RESERVE BANK OF NEW ZEALAND
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Guide to Completing the Insurer Solvency Return

Insurance Supervision

Supervision Department

Statistics Unit

Data & Statistics Department

V5.3 (01 September 2020)

Contents

Purpose of this guide

1. The purpose of this document is to assist insurers in completing the Reserve Bank of New Zealand's (the "Reserve Bank") Insurer Solvency Return.

2. This document is not a guide to interpreting any solvency standard or solvency-related condition of licence.

3. This guide may be updated from time to time. The RBNZ Regulation & Supervision of Insurers webpages under the heading 'NZ Insurer Data Collections' have the latest version at the link below.
http://www.rbnz.govt.nz/regulation_and_supervision/insurers/

4. Nothing in this guide overrides the provisions of the Insurance (Prudential Supervision) Act, Regulations, Solvency Standards or Guidelines.

5. Current version:

Guide	Insurer Solvency Return	Solvency standards
V5.3 (01 September 2020)	V5.3 (01 September 2020)	As at 01 January 2019

6. Prior versions:

Guide	Insurer Solvency Return	Solvency standards
V5.2 (15 February 2019)	V5.2 (15 February 2019)	As at 01 January 2019
V5 (22 July 2015)	V5 (22 July 2015)	As at 10 April 2015
V4 (20 May 2015)	V4 (20 May 2015)	As at 10 April 2015
V3 (18 February 2015)	V3 (18 February 2015)	As at 01 January 2015
V2 (20 November 2013)	V2 (20 November 2013)	As at 20 November 2013
Not applicable	V1 (31 January 2012)	As at 31 January 2012

Key to this guide

7. In this guide key tips and instructions are highlighted by a box around the relevant paragraph, as shown in this paragraph.

8. In this guide references to sheets or sections of a sheet in the Insurer Solvency Return are shown shaded in the following format: Part 1 – Insurer [1.5]. The sub-part number is in square brackets.

Contact details for Insurance Supervision & Statistics Unit

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Or contact your supervisor.

Statistics Unit
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Introduction

10. Before completing a solvency return, please check the RBNZ Regulation & Supervision of Insurers webpages under the heading 'NZ Insurer Data Collections' at the link below for a published later version of the Insurer Solvency Return.
http://www.rbnz.govt.nz/regulation_and_supervision/insurers/regulation/

11. Requirements for completing the Insurer Solvency Return includes (and are not limited to) all of the following:
    - Conditions of licence which specify the applicable solvency standard(s) and either a minimum solvency margin or ratio to be maintained;
    - Solvency standard(s);
    - Section 121 Notice for Insurer Solvency Return; and
    - Insurer Solvency Return form.

12. The current version of the Insurer Solvency Return is designed to cater for all insurers providing the results of their calculations under one or more NZ solvency standard. However it is possible there could be unusual circumstances or new developments for which the Insurer Solvency Return does not cater, or there could be errors in the Insurer Solvency Return form. Please contact us if there are these issues.

13. The Insurer Solvency Return does not provide a means to properly calculate solvency requirements, and nor did the QIS spreadsheets provided during the initial development of some solvency standards. Solvency calculation workings may be submitted to the Reserve Bank separate to the return, but if doing so please clearly label and annotate so the workings can be easily followed.

14. Requested explanations or comments may be provided either in the Insurer Solvency Return or in supporting documents that are submitted to the Reserve Bank at the same time as the Insurer Solvency Return (or that were previously submitted), for example in the Financial Condition Report or a workings file. If other documents are used, please provide a reference in the Insurer Solvency Return to the relevant file including section, page or paragraph so the information can be easily found.

15. Insurers that have one or more insurance subsidiaries (located in New Zealand or elsewhere) must provide both solo and consolidated solvency results. Most of the Insurer Solvency Return form is for solo solvency results. Consolidated solvency results are entered in Part 1 – Insurer [1.5].

16. Please enter all monetary amounts in thousands (e.g. NZ$ 1,234,567 = 1235), in New Zealand dollars. For negative numbers use "-" in front of the figure and do not use brackets. Note the entry in thousands is a change from some older versions of Insurer Solvency Return.

17. The Insurer Solvency Return must be submitted in Excel format so the Reserve Bank can read in figures. Insurers may optionally submit an additional pdf copy if they require a locked signed off copy of the Insurer Solvency Return. Instructions for submission of the Insurer Solvency Return are found under the heading 'NZ Insurer Data Collections' in the RBNZ Regulation & Supervision of Insurers webpages at the link below.
http://www.rbnz.govt.nz/regulation_and_supervision/insurers/regulation/

18. The Reserve Bank may provide an automated acknowledgment of receipt for uploaded information. Neither a lack of response nor any feedback should be interpreted as confirmation that the Reserve Bank has accepted the Insurer Solvency Return or any other information submitted meets all requirements.

