



Insurance Industry Update

September 2014

The purpose of the Insurance Industry Update is to keep licensed insurers informed of current initiatives and to provide clarification on licensing, supervision, compliance requirements and related matters. The update is prepared by the Reserve Bank's Insurance Oversight Team. It is not policy or legal advice in itself and should not be interpreted in isolation.

General update

This update focuses on providing a general summary of the Reserve Bank's main projects and initiatives that affect insurers, and key dates, including:

- Policy initiatives
 - Revised solvency standards
 - Variable annuities consultation
 - Seminars
- Solvency disclosure requirements
- Insurance data collection
- Risk governance review

Policy initiatives

The Reserve Bank continues to consult with the insurance industry regarding insurers' measurement of solvency by improving the Reserve Bank's solvency standards in certain areas, summarised as follows:

Revised solvency standards

The Reserve Bank has released a set of revised solvency standards for industry consultation, including consultation on their technical workability. The draft versions of the revised solvency standards include proposed wording for policy areas that the Reserve Bank has previously consulted stakeholders about, including the following:

- the solvency treatment of reinsurance;
- revision to the definition of capital, including criteria for capital instruments; and
- the solvency treatment of guarantees.

In addition, the revised solvency standards incorporate a number of other proposed amendments designed to clarify the intended application of the solvency standards, update the solvency standards for other legislative changes, financial reporting alignment and to enhance disclosure requirements (see later section for detail).

Consultation closes on 3 November 2014. Following consultation, the intention is that the re-issued solvency standards will come into force in January 2015, except for certain provisions relating to reinsurance. Conditions of licence will be amended throughout 2015 so that individual insurers will be required to calculate a solvency margin under the reissued solvency standards as at and from their 2015 balance date. The requirements relating to the recognition of reinsurance benefits will commence later, as specified in Part 4 of the consultation document.

Variable annuities

The Reserve Bank has recently released a consultation paper about a new and specific solvency treatment for variable annuities. The proposed approach provides for insurers offering these products to employ modelling techniques to arrive at the solvency capital requirement and allows for risk mitigation measures such as dynamic hedging to be taken into account. While the responsibility for carrying out and approving the modelling continues to lie with the insurer and its appointed actuary, the proposed approach also requires the insurer to provide a report on the modelling from an independent actuary. The Reserve Bank must also be satisfied that the solvency outcome is adequate. The consultation closes on 3 October 2015.

Seminars

The Reserve Bank will host seminars on the two consultations above, with a short overview of the changes followed by an opportunity to ask questions. The seminars

will start with a half-hour morning tea and networking time. Dates and times are:

1. Wellington, Thursday 2 October 2014 at The Reserve Bank Building, 2 The Terrace on level 2. Morning tea at 10am, seminar from 10.30am to 12pm;
2. Auckland, Monday 29 September 2014 at the Pullman Hotel, Corner Princess Street & Waterloo Quadrant. Morning tea at 10.30am, seminar from 11am to 12.30pm.

If you intend to come to a seminar, please respond by 22 September to insurancesolvency@rbnz.govt.nz, indicating the session and the names of those attending.

Solvency disclosure requirements

The solvency standards include requirements on insurers to publicly disclose their Solvency Margin in their annual financial statements and on their website (if any).

It is proposed to extend the current disclosure requirements to include the insurer's Actual Solvency Capital, Minimum Solvency Capital, Solvency Margin and Solvency Ratio in respect of each Solvency Standard applicable to it and an aggregate disclosure of these measures in respect of its total business. Financial statement disclosure must include a comparison to the prior financial year.

For an overseas insurer, the appropriate disclosure may be included within the New Zealand branch financial statements only.

Insurance data collection

The establishment of regular insurer data collection and a reporting system is required for the efficient prudential supervision of insurers and the monitoring and analysis of developments at the sectoral level.

On 27 August 2014 the Reserve Bank released a [consultation paper](#). The Reserve Bank recently hosted seminars in Auckland and Wellington to discuss the consultation and to give interested parties the opportunity to ask questions.

The Reserve Bank strongly encourages interested parties to provide feedback on the proposed data collection in a written submission. Submissions close on 8 October 2014.

Updates on the pathway to implementing insurer returns, including a practice return, will be provided on the Reserve Bank website.

Risk governance review

In the previous update we described our plans to review the quality of risk governance across the sector based on a sample of insurers. The review is progressing and about half of the meetings have now been completed. We are gaining some very useful insights from this exercise and appreciate the efforts of the insurers that are involved.

We plan to have completed all interviews by early November 2014 and to have provided feedback to all insurers involved before the end of the year. We also intend to provide feedback to the sector, including an overview in the December 2014 edition of this publication.

If you are an insurer and have any questions, please call your assigned supervisor or send an email to insurance@rbnz.govt.nz.