



Reserve Bank
of New Zealand
Te Pūtea Matua

Interim Solvency Standard Amendment Standard 2024.

Financial Policy

[15 February 2024]

Interim Solvency Standard Amendment Standard 2024

This standard is issued by the Reserve Bank of New Zealand on [15 February 2024] under section 55 of the Insurance (Prudential Supervision) Act 2010.

1 **Title**

This standard is the Interim Solvency Standard Amendment Standard 2024.

2 **Commencement**

This standard comes into force on 1 June 2024.

3 **Principal standard**

This standard amends the Interim Solvency Standard 2023.

4 **Principal standard amended**

Guidance

- (1) Delete all guidance (as denoted in grey boxes) throughout the principal standard.

Interpretation

- (2) Delete paragraph 11.

Definitions

- (3) In the first sentence of paragraph 17, after “Unless stated otherwise, terms defined in the Act”, insert “, the Regulations”.
- (4) In the second sentence of paragraph 17, after “Terms defined below, in the Act”, insert “, the Regulations”.
- (5) In the third sentence of paragraph 17, between “terms defined” and “in this solvency standard.”, insert “in the Regulations, then terms defined”.
- (6) In paragraph 17, definition of **Best Estimate**, replace “Best estimate assumption” with “Best estimate assumption”.
- (7) In paragraph 17, delete the definition of **Earthquake Commission**.
- (8) In paragraph 17, delete the definition of **Final Solvency Standard**.
- (9) In paragraph 17, insert a new definition - “**General insurance** is insurance that is neither *life insurance* nor *health insurance*.”
- (10) In paragraph 17, insert a new definition - “**Health insurance** has the meaning given in section 6 of the Act.”
- (11) In paragraph 17, definition of **Insured Event**, sub-paragraph (i), delete the “a” between “initiates” and “claim”.
- (12) In paragraph 17, insert a new definition: “**Life insurance** has the meaning given in sections 84 and 85 of the Act.”
- (13) In paragraph 17, definition of **Minimum capital requirement**, replace “MCR” with “MCR”.
- (14) In paragraph 17, insert a new definition as follows:
“**Natural Hazards Commission**:
i. means the Earthquake Commission under section 4 of the Earthquake Commission Act 1993 continued with the name Toka Tū Ake – Natural Hazards Commission continued under section 125 of the Natural Hazards Insurance Act 2023; and
ii. includes any legal successor to that organisation.”

- (15) In paragraph 17, definition of **Product Class**, delete the second sentence and replace it with "Insurance contracts should first be allocated to subsectors (*general insurance, life insurance and health insurance*)."
- (16) In paragraph 17, definition of **Product Class**, sub-paragraph (ii)©, definition of **Commercial Property**, replace "*material*" with "material".
- (17) In paragraph 17, definition of **Product Class**, sub-paragraph (iii), insert "insurance" after "Health".
- (18) In paragraph 17, insert a new definition - "**Remaining coverage period** means the part of the *coverage period* that is prospective as at the *solvency determination date*."
- (19) In paragraph 17, definition of **Run-off**, replace sub-paragraph (ii) with:
(ii) the Reserve Bank has issued a direction to, or imposed a *condition of licence* on the *licensed insurer* in respect of the *solvency entity* that prohibits or significantly restricts the issuance of new *insurance contracts*; or
- (20) In paragraph 17, definition of **Tax and taxation**:
(a) replace "*tax*" with "tax"; and
(b) replace "*taxes*" with "taxes"; and
(c) after the second sentence, insert the following sentence: "**Taxation expense** means tax paid plus the increase in taxation liabilities over the period."
- Solvency Capital*
- (21) In paragraph 19,
(a) replace the table heading "**Capital**" with '*Capital*'; and
(b) replace "plus/less" with "Plus/less".
- Capital*
- (22) In paragraph 20(iv), replace "*Capital*" with "Capital".
- Insurance Items*
- (23) In paragraph 22(i), replace the full stop with ", excluding cash-flows relating to *outwards reinsurance of primary insurance* that is not valued under paragraphs 28-31."
- Standardised Insurance Items*
- (24) In paragraph 28(iii)(c), insert the word "*expense*" after "*taxation*".
- (25) In paragraph 28(v), delete "The contract boundary must not extend beyond the point at which the *licensed insurer* has the unilateral right to terminate, re-price or re-underwrite an individual insurance contract."
- (26) In paragraph 28(vii), replace the full stop with " and other *direct participation features*."
- (27) In paragraph 30—
(a) replace "employed in respect of" with "used to standardise"; and
(b) replace "provided that" with "by applying"; and
(c) delete "are made".
- (28) In paragraph 30(i), insert "over the *coverage period*" after "premiums due".
- (29) In paragraph 30(ii)—
(a) delete "DAC assets:"; and
(b) delete ", meaning that a *DAC asset* must be established as part of the *standardised liability for remaining coverage* in respect of any acquisition costs".
- (30) In paragraph 30(iii), insert "but determined allowing for diversification between product classes" after "paragraph 28(iv)".

Deductions from capital

- (31) In paragraph 38, insert as new sub-paragraph (iv):
 (iv) The amount by which, in the reasoned opinion of the *appointed actuary*, the value of the items listed in paragraph 113 exceeds their economic value.

Prescribed capital requirement

- (32) In paragraph 49, replace the algebraic formula with $PCR = \text{Max}(FCA, \sum_i \text{Max}(CC_i, 0))$.

