RESERVE BANK OF NEW ZEALAND
TE PŪTEA MATUA

Guidance for Insurer Return & Quarterly Insurer Survey

Insurance Oversight

Prudential Supervision Department

Statistics Unit

Macro Financial Department

V1.3 (28 September 2016)

Contents

Purpose of this document

1. The purpose of this Guidance document is to aid insurers to complete the Reserve Bank of New Zealand's (the "Reserve Bank") Insurer Return and Quarterly Insurer Survey.

2. Guidance may be updated from time to time. The Reserve Bank's insurance webpages (http://www.rbnz.govt.nz/regulation-and-supervision/insurers/) has the latest version under the heading 'NZ Insurer Data Collections'.

3. Nothing in this document overrides the provisions of the Insurance (Prudential Supervision) Act, Regulations, Solvency Standards or Guidelines. It also does not override any of the requirements for reporting as set out in section 121 notices, Definitions and other instructions on the website.

4. Current version:

Definitions	Insurer Return	Quarterly Insurer Survey
V1.3 (28 Sept. 2016)	V1.1a (21 March 2016)	V1.2 (10 March 2016)

5. Prior versions:

Definitions	Insurer Return	Quarterly Insurer Survey
V1.2 (10 March 2016)	V1.1 (10 March 2016)	V1.2 (10 March 2016)
V1.1 (26 August 2015)	V1 (22 July 2015)	V1.1 (26 August 2015)
V1 (22 July 2015)	V1 (22 July 2015)	V1 (22 July 2015)

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Application of Guidance

7. Unless otherwise indicated, all guidance in this document applies to both Insurer Return and Quarterly Insurer Survey.

8. Guidance that applies only to Insurer Return is indicated by IR at the heading of a relevant section or at a defined name.

9. Guidance that applies only to Quarterly Insurer Survey is indicated by QIS at the heading of a relevant section or at a defined name.

10. Note that some definitions and classifications for the Insurer Return and Quarterly Insurer Survey may differ from similarly labelled definitions and classifications under various solvency standards issued by the Reserve Bank, and the reporting in the Insurer Solvency Return and Insurer Solvency Exempt Return. Accordingly guidance in this document does not apply to the Insurer Solvency Return and Insurer Solvency Exempt Return.

11. The Reserve Bank has issued a separate Guide to Completing the Insurer Solvency Return under the heading 'NZ Insurer Data Collections' at http://www.rbnz.govt.nz/regulation-and-supervision/insurers/.

12. Bolded items are defined in the Definitions for Insurer Return and Quarterly Insurer Survey (e.g. **NZ Entity**).

13. This guidance is based on questions and feedback from insurers. We envisage it will be updated from time to time.

General Principles

A. The requirements set out in section 121 notices over-ride any contrary instructions in the Forms or on the website. For example an insurer in unusual circumstances may have non-standard Forms, frequency (Report Dates) and/or Due Dates specified in their section 121 notices.

B. The Reserve Bank does not currently require an audit of the Insurer Return or Quarterly Insurer Survey. However the annual (financial year-end) Insurer Return is expected to be reconcilable to audited annual financial statements (if these are required to be audited). An audit requirement (e.g. on Insurer Return at financial year end) may be added in future if it is considered necessary (i.e. quality of information is too low).

C. Financial information may generally be based on accounts or financial statements that are prepared for other purposes, although a standard presentation is required. Except where stated otherwise, information must be reported for the **NZ Entity**, which may differ from the reporting entity for the underlying accounts by any relevant adjustments (e.g. if interim financial statements are consolidated).

D. Approximations are allowed provided there is a reasonable basis for the methods and assumptions that have been used, and there is good reason to believe the figures reported are not materially different to the accurate figures, if those were known and used instead. An explanation of any approximations used should be included in the comments.

E. If an insurer is able to accurately report data then it should do so regardless of materiality.

F. **Unallocated** figures should be as low as possible (ideally nil) so that returns are not misinterpreted and information can be reasonably compared between insurers and aggregated. Figures in the **Unallocated** column are the difference between the amount for total **NZ Primary Insurance** and the sum of the amounts reported for other relevant insurance classes. Do not use the “other” insurance class as a balancing item.

