state its policy priorities (for example, Financial Policy Remit and Letter of Expectations).
- c) **Note** that the Treasury have been consulted on this report and see value in adding additional principles to IPSA, specifically, a proportionality principle with a requirement to publish a proportionality framework (**rec g.) ii.**), an international awareness principle (**rec g.) iii.**) and a policyholder interests' principle (**rec g.) iv.**). The Treasury in making this recommendation have weighted alignment with the DTA greater than our concerns and LDAC guidelines regarding operational and legislative complexity of adding principles.
- d) **Agree** that the purposes of IPSA, *to promote the maintenance of a sound and efficient insurance sector and to promote public confidence in the insurance sector*, are still fit for purpose. **[Reserve Bank preferred option]**

Agree / Disagree

If you disagree, and wish to change IPSA's purposes, then:

- e.) i.) **Indicate** if you wish for the purposes of IPSA to be redesigned to have a main purpose of financial stability, and additional purposes of 'soundness and efficiency of the sector' and 'public confidence'.

Yes / No

And / or

- e.) ii.) **Indicate** if you wish for the current purposes of IPSA to remain but policyholder security is added as a purpose.

Yes / No

- f) **Agree** that the principles of IPSA (which include policyholder interests during insurer distress, consistent treatment of similar institutions, maintaining competition and avoid unnecessary compliance costs) are still fit for purpose. **[Reserve Bank preferred option]**

Agree / Disagree

If you disagree, and wish to change IPSA's principles, then:

- g.) i.) **Indicate** if you wish for the principle *to maintain competition* within the insurance sector to be changed to *promote competition within the insurance sector*.

Yes / No

g.) ii.) Indicate if you wish for *the desirability of taking a proportionate approach to regulation and supervision* is added as a principle.

Yes / No

and a requirement that the Reserve Bank prepare and publish a framework for taking the proportionality principle into account is added.

Yes / No

g.) iii.) Indicate if you wish for *maintaining awareness of guidance or standards of international organisations* is added as a principle.

Yes / No

g.) iv.) Indicate if you wish for the scope of the existing *policyholder interests* principle is expanded to *adequately protect the interests of policyholders*, not just during insurer distress.

Yes / No

h) Agree to the policy proposals contained in RBNZ#6247 (the proposed policy recommendations from that report is attached) including the proposals regarding on-site inspections (#17) and pre-approval of officers and directors (#25) which you previously requested further information on (RBNZ#6255 refers).

Agree / Disagree

i) Agree that, in response to industry feedback, the proposal to require licensed insurers required to obtain the Reserve Bank's prior approval to appointments of relevant officers and directors (#25), should include a requirement that the Reserve Bank provides notice of their decision within 20 working days after receiving all of the required information.

Agree / Disagree


j) Direct the Reserve Bank, subject to your feedback on this report, to draft a Cabinet paper on your behalf seeking Cabinet approval of your policy decisions.

Direct / Do not direct

k) Agree to seek Cabinet approval to release an exposure draft of an amendment Bill giving effect to the policy proposals. The exposure draft would be released in January 2026 and consult on the drafting of the Bill.

Agree / Disagree

Hon Nicola Willis
Minister of Finance


Jess Rowe
Director Prudential Policy
Reserve Bank of New Zealand

11/04/2025

Appendix 1: Competition and Market dynamics

Background

As at January 2025, there are 84 licensed insurers.

- 60 are considered 'small' insurers with gross written premium generally being below \$200m annually. For context, the two largest insurers wrote \$4.1b and \$1.6b in gross written premium in 2024.

Of the 84 licensed insurer, 33 are overseas insurers (incorporated overseas); and 7 are 'captive' insurers (insurers owned and used by large companies to access reinsurance markets, serving only one policyholder – e.g. a power gentailer).

The insurance sector in New Zealand is dominated by a handful of New Zealand based, overseas owned insurers.

When IPSA was first introduced in 2010, there were 104 licensed insurers in New Zealand. In the past 15 years the sector has seen some consolidation. There have been roughly 45 transfers and amalgamations under IPSA, since 2016.

These transfers and amalgamations have facilitated the common practice of a non-operating holding company owning and operating several "brands" with each having a license. For example, IAG New Zealand operates brands such as AMI, State and NZI. The extent to which entities owned by the same entity or shareholder compete with each other is greatly debated.

Most large insurers that operate in New Zealand are domiciled in New Zealand with over 85% of all premiums being paid to New Zealand incorporated insurers. However, the majority of large insurers are foreign controlled (that is, over 50% of the insurer is owned by overseas persons). About 75% of premiums are paid to insurers which are foreign controlled.

Around 20% of insurance policies are written by branches of overseas insurers ("branches"). This means that the insurer is a legal entity incorporated in another jurisdiction but operating in New Zealand.

The insurance sector is generally divided into five sub-sectors with each having unique characteristics.

New Zealand's insurance sector is customarily split into Health Insurance, Life Insurance, General Insurance and Public Insurance. General insurance includes motor, house and land, and personal property insurance, and directors and officers (and other personal liability) insurance.

While public insurance is insurance provided by the state, specifically accident insurance (ACC) and natural hazards insurance (Natural Hazard Commission). ACC and the NHC are exempt from IPSA licensing.

General insurance is the largest sub-sector, excluding public insurance, accounting for approximately 60% of the private market (measured by premiums received), followed by life and health, approximately 20% for both.

The three insurance sub-sectors are dominated by a handful of insurers, with IAG and Suncorp dominating general insurance, and Southern Cross dominating health insurance.

The insurance sector has features of an uncompetitive market. When measured using concentration ratios the sector is often considered moderately to highly concentrated depending on the subsector observed. "Concentration ratios" is the market share (based on

premiums received) of the three (CR3) and five (CR5) largest insurers, these are provided in table 3. For comparison, the four major banks (~"CR4) currently hold 85-90% of total assets within New Zealand's deposit taking sector.

Table 3

Metric	Life	General	Health
CR3	54%	63%	89%
CR5	74%	75%	96%
Concentration ¹⁰	Moderate	Moderate to high	High

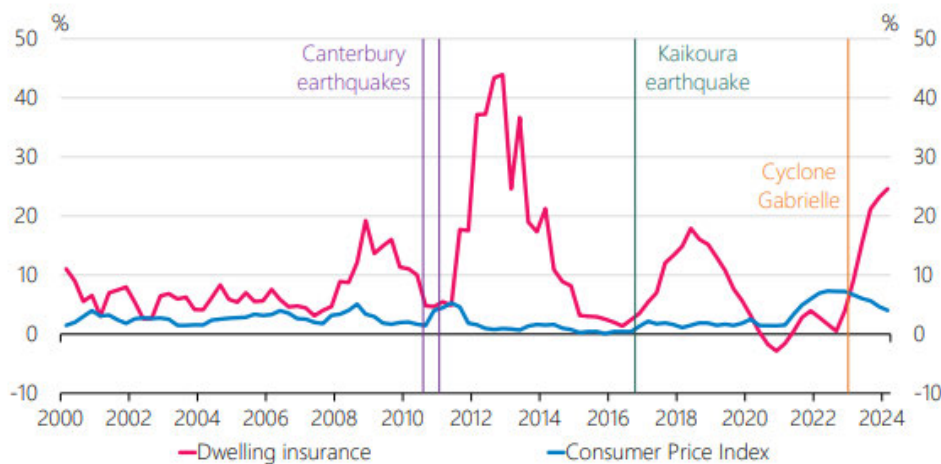
Recent growth in premiums has been high but is tapering

Premium rates have increased considerably over the past 2-3 years primarily due to higher inflation and a re-evaluation of risk.