19. To assist insurers to complete the Insurer Solvency Return and reduce follow up questions by the Reserve Bank, we have provided tips for some of the requested information. All these tips are of necessity general in nature and may not be applicable for all circumstances.

20. If an insurer or actuary is uncertain on the correct interpretation of a component of the solvency calculations, please contact the Reserve Bank to clarify the requirements before finalising the Insurer Solvency Return. In addition, a brief comment in the Insurer Solvency Return on the issue that is subject to interpretation will assist the Reserve Bank to provide feedback and, if necessary, to consider whether further guidance or amendment to solvency standards is warranted.

21. If figures provided seem unexpected ("do not look right") or are obviously unusual (well outside norms), please provide an explanation in the relevant comment box(es) to reduce the need for the Reserve Bank to ask questions.

22. There are spaces for comments throughout the Insurer Solvency Return. If this is insufficient please provide a separate file and make a reference to this in the relevant comment box.

23. The solvency figures that are required to be disclosed in financial statements and on an insurer's website must match the solvency figures submitted to the Reserve Bank. Therefore, if an insurer has not completed the auditor's review of the Annual Solvency Return at the time of finalising their full year financial statements, this can result in a need to restate financial statements and update the solvency disclosures. The end-to-end process for the Insurer Solvency Return must be factored into insurer's processes for full-year and half-year financial reporting.

Suggested order to complete the return

24. Part 1 – Insurer [1.1] must be completed first for formulae to work correctly. Then, complete parts Part 2 – Life, Part 3 – Non-life, and Part 4 – Variable Annuities as relevant. Then complete the remainder of Part 1 – Insurer. Don't forget both Cover and Sign-off also have to be completed.

Solvency standards

25. Version V5.3 of the Insurer Solvency Return caters for all of the solvency standards that are in effect as at 01 January 2019:
    - Solvency Standard for Variable Annuity Business 2015;
    - Solvency Standard for Life Insurance Business 2014;
    - Solvency Standard for Non-life Insurance Business 2014;
    - Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014; and
    - Solvency Standard for Non-life Insurance Business in Run-off 2014.

26. Some terminology differs in similar solvency standards that were issued at different dates (e.g. Fixed Capital Amount in the Solvency Standard for Non-life Insurance Business 2014 is the same thing as Minimum Solvency Requirement in the Solvency Standard for Non-life Insurance Business). The Insurer Solvency Return generally uses the terminology from the most recent solvency standard.

27. Some elements have treatment differences in the solvency calculations between similar solvency standards (e.g. the treatment of Asset Concentration Risk Charge differs between the Solvency Standard for Life Insurance Business 2014 and the Solvency Standard for Life Insurance Business). The Insurer Solvency Return generally uses the treatment from the most recent solvency standard. This affects some sub-totals but should not affect overall solvency results.

28. Only some of these differences are commented on in the Insurer Solvency Return form and in this guide. Please contact the Reserve Bank if there are differences in terminology or treatment between the Insurer Solvency Return and the applied solvency standard, where the difference appears to given an incorrect result or is not obvious from the context and/or comments provided.

Cover

29. Please select the insurer name from the drop-down list. If the insurer name is not included in the drop-down list then select "OTHER **** please enter insurer name in address box ****" and enter the insurer name in the address box. The list of insurer names will be updated in each new version of the Insurer Solvency Return form.

30. Short description (optional) is space for the insurer to use if they wish to identify the return by more than just the Report Date. E.g. as a draft while it is being prepared or before it is signed off.

31. The type of return is a drop-down input, with options for "Annual" (at end of financial year), "Half-yearly" (at financial year half-year), and "Other" (for any other date).

32. For an Annual Solvency Return the end date of the previous financial year is 12 months prior to Report Date, unless the insurer has changed balance date.

Part 1 - Insurer

33. All insurers that provide a solvency return are required to complete Part 1 - Insurer.

[1.1] Capital exemption and solvency conditions of licence

34. In Part 1 – Insurer [1.1] there are drop-down inputs for exemption to minimum amount of capital, the applicable life insurance solvency standard (select "N/A" if none applies), and the applicable non-life insurance solvency standard (select "N/A" if none applies).

35. Qualifying small insurers that have an exemption to minimum amount of capital are required to maintain solvency but have no Fixed Capital Amount.

36. There must be at least one solvency standard applied. The version of each solvency standard, including dates of issue and latest amendment, are populated based on the selection.

37. The requirement for a minimum amount of capital applies at the insurer level, not at the level of each type of business covered by a single solvency standard. Minimum amount of capital is an example of where different terminology is used in different solvency standards, and the Insurer Solvency Return uses Fixed Capital Amount as this is the terminology used in the solvency standards that were issued in December 2014.

