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Reserve Bank of New Zealand

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Kia ora

ICNZ FEEDBACK ON PRUDENTIAL LEVY CONSULTATION

Thank you for the opportunity to comment on the Reserve Bank of New Zealand's (**Reserve Bank**) Prudential Levy Consultation.

Te Kāhui Inihua o Aotearoa | The Insurance Council of New Zealand (**ICNZ**) represents general insurers. Our members accept the risks of over NZ\$2 trillion of New Zealand's assets and liabilities. ICNZ members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, cyber insurance, commercial property insurance, and directors and officers insurance).

General feedback

ICNZ supports a financially sound, adequately resourced and operationally independent prudential regulator. Effective prudential supervision contributes to customer confidence, institutional resilience and the stability of New Zealand's financial system.

ICNZ does not consider that the Reserve Bank should have sole responsibility for developing and setting its own levy model. The proposal would see the Reserve Bank determine its budget for supervision, the recoverable cost base, the sector allocation methodology and the levy allocation model, while also receiving the levy revenue. This creates a perceived lack of independence. By comparison, the Ministry of Business, Innovation and Employment has been involved in the setting and review of Financial Market Authority (**FMA**) levies. To align with this practice, we consider that the Treasury should be involved with the setting and allocation of any levy-based revenue the Reserve Bank collects.

ICNZ's principal concerns are that the proposed model does not sufficiently demonstrate the alignment between the levy burden, supervisory effort, and prudential risk, does not incentivise accountability or cost discipline, does not adequately address the material differences between the life and general insurance sectors, and may place disproportionate pressure on insurance affordability.

ICNZ considers that the analysis supporting the consultation is materially underdeveloped for a proposal of this significance. The consultation advances a substantial change to the funding of prudential supervision, with material cost implications for regulated entities and their customers but provides limited evidence to support key design choices. In particular, it does not adequately substantiate the proposal to move to full industry funding despite the acknowledged public benefits of prudential supervision, the allocation between regulated sectors, or the prudential

supervision costs it proposes to recover. The consultation also does not sufficiently assess the implications for insurance affordability, competition, and market participation.

The proposed prudential levy should not be considered in isolation. Insurers and policyholders are facing increasing regulatory costs through a range of existing taxes, levies and regulatory obligations. At the same time, there is increasing focus from policymakers, regulators and industry on maintaining insurance affordability. Decision makers should not overlook the contribution that Government-imposed fees, levies and regulatory costs make to the final price paid by policyholders. The prudential levy consultation provides an opportunity to recognise the cumulative effect of these costs and the role Government plays in helping to ensure insurance remains accessible and affordable for New Zealand households and businesses.

Accountability

ICNZ's overarching position is that any industry funding model should be limited to efficient costs that are necessary for, and properly attributable to, prudential supervision. A model that includes industry funding requires strong safeguards against over-recovery, scope expansion and weak expenditure discipline.

If the prudential framework moves towards a substantially industry-funded model, this must be accompanied by corresponding improvements in accountability, transparency and independent scrutiny. Levy payers should have clear visibility of prudential priorities, expected outputs, resource allocation and the basis on which costs are recovered.

The Reserve Bank should consider existing New Zealand levy models, including the FMA levy regime, when developing this levy. Regulatory levies are well-established within New Zealand's regulatory landscape, and there is an opportunity to draw upon existing approaches to accountability, consultation and expenditure oversight. ICNZ does not consider that these safeguards are sufficiently developed in the Reserve Bank's current proposal.

ICNZ considers that a level of Crown funding should be retained, recognising that prudential supervision produces significant public benefits as well as private benefits for regulated entities. Prudential supervision supports confidence in the financial system, protects the wider economy, and contributes to system-wide resilience.

Retaining a Crown contribution would also preserve an important accountability relationship with the Crown for expenditure that serves wider public interests. If prudential supervision is funded largely or entirely by industry levies, a key question arises as to who the Reserve Bank is accountable to for the efficiency and scale of prudential expenditure.

ICNZ considers that levy amounts should be set prospectively, rather than retrospectively, supported by transparent annual cost reporting and explanation of material movements. If this approach is maintained, the provision of forecasts in advance of the relevant year commencing will be important so that entities can factor that into their budget processes.

Insurer allocation

ICNZ is concerned about the material size of the proposed insurer allocation, the limited detail and analysis supporting the proposal, and the degree of independence in the levy-setting process. ICNZ considers that using the number of frontline supervisors is not the appropriate basis for sectoral allocation and this should instead be based on total regulatory capital. This

would ensure that the total levy was spread across the widest possible base and would help to avoid any unintended consequences including negative impacts on insurance affordability.

The proposed insurer allocation of 39% of approximately \$70 million, or around \$27.3 million annually, is material. ICNZ is concerned that the proposed levy and administrative costs will add to the cost of providing insurance and will ultimately be borne by policyholders. This should be considered in the context of existing taxes, levies and regulatory costs borne by policyholders, including Goods & Services Tax (GST), the Natural Hazards Commission (NHC) levy and the Fire & Emergency New Zealand (FENZ) levy. Increasing regulatory costs contribute to insurance affordability challenges and impact the uptake of insurance. Cumulatively, increasing regulatory costs may deter insurers from participating in the New Zealand market. Such consequences would be contrary to the wider objectives policymakers, regulators and the sector are seeking to achieve.