In the last 3 years, dwelling and contents insurance premiums are both up approximately 50%. Figure 2 illustrates the annual (not 3-yearly) rise in premiums as compared to average inflation, represented by the CPI. Similarly, health insurance premiums increasing 26% and vehicle insurance increasing 34%. Life insurance is the outlier only increasing 1% during the 3-year period (life insurance is exposed to unique risks (mortality rates) as compared to general insurance, in addition, insurers appear to have to offer more competitive pricing to retain customers).

Figure 2

Annual inflation rate for dwelling insurance and all consumer prices



Source: Stats NZ

With fewer large-scale claims since the Auckland flooding in 2023, it is expected growth in premiums especially for general insurance should settle. This is consistent with broader international expectations despite costly climate-related events. Recent claims in North America may actually place downward pressure in the New Zealand market as reinsurers rebalance their risk portfolios.

Risk based pricing and other technologies will drive future competition

In recent years there has been an ongoing shift of insurers moving more to risk-based pricing of insurance.

- Under a risk-based approach, an insurer will vary premiums charged based on a more individualised assessment of a policyholders' risk profiles and likelihood of making a claim.
- This can be compared to a community-based approach, where an insurer assess risk based on broad averages across policyholders and does not apply much or any differentiation in premiums charged even if an individual policyholder is materially more or less exposed to an insured risk than others.

Competition between insurance companies drives a greater use of risk-based pricing, as companies that are able to differentiate risks and premiums accurately will be able to grow their market share by offering more attractive pricing to lower-risk policyholders. Insurers that continue to use community-based pricing may be left holding onto a higher-risk pool of customers.

Similarly, the growing expenditure on insurance gives new business models opportunities to offer new services. One of those is parametric or index-based insurance where payouts are determined by an index such as average rainfall or crop yields over a specific period or region. Index-based insurance often removes the need for the policyholder to demonstrate a loss, instead an agreed upon objective measure is used, for example, NIWA published rainfall totals. This can allow operations to be streamlined and cost-savings to be passed onto policyholders.

Prudential regulation is design with these dynamics in mind

Our policy proposals outlined in the attached report appendix (RBNZ#6247 refers) are necessarily designed with the purposes of soundness, efficiency and public confidence in mind. For example:

- Removing licensing requirements for overseas captive insurers and overseas reinsurers (#2). Removing these entities from the regulatory scope reduces regulation without a significant risk or cost.
- Introducing a power for the Reserve Bank to provide greater certainty on whether a business requires a license or not (#3). This will provide clarity to those insurers that have raised concerns that it is uncertain whether new forms of insurance that utilise technology (e.g. InsurTech) fall within the regulatory scope.
- Empower the Reserve Bank to issue a broader set of standards (#9-15), providing greater transparency and scrutiny. Insurers have repeated their desire for clear, stable rules.
- Extending the Reserve Bank's current information gathering powers and investigation powers to unlicensed insurers (#23). Unlicensed insurers providing insurance services has been raised by industry as a concern. This power will promote a level regulatory playing field, thereby supporting differentiation through pricing and service.

Appendix 2: Insurance (Prudential Supervision) Act 2010: Purposes and Principles

Purposes

The purposes of the Act are to:

- a) promote the maintenance of a sound and efficiency insurance sector; and
- b) promote public confidence in the insurance sector.

Principles

In achieving the purposes of this Act, the Bank must take into account the following principles that are relevant to the performance of functions or duties imposed, or the exercise of powers conferred, on the Bank by this Act.

- a) the importance of insurance to members of the public in terms of their personal or business risk management:
- b) the importance of maintaining the sustainability of the New Zealand insurance market:
- c) the importance of dealing with an insurer in financial distress or other difficulties in a manner that aims to:
- d) adequately protect the interests of its policyholders and the public interest; and
- e) ensure that any failure, or possible failure, of the insurer does not have the potential to significantly damage the financial system or the economy of New Zealand:
- f) the importance of recognising-
- g) that it is not a purpose of this Act to eliminate all risk of insurer failure; and
- h) the members of the public are responsible for their own decisions relating to insurance:
- i) the desirability of providing to the public adequate information to enable members of the public to make those decisions:
- j) the desirability of consistency in the treatment of similar institutions (while recognising that the New Zealand insurance market comprises a diversity of institutions):
- k) the need to maintain competition within the insurance sector:
- l) the need to avoid unnecessary compliance costs:
- m) the desirability of sound governance of insurers:
- n) the desirability of effective risk management by insurers.

Appendix 3: Domestic and International comparisons

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 4 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.¹⁰

Table 4: Domestic and International comparisons

	Insurance Prudential Legislation			Domestic Legislation	
	New Zealand (IPSA)	Australia (APRA)	UK (PRA)	DTA (NZ)	FMI (NZ)
	Primary purpose				
Overarching - Financial stability	✗	✓	‘Promote the safety and soundness of firms’	✓	✗
Soundness	✓	✗	✗	✗	✓
Policyholder security or similar	✗	✓	✓	✗	✗
Efficiency	✓	✗	✗	✗	✓



¹⁰ 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.

Secondary purposes / objectives					
Other	-Public confidence		-Competition and growth.	-Soundness of individual deposit takers. -Public confidence. -Financial inclusion. -Risk mitigation.	Included as primary purposes: -Avoid significant financial system damage. -Promote fair, efficient, transparent and informed market.
Selected balancing considerations or principles					
Competition	✓ 'Maintain'	✓	(see above)	✓ 'Maintain'	(FMI Act does not contain principles)
Compliance costs	✓	✗	✓	✓	
Proportionality	✗	✗	✓	✓	
International norms	✗			✓	

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Appendix 3: Proposed policy recommendations

This appendix sets out proposals from the Omnibus Consultation (by theme) that we recommend proceeding with.

