

# Webinar: IPSA and Solvency Standard Reviews

11 October 2023



Reserve Bank  
of New Zealand  
Te Pūtea Matua

# **INTERIM SOLVENCY STANDARD: SECOND AMENDMENT**

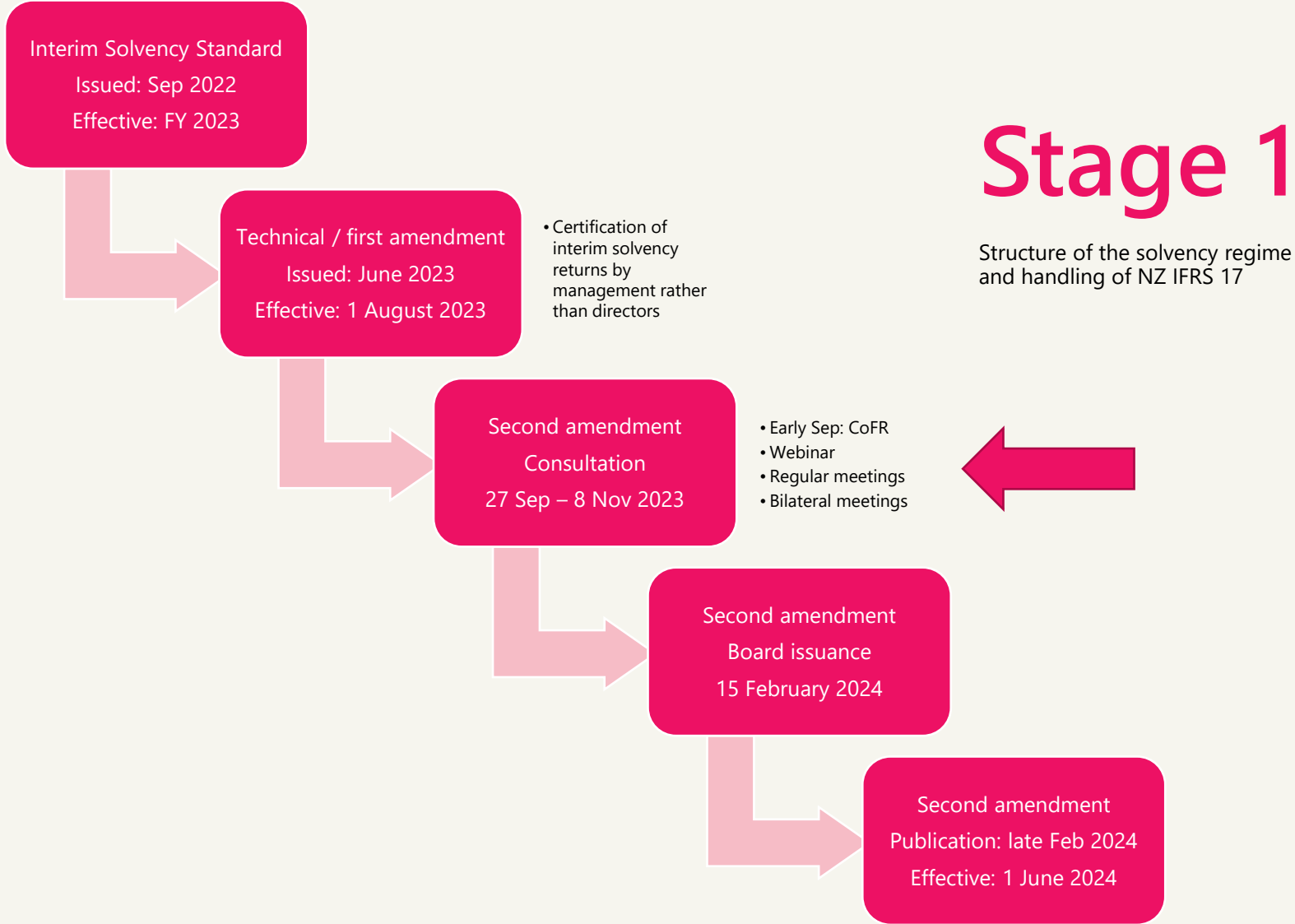
A vertical decorative bar on the left side of the slide, featuring a teal background with white geometric patterns. The patterns include a series of upward-pointing chevrons at the top and bottom, and a series of horizontal lines in the middle.

# Process and the solvency standard review

# The Solvency Review

- Solvency regime sets minimum capital requirements for NZ-incorporated and other non-exempt insurers
- *Solvency Capital (SC)* is compared with the *Prescribed Capital Requirement (PCR)* (often as a ratio =  $SC / PCR$ )
- Two stages to solvency review:
  - Stage 1: NZ IFRS 17 and structural changes
  - Stage 2: Full review of methods and parameters





A vertical decorative bar on the left side of the slide, featuring a repeating pattern of white geometric shapes (chevrons and horizontal lines) on a purple background.

# Consultation contents

# Documents

We have published the following documents and are consulting on all of them except the Bulletin article:

- Consultation paper
- Second amendment standard
- ISS after second amendment
- Guide to the ISS
- Bulletin article on solvency measures



# Significant amendments

## Changes that impact on solvency ratio calculation

### **Underwriting risk capital charge underspecified**

Re-basing UWCC to appropriately reflect pricing risks rather than NZ IFRS 17 accounting outcomes.

### **Credit risk on interest-sensitive assets**

Reinstating credit risk capital charges on interest-sensitive assets.

### **Deferred reinsurance expense**

Explicitly excluding reinsurance cash-flows related to future primary contracts from "insurance items" to allow their recognition as a non-insurance item.