G. Resubmission of the returns to the Reserve Bank may be required if errors or retrospective changes are identified after submission of any returns that are either material or that would be reasonably expected to affect the Reserve Bank’s understanding of the finances and exposures of the insurer or of a class of insurance in aggregate.

Materiality

14. Materiality thresholds are set out in the Definitions, with some additional guidance below. The Insurer Return spreadsheet also provides a calculation applying the Definitions formulae.

15. Notwithstanding this, if an insurer is applying significantly lower materiality thresholds in their relevant financial statements or **Alternative Financial Information** (e.g. due to accounting standards or accounting policies) then the lower materiality threshold should be applied in the Insurer Return and Quarterly Insurer Survey.

16. If the materiality threshold used in the relevant financial statements or **Alternative Financial Information** is only marginally higher (less than 10%) than the specified materiality threshold then it is generally reasonable to apply the higher materiality threshold in the Insurer Return and Quarterly Insurer Survey, although this should be disclosed.

17. Financial data has separate materiality thresholds for the **NZ Entity** total figures and for the allocation across the other columns. The "other columns" materiality threshold applies to all of the following:

    - non-insurance,
    - totals for each type of insurance,
    - classes of insurance,
    - inwards reinsurance, and
    - foreign business.

18. The materiality threshold for financial data for the **NZ Entity** is based on the larger of annualised gross policy & premium revenue and the absolute value of total insurance liabilities. The Insurer Return spreadsheet includes calculation of the materiality thresholds based on information included in the return – for the revenue component the financial year to date figures are scaled up for the elapsed portion of a year. If the annualisation of revenue for the financial year to date does not reasonably reflect annual gross policy & premium revenue, and this has an impact on the calculated materiality threshold, then an adjustment based on judgment may be required.

19. If applied materiality differs, by more than rounding, from the result of the formulae set out in the Definitions or the calculated figures in the Insurer Return spreadsheet then the materiality threshold used in reporting and the rationale should be explained in the comments.

20. If an insurer is unable to accurately report financial data across relevant columns (other than **NZ Entity** total) then the materiality is assessed once for each column. All of a column is required to be reported if that column is material based on size of annualised gross & premium revenue or absolute value of total insurance liabilities.

21. The materiality threshold for exposure data is based on the total recorded for the insurer (i.e. the total for NZ Primary Insurance) for each exposure measure as at Report Date. This applies to exposure in force and movement figures; and also to the allocations across insurance classes (i.e. both rows and columns). Where there is no total for exposure measure (e.g. because units differ by class), some judgement will be required to apply materiality.

22. Run-off of a type or class of insurance, or inwards reinsurance or foreign business, does not necessarily mean that business is immaterial.

Frequently Asked Questions (FAQs)

General FAQs

A1. IR *Does the Insurer Return meet the requirements to provide annual and interim financial statements?*

No. The Insurer Return and Quarterly Insurer Survey do not replace any other reporting required under IPSA or other legislation, regulation, licence condition or other notice.

A2. If the Reserve Bank has any questions about the returns when will these be asked?

There is no set time when any queries may be made about information included in the returns, or any supporting information. Questions may arise at the time of submission (e.g. incorrect Form used or incorrect format), when initial checks are performed on the data, or subsequently upon the Reserve Bank's use of the data. It is expected that insurers fully cooperate and respond to all reasonable questions in a timely manner.

A3. What do we do if we identify an error after submission?

Please contact the Reserve Bank through the phone number or email included in the return as soon as possible. If the error is material a resubmission is likely to be required and a timeframe will be agreed for doing so having regard to the effects on prudential supervision as well as the quality and timing impacts for inclusion in publications.

A4. What is the process if the Reserve Bank requires a return to be resubmitted?

