

New Zealand Captive Insurance Association

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19 August 2010

Mr R Dean
Manager, Insurance Policy
Reserve Bank of New Zealand
PO Box 6011
WELLINGTON 6140

Dear Richard

INSURANCE (PRUDENTIAL SUPERVISION) BILL DRAFT SOLVENCY STANDARD FOR CAPTIVE INSURERS CONSULTATION DOCUMENT

Please find enclosed the New Zealand Captive Insurance Association submission to the aforementioned Consultation Document.

The Association believes that the Draft Solvency Standards, as prepared by the Reserve Bank, are detrimental to New Zealand owned captive insurance companies. The Solvency Standards penalises New Zealand captive insurance companies for taking a pro-active approach in managing their business risks and will cause increased costs in the management of their business risks. The Solvency Standards will further disadvantage and penalise New Zealand owned captive insurers from creating a competitive advantage by utilizing a captive insurance structure for their parent companies.

A captive is formalised risk retention vehicle whose sole aim is to reduce the cost of insurance for its parent company. By reducing the cost of insurance for a parent company it allows the corporation to strategically plan for the future, gain a competitive edge and manage their risks in a more efficient manner.

This Solvency Standard will cause all New Zealand captive insurers to rethink their risk financing and insurance strategy.

Due to the complexity of this Solvency Standard a New Zealand domiciled captive insurer could redomesticate to a more mature domicile, ie. Singapore, Guernsey or Dublin or liquidate its captive and take a very large self insured retention onto its corporate balance sheet. As you aware large self insured retentions on balance sheets are unregulated and not the most efficient method of risk financing or insuring company assets.

The Catastrophic Risk and the Asset Concentration charge are two sections of the Solvency Standard which cause captives the most pain and penalises them for being pro-active in managing their risk.

The New Zealand Captive Insurance Associations implores the Reserve Bank to take a reasonable approach to solvency and to exempt captives from the majority of the Standard as outlined in our submission to you.

The Association offers to create a working party with the Reserve Bank to create world class Captive Solvency Standards.

If you have questions regarding my testimony, please do not hesitate to contact me.

Yours/sincerely

A handwritten signature in black ink, appearing to read 'Peter Lowe', with a stylized, flowing script.

Peter Lowe
President
NZCIA

cc: Honourable John Key – Prime Minister