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Insurance Solvency Standards and NZ IFRS 16 Leases

This submission is from Cigna Life Insurance (NZ) Ltd ("Cigna") on the consultation paper: Insurance Solvency Standards and NZ IFRS 16 Leases.

Cigna supports the proposals in the RBNZ consultation paper to change the insurance solvency standards to be more appropriate for the introduction of the new accounting standard IFRS16.

The adoption of IFRS16 is expected to result in a difference between when assets and liability are recognised in Cigna's financial statements, resulting in a small negative impact on solvency levels. This impact is not expected to be material for Cigna if the insurance standards are changed as proposed by the RBNZ, with the overall solvency ratio reducing by up to 2 percentage points (Cigna's overall solvency ratio was 154% at year-end 2017). If the solvency standards are not changed, it would reduce Cigna's solvency ratio by up to 11 percentage points.

As the changes to the accounting standards will be establishing new assets and liabilities to recognise leases, we support the changes to the solvency standards to only charge any excess net assets related to any leases.

Please find attached our responses to Parts 3 and 4 and the survey as requested. For further information, please feel free to contact us.

Yours sincerely

Mark Schollum
Head of Finance

Nathan Thomas
Appointed Actuary

Response to Part 3 – Accounting Changes

Is the description of the accounting approaches discussed in Part 3 consistent with your understanding of the current and new accounting approaches for lease contracts? If not, please provide an explanation of the differences.

Are there any requirements of NZ IFRS 16 that you consider the Reserve Bank needs to make specific provision for in the Solvency Standard in addition to or instead of those set out in Part 2?

Are there any elements of NZ IFRS 16 transition proposals that you consider the Reserve Bank needs to consider?

Are there any other specific lease related transactions that the Reserve Bank should consider from a Solvency Standard perspective?

The description of the accounting approaches discussed in Part 3 are consistent with our understanding of the current and new accounting approaches for lease contracts.

There are no other elements of NZ IFRS 16 we are aware of that need to be considered by the Reserve Bank from a Solvency Standard perspective.

Response to Part 4 – Solvency Standards

Do you consider that the nature of the potential risks of lease contracts and the accounting treatment of NZ IFRS 16 set out in Table 2 are reasonable?

Are there any risks that have been ignored or inappropriately characterised?

Do you consider that the proposed approach appropriately addresses the key risks identified in Table 2? If not, please provide an explanation and recommend an alternative approach.

Do you consider that the draft text set out in Appendix B, would effectively implement the proposed changes?

Do you have any further points about NZ IFRS 16 Leases you would like to bring to the Reserve Bank's attention?

We consider the potential risks set out in Table 2 are reasonable and cover all of the appropriate risks.

Without any changes to the Solvency Standards the Lease Asset under NZ IFRS 16 would attract a 40% 'any other asset' charge which would have a significant impact on solvency.

We support the proposed changes set out in Appendix B.

If your firm is an overseas licensed insurer under the Insurance (Prudential Supervision) Act, please indicate, if known, how the home regulator has or is expected to respond to the introduction of IFRS 16 for regulatory capital purposes.

N/A

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