

# Review of Insurance Solvency Standards

Public feedback statement on the exposure draft of the second amendment of the Interim Solvency Standard.

12 December 2024



Reserve Bank  
of New Zealand  
**Te Pūtea Matua**



**Current Information Available**

Information about the review, is available on the *Reserve Bank* website at:  
<https://rbnz.govt.nz/regulation-and-supervision/oversight-of-insurers/how-we-regulate-and-supervise-insurers/our-policy-work-for-insurer-oversight/review-of-insurance-solvency-standards>

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## Glossary

<b>AA</b>	Appointed Actuary
<b>Amended Standard</b>	Interim Solvency Standard incorporating both amendments
<b>Charge, Capital Charge</b>	A capital charge contributing to the Prescribed Capital Requirement
<b>CTV</b>	Current Termination Value
<b>Discussion Draft</b>	The 2023 consultation document
<b>DTA</b>	Deferred Tax Assets
<b>Exposure Draft</b>	Exposure draft of the second amendment consulted on in 2024
<b>First Amendment</b>	A technical, non-consulted amendment made in June 2023
<b>GMM</b>	General Measurement Model (an NZ IFRS 17 valuation approach)
<b>In-force Standard</b>	Interim Solvency Standard incorporating the First Amendment
<b>IPSA</b>	The Insurance (Prudential Supervision) Act 2010
<b>IRRCC</b>	Interest Rate Risk Capital Charge
<b>LIC</b>	NZ IFRS 17 Liability for Incurred Claims
<b>LRC</b>	NZ IFRS 17 Liability for Remaining Coverage
<b>MGMM</b>	Modified General Measurement Model used in the ISS
<b>MPAA</b>	Modified Premium Allocation Approach used in the ISS
<b>NZ IFRS</b>	New Zealand-adapted International Financial Reporting Standards
<b>NZ IFRS 17</b>	Accounting for Insurance Contracts (in-force 2023)
<b>PAA</b>	Premium Allocation Approach (an NZ IFRS 17 valuation approach)
<b>PCR</b>	Prescribed Capital Requirement
<b>PoS</b>	Probability of sufficiency
<b>RABEL</b>	Risk-adjusted best estimate liability
<b>Reserve Bank</b>	Reserve Bank of New Zealand
<b>RIS</b>	Regulatory Impact Statement
<b>Second Amendment</b>	Interim Solvency Standard Amendment Standard 2024
<b>SLIC</b>	Standardised liability for incurred claims
<b>SLRC</b>	Standardised liability for remaining coverage
<b>Solvency Review</b>	The review of the solvency standards
<b>Stage 1</b>	The review of the structure of the solvency regime and the handling of NZ IFRS 17
<b>Stage 2</b>	The full review of methods and parameters in the standard
<b>Standard/ISS</b>	Interim Solvency Standard 2023
<b>UWRCC</b>	Underwriting Risk Capital Charge

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## Introduction

### The consultation

1. The *Reserve Bank* is undertaking a multi-year review of its insurance solvency standards. The first major output of this review was the Interim Solvency Standard 2023 (ISS), issued in late 2022.
2. In the second half of 2023, the *Reserve Bank* proposed to amend the Standard to address issues with the in-force version of the ISS. We consulted on proposals to address these issues between 27 September and 8 November 2023.
3. After this consultation, we commissioned an external review of the amendment and held a further consultation on the Exposure Draft of the standard to give stakeholders an opportunity to review the changes we had made in response to stakeholder feedback. The consultation on the Exposure Draft ran from 6 August to 17 September 2024.
4. We received eight responses, including four from industry and professional bodies, and four from insurers. We thank stakeholders for their valuable feedback. This feedback statement summarises the submissions and explains our response.
5. We have made some further changes to the second amendment in response to the feedback received, and we discussed these changes with our external reviewers, PFS Consulting. This was to ensure that any further changes made to the amendment achieve the desired outcome and do not introduce any new issues. In some instances, for various reasons, we have not progressed with some feedback at this stage. These are discussed in more detail in this feedback statement.
6. The finalised versions of the consolidated standard, the amendment standard and the guide are published alongside this feedback statement. We have also published an addendum to the RIS. While the Second Amendment is intended to restore the impact that the Standard was intended to have, we acknowledge that the impact on some stakeholders may be significant. These impacts are addressed in the addendum to the RIS.
7. This Second Amendment will take effect for all insurers from 1 March 2025.
8. We will continue our work on Stage 2 of the Review of the Solvency Standards. Stage 2 will be a multi-year project, and we welcome engagement with industry through this process. We have published a provisional process map for Stage 2 on our website. The revised timeline acknowledges feedback from stakeholders that they would like more time to establish common practice on *NZ IFRS 17* and the amended solvency standard as well as more opportunity to engage with the *Reserve Bank* through Stage 2 of the Review.

