



# **Review of actuarial information in, or used in the preparation of, financial statements**

## **Guidelines Licensed insurers**

Prudential Supervision Department

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## Purpose of these guidelines and disclaimer

1. Sections 77 - 79 of the [Insurance \(Prudential Supervision\) Act 2010](#) (the Act) require the actuarial information contained in, or used in the preparation of, the annual financial statements of a licensed insurer to be reviewed by the appointed actuary. An associated report that complies with the minimum content set out in section 78 of the Act is required to be prepared. The report accompanies the auditor's report when the auditor's report is delivered for registration or lodgement under any act and when the auditor's report is included within a licensed insurer's annual report.
2. This document sets out the Reserve Bank of New Zealand's (the Reserve Bank's) guidelines in relation to these requirements.
3. These guidelines have been prepared to assist licensed insurers and appointed actuaries to understand the Reserve Bank's interpretation of these requirements. These guidelines are not to be regarded as a definitive statement of the application of the relevant provisions in every situation. Guidelines do not constitute legal advice and are only a guide to the Reserve Bank's policy and practice. The Reserve Bank recommends that licensed insurers take advice from appropriate qualified professionals.
4. Nothing in these guidelines overrides the provisions of the Act or the [Insurance \(Prudential Supervision\) Regulations 2010](#) or any other legislative or regulatory requirements.
5. The Reserve Bank may replace guidelines at any time. Licensed insurers should ensure that they refer to the most recent version of the guidelines. Guidelines are available on the Reserve Bank's website at <http://www.rbnz.govt.nz/regulation-and-supervision/insurers/licensing>.
6. Any examples in these guidelines are provided purely for illustration, are not exhaustive and are not intended to impose or imply particular rules or requirements.
7. The guidelines refer to aspects of legislation. Current legislation is available at [www.legislation.govt.nz](http://www.legislation.govt.nz).

## Which financial statements are required to be reviewed?

8. The financial statements that require a review of the actuarial information are those financial statements or group financial statements of the licensed insurer that are required to be registered or lodged in New Zealand under any act.<sup>1</sup>
9. The majority of licensed insurers are deemed to be "FMC Reporting Entities" under the [Financial Market Conduct Act 2013](#) (FMCA) because they are licensed insurers (FMCA section 451(h)). The majority of licensed insurers will have to prepare and lodge financial statements or group financial statements under the FMCA. However other legislation may impose requirements for a licensed insurer to lodge or register financial statements.
10. The financial statements required to be lodged or registered include:
  - (a) for a New Zealand incorporated licensed insurer:
    - (i) the financial statements of the licensed insurer; or
    - (ii) the financial statements of the licensed insurer's group (if any); and
  - (b) for an overseas licensed insurer:
    - (i) the financial statements or group financial statements of the overseas licensed insurer; and
    - (ii) the financial statements of the overseas licensed insurer's (or the licensed insurer's group) New Zealand business prepared as if that business were conducted by a

<sup>1</sup> [Section 77\(1\)](#) of the Act requires the financial statements and any group financial statements referred to in [section 81\(1\)](#) of the Act to be reviewed by the appointed actuary. Section 81(1) refers to financial statements or group financial statements required to be registered or lodged under any act.

company (or companies) formed and registered in New Zealand i.e. the New Zealand Branch.

11. The appointed actuary must complete a review and prepare a report for each set of financial statements or group financial statements required to be registered or lodged.

*Are “small insurers” required to have a review?<sup>2</sup>*

12. A review may be needed for licensed insurers that qualify for the “small insurer” exemptions if, for example, the licensed insurer is an FMC reporting entity for reasons other than being a licensed insurer, or the licensed insurer is required to register or lodge financial statements under any other relevant legislation e.g. the Companies Act 1993.
13. A licensed insurer that is required to lodge financial statements or group financial statements under any act are required to have those financial statements or group financial statements reviewed and the associated report prepared. The associated report will need to accompany the auditor’s report when the auditor’s report is registered or lodged or included in the annual report.

*Do interim financial statements need to be reviewed?*

14. A review is only required for financial statements required to be registered or lodged under any act. Currently only annual financial statements are required to be registered or lodged.

### **When is the review to be completed by?**

15. A licensed insurer must take all practicable steps to ensure that the review is completed and the associated report prepared by the time the relevant financial statements or group financial statements are required to be registered or lodged. For the majority of licensed insurers this will be within 4 months of the annual balance date as required by the FMCA.

### **What is Actuarial Information?**

16. The meaning of actuarial information is set out in [section 77\(4\)](#) of the Act, as
  - (a) information relating to an insurer’s calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and
  - (b) information relating to an insurer’s assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
  - (c) information specified in an applicable solvency standard as being actuarial information for this purpose.
17. Each of these areas must be considered within the scope of the review and interpreted in the context of the licensed insurer’s business and the relevant financial statements or group financial statements.
18. An “applicable solvency standard” refers to the solvency standard or standards referred to in the licensed insurer’s conditions of licence. More than one solvency standard may apply to a licensed insurer in which case the relevant requirements of each standard must be met. The current version of the Reserve Bank’s solvency standards are available on the Reserve Bank’s website at <http://www.rbnz.govt.nz/regulation-and-supervision/insurers/regulation>.
19. Each of the Reserve Bank’s solvency standards include additional specific items that are to be regarded as actuarial information for the purposes of the review (refer paragraph 15(c) above).
20. Overseas insurers that have been granted an exemption from compliance with one or more Reserve Bank solvency standards are issued a notice under section 59 of the Act. These notices set out additional actuarial information for the purposes of section 77(4)(c). The terminology used within the

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<sup>2</sup> “Small Insurers” are those that are eligible for the Exemptions for Small Insurers under Regulations 9 – 13.

exemption notice is that commonly used for New Zealand financial reporting and would likely be directly applicable to the financial statements of the New Zealand business. The specified terms should be interpreted to refer to items of a broadly equivalent nature when considering other financial statements or group financial statements of the licensed insurer.

