



**Prudential Supervision
of the
New Zealand Insurance Industry
The Actuarial Role**

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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, consequentialia)
 - Miscellaneous (confidentiality)
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- (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

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