The Reserve Bank will not require resubmission of returns unless it is reasonably necessary to do so. If requirements have not been complied with (e.g. submitting a return in pdf format when that has not been specifically agreed to by the Reserve Bank) a resubmission is likely to be required. Similarly, if there are material errors in the data that significantly impact on the use of the data and its interpretation, a resubmission is likely to be required. The Reserve Bank will provide reasons for any requirement to resubmit returns and give a timeframe for when this is due. The timeframe will have regard to the effects on prudential supervision as well as the quality and timing impacts for inclusion in any publications. In general there will also have been a discussion with the insurer about the issue(s), although this may not occur in straight-forward cases (e.g. where there is an obvious typo). If an insurer disagrees with a requirement to resubmit returns or the timeframe for doing so it may contact the Reserve Bank through their supervisor to request a review of the decision.

General FAQs

A5.	*How do we treat coinsurance and inwards reinsurance that provides less than 100% cover?* The reported information in respect of coinsurance should generally be the insurer's share, in order to reflect the risks being borne and to avoid double-counting in industry aggregated data. Financial data should include only the insurer's coinsurance share, in line with NZ accounting standards. Exposure data for premiums and insured benefit should include only the insurer's coinsurance share (e.g. a 30% coinsurance of a policy with $10 million sum insured gives a coinsurance sum insured of $3 million). For other exposure data (e.g. lives insured or risk units insured) the appropriate treatment depends on the circumstances. Some of this reporting might require use of approximations. Please comment on the treatment of coinsurance.
A6.	*Can we link to other spreadsheets?* While it is okay to link to other spreadsheets to prepare the returns, it is recommended the links be removed by pasting as values before submission. If we are unable to read information due to links to external spreadsheets the return will be required to be resubmitted.
A7.	*We have an immaterial amount of business in a class – do we record "no" for any insurance business for each column?* No. "Yes" should be recorded if there is any business relevant to a column even if it is immaterial (and thus no figures are recorded). Please explain in the comments where there are no figures recorded due to materiality.
A8.	*What sign-off is required for resubmitted returns?* All resubmitted returns need a fresh sign-off and updated date of sign-off. Since the sign-off is delegable the internal processes insurers follow for resubmissions is at their discretion. For example there may be a distinction in the sign-off process between very minor corrections and more substantive re-workings.

Allocation FAQs

B1. Can we use the insurance class Other Life Insurance (or Other General Insurance) as a balancing item?

No. The “other” insurance classes are intended only for business that does not meet the definitions for the remaining classes. The balancing item for allocations by class is **Unallocated**.

B2. Do we need to split policies that cover both NZ and foreign risks?

For policies with non-trivial amounts of both NZ risks and foreign risks a split is required. However policies that are mostly NZ risks with a very small amount of foreign risks may be treated as if it has only NZ risks, and vice versa. Please note in the comments if this simplification has been applied.

B3. QIS *How should investment assets be allocated by type of insurance (plus non-insurance activity)?*

No method has been specified by the Reserve Bank. The allocation should be consistent with how the business is managed and the solvency reporting to the Reserve Bank or a home jurisdiction supervisor (as applicable). Depending on the practices observed in the reporting an allocation methodology may be specified in future. Currently the Insurer Return does not require investment assets to be allocated by type of insurance.

Accounting standards and methods FAQs

C1. *Our financial statements or management accounts are not on NZ GAAP. What do we do?*

Financial data in the returns is required to be based on NZ GAAP accounting. Please explain the adjustments made to the financial statements or management accounts for the purpose of reporting including a high level reconciliation.

C2. *Our financial statements or management accounts are not for the NZ Entity (e.g. interim financial statements on a consolidated basis). What do we do?*

Financial data in the returns is required to be for the NZ Entity. Please explain the adjustments made to the financial statements or management accounts for the purpose of reporting including a high level reconciliation.

C3. *We use life insurance methods but record outstanding claims separately from other policy liabilities in our accounts. Where should gross outstanding claims and reinsurance recoveries on gross outstanding claims or paid claims be recorded?*

It is important to be consistent with regard to insurance methods in the reporting so that it is properly interpreted and aggregated. If life insurance methods are being used then gross outstanding claims are to be reported within gross policy liabilities and the reinsurance recoveries are to be reported within outwards reinsurance of gross policy liabilities (not under outwards reinsurance of gross outstanding claims).

