

The Reserve Bank has been signalling for some time that they will review the *Insurance (Prudential Supervision) Act 2010* in light of the experience of insurers (and other stakeholders) since its implementation. An issues paper has now been released [here](#).

Submissions on the issues paper are due 30<sup>th</sup> June and discussion forums have been organised for 22<sup>nd</sup> and 24<sup>th</sup> May in Auckland and Wellington respectively. MJW will be meeting with a number of stakeholders and making a submission on the issues paper.

The key issues we see for non-life insurers are:

- NZ branches vs. NZ incorporated insurers
- Non-licensed insurance activity
- Categorisation of long tail non-life products
- Involvement of the Appointed Actuary
- Expectations placed on Directors
- Disclosure requirements
- Minimum solvency requirements and conditions of license
- Data collection

A similar newsletter looking at issues for life insurers will be issued shortly.

### **NZ branches vs. NZ incorporated insurers**

Perhaps the biggest bugbear for NZ incorporated insurers is the perception that they're not on an even playing field with NZ branches of foreign insurers. IPSA is intended to be agnostic between branches and incorporated insurers, although the RBNZ appears to recognise the practical difficulty in achieving this.

Of the NZ branch insurers, most are owned by Australian incorporated entities (which in turn may be owned by non-Australian entities) and are therefore regulated by APRA. About a third (by GWP) are owned by European or other incorporated insurers.

Where the RBNZ is satisfied that an overseas insurer is appropriately regulated in their home jurisdiction they may grant an exemption from all or part of the solvency standards. Currently all foreign non-life insurers are exempt from compliance with the solvency standards.

### **Catastrophe cover**

APRA's prudential standards require insurers to hold catastrophe cover to a 1/200 year level whereas the RBNZ solvency standards generally require insurers to hold cover to 1/1000. In a seismically active country like NZ the reinsurance purchase dominates the P&L for many insurers.

A 1000 year catastrophe may be 2-4 times more expensive than a 200 year catastrophe depending on the concentration of risks. And whilst reducing requirements for NZ insurers is unlikely to be the best solution (and is out of scope for this review) it is important to ensure that foreign insurers play to the same rules (or at the very least that the implications of different rules are properly understood by policyholders).

As an aside, APRA also requires insurers to meet a catastrophe 'horizontal requirement.' This tests an insurer's ability to cover a string of smaller events.

### **Protection for NZ policyholder interests**

The RBNZ recognises the difficulty in protecting NZ policyholder interests in the event that a foreign insurer enters financial difficulty. Most insurance policies with NZ branches will note an overseas policyholder preference, leaving NZ insureds further down the payout chain.

The RBNZ notes two potential protection mechanisms: mandatory local incorporation, and an 'assets in NZ' test (for example using a statutory fund). It is recognised that some sort of tiered approach will be necessary given the diversity of risks.

### **Non-licensed insurance activity**

The RBNZ notes a growing non-licensed sector. The issues paper specifically refers to foreign insurers which are not required to register an overseas company with the Companies Act 1993. Such insurers are free to write business in NZ without a license.

The RBNZ is considering whether any steps should be taken to monitor non-licensed activities (see the data collection section below), and even asks for submitters to name any instances of non-licensed activity which they are aware of.

Another potential area of non-licensed activity (although not specifically noted in the paper) is insurance-style products not currently captured within the definition of insurance. For example, repayment waivers sold by finance companies, as discussed [here](#).

### Categorisation of long tail non-life products

IPSA defines a life policy according to the conditions upon which a benefit is payable (e.g. death, disability) and with reference to the policy term as well. Warranty type products (e.g. extended warranty, builders warranty) are not life policies.

The issues paper notes that there may be an argument to separate certain long term non-life products and require a statutory fund, similar to that of life policies. This has significant implications for insurers offering warranty products or supporting finance contracts which may extend beyond one year.

### Involvement of the Appointed Actuary

The issues paper notes that the Appointed Actuary may be involved to differing extents in the operation of a licensed insurer. The larger NZ insurers (Vero and IAG, also FMG) have internal Appointed Actuary functions, whilst all other insurers either have external Appointed Actuaries or utilise the function of an overseas actuary working for a different part of the global insurance group, usually Australia.

In theory, for an NZ branch insurer the Appointed Actuary is required to review the actuarial component of the financial statements for the whole licensed insurer. The paper notes the practical difficulty in reviewing the statements for a much larger organisation with which the actuary may have little involvement.

### Expectations placed on Directors

There is relatively little guidance on the expectations of Directors, particularly in regard to risk management, compliance, actuarial matters and internal audit. This creates uncertainty and inconsistency amongst insurers in the extent to which Directors are aware and/or involved in these issues, an issue recognised by the Reserve Bank.

Certain attestations are required to be made by Directors, the Chief Executive and Chief Financial Officers. The issues paper questions whether these responsibilities should be reviewed, including whether they may be expanded.

### Disclosure requirements

Insurers are required to disclose solvency related information on their websites and in financial statements, although there is variation in exactly what is disclosed. Most insurers are also required to disclose their financial strength rating.

The issues paper notes that the current disclosure requirements are focused only on financial matters, and there may be scope to require disclosure of other more qualitative information such as corporate governance matters.

### Minimum solvency requirements and conditions of license

Some insurers have been required to hold additional solvency margins as a condition of license (example TOWER \$50m). The issues paper notes the lack of transparency with using conditions of license to respond to uncertainty in an insurer's financial position.

There are other means by which the RBNZ may respond to the uncertain financial position of an insurer, for example, a graduated approach with pre-defined triggers at specified levels of solvency. Although, a well formulated capital management plan should already include specified actions at varying levels of solvency.

### Data collection

The issues paper notes the difficulty that the Reserve Bank is having in achieving cost effective data collection (one of the reasons we started the MJW QIS report). The paper also notes that some form of reporting framework may be introduced even for non-licensed activity (difficult as this may be to achieve).

### Follow-up

If any stakeholders have comments they would like us to consider in our submission then please get in touch via the contact details below.

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