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
Scope	1	Require licensing for NZ-incorporated insurers that only write overseas policies	<p>Currently, an insurer will only require licensing if it has at least one New Zealand policyholder. This proposal removes this requirement, meaning NZ-incorporated insurers (without any NZ policyholders) will fall within the regulatory perimeter. The proposal would require amendment to the definition of 'carrying on insurance business in NZ' (s 8 IPSA).</p> <p>The current approach is inconsistent with the approach of overseas regulators, which often focus on the insurer's jurisdiction of incorporation. There is a risk that some NZ-incorporated insurers escape any regulatory oversight, creating reputational risk for NZ. This risk was also raised in the T-S report.</p> <p>This proposal may incentivise (at least some) insurers to cease carrying on business in NZ (e.g. where the insurer has chosen to incorporate in NZ to avoid regulation).</p>	 Broadly supportive
	2	Remove licensing requirements for overseas captive insurers and overseas reinsurers	<p>This proposal explicitly excludes overseas captive insurers and overseas entities that only act as reinsurers in NZ from the regulatory scope. These entities pose a low risk in the NZ insurance context because they only provide insurance services to associates, or otherwise do not provide primary insurance at all (reinsurers).</p> <p>Currently, whether a specific overseas captive or reinsurer falls within the regulatory scope depends on a Companies Act 1993 test that some entities find difficult to apply. Explicitly excluding those entities from the regulatory scope will provide them certainty.</p> <p>The NZ insurance market benefits from the provision of reinsurance, and we understand that overseas reinsurers would reconsider withdrawing from NZ if required to comply with IPISA. In the case of captive insurers, they only provide cover (often akin to reinsurance) to their parent or other subsidiaries in the group (which are often NZ-incorporated).</p> <p>Removing these entities from the regulatory scope is an example of a recommendation that reduces regulation, without a significant risk or cost.</p>	 Broadly supportive

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Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
	3	Introduce a power for the Reserve Bank to recommend that certain types of transactions are 'contracts of insurance' under IPSA	<p>The proposal enables the Reserve Bank to recommend the Government makes regulations that declare certain types of transactions are 'contracts of insurance' under IPSA, meaning entities that issue those contracts will require licensing. The rationale is to confirm the position of contracts where it is uncertain whether they fit within the IPSA definition, and it would tend to undermine the effectiveness of IPSA if those contracts were not regulated.</p> <p>The current definition of 'contract of insurance' is broad and flexible. However, some insurers have raised concerns that it is uncertain whether new forms of insurance that utilise technology (InsurTech) fall within the definition. A declaration power will provide certainty to industry and ensure that the Bank has appropriate oversight.</p>	 Strongly supportive
	4	Introduce a requirement for overseas insurers to locally incorporate, where they meet a specified 'size and importance' threshold	<p>This proposal enables the Reserve Bank to prohibit an overseas insurer from carrying on business in NZ, unless it incorporates in NZ. The Reserve Bank would be permitted to exercise this power where the insurer is of sufficient size and importance in the NZ insurance market. We envisage that the exact threshold will be set via secondary legislation.</p> <p>Branches of overseas insurers help to support an efficient market, often providing New Zealanders access to unique insurance products or otherwise supporting competition in the market. However, branches do create some regulatory challenges, particularly in supervising the compliance with prudential obligation and the Reserve Bank's practical ability to influence or compel insurers.</p> <p>During the Omnibus Consultation, we did not outline a preferred option on whether branches exceeding a specified size should be required to locally incorporate. We noted that the Bank has some existing powers to require a large branch to incorporate (i.e. via condition of licence). The power to require local incorporation was seen as an alternative to a power to require an overseas insurer to hold assets in NZ, to achieve a similar outcome. The assets in NZ proposals was subject to very strong, negative feedback from some stakeholders and would be complex to operationalise. Accordingly, as outlined in proposal 44, we recommend against an 'assets in NZ' proposal in favour of this recommendation. We consider that specifying a 'size and importance threshold', via standard, is more transparent and provides certainty to the market, than applying individual licence conditions.</p>	Did not directly consult on. Raised as a potential alternative to the 'assets in NZ' proposal (#44).

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Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
	5	Amend the IPSA to empower a licensing regime for non-operating holding companies (NOHCs) of insurers, that are headquartered in NZ. The Reserve Bank will be empowered to 'call in' NOHCs for licensing.	<p>This proposal involves creating a licensing regime for NOHCs headquartered in NZ. The Reserve Bank will have the option to 'call in' a NOHC for licensing. Our current policy intention is that the NOHC would need to meet minimum statutory licensing criteria (in order to continue as a holding entity of the licensed insurer) and may be required to comply with relevant prudential standards (e.g. governance, risk management). They may also be subject to supervisory and enforcement tools, to monitor compliance and address issues of non-compliance.</p> <p>The proposal will facilitate a 'group supervision' approach to insurers, where currently the IPSA only enables supervision of an individual insurer. The prudential goal of group supervision is to ensure that the group is financially sound. This approach will better enable supervisors to understand and assess contagion risk between the licensed NOHC and the activities in other parts of the group.</p> <p>At present there is only one NZ-based group that a NOHC licensing regime would likely apply to. Therefore, in the short term the need for the regime is relatively low. However, a group licensing regime is recommended on the basis of NZ's international role in the regulation of insurers. International supervision is currently organised on the basis that host countries expect subsidiaries' home country supervisors to be carrying out group level supervision.</p> <p>Both the IMF FSAP and the T-S Report recommend changes to how insurance groups are regulated.</p>	<p style="text-align: center;">Mixed</p> <p>Those impacted thought information collection requirements could achieve the same outcome</p>
Solvency	6	Allowing the solvency standard to set a ladder of intervention and for powers to be released at different solvency levels	<p>Currently, IPSA is based upon one solvency 'control level' – whether the insurer is maintaining a solvency margin (\$0 being the standard margin). In broad terms, if the insurer is failing, or likely to fail, to maintain a solvency margin, then the Reserve Bank may exercise certain powers in response. While solvency standards (secondary legislation issued by the Reserve Bank) specify multiple 'control levels', IPSA powers are linked to breaches of the solvency margin only (actual or likely). The proposal is to amend IPSA to allow the solvency standard to be able to set multiple control levels (e.g. the 'prescribed capital requirement' and the 'minimum capital requirement'). This would enable the Reserve Bank to exercise certain powers at different control levels, depending on where an insurer's financial position stands relative to the solvency control levels.</p>	<p style="color: green;">✔ Supported the general principle, requested clearer definitions.</p>

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Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
			<p>Note that the calibration of these control levels is a subject of a separate review of the solvency standards.</p> <p>We committed to introducing capital buffers (a 'ladder of intervention') in response to both the IMF's 2016 assessment of New Zealand's financial system and the T-S Report.</p>	
	7	Introduce the power for the Reserve Bank to impose dividend restrictions on licensed insurers, as a solvency standard matter	<p>The Reserve Bank may issue solvency standards under <u>s 55 IPSA</u>. The permitted scope of these standards includes (for example) minimum capital requirements and calculation methodology but does not expressly include the ability for the Reserve Bank to impose dividend restrictions on licensed insurers. We believe a dividend restriction power is justified in certain circumstances.</p> <p>The main potential concern with subsidiaries is that their relationship with their parent group may create risks. The primary risk is that intra-group transactions might facilitate contagion where the group runs into financial difficulties.</p> <p>One way to mitigate this risk is by imposing dividend restrictions on subsidiaries as part of the 'ladder of intervention' approach to solvency discussed above. Dividend policy must take into account solvency requirements in any case, but dividend restrictions where an insurer's capital position is weak provides additional safeguards when an insurer or its group are under stress.</p>	<p style="text-align: center;">Mixed</p> <p>Mostly supportive, however, some outlined safeguards and transparency was needed</p>
	8	Introduce a default solvency margin (\$0) which applies to licensed insurers unless otherwise specified	<p>Currently, the solvency margin(s) for each licensed insurer is set out in its conditions of licence. The solvency margin is the amount of 'solvency capital' an insurer holds above the 'prescribed capital requirement'.¹¹ In most cases, the required 'solvency margin' for insurers is \$0 – i.e. licence conditions require insurers to hold the prescribed capital requirement.</p> <p>We propose that the prescribed capital requirement should be specified in IPSA and apply to non-exempt insurers automatically, without the use of a licence condition. It would make it clearer that the prudential capital requirement is the 'default' solvency requirement and that any departure from that default reflects particular circumstances.</p>	<p style="text-align: center;"> Comfortable with proposal.</p>

