Reserve Bank of New Zealand
Te Pūtea Matua

Interim Solvency Standard Amendment Standard 2024.

Prudential Policy

5 December 2024

Interim Solvency Standard Amendment Standard 2024

This standard is issued by the Reserve Bank of New Zealand on [5 December 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 commences on 1 March 2025.

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 paragraph 17, replace the text after "Definitions" and before "Act" with:

> "Unless stated otherwise, terms defined in the *Act*, the *Regulations* or in *NZ IFRS* have the same meanings in this solvency standard. Terms defined below, in the *Act*, the *Regulations* or in *NZ IFRS* are italicised when used in this solvency standard. Where there are conflicting definitions, terms defined in the *Act* and the *Regulations* prevail, followed by terms defined in this solvency standard."

(4) In paragraph 17, definition of Benefit term—

(a) replace "may be paid" with "could be payable"; and

(b) insert a third sentence – "Any *guaranteed renewability* feature extends the benefit term across policy years."

(5) In paragraph 17, definition of Contract boundary—

(a) replace "potential cashflows" with "cash-flows arising from rights and obligations"; and

(b) insert a second and third sentence:

> "The *contract boundary* must be set to the end of the *benefit term* and may differ from that used for accounting purposes. Where *outwards reinsurance* or *retrocession* cash-flows are incorporated into a *primary insurance* or *inwards reinsurance* contract, the *contract boundary* is determined as that for the *primary insurance* or *inwards reinsurance* contract.".

(6) In paragraph 17, move the definition of Counterparty grade before that of Credit risk capital charge.

(7) In paragraph 17, insert a new definition:

> "Coverage period means the period during which the *licensed insurer* provides coverage for an *insured event*. This period includes coverage that relates to all premiums within the *contract boundary*."

(8) In paragraph 17, delete the definition of **Earthquake Commission.**

(9) In paragraph 17, delete the definition of **Final solvency standard**.

(10) In paragraph 17, delete the definition of **Future insurability**.

(11) In paragraph 17, insert a new definition – "**General insurance** is *insurance* that is neither *life insurance* nor *health insurance*."

(12) In paragraph 17, insert a new definition – "**Guaranteed renewability** means the right of a policyholder to, at the end of the current contract term, renew their cover with no new underwriting (medical or otherwise) and on terms (premium rates, benefit limits, contract wording etc.) that are set from time to time for the sub-class to which their *insurance contract* belongs. A sub-class is a subset of a product class having common product design, for example premium pattern (level vs stepped), benefits provided and risks insured, whether the policyholder is a natural or legal person etc."

(13) In paragraph 17, insert a new definition – "**Health insurance** has the meaning given in section 6 of the *Act*."

(14) In paragraph 17, definition of **Insurance Revenue**, replace "produced financial statements" with "determined insurance revenue".

(15) In paragraph 17, definition of **Insured Event**, subparagraph (i), delete the "a" between "initiates" and "claim".

(16) In paragraph 17, definition of **Liability for incurred claims**—

- (a) insert "**(LIC)**" before "has the same meaning as in *NZ IFRS 17*".
- (b) insert "(SLIC)" after "*standardised liability for incurred claims*".

(17) In paragraph 17, definition of **Liability for remaining coverage:**

- (a) insert "**(LRC)**" before "has the same meaning as in *NZ IFRS 17*".
- (b) insert "(SLRC)" after "*standardised liability for remaining coverage*".

(18) In paragraph 17, insert a new definition – "**Life insurance** means insurance of the kind described in section 84(1)(a) to (f) of the *Act*."

(19) In paragraph 17, definition of **Maintenance Costs**, insert "*taxation expense*, transitory levies and recoverable transaction taxes," before "*acquisition costs*".

(20) In paragraph 17, definition of **Minimum capital requirement**, replace "*MCR*" with "MCR".

(21) 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 under section 125 of the Natural Hazards Insurance Act 2023; and
>
> ii. includes any legal successor to that organisation."

(22) In paragraph 17, definition of **Premium Allocation Approach**, replace "paragraphs 25 to 31" with "paragraphs 53 to 59".

(23) In paragraph 17, insert a new definition:

> "**Premiums not yet due** means *premiums* that the policyholder is obliged to pay to the *licensed insurer* under an *insurance contract* between the *solvency determination date* and the next anniversary of the commencement of the *insurance contract*. These premiums form part of the paragraph 27(vi) receivable."

