



FINANCIAL SERVICES FEDERATION

15 November 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

Dear Sir/Madam

FSF submission on IPSA Review Policyholder Security Consultation

The Financial Services Federation (“FSF”) thanks you for the opportunity to submit on the IPSA Review Policyholder Security Consultation.

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing, and credit-related insurance providers of New Zealand. We have over eighty members and affiliates providing these products to more than 1.7 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A, and 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.

As the FSF membership captures credit-related insurance providers, categorised as non-life and general insurers, this warrants our submission on some of the matters contained in this second IPSA Options Paper.

The FSF’s submission is written mainly with the purpose of full support to the Insurance Council of New Zealand’s (“ICNZ”) submission on this same Options paper. We will make some further specific comments in representation of smaller general insurers but nonetheless our submission remains in full alignment with ICNZ’s.

Our submission will consist of general comments on the Options paper followed by more specific comments on the options and schemes contained in the Paper.

General comments

In support of ICNZ’s submission, the FSF echoes concerns regarding what problems have actually been identified which warrant the proposals contained in the Options paper, and whether this Options paper in itself is the most appropriate method of achieving some of

the policy objectives when considering the upcoming introduction of proposals to review the existing Insurance Contract Law regime (“ICL”) and other suites of relevant legislation.

The FSF is also extremely mindful of the burdens and costs associated with the proposed regulation being disproportionate to the actual risks and harm identified, particularly on general and smaller insurance providers. There is a tremendous amount of regulatory change being imposed on the insurance and finance sector currently and even more is forecast. The FSF urges caution considering the introduction of further regulation. With the current trajectory of compliance requirements Aotearoa’s open market is being more difficult to inhabit for smaller insurers and is certainly a barrier to new entrants and innovation.

The FSF believes a comprehensive analysis should be undertaken prior to any further regulatory introductions, confirming that there is an actual and realised need for this reform and properly informing market participants on such issues. The FSF queries whether such a method was applied in the introduction of this Options paper.

Financial strength disclosures

In relation to this proposed matter, the FSF aligns completely with the ICNZ’s submission. The FSF strongly maintains that the current exemption for small insurers from financial strength rating disclosures should be maintained. Alongside ICNZ, we support a small increase to the exemption to \$2m to maintain an open market to small insurers in light of an increased market cost.

The FSF is comfortable with the current solvency terminology and does not support this being changed. Policyholders do not need any further information on reinsurance and so forth. The FSF supports ICNZ’s suggestion that financial disclosures should rather be designed to reflect modern practices for the dissemination of information, such as being website based, rather than being further prescribed into jargon heavy and intimidating language likely to disincentive policyholder engagement and achieve the reverse of this proposal’s objective.

Solvency standards

The FSF also supports the more banded approach to the assessment of solvency with two control levels, therefore being more useful if IPSA contemplate more than one solvency control level.

Again, the FSF’s opinions align with ICNZ’s answers to questions 2.1 – 2.14 in their submission. We particularly agree with the ICNZ’s rationale behind this two-banded approach, as it will indeed enable supervisors to take a more graduated approach, increasing their oversight before insurers are in distress.

Termination values

The FSF does not agree that there should be any minimum termination values. We also concur with ICNZ’s suggestion that this should not be in the realm of the IPSA review, but rather considered for ICL.

Statutory funds

The FSF does not consider that a statutory fund is appropriate and is uncertain as to the defined problem which the proposal is designed to resolve.

Although other jurisdictions have used statutory funds for life insurance, FSF insurance members who are general insurance providers, do not see any need for statutory funds to be imposed on them. The reasoning for this has been echoed many times in the FSF's submission on the Draft Interim Solvency Standards exposure draft consultation.

In summary this submission states that there have not been any risks identified specific to the small and general insurance sector which places them in the category of associated risks which the life and non-general insurance sector possess. Punishment and further compliance costs on such entities who have not provided any justification for the need for this further regulation is detrimental to the operation and market participation of smaller entities. General and non-general are categorised differently as a result of the nature of the products and the vast differences in their risks associated. Therefore, the FSF does not support the proposal of statutory funds and their application on general and non-life insurance.