¹¹ The prescribed capital requirement is specified by the solvency standard and is designed to be sufficient surplus capital for an insurer to hold so that it can meet its obligations to policyholders, even under adverse circumstances

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
New standards			<p>Proposals 9-15 below outline the ability for the Reserve Bank to introduce a range of prudential standards. Although the Reserve Bank has existing powers to impose obligations relating to the subject matter of some standards (e.g. via setting conditions of licence under s 21 IPSA), standards are a clearer and more transparent mechanism for setting rules.</p> <p>We propose these standards will be set using a risk-based proportional approach, similar to that used for deposit takers. That is, taking into account differences in the size, sectoral importance and business models of different types or classes of insurers. The proposed draft standards will be consulted on with industry and sequenced over a period of time to reduce regulatory costs, where possible.</p>	
	9	Empower the Reserve Bank to issue a governance standard	<p>Currently, IPSA requires the Reserve Bank to assess incorporation and ownership structure, ownership, governance structure, and other matters as part of the insurer licensing process. Supervisors may continue to assess such matters as part of BAU supervision. An inappropriate change in governance structure may also be grounds to issue a direction to a licensed insurer (s 143 IPSA).</p> <p>However, the IPSA lacks any ability to prescribe an appropriate governance and impose new governance standards on licensed insurer. The Reserve Bank's <u>Governance Guidelines</u> are not legally binding. The current approach is suboptimal, given the importance of good governance and an adequate governance structure in the prudential management of an insurer. Setting governance requirements via standard provides clarity and transparency and enables the Reserve Bank to effectively regulate an insurer's governance.</p> <p>The lack of ability to regulate governance is unusual compared to international counterparts.</p>	<p>✓ Industry were broadly comfortable with introducing a wider range of standards, although noted a clear desire to review the proposed scope of standards set out in an exposure draft, with long lead times for implementation</p>
	10	Empower the Reserve Bank to issue a risk management standard	<p>Currently risk management is regulated by a requirement upon licensed insurers to have a risk management programme and seek the RBNZ's approval of any material change to the programme.</p> <p>Suitable risk management is needed to ensure insurers have appropriate procedures and controls in place to assess and manage risk and a robust risk culture. Reliance on an insurer's risk</p>	

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
			<p>management programme has been found to be inadequate to lift standards of risk management.</p> <p>The IMF FSAP recommended the strengthening of risk management requirements.</p>	
	11	Empower the Reserve Bank to issue a data and disclosure standard	<p>This standard will regulate the disclosure and publication of information by insurers. This will enhance market discipline and potentially provide for comparability of insurers by the public. It will enhance efficiency compared to current practice.</p> <p>While the Reserve Bank has some powers to collect and publish information obtained from licensed insurers (ss 121 and 135 IPSA), a data and disclosure standard may facilitate a simpler approach to setting out reporting requirements and provide for greater transparency about which information is likely to be published.</p>	<p>✓ Respondents were generally comfortable. Several respondents wanted careful safeguards to ensure restraint in data requirements</p>
	12	Empower the Reserve Bank to issue an outsourcing standard	<p>The standard will provide a mechanism for the Reserve Bank to assess and regulate the appropriateness of licensed insurers' outsourcing arrangements. The T-S Report noted issues where failed insurer CBL outsourced fundamental insurance functions (underwriting, pricing, claims management). The outsourcing of core functions can create material risks to the insurer. The T-S report recommended that the Reserve Bank consider introducing rules on outsourcing.</p>	<p>Mixed Mostly supportive, but wanted the standard to reflect certain deposit taker/ insurance differences</p>
	13	Empower the Reserve Bank to issue a connected exposures standard	<p>While connected exposures can be regulated by condition of licence, a standard is preferred for reasons discussed above. Related party transactions are a well-known source of risk in group structures (e.g. to finance weaker members of a group on non-commercial terms).</p>	<p>Mixed Generally supportive of the tighter restrictions</p>
	14	Empower the Reserve Bank to issue an	<p>All licensed insurers are required to have an appointed actuary.</p> <p>Currently, the responsibilities of the appointed actuary are set out in regulations and relevant solvency standards. However, there is no single, comprehensive statement of the Reserve Bank's</p>	<p>✓ Industry were broadly in favour, helping to set out clear and</p>

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POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		actuarial advice standard	wider expectations of the appointed actuary's role, the role of actuarial advice more generally, and what the corresponding reporting arrangements should be from the appointed actuary to the board. A standard would be a mechanism for achieving this. A thematic review of the appointed actuary role was undertaken in 2018 and highlighted the lack of clarity and guidance around what the Reserve Bank expects of the appointed actuary role and the risk that the role's impartiality could be affected. The review provides the groundwork for an actuarial advice standard. The standard of actuarial advice was a feature of the CBL case, where the appointed actuary maintained CBL was solvent up until the point of its interim liquidation. CBL was subsequently shown to be insolvent since 2014.	transparent expectations.
	15	Empower the Reserve Bank to issue a distress management preparedness standard	The failure of most New Zealand insurers is likely to be less time-critical than that of financial market infrastructures (FMI)s or deposit-takers who have liquid liabilities and present a contagion risk. Nonetheless, pre-planning has become a key tool for businesses to ensure that they are prepared if a stress does arise. Given the potential impact on policyholders and the financial system, a distress management preparedness requirement appears prudent. Following industry feedback, we recommend empowering a resolution preparedness standard, but deferring the standard-making process to the medium term. This will enable insurers to embed changes gradually.	✓ Broadly support if imposed over the medium to long term
Fit and proper	16	Extend the definition of 'relevant officers' to include Chief Risk Officers	We recommend extending the definition of 'relevant officers' (<u>s 6 IPSA</u>) to include the chief risk officer but not any other senior managers. As prudential regulator, our interest is in senior officers or employees that are central to enabling compliance with prudential requirements. The chief risk officer has a core role in terms of insurers' compliance and risk management activity.	✓ Generally comfortable with the inclusion of the CRO.
	17	Introduce a requirement for licensed insurers to obtain the Reserve Bank's prior approval to	We recommend requiring licensed insurers to obtain approval of the appointment of relevant officers from the Reserve Bank before appointments are made. This would align IPSA with provisions in the DTA, where deposit takers are required to seek Reserve Bank approval before	✗ Industry had strong concerns. Arguing that the Reserve Bank's existing power to