The levy should also be designed to support a competitive and well-functioning insurance market. Disproportionate levy settings could affect decisions about market entry, continued participation, expansion, and innovation.

Allocation within the insurance sector

ICNZ also considers that general insurers and life insurers should not be treated as a single undifferentiated class for levy allocation purposes, and that the position of health insurers should be expressly considered. These insurers have materially different business models, liabilities, products, risk profiles and likely supervisory focus. Before allocating levy costs between individual insurers, the Reserve Bank should first consider whether separate general, life and, where appropriate, health insurance classes are required and determine the appropriate allocation of insurance sector costs to each class.

This distinction is important because a single revenue-based levy across all insurers may not accurately reflect the regulatory effort expended on general and life insurers respectively. It may also obscure differences in prudential risk, duration of liabilities, capital and reserving considerations, product structure and the nature of policyholder exposures. A two-stage allocation, first between general and life insurance and then within each class, would better support proportionality in the levy methodology.

In ICNZ's view, further evidence and analysis is needed before final decisions are made on the insurer allocation, the use of revenue as the principal proxy, the treatment of branches, the balance between fixed and variable levy components, and the appropriateness of treating all insurers as a single undifferentiated class.

The responses below set out ICNZ's detailed comments on the scope of recoverable costs, accountability arrangements, sector and sub-sector allocation, insurance-sector options, review mechanisms and administrative implementation matters.

Scope of prudential levy

Q1 Is there anything we have not taken into account in considering the rationale for a prudential levy?

It is important to bear in mind that, while the levy is imposed on regulated entities, the cost of the levy will form part of the costs of providing insurance and will ultimately be borne by

policyholders. This underscores the importance of ensuring that the levy is proportionate, efficient and no higher than necessary to achieve the Reserve Bank's prudential objectives.

The prudential levy should not be viewed in isolation. It sits alongside a growing range of taxes, levies and regulatory costs, including GST, the NHC levy and the FENZ levy, conduct regulation, financial advice obligations, privacy, climate-reporting and other compliance obligations. The design and level of the prudential levy should therefore take into account the cumulative impact of these costs on insurance for households and businesses.

This is particularly important given the Government's current Insurance Affordability Review. ICNZ considers that the levy-setting process provides an opportunity to recognise the role Government plays in helping to keep insurance premiums affordable, including by ensuring that regulatory funding requirements are justified, well-targeted and subject to appropriate discipline.

Regulatory costs can also influence decisions about market entry, continued participation, expansion, product availability and the allocation of capital to New Zealand. Levy settings that are disproportionate to regulatory effort, or that create undue barriers for smaller insurers, specialist insurers, branches or new entrants, risk reducing competition and consumer choice. The final design should therefore be supported by a regulatory impact assessment to help prevent unintended consequences for insurance affordability, competitive neutrality and market participation.

Insurers have also identified a number of areas of regulatory duplication, including the requirement for insurers to be licensed by both the Reserve Bank and the FMA and the consequent overlapping regulatory requirements and expectations in areas such as operational resilience and cyber incident reporting. If the costs of both prudential and conduct regulation are borne by insurers, ICNZ expects the Reserve Bank and FMA to ensure clearer delineation and ownership of concurrent obligations so that insurance customers are not effectively funding both regulatory supervision duplication and the requirements on insurers to comply with this.

ICNZ recognises that prudential priorities must remain independently determined. However, if the prudential framework moves to an industry-funded model, greater transparency over priorities, planned activities, expected outputs, and resource allocation will be needed to support accountability.

Q2 Are there any reasons why you think full costs should not be recovered?

ICNZ does not consider that full cost recovery is justified. The consultation paper acknowledges that prudential regulation and supervision is a mixed good, with both private and public benefits. However, the options presented ultimately assume full industry funding, despite the substantial public good benefits of prudential supervision.

Prudential supervision protects not only regulated firms and their customers, but also the wider economy, the government balance sheet and the operation of essential markets. A key objective of prudential regulation is to promote confidence in the financial system. Those broader public benefits support some continued Crown contribution to prudential supervision costs.

The consultation paper itself recognises this point. It states that "the delivery of the Reserve Bank's prudential mandate has both private and public benefits and therefore has characteristics

of both a private and public good” and that, because there is a mixed benefit, “there is a strong *prima facie* case for partial cost recovery”¹. ICNZ agrees with that assessment.

However, the consultation paper appears to discount partial cost recovery on the basis that separating private and public benefits would be “practically and conceptually challenging” and would involve judgement. ICNZ does not consider that this is a robust reason for defaulting to full industry funding. Levy and cost-recovery models commonly require principled judgement where regulatory activities produce mixed public and private benefits. The fact that a precise accounting split may not be possible does not mean that all prudential supervision costs should be allocated to industry. Administrative simplicity is not, on its own, a sufficient basis for disregarding the acknowledged public good component of prudential supervision.

