



Committee Secretariat
Finance and Expenditure
Parliament Buildings
Wellington 6160

14 June 2013

Submission on Insurance (Prudential Supervision) Amendment Bill

Dear Committee Secretariat,

Please find attached a submission on the Insurance (Prudential Supervision) Amendment Bill on behalf of the New Zealand Society of Actuaries. This submission has been prepared by members of the Society's General Insurance and Life Insurance committees.

We wish to appear before the committee to speak to our submission. My contact details are in the attached submission.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paul Rhodes', written in a cursive style.

Paul Rhodes
President



Appendix – Submission on the Insurance (Prudential Supervision) Amendment Bill
To the Finance and Expenditure Select Committee

Contact details

This submission is from the New Zealand Society of Actuaries Inc (NZSA), P.O.Box 161, Carterton.

We are available to appear before the committee to speak to our submission. Our representatives will be:

Paul Rhodes, NZSA President
Phone (04) 462 7075, email: paul.m.rhodes@nz.pwc.com

Ross Simmonds, Convenor of NZSA General Insurance Committee
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Summary of our Submission

We support the intent of this bill as it seeks to ensure a smooth transition to full licensing for insurance companies whilst reducing compliance costs. We have some recommendations on changes to specific clauses that are noted below.

About NZSA

The NZSA is the professional body for actuaries practising in New Zealand. Our purpose is to establish, promote and maintain high standards of competence and conduct within the actuarial profession, and to provide a source of reference on actuarial matters for government and various official and interested bodies. As at December 2012 we have a total membership of 314. Of these, 176 are Fellows qualified by examination.

This submission has been prepared by members of the NZSA's General Insurance and Life Insurance committees and is supported by the NZSA Council.

Comments on specific clauses

Clause 4

We support this clause because it provides more clarity around the conditions that will require certification by the licensed insurer. These conditions may also be required to be verified by the appointed actuary (section 21 (2)(g)) and we welcome the additional clarity this will provide.

Clauses 9 & 13

We agree with the general intent of these clauses. Removing the need for an insurer in run-off to maintain a financial strength rating seems a reasonable approach in certain circumstances. However we note that many policyholders will be interested in the financial strength rating of the insurer, particularly those with long-term contracts, investment contracts or high risk aversion.



A financial strength rating is predominantly used to provide information to prospective policyholders about the financial security of an insurer. An insurer in run-off will not be writing new business and as such have no need to provide information for this purpose. Removing this requirement will reduce the compliance burden for run-off insurers.

Risk averse policyholders may seek a replacement policy for future insurance cover if they are advised that a rating will no longer be reviewed and updated. This option may involve an extra cost to such policyholders through a loading on new policy (for those whose risk characteristics have deteriorated) or loss of unearned premium on an existing policy. This outcome is no different from the situation if a rating falls, so waiving the requirement for run-off insurers to maintain a rating will not add any extra protection for policyholders.

NZSA would support an amendment giving the Bank the discretion to waive the financial strength rating for companies in run-off. This would allow the Bank to consider the merits of an individual circumstance and whether maintaining a rating adds any extra protections. It is noted that statutory funds provide some protection for life insurance policyholders, which means that they may not be affected if the financial strength rating is waived.

Clause 11

We agree with the general intent of this clause. Allowing the Bank to give notice to insurers to prepare interim accounts in accordance with their home jurisdiction will reduce compliance costs for these insurers, which will benefit policyholders through lower costs. We believe that the Bank would give this notice only to insurers who have a home jurisdiction that is considered at least equivalent to New Zealand, from a regulatory perspective. As such insurers who receive this notice would still be subject to similar requirements to all other insurers who do not receive this notice, and therefore policyholders will not be adversely impacted by this change.

The requirement for companies to prepare interim financial accounts within three months of the end of period is to align this requirement with the Financial Reporting Bill, as it was originally submitted. This requirement may cause difficulties for insurers with limited resources. We note that the Commerce Select Committee recommended that the deadline for annual financial statements become four months rather than the three months originally submitted. NZSA would support an amendment to this clause changing the deadline from three months to four months to be consistent with the Financial Reporting Bill.

Clause 12

We support this clause because it provides a 5 year limitation in respect of an offence under the Act. Under the Act actuaries have a number of responsibilities under the role of appointed actuary. The Act currently does not have a time limitation on any offences. As such it is possible for offences to be raised in relation to historical decisions which were made in good faith and based on all available information at the time, which subsequently may not appear to have been the best decision due to changes in the tests applied to insurance companies over time. Whilst we acknowledge that such a situation is unlikely to occur, the change proposed by this clause removes this situation entirely.



Other Recommendations

We recommend that the committee also review the definition of "actuarial information" contained in Section 77(4) of the 2010 Insurance (Prudential Supervision) Act. The definition includes premiums and claims. Sometimes, our members are able to review accounting premiums and claims information for reasonableness and consistency relying on audit sign-off for the precise amount shown in the financial statements. Current industry practice is for the appointed actuary to specifically state which reserves and provisions have been reviewed, and the Reserve Bank have endorsed this approach in their implementation of this legislation. However, it would be our preference for the legislation to be changed so that our members are able to comply.