**POLICY
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POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		appointment of relevant officers	<p>appointments are made, and the Reserve Bank will have power to impose conditions of approval on appointments.</p> <p>Practical concerns were raised during consultation regarding unnecessarily delaying the appointment process and the Reserve Bank inappropriately being involved in a decision, which should be ultimately up to the insurer or its shareholders.</p> <p>Operational experience since IPSA was enacted has found a number of cases where problematic appointments have been made. While the Reserve Bank could have taken steps under the Act to remove a director who is not fit and proper, a pre-approval process would ensure the matter is dealt with before appointment.</p>	challenge an appointment is sufficient, while the costs and complexities of pre-approval would outweigh the benefits.
	18	Introduce a requirement for licensed insurers to notify the Reserve Bank where they have fit and proper concerns of directors or relevant officers	<p>We recommend introducing a requirement for licensed insurers to notify the Reserve Bank if they obtain information that could reasonably lead them to form the opinion that a relevant officer is not a fit and proper (F&P) person to hold their position.</p> <p>There is currently no ongoing legal requirement for insurers to notify the Reserve Bank if a director or relevant officer's (DRO) fitness and propriety are called into question. Under IPSA, F&P obligations primarily arise at the point of licensing, when new DROs are appointed, if the Reserve Bank issues a written notice to the insurer, and F&P reassessments that insurers are required to undertake at least once every 3 years. A more immediate requirement to identify issues and notify RBNZ is appropriate.</p>	Mixed Some concerns were raised between this requirement and their human resource relationship with employees, including privacy issues.
Regulatory approvals	19	Consolidate the statutory approval process into one set of 'significant transaction' provisions, to replace the existing approval processes for change of control, changes in corporate form, and for	<p>Currently, IPSA requires regulatory approval for any of the following transactions: confirmation that an insurer should keep its licence following a change in control, change of corporate form (e.g. a mutual firm becoming a company), policy portfolio transfers between insurers, and amalgamations of insurers.</p> <p>We propose that the Reserve Bank's approval continue to be required for these transactions, but that there be streamlined approval provisions and a common decision-making process applying to approval of each transaction (similar to sections 46-52 of the DTA).</p>	✓

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POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		transfers and amalgamations.		
	20	Require notification to (rather than approval from) the Reserve Bank prior to significant influence being obtained or giving effect to amalgamation, where transaction relates to an overseas insurer.	<p>Where these transactions involve overseas insurers, we recommend that notification to the Reserve Bank is sufficient (rather than obtaining prior approval from the Reserve Bank). This is because overseas insurers operate as branches in NZ, but are ultimately a foreign-incorporated legal entity regulated overseas.</p> <p>The current provisions capture transactions which involve corporate reorganisations (e.g. new holding entity inserted above NZ licensed insurer) which already receive oversight from an overseas regulator. These transactions are low risk from a NZ perspective. However, the Reserve Bank is required to go through a full assessment process which adds comparatively little additional value, beyond the home regulator's assessment.</p>	Was not consulted on.
	21	Replace the current 'change of control' threshold with a 'obtaining significant influence' threshold, which lowers the threshold for requiring Reserve Bank approval or notification.	<p>The current 'change of control' threshold is based on a person becoming a holding entity of a licensed insurer or (directly or indirectly, by itself or in concert with another person(s)) obtaining 50% or more of the voting rights in a licensed insurer (s 26 IPISA).</p> <p>We recommend setting the threshold so that approval is required where a person would obtain 25% or more of voting rights or the ability to appoint 50% or more of directors. This threshold aligns with the comparable DTA threshold, and amendments expected to be made for the conduct regime administered by the FMA.</p>	✔
	22	Require approval where a licensed insurer acquires business from a non-licensed insurer	We recommend that the regulatory approvals process apply to situations where a licensed insurer acquires business from a non-licensed insurer. Significant growth, especially through expansion, can create soundness and efficiency concerns for the insurance market. The proposal will be added to the current transfers and amalgamations approval regime (s 41) and have similar threshold requirements.	MIXED Respondents relatively quiet on the proposal
Supervisory powers	23	Extending the Reserve Bank's current	We recommend extending the Reserve Bank's information gathering and investigation powers to cover unlicensed insurers and entities falsely holding themselves out as licensed insurers. This	MIXED

**POLICY
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**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		information-gathering powers and investigation powers to unlicensed insurers	would address a regulatory gap, where the Reserve Bank has not been able to effectively investigate entities who are suspected of unlicensed insurance activity. Licensed insurers also raised this as an issue in consultation.	Generally supportive, some concerns raised around scope and safeguards
	24	Introduce a power for Reserve Bank to conduct on-site inspections of licensed insurers without notice	As part of the Reserve Banks supervisory strategy and consistency with the practice of overseas regulators, we propose IPSA should be amended to require licensed insurers to allow onsite inspection. Onsite inspections have been a useful facet of AML supervision, including the interaction with regulated entity staff, the ability to request information in the course of inspection and discuss it with regulated entity staff. It adds to the insights available to the supervisor.	✗ Raised concerns, arguing that the power was unnecessary and could prove complex.
	25	Introduce a power for the investigator to require directors or employees to answer questions on notice as part of a formal investigation	<p>Currently, the Reserve Bank may appoint an investigator where it suspects that the insurer is in breach of the IPSA and other defined circumstances of breach or distress (s 130 IPSA). The investigator is permitted to compel information for inspection and take copies of those documents. This proposal would provide a further power to enable the investigator to require a director or employee of the insurer to answer questions under oath in connection with the insurer.</p> <p>This power would align with that contained in the DTA. As part of the introduction of the DTA, the Attorney-General noted that, in the context of deposit takers, that the provisions were necessary for the effective operation of the regulatory regime by which the stability of New Zealand's financial system is protected. A Bill of Rights assessment will be completed following the exposure draft, if a Bill is progressed.</p>	MIXED Some concerns raised around scope and safeguards.
	26	Introduce a breach reporting regime, whereby licensed insurers must report material contraventions	We propose expressly empowering a breach reporting regime. This would require insurers to monitor ongoing compliance with prudential obligations and notify the Reserve Bank where it believes it has or is likely to breach a prudential obligation in a material respect. Breach reporting regimes can be important in reducing the information asymmetry between regulators and regulated entities. In addition, it complements two proposals discussed below (remediation notices and enforceable undertakings regime). Collectively, these proposals incentivise the	MIXED Some concerns the power was unnecessary or sought greater information on materiality.

