Submission on discussion document: *Fit for purpose financial services conduct regulation*

Your name and organisation

Name	Richard Shine
Organisation (if applicable)	QBE Insurance (Australia) Limited
Contact details	Privacy of natural persons

[Double click on check boxes, then select 'checked' if you wish to select any of the following.]

☐ The Privacy Act 2020 applies to submissions. Please check the box if you do not wish your name or other personal information to be included in any information about submissions that MBIE may publish.

☐ MBIE intends to upload submissions received to MBIE's website at ***www.mbie.govt.nz***. If you do not want your submission to be placed on our website, please check the box and type an explanation below.

I do not want my submission placed on MBIE's website because… [Insert text]

Please check if your submission contains confidential information:

☐ I would like my submission (or identified parts of my submission) to be kept confidential, and **have stated below** my reasons and grounds under the Official Information Act that I believe apply, for consideration by MBIE.

I would like my submission (or identified parts of my submission) to be kept confidential because… [Insert text]

Responses to discussion document questions

QBE Insurance (Australia) Limited (**QBE**) is a member of the Insurance Council of New Zealand (**ICNZ**). We have reviewed a draft of ICNZ's submission, and support ICNZ's responses to the discussion document questions. We make this submission on a separate matter.

Other comments

Under the Financial Markets Authority (Levies) Regulations, levies are calculated for insurers on the basis of annual gross premium revenue.

For 2025/2026, the levy for insurers who are not required to hold a financial institutions licence (i.e. class 3) will be between $5,980 and $552,000 depending on annual *gross premium revenue*. For those insurers who *are* required to hold a financial institutions licence (i.e. class 3A), the range is $7,590 and $1,104,000.

In other words, the levies for those insurers holding a financial institutions licence are significantly higher than for those insurers who do not require a licence. In the case of insurers with annual gross premium revenue in excess of $1B, the difference is 100%.

Gross premium revenue includes the premium an insurer receives for both consumer products and commercial (i.e non-consumer) products.

Insurers who operate predominantly in the commercial (i.e. non-consumer) market, but who have a small book of consumer policies, will incur a levy which:

1) when internally allocated against consumer policies, makes it uneconomic to continue with those products. By way of a simplified illustration, if a large commercial insurer sells only $1M of consumer products but has a commercial book of $1bn, it will face a levy of $1,104,000 versus $552,000. When the additional levy costs are allocated against the consumer products, it clearly becomes uneconomic to continue to offer those products; and

2) is a disproportionate share of the costs of regulatory oversight, effectively subsidising insurers who exclusively or predominantly write consumer business.

There is therefore a serious risk that the levy structure will incentivise insurers with a small book of consumer policies to exit the consumer market, in order to avoid incurring the higher levy. This could have the effect of withdrawing capacity from the consumer market, thereby lessening competition. This outcome cannot possibly have been intended by the designers of the CoFI regime.

To avoid this outcome, we propose that:

1) the class 3 levy is the baseline for all insurers; and

2) an additional levy is applied to each class 3A insurer calculated by reference to the gross written premium of the insurer's ***consumer products***.

In our view, applying the levy on this basis will:

1) ensure that the levy regime aligns to the products that are subject to the CoFI legislation and the additional regulatory costs of that legislation;

2) ensure that insurers who participate in only a small part of the consumer market are charged a levy which is equitable to their share of that market;

3) remove a barrier to entry, or continuance, of consumer products for insurers who are predominantly commercial insurers;

4) support commercial insurers to offer specific consumer products which align with their commercial offering. For example, in the area of commercial marine insurance this might include insurance for the transit of household goods. In the area of contracts works, this would include both commercial build projects and home owners;

5) result in a levy regime that will support greater choice for customers and competition between insurers.

We realise that this issue is outside the scope of MBIE's current review, but wanted to use this opportunity to bring the problem to your attention. We are happy to discuss this submission further with you, either for the purpose of this review, or at some future point.