

PRUDENTIAL REGULATION OF INSURANCE IN NEW ZEALAND – WHAT’S THE POINT?

Jan 2026
By Adrian Allott

In August of 2025, the New Zealand Cabinet approved the preparation of an amendment to the Insurance (Prudential Supervision) Act 2010, colloquially known as “IPSA”. We are expecting the draft amendment to be published sometime in the first quarter of this year and will comment in detail when that is available.

Cabinet does not intend to change the purposes of this legislation although it is seeking to reframe them a little by adding two new supporting principles. In this article we discuss the IPSA purposes in the context of both international practice and the NZ business environment.

- ▶ A draft amendment to New Zealand’s Insurance (Prudential Supervision) Act 2010 (IPSA) is expected to be published soon.
- ▶ Cabinet has announced that it does not intend to change the purposes of IPSA.
- ▶ Comparable legislation overseas often includes an explicit policyholder protection objective.
- ▶ The efficiency purpose is neither well-defined nor well-supported by the current text of IPSA.

IPSA section 3, sub-section 1:

The purposes of this Act are to—

- (a) promote the maintenance of a sound and efficient insurance sector; and
- (b) promote public confidence in the insurance sector.

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FINANCIAL STABILITY

The overarching purpose of prudential regulation and supervision isn't actually provided in the sectoral legislation (IPSA), but in the Reserve Bank of New Zealand Act 2021 ("RBNZA"). The RBNZA gives the Reserve Bank ("RB") two main objectives; one relating to monetary policy and the other to "financial stability", characterised as "protecting and promoting the stability of New Zealand's financial system".

Financial stability can have a number of definitions ranging from the narrow ("the system is stable so long as none of the major banks fail") to the broad ("the system is unstable if there are individuals and firms who are unable to invest, borrow and insure"). The RBNZA itself offers no deeper definition than that noted in the preceding paragraph.

However, the RB has been broadening its own definition in recent years and at the time of writing has the following posted on its website:

"A stable financial system is one where resilient financial markets, institutions and infrastructures enable a productive and sustainable economy, and ultimately promote the prosperity and wellbeing of all New Zealanders."

Narrow definitions of financial stability are generally not supportive of insurance regulation. The failure of an insurer to meet its obligations may not, in itself, induce financial instability. This is particularly the case for smaller insurers.

POLICYHOLDER PROTECTION

A notable absence from IPSA's purposes is any explicit policyholder protection objective. These are common in other jurisdictions; for example Australia's Life Insurance Act 1995 has the following as its primary object:

"to protect the interests of the owners and prospective owners of life insurance policies in a manner consistent with the continued development of a viable, competitive and innovative life insurance industry"

Furthermore, the International Association of Insurance Supervisors (IAIS) – of which the RB is a member – promotes the following principle:

"Primary legislation clearly determines the objectives of insurance supervision and these include at least to...protect policyholders..."¹

Notwithstanding the exclusion of a policyholder protection objective, significant parts of IPSA are concerned with just that. For example,

- **Sub-part 3 of Part 2** ("Statutory funds") requires that assets securing life insurance policies are both adequate and ring-fenced; and
- **Section 48** requires the bank to have regard to policyholder interests when approving portfolio transfers.

¹ Insurance Core Principle 1.2



SOUNDNESS

Perhaps the least controversial of IPSA's purposes is "to promote the maintenance of a sound insurance sector".² This is because the soundness of the sector supports most other potential purposes – financial stability, policyholder protection and public confidence. Also, IAIS guidance supports a soundness objective:

"Primary legislation clearly determines the objectives of insurance supervision and these include at least to...promote the maintenance of a fair, safe and stable insurance market..."

Much of IPSA relates to this purpose:

- Fit-and-proper requirements for an insurer's management and board.
- The requirement for an insurer to have a risk management program.
- Solvency standards that establish minimum capital requirements.
- The need to obtain a financial strength rating.
- The appointed actuary regime.
- Distress management.

I anticipate that the amendment could see some tweaking of these settings, but no major change.

A review of NZ's solvency regime has been under way since 2020, and an interim, IFRS17-adjusted solvency standard is currently in operation. Whilst this review is currently paused, we understand that the RB intends to resume work on a permanent solvency standard once the IPSA amendment passes.

EFFICIENCY

By contrast, "promoting the maintenance of an efficient insurance sector" – a current IPSA purpose – is notable for the lack of support it enjoys in the text of IPSA. We are only aware of one section of IPSA that seeks to promote the efficiency of a small part of the sector. These are the exemptions from rating, statutory fund and solvency requirements given to small insurers already in business on 7 September 2010.

The purpose is also notable for lacking a definition of "efficiency". While there are many possible interpretations, we suggest taking the policyholders' perspective as a group – maximisation of claims and benefits for a given amount of premium.

IPSA could do a lot more to promote efficiency, for example:

- Provide for an 'operational procedures' standard designed to address unnecessary cost and potential conflicts of interest (for example, between the roles of claims assessor and contractor).
- Build in proportionality to every provision, so that requirements for smaller smaller, simpler insurers are appropriate to their size and nature.³
- Mandating the disclosure of detailed performance information for each insurer, to allow third party analysis and comparison.⁴ This information could include, for example claim ratios, commission ratios and expense ratios for each product class.

² The actual wording of IPSA couples this with the efficiency purpose as "promoting the maintenance of a sound and efficient insurance sector"

³ Cabinet intends to introduce a proportionality principle and a proportionality framework to ensure that secondary legislation and supervision is appropriate to the size and nature of each insurer.

⁴ A disclosure standard is amongst those listed in the Cabinet paper, and this document may provide the necessary power.

PUBLIC CONFIDENCE

The final purpose of IPSA is to “promote public confidence in the insurance sector”. To a large degree, public confidence will be generated through achievement of the soundness and efficiency purposes, so there may not be much to do in this area.

One question to ponder, however, is whether the requirement to promote public confidence may actually impinge on the RB’s activity. For example, being transparent about insurers in distress may actually damage public confidence, as may stress tests that show insurers failing in highly adverse circumstances.

The drafters may wish to consider giving the RB safe harbour in such cases.

CONCLUSIONS

- ▶ **The purposes of IPSA** sit under the overarching RBNZA object of promoting financial stability.
- ▶ **Some clarification of terms** – financial stability, efficiency – may be appropriate.
- ▶ **The soundness and efficiency purposes** work together to both boost public confidence and (implicitly) protect policyholders.
- ▶ **New features** – primarily a disclosure standard and an operational procedures standard – may need to be added to IPSA to support its efficiency purpose.

PFS EXPERIENCE

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- Support with licence applications, including business plan preparation.
- Advice on, and reporting of, regulatory capital & solvency.
- Advice on portfolio transfers and other regulated restructures.
- Appointed actuary and independent actuary assignments.

[Cabinet proposals](#)

The author, Adrian Allott, is a Principal of PFS Consulting who spent ten years working for the Reserve Bank of New Zealand in both supervision and regulation. From early 2020 to mid-2022 he led the review of IPSA, working on subjects such as the scope of the Act, the treatment of overseas insurers and the security of policyholders. You can contact him at adrianallott@pfsconsulting.com.



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