[1.2] Capital result

38. The Insurer Solvency Return includes in Part 1 – Insurer [1.2] the capital result. This is a check on whether or not the difference between Actual Solvency Capital and Aggregate Minimum Solvency Capital (which is subject to a minimum of Fixed Capital Amount) is a surplus or a shortfall.

[1.3] Solvency margin and solvency ratio

39. The Insurer Solvency Return includes in Part 1 – Insurer [1.3] the solvency results. This is a check on whether or not the difference between Solvency Margin or Solvency Ratio and the applied condition(s) of licence is a surplus or shortfall in respect of each solvency standard requirement. For life insurance there are additional solvency results at Life Fund level in Part 2 – Life [2.2].

[1.4] Target capital

40. In Part 1 – Insurer [1.4] there are drop-down inputs for the target capital method, type and result; for the insurer in total and also separately for each solvency standard. A summary of the insurer's capital target provides additional context for the solvency calculation results. The Reserve Bank does not recommend any particular capital target method or type as this is a decision for each insurer's board. An absence of an insurer's method or type from the drop-down does not necessarily have negative connotations.

41. The drop-down options for target capital method are “SM $” (target is based on a dollar solvency margin level), “SR %” (target is based on a % solvency ratio level), “SM $ & SR %” (target is a hybrid of dollar solvency margin level and % solvency ratio level), and “Other”.

42. The drop-down options for target capital type are “Minimum” (the insurer aims to be above this level at all times), “Range” (the insurer aims to be within this range at all times), “Average” (the insurer aims to be near this level on average), and “Other”.

43. The drop-down options for target capital result are “well above” (capital is comfortable above the target level), “at or just above” (capital is neither below nor comfortably above the target level), and “below” (capital is below the target level). These assessments are necessarily subjective.

44. There is a comment box in Part 1 – Insurer [1.8] to explain the capital target and how it is set.

[1.5] Consolidated solvency results

45. In Part 1 – Insurer [1.5] there is a drop-down input to indicate if a consolidated solvency calculation is required (in accordance with the solvency standard(s)). Where it is required the insurer must maintain solvency on both solo and group bases.

46. For most insurers with consolidated solvency requirements these are no more onerous than the sum of the solvency requirements for the insurer and its subsidiary insurer(s). Accordingly, only limited reporting of consolidated solvency results are included in the Insurer Solvency Return. This is a change from the previous version of the Insurer Solvency Return which required two forms to be completed – one each for a solo and group basis. The Reserve Bank reserves the right to require additional solvency information on a consolidated basis, and may request a second copy of the Insurer Solvency Return to be submitted using consolidated figures only.

47. The Consolidated (Aggregate) Minimum Solvency Capital input should include allowance for Fixed Capital Amounts where applicable.

48. If the difference between Consolidated Solvency Margin or Ratio and the corresponding condition(s) of licence is a shortfall this must be explained in the comment box provided. This includes at individual Life Fund level even though the Insurer Solvency Return has are no numerical inputs for consolidated solvency figures at Life Fund level.

[1.6] Projected solvency

49. In Part 1 – Insurer [1.6] there is a drop-down input to indicate if a section 24 notification is required. If yes, the Reserve Bank must be notified as soon as is practical – do not wait to submit the Insurer Solvency Return to make the notification.

50. Summary results of projected solvency, as well as recent and current solvency positions, are input in Part 1 – Insurer [1.6]. Aggregate Minimum Solvency Capital must include any applicable Fixed Capital Amount.

51. The projected solvency figures in the Insurer Solvency Return are for the whole insurer. However, solvency projections must be calculated in sufficient detail to confirm that all solvency requirements are met (i.e. for every solvency standard that applies as well as for every Life Fund in the case of life insurance).

52. Solvency requirements apply continuously and the section 24 obligation to notify the Reserve Bank is "at any time in the next three years". This means solvency projections must cover a longer period than three years. The Insurer Solvency Return has flexibility on the dates of projected solvency that are reported, provided the reporting covers at least three years after the date of submission and with annual figures. This means there is a choice between reporting at future end dates of financial years or at 12 monthly intervals from the Report Date, whichever is easiest to provide.

53. The 1 year ago date should be consistent with the approach taken to future dates. I.e. if future dates are end dates of financial years then the 1 year ago date should be the prior financial year end date, or if future dates are at 12 monthly intervals then the 1 year ago date should be 12 months prior to Report Date.

54. Optimistic solvency projections are not sufficient for ensuring section 24 compliance or for appropriate risk management, because a range of realistic outcomes must be considered.

55. Solvency projections for future dates should be made on two bases, one including expected capital movements (such as dividends and capital injections) and one excluding any such movements. Known capital movements, i.e. capital injected and dividends paid or declared between the Report Date and the date of submission, should be included on both bases.

