Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014

Prudential Supervision Department

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1. Introduction

1.1. Authority

1. This solvency standard is made under section 55 of the Insurance (Prudential Supervision) Act 2010 (the Act).

1.2. Previous Versions

2. A previous version of this solvency standard was issued in October 2011. This solvency standard was last consulted on in 2014.

1.3. Commencement

3. This solvency standard comes into force on 1 January 2015.

1.4. Application

4. This solvency standard applies (in accordance with this Section) to every licensed insurer that carries on non-life insurance business in New Zealand, but only if:

(a) the licensed insurer is a captive insurer (as defined in section 6(1) of the Act); and

(b) the licensed insurer’s entire portfolio comprises non-life insurance; and

(c) the licensed insurer is required by a condition of licence to maintain a Solvency Margin in accordance with this solvency standard.

5. An overseas insurer is not required to comply with this solvency standard or a part of this solvency standard to the extent it has been granted an exemption under section 59(1) of the Act.

1.5. Requirements

6. This solvency standard incorporates the Solvency Standard for Non-life Insurance Business 2014 and all subsequent amendments to that solvency standard.

7. A licensed insurer to which this solvency standard applies must comply with the Solvency Standard for Non-life Insurance Business 2014, subject to the following modifications.

8. Paragraphs 1 to 8 of the Solvency Standard for Non-life Insurance Business 2014 are replaced with paragraphs 1 to 5 of this solvency standard.

9. In paragraph 12, “3 million New Zealand dollars” (being the Fixed Capital Amount) is replaced with “1 million New Zealand dollars”.

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10. The following paragraph is inserted after paragraph 16:

16A. In relation to a captive insurer, an obligation of the insurer’s parent, or an obligation of a subsidiary of that parent, can be treated as if it is not an obligation of a related party for the purposes of paragraph 24(c), Table 2 or paragraph 66(b).

11. Paragraphs 32 to 40 (inclusive) and Table 1 – Insurance Risk Capital Factors (which appears after paragraph 35) are replaced with the following paragraphs:

32. The Insurance Risk Capital Charge is an amount equal to 20% of the largest per event retention of the licensed insurer plus the cost (if any) of one reinstatement of the relevant reinsurance programme.

33. The largest per event retention is the cost to the licensed insurer of the largest individual claim or series of claims, relating to a single event, to which it could reasonably be exposed under policies issued, net of reinsurance recoveries.

34. If the licensed insurer issues policies that do not have a maximum sum insured, or are not protected by excess of loss reinsurance, then the licensed insurer must seek the advice of its appointed actuary as to a reasonable approximation for the largest foreseeable per event retention.

12. For the avoidance of doubt, the section headed Insurance Business with Long Term Risk Characteristics (comprising paragraphs 41 to 44) continues to apply to licensed insurers to which this solvency standard applies.

13. Section 3.2 (Catastrophe Risk Capital Charge) does not apply for the purposes of this solvency standard.

14. In Section 3.3, in Table 2 – Exposure Classes and Resilience Capital Factors (which follows paragraph 60):

(a) Exposure Class 5 (unpaid premiums < 6 months past due) does not apply; and

(b) unpaid premiums (as referred to in column 1, and as defined in column 2 of exposure class 9 (other fixed interest and short term unpaid premiums)) does not apply; and

(c) the following Exposure Class is inserted after Exposure Class 9:

| 9A Transactions between captive insurer and its parent owner or a subsidiary of its parent owner | Any debt, obligation, or other balance of any nature between a captive insurer and its parent owner | 15% |
15. In section 3.3(c), Table 3 – Asset Concentration Risk Limits (which follows paragraph 79), the following obligation is inserted after the obligation relating to an obligation guaranteed by a New Zealand Local Authority or State-Owned Enterprise:

| Exposures to the parent of the captive insurer or a subsidiary of that parent | 66% (or $5m if greater) |

15. Paragraph 86(c) is replaced with the following subparagraph:

(c) insurance liabilities are unearned premium liability plus unexpired risk liability plus net outstanding claims liability at a minimum 75% probability of sufficiency, as advised by the appointed actuary.

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