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Captive insurance regulations could unregulate industry

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- Business
- Politics
- Captive Insurance
- Peter Lowe
- Reserve bank
- Toby Feinnes
- Print

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New insurance legislation could create an unregulated captive insurance industry in New Zealand, the New Zealand Captive Insurance Association says

The Insurance (Prudential Supervision) Bill, due for its first hearing in Parliament today, would allow foreign companies setting up insurance subsidiaries in New Zealand to go unregulated.

A captive insurance company is designed to underwrite the risks of its parent corporation only.

Association President Peter Lowe said the bill, drafted by the Reserve Bank, would regulate domestically owned captives, but would not provide for the licensing and therefore regulation of foreign-owned captives.

There are six Australian-owned captives set up in New Zealand.

“Foreign owned captives are forming in New Zealand and want to be regulated,” Mr Lowe 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.”

While the industry was still fledgling in New Zealand, Mr Lowe said there were 22 captive insurance companies currently operating which collectively underwrote $80 million in gross premiums annually and paid New Zealand $7 million in income taxes per year.

“With the right regulation, within ten years we believe the industry could grow to 150 captives paying $50 million a year in tax to the Government,” he said.

But when NBR spoke with Reserve Bank head of prudential supervision Toby Feinnes last month he said there was no guarantee the captive finance industry would be a big money spinner for New

Zealand.

He said the legislation had been designed to stop overseas companies cultivating the view of New Zealand as a soft touch country, and questioned the long-term loyalty of overseas captive insurance companies currently operating here.

"They are footloose," he said. "They want to incorporate here…and they could incorporate elsewhere and they don't have a large staff in New Zealand."

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NZ Association Urges Regulation Of Foreign Captive Insurance Firms

by Mary Swire, Tax-News.com, Hong Kong Monday, December 14, 2009

New Zealand Captive Insurance Association President Peter Lowe claims new legislation will deny the country up to USD50m in tax revenues by failing to regulate foreign-owned captive insurance firms.

“With the right regulation, within ten years we believe the captive insurance industry could grow to 150 captives paying USD50m a year in tax to the government,” said New Zealand Captive Insurance Association (NZCIA) President Peter Lowe.

Lowe said the Insurance (Prudential Supervision) Bill, which was drafted by the Reserve Bank and has just passed its first reading in parliament, regulates domestically-owned captives, but does not provide for foreign-owned captives to be licensed, nor to be subject to the offenses under the Bill.

“Foreign-owned captives are forming in New Zealand and want to be regulated. 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.”

Some of New Zealand’s most iconic companies, such as Fonterra, Air New Zealand and Carter Holt Harvey, have set up their own captive insurance companies. There are currently six Australian-owned captives set up in New Zealand.

Lowe said the policy decision by the Reserve Bank contrasts with the views of both the OECD 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. 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."

While the industry is still fledgling in New Zealand, there are 22 captive insurance companies currently operating, which collectively underwrite

USD80m in gross premiums annually and pay New Zealand income tax of USD7m per year.

Several members of the New Zealand parliament raised these issues during the first reading of the Bill, which has now been sent to the Finance and Expenditure Select Committee. In the New Year, the Select Committee will invite submissions on the Bill and hear oral submissions.

A comprehensive report in our Intelligence Report series which studies the 20 main offshore jurisdictions which offer captive insurance regimes is available in the Lowtax Library at http://www.lowtaxlibrary.com/asp/subs_reports.asp and a description of the report can be seen at http://www.lowtaxlibrary.com/asp/description_report11.asp