In ICNZ’s view, the more appropriate response to the mixed-benefit character of prudential supervision is to adopt a principled partial cost-recovery model, supported by transparent assumptions and periodic review. This would better reflect the broader public benefits of a stable and resilient financial system, while still allowing industry to contribute to costs sufficiently connected to regulated entities and their supervision.

This approach would also be consistent with other New Zealand regulatory funding models. The FMA is partly Crown-funded, and the proposed Anti-Money Laundering/Countering the Financing of Terrorism funding model also recognises a mixed Crown and industry funding basis. On its face, a full recovery model appears to treat prudential supervision as if it delivers no material public benefit, notwithstanding the consultation paper’s own recognition that it does.

ICNZ considers that the funding model should distinguish more clearly between firm specific supervision and broader system stability functions. There is a stronger basis for industry funding of direct supervision of individual regulated entities, whereas system stability functions (macroprudential analysis, financial stability research, system resilience work and major legislative reform) generate wider public benefits and should retain an appropriate Crown contribution.

The current funding arrangements also recognise that the Reserve Bank performs functions in the public interest. Under the Five Year Funding Agreement (FYFA), the Minister of Finance and the Reserve Bank agree the amount of revenue that may be retained to fund the Reserve Bank’s activities, with remaining surpluses distributed to the Crown. Prudential activities are currently funded within those arrangements. The consultation materials do not establish that the public benefits generated by prudential supervision have materially diminished, or that the previous rationale for Crown-supported funding is no longer valid.

A fully industry-funded model may also weaken incentives for practical oversight of expenditure discipline and accountability. Under the current arrangements, Reserve Bank expenditure is subject to scrutiny through the FYFA process between the Reserve Bank and the Minister of Finance. A continuing Crown contribution would preserve an accountability relationship for activities that deliver substantial public benefits.

By comparison, a fully industry-funded model means regulated entities would bear the cost but would have no oversight or even input into the work undertaken or funding required. At the same time, the direct accountability relationship associated with Crown funding would essentially be

¹ Page 9

removed. This creates a risk that expenditure growth is insufficiently constrained, particularly where additional costs can be recovered from levy payers.

This concern is particularly relevant given the substantial increase in Reserve Bank expenditure and resourcing over recent funding periods. ICNZ notes the amount of the FYFA was \$324 million for 2015 to 2020², \$719 million for 2020 to 2025³ and \$776 million for 2025 to 2030⁴. We also note that the number of Full Time Equivalents (FTE) at the Reserve Bank has increased from 274 in 2019 to 625 in 2025.⁵ The proposed changes to the Insurance (Prudential Supervision) Act (IPSA) are intended to increase the supervisory powers of the Reserve Bank and support it to be a more proactive regulator and this has the potential to further increase expenditure and funding requirements in the years ahead.

The private benefit rationale should also not be overstated. Licensing may support market confidence, but it also imposes significant capital, governance, assurance, reporting and compliance costs on regulated entities. Similarly, any suggestion that licensed institutions benefit from lower borrowing costs should be applied cautiously. Examples relating to the Deposit Guarantee Scheme for deposit takers do not necessarily apply to insurers. The externality analysis should also recognise that insurers already internalise substantial elements of prudential risk management costs through capital requirements, reinsurance, governance obligations, risk management systems, actuarial oversight and compliance expenditure.

A partial cost-recovery model would also help mitigate the risk of cross-subsidisation between regulated entities. The Reserve Bank will not necessarily devote the same level of supervisory time and resource to all entities, even within the same sector or levy category. Where all prudential costs are recovered from industry through broad allocation metrics, less-supervised entities may effectively subsidise entities that require more intensive supervisory attention. Retaining a Crown contribution for activities with broader public good characteristics would reduce the amount that needs to be allocated across industry and help limit this cross-subsidisation risk.

If a full cost recovery model is adopted, to be consistent with good practice for industry-funded activities, it should be accompanied by a robust accountability framework, including transparency over recoverable costs, consultation on work programmes and priorities, and reporting on levy-funded activities and outcomes. ICNZ's responses to Questions 3 and 4 set out further detail on those safeguards.

Determining Reserve Bank costs

Q3 Is there any additional information we should add to our accountability documents for transparency?

Yes. ICNZ considers that accountability documents need to be developed that provide levy payers with sufficient information to understand, test and compare the prudential costs proposed to be recovered through the levy. Reporting should focus on the prudential activities,

² [Statement of Intent: For the period 1 July 2019 to 30 June 2022](#) page 32

³ [Reserve Bank Annual Report 2022 to 2023](#) page 74

⁴ [Our 2025 funding agreement – Reserve Bank of New Zealand – Te Pūtea Matua](#)

⁵ [Annual Report 2019](#) page 45 and [RBNZ Annual Report 2024/25](#) page 51

outputs and outcomes delivered through levy-funded expenditure, as well as the data and assumptions used to allocate those costs.