Financial information FAQs

D1. What do we do if the prior year comparatives in our financial statements or Alternative Financial Information have been restated? Please contact the Reserve Bank through the phone number or email included in the return as soon as possible. Since a restatement is generally material a resubmission is likely to be required. A timeframe will be agreed for doing so having regard to the effects on prudential supervision as well as the quality and timing impacts for inclusion in publications.
D2. Does a life insurer need to report information separately for inside and outside the statutory fund(s)? Not explicitly, although there are circumstances where this may be the case. For some insurers with life insurance and non-life insurance, health insurance and general insurance may be outside of any statutory fund unless it is regarded as life insurance under the composite policy test of IPSA section 85. Also there is some information for non-insurance figures in both the Insurer Return and Quarterly Insurer Survey which might correspond to outside the statutory fund(s).
D3. Is it compulsory to perform a valuation of all insurance liabilities and related assets for every return? No. However we expect that in most circumstances materiality considerations will require an updated estimate or valuation of insurance liabilities and related insurance assets for each return. If an update has not been made, or is not yet finalised at the time of submission of a return, this should be disclosed along with a comment on anticipated impacts on total assets, net assets and net profits.
D4. Does the appointed actuary need to sign-off the figures for insurance liabilities and related assets? No. The returns themselves do not impose any requirements for actuarial review or sign-off of technical insurance balances. Other requirements, such as for solvency or financial statements, may be relevant. Where an actuary has valued or reviewed any or all of the technical insurance balances there is an expectation that the work is in accordance with relevant professional standards.
D5. If insurance liabilities are negative do they get reported in the asset sub-part? No. Negative insurance liabilities are reported in the liability sub-part (and any negative insurance assets are reported in the asset sub-part).

Financial information FAQs

D6. Are insurance-related items gross or net of outwards reinsurance?

Gross. There is separate reporting of insurance and the corresponding outwards reinsurance figures.

D7. How do we deal with financial information that is denominated in a currency other than NZ Dollars?

Returns are required to be presented in New Zealand dollars. Currency translation methods should be consistent with New Zealand accounting standards. If there are significant impacts arising from currency translation effects then this should be explained (including methods used to translate currencies) and quantified in the comments.

D8. Is the diversification credit for risk margin under general insurance methods reported in Unallocated?

No. The risk margin figures in each column should be net (i.e. adjusted downwards for the relevant share) of any diversification credit. The adjustment may be pro rata or using some other method considered reasonable in the circumstances.

D9. Our insurance policies have both a premium and a policy/administration fee – how should this be recorded?

Both the premium and policy fees should be reported as policy & premium revenue.

D10. Are overheads recorded under other expense or other insurance expense?

For most insurers, all or most of overheads relate to their insurance business and therefore should be recorded under other insurance expense. Overheads associated with non-insurance activity (e.g. expenses associated with distribution of another insurer's products or with premium funding) should be recorded under other expense.

D11. We only write insurance so we consider all of our assets as insurance related and record fixed assets, intangibles & tax under other insurance assets.

These types of assets are not considered directly insurance related and are recorded separately in the returns. This may differ from the accounting treatment.

Financial information FAQs

D12. Our accounts have some items recorded under other comprehensive income. Is this reported as a movement in capital for the returns?

No. The revenue and expense parts of the returns should include all revenue and expenses regardless of where in the accounts these are reported. The appropriate row depends on the nature of the other comprehensive income item.

D13. We use life insurance methods but have some reinsurance recovery assets in respect of gross outstanding claims liabilities. Do these get recorded in outwards reinsurance of gross outstanding claims?

No. For life insurance methods, gross outstanding claims are recorded as a component of gross policy liabilities, and so the reinsurance recoveries are recorded as outwards reinsurance of gross policy liabilities.

D14. We have some reinsurance recoveries outstanding in respect of claims or benefits that have already been paid – how should this be recorded?