56. There are comment boxes in Part 1 – Insurer [1.8] to describe the basis of solvency projections, explain how the section 24 tests are satisfied given solvency results are calculated at discrete times within the projection when the test is for all times in the next three years, explain how the solvency projections are performed with an appropriate frequency given solvency requirements including section 24 are continuous obligations, and explain how compliance with the continuous solvency requirements are adequately monitored and managed.

57. Solvency projections for future dates should take into account accounting standards, bases and methodologies likely to prevail at those future dates, to the extent that their impact on solvency calculations is known with a high degree of certainty. Where the impact is uncertain, projections should assume the continuation of current accounting standards, bases and methodologies.

[1.7] Balance sheet reconciliation

58. The Insurer Solvency Return includes in Part 1 – Insurer [1.7] a reconciliation between the balance sheet and solvency calculations for net assets, total assets and insurance liabilities net of reinsurance. Any non-zero differences should be explained. There is also a reconciliation of assets in slightly more detail (albeit with solvency Exposure classes being combined).

59. The balance sheet figures should be from the financial statements or Alternative Financial Information that is provided to the Reserve Bank, or from the Insurer Return form. Care is needed if the reconciliation uses information from the Insurer Return form because definitions and classifications of investment assets (and some other assets) for the Insurer Return align with other surveys of financial institutions and do not generally align with the solvency standards issued by RBNZ.

60. The solvency return figures are automatically calculated from the relevant portions of the Insurer Solvency Return and allow for some of the expected adjustments used in solvency calculations. For example, non-qualifying capital is added to Capital included in solvency calculation. Balance sheet net insurance liabilities may differ from the equivalent solvency return figures for non-life due to prescribed probability of sufficiency figures for solvency calculations and if the sum of unearned premium plus unexpired risk liabilities differs from Premium Liabilities for solvency.

61. A reported non-zero reconciliation difference may be due to the particular circumstances of the insurer including its balance sheet presentation (e.g. offsetting of some assets and liabilities), or may indicate an error in the solvency calculations or reporting in the Insurer Solvency Return. Please explain any differences with a further reconciliation where relevant.

62. Balance sheet figures for lease right-of-use assets less corresponding liabilities under NZ IFRS 16 are reconciled with the solvency calculations. A reconciliation difference will arise if the value of lease right-of-use assets are less than the value of the corresponding liabilities for any solvency calculations, due to the minimum of zero.

[1.8] Commentary

63. Please provide in Part 1 – Insurer [1.8] a comment or explanation on all of the following topics:
    - accounting basis if it is not fully compliant with NZ IFRS or NZ GAAP or where values materially differ from what would have been determined under NZ IFRS or NZ GAAP;
    - conversion of monetary figures to NZD;
    - apportionment of assets and liabilities if more than one solvency standard applies (including treatment of any composite policies);
    - materiality including any approximations that have been applied;
    - allowance for tax (e.g. if components of solvency calculations have different tax assumptions or treatment, tax impacts of stresses in the solvency calculations, recoverability of tax assets at Report Date and in stressed solvency calculations, use of tax offsets with other companies in a tax group, offsets between tax assets and liabilities);
    - capital included in the balance sheet that is either excluded or has adjusted value for solvency purposes;
    - treatment of any derivatives, guarantees, contingent liabilities and charges over assets;
    - treatment of related party assets and the Exposure Class of “Any other asset”;
    - Asset Concentration Risk Capital Charges;
    - any offset of reinsurance assets against reinsurance liabilities;
    - material concentrations of reinsurer exposures;
    - basis of projected solvency;
    - how section 24 tests are satisfied given solvency is projected to discrete times when the test is for all times in the next three years;
    - how solvency projections are performed with an appropriate frequency given requirements are continuous obligations;
    - how compliance with the continuous solvency requirements are monitored and managed;
    - the capital management target and how it is set; and
    - any other comments.

[1.9] List of supporting documents supplied with this return

64. In Part 1 – Insurer [1.9] there is space to list (and label) the supporting documents that have been supplied with the Insurer Solvency Return (or previously).

Part 2 - Life

65. Insurers with an applied life insurance solvency standard (other than variable annuities) are required to complete Part 2 - Life. Insurers with variable annuities and other life insurance products need to complete both Part 2 - Life and Part 4 – Variable Annuity.

[2.1] Statutory Funds and Life Funds solvency conditions of licence

66. In Part 2 – Life [2.1] there is a drop-down input for exemption to Statutory Fund requirements, and an indicator for each applicable Life Fund (being Life Funds outside Statutory Funds and up to 3 Statutory Funds).

67. Qualifying insurers with small life insurance business that have utilised an exemption to Statutory Fund requirements should report all their life insurance solvency figures in the column labelled as "Life Funds outside SF".

68. There must be at least one Life Fund applied. Insurers with one or more Statutory Fund(s) may additionally have Life Funds outside Statutory Funds or may have all their life insurance business allocated to the Statutory Fund(s). In the latter case the column labelled "Life Funds outside SF" should be left blank.