**POLICY
IN CONFIDENCE**

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		of prudential obligations to the Reserve Bank	insurer to proactively identify and remedy a breach. Often insurers are in the best place to identify and remedy regulatory breaches, especially where the breach is an isolated issue. A similar power is included within the DTA.	
Enforcement powers	27	Introduce an express power for the Reserve Bank to require licensed insurers to publish Reserve Bank’s warnings to policyholders	<p>While the Reserve Bank has the ability to issue and publish warnings to insurers in response to non-compliance, we consider it more appropriate to set out a statutory framework for warnings. In particular, it provides an ability to require the insurer to publish a warning it has received.</p> <p>Written warnings are appropriate where there is strong evidence of non-compliance but it is not in the interest to take a prosecution or other stronger action.</p> <p>In appropriate circumstances, the impact of a written warning could be increased by requiring the insurer being warned to publicise the fact that it had received a warning. This sends a wider message to industry and promotes compliance. Warning powers are an enforcement tool which is included in the Financial Markets Conduct Act (FMC Act) and the DTA.</p>	<p>✓ Generally supportive but reiterated the seriousness of the requirement.</p>
	28	Introduce a power for the Reserve Bank to issue remediation notices to persons in breach of prudential obligations	Remediation notices would allow the Reserve Bank to require regulated entities to take specific action to remedy breaches of their prudential obligations or to prepare a plan setting out how they intend to remedy breaches. It would supplement existing direction powers, in a way that is seen as less serious than a direction. A similar power is included within the DTA.	<p>✓ Broadly supportive, no strong views.</p>
	29	Introduce a power for the Reserve Bank to issue infringement notices for low-level breaches of prudential obligations	Infringement notices would allow the Reserve Bank to impose low-level penalties for relatively minor breaches. This remedy for breaches is in the DTA, the Reserve Bank Act and the FMC Act. The scope for infringement notices would be relatively narrow and include failing to provide data or notices to the Reserve Bank or the public in a timely manner. The maximum quantum of the fine would be set out in legislation.	<p>MIXED Some concerns raised, requested more information.</p>
	30	Introduce a power for the Reserve Bank to	Enforceable undertakings are a tool for requiring binding commitments from regulated entities that typically specify remedial actions as well as a commitment by the entity to pay compensation	<p>✓ Broadly supportive, no strong views.</p>

**POLICY
IN CONFIDENCE**

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		accept enforceable undertakings from licensed insurers and other persons	to a person, take a specific action to address a contravention or pay an amount to the Bank in lieu of a pecuniary penalty. A similar power is included within the DTA. They provide a flexible enforcement tool.	
	31	Introduce civil pecuniary penalties for breach of prudential standards and replace lower tier criminal penalties with civil penalties	<p>Civil pecuniary penalties allow the Reserve Bank to apply to the court for a finding of breach and a civil penalty to an entity's suspected breach. The burden of proof is on the balance of probabilities rather than beyond reasonable doubt, and civil proceedings do not result in a conviction. They therefore can be easier to pursue than criminal prosecution.</p> <p>Analysis as part of the 2020 review of the deposit taker's regime found net benefit in using civil pecuniary penalties as the main tool for enforcing standards, instead of difficult-to-use criminal penalties. The use of civil pecuniary penalties also allows for a more proportionate approach to breaches.</p> <p>Civil pecuniary penalties are expected to be set at roughly half that of the DTA (which are set at a maximum of \$1,000,000 for individuals and \$5,000,000 for businesses).</p>	MIXED No strong view provided.
Penalties	32	Update the maximum criminal penalties under the IPSA	<p>IPSA relies entirely on criminal prosecution and fines for its sanctions and compliance regime (separate to supervisory tools, such as directions). This means a range of strict liability offences with a maximum fine of \$1,000,000 for the most serious offences.</p> <p>The penalty regime has not been updated since IPSA was enacted.</p> <p>This means that penalties are disproportionately lower under the IPSA regime than for other regulated entities (noting that penalty levels were recently reviewed and updated for FMIs, deposit takers and under the FMA's conduct regime).</p> <p>In determining appropriate new criminal penalties, we have considered the potential financial impact on the offender, the ability for the offender to pay penalties, the potential gain by offending and the potential impact on trust of breaches. This suggests maximum penalty levels should fall between that of FMIs and deposit takers. We suggest that maximum penalties be revised to no greater than \$2.5m (increasing from \$1m) for bodies corporate, and \$300,000 (increasing from \$200,000) and/or a prison sentence up to 18 months for individuals. These</p>	<p>✓ Broadly comfortable, some felt that the proposed increases were too high.</p>

**POLICY
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**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
			changes are in excess of inflation but are set relative to similar legislation, that is, they are set lower than the DTA but comparable with the FMI Act.	
Distress management	33	Designate the Reserve Bank as the resolution authority and include additional distress management objectives	<p>IPSA provides a range of resolution tools, such as the ability to apply to the High Court for an insurer to be placed into liquidation or voluntary liquidation. The Act ensures the Bank has the ability to participate throughout these processes. The Bank can also seek an Order in Council placing a licensed insurer into statutory management if the relevant threshold is met.</p> <p>We propose that the IPSA formally describe the Reserve Bank as the ‘resolution authority’. This provides no substantive changes to the powers provided to the Reserve Bank, however it signals, especially to outside parties, the considerable role the Reserve Bank has when a licensed insurer is in distress management. It is also consistent with the DTA language.</p> <p>Given this, we recommend additional objectives to apply to the distress management provisions (Part 4 of IPSA). Currently the IPSA’s aims when dealing with an insurer in financial distress are: adequately protecting policyholders and the public interest, and ensure that any failure does not have the potential to significant damage the financial system.</p> <p>We recommend amending and elaborating on what is meant by significant damage to the financial system, to include: maintaining the continuity of systemically important activities carried out by licensed insurers; and mitigating or otherwise managing any loss of confidence in the financial system. We also recommend adding a subordinate purpose to minimise, and otherwise manage the costs of dealing with a licensed insurer in distress, with ‘costs’ including those imposed on creditors, the Crown and on the insurer (or the owners of the insurer).</p> <p>Whether the policy is achieved through new sub-part purposes or amendments to the principles in the IPSA will be decided during the drafting stage.</p>	<p>✓ Supportive, a concern that the ‘public interest’ was not sufficiently well defined.</p>
	34	Extend the scope of direction powers to enable the Reserve Bank to direct licensed insurers not to renew	The Reserve Bank has the power to give directions to licensed insurers in defined breach and distress management scenarios (<u>ss 143 and 144 IPSA</u>). This includes the power to direct insurers to cease entering new contracts of insurance. However, the Reserve Bank is explicitly prohibited from directing an insurer not to <i>renew</i> existing contracts (<u>§ 144(2) IPSA</u>).	MIXED – Industry recognised why this power is being proposed but recommended

