



FINANCIAL SERVICES FEDERATION

16 March 2021

Reserve Bank of New Zealand
Financial system Policy and Analysis – Financial Policy
PO Box 2498
Wellington 6140

By email to: ipsareview@rbnz.govt.nz

Insurance (Prudential Supervision) Act 2010 (IPSA) Options paper 1

Thank you for the opportunity for the FSF to comment on the Insurance (Prudential Supervision) Act 2010 (IPSA) Options Paper. The FSF is grateful to the Reserve Bank of New Zealand (RBNZ) for having taken on board some of the issues we outlined in our submission on the Issues Paper in 2017.

By way of background, the FSF is the industry body representing responsible non-bank credit-related insurance providers, non-bank lenders, and fleet leasing providers. We have over 60 members and affiliates providing these products to more than 1.5 million New Zealand consumers and business. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society and business is attached as Appendix B.

The FSF represents credit-related insurance providers who are regulated under the current IPSA and who, therefore, have a particular interest in further amendments to the legislation. The questions raised in this Options Paper are answered as follows from the perspective of our credit-related insurance provider members.

The FSF firstly outlines some concerns with imposing further compliance requirements on insurance companies. Currently, the existing regime seems appropriate, and no objective issues with it have presented themselves to our members. With the amendments to the Credit Contracts and Consumer Finance Act, introduction of new regulations, new certification and licensing processes, and a revised Responsible Lending Code all coming into force this year – all of which impose further obligations on the way in which credit-related insurance products are to be sold – the FSF is concerned to avoid any overlap with the responsible lending regime and that of the IPSA.

FSF notes that there is also legislation proposed to introduce legislative requirements with respect to the conduct of financial services firms including registered insurers, so has a further concern with respect to the significant compliance burden that all of these changes will impose on domestic insurers, particularly such small players as the credit-related

insurance providers. Meeting all the obligations of these new regimes will be resource intensive and will cause unintended difficulties with the diversion of resources to compliance as opposed to operation.

The answers provided below to the questions raised in the Options Paper therefore reflect a cautious approach aiming to ensure there is as little compliance cost imposed on insurance companies, as possible.

1. Definition of “contracts of insurance”

Repayment waivers are essentially an insurance contract, they offer the same protection benefits as the insurance products of Payment Protection Insurance and Guaranteed Asset Protection Insurance. When such products are materially similar, they should then be subject to the same regulation as one another. The status quo ultimately disadvantages those who offer regulated insurance products and disregards any harm caused by repayment waivers and their respective finance companies. The FSF therefore believes that it is appropriate that they should be treated as insurance products and fall under the regulation of the IPSA. In light of this, the FSF submits Option 1.2 as the preferred option with a change to the list of exclusions, namely removing repayment waivers from said list of exclusions.

2. Definition of “carrying on business in New Zealand”

The FSF submits that Option 2.1 is the preferred option for this question. The FSF queries the need for a change to the definition and believes it may lead to further ambiguities or interpretation difficulties as a result of its novelty and lack of precedence. However, the FSF does suggest that the “carrying on business” definition in the Companies Act 1993 should be revisited in an attempt to identify any improvements which could be made to it.

3. Policyholder in New Zealand

The FSF submits Option 3.1 is the preferred option for this question and sees no reason as to why the Policyholder test is in need of reform.

4. Treatment of overseas branches

The FSF submits Option 4.1 is the preferred option. Members see no issues with the status quo and therefore, no need for reform in the treatment of overseas branches. Perhaps the current regime’s enforcement is something to consider, as opposed to altering the status quo and increasing compliance cost.

5. Inwards reinsurance

Reinsurance is vital for domestic insurers. Increasing compliance requirements for reinsurers will deter foreign reinsurers, ultimately causing the acquisition of reinsurance for domestic insurers in times of hardship or crisis to be more difficult and expensive.

Smaller domestic insurers will particularly experience the greatest difficulty in acquiring reinsurance and resultantly they will be disproportionately affected by new reinsurance compliance requirements. On this basis, FSF submits that the current regime should remain as it is and the status quo, Option 5.1, is the most appropriate option.

6. Group supervision

The FSF understands that the Reserve Bank has existing appropriate powers to request further information from relevant companies. The FSF believes individual investigations, using existing authority, on those relevant companies are a fairer alternative than the introduction of further compliance requirements on all companies. It is on this basis that FSF submits Option 6.1 as most appropriate for this question.

7. Outsourcing

The FSF believes Option 7.1, the status quo, is the most appropriate for this question. The FSF believes that further additional compliance is not relevant nor necessary.

Once again, the FSF is grateful to the Reserve Bank of New Zealand for the opportunity to make a submission on the Review of the Insurance (Prudential Supervision) Act 2010 and would be very happy to speak to any points which may require clarification.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a vertical stroke, appearing to be the name 'Diana Yeritsyan'.