(24) In paragraph 17, definition of **Portfolio Reinsurance**, replace "paragraphs 27 and 28" with "paragraphs 26 to 30".

(25) In paragraph 17, definition of **Product Class:**

- (a) delete the second sentence and replace it with "Insurance contracts should first be allocated to subsectors (*general insurance*, *life insurance* and *health insurance*)."

(b) at subparagraph (i)(c), replace "*material*" with "material".

(c) at subparagraph (iii), insert "*insurance*" after "Health".

(26) 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*."

(27) In paragraph 17, insert a new definition – "**Retrocession** means a *contract of insurance* under which one insurer indemnifies another in relation to one or *more reinsurance contracts*."

(28) In paragraph 17, definition of **Risk-adjusted best estimate liability**, replace "paragraph 28" with "paragraphs 26-30".

(29) In paragraph 17, definition of **Run-off**—

(a) replace subparagraph (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"; and

(b) insert "the lesser of one million dollars and" after "less than".

(30) In paragraph 17, definition of **Short-term insurance contract**, replace subparagraph (v) with "(v) The contract does not have *guaranteed renewability*."

(31) In paragraph 17, definition of **Tax and taxation**—

(a) replace "*tax*" with "tax"; and

(b) replace "*taxes*" with "taxes".

(32) In paragraph 17, insert a new definition:

"**Taxation expense** means

i. Income tax paid
ii. less income tax credits received
iii. plus any increase in income tax liabilities over the period
iv. less any decrease in income tax liabilities over the period."

(33) In paragraph 17, insert a new definition:

"**Unpaid premiums** means premiums that the policyholder was obliged to pay to the *licensed insurer* under an *insurance contract* prior to the *solvency determination date*, but which remain unpaid as at that date."

(34) In paragraph 17, definition of **Wind-up**, subparagraph (ii), insert "(and associated future tax obligations or benefits)" after "*insurance contracts*".

Solvency Capital

(35) In paragraph 19:

(a) replace "plus/less" with "Plus/less"; and

(b) in the table, at the third row, replace "Discretionary wind-up deduction" with "Deduction for elections under *NZ IAS 1*".

Insurance Items

(36) In paragraph 22(i), replace the full stop with ", excluding cash-flows meeting the requirements of 27(iii)(c)."

(37) Replace paragraph 23 with "*Taxation items* that are generated as a consequence of the recognition of *insurance items* are themselves *insurance items*."

Standardised Insurance Items

(38) Replace paragraphs 26 – 31 with:

26. The insurance contract (determined in accordance with section 7 of the *Act*) is the basic unit of account for determining *standardised insurance items* under this standard. However:

   i. *Licensed insurers* may separate perils or benefits to the extent permitted under *NZ IFRS 17*;

   ii. *Portfolio reinsurance* arrangements are *insurance contracts*; and

   iii. *Outwards reinsurance* and *retrocession* arrangements (other than *portfolio reinsurance*) are not standalone *insurance contracts*, being combined with their associated primary insurance and inwards *reinsurance* contracts respectively.

27. Except as provided in paragraph 30, *standardised insurance items* (other than tax *items*) must be determined using *NZ IFRS 17* methods, with the following modifications:

   i. Calculations at the *NZ IFRS 17* levels of granularity, such as the portfolio or group of *insurance contracts*, are not required.

   ii. *NZ IFRS 17* paragraph 16 should be applied such that no *insurance contracts* are classified as onerous, and no loss components are recognised or derecognised.

   iii. The following *items* are excluded:

      a. Any asset or liability relating to insurance acquisition cash-flows and recognised in accordance with *NZ IFRS 17*; and

      b. Any other pre-recognition asset or liability under *NZ IFRS 17* relating to future *(re)insurance contracts* beyond the *contract boundary*;

      c. *Outwards reinsurance* or *retrocession* cash-flows beyond the contract boundary of associated *primary insurance* or *inwards reinsurance* contracts; and

      d. Any component benefiting shareholders that is otherwise not considered in this subparagraph (iii).

   iv. *Insurance liabilities* and *insurance assets* must be increased or decreased respectively for the amounts of premiums that have fallen due but have not been received. Corresponding premium receivable assets must be established as *standardised* non-insurance *items* contributing to *solvency capital*.

   v. *Portfolio reinsurance* liabilities and assets must be decreased or increased respectively for the amounts of *reinsurance* premiums that have fallen due but have not been paid. Corresponding *reinsurance* premium payable liabilities must be established as *standardised* non-insurance *items* contributing to *solvency capital*.