**POLICY
IN CONFIDENCE**

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		existing contracts of insurance	<p>A policy rationale for this prohibition may be because non-renewal can create significant problems for some types of policyholders, particularly in life or health insurance where policyholders have pre-existing conditions.</p> <p>Our view is that this limitation unduly restricts the Reserve Bank’s ability to require at-risk insurers to reduce their exposure. Both the T-S Report and the IMF FSAP expressed similar concerns. We believe that harm to policyholders can be mitigated, through the requirement for the Reserve Bank to consider distress management objectives (discussed above) before issuing a direction to cease renewals, or other drafting to require the Reserve Bank to take into account policyholder interests when issuing directions to insurers.</p>	an explicit requirement to consider policyholders.
	35	<p>Introduce two provisions to support moratorium rights which apply during statutory management:</p> <ul style="list-style-type: none"> - ‘Ipso facto’ provision - Short term stay 	<p>When an insurer is placed into statutory management under IPSA, certain provisions of the Corporations (Investigation and Management Act) 1989 (CIMA) apply to the statutory management (<u>s 180 IPSA</u>). This includes moratorium provisions. Moratorium rights help support the orderly wind-down of businesses by temporarily suspending a business’ requirement to repay creditors, thereby, attempting to alleviate short-term financial hardship and support the fair treatment of creditors.</p> <p>‘Ipso facto’ provision: Overall, the moratorium regime works as intended. However, two amendments would further support the benefits of a moratorium. We recommend the inclusion of an ‘ipso facto’ provisions that provide that other contractual rights (such as terminating the provision of services) cannot be enforced against the entity in resolution solely because it has been placed into resolution/statutory management (even where the contract includes a clause that would contain these rights). Ipso facto provisions are already contained within the distress management regime (via the CIMA), but the scope of these rights is very limited focusing on essential services for all businesses, including water and electricity. We recommend broadening these rights to include insurer-specific essential services including policyholder contact services. The proposal builds on policy development when preparing the FMI Act and the DTA, which have similar provisions.</p> <p>Short term stay: We also recommend introducing provisions which impose a short term “stay” on the exercise of close rights under derivatives contracts against the entity in resolution. This would</p>	<p>MIXED Broadly comfortable but some concerns about how the IPSA Facto provision would interact with reinsurance contracts.</p>

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
			align these rights with provisions included for FMI and deposit takers and is consistent with international principles.	
	36	Revise the threshold for statutory management of a licensed insurer	<p>The current trigger conditions for statutory management are limited to situations where the Reserve Bank is satisfied on reasonable grounds that (s 173 IPSA):</p> <ul style="list-style-type: none"> the conditions for issuing directions are met and the failure of the licensed insurer may cause damage to the financial system or the NZ economy (or both); or a licensed insurer is, or may be, operating fraudulently or recklessly and statutory management is desirable for specified purposes. <p>The market for insurance is fragmented with many insurers specialising in specific risks or regions. This poses a risk that an insurer's failure would cause significant damage, but only to a local geographical area or group of persons and not to the financial system or NZ economy. These impacts may nevertheless affect public confidence and be contrary to public interest (as per sections 3 and 4). Accordingly, we propose including an additional ground that clarifies that significant damage could also be localised or to a specific group (akin to the systemically important activities test in the DTA). As statutory management is a very significant power, the test would still require this to be a tool of last resort, when no other tool could achieve the same or a better outcome.</p>	<p>✓ Supportive, noting the importance that resolution was available for 'niche' insurers.</p>
	37	Introduce a Ministerial direction power in relation to any use of public funds in event of entity failure	The Minister will be able to commit public funds under the Public Finance Act in the event of an entity failure (s 491 DTA). If this commitment was to occur, then the Minister should have statutory powers to direct the statutory manager to manage any risk to the financial position and interests of the Crown. The mitigation and management of Crown costs are also reflected in proposal #33, to introduce additional distress management objectives. This power would align with the DTA.	Was not consulted on.

**POLICY
IN CONFIDENCE**

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
Other issues	38	Introduce an obligation for the Reserve Bank to consult with the FMA before issuing or cancelling a licence under IPISA	<p>This proposal creates a formal consultation obligation upon the Reserve Bank. The policy intention is that the Reserve Bank would have reciprocal statutory obligations to consult with the FMA, matching current obligations of the FMA to consult with the Reserve Bank in respect of licensed insurers. For example, the FMA is legally required to consult with the Reserve Bank before issuing a licence (<u>s 397(1)(d) FMC Act</u>). In contrast, the Reserve Bank may informally consult the FMA (with operational detail set out in a bilateral MOU).</p> <p>Reciprocal consultation requirements would tend to support a 'joined up' approach between the prudential and conduct regulators, and perhaps enhance information-sharing between the two.</p>	<p>✓ Comfortable with the proposal.</p>
	39	Introduce an obligation for the Reserve Bank to consult with the FMA when making decisions under the proposed statutory approval process for significant transactions	<p>In the Omnibus Consultation, we had indicated that the Reserve Bank would not proceed with this proposal. Since then, MBIE has advised that the FMA will likely gain the power to approve certain transactions as part of the <u>2024 Financial Services Reform package</u>. MBIE is at the stage of issuing drafting instructions, and no approval powers have been enacted.</p>	<p>No strong views</p>
	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	<p>Providing flexibility in the scope of the Reserve Bank's standard-setting powers will ultimately help to provide improved transparency and legitimacy. This is because when risks emerge on insurers, empowering the Reserve Bank (via regulations) to set standards that govern those risks, instead of having to update insurer's conditions of license, ensures the requirements will be public and will have gone through a public consultation process.</p> <p>The Reserve Bank's use of legislative instruments was reviewed thoroughly in 2021 (regarding deposit takers), transparency and accountability benefits outlined as part of that process also apply here.</p>	<p>Was not consulted on</p>

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Appendix 4: Policy proposals that are not recommended





This appendix sets out proposals from the Omnibus Consultation (by theme) that we do not recommend proceeding with.

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
Purposes and principles	41	Update the statutory purpose and principles (to include access and policyholder security)	<p>The original IPSA Review Terms of Reference specified that IPSA’s purposes and principles were not under review. However, in 2023 (and on recommendation of the Reserve Bank), Cabinet agreed to amend the Terms of Reference to permit review of the purposes and principles. The Reserve Bank made the recommendation in light of significant changes to its governing legislation, the Reserve Bank Act Review and the introduction of the DTA. Furthermore, the current purposes and principles are to some degree out of step with overseas regimes that include policyholder security and access to insurance products as statutory principles.</p> <p>Following review, our assessment is that the current purposes and principles remain adequate. Further, there is some risk that amending the purposes and principles will create uncertainty on how existing provisions will be interpreted. Therefore, we believe a high bar for change needs to be met.</p> <p>The Treasury notes that there are other potential changes possible within the scope of the expanded terms of reference, including other possibilities of aligning with the DTA.</p>	<p style="text-align: center;">×</p> <p>Broadly against the additions of ‘access’ and ‘policyholder protections’, indifferent on reference to RBNZ’s broader purposes.</p>
Solvency	42	Introduce a power for the Reserve Bank to impose supervisory adjustments to licensed insurer’s solvency calculations	<p>We have had past supervisory difficulties when insurers, more specifically insurer’s appointed actuary, take an aggressive approach to measuring the underwriting risks on the insurer, that is the risk and quantum of claims being made. The power to impose supervisory adjustments, which would assist in addressing these issues, was recommended in the T-S Report.</p> <p>On balance, we recommend not progressing with this proposal. The Reserve Bank has existing powers to increase the solvency margin that the insurer must hold though licence conditions. In addition, the proposal to empower an actuarial advice standard (proposal 24) may enable the Reserve Bank to apply greater scrutiny to the appointed actuary. We also have some concerns that introduction of the power may, in practice, result in insurers or their appointed actuaries shifting risk management responsibility to the Reserve Bank. We consider these costs to outweigh the benefits of the proposal.</p>	<p style="text-align: center;">×</p> <p>Industry had strong concerns, arguing calculations were the responsibility of the insurer and an over-ride power was too discretionary and potentially arbitrary.</p>