69. There is space to input a short label to identify each Statutory Fund.

70. Insurers with multiple Statutory Funds should use the same column for each Statutory Fund in consecutive returns.

71. Leave blank the Solvency Margin condition of licence and Solvency Ratio condition of licence if there is no relevant condition of licence for the particular life fund. For the column titled "Life Funds total" the relevant condition of licence is for the total of all business that is subject to a life insurance solvency standard. Typically life insurers do not have a solvency margin or solvency ratio condition applied to the total of all business that is subject to a life insurance solvency standard (instead the condition is applied to each Life Fund).

[2.2] Life Solvency Margin and Solvency Ratio

72. In Part 2 – Life [2.2] the Minimum Solvency Capital at Life Fund level does not include adjustment for Fixed Capital Amount (FCA).

[2.3] Life Actual Solvency Capital

73. The Insurer Solvency Return has inputs in Part 2 – Life [2.3] for each of the components of Capital and Deductions from Capital set out in the solvency standards. Some of the components may not be required in the applied solvency standard, in which case leave those blank.

74. Capital excluded from solvency calculation is for the total of balance sheet capital that is not qualifying, or does not fully qualify, for solvency purposes. This assists to check whether all capital is considered in the solvency calculations and for reconciling with the balance sheet.

[2.4] Life Minimum Solvency Capital

75. There are no inputs in Part 2 – Life [2.4].

[2.5] Life Insurance Risk Capital Charge

76. In Part 2 – Life [2.5] there is a drop-down input for the treatment of reinsurance in respect of Repayable Amounts. The life insurance solvency standard issued in 2011 does not have Repayable Amounts and so if this solvency standard applies please select "N/A" and leave the amounts blank in the Insurer Solvency Return.

77. The drop-down options are "N/A", "Nil (ignoring transition)" (there are no Repayable Amounts at any time), "Transition applied" (there are Repayable Amounts but they fully qualify for the transition provisions in the solvency calculations), and "Ineligible for transition" (there are Repayable Amounts but some or all does not qualify for the transition provisions in the solvency calculations).

78. There is a comment box to explain the treatment of reinsurance in various liability figures and also for Repayable Amounts.

[2.6] Life Catastrophe Risk Capital Charge

79. In Part 2 – Life [2.6] there is an input for both Pandemic Risk Charge and Other Extreme Event Charge. If either of these has not been quantified (due to being clearly smaller than the other) please comment in Part 2 – Life [2.9].

[2.7] Life Reinsurance Recovery Risk Capital Charge

80. The Reinsurance Recovery Risk Capital Charge is reported in Part 2 – Life [2.7] separately to Asset Risk Capital Charge for all insurers. This is consistent with the most recently issued life insurance solvency standard. For insurers that are still subject to older life insurance solvency standards this affects the subtotals reported but not the solvency results.

81. Reinsurance recoveries that are negative value assets are generally excluded from the Reinsurance Recovery Risk Capital Charge calculation, except to the extent they are able to be offset against other reinsurance assets with the same counterparty (with legal enforceability). However, negative value reinsurance assets are generally included in Insurance Risk Capital Charge calculations.

[2.8] Life Asset Risk Capital Charge

82. In Part 2 – Life [2.8] there is a drop-down input for each Life Fund for the direction of (interest rate) change that applies ("up", "down" or "N/A").

83. The Reinsurance Recovery Risk Capital Charge is reported in Part 2 – Life [2.7] separately to Asset Risk Capital Charge for all insurers. This is consistent with the most recently issued life insurance solvency standard. For insurers that are still subject to older life insurance solvency standards this affects the subtotals reported but not the solvency results.

84. Related party debt is split into the component that is on commercial terms (which qualifies for a low charge) and other (which requires a full charge).

85. Any assets that have been protected (in full or in part) by guarantees should be recorded in the Exposure Class that is relevant for the asset, not the Exposure Class that is relevant for the guarantee. If the guarantee reduces the Resilience Capital Factor from the solvency standard factor applicable to the asset Exposure Class, this should be commented upon in Part 2 – Life [2.9].

86. Implied total absolute value foreign currency exposures are calculated from the input Foreign Currency Risk Capital Charge to provide a reasonableness check.

[2.9] Life commentary

87. Please provide in Part 2 – Life [2.9] a comment or explanation on all of the following topics:
    - description of the business in each Statutory Fund if there is more than one;
    - description of any business in the Life Fund outside Statutory Funds;
    - selection of Related Product Groups – this should include an explanation of any differences to the product groups used in financial statement disclosures;
    - hypothecation of assets;
    - treatment of any discretions;
    - allocation of Capital and Deductions from Capital to each Life Fund;
    - calculation of Insurance Risk Capital Charge;
    - application at Related Product Group level of CTV minimum, Solvency Liability and Other Liabilities;
    - allocation of Other Liabilities between Life Funds;
    - calculation of Catastrophe Risk Capital Charge;
    - impacts of upshock and downshock stresses at the level of Related Product Group and also at the level of hypothecated portfolio;
    - an explanation of any material differences between the average Resilience Capital Factors as calculated in the Insurer Solvency Return and the factors in the applicable solvency standard (ignore differences due to rounding);
    - Exposure Class of "Any other asset"; and
    - any other comments.