### Responses to feedback

9. This statement is divided into two sections:
  - i. Feedback that resulted in change to the amendment
    - a. *Solvency capital*
    - b. *Prescribed capital requirements*

- c. Other changes
- ii. Feedback that resulted in no change to the amendment
  - a. Issues out of scope for Stage 1 of the Review
  - b. Issues that risk unintended consequences
  - c. Issues that would require further consultation
  - d. Issues which require further study
  - e. Issues of interpretation

## Feedback that resulted in change to the amendment

### Solvency capital

#### MPAA and profitability (paragraph 29)

##### Introduction

- 10.** The MGMM method is the standard method for valuing *SLRCs* for *insurance contracts* under the ISS. *Short-term insurance contracts* are, however, permitted to be valued using the MPAA method, which aims to approximate both economic value and the MGMM result. The MPAA method as set out in the 2023 consultation included modifications to:
- i. reinstate traditional premium accounting;
  - ii. ensure amortisation of *acquisition costs*; and
  - iii. deduct the expected profit margin, net of tax and risk adjustment (at a PoS of 75%).
- 11.** In the 2024 consultation, we re-worked the calculation above and noted three elements of the economic value that appeared to roughly offset each other – the insurer’s profit margin, the *reinsurer’s* profit margin and the risk adjustment. We proposed removing the three elements on the grounds that the calculation would be simplified and that the resulting error would be moderate.

#### Stakeholder feedback on exposure draft consultation

##### **12. Stakeholder feedback:**

- i. Stakeholders noted that the removal of ‘profit margin’ modification means MPAA may be inconsistent with economic value and MGMM where business is unprofitable or priced to a PoS other than 75%. The ability to choose between MGMM and MPAA methods may provide opportunity for gaming the standard to select the weakest liability.
- ii. They suggested we either reinstate the 2023 profit margin modification or instead use the base of the underwriting risk charge (paragraph 56) as a ceiling on the MPAA result.

**13. RBNZ response:** We agree with the concerns raised due to the possible variability in the profitability of *short-term insurance contracts* and the possibility of using a PoS other than 75% to determine the risk adjustment. (The 2023 amendment does not allow *NZ IFRS 17*'s treatment of onerous contracts to flow through, nor does it specify risk adjustment PoSs for MPAA). Our view is that the remedies proposed risk unintended consequences, so we have applied a different solution to resolve the issue.

#### **Finalised position on PAA profitability in second amendment**

- We have inserted a modification in paragraph 29(v), requiring the AA to adjust the MPAA result if it is expected to deviate by more than 5% from the MGMM result (for any reason).
- We have also provided guidance on how to test MPAA against MGMM - annual spot checks of representative *insurance contracts*.

### **Premium receivables created by standardisation (paragraphs 27 and 29)**

#### **Introduction**

**14.** *NZ IFRS 17* only accounts for premiums once received. In the ISS we wish to accrue premiums that are contractually due, whether or not they have been received. Where premiums that are due have not been received, a premium receivable asset is established. Similarly, where outwards *portfolio reinsurance* premiums have fallen due, but have not been paid, a *reinsurance* premium payable liability is established. The purpose of this accounting approach is to clearly distinguish between the contractual obligations of the parties and any temporary items created due to early or late payments.

