

## New Zealand legislative change: unregulated captive threat

New insurance legislation that has been introduced to New Zealand's parliament could create a market for unregulated captive insurance, according to the New Zealand Captive Insurance Association (NZCIA).

In a statement issued today, the NZCIA said the Insurance (Prudential Supervision) Bill regulates domestically owned captives, but does not provide for foreign-owned captives to be licensed.

The Bill, which was drafted by New Zealand's Reserve Bank, also means that foreign-owned captives will not be subject to offences under the Bill.

NZCIA president Peter Lowe pointed out there are currently six Australian-owned captives set up in New Zealand.

"Foreign owned captives are forming in New Zealand and want to be regulated," he said.

"The Reserve Bank is, by default, encouraging an unregulated foreign insurance industry in this country. This will be extremely harmful for New Zealand's international financial services reputation."

Lowe said the policy decision by the Reserve Bank contrasts with the views of both the Organisation for Economic Co-Operation and Development and the International Association of Insurance Supervisors.

"Captive insurance isn't a new, high-risk industry; there are thousands of these companies set up in the USA, Singapore, Ireland and 40 other regulated countries," he said.

"There is simply no logic behind this move, nor has any rationale been given to us by either the Reserve Bank or Finance Minister Bill English."

New Zealand currently has 22 captive insurance companies in operation, writing \$80m in gross annual premium and paying \$7m a year in New Zealand income tax.

"With the right regulation, within ten years we believe the industry could grow to 150 captives paying \$50m a year in tax to the Government," said Lowe.

# New laws urged to keep captive insurance firms

By Tamsyn Parker  
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A lobby group for the captive insurance industry claims New Zealand could miss out on millions of dollars of economic benefit from foreign-owned companies.

New Zealand Captive Insurance Association president Peter Lowe said new legislation designed to regulate the insurance of companies and drive foreign-owned businesses away.

"By New Zealand being active in the captive market it brings in capital through those companies paying taxes and employ international point of view [the legislation] will damage the standing of New Zealand's insurance market."

Captive insurance companies are set up by large companies such as Fonterra, Air New Zealand and Carter Holt Harvey as individual business rather than paying an outside provider to manage the risk.

Lowe said that it was a common way to save money, administration and time.

New Zealand was attractive to international companies to set up captive insurance businesses because of the cheap cost.

But he said companies wanted to be regulated in order to meet governance guidelines set up to protect shareholders.

Lowe said captive insurance was a competitive market with Singapore, Ireland and America also vying for the business.

New Zealand had the potential to attract hundreds of businesses from throughout the Asia Pacific region, helping to establish a strong insurance market.

The legislation is part of the Insurance Prudential Supervision Bill which had its first reading in Parliament yesterday.

The new laws are designed to ensure all insurance companies are licensed by the Reserve Bank and meet minimum standards.

Richard Dean, who is in charge of the consultation at the Reserve Bank for the new licensing, said he could not comment before Parliament.

Lowe said that he had questioned the Reserve Bank on why foreign-owned captive insurers were excluded but he had yet to receive a response.

By Tamsyn Parker | Email Tamsyn

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# 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."

lcaygill@nbr.co.nz

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## **Captives unhappy at new NZ insurance legislation**

14 December 2009

A trade body representing New Zealand captive insurers says new legislation creates a double standard by excluding foreign subsidiaries.

NZ Captive Insurance Association President Peter Lowe says the Insurance (Prudential Supervision) Bill regulates only domestic captives, not foreign companies that set up insurance subsidiaries in NZ.

The bill had its first reading in NZ Parliament last week, and was referred to the Finance and Expenditure Committee. A report is due by June 8 of next year.

Foreign captives would not face licensing or be subject to offences under the bill.

There are currently six Australian-owned captives set up in NZ to underwrite the risks of their parent corporations.

Mr Lowe believes foreign-owned captives would welcome regulation but the NZ legislation "is, by default, encouraging an unregulated foreign insurance industry in this country. This will be extremely harmful for NZ's international financial services reputation."

Though still regarded as a fledgling industry sector in NZ, there are some 22 captive insurance companies writing \$NZ80 million (\$63 million) in annual gross premium, including those steered by corporate giants Fonterra and Air New Zealand.

"With the right regulation, within 10 years we believe the industry could grow to 150 captives paying \$NZ50 million (\$40 million) a year in tax to the Government," Mr Lowe said.

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