28. Except as provided for in paragraphs 29 and 30, *standardised insurance items* (other than tax *items*) must be determined using the *general measurement model* (or, where appropriate, the *variable fee approach*) of *NZ IFRS 17*, modified by paragraph 27 and further modified as follows:

i. Any *NZ IFRS 17 Contractual Service Margin* is excluded.

ii. The following *items* are to be included in fulfilment cash-flows (alongside those incorporated by *NZ IFRS 17* and not excluded by subparagraph 27(iii)), to the extent they are within the *contract boundary*:

   a. *Outwards reinsurance* or *retrocession* relating to the contract.

   b. Non-*reinsurance* recoveries.

   c. A share of all *maintenance costs* and *investment management costs* (other than those associated with future *insurance contracts*) that cannot be directly attributed to the contract's *NZ IFRS 17* portfolio. These costs should fully provide for future costs, taking into account expected economies or diseconomies of scale.

   d. For *participating insurance contracts*, the expected value of future bonuses and the policyholders' share of any unvested surpluses (if not already incorporated by *NZ IFRS 17*).

iii. Discounting should be applied as follows:

   a. Where all of the fulfilment cash-flows relating to an insurance item are expected to be paid within two years of the contract commencement date, discounting of cash-flows is optional.

   b. Discount rates used for the valuation of *participating insurance contracts* should be those used under *NZ IFRS 17*, provided they are consistent with the earning assumptions used to project bonuses and other *direct participation features*.

   c. In all other cases, discount rates must be risk-free and must be derived using appropriate methods from observed New Zealand government nominal bond yields that relate to the nature, structure and term of the future obligations. For terms beyond those where observations are possible the *long-term forward rate* should be used to extend the yield curve. *NZ IFRS 17* discount rates should not be applied unless they are consistent with this approach.

iv. Income benefits currently in payment and triggered by a contingent event must form part of the *liability for* incurred *claims*.

v. Adjustments for non-financial risk must be included in *standardised insurance items* and must be calibrated to a 75 percent probability of sufficiency for solvency entities open to new business and a 90 percent probability of sufficiency for solvency entities in run-off. Calibrations must relate to the net-of-reinsurance cash-flows and allow for risk diversification as follows:

   a. For *long-term insurance contracts*, within each *product class*.

   b. For *short-term insurance contracts*, within the *solvency entity*.

29. *Standardised liabilities for remaining coverage* under *short-term insurance contracts* may optionally be determined using the *NZ IFRS 17 Premium Allocation Approach* modified by paragraph 27 and further modified as follows:

    i. Add amounts of premiums that have not fallen due yet but are expected to fall due over the *contract boundary*. Corresponding premium receivable assets must be established as *standardised* non-insurance *items* contributing to *solvency capital*.

    ii. Deduct an amount for unamortised *insurance acquisition cash-flows* over the remaining *contract boundary*, to the extent they are not already deducted in the *NZ IFRS 17 liability for remaining coverage*. This deduction must be made regardless of the approach for accounting purposes, including whether paragraph 59(a) of *NZ IFRS 17* has been applied or not.

    iii. Deduct the portion of any *reinsurance* or *retrocession* premiums paid (net of the corresponding portion of *reinsurance* commission received) that relates to the *remaining coverage period*.

    iv. Add the expected amount of any *reinsurance* or *retrocession* premiums (net of the corresponding amount of *reinsurance* commission to be received) remaining to be paid in respect of the part of the *coverage period* that has expired.

    v. Where, in the opinion of the *appointed actuary*, the result of applying this paragraph 29 and the modifications in subparagraphs (i) to (iv) varies by more than five percent or $100,000 (whichever is greater) from the value that would have been obtained by applying paragraph 28, make any necessary adjustment to ensure that the result of applying this paragraph equal to the estimated value that would have been obtained by applying paragraph 28.

30. Investment-linked *life insurance* liabilities may be determined as functions of the fair values of the units, provided that it can be shown that the values are not *materially* different from those that would have been determined if applying the approach in paragraphs 27 and 28.

31. Any *NZ IFRS* current or deferred tax items that are *insurance items* are effectively replaced with *standardised* current or deferred tax items by the operation of paragraph 25. These *standardised* tax items are also *insurance items* and include (non-exclusively):

    i. the present value of *taxation expense* expected to be generated under the *insurance contract* (as determined in paragraphs 27 to 30); and

    ii. the present value of future changes in tax reserves under the Income Tax Act 2007 to be generated under the *insurance contract*, to the extent not already included in (i).