Policyholder preference

In the unlikely case that insolvency has occurred, the FSF has no contention with the introduction of a policyholder preference on insolvency. Its application in Australia would suggest that this is a logical form of policyholder protection and the FSF supports its application in New Zealand.

However current regulatory regimes in combination with the Reserve Bank of New Zealand's toolkit and prudential and enforcement regimes, mitigate the risks of insolvency greatly, and this is therefore not of great concern to FSF and its members.

Policyholder guarantee scheme

The FSF reiterates the ICNZ's points against a policyholder guarantee scheme:

- It is unclear what problem is to be solved with the introduction of a policyholder guarantee scheme.
- The current solvency standard and policyholder protection framework are sufficient to meet the matters that the policyholder guarantee scheme is seeking to address.
- The scheme does not align with IPISA's principles and purposes, and the introduction of the scheme would impose significant unnecessary costs and complexity.

These points suggest such a scheme is unnecessary and therefore requires no introduction. Current solvency standards, alongside the Reserve Bank of New Zealand's toolkit, are quite sufficient to deal with solvency and consumer protection.

Conclusion

The FSF is arguing mainly for a continuation of the status quo, with slight enhancements where there have been issues identified. The main concern is that this thrust of changes is adding unnecessary costs and causing a disproportionate negative impact on general and smaller insurance providers. The FSF also asks that any further proposed changes have

clearly articulated issues and objectives. Proposals which have not identified a realised issue are not persuasive in their necessity.

Thank you again for the opportunity to submit on this matter. If you have any questions, please contact the FSF's Legal and Policy Manager by emailing dyeritsyan@fsf.org.nz.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a vertical stroke, positioned below the text 'Yours sincerely,'.