ICNZ recommends that this information be published in an annual prudential levy cost-recovery statement. At a minimum, that statement should disclose:

- total recoverable expenditure;
- budgeted, forecast and actual expenditure;
- year-on-year movements and explanations for material variances;
- expenditure by function, department and sector;
- direct and indirect costs;
- FTE, personnel, contractor and consultant costs;
- technology, property and other shared-service allocations;
- allocation drivers and any changes to those drivers;
- material one-off costs;
- any prior year over or under recovery;
- collection and administration costs; and
- forecast levy rates for at least the following three years.

Sector allocation data should include the underlying supervisory staffing and other material effort indicators for each sector, rather than only the final sector allocation percentages. Where recoverable costs are allocated using FTE, project pools, departmental allocations or other proxies, the Reserve Bank should explain the methodology in sufficient detail to allow levy payers to understand and test how costs have been attributed.

Ideally, the recoverable costs and allocation methodology would be subject to audit or independent review. This would be particularly important if the Reserve Bank proceeds with a model under which it determines its own recoverable cost base, its own sector allocation methodology and the resulting levy rates.

Accountability reporting should also include a forward prudential work programme identifying priorities, expected outputs, indicative resourcing and which activities are expected to be levy-funded. This would allow levy payers and other stakeholders to assess what additional levy-funded expenditure is expected to deliver, and whether increased funding translates into identifiable supervisory outputs or outcomes.

An annual recoverable cost budget should be published before the relevant levy year, with material variances against budget explained and subject to scrutiny. Material increases above published forecasts, or above inflation, should trigger engagement with affected sectors before those additional costs are recovered.

ICNZ notes that stable and predictable levy settings assist regulated entities with budgeting, pricing decisions and capital planning. To support this, ICNZ recommends multi-year levy forecasts, advance notice of material levy changes and mechanisms to smooth significant year-to-year fluctuations in levy requirements.

This is particularly important because the consultation document assumes annual levy increases of approximately 2%. However, the Reserve Bank is currently increasing the intensity of prudential oversight of insurers, and the review of IPSA contemplates additional regulatory requirements. Future levy increases may therefore differ materially from current estimates.

The proposed use of “project-related allocations through defined funding pools” may also create volatility where costs are allocated to sectors experiencing periods of increased regulatory activity. ICNZ’s preference is that significant project costs be considered over a longer planning horizon, reducing the risk of abrupt fluctuations in annual levy requirements.

ICNZ submits that material changes to the Reserve Bank’s supervisory model, recoverable cost base or levy methodology should be subject to consultation with affected sectors before implementation. This is particularly important where changes are expected to result in levy increases materially above the Consumers Price Index (CPI) or materially above previously published forecasts.

Q4 Do you have any comments on how we will determine costs eligible for recovery?

Further to our responses to Questions 2 and 3, ICNZ considers that the eligibility test for recoverable costs should be strict. A cost should be recoverable through the levy only where it is necessary, efficient and has a clear, documented connection to functions or powers under prudential legislation. Costs should not become recoverable merely because they sit within the Financial Stability Group or are broadly connected to financial stability.

ICNZ notes Table 1 of the consultation document, which sets out examples of Financial Stability Group activities expected to be included in, and excluded from, the levy cost-base. ICNZ supports the proposed exclusion of non-prudential activity, Deposit Takers Act implementation projects, Deposit Compensation Scheme activity, litigation costs, fee-funded licensing activity, Reserve Bank Act policy, the Statement of Prudential Policy, and costs associated with administering or reviewing the levy methodology. These exclusions are appropriate and should be retained.

ICNZ also considers that some activities require more careful classification. For example, the consultation document refers to “prudential policy advice and research”. There is a stronger case for industry funding where this relates to the implementation, maintenance or review of technical prudential standards that directly apply to regulated entities. By contrast, first principles policy development, legislative reform, broad research, horizon scanning, macroprudential analysis and system-wide resilience work have a stronger public good character and should remain Crown-funded.

ICNZ also seeks clarification on how broader international engagement, whole-of-government engagement, and cross-agency collaboration will be treated. Table 1 indicates that some non-supervisory collaboration and cooperation activities with other agencies will be excluded, but the basis for distinguishing recoverable supervisory engagement from non-recoverable broader engagement should be made clearer. To the extent these activities support broader public policy objectives, New Zealand’s financial stability settings, or whole-of-government policy development, they should not automatically be treated as recoverable prudential supervision costs.

Compliant entities should not routinely bear extraordinary enforcement or remediation costs caused by another entity’s misconduct or non-compliance. However, ICNZ recognises that direct cost recovery may create challenges in some circumstances but should be pursued where costs are clearly attributable to a particular entity.

Capital expenditure, technology costs and shared service costs should be recoverable only to the extent they support recoverable prudential functions. Capital and technology costs should

be amortised over the useful life of the relevant asset. Shared service allocations should be transparent and based on documented allocation drivers.

The Reserve Bank should publish clear eligibility criteria for material expense categories, including consultants and contractors, conference hosting, external engagements, technology projects and shared-service costs. Those criteria should explain how expenses are assessed for necessity, efficiency, prudential connection and attribution to levy-funded activities.

