

# **The Insurance (Prudential Supervision) Act 2010**

## **A Post-Enactment Assessment**

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**“Off the Record”**

# *Agenda*

- **Before:**        **What did we have?**
- **During:**       **What did we do?**
- **Current:**      **What is the outcome?**
- **Future:**       **What might come next?**

## **Before: What Did We Have?**

- **Prudential Regulation: minimal, and disjointed**
  - **The Life Insurance Act (1908)**
  - **The Insurance Companies Deposits Act (1953)**
  - **The Mutual Insurance Act (1955)**
  - **The Insurance Companies (Ratings and Inspections) Act 1994**
- **External Perception: an almost unregulated industry**
  - **The Wild West!**

## **Before (cont'd)**

- **Approximately 160 entities with deposits paid**
  - **New Zealand and overseas sourced companies**
  - **Locally incorporated and branch operations**
  - **Life, non-life**
  - **Large, small**
  - **Captives, reinsurers, brokers, others**
- **Industry largely self-regulated, not considered to be broken**
  - **Last significant failure was AC&L in 1989**
- **Law Commission Report 2004, RFPP 2005**
  - **RBNZ appointed by government as prudential regulator**

## **Before (cont'd)**

- **The design spec: Effective, light-handed regulation that will:**
  - **promote the maintenance of a sound and efficient insurance sector**
  - **promote public confidence in the insurance market**
  - **maintain the general balance of the market**
  - **recognise the realities of the New Zealand market**
  - **maintain the interest of overseas support and New Zealand insurers**
  - **not stop the industry from carrying on its business**
  - **Bring New Zealand into general alignment with established international standards of insurance regulation**

## ***During: What Did We Do?***

- **Consulted and communicated widely across a broad range of issues**
- **Assessed relevant overseas regulatory models**
- **Engaged with stakeholders right through the process**
- **Released a draft Bill in mid 2009 as stakeholder consultation**
- **Refined the draft based on extensive industry engagement**
- **Introduced to Parliament in October 2009, followed by first reading in December 2009 and robust Select Committee process**
- **Act passed on 26 August 2010, signed into law on 7 September**

## **During (cont'd)**

- **General industry acceptance of the need for prudential legislation, of the outcomes intended and the approach taken to achieve these**
- **Some areas of sector discontent**
- **Unanimous cross-party support through the parliamentary process**
- **Select Committee recommended certain minor refinements**
- **Bill received strong support at second and third readings, and passed uncontested on 26 August**
- **Bill became the Insurance (Prudential Supervision) Act 2010**

# **Current: What Is The Outcome?**

- **A modern, comprehensive and internationally-aligned licence-based regulatory model, including requirements in the following areas:**
  - **Conditions of licensing**
  - **Solvency standards (Risk-based capital requirements)**
  - **Financial strength ratings**
  - **Fit and proper policy**
  - **Risk management programme**
  - **Appointed actuary**
  - **Statutory fund for life insurers**
  - **Financial reporting**
  - **Ownership and governance structures and financial strength**
  - **Appropriate home country standards for branches of overseas insurers**
  - **Clear obligations on directors and senior officers**

## **Current (cont'd)**

- **RBNZ supervision and distress management powers include**
  - **Information-gathering and investigation powers**
  - **Requiring recovery plans**
  - **Direction making**
  - **Application for liquidation or voluntary administration**
  - **Recommending appointment of statutory management**

## **Current (cont'd)**

- **Implementation work has now commenced toward licensing of insurers**
- **Supervisory team almost fully established**
- **Transitional path to compliance, with key dates at 18 months (licensing) and 3 years (full compliance)**
- **Required regulations and guidelines currently under preparation**
- **Solvency standards nearing completion**
- **Established consultation and communication regimes continue, and will remain the RBNZ insurance model**

# *Aftershocks ???*

- **“Change anxiety”**
  - Mitigated significantly by long awareness of impending changes and time to plan
  - But change is here to stay
- **Regulated world versus the Wild West:**
  - Implementation load / cost (although kept as efficient as possible)
  - Solvency / Capital requirements
- **Industry rationalisation**
  - Not an intended consequence, but almost inevitable
  - Between companies, and possibly consolidation within groups

# *Aftershocks ???*

- **Not the same as APRA, or FSA, or OSFI, .....**
  - **Legislation designed for New Zealand requirements**
  - **Solvency calibrations targeted to effective NZ outcomes**
  - **Catastrophe reinsurance requirements no knee-jerk reaction**
- **Earthquake !!!**
- **The reality of a regulated market**

## **After: What Might Come Next?**

- **Solvency II?**
  - Is it the coming worldwide solvency approach?
- **Changed accounting standards?**
  - What are the chances? 30 June 2011 is a key date
- **Changing legislative and regulatory landscape in New Zealand?**
  - FMA, other changes

## **After (cont'd)**

- **Increased internationalisation of the NZ Insurance market**
- **International regulatory focus on SIFIs, IAIGs**
- **Impact on NZ of cross-border regulation**
- **The risk that is bigger than the wolf!**



# Questions?