    Allowance for future tax payable must be made once, and only once, in the *standardised insurance items*."

Adjustments to non-insurance items

(39) Replace the heading above paragraph 33 entitled "Discretionary wind-up" with "Elections under *NZ IAS 1*".

(40) In paragraph 34, delete the wording "(*wind-up*)".

(41) In paragraph 36, add a second sentence: "Where assets backing *insurance items* are held at other than fair value, *licensed insurers* must adjust reported *capital* accordingly."

(42) In paragraph 37, replace the existing text with "Where, in the reasoned opinion of the *appointed actuary*, the value of the items listed in paragraph 113 exceeds their economic value, the *licensed insurer* must reduce reported capital accordingly. For the avoidance of doubt, the *appointed actuary* is under no obligation to form such an opinion."

(43) In paragraph 43, replace "in the most recent set of audited accounts" with "in the notes to the most recent set of financial statements".

Prescribed capital requirement

(44) In paragraph 49, replace the algebraic formula with "$PCR = Max(FCA, \sum_i Max(CC_i, 0))$".

Underwriting short-term risk (short-term business)

(45) Replace paragraph 56 with:

"56. The *underwriting risk capital charge* is required in respect of *short-term insurance contracts*. The calculation is to be made by *product class* and summed across all classes. It is determined by multiplying the sum of the following expenses expected to be incurred or amortised over the *remaining coverage period* for *short-term insurance contracts* by the factors in the table below. These expenses may be discounted, consistent with the approach in paragraph 28(iii).

i. Claims (net of reinsurance);
ii. Cost of *reinsurance* not secured on guaranteed terms by the *solvency determination date*;
iii. *Maintenance costs* and *investment management costs*; and
iv. An *adjustment for non-financial risk*, in accordance with paragraph 28(v)."

(46) In the table in paragraph 56—
(a) replace "other life classes" with "life classes other than disability income"; and
(b) insert " credit," after "aviation,".

Claims run-off (short-term business)

(47) In paragraph 57—
(a) replace "of the licensed insurer" with "for *short-term insurance contracts*";
(b) in the table, insert " credit," after "aviation,".

Long-term insurance risk

(48) In paragraph 58—
(a) insert "for *long-term insurance contracts*" after "The *solvency liability*".
(b) at subparagraph (i), insert " set out in Appendix 5" after "prescribed solvency assumptions".

(49) In paragraph 59, insert "*long-term insurance contracts* in" after "determined for".

Catastrophe risk

(50) In paragraph 65, replace "*Earthquake Commission*" with "*Natural Hazards Commission*".

Equity

(51) In the table in paragraph 86—

(a) at the third row referring to "Listed trusts", replace "paragraphs 77 and 78" with "paragraphs 78 and 79, excluding listed property trusts".

(b) at the fifth row referring to "Unlisted trusts", replace "paragraphs 77 and 78" with "paragraphs 78 and 79, excluding unlisted property trusts".

Property

(52) In paragraph 87—

(a) replace the wording in subparagraph (i) with "multiplying the *standardised* value of the asset types in the table below by the corresponding *capital factor*;";

(b) renumber subparagraph (ii) as subparagraph (iii);

(c) insert a new subparagraph (ii) – "summing across those types; and".

(d) after renumbered subparagraph (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%

(53) Delete paragraph 88.

Credit risk

(54) Delete paragraph 96.

Reinsurance recovery

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

(56) In paragraph 101(i)(e), replace "*Earthquake Commission*" with "*Natural Hazards Commission*".

(57) In paragraph 101(i)(f), insert ", other than a deferred reinsurance expense asset included in subparagraph (c)." after "*solvency entity*".

Capital charge for reinsurance disputes

(58) 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

(59) In paragraph 106(i), insert ", the *equity risk capital charge* and the *property risk capital charge*" after "*reinsurance recovery risk capital charge*".

(60) In paragraph 106(ii), replace the text with with "Any amount for unamortised insurance acquisition cash-flows mentioned in paragraph 29(i)."

(61) In paragraph 107(i), insert " (or, in the case of *unpaid premiums or premiums not yet due*, the value as defined in paragraph 17)" after "*standardised value*".