**15.** There are three relevant sub-paragraphs in the Amended Standard:

- 27(iv), applicable to both MGMM and MPAA, and dealing with premiums that have fallen due before the *solvency determination date*;
- 27(v), which is similar to 27(iv), but deals with *portfolio reinsurance* premiums payable; and
- 29(i), applicable to MPAA only, and dealing with premium instalments that will fall due prior to the *contract boundary*.

**16.** In the Amended Standard, all three sub-paragraphs require the premium receivable assets or *reinsurance* premium payable liabilities to be “established outside of the *standardised insurance items*”. The intention of this usage was that these items would be seen as non-*insurance items* on the *standardised balance sheet*.

#### **Stakeholder feedback on exposure draft consultation**

##### **17. Stakeholder feedback:**

Stakeholders expressed the following views on the accrual of premium receivables:

- i. The CTV definition is not clear with respect to whether the premium receivables created by the three sub-paragraphs should be allowed for or not. If the intention is to allow premium receivables to sit as a separate item on the solvency *balance sheet*, wording on the CTV definition/guidance should clarify that premium receivables should not be included in the CTV given they are treated as a separate item on the solvency *balance sheet*.
- ii. Due to differing treatment of the premium receivables between valuation methods (because of sub-paragraph 29(i)), the *standardised insurance items* under these two approaches are materially different, with the MGMM producing a materially lower result. These differences have the potential to impact two parts of the solvency calculation:
  - a. the *adjustment to insurance items* in paragraph 25
  - b. the *capital charges*, in particular the Underwriting Risk (short-term business) and Credit Risk Charge for premium receivables
- iii. The UWRCC is no longer based on the *standardised insurance item* and is the same regardless of the method used to standardise the *insurance items*. As a result, the *standardisation* process may no longer be required for *short-term insurance contracts*.
- iv. The drafting in paragraphs 27(vi), 27(vii) and 29(i) in the exposure draft now explicitly exclude the premium receivable asset from being included within the *standardised insurance items*, *RABEL* or the *solvency liability*. Paragraph 22 however includes all future premium cashflows in the (accounting) *insurance items*. The difference between these items as set out in paragraph 25 no longer represents the change in the *solvency capital* due to this different treatment of the premium receivable asset.

## 18. RBNZ response:

Our responses are aligned to the numbering in the previous paragraph.

- i. The CTV is not defined in terms of the *balance sheet items* but in terms of payments that would be made to policyholders on termination. This is a function of policy wordings and current practice. Premium receivables created by the three sub-paragraphs do not come into play, and therefore we don't think any changes are needed.
- ii. On sub-paragraph 29(i), we do not think the differences should have any impact on the solvency calculation, and therefore we have not made any changes. In particular:
  - a. The additional adjustment in paragraph 29(i) for MPAA is designed to make the liability larger (to reflect the full period for which pricing is fixed). However, it is offset by new receivable assets so there no impact on *solvency capital*.
  - b. The UWRCC now has its own bases, so is unaffected by the size of the standardised liability. Similarly, we have defined credit risk charges on premium receivables independently of the paragraph 29(i) quantity, so these are also unaffected.
- iii. We acknowledge the point about the *standardisation* process no longer being required for short-term insurance. However, the *standardisation* process may still have some impact on *solvency capital*, for example restating the PoS to 75%. Furthermore, it allows us to



understand the contractual obligations separately from premium timing issues. Therefore, we have not made any changes at this stage.

- iv. We understand that the respondent's interpretation is that the requirement to establish receivables 'outside of the *standardised insurance items*' means they don't form part of *solvency capital*. However, this interpretation was not our intention – these receivables should be *standardised non-insurance items* and contribute to *solvency capital* as such. Therefore, we have adjusted the drafting to clarify that.