Underwriting short-term risk (short-term business)

- (33) In paragraph 56, replace "standardised liability for remaining coverage of the solvency entity at the solvency determination date" with "claims and claims handling expenses expected to be incurred over the remaining coverage period for short-term insurance contracts".

Claims run-off (short-term business)

- (34) In paragraph 57, replace "of the licensed insurer" with "for short-term insurance contracts".
 (35) In the table in paragraph 57, insert "& inwards reinsurance" after "disability income".

Long-term insurance risk

- (36) In paragraph 58, insert "for long-term insurance contracts" after "The solvency liability".
 (37) In paragraph 59, insert "long-term insurance contracts in" after "determined for".
 (38) In paragraph 65, replace "Earthquake Commission" with "Natural Hazards Commission".

Property

- (39) In paragraph 87—
 (a) replace the wording in sub-paragraph (i) with "multiplying the *standardised* value of the asset types in the table below by the corresponding *capital factor*"; and
 (b) re-number sub-paragraph (ii) as sub-paragraph (iii); and
 (c) insert a new sub-paragraph (ii) – "summing across those types; and".
 (40) In paragraph 87, after sub-paragraph (iii), insert the following table:

Type	Capital factor
Listed property trusts.	25%
Direct property holdings.	25%
Owner-occupied property.	25%
Property, plant and equipment.	25%
Unlisted property trusts	35%

- (41) Delete paragraph 88.

Credit risk

- (42) Delete paragraph 96.

Reinsurance recovery

- (43) In paragraph 101(i)(c), insert “assets, (whether recognised as an *insurance item* or not under paragraph 22)” after “deferred *reinsurance* expense”.

Capital charge for reinsurance disputes

- (44) In paragraph 104—
- (a) in the algebraic formula, replace “ V^{FS} ” with “ V^S ”; and
 - (b) replace “ V^{FS} refers to the value of the asset in the *licensed insurer's* financial statements” with “ V^S refers to the *standardised* value of the asset”.

Other credit risk

- (45) In paragraph 106(i)—
- (a) replace “reinsurance recovery risk capital charge” with “*reinsurance recovery risk capital charge*”; and
 - (b) insert “, the *equity risk capital charge* and the *property risk capital charge*” after “*reinsurance recovery risk capital charge*”.

- (46) In paragraph 106(ii)—
- (a) insert “Implicit” before “DAC assets created”; and
 - (b) insert “by non-application of Paragraph 59(a) of NZ IFRS 17” after “DAC assets created”.
- (47) In the table at paragraph 107—
- (a) in the row for “Secured unpaid premium and loans”, insert “, but including premium receivables established under sub-paragraph 30(i)” after “reinsurance premiums”; and
 - (b) in the rows for “Unrated *local authority debt*, and third-party claim recoveries” and “Other on-balance-sheet assets not covered elsewhere”, replace “*Earthquake Commission*” with “*Natural Hazards Commission*”.

Business run-off

- (48) In paragraph 126(i)(b), replace “annual maintenance expenses” with “expense loadings in premiums received”.

Disclosure of solvency measures

- (49) In paragraph 146, delete “annual and”.

5 Appendix 1 amended (*Capital Instruments*)

- (1) In clause 22, replace “related party” with “*related party*” in each place.
- (2) In clause 27(ii) replace “related party” with “*related party*”.
- (3) In clause 34(iv), replace “related party” with “*related party*”.
- (4) In clause 36(i), replace “related party” with “*related party*”.

6 Appendix 2 amended (*Financial reinsurance*)

- (1) In clause 27—
 - (a) insert “repayable to the *reinsurer*” between “Where an amount” and “is assessed”; and
 - (b) replace “either” with “the greater of”.
- (2) In clause 27(i)—
 - (a) replace “broadly equivalent” with “related”; and
 - (b) replace “has been included in” with “offsets”.
- (3) Replace the clause 27(ii) with:

(ii) the value of the initial amount received from the *reinsurer*, less any related amount the *licensed insurer* expects to receive from third parties that offsets the repayable amount and less any amount that has already been repaid.

(4) Delete clause 29.

7 Appendix 4 amended (*Quality of reinsurance*)

(1) In clause 4(i), replace “balance” with “*balance*”.

8 Appendix 5 amended (*Prescribed solvency assumptions*)

(1) In clause 2, replace “Risk-Adjusted Best Estimate Liability” with “risk-adjusted best estimate liability”.

(2) In clause 11, in the table,—

(a) in row 1—

(i) replace “non-life” with “general insurance”; and

(ii) replace “56” with “Increase claims incidence assumptions by the percentage prescribed in paragraph 56.”

(b) in row 2—

(i) replace “non-life” with “general insurance”; and

(ii) replace “57” with “Increase claims incidence assumptions by the percentage prescribed in paragraph 57.”

9 Appendix 6 amended (*Guarantees*)

(1) In clause 5(ii) replace “related party” with “*related party*”.

Explanatory Note

This note is not part of the standard but is intended to indicate its general effect.

This standard, which comes into force on 1 June 2024, amends the Interim Solvency Standard 2023 (the **principal standard**). The principal standard is a solvency standard issued under section 55 of the Insurance (Prudential Supervision) Act 2010 (the **Act**).

The main purpose of this standard is to improve certain areas of the principal standard that impact on the determination of the solvency ratio for insurers licensed under the Act and subject to the principal standard. This standard also makes typographical corrections and clarifies minor areas of ambiguity.