

14 June 2013

Chairman
Finance and Expenditure Select Committee
Parliament House
Wellington.

Dear Sir,

Submission on Insurance (Prudential Supervision) Amendment Bill

1. Introduction

1.1 The Financial Services Council ("FSC") is the industry association for the companies that issue and manage life insurance, superannuation and managed funds in New Zealand. FSC members are responsible for approximately \$2 billion in Annual Premium Income and provide personal risk cover worth more than \$286 billion.

A list of members is attached.

1.2 This submission deals solely with one aspect of the Insurance (Prudential Supervision) Amendment Bill. Our concern is with clause 11 which amends section 81 (2) of the Insurance (Prudential Supervision) Act 2010 and reduces the timing for completion and lodgement of interim financial information.

1.3 It appears that this amendment has been made for consistency with the change made by the Financial Reporting Bill to timing deadlines for completion and lodgement of end of year financial statements.

1.4 We submitted a similar concern to the Commerce Select Committee in respect of the Financial Reporting Bill in January 2013.

2. Recommendation

2.1 The FSC recommends that the timing deadlines for preparation and lodgement of interim financial statements under section 81(2) of the Insurance (Prudential Supervision) Act 2010 should be retained as they are at present.

Our alternative recommendation is that the proposed 4 month deadline (as recommended by the Commerce Select Committee) for preparation and lodgement of annual financial statements should apply to both interim and annual financial statements.

3. Timing for Lodgement of Interim Financial Information

3.1 The Insurance (Prudential Supervision) Amendment Bill amends the deadline for **interim** financial statements to be prepared and submitted to the Reserve Bank (“RBNZ”).

3.2 Currently licensed insurers are required to provide **interim** audited individual and group financial statements to the RBNZ within 5 months of the end of the first half of their accounting period. That is a shorter period (by 20 days) than is allowed for the completion and lodging of **annual** financial statements.

3.3 As noted above, deadlines for completion and lodgement of **annual** financial statements are to be reduced on enactment of the Financial Reporting Bill currently before the House.

Supplementary Order Paper (SOP 93) was introduced to amend the Financial Reporting Bill and inserts a new sub part into the Financial Markets Conduct (“FMC”) Bill requiring FMC reporting entities (which will include licensed insurers) to complete financial statements within 3 months of the end of their financial year and lodge them with the Registrar within another 20 days. We understand that the amendments in SOP 93 will be held over until the FMC Bill has been enacted and will then be incorporated into the Financial Reporting Bill before it is enacted.

Schedule 2 of the Financial Reporting Bill also amends the Insurance (Prudential Supervision) Act 2010 to reduce the reporting deadline for interim financial statements from 5 months to 3 months.

3.4 Our recommendation to the Commerce Select Committee in respect of the Financial Reporting Bill was that the deadline for completion and lodging of annual financial statements should remain at 5 months and 20 days.

3.5 When they reported back the Financial Reporting Bill the Commerce Select Committee recommended that it be amended to:

“remove references to intermediate deadlines for preparation and lodgement or registration of financial statements, setting instead a single deadline. We believe this would allow reporting entities more flexibility to allocate time between preparation, audit, and lodgement of statements. At present, the reporting deadlines across the statute base are varied and inconsistent. The bill as introduced proposes to bring forward the deadline for issuers and other FMC reporting entities to lodge audited financial statements from 6 to 4 months after balance date. We are aware of concern from submitters about reducing the time allowed, but believe that timely reporting makes the financial reports more useful.”

3.6 We accept that the financial statements are an essential tool for monitoring the performance of life insurance companies. However, we do not believe that governance or supervision would necessarily be improved by reducing the time available for completion and lodging of the statements. The current legislation allows the Financial Markets Authority and/or the RBNZ to request earlier information in the event that they have any concerns.

In addition, we note that key stakeholders, being policyholders, are protected by the solvency margin and the requirements regarding this ongoing obligation (rather than by the financial statements being published more quickly).

- 3.7 FSC members who are licensed insurers have expressed concern that the reduction in filing time will potentially create a problem as a result of the additional requirement in section 77 of the Insurance (Prudential Supervision) Act 2010 for the financial statements of a licensed insurer to include actuarial information.

There is also the need for insurers to complete solvency calculations and returns and to be ready to submit these to RBNZ within the same timeframe as the financial statements. This is not a parallel task but largely a sequential task in that the financial statements need to be completed before the solvency calculations can be done. This extends the overall time required.

- 3.8 While it is technically possible to complete the work within the shorter timeframes of 3 months and 20 days (or, effectively, 4 months) it will put pressure on the available actuarial and auditing resources and inevitably increase costs without increasing the benefits to consumers. There is no regulatory impact statement accompanying the Bill and no case has been made for the need to reduce the reporting timeframes.

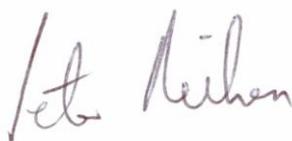
- 3.9 The Commerce Select Committee Report on the Financial Reporting Bill acknowledged that reporting entities may have difficulty with the reduced timeframes, noting:

“If entities were to face demonstrable practical difficulties with meeting the four-month deadline, the Financial Markets Authority could make exemptions under clause 528 of the Financial Markets Conduct Bill, once it is enacted.”

The FSC view is that it would be preferable to have a clear statement in legislation with timing deadlines that apply to all licensed insurers.

- 3.10 While our preference is that the deadlines for completion and lodgement of **interim** and **annual** financial statements be retained as they are under current legislation, our alternative recommendation is that the proposed 4 month deadline applies to both sets of reporting.

Yours sincerely,



Peter Neilson
CHIEF EXECUTIVE

List of FSC Members

FSC Members

Accident Compensation Corporation
AIA NZ
AMP Financial Services
ANZ Bank
Asteron Life Ltd
BNZ Insurance
CIGNA Life Insurance NZ Ltd
Fidelity Life Assurance Co Ltd
FNZ
Gen Re LifeHealth
Hannover Life Re of Australasia Ltd
Kiwibank Ltd
Mercer
Munich Reinsurance Co of Australasia Ltd
NZ Venture Investment Fund Ltd
Partners Life
Pinnacle Life
Public Trust
RGA Reinsurance Co. of Australia Ltd
Sovereign Ltd
Swiss Re Life & Health Australia Ltd
TOWER New Zealand
Westpac Bank

Associate Members

Bell Gully
BNP Paribas
Bravura Solutions
Burrowes & Co
Chapman Tripp
Davies Financial & Actuarial Ltd
Deloitte
DLA Phillips Fox
Ernst & Young
KPMG
Kensington Swan
Melville Jessup Weaver
Minter Ellison Rudd Watts Lawyers
Morningstar Research Ltd
PricewaterhouseCoopers
Russell McVeagh
Trustees Executors Ltd