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
	43	Reconsider the appropriate legislative instrument for outlining requirements for the insurer's financial condition report (FCR)	<p>Currently, requirements relating to the FCR are set out in solvency standards (<u>§ 56 IPSA</u>). The FCR reports on a range of issues related to insurers, including financial matters not directly related to solvency (e.g. claims experience, risk management procedures, and a review of capital management procedures). We considered whether FCR requirements should be housed in a separate prudential standard empowered under IPSA.</p> <p>We recommend discontinuing this proposal. There were no strong views internally or by industry on where requirements should be 'housed'. Therefore, the status quo is preferred.</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">Some questioned the need for an FCR, but most did not feel strongly on where the requirements are housed.</p>
	44	Introduce a requirement for overseas insurers (branches) to hold assets in New Zealand	<p>This proposal would require overseas general insurers to hold assets in NZ equivalent to NZ solvency capital requirements. The rationale is that an 'assets in NZ' requirement may reduce risks associated with cross border insolvency. As added protection, the IPSA would outline these assets should be applied to meet New Zealand liabilities before those to other creditors.</p> <p>In light of the potential impacts on branches of overseas insurers, on balance, we recommend against introducing this requirement. Concerns do remain regarding the effectiveness of the solvency regime, however, requiring branches to incorporate in New Zealand may in selected cases mitigate some of these ongoing concerns.</p>	<p style="text-align: center;">✗</p> <p style="text-align: center;">Branches suggested this may deter entry or cause overseas insurers to leave the market.</p>
Policy holder provisions	45	Remove the requirement for life insurers to operate a statutory fund in relation to yearly renewal term (YRT) life policies	<p>Life insurers are required to ring-fence life insurance assets from the rest of the insurer's business as a way to protect the long-term interest of life insurance policyholders. IPSA requires all life insurers to have at least one statutory fund and requires that new premiums and the returns on investment assets to stay inside the statutory fund.</p> <p>Stakeholders indicated that removal of YRT policies from the statutory fund regime would create costs and compliance burden, as they would need to restructure existing statutory funds. On further review, our assessment is that the statutory fund regime is adequate, and the costs of change outweigh the benefits.</p>	<p style="text-align: center;">✗</p> <p style="text-align: center;">Industry did not support the change, noting it would not provide the expected benefits.</p>

**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
	46	Introduce protection of the underwriting asset involved in YRT and health policies	On further review, our assessment is that developing a statutory definition of 'underwriting asset' will be complex. Further, this proposal has some linkages to proposal 45 above (removing YRT policies from statutory fund regime) which we are proposing to discontinue. Our assessment is that the costs of change outweigh the benefits.	 Industry felt the proposal was extremely difficult to operationalise and not very realistic.
	47	Introduce policyholder preference in insolvency of the licensed insurer	The IMF FSAP invited the Reserve Bank to consider this element. At this stage, we consider the complexities in developing this proposal further and understanding potential impacts outweigh the benefits of the proposal.	 Supportive, but questioned the practical consequences.
	48	Require civil pecuniary penalties to be payable to policyholders as a group.	This proposal would introduce an ability for the Court to order that some of a civil pecuniary penalty imposed on duty holders (director or appointed actuary, depending on the duty) be paid to policyholders as a group. We recommend discontinuing this proposal, on the basis that we no longer recommend introducing the relevant duties (see comments at proposals 50 and 51 below). Even if we did recommend the duties be introduced, on further review we consider that the appropriate function of civil pecuniary penalties is deterrence, not compensation.	 Concerned that this could allow the courts to infer a direct personal duty owed by directors to policyholders.
	49	Require licensed insurers to disclose overseas policyholder preference, not limited to preference when the insurer is in insolvency.	This proposal would extend the current requirements on disclosing overseas policyholder preference, so that disclosure requirements are not confined to preference in insolvency but also cover any other situation in which overseas policyholders may be given preference (e.g. in allocating bonuses to relevant life policies). On further review, we do not consider there to be a significant regulatory gap that requires addressing.	 Widespread support for keeping disclosure requirements generally unchanged.
	50	Introduce a requirement for licensed insurers to	This proposal requires policyholders' contractual rights to be documented, where these rights are affected as result of a transfer of insurance business (subject to approval by the Reserve Bank under	MIXED Agreed in principle, but did

**POLICY
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**IN CONFIDENCE
POLICY**

Key theme	#	Proposal (Omnibus consultation)	Description	Industry views
		document policyholder contractual rights, where these rights are affected as a result of a transfer of business	<p><u>s 44 IPSA</u>). The proposed requirement would be incorporated into the novation rules set out in <u>s 53 IPSA</u>.</p> <p>On further review, we are not convinced that there is a regulatory gap that requires addressing. Disclosure to policyholders can be achieved via the Reserve Bank imposing a condition of approval for the s 44 transfer, and we do not see a strong need for prescriptive requirement.</p>	not think any regulatory gap existed.
Due diligence duties	51	Impose a due diligence duty on directors and NZ CEOs	<p>This proposal would impose a duty on directors of NZ-incorporated insurers (or the NZ CEO of an overseas insurer) to carry out due diligence to ensure that the insurer complies with its prudential obligations under IPSA. This is similar to the requirement under the DTA.</p> <p>We recommend discontinuing the proposal on the basis that the likely negative impact on industry would outweigh the benefits.</p>	<p>✗ Industry suggested the proposal would be unnecessary due to regulatory measures already in place</p>
	52	Introduce a due diligence duty, to apply to appointed actuaries	<p>This proposal would impose a duty on appointed actuaries to exercise due diligence in the performance of any duties set out in the actuarial advice standard (proposal 14 above).</p> <p>We recommend discontinuing the proposal on the basis that the likely negative impact on industry would outweigh the benefits.</p>	<p>✗ Opposed, considered the duty would be unnecessary given existing professional requirements</p>
Guarantee scheme	53	Policyholder guarantee scheme	<p>We did not recommend implementing a policyholder guarantee scheme in the Omnibus Consultation. An assessment of the case for a scheme was not strong enough to justify the costs of implementation and ongoing administration at the present time, however we did not rule out reconsidering this issue in the future.</p>	<p>✗ Industry agreed with our conclusion</p>

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