(62) In the table at paragraph 107—

- (a) in the row for exposure class "Secured unpaid premium and loans", insert ")" after "licensed insurer"; and
- (b) in the row for exposure class "Unpaid premiums not yet due or less than six months past due"—
  - (i) replace "Unpaid" with "Unsecured unpaid" in the title of the exposure class; and
  - (ii) replace the existing definition with

    "● Unsecured *unpaid premiums* (including premium funding receivables but excluding *premiums* payable to *licensed insurers* that are *captive insurers*) that are less than six months past the contractual due date for payment to the *licensed insurer*

    ● *Premiums not yet due*."

- (c) in the rows for exposure class "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*";
- (d) in the row for exposure class "Other fixed-interest and short-term unpaid premiums"—
  - (i) replace "unpaid" with "unsecured unpaid" in the title of the exposure class;
  - (ii) replace "Unpaid" with "Unsecured unpaid" in the definition of the exposure class; and
  - (iii) delete the wording "(excluding the 'secured premium' class specified in the first row of this table)".
- (e) In the row for exposure class "Assets incurring a full *capital charge*"—
  - (i) replace "fixed or floating" with " (as defined in section 3 of the Insolvency Act 2006)";
  - (ii) replace "Unpaid premiums" with "Unsecured *unpaid premiums*"; and
  - (iii) delete " (excluding secured unpaid premiums)".

Contingent items

(63) In paragraph 112, after "*licensed insurer's financial condition report*", insert:

"Where such estimation is not feasible, the stressed value of each contingent asset may be set to zero and the stressed value of each contingent liability set to its likely maximum exposure."

Distressed wind-up

(64) In paragraph 113—

- (a) insert " is subject to a minimum of zero and " after "*entity*"; and
- (b) replace "provided that such items have not been deducted from capital under paragraph 38 (in which case their contribution to the capital charge is zero)" with "less any amount which has been deducted from capital under paragraph 38 in respect of each asset:"

Business run-off

(65) In paragraph 125(i), insert ", increased with actual inflation and *expected inflation* from 1 January 2023 as appropriate," after "NZ$100,000".

(66) In paragraph 126(i)(b)—
- (a) replace "annual maintenance expenses are" with "*premium revenue* received is";
- (b) replace "NZ$1,000,000" with "NZ$4,000,000; and
- (c) insert "actual inflation and " before "*expected inflation*".

Disclosure of solvency measures

(67) In paragraph 146, delete "*annual and*".

5 Appendix 1 amended (*Capital instruments*)

In clause 4, insert a new definition – "**wind-up** refers to the closure of the *licensed insurer* and does not have the meaning set out in the definition at paragraph 17 of this standard."

6 Appendix 2 amended (*Financial reinsurance*)

(1) In clause 4—
- (a) replace "paragraph 28(ix)" with "paragraphs 27(iv) and 27(v)"; and
- (b) replace "28(viii)" with "28(iii)".

(2) In clause 16—
- (a) at subclause (i), delete " established in paragraph 27(v)"; and
- (b) at subclause (ii), replace "28(v)" with "27(v)" and "28(viii) with 28(iii)".

(3) In clause 20(v)(a), replace "based on" with "as an amount no greater than".

(4) In clause 27—
- (a) insert "repayable to the *reinsurer*" between "Where an amount" and "is assessed"; and
- (b) replace "either" with "the greater of".

(5) In clause 27(i)—
- (a) replace "broadly equivalent" with "related"; and
- (b) replace "has been included in" with "offsets".

(6) Replace 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."

(7) Delete clause 29.

7 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 3, replace "28(viii) with "28(iii)".

(3) In clause 4, replace all references to "*maintenance costs*" with "*maintenance costs (excluding claim handling expenses)*".

(4) In clause 11, in the table—
- (a) in the second row—
  - (i) replace "non-life" with "*general insurance*"; and
  - (ii) replace "56" with "Increase claims and claims handling expense assumptions used to determine the *SLRC* by the percentage prescribed in paragraph 56."

(b) in the third row—

(i) replace "non-life" with "*general insurance*"; and

(ii) replace "57" with "Increase the *SLIC* by the percentage prescribed in paragraph 57."

8 Appendix 8 amended (*Taxation and the prescribed capital requirement*)

(1) In clause 2(ii), replace "beyond doubt" with "highly likely".

(2) In clause 2(iii), insert " of *standardisation* and" after "*taxation* effect".

(3) In clause 2(iv), replace "is an asset arising from" with "results in".

9 Other amendments

All references to a term which is defined in paragraph 17 are italicised, other than when that term is first defined.

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 March 2025, 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 margin for insurers licensed under the Act and subject to the principal standard. This standard also makes typographical corrections and clarifies areas of ambiguity.