# Other issues

All insurers	Long-term insurance only
Clarifying how tax, acquisition expenses and risk adjustments should be handled in the “modified PAA” method.	Contract clauses allowing early termination should not establish a boundary.
Recognising the standardisation of the value of reinsurance assets in dispute in the capital charge.	Using expense loadings to trigger the run-off period rather than actual expenses.
Addressing double-counting of discretions, given no risk diversification model is applied.	
Guidance moved out into separate document	





Reserve Bank  
of New Zealand  
Te Pūtea Matua

# IPSA OMNIBUS CONSULTATION

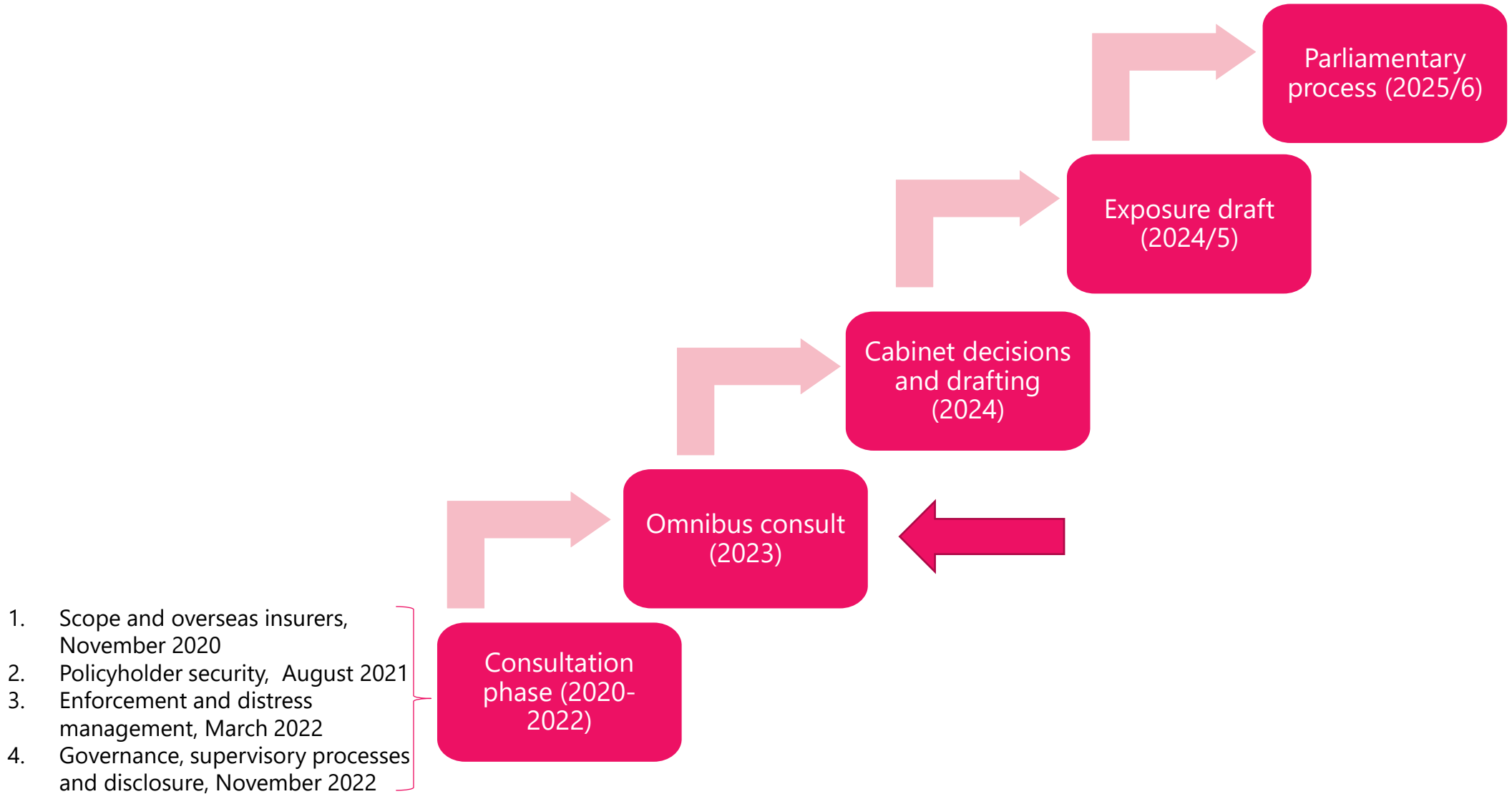
A vertical decorative bar on the left side of the slide, featuring a teal background with white geometric patterns. The patterns consist of repeating chevron shapes pointing upwards and horizontal lines, creating a textured, layered effect.

# IPSA review progress

# This consultation

- Mostly proposals that reflect previous feedback...
- ...but:
  - Some new material (e.g. statutory purposes and principles)
  - Some areas where more detail (group supervision, branches, policyholder security)
- We welcome any comments but may be less value added in repeating earlier feedback





A vertical decorative bar on the left side of the slide, featuring a repeating pattern of white geometric shapes (chevrons and horizontal lines) on a purple background.

# Consultation contents

# Overall themes

- Underpin our more proactive and intensive approach to supervision
- Overseas insurers
- Regulatory boundary / statutory purposes
- Policyholder security / statutory funds



# Significant new material

- Purposes and principles
- Reinsurance branches exempt from licensing requirements
- Assets in NZ for branches (?)
- Group supervision – additional detail
- No policyholder guarantee scheme for now
- No stat funds for YRT, some enhanced policyholder protection

