

# Central bank plan could 'stifle' captive insurance

Laura Caygill

The Reserve Bank has come under fire for "going overboard" with proposed legislation that could "stifle" New Zealand's fledgling captive insurance industry by draining it of overseas business.

There has also been widespread speculation the Reserve Bank has come under pressure from its Australian counterpart to make the changes.

The Insurance (Prudential Supervision) Bill was introduced to Parliament last month and, according to NZ Captive Insurance Association president Peter Lowe, could take more than eight million tax dollars from the economy.

Captive insurance companies exist to insure their parent businesses. As subsidiaries, they are able to bypass the insurance middleman and get wholesale rates for their insured parties.

But the Reserve Bank has proposed that overseas companies not get licences to operate in New Zealand unless they insure New Zealand companies.

"It is actually going to have to ask Australian businesses with captives [based in New Zealand] to leave," Mr Lowe said. "We want that business for a number of reasons: it's clean, green business. It employs our graduates... and keeps people in New Zealand. And for every captive firm



PETER LOWE: Bill may stifle industry

that generates profit, that profit is taxed."

According to the association more than 40 captive insurers operate in New Zealand. Nine have solely Australian parent companies.

Mr Lowe thought the total could rise to about 100 – paying about \$50 million in corporate tax – over the next 10 years but not without overseas input.

In documents seen by *NBR* Reserve Bank insurance policy manager Richard Dean said the bill had been intended to align New Zealand's legislation with countries such as Canada and Germany and move it away from those such as Singapore, Bermuda, Guernsey and Vanuatu.

The bill was supposed to "prevent captive insurers from seeking out New Zealand as a perceived 'soft-touch' regulatory jurisdiction from which to offer insurance to policyholders that are not New Zealanders," he said.

But Mr Lowe countered:

"This legislation will effectively stifle the industry."

Former Reserve Bank governor and chairman of captive insurer Risk Reinsurance Don Brash hoped it would not damage the industry.

"I'm not quite sure what the Reserve Bank's objective is but I'm positive captive insurance companies do have quite a useful role to play [in the economy]," he said.

Risk Reinsurance was the captive insurer for Transpower but was based in the Cayman Islands.

"Certainly the Reserve Bank would not want to see less than reputable operations doing damage to our reputation for financial integrity but whether they need to [target] captive insurers to achieve that, I'm not sure."

Reserve Bank head of prudential supervision Toby Feinnes told *NBR* the bill in no way prevented overseas captives from operating in New Zealand and in any case there was no guarantee the industry would be a significant money-spinner.

"Because these are overseas companies they have no loyalty here and there's no guarantee how long they would stay here. They want to incorporate here – they are footloose and they can incorporate elsewhere and they don't have to have a large staff in New Zealand. They could have all their staff offshore."