#### **Finalised position on premium receivables in second amendment**

- We have changed "must be established outside of the *standardised insurance items*" to "as *standardised non-insurance items* contributing to *solvency capital*" in all three sub-paragraphs.
- We have also written some accompanying guidance.

### **Levies and transaction taxes (paragraphs 17, 28 and 56)**

#### **Introduction**

**19.** Levies and transaction taxes are monies collected by insurers on behalf of various government agencies. They include things such as:

- Goods and services tax
- Fire and Emergency New Zealand levies
- *Natural Hazards Commission* levies

**20.** Our understanding is that under *NZ IFRS* (including *NZ IFRS 17*) no revenue accounting is undertaken in respect of these *items*. Collecting a tax or levy from policyholders increases the insurer's cash, but also requires them to establish a corresponding liability for the on-payment to the government agency. This liability is extinguished when the on-payment is made.

#### **Stakeholder feedback on exposure draft consultation**

##### **21. Stakeholder feedback:**

Stakeholders expressed the following views on levies and transaction taxes:

- i. Fire service and natural hazard fund levies should be excluded from MGMM projections as insurers are simply acting as collection agencies.
- ii. Levies and transaction taxes should also be excluded from the base for the *UWRCC*, as they make no contribution to pricing risk.

**22. RBNZ response:** We agree with this feedback.

#### **Finalised position on exclusion of levies from MGMM in second amendment**

- “Transitory levies and transaction taxes” have been explicitly excluded from:
  - The paragraph 17 definition of *maintenance costs*;
  - The sub-paragraph 28(ii)(c) description of non-attributable expense; and
  - The expense element of the base for the *UWRCC* (sub-paragraph 56(iii))
- We have also added commentary in the guide as appropriate.

#### **Contract boundary definition (paragraphs 17 and 27)**

**23. Stakeholder feedback:** Sub-paragraph 27(v) is definitional in nature and should be moved to paragraph 17.

**24. RBNZ response:** We agree with this feedback and have moved the definition. This is possible because almost all references to the *contract boundary* in the Standard already depend on sub-paragraph 27(v). The only exception is a reference in the Appendix 2 (Financial Reinsurance) that would in any case benefit from a fuller paragraph 17 definition.

#### **Finalised position on contract boundary definition in second amendment**

- We have moved paragraph 27(v) into the paragraph 17 definition. We have also removed “established in sub-paragraph (v)” from 27(iii)(b) and “established in subparagraph 27(v)” from 28(ii), 29(ii) and Appendix 2, 16(i).

## **Prescribed capital requirements**

#### **Other expenses (paragraphs 28 and 56)**

**25. Stakeholder feedback:** A stakeholder noted that reference to sub-paragraph 28(ii)(c) in the *UWRCC* (subparagraph 56(iii)) appears to restrict expenses to those that need to be allocated (compared to those already allocated). They also noted that ‘other expenses’ is not a defined term, and therefore open to interpretation.

**26. RBNZ response:** We agree with the stakeholder’s comments.

#### **Finalised position on other expenses in second amendment**

- We have replaced the relevant text in sub-paragraph 28(ii)(c) with “*Maintenance costs and investment management costs*”.
- We have also added commentary in the guide as appropriate.

## Claim handling costs (Appendix 5)

**27. Stakeholder feedback:** Claim handling costs in Appendix 5, clause 6, should be excluded from the *servicing cost* stress as they are stressed separately.

**28. RBNZ response:** We agree with this feedback

### Finalised position on claim handling costs in second amendment

- We have excluded claim handling expenses to the extent stressed under clause 11.