ICNZ seeks further clarification on the proposed use of remuneration band midpoints plus 4% for KiwiSaver to estimate personnel costs. This may not accurately reflect actual costs and could result in systematic over- or under-attribution. If future levy rates are to be based on expenditure actually incurred, with the levy paid in arrears, ICNZ considers the Reserve Bank should use actual aggregate personnel costs, appropriately anonymised, rather than relying on assumptions based on remuneration-band midpoints.

Direct attribution should be used wherever reasonably possible before costs are placed into a common pool. Shared allocations should be residual rather than the default. No levy funded expenditure should duplicate activity already funded through FMA levies, fees or another regulatory charge.

Sector and sub-sector allocation

Q5 Do you agree that all sectors and subsectors prudentially regulated by the Reserve Bank should contribute to the levy?

In principle, yes. ICNZ agrees that all sectors and sub-sectors that are prudentially regulated by the Reserve Bank should contribute to the levy. Sector-wide participation is generally preferable to exempting classes of entities whose supervision would then need to be funded by unrelated entities. In relation to the insurance sector, ICNZ does not see a justification for exempting any insurance sub-sectors from the levy.

However, universal inclusion does not necessarily require identical treatment. The allocation methodology should be sufficiently flexible to recognise that licensed entities may operate under materially different legal, prudential and governance structures, which may affect the nature and extent of supervisory effort required. Assessing whether this has been achieved would require greater detail on recoverable expenditure and supervisory effort than has been provided in the consultation document, as discussed in our responses to other questions.

ICNZ agrees that insurers in solvent run-off should continue to contribute to the levy, but their contribution should be proportionate to their declining New Zealand exposure and the level of ongoing supervision. In some cases, insurers in run-off may continue to require significant supervisory attention and may pose material risks to policyholders, particularly in the life insurance context.

ICNZ supports the proposal that the cost of any transitional waivers is met through the existing funding model, rather than being redistributed to other levy paying entities. This avoids temporary cross-subsidisation by entities that are not responsible for those costs.

Any future change to the regulatory perimeter should also trigger recalculation of the relevant sector revenue base and levy rate. Remaining insurers should not be required to absorb an unexplained increase in levy costs as a result of entities leaving, or being removed from, the regulatory perimeter.

Q6 Do you agree with our method of allocation between sectors?

Because prudential levy costs will ultimately flow through to customers, the methodology used to allocate costs between sectors will have a significant impact on customer outcomes. Achieving an equitable sector allocation is therefore important not only for regulated entities, but also for policyholders who may ultimately bear the cost.

Based on the limited information provided in the consultation document, ICNZ does not consider the proposed 39% insurer allocation is appropriate.

The Reserve Bank has proposed that sectoral allocation should be based on the level of regulatory effort it expends on each sector, as reflected by the number of frontline supervisors per sector. ICNZ considers this is too narrow a basis on which to allocate prudential costs between sectors.

The banking sector holds substantially more prudential capital assets and generates approximately four times more profit than the insurance sector. Allocating 39% of the prudential levy to insurers will mean that this portion of the levy is spread across a much smaller pool and will have a disproportionately negative impact on insurance customers. ICNZ considers that the sectoral allocation should be proportional, based on total regulatory capital. This would ensure that the total levy was spread across the widest possible base and would help to avoid any unintended consequences, including distortionary market impacts or worsening product affordability proportionality more for some parts of the market.

The sector allocation methodology should also take account of the different nature and systemic importance of the sectors supervised by the Reserve Bank. Deposit takers perform broader financial system functions, including safeguarding deposits, facilitating payments, providing transactional banking, extending credit and supporting liquidity for households and businesses. The Reserve Bank has previously recognised the potential systemic significance of domestic banks. A methodology based only on frontline supervisor headcount may therefore be disconnected from one of the drivers of prudential supervision: the nature and potential systemic impact of the sector being supervised.

Concerns with proposed methodology

ICNZ does not agree with a sectoral allocation based on the number of frontline supervisors and considers the allocation should be based on total regulatory capital. However, if the proposed methodology is progressed, ICNZ considers the following concerns need to be addressed:

- Frontline supervisor headcount is too simplistic to support a fixed allocation of all recoverable prudential costs between sectors. It appears to assume that frontline supervisory proportions can be extrapolated across policy, enforcement, resolution, specialist supervision, stress testing, systems and corporate overhead, without demonstrating that this reflects actual cost or regulatory effort.
- The proposed frontline-supervisor model assumes that current FTE resourcing is an accurate proxy for the level of supervisory activity and output for each sector. ICNZ considers that some sector-level output analysis should be undertaken to test whether the proposed allocation reflects actual supervisory activity and prudential outcomes.
- Headcount also does not necessarily reflect cost. A more robust methodology would take account of direct sector-specific FTE, actual personnel costs rather than raw headcount, identifiable project and specialist expenditure, activity sampling for

genuinely cross-sector functions, and causal allocation drivers for shared overhead. Cross-sector functions should not automatically be allocated using the frontline-supervisor ratio where a more relevant allocation driver exists.

