

# **Prudential Supervision of the New Zealand Insurance Industry**

## **The Actuarial Role**

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# Why do we need this legislation?

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- ❑ Bringing New Zealand into line with international financial expectations
- ❑ Industry not perceived to be in distress, but appropriate protections still important
- ❑ Legislation intended to be light-handed, effective, and to promote public confidence in the insurance industry

# Key Contextual Considerations

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- ❑ The New Zealand insurance market in a worldwide context
- ❑ Maintaining insurance industry in balance
- ❑ Competitive neutrality
- ❑ International precedents (APRA, FSA, IAIS etc)
- ❑ Dual regulatory model
  - ❑ RBNZ: prudential regulation
  - ❑ MED: market conduct regulation

# Timeline to date:

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- ❑ August 2006: RFPP Consultation Paper on Insurance
- ❑ December 2007: RBNZ appointed prudential regulator for insurance
- ❑ Dec 2007: Cabinet approves first major policy paper, seeks further input on certain technical issues.
- ❑ May 2008: Consultation on technical issues highlighted by Cabinet
- ❑ August 2008: Cabinet approves second policy paper, invites RBNZ to commence drafting of legislation

# Indicative Timeline Forward

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- ❑ Q1 2009: Release of exposure draft of Bill as a consultation document
- ❑ Q2/3 2009: Insurance (Prudential Supervision) Bill to be tabled in parliament
- ❑ Q1/2 2010: Enactment of legislation

# A Work in Progress

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- ❑ These are still early days
- ❑ High-level policy confirmed
- ❑ Still much work to be done on legislative detail
- ❑ Primary legislation versus Regulations
- ❑ Consequential amendments to other legislation

# Helping RBNZ Will Be...

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- Parliamentary Counsel Office
- Other Government Agencies
- Industry – via consultation and through industry associations
- Ratings Agencies
- New Zealand Society of Actuaries

# The Actuarial Role

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- Creating appropriate regulatory standards from NZSA professional standards
- General Insurance:
  - Create a new solvency standard
  - Update liability standard PS4 for IFRS
- Health Insurance:
  - Create new solvency standard (or modify HFANZ model)
  - Create new liability standard (or modify PS4)
- Resources

# Key Components of the Regime

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- Licensing
- Solvency
- Ratings
- Fit and Proper Requirements
- Reporting
- Distress Management

# Likely Structure of the Bill

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- Preliminary matters
  - Licensing matters
  - Prudential Regulation of Insurers
  - Supervision of Insurers
  - Distress and Exit
  - Penalties
  - Other Provisions (transition provisions, consequentialia)
  - Miscellaneous (confidentiality)
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- (Note: Regulations will accompany the Bill)

# The Recent Turmoil

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- ❑ AIG a major wake-up call
- ❑ Major insurer impacts in US and Europe
- ❑ Yamoto Life fails in Japan
- ❑ Pressure on asset values
- ❑ Impact likely still to come
- ❑ Extent unknown at present

# Regulatory Implications of Recent Turmoil

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- ❑ Increased focus on group supervision
- ❑ Regulatory college approach
- ❑ Tightening perspective on capital and solvency requirements
- ❑ Collectability of Assets becomes an issue
- ❑ What defines “assets in New Zealand?”

# Future Insurance Team Structure

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- Policy team
- Supervisory team – Will include actuarial resources
- Blend of strong industry background and public policy skills
- Pragmatic, team-driven and achievement-focused culture

# Contacts

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