Part 3 – Non-life

88. Insurers with an applied non-life insurance solvency standard are required to complete Part 3 – Non-life.

[3.1] Non-life solvency conditions of licence

89. In Part 3 – Non-life [3.1] leave blank the Solvency Margin condition of licence and Solvency Ratio condition of licence if there is no relevant condition of licence.

[3.2] Non-life Solvency Margin and Solvency Ratio

90. In Part 3 – Non-life [3.2] Minimum Solvency Capital does not include adjustment for Fixed Capital Amount (FCA).

[3.3] Non-life Actual Solvency Capital

91. The Insurer Solvency Return has inputs in Part 3 – Non-life [3.3] for each of the components of Capital and Deductions from Capital set out in the solvency standards. Some of the components may not be required in the applied solvency standard, in which case leave those blank.

92. Capital excluded from solvency calculation is for the total of balance sheet capital that is not qualifying, or does not fully qualify, for solvency purposes. This assists to check all capital is considered in the solvency calculations and for reconciling with the balance sheet.

[3.4] Non-life Minimum Solvency Capital

93. There are no inputs in Part 3 – Non-life [3.4].

[3.5] Non-life Insurance Risk Capital Charge

94. Due to structural differences in various non-life solvency standards there are different inputs depending on whether or not any version of the Solvency Standard for Captive Insurers Transacting Non-life Insurance Business applies.

95. The Premium Liability assessment period for some insurers differs from the period used for accounting purposes for unexpired risk or liability adequacy test. Please justify the assessment period that is used for solvency calculations. The period in which premiums and benefits cannot in practice be adjusted for adverse changes in risk needs to consider more than just the rights of the insurer (policy terms and conditions). It should also include practical matters such as system limitations, notice period requirements, decision making processes, time for preparing communications, lead time for negotiations (e.g. for group health insurance schemes), etc. A comment is requested in Part 3 – Non-life [3.11].

[3.6] Non-life Catastrophe Risk Capital Charge

96. In Part 3 – Non-life [3.6] there are drop-down inputs for the catastrophe risk method used and to indicate if the Extreme Event requirement transition as set out in the Policy Position Paper is being utilised (as at Report Date).

97. The catastrophe risk method drop-down options are “N/A”, “Extreme Event”, “No Extreme Event”, and “Other”. “N/A” should only be used by insurers with a captive non-life solvency standard applied.

98. The Catastrophe Risk Capital Charge covers projected losses for a future event. Therefore any changes to catastrophe reinsurance cover or the calibration of Extreme Event Exposure that applies after the Report Date must be considered for both current and projected solvency calculations. E.g. solvency calculations at the end of a financial year must allow for any catastrophe reinsurance cover change that applies from the next day (the first day of the next financial year).

99. If the Extreme Event method is used there are inputs for the key components:
    - utilisation of the transition provisions in the Policy Position Paper,
    - assessed losses (gross of reinsurance) for the Extreme Event Exposure,
    - assessed return period of the limit of catastrophe reinsurance in place,
    - the limit and excess for catastrophe reinsurance that is in place,
    - other retention (portion of assessed losses that is not included in the excess and is not above the limit for catastrophe reinsurance in place), and
    - reinstatement premium for catastrophe reinsurance.

100. If the Extreme Event method is used an explanation is required (at a high level) on how the requirements have been assessed and the reinsurance allowed for in the solvency calculation. This includes:
    - use of catastrophe model(s) or other models,
    - selection of model output,
    - allowance for relevant unmodelled losses,
    - use and reliance on expert judgment,
    - allowance for future portfolio changes during the period until the next catastrophe reinsurance purchase or renewal, and
    - the effect of any utilisation of transition provisions as permitted under the Policy Position Paper.

101. If the No Extreme Event method is used there are inputs for 200% of maximum per risk exposure and reinstatement premium for catastrophe reinsurance. A brief explanation is required on how the maximum per risk exposure was assessed. This should include the catastrophic scenarios (that involve aggregation of losses) that have been considered.

102. If another method is used an explanation is required. The approval of the Reserve Bank may be required and in any case if another method is intended to be used it is highly recommended that this be discussed with the Reserve Bank well before the Insurer Solvency Return is due to be submitted.