21. Not all aspects of the specified actuarial information may be relevant for a particular licensed insurer. Any specified actuarial information that is not relevant to a licensed insurer should be clearly noted as such in the associated report.

*What other information is deemed actuarial information?*

22. Each solvency standard and solvency exemption notice includes a section stating that actuarial information includes “*any other information deemed by the appointed actuary to warrant actuarial review for the purpose of profit or solvency reporting*”. It is expected that there are other areas that warrant actuarial review.
23. Additional areas commonly regarded as warranting actuarial review include (where relevant):
- (a) disclosures made in the financial statements in relation to actuarial valuation methodologies, and assumptions;
  - (b) actuarial analysis of profit;
  - (c) claims development tables;
  - (d) crediting and bonus rates for participating and investment account contracts;
  - (e) commentary associated with risk management policies including reinsurance arrangements.

Other areas may also be appropriate. Any such additional information considered as part of the review should be clearly set out in the associated report.

**What is the scope of the review?**

24. The review of actuarial information is limited in scope to that actuarial information contained in, or used in the preparation of, the financial statements or group financial statements for the purposes of financial reporting. This information includes the disclosures made in the notes to the financial statements or group financial statements.
25. The work completed by the appointed actuary for the purposes of the review should enable the appointed actuary to provide the opinions required by the Act under:
- (a) section 78(f)(i) and (ii) which relate to whether or not actuarial information has been appropriately included or appropriately used in the preparation of the financial statements or group financial statements; and
  - (b) section 78 (g) and (h) which relate to the maintenance of any solvency margins imposed by condition of licence in respect of the licensed insurer and the statutory fund(s) of a life insurer (if any).
26. The required opinions are stated to be from an actuarial perspective and are not intended to alter the scope or role of the auditor in respect of audited financial statements or group financial statements.
27. The solvency standards and solvency exemption notices state that where a licensed insurer has an established policy to seek the advice of the appointed actuary in respect of part or all of the actuarial information and to always adopt that advice in its financial statements or group financial statements, then the advice from the appointed actuary to the licensed insurer satisfies the review requirements. The appointed actuary should verify that his or her advice has been adopted in the relevant financial statements and note the reliance on this provision within the associated report. The appointed actuary must separately review any element of the actuarial information that is not subject to the established policy.

28. The appointed actuary may need to deal with issues that are not within the skills and experience of the appointed actuary. In this situation the appointed actuary will need to utilise the skills and experience of others and may rely on other relevant experts, provided that reliance is appropriate and adequate disclosure is included in the associated report on the nature of that reliance. Examples of where such reliance may be needed include the review of materials that are predominately prepared by other officers of the licensed insurer. In particular, the New Zealand appointed actuary of an overseas insurer may rely on the work of the home jurisdiction equivalent to the appointed actuary relating to matters other than the insurance business carried on in New Zealand, or to financial statements or group financial statements other than those of the New Zealand branch. Any concerns in respect of the extent and nature of any reliance that may be needed may be discussed with the Reserve Bank.

## What reporting and public disclosure is required?

### *Appointed Actuary's Report*

29. The results of the review are required to be presented in a report. The required contents of the report are set out in [Section 78](#) (a) – (h) of the Act.
30. A report in respect of each set of financial statements registered or lodged is required rather than a single report considering two or more sets of financial statements. Separate reports also facilitate lodgement processes.
31. The report relates to the scope and results of the review under [section 77](#) and not to any other work the appointed actuary may complete for the licensed insurer such as the preparation of the Financial Condition Report or the provision of other actuarial advice.
32. If a required opinion is not applicable for a particular licensed insurer, a statement to that effect with supporting reasons should be included in the report. For example, a licensed insurer may not be required to maintain a statutory fund to which a solvency margin condition of licence applies so that the opinion required under [section 78\(h\)](#) (maintaining the solvency margin of a statutory fund) of the Act is not applicable. The report should note that the company is not required to maintain a statutory fund and so no opinion is required.

### *Registration or lodgement of the report*

33. [Section 79](#) of the Act requires the report prepared under [section 78](#) to accompany the auditor's report when the auditor's report is delivered for registration or lodgement under any act and when the auditor's report is included in the licensed insurer's annual report.
34. The annual report is that report referred to in [section 208](#) of the [Companies Act 1993](#).
35. The actuary's report is publically available once lodged.
36. Each set of financial statements that are required to be registered or lodged that include an associated auditor's report, should be accompanied by the associated actuary's report in respect of the review of actuarial information.
37. The report is also to be provided to the Reserve Bank.

### *Is the report the same as the Financial Condition Report?*

38. The report prepared under [section 78](#) is not a Financial Condition Report (FCR) required to be prepared under either the relevant solvency standards or the terms and conditions of a solvency exemption. The report relates only to the review of the actuarial information in, or used in the preparation of, financial statements and does not consider the wider range of requirements of an FCR. An FCR is not required to be registered or lodged along with the financial statements or be made available to the public.

39. An FCR may contain full details of the review undertaken and the reasons for the conclusions drawn. But such information within the FCR does not replace the need for a separate report that complies with the content requirements of [section 78](#) to be prepared and lodged or registered as required.



**Website**

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