## Deferred tax on wind-up (Appendix 8)

**29. Stakeholder feedback:**

Stakeholders expressed the following views on deferred tax treatments on *wind-up*:

- The replacement of 'beyond doubt' with 'highly likely....within five years' in Appendix 8, clause 2(ii) in the exposure draft of the standard is unhelpful as tax assets on the *balance sheet* are already assessed for recoverability and are then charged at 100% in the distressed *wind-up capital charge*. Changes should be rolled back.
- Five years may be too short a term for many insurers and tax credits retaining to prior losses may be forfeit.

**30. RBNZ response:**

- The 'highly likely' wording was a response to accepted earlier feedback that 'beyond doubt' was impractical, so we have not reversed this usage due to the problems it might create.
- We agree that 5 years may be insufficient in the case of, for example, life insurers in growth mode accruing significant tax losses for a number of years.

### Finalised position on deferred tax on wind-up in second amendment

- We have removed the 5-year limit in Appendix 8, clause 2(ii).

## Business run-off (paragraphs 125 and 126)

### Introduction

**31.** The purpose of the *business run-off capital charge* is to provide for situations where the in-force business is insufficient to provide for expenses incurred. A business is considered to be in *run-off* if premium from new business is less than 1% of premium from in-force business. The charge is \$100,000 for each year of the *run-off term*, where the *run-off term* commences when the insurance business falls below a certain size (\$1,000,000 of expense loadings in the Exposure Draft).

## Stakeholder feedback on exposure draft consultation

32. The points raised in **stakeholder feedback** related to business *run-off* were:

- i. Determination of expense loadings in premiums received will be subjective; it would be better to continue using actual expenses as the trigger for the start of the *run-off term*.
- ii. Reference to 'premiums received' could be interpreted as referring to the past, whereas *run-off* should commence at a future point in time.
- iii. For large mature insurers a single year of low volume of new business could result in an insurer meeting the definition of *run-off*, a risk that is higher for YRT or health products.
- iv. The 1% threshold should be subject to a minimum number of policies or premium, or alternatively renewals should be explicitly captured as new policies.

33. Taking each point in turn, the **RBNZ response** is:

- i. We do not agree it would be better to use actual expense. This is because the *capital charge* may never be triggered, even if the business becomes sub-scale and is unable to support actual expense levels. Therefore, we have not made this change.
- ii. Read within the context of the charge as a whole, we believe it is clear that reference is to the future, not the past. We do not think a change is needed to improve clarity.
- iii. We note that the definition of '*insurance contract*' that applies here is from *IPSA*, which in turn draws on general contract law. Renewals that are extensions of existing contracts are not captured while renewals that are new contracts would be.
- iv. We agree that the threshold should be modified to guard against the situation where a single year of poor new business triggers the charge.

### Finalised position on definition of run-off in second amendment

- We have changed the trigger for the start of the *run-off term* to \$4m of premium rather than \$1m of expense loadings to be more objective.
- We have included a \$1m maximum on the 1% new business threshold.

## Other changes

### Stakeholder feedback on exposure draft

34. Stakeholders raised a number of smaller points, all of which we agree with and have taken on board:

- i. The terms *SLRC* (standardised *liability for remaining coverage*) and *SLIC* (standardised *liability for incurred claims*) are used in prescribed assumptions but are undefined.
- ii. The definition of *taxation expense* in paragraph 17 should be limited to income tax.

- iii. Inwards *reinsurance* appears in both the 9% and 11% rows in paragraph 57 of the standard.
- iv. A closing bracket is missing after 'licensed insurer' in the table in paragraph 107.
- v. A guidance box was left in the BROCC section of the consolidated standard (paragraph 125).
- vi. The guidance on paragraph 1 in Appendix 5 should read 'The scope of Appendix 5...' instead of 'The scope of Appendix 4...'
- vii. A stakeholder asked us to clarify the meaning of 'best estimate inflation' in Appendix 5.