[3.7] Non-life Reinsurance Recovery Risk Capital Charge

103. Reinsurance recoveries that are negative value assets are generally excluded from the Reinsurance Recovery Risk Capital Charge calculation reported in Part 3 – Non-life [3.7], except to the extent they are able to be offset against other reinsurance assets with the same counterparty (with legal enforceability). However, negative value reinsurance assets are generally included in Insurance Risk Capital Charge calculations.

[3.8] Non-life Asset Risk Capital Charge

104. In Part 3 – Non-life [3.8] related party debt is split into the component that is on commercial terms (which qualifies for a low charge) and other (which requires a full charge).

105. Any assets that have been protected (in full or in part) by guarantees should be recorded in the Exposure Class that is relevant for the asset, not the Exposure Class that is relevant for the guarantee. If the guarantee reduces the Resilience Capital Factor from the solvency standard factor applicable to the asset Exposure Class, this should be commented upon in Part 3 – Non-life [3.11].

[3.9] Non-life Foreign Currency Risk Capital Charge

106. In Part 3 – Non-life [3.9] implied total absolute value foreign currency exposures are calculated from the input Foreign Currency Risk Capital Charge to provide a reasonableness check.

[3.10] Non-life Interest Rate Capital Charge

107. In Part 3 – Non-life [3.10] there is a drop-down input for the direction of (interest rate) change that applies (“up”, “down” or “N/A”).

[3.11] Non-life commentary

108. Please provide in Part 3 – Non-life [3.11] a comment or explanation on all of the following topics:
    - Insurance Class of “Other”;
    - Premium Liabilities Adjustment and Outstanding Claim Liability Adjustment – this should cover treatment of Premium Liability assessment period as well as any differences in the probability of sufficiency between the financial statements or Alternative Financial Information and the requirements of the applicable solvency standard;
    - the treatment of insurance business with Long Term Risk Characteristics;
    - impacts of upshock and downshock stresses;
    - an explanation of any material differences between the average Resilience Capital Factors as calculated in the Insurer Solvency Return and the factors in the applicable solvency standard (ignore differences due to rounding);
    - Exposure Class of “Any other asset”;
    - the allowance in Reinsurance Recovery Risk Capital Charge for risk margin at the probability of sufficiency specified in the applicable solvency standard; and
    - any other comments.

Part 4 – Variable Annuity

109. Insurers with an applied variable annuity solvency standard are required to complete Part 4 – Variable Annuity.

110. Insurers with an applied variable annuity solvency standard and which have other life insurance products need to complete Part 4 – Variable Annuity for the variable annuity business and Part 2 - Life for the other life insurance business.

111. Insurers with an applied variable annuity solvency standard and which have Life Funds outside Statutory Funds need to complete Part 2 - Life for the Life Funds outside Statutory Funds and Part 4 – Variable Annuity for the variable annuity business.

[4.1] Variable Annuity solvency conditions of licence

112. In Part 4 – Variable Annuity [4.1] there is an indicator for each applicable variable annuity Life Fund (with space for up to 3 Statutory Funds).

113. If the insurer has any Life Funds outside Statutory Funds, another life insurance solvency standard applies (either directly by licence condition or incorporated by reference through the variable annuity solvency standard). All information in respect of Life Funds outside Statutory Funds must be input in the relevant column in Part 2 - Life.

114. There must be at least one Life Fund applied. Insurers with one or more Statutory Fund(s) may additionally have Life Funds outside Statutory Funds in which case this business must be input in the relevant column in Part 2 - Life.

115. There is space to input a short label to identify each Statutory Fund.

116. Insurers with multiple Statutory Funds should use the same column for each Statutory Fund in consecutive returns.

117. Leave blank the Solvency Margin condition of licence and Solvency Ratio condition of licence if there is no relevant condition of licence for the particular variable annuity life fund. For the column titled “VA Life Funds total” the relevant condition of licence is for the total of all business that is subject to a variable annuity solvency standard. For life insurers with more than one variable annuity statutory fund the solvency margin or solvency ratio condition is typically applied to each Life Fund.

[4.2] Variable Annuity Solvency Margin and Solvency Ratio

118. In Part 4 – Variable Annuity [4.2] the Minimum Solvency Capital at Life Fund level does not include adjustment for Fixed Capital Amount (FCA).

[4.3] Variable Annuity Actual Solvency Capital

119. The Insurer Solvency Return has inputs in Part 4 – Variable Annuity [4.3] for each of the components of Capital and Deductions from Capital set out in the solvency standards. Some of the components may not be required in the applied solvency standard, in which case leave those blank.

120. Capital excluded from solvency calculation is for the total of balance sheet capital that is not qualifying, or does not fully qualify, for solvency purposes. This assists to check whether all capital is considered in the solvency calculations and for reconciling with the balance sheet.

