



Reserve Bank
of New Zealand
Te Pūtea Matua

Non-Technical Summary

Insurance (Prudential Supervision) Act 2010 Review.

Options paper 4: Governance, supervisory processes and disclosure

15 November 2022

Insurance regulation and the IPSA review

This consultation is the last of four topic-specific consultations we are issuing as part of our comprehensive review of the Insurance (Prudential Supervision) Act 2010 (IPSA).¹ We will issue a final ‘omnibus consultation’ setting out all our proposed changes to IPSA in mid-2023.

Prudential supervision of insurers is about promoting ‘sound’ insurers – businesses that are well run and in a solid financial position – so they can pay their policyholders when they need to.²

Policyholders pay a premium when they take out an insurance policy. Insurers then promise to provide them with a level of financial compensation if they experience a loss covered by their policy. Insurers are paid in advance to cover uncertain future losses. They need to make careful judgements about policyholders’ likely losses so they can charge an appropriate premium for cover and hold enough reserves (cash and investments) to pay claims.

Prudential regulation encourages insurers to make careful and conservative assessments of the risks they are insuring and the reserves they need to hold.

It works by:

- setting minimum governance and risk management requirements for insurers;
- making rules for calculating the minimum levels of capital reserves insurers must hold, to underpin the risks they insure;
- requiring insurers to provide financial information to the public and Reserve Bank so outsiders can monitor insurers’ financial position; and
- providing for Reserve Bank supervisors to exercise oversight of insurers.

We are undertaking a comprehensive review of the IPSA legislation, which governs our prudential supervision of insurers, to ensure that it is up to date, drawing on our experience of how the legislation operates and on several external reviews.

This consultation

This consultation is particularly concerned with how IPSA allows us to supervise insurers. The consultation looks at how IPSA regulates insurers’ governance and risk management, how supervisors assess and monitor significant transactions to ensure they don’t create financial weakness, and the ways in which we gather data from insurers to underpin our supervision.

We are keen to ensure that IPSA supports the more proactive and intensive approach to supervision that we have been developing across the sectors we regulate (banks, insurers and financial market infrastructures). We want to set out clearer expectations for the standards of governance and risk management that we expect insurers to meet and the role of ‘relevant officers’ (directors, senior managers, appointed actuaries) in delivering that governance. With clearer standards in place, we will be able to carry out more robust verification that insurers are

¹ More information about the IPSA review and the two previous consultations can be found [here](#) and [here](#)

² The Reserve Bank is in charge of the ‘prudential’ regulation of insurers. There is a separate regime to regulate insurers’ *conduct* – the way policies are worded and the way customers are dealt with – looked after by the Financial Markets Authority.

behaving appropriately (a 'trust but verify' approach). We will also have greater enforcement powers if significant problems arise.

These changes would bring our regulatory framework into closer alignment with international best-practice.

Key officers

IPSA already requires insurers to certify that 'relevant' officers (directors, chief executives, chief financial officers, and appointed actuaries) are 'fit and proper' for their roles and to re-issue certification every three years. We propose amending IPSA to require insurers to ask for our approval before they appoint relevant officers and to notify us whenever they receive information that casts doubt on fit and proper assessments. We also propose extending fit and proper requirements to all senior management.

We consider key officers' legal duties. We ask whether an insurer's directors should be under a legal duty to exercise due diligence to ensure that insurers comply with their obligations under IPSA. Alternatively, we discuss the possibility of a fuller 'executive accountability regime' which would create a broader set of duties on key officers to cooperate with us and ensure that prudential obligations were met.

One of the 'relevant officers' under IPSA is the role of 'appointed actuary'. Actuaries are experts at using statistical and accounting techniques to value assets and liabilities whose future value is uncertain (such as insurance contracts, where the amount an insurer will need to pay out on a policy depends on how many claims are made on the policy in the future). Actuaries play an important role in helping insurers to price products appropriately and manage the risks they are exposed to.

The 'appointed actuary' has a special role in making sure that the insurer's board has a good understanding of the insurer's financial position and the risks it is exposed to. The appointed actuary's primary responsibility is to the insurer but some of the information and judgements they make are also important to the Reserve Bank and broader market actors, who rely on those judgements when they assess an insurer's financial soundness.

We ask whether IPSA should empower a 'standard' that would set out the appointed actuary's role and responsibilities more clearly. We also ask whether appointed actuaries should also be subject to a legal duty of due diligence, reflecting the need for 'outsiders' to rely on their judgement.

IPSA includes a power for the courts to ban a person from participation in the insurance industry following serious or persistent misconduct. We note that this provision would apply to the duties of due diligence we discuss in this section and ask whether stakeholders think that is appropriate.

Governance and risk management

We currently have broad oversight of insurer's governance arrangements and their risk management programmes under IPSA. However, detailed requirements are currently set out in non-binding guidance. We ask whether it would be more appropriate to produce 'standards' that would set out our expectations for governance and risk management in a way that was more detailed, clearer and more easily enforceable.

Supervisory processes

IPSA provides for supervisors to review a range of significant transactions that an insurer might be involved in: where the ownership of an insurer changes, the insurer changes its corporate form (for example, from a mutual society to a corporation), merges with another insurer and where a transfer of business takes place from one insurer to another.

At the moment, supervisory oversight is slightly different for different kinds of transactions. We have sometimes felt that the rules didn't allow us to tailor our oversight to the level of risk that transactions pose. We are required to undertake thorough scrutiny of some transactions that will have little impact on a New Zealand insurer's business (for example, a change of control of the ultimate parent of a large international insurance group). Meanwhile, we are not currently explicitly required to consider policyholder interests in some change of control transactions that might have an impact on the risks policyholders are exposed to.

We propose consolidating the rules for our oversight of transactions so that there is a single test that allows us some discretion to tailor our scrutiny to the level of risk a transaction presents. We discuss appropriate consultation with the FMA (for approvals and for our licensing of insurers). We ask what role policyholder interests should play in our scrutiny. We also suggest some expansion of the scope of transactions that require oversight and changes to the time-frame for our approval process.

Data and Disclosure

IPSA already gives us a range of powers to require insurers to give us the information we need to carry out our supervision. The legislation includes requirements to prevent us from passing this information on, since it is delivered to us on a confidential basis. Some of the arrangements for collecting information are also administratively cumbersome, requiring us to provide a series of different 'notices' to individual insurers to set out our information requirements.

We propose introducing a 'disclosure standard' alongside our existing information gathering powers. The standard could be used to simplify some information gathering. It could also enable us to require that some additional specified information was made available to the public to improve market discipline.

What do you think?

If you would like to contribute to the discussion, we want to hear from you.

Please send us your thoughts by 21 February 2023 to ipsareview@rbnz.govt.nz.