Diana Yeritsyan
LEGAL AND POLICY MANAGER
Financial Services Federation

Appendix A



FINANCIAL SERVICES FEDERATION

FSF Membership List as at November 2021

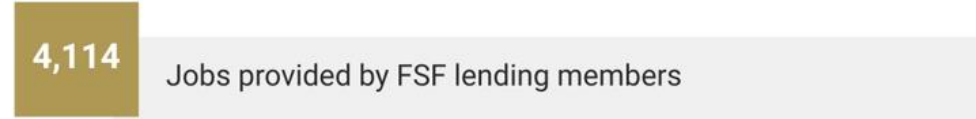
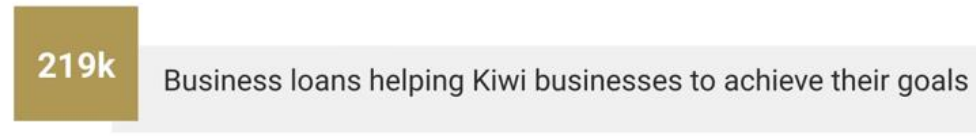
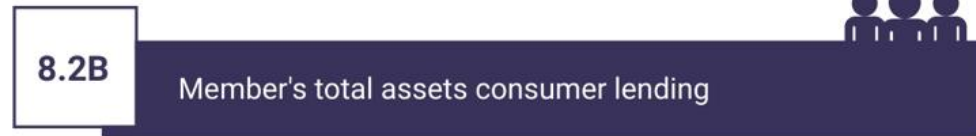
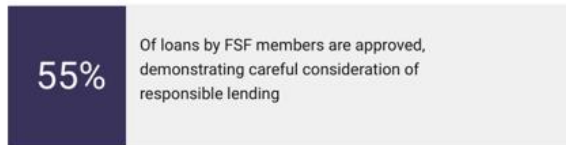
Non-Bank Deposit Takers, Insurance Premium Funders,	Vehicle Lenders	Finance Companies/ Diversified Lenders	Finance Companies/ Diversified Lenders, Leasing Providers	Credit Reporting, Debt Collection Agencies, Insurance Providers	Affiliate Members
<p>XCEDA (B)</p> <p>Finance Direct Limited ➤ Lending Crowd</p> <p>Gold Band Finance ➤ Loan Co</p> <p>Mutual Credit Finance</p> <p><u>Credit Unions/Building Societies</u></p> <p>First Credit Union</p> <p>Nelson Building Society</p> <p>Police and Families Credit Union</p> <p><u>Westforce Credit Union</u></p> <p><u>Insurance Premium Funders</u></p> <p>Elantis Premium Funding NZ Ltd</p> <p>Financial Synergy Limited</p> <p>Hunter Premium Funding</p> <p><u>IQumulate Premium Funding</u></p> <p>Rothbury Instalment Services</p>	<p>AA Finance Limited</p> <p>Auto Finance Direct Limited</p> <p>BMW Financial Services ➤ Mini ➤ <u>Alpha</u> Financial Services</p> <p>Community Financial Services</p> <p>European Financial Services</p> <p>Go Car Finance Ltd</p> <p>Honda Financial Services</p> <p>Kubota New Zealand Ltd</p> <p>Mercedes-Benz Financial</p> <p>Motor Trade Finance</p> <p>Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance</p> <p>Onyx Finance Limited</p> <p>Toyota Finance NZ</p> <p>Yamaha Motor Finance</p>	<p>Avanti Finance ➤ Branded Financial</p> <p>Basalt Group</p> <p><u>Basecorp Finance Ltd</u></p> <p>Blackbird Finance</p> <p>Caterpillar Financial Services NZ Ltd</p> <p>Centracorp Finance 2000</p> <p>Finance Now ➤ The Warehouse Financial Services ➤ Southsure Assurance</p> <p>Humm Group</p> <p>Future Finance</p> <p>Geneva Finance</p> <p>Harmony</p> <p>Instant Finance ➤ Fair City ➤ My Finance</p> <p>John Deere Financial</p> <p>Latitude Financial</p> <p>Lifestyle Loans NZ Ltd</p> <p>Metro Finance</p> <p>NZ Finance Ltd</p>	<p>Pepper NZ Limited</p> <p>Personal Loan Corporation</p> <p>Pioneer Finance</p> <p>Prosopa NZ Ltd</p> <p>Smith's City Finance Ltd</p> <p>Speirs Finance Group ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ <u>Yogo</u> Fleet</p> <p>Thorn Group Financial Services Ltd</p> <p>Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance</p> <p>UDC Finance Limited</p> <p><u>Leasing Providers</u></p> <p>Custom Fleet</p> <p>Fleet Partners NZ Ltd</p> <p>ORIX New Zealand</p> <p>SG Fleet</p>	<p>Baycorp (NZ) ➤ Credit Corp</p> <p>Centrix</p> <p>Collection House</p> <p><u>Debtworks (NZ) Limited</u></p> <p>Equifax (<u>prey</u> Veda)</p> <p>Illion (<u>prey</u> Dun & Bradstreet (NZ) Limited</p> <p>Intercoll</p> <p>Quadrant Group (NZ) Limited</p> <p><u>Credit-related Insurance Providers</u></p> <p>Protecta Insurance</p> <p>Provident Insurance Corporation Ltd</p>	<p>Buddle Findlay</p> <p>Chapman Tripp</p> <p><u>Credisense Ltd</u></p> <p>Credit Sense Pty Ltd</p> <p>Experian</p> <p>EY</p> <p>FinTech NZ</p> <p>Finzsoft</p> <p>Green Mount Advisory</p> <p>Happy Prime Consultancy Limited</p> <p>HPD Software Ltd</p> <p>KPMG</p> <p>LexisNexis</p> <p>PWC</p> <p>Simpson Western</p> <p>Verifier Australia</p> <p>Total 83 members</p>

Appendix B



FINANCIAL SERVICES FEDERATION

The Financial Services Federation (FSF) is the non-profit industry association for responsible and ethical finance, leasing and credit-related insurance providers operating in Aotearoa New Zealand.



Data collected and aggregated by KPMG in FSF's annual member data survey as at February 2021. Values in NZ\$.