### Finalised positions

- We have included the terms "*SLRC*" and "*SLIC*" in the definitions of the standardised *liability for remaining coverage* and the standardised *liability for incurred claims*.
- We have inserted "income" before "tax" in (i) and (ii) of paragraph 17.
- We have removed inwards *reinsurance* from the 9% row.
- We have added a closing bracket after 'licensed insurer'.
- The guidance in paragraph 125 has been moved to the Guide.
- We have corrected the reference in the Guide to Appendix 5 instead of Appendix 4.
- We have inserted the following text in the Guide (Appendix 5): 'Best estimate inflation is not linked to *expected inflation* and should be the appointed actuary's best estimate of claims inflation from all sources – including medical expense inflation and ageing'.

## Feedback that resulted in no change to the amendment

35. As communicated when we published the exposure draft, our focus for this amendment is on addressing issues in the in-force version of the standard, and thereby restoring the intended policy impact of the Standard. In order to issue the amendment without delay, we have restricted change to either:

- i. Issues where there were significant valid concerns with the drafting; or
- ii. Justified changes where the risk of unintended consequences was low.

36. Therefore, we have not made changes to the standard in response to some of the feedback we received. Feedback that has resulted in no change to the amendment can be categorised as:

- i. Issues out of scope for Stage 1 of the Review
- ii. Issues that risk unintended consequences
- iii. Issues that would require further consultation

iv. Issues which require further study

v. Issues of interpretation

37. Issues of the type mentioned in (i), (ii) and (iii) will be revisited in Stage 2, while type (iv) issues will be given further thought. We have tried to address type (v) issues via guidance. While these issues have not resulted in changes to the Amendment, in some cases we have enhanced guidance to provide clarity.

## Issues out of scope for Stage 1

### Introduction

38. The purpose of Stage 1 of the solvency review is to establish a solid solvency regime for the future and to address particular issues relating to the introduction of *NZ IFRS 17*. Issues that relate to other matters may be considered in Stage 2 of the Review – a root and branch review of methodology and parameters.

39. In this consultation we invited feedback on the Stage 1 issues raised in the second amendment, but also welcomed input on Stage 2 issues to be addressed later.

### Issues

40. We were asked to align the **reinstatement period** for catastrophe *reinsurance* (referred to in sub-paragraph 66(ii)) with the 'hours' clauses in individual *reinsurance* treaties. This issue does not relate to either *NZ IFRS 17* or the structure of the regime and will be addressed as part of a comprehensive review of the catastrophe charge in Stage 2.

41. Respondents raised the impact of the **economic valuation** of long-term insurance business on the *solvency ratio*. Economic valuation crystallises future profits as part of *solvency capital*, however these future profits also increase the *long-term insurance risk capital charge*. There is little or no impact on the *solvency margin*, however the *solvency ratio* reduces as profitability increases, an apparently perverse outcome. Changes anticipated for Stage 2 are expected to partially address these concerns.

## Issues that risk unintended consequences

### Introduction

42. For some issues the risk of unintended consequences outweighs the potential benefit of making a change to the Amendment.

### Issues

43. A respondent felt that some usage of the term **contract boundary** is imprecise; for example, referring to a range of time rather than a point in time. We believe, however, that the term will be interpreted appropriately by industry and therefore the risk of making a change outweighs any possible benefit in terms of improved clarity. Therefore, we have not made any changes at this time.

44. It was suggested that insurers with an overwhelming majority of short-term business should be able to use the MPAA method for their **long-term business** as well, so as to avoid performing any MGMM valuations. This is an interesting idea, however, would represent a significant modification to valuation methods – which would introduce significant risk of unintended consequences at this stage of the process. In the interim, insurers could consider whether the simplifications allowed by paragraph 16 could be applied.
45. A respondent wanted more clarity regarding the valuation of **contingent items** for the purposes of determining the *UWRCC* (paragraph 56) and the derivatives *capital charge* (paragraphs 93 and 94). However, we think the wording is likely to be appropriately interpreted (that is, as the standardised values).
46. More guidance on **tax treatments** was solicited, and the guidance consulted on was considered problematic in some areas. We have settled on a minimalist approach in order to minimise risk, reverting to stating when tax adjustments are required rather than also stating how they should be determined. To this end, we have removed examples containing tax calculations from the Guide. We will revisit this issue in Stage 2.