- ICNZ is not advocating for burdensome individual timesheets. However, avoiding universal time recording should not mean that there is no resource monitoring at all. Periodic representative sampling, project coding or quarterly management estimates could materially improve the accuracy of sector allocation without imposing disproportionate administrative cost. This information is also essential for the Reserve Bank's own planning, resource allocation and budgeting, as well as for levy attribution.

If the Reserve Bank proceeds with a sectoral allocation based on frontline supervisory effort, ICNZ submits that the Reserve Bank should publish the underlying frontline FTE data supporting the proposed insurer allocation. This would enable affected sectors to understand and test the basis for the allocation and would support transparency and confidence in the levy methodology.

Overall, ICNZ considers that the proposed model favours simplicity at the expense of transparency, equity and avoidance of cross-subsidisation. The proposed insurer allocation should not be fixed without further evidence that it is genuinely proportionate to the prudential effort, outputs and benefits associated with insurance supervision.

ICNZ also notes that, comparing the estimated levy for a New Zealand insurer (under the Reserve Bank's preferred Option 4) versus the levy applied to a related APRA licensed Australian entity and taking into account the relative scale of the entities, the proposed RBNZ levy is disproportionately high. An explanation of this difference would help demonstrate why a higher levy is warranted in New Zealand and provide more confidence that the proposed levy model is efficient, equitable and proportionate.

Review of allocation

The sector split should be recalculated annually using the established methodology, preferably based on a rolling multi-year average to smooth volatility, with published data and controls on year-to-year changes. The regulations should also include a materiality trigger for an out-of-cycle review where the measured sector allocation differs materially from the regulated percentage, for example by more than 10%.

Q7 Which option do you prefer to apportion the levy between deposit takers?

No comment.

Q8 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the deposit taking sector?

No comment.

Q9 Which option do you prefer to apportion the levy between insurers?

Of the options proposed, Option 4 appears on balance to be the most appropriate starting point, but we strongly consider additional industry data is required before ICNZ can express a concluded preference. This is subject to ICNZ's broader position, outlined in response to Question 2, that at least some of the Reserve Bank's supervisory activity should remain Crown-funded.

ICNZ agrees that Option 1 is not appropriate, as a flat dollar levy would provide no recognition of insurer scale and could be disproportionate or potentially prohibitive for smaller insurers. ICNZ

also has concerns with Option 2, which has relative simplicity and certainty, however the proposed bands would create relatively large step changes in levy liability due to the size of the levy.

A hybrid model (i.e. Option 4) has the advantage of recognising baseline supervisory effort for each licensed insurer, while scaling part of the levy to reflect insurer size.

In assessing Options 3 and 4, further work is needed to determine whether gross revenue, GWP, net revenue or another insurance activity metric is the most appropriate basis for calculating the levy. The Reserve Bank should explain why the chosen metric is appropriate for the preferred option and ensure it does not create unintended distortions between business models or insurance classes. We comment on this further in response to Question 10 below.

If insurance revenue is retained as the levy metric, it should be defined and applied consistently. Insurance revenue should be used as the basis for calculating the levy, with no deductions made for quota share or other reinsurance arrangements. The levy should reflect the scale of insurance business written in New Zealand and should not produce materially different outcomes solely because insurers use different reinsurance structures.

One aspect of Option 3 as outlined in the consultation paper requires clarification. Option 3 states that "this rate, multiplied by an insurer's average total revenue across the financial year, will determine the payable levy amount".⁶ However, the introductory paragraphs for section 4.6 refer to gross New Zealand insurance revenue for the 12-month period. It is unclear what the reference to "average total revenue" means, as the examples appear to use revenue for the last 12 months.

If a hybrid model is adopted, broadly along the lines of Option 4, it should be refined to ensure the fixed component is justified by baseline supervisory activity undertaken for every licensed insurer, such as reviewing core returns, supervisory assessment, monitoring licence conditions and periodic engagement. Any fixed component should be demonstrably supported by identifiable baseline supervisory cost.

The relative weighting between the fixed and variable components will necessarily involve some judgement, but that judgement should be transparent and evidence based. The fixed component should reflect identifiable baseline supervisory activity, rather than being determined primarily by reference to overseas comparators. The Reserve Bank should undertake and publish further analysis to justify the proposed fixed component and to assess whether it appropriately reflects the actual minimum supervisory cost of each insurer. Once established, this should be reviewed over time and when the insurer population or IPSA perimeter changes.

Until that evidence is provided, ICNZ considers there is insufficient basis for setting the default fixed amount at \$30,000. A fixed amount at this level may disadvantage smaller insurers.

ICNZ also notes that, just as there is a minimum level of regulatory effort required regardless of an insurer's size, there may be a practical upper limit to the level of supervisory effort required, even for the largest and most systemically important entities. Consideration should therefore be given to whether a maximum levy cap would improve proportionality.