Diana Yeritsyan
Legal and Policy Manager

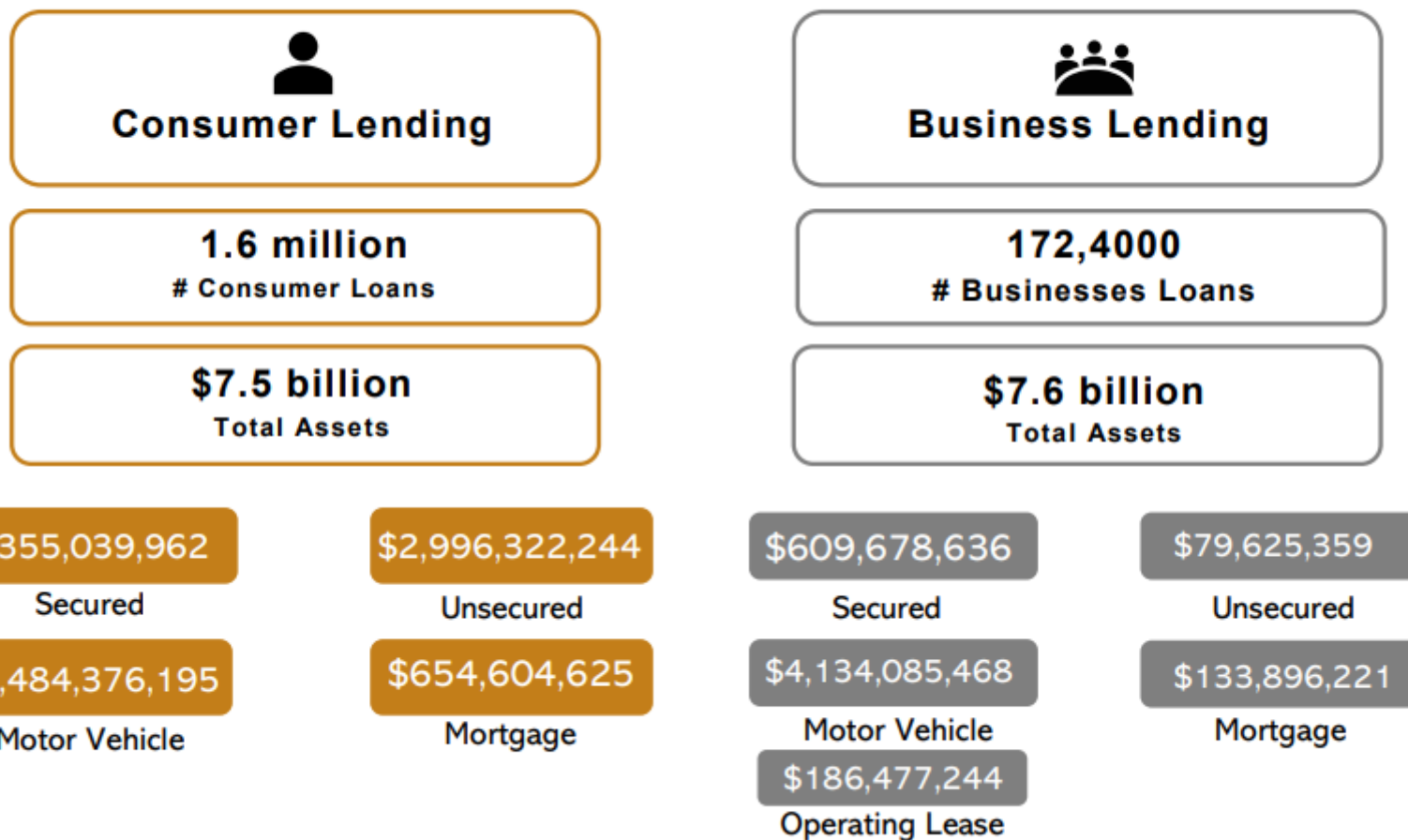


Membership List as at February 2021

Non-Bank Deposit Takers Leasing Providers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Credit-related Insurance Providers	Affiliate Members
<u>Rated</u> Asset Finance (B) <u>Non-Rated</u> Mutual Credit Finance Gold Band Finance ➤ Loan Co <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd Lease Plan ORIX NZ SG Fleet	AA Finance Limited Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alphera Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance	Avanti Finance ➤ Branded Financial Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services ➤ Southsure Assurance Flexi Group (NZ) Limited Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Metro Finance Pepper NZ Limited Personal Loan Corporation Pioneer Finance Prospa NZ Ltd South Pacific Loans	L & F Group ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Thorn Group Financial Services Ltd Turners Automotive Group ➤ Autosure UDC Finance Limited <u>Credit Reporting & Debt Collection Agencies</u> Baycorp (NZ) ➤ Credit Corp Centrix Collection House Equifax (prev Veda) Illion (prev Dun & Bradstreet (NZ) Limited Intercoll Quadrant Group (NZ) Limited	Protecta Insurance Provident Insurance Corporation Ltd	255 Finance Limited Buddle Findlay Chapman Tripp Credit Sense Pty Ltd Experian EY FinTech NZ Finzsoft GreenMount Advisory Happy Prime Consultancy Limited HPD Software Ltd KPMG LexisNexis PWC Simpson Western Verifier Australia Total: 66 members



The Financial Services Federation (FSF) is the association for responsible finance and leasing companies operating in New Zealand. This infographic is a snapshot of our 40 lending members, the membership list can be found at our website www.fsf.org.nz.



FSF lending members data survey period as at 29 February 2020 . Data collected and aggregated by KPMG. Values in NZ\$.