

24 August 2018

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Reserve Bank of New Zealand
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By email: InsuranceLeasesConsultation@rbnz.govt.nz

Consultation Paper: Insurance Solvency Standards and NZ IFRS 16 Leases

Thank you for the opportunity to submit on the consultation paper dated July 2018 on the insurance solvency standards and NZ IFRS 16.

Please find in the appendix to this letter nib nz's response to the specific questions in the consultation paper and our response to the request to complete the survey in Appendix A.

We would be happy to discuss this submission with the Reserve Bank if that would assist.

Yours sincerely
nib nz limited



Lydia Cook
Senior Corporate Counsel/Company Secretary

Questions on IFRS 16 and the Solvency Standards	nib nz response
1. 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.	Yes.
2. 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?	No.
3. Are there any elements of NZ IFRS 16 transition proposals that you consider the Reserve Bank needs to consider?	No.
4. Are there any other specific lease related transactions that the Reserve Bank should consider from a Solvency Standard perspective?	<p>In our view, solvency should focus on the fundamentals of risk exposure which we do not expect to change with the implementation of the introduction of IFRS16.</p> <p>We would encourage the Reserve Bank to ensure that there is as little impact to solvency as possible as a result of the change in accounting treatment where there is no real underlying change in risk.</p>
5. 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?	Yes.
6. Are there any risks that have been ignored or inappropriately characterised?	No.
7. 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.	Yes.
8. Do you consider that the draft text set out in Appendix B, would effectively implement the proposed changes?	Yes.
9. Do you have any further points about NZ IFRS 16 Leases you would like to bring to the Reserve Bank's attention?	<p>In relation to the interest rate risk capital charge, interest rates are not commonly explicitly stated in lease agreements. A level of judgement is required to determine the appropriate interest rates and, therefore, the interest rate risk capital charge. This is likely to lead to different approaches being used across the industry, with consequent different impacts on solvency. We suggest further guidance be provided to enable consistency in determining the interest rate risk capital charge.</p>

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