ICNZ seeks clarification on the industry data that will be used to calculate and collect the levy. Not all market participants are currently required to submit a Quarterly Insurer Return (QIR), meaning additional data collection may be required from some smaller insurers that fall below

⁶ Page 30

the reporting threshold. This may support the inclusion of a fixed levy component for insurers below the QIR reporting threshold, minimising administrative complexity while ensuring all regulated entities contribute to the cost of supervision.

With respect to new entrants, a proportional approach is appropriate where the levy includes a fixed-dollar component. However, where the levy is calculated on a rate basis, prorating should not be necessary, as the revenue or premium base will naturally reflect the period during which the insurer has been operating.

With respect to branches, the consultation proposes no distinction between locally incorporated insurers and overseas branches for the insurance sector levy, while proposing that overseas deposit taker branches pay one-fifth of the rate applying to locally incorporated deposit takers, recognising the role of home jurisdiction supervision. The consultation provides limited justification for this difference in approach.

Where substantial prudential oversight is undertaken by a home-state regulator, the Reserve Bank could assess whether this results in materially lower supervisory costs. If so, consideration could be given to whether a differentiated approach would better reflect the level of Reserve Bank supervisory effort. The Reserve Bank should also assess whether comparable supervisory efficiencies arise for other insurers subject to overseas supervision through group structures and apply consistent principles.

Q10 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the insurance sector?

ICNZ considers that the Reserve Bank should consider several refinements to the proposed insurance sector model to better align the levy with supervisory effort, proportionality and the structure of the insurance sector.

First, the Reserve Bank should consider whether insurers within the same group should be treated as a single levy paying group or otherwise receive appropriate recognition for group-level supervisory efficiencies. The FMA allows insurers within the same group to pay only one levy under regulation 12 of the Financial Markets Authority (Levies) Regulations 2012.

ICNZ considers that a similar model should be considered for the prudential levy, where there are demonstrable supervisory efficiencies where insurers operate within the same group. For example, insurers within a group may have shared reinsurance programmes, common directors, and common governance and risk management practices.

Secondly, ICNZ also considers that the Reserve Bank should consider alternatives to a single revenue based proxy. While revenue may broadly indicate market presence, customer base or operational scale, it is unlikely on its own to reflect the potential prudential risk posed by an insurer or the supervisory effort required. Revenue may also reflect premium rate changes, claims inflation, catastrophe risk pricing, distribution arrangements, reinsurance structure, and statutory or government imposed charges collected through premiums, rather than underlying insurance risk.

In particular, the Reserve Bank should confirm how gross revenue will be defined and whether it could capture amounts that do not reflect insurer scale or supervisory effort, such as broker commissions. The metric should be aligned, where practicable, with existing regulatory reporting and should not disadvantage insurers solely because of their distribution or intermediary arrangements. The Reserve Bank should therefore consider whether a broader approach to

allocating the levy would better support the levy objectives. APRA's general insurer levy uses an asset-based measure, while the UK Prudential Regulation Authority also uses measures that include gross written premiums and best estimate liabilities. These approaches illustrate that measures other than revenue may better reflect insurer scale, liabilities and the potential demands placed on prudential supervision.

ICNZ is not suggesting that the Reserve Bank adopt an overseas model without modification. However, the consultation should more fully explain why a gross revenue measure is preferred over alternatives such as total assets, insurance liabilities, GWP/insurance revenue, net revenue or a combined metric, and whether those alternatives would provide a more proportionate basis for allocation.

APRA's levy methodology also distinguishes between different types of costs, with a restricted component intended to recover institution specific supervision costs and an unrestricted component for broader system-wide regulation, policy, data, enforcement and industry-wide costs. The Reserve Bank could consider whether a similar distinction may assist in ensuring that insurers contribute to their direct supervisory costs without cross-subsidising entity specific supervisory activity applied to other insurers, while broader indirect costs are allocated through an appropriate scale-based component.

Finally, ICNZ recommends that the Reserve Bank create separate general and life insurance classes before determining the allocation of levy costs within each class and expressly consider the appropriate treatment of health insurers. Currently, the proposal is that all insurers are captured in one sector and the levy is then allocated using one of the specified methods. Given the differences between general insurers and life insurers, using total revenue as a proxy for allocating the levy between insurers is unlikely to appropriately reflect the regulatory effort the Reserve Bank expends on those groups. APRA allocates prudential supervision costs on a sector basis and then allocates costs within each sector using sector-specific levy methodologies. A similar approach would better reflect the different business models, liabilities, risk profiles and supervisory focus of general and life insurers.

Q11 Which option do you prefer to apportion the levy between FMI?

No comment.

Q12 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the FMI sector?

No comment.

Administrative considerations

Q13 Do you support the implementation timeframe and resulting transitional arrangements?

ICNZ has concerns about the proposed implementation timeframe. We note that the Reserve Bank and the Treasury originally proposed the levy be brought into effect from late 2028⁷ but Ministers decided to bring this forward to mid-2027. The accelerated timeframe risks compromising the levy development and implementation process.