## Issues that would require further consultation

### Introduction

47. It is a requirement of *IPSA s235* that the *Reserve Bank* consults on non-minor changes to solvency standards. Some submitters raised new points that did not come up in the initial round of consultation on the second amendment and were not areas we consulted on changing in the exposure draft. These changes would be significant and would require further consultation with industry before including in the standard, which is not possible while meeting the required timeline to issue the second amendment. We will therefore consider these issues as part of Stage 2 of the Review.

### Issues to be revisited in Stage 2 of the Review

48. A respondent proposed that sub-paragraph (iv) of the **definition of CTV** in paragraph 17 should not be limited to 'life policies'. This is because *CTVs* may be required for long-term *health* and *general insurance* as well. We believe that these cases are, however captured by the definition of *CTV* and have written guidance to this effect.
49. The respondent also requested that we clarify the situations in which the solvency stresses of Appendix 5 need to be applied in the *CTV* calculation. We have written guidance to provide greater clarity.
50. It was suggested that the second sentence in Appendix 8, clause 2(ii) should be removed entirely (starting at 'For any current or deferred *taxation...*'). We do not want to risk such a change without performing a full review of tax treatments in the Standard.
51. A respondent requested that the Standard be aligned with the Australian insurance capital framework. **The Australian framework** is one of our key comparators and informs every major Solvency Review decision. Full alignment, however, would be inappropriate for a number of reasons and require major change to the Standard.

## Issues which require further study

### Introduction

52. Some issues have been raised in the consultation which merit further thought on our part, but which do not require urgent attention.

### Issues

53. It was suggested that paragraph 37 (adjustment of the **value of intangibles**) could be removed as paragraph 38(iv) (adjustment of all assets to market value) provides similar functionality. However, we prefer to keep these *items* separate at this stage, as in Stage 2 they may be treated differently.

54. A respondent pointed out that negative standardised insurance liabilities cannot be matched by (positive) short-term assets. The interplay of the interest rate risk charge and the long-term insurance risk charge may create **perverse outcomes** where both these items are present. We note that this is a long-standing treatment which has been present in the *life insurance* standard since 2014. We will consider this point in Stage 2.

55. A respondent stated that the long-term insurance risk charge does not provide for the risks of under-pricing and under-reserving for claims. In fact, the charge requires the calculation of a *solvency liability* in which various **pricing and reserving risks** are stressed, and the charge is a function of the difference between this figure and the standardised liability.

56. A comment was made that *NZ IFRS 17* audit standards may be being inappropriately applied to the Standard. We have little further information on this issue at the current time but will explore further as audit practice relative to *NZ IFRS 17* and the ISS develops.

57. A respondent requested that the *Reserve Bank* guidance be more responsive to issues as they arise. As an independent regulator, it is important that we have strong governance processes. There will be opportunities to work with industry on the standard and guidance as part of our broader review. We encourage insurers and actuaries to approach *Reserve Bank* supervisors for any questions regarding interpretation of the standard.

## Issues that relate to interpretation

58. The term 'contingent liability' is shown in italics but is not defined in paragraph 17. This is because the Standard also italicises **terms from IPSA and NZ IFRS**.

## Have Your Say

Stakeholders are welcome to provide feedback and information to the *Reserve Bank* at any time. While no feedback is specifically sought on this statement, we would welcome your views at any point during the Solvency Review.

Please provide any further comments to the email address [insurancesolvency@rbnz.govt.nz](mailto:insurancesolvency@rbnz.govt.nz).

Further information about the Solvency Review can be found on our website:

<https://rbnz.govt.nz/regulation-and-supervision/oversight-of-insurers/how-we-regulate-and-supervise-insurers/our-policy-work-for-insurer-oversight/review-of-insurance-solvency-standards>