[4.4] Variable Annuity Minimum Solvency Capital

121. There are no inputs in Part 4 – Variable Annuity [4.4].

[4.5] Capital Charge for Variable Annuities

122. In Part 4 – Variable Annuity [4.5] there is an input for modelled capital requirements with and without dynamic hedging, and for the factor weight that has been applied by licence condition.

123. Given the complexity of variable annuity business and the reliance upon modelling to determine solvency requirements, it is expected that the solvency return will refer to separate reports by the appointed actuary and/or independent actuary (as applicable). Conditions of licence are likely to specify minimum reporting requirements.

124. There is also an input for the assessed value at risk (VaR) level over a one year horizon.

[4.6] Variable Annuity Policy Liability plus Other Liabilities

125. In Part 4 – Variable Annuity [4.6] there are inputs for Policy Liability and Other Liabilities, and a comment box to explain the treatment of reinsurance in these figures.

[4.7] Variable Annuity Catastrophe Risk Capital Charge

126. In Part 4 – Variable Annuity [4.7] there is an input for both Pandemic Risk Charge and Other Extreme Event Charge. If either of these has not been quantified (due to being clearly smaller than the other) please comment in Part 4 – Variable Annuity [4.11].

[4.8] Var. Ann. Reinsurance Recovery Risk Capital Charge

127. For Part 4 – Variable Annuity [4.8], reinsurance recoveries that are negative value assets are generally excluded from the Reinsurance Recovery Risk Capital Charge calculation, except to the extent they are able to be offset against other

reinsurance assets with the same counterparty (with legal enforceability). However, negative value reinsurance assets are generally included in Insurance Risk Capital Charge calculations.

[4.9] Variable Annuity Repayable Amount Adjustment

128. In Part 4 – Variable Annuity [4.9] there is a drop-down input for the treatment of reinsurance in respect of Repayable Amounts.

129. The drop-down options are “N/A”, “Nil (ignoring transition)” (there are no Repayable Amounts at any time), “Transition applied” (there are Repayable Amounts but they fully qualify for the transition provisions in the solvency calculations), and “Ineligible for transition” (there are Repayable Amounts but some or all does not qualify for the transition provisions in the solvency calculations).

130. There is a comment box to explain the treatment of reinsurance in determining the Repayable Amounts.

[4.10] Variable Annuity asset values and exposures

131. Variable annuity solvency standards do not apply risk charges direct to asset values and exposures (other than for reinsurance recoveries and certain capital items). In order to allow a reconciliation between balance sheet and solvency calculations, Part 4 – Variable Annuity [4.10] is a table of asset values and exposures.

132. Related party debt is split into the component that is on commercial terms (which qualifies for a low charge) and other (which requires a full charge).

[4.11] Variable Annuity commentary

133. Please provide in Part 4 – Variable Annuity [4.11] a comment or explanation on all of the following topics:
    - description of the business in each Statutory Fund if there is more than one;
    - treatment of any discretions;
    - allocation of Capital and Deductions from Capital to each Life Fund;
    - calculation of Capital Charge for Variable Annuities;
    - allocation of Other Liabilities between Life Funds;
    - calculation of Catastrophe Risk Capital Charge; and
    - any other comments.

Sign-off

134. All insurers that provide a solvency return are required to complete the Sign-off.

135. The sign-off of the Insurer Solvency Return is by the CEO or by a person authorised by the CEO. The separate Certification required by condition of licence has a different sign-off requirement that is not delegable.

136. Under IPSA s215 it is an offence to knowingly make a false or misleading declaration or representation to the Reserve Bank in any material particular.

[1] Actuary statement

137. In Sign-off [1] there is a drop-down input for the involvement of the Appointed Actuary in the completed Insurer Solvency Return. The drop-down options are "performed", "reviewed", and "neither performed nor reviewed".

138. The name of the Appointed Actuary is input to clarify who is taking the relevant responsibility if there has been a recent change of person in this role.

139. The Appointed Actuary is required to either prepare or review a completed Insurer Solvency Return prior to submission to the Reserve Bank, and so an explanation is required if this was not the case.

[2] Auditor statement

140. In Sign-off [2] there is a drop-down input for the involvement of the Auditor in the completed Insurer Solvency Return. The drop-down options are "an audit", "an audit with exclusions*", "a review", "a review with exclusions*", and "neither an audit nor a review".

141. Exclusions to the audit of Insurer Solvency Returns that are acceptable to the Reserve Bank are currently limited to catastrophe risk and solvency projections. Currently means at the time this version of this guide was issued.

142. The name of the Auditor firm is input to clarify who is taking the relevant responsibility if there has been a recent change of firm in this role.

143. For an Annual Solvency Return the Auditor is required to provide a reasonable assurance level audit the completed Insurer Solvency Return prior to submission to the Reserve Bank, and so an explanation is required if this was not the case. No explanation is required in respect of audit for solvency returns at Report Dates other than the end of a financial year.

Ends

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