The levy details have not yet been finalised, and implementation from FY2027/28 risks requiring affected entities to plan, price products, set budgets and make reinsurance and capital decisions before the applicable levy rate and entity-level impacts are known. As a matter of principle, final regulations and indicative entity-level calculations should be available well before the first levy period commences. ICNZ considers that the levy rate should be confirmed at least six months before that date. ICNZ also considers that a levy should not apply retrospectively to a period that commenced before the final regulations and methodology were in force. If FY2027/28 implementation is retained, transitional relief or a first year cap should be considered.

ICNZ also asks the Reserve Bank to provide sufficient transitional guidance once policy and Cabinet decisions are made. Given the compressed period between final decisions and the proposed August 2027 commencement date, insurers will need timely guidance on data requirements, audit expectations, invoicing processes and any systems changes needed to comply with the new levy framework.

Where transitional waivers are provided for Non-Bank Deposit Takers, overseas reinsurers or captive insurers, ICNZ supports those waivers only where the waived amount remains Crown-funded and is not redistributed to other levy payers. Remaining entities should not face higher rates because another class of entity is temporarily waived.

ICNZ is also concerned that the consultation indicates draft regulations may not be subject to further consultation, despite important implementation details being left to those regulations. At a minimum, an exposure draft should be released for technical consultation before the regulations are made.

Q14 Do you agree the levy regulations and calculation methodology should be reviewed every five years at a minimum, to align with the FYFA (funding based on a five-year agreement)?

ICNZ submits that the levy regulations and calculation methodology should be reviewed at least every three years. ICNZ notes that levy settings for organisations such as ACC and Maritime New Zealand are reviewed on a three-year cycle. A shorter review period provides more frequent opportunities to assess whether levy settings remain appropriate, proportionate, transparent and reflective of actual supervisory costs and regulatory activities. Given the evolving prudential framework and the potential for supervisory costs, industry structure and regulatory priorities to change over time, a three-year review cycle would provide a more effective mechanism for ensuring the levy remains aligned with its intended purpose and does not become disconnected from the costs it is designed to recover.

⁷ [Reserve Bank and Treasury Joint Report: Prudential Levy Design Options \(Report No RBNZ#6340, T2026/5\)](#)

The regulations should also include out-of-cycle review triggers. These should include a material change in the regulated population, sector cost shares, the total recoverable cost base, market concentration, the Reserve Bank's supervisory model or the legislative framework. They should also include evidence of unintended competition or affordability effects. ICNZ also considers that the proposed IPSA perimeter changes, which the Reserve Bank's own modelling assumes will reduce the insurer population, should trigger an automatic interim review.

Separately, ICNZ considers that the sectoral split should be reviewed annually as part of the levy-setting process, using the established methodology codified in the regulations. Where the allocation between sectors is based on the proportion of frontline staff supporting each sector, that proportion should be updated each year to reflect current supervisory resourcing. ICNZ would not expect this annual review to be administratively burdensome, as it should involve applying the agreed methodology to current staffing information rather than reopening the broader levy design.

Q15 Are there any other administrative matters you wish to comment on?

ICNZ considers the levy should be set in advance and not calculated in arrears as proposed. FMA levies are set in advance. If recoverable expenditure is determined only after it has occurred, the regulator faces weaker incentives to manage spending because actual expenditure can subsequently be recovered from industry. Setting levies in advance encourages greater expenditure discipline and stronger accountability for budget performance and also provides budgeting certainty for regulated entities. The FMA approach demonstrates that prospective levy-setting is both feasible and administratively workable with any over or under recovery addressed through future levy adjustments. The Reserve Bank has not demonstrated why a materially different approach is necessary.

If the levy is to be collected in arrears (which ICNZ does not support), reliable levy forecasting will be important so regulated entities can factor expected costs into budgets for the year to which the levy applies. Forecasts should clearly distinguish between GST exclusive amounts and cash payable amounts and explain the legal and accounting treatment of GST. There should be supporting guidance to clarify the legal obligating event for accounting purposes, the expected timing of recognition, invoicing and GST treatment so that insurers can account for the levy consistently.

The regulations or supporting guidance should establish a formal process for entities to challenge data, classification or calculation errors before a payment obligation becomes final. Methodological disputes should be reviewable by a sufficiently independent decision maker.

The proposed four year reassessment period should operate symmetrically for both the Reserve Bank and levy payers. If reassessment allows the Reserve Bank to recover underpayments, levy payers should also be entitled to refunds, including interest where there has been a material overcharge.

ICNZ also seeks clarification on the intended application of "gross New Zealand insurance revenue", including how it will align with existing or amended terminology used in other levy regimes. For example, the FMA levy regulations currently refer to "annual gross premium revenue", while the Financial Markets Conduct Amendment Bill proposes to amend that terminology to "total insurance revenue".

Any entity-level revenue and levy information should be treated as confidential, with only aggregated sector-level data published unless disclosure is legally required.

Finally, ICNZ recommends that the Reserve Bank publish decision criteria, delegation arrangements and anonymised precedents for waivers and refunds, to support consistency, transparency and accountability.

Ngā mihi,

A handwritten signature in black ink, appearing to read 'Susan Ivory', with a stylized flourish at the end.

Susan Ivory
Regulatory Affairs Manager
Insurance Council of New Zealand