

Insurance Council of New Zealand

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Chair
Finance and Expenditure Committee
Parliament Buildings
WELLINGTON 6011

Submission on Insurance (Prudential Supervision) Amendment Bill

The Insurance Council of New Zealand (“Insurance Council”) appreciates the opportunity to comment on the Insurance (Prudential Supervision) Amendment Bill.

1. Insurance Council

The Insurance Council is the industry representation body for fire and general insurance in New Zealand. The Council aims to assist members in key areas affecting their business through effective advocacy and communication.

The Council currently has 26 members who collectively write more than 95 percent of all fire and general insurance in New Zealand. Insurance Council members, both insurers and reinsurers, are a significant part of the New Zealand financial services system. Our members currently protect more than \$0.5 trillion of New Zealanders' assets, including over \$170 billion of home mortgages.

The Insurance Council plays an active role in representing the insurance industry. Our members are licensed under the Insurance (Prudential Supervision) Act 2010 and signatories to the Fair Insurance Code that requires insurers to act ethically. We also perform an important role in informing and educating consumers about key insurance issues and risks.

2. Clause 11 of the Bill

This submission deals specifically with clause 11 of the Insurance (Prudential Supervision) Amendment Bill (“the IPSA Bill”) which amends section 81 (2) of the Insurance (Prudential Supervision) Act 2010 (“the Act”) and reduces the timing for preparation and lodgement of interim financial information.

As outlined in the Explanatory Note of the IPSA Bill, clause 11 was intended to align the reporting provision under the Act with the Financial Reporting Bill (“the FR Bill”). However, there have been developments in respect of the FR Bill which would mean alignment between annual and interim financial reporting timeframes would not occur.

We recommend that the timeframe for preparation and lodgement of interim financial statements under section 81(2) of the Act be consistent with the revised deadline for preparation and lodgement of end of year financial statements recommended by the Commerce Committee in the FR Bill.

3. Consistency Between Annual and Interim Reporting

The IPSA Bill reduces the deadline for interim financial statements to be prepared and lodged down to 3 months.

Currently licensed insurers are required to provide *interim financial statements* to the Reserve Bank within 5 months of the end of the first half of each accounting period. This is a shorter period (by 20 working days) than is currently allowed for the completion and lodging of *annual financial statements* under the Financial Reporting Act 1993.

Deadlines for completion and lodgement of annual financial statements are intended to be shortened on enactment of the FR Bill currently before the House. Supplementary Order Paper 93 ("SOP 93") was introduced to amend the FR Bill and insert a new sub part into the Financial Markets Conduct ("FMC") Bill requiring FMC reporting entities (including 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 (as opposed to the current 5 months and 20 days).

Our recommendation to the Commerce Committee, in respect of the above proposal, was that the deadline for completion and lodging of annual financial statements should remain at 5 months and 20 days. However, when the FR Bill was reported back by the Commerce Committee, it recommended the following amendment for FMC reporting entities (including licensed insurers):

"We recommend amending the bill throughout 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."

This would mean licensed insurers would have 4 months in which to prepare and lodge annual financial statements, in contrast to the 3 months and 20 working days previously proposed in SOP 93.

While our preference would be that the deadlines for completion and lodgement of interim and annual financial statements remain at 5 months, our alternative recommendation is that the proposed 4 month deadline should apply to both sets of reporting.

The shortened timeframe of 3 months for interim reports will put pressure on the available actuarial and auditing resources and inevitably increase costs without increasing benefits to consumers. These time constraints may potentially also put pressure on the accuracy and comprehensiveness of financial information.

There appears to be no regulatory impact statement accompanying the IPSA Bill and no case has been made for the need to reduce the reporting timeframes. There is no sound evidence indicating that the current timeframe is causing any real issue. Further, a 3 month timeframe appears to be out of line with reporting requirements in other international jurisdictions (particularly Australia and the UK).

The Commerce Committee Report on the FR Bill acknowledges that some reporting entities may have difficulty with the reduced timeframes for annual reporting. The same problems will exist for interim reporting.

4. Recommendation

We recommend that a clear statement be made in the IPSA Bill extending timing deadlines out to 4 months for all interim financial reports, to align with the recommendations of the Commerce Committee around annual financial reporting.

5. Conclusion

Thank you again for the opportunity to provide input on the Insurance (Prudential Supervision) Amendment Bill.

Yours sincerely

A handwritten signature in blue ink that reads "Tim Grafton". The signature is written in a cursive style with a long horizontal stroke at the end.

Tim Grafton
Chief Executive

A handwritten signature in blue ink that reads "Simon Wilson". The signature is written in a cursive style with a large loop at the end.

Simon Wilson
Regulation and Legal Manager