Per the Definitions, this is included as other outwards reinsurance assets.

D15. We use general insurance methods and have reinsurance assets in respect of unearned premiums – how should this be recorded?

Since this is not reinsurance of paid or outstanding claims, this should be reported as other outwards reinsurance assets.

D16. How is tax treated in respect of insurance liabilities and corresponding assets?

Under both life insurance methods and general insurance methods insurance-related liabilities and assets are to be consistent with accounting standards and policies in respect of tax. For life insurance methods, deferred & future tax on policy liabilities are recorded separately if these are available from financial statements or alternative financial information, or otherwise included within policy liabilities. The treatment may vary by product/class. All other tax assets and tax liabilities are recorded separately in Part 1.

This tax treatment may differ from the treatment for solvency purposes and the presentation in financial statements. If life insurance methods are used we require an explanation of the tax treatment which may include a reconciliation between reporting in the returns and financial statements of policy liabilities.

D17. Where do we record accrued interest?

Please record accrued interest as part of the value of the corresponding investment asset.

Financial information FAQs

D18.	*Our accounts have deferred acquisition costs net of outwards reinsurance commission. The Definition for deferred acquisition cost asset says to exclude the outwards reinsurance commission - how should this be recorded?* The outwards reinsurance commission component of deferred acquisition costs should be recorded in outwards reinsurance liabilities.
D19.	*We only write insurance so we consider all of our liabilities as insurance related and record tax liabilities, trade creditors, expense accruals and employee entitlements under other insurance liabilities.* These types of liabilities are generally not considered directly insurance related and are recorded under tax liability or other liability (n.e.c.) in the returns. This may differ from the accounting treatment.
D20.	*Our financial year to date movements in policy liabilities and deferred acquisition costs do not match the movement in the corresponding liability and asset between Report Date and the end of the previous financial year.* We have observed some returns where this has occurred due to inconsistent treatment of the movement and the corresponding balance sheet item, or due to restatement of prior figures. The figures should be corrected so that they reconcile correctly.
D21.	*We cannot easily separate out the tax components of policy liabilities for participating business and investment contracts as they are inherent in the benefit calculations.* If the tax is recorded separately in financial statements or alternative financial information then please record separately in the return. Otherwise, record the net of tax figures under gross policy liabilities and note this treatment alongside the requested reconciliation of policy liabilities. We anticipate the use of net of tax (instead of gross of tax) policy liabilities to be more likely for the life insurance classes for participating and investment contracts compared with other classes of life insurance or health insurance or general insurance.

Exposure information FAQs

E1. We allow for retrospective changes to policies – how do we deal with changes made that affect the exposure figures in a return after it is submitted? As long as the changes are not material there is no need to resubmit. However there should be a brief comment in the following return if there are any impacts that affect interpretation. An example is if the opening balance in the annual Insurer Return is materially different to the opening balance in the previous half-year return (or closing balance in the previous annual return for an insurer not required to report at half-year). Another example is the movement data in the annual Insurer Return includes material retrospective changes to the first half movements that were not included in the previous half-year return.
E2. We don't know accurate exposures due to unclosed business, group or master policies, arrangements with our distribution channels, etc. What do we report? Please report your reasonable estimates of the true exposure figures. If there is considerable uncertainty, or if the estimation methods have significantly changed from previous returns, please explain this.
E3. Our premiums are based on an exposure that is unknown in advance (e.g. based on credit card balances). What do we record for annual and single premiums? If the premiums are regularly recurring this is recorded under annual premiums. Please report your reasonable estimates of the annual premium amount. If there is considerable uncertainty, or if the estimation methods have significantly changed from previous returns, please explain this.
E4. We have some policies with cover temporarily suspended. How do we treat these? To the extent the policies are expected to be mostly reinstated within a short period of time (under a year) please include within exposures. If there is a material level of suspended policies please include a comment on the level and how they have been dealt with in the exposure information. As the level of suspensions may vary considerably over time a lower than usual threshold for materiality may be required in order to not misinterpret exposure movements.

<u>Ends</u>

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