Prudential Supervision of the New Zealand Insurance Industry

The Actuarial Role

Richard Dean
Manager, Insurance Policy
Reserve Bank of New Zealand
Why do we need this legislation?

- 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

- 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:

- 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

- 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

- 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...

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

- 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

- Licensing
- Solvency
- Ratings
- Fit and Proper Requirements
- Reporting
- Distress Management
Likely Structure of the Bill

- Preliminary matters
- Licensing matters
- Prudential Regulation of Insurers
- Supervision of Insurers
- Distress and Exit
- Penalties
- Other Provisions (transition provisions, consequentials)
- Miscellaneous (confidentiality)

(Note: Regulations will accompany the Bill)
The Recent Turmoil

- 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

- 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

- 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

- Richard Dean
  - Manager, Insurance Policy
  - Phone 04 4713711, or 021 943180
  - richard.dean@rbnz.govt.nz

- David Williams
  - Senior Adviser
  - Phone 04 4713748
  - david.williams@rbnz.govt.nz