RESERVE BANK OF NEW ZEALAND
TE PŪTEA MATUA

Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014

Prudential Supervision Department

Issued: December 2014

Ref #5856287 v1.8

1. Introduction

1.1. Authority

1. This **solvency standard** is made under section 55 of the Insurance (Prudential Supervision) Act 2010 (the Act).

1.2. Previous Versions

2. A previous version of this **solvency standard** was issued in October 2011. This **solvency standard** was last consulted on in 2014.

1.3. Commencement

3. This **solvency standard** comes into force on 1 January 2015.

1.4. Application

4. This **solvency standard** applies (in accordance with this Section) to every **licensed insurer** that carries on non-life insurance business in New Zealand, but only if :

   (a) the **licensed insurer** is a **captive insurer** (as defined in section 6(1) of the Act); and

   (b) the **licensed insurer's** entire portfolio comprises non-life insurance; and

   (c) the **licensed insurer** is required by a **condition** of **licence** to maintain a Solvency Margin in accordance with this **solvency standard**.

5. An **overseas insurer** is not required to comply with this **solvency standard** or a part of this **solvency standard** to the extent it has been granted an exemption under section 59(1) of the Act.

1.5. Requirements

6. This **solvency standard** incorporates the Solvency Standard for Non-life Insurance Business 2014 and all subsequent amendments to that **solvency standard**.

7. A **licensed insurer** to which this **solvency standard** applies must comply with the Solvency Standard for Non-life Insurance Business 2014, subject to the following modifications.

8. Paragraphs 1 to 8 of the Solvency Standard for Non-life Insurance Business 2014 are replaced with paragraphs 1 to 5 of this **solvency standard**.

9. In paragraph 12, "3 million New Zealand dollars" (being the Fixed Capital Amount) is replaced with "1 million New Zealand dollars".

10. The following paragraph is inserted after paragraph 16:

    16A. In relation to a **captive insurer**, an obligation of the **insurer's** parent, or an obligation of a subsidiary of that parent, can be treated as if it is not an obligation of a **related party** for the purposes of paragraph 24(c), Table 2 or paragraph 66(b).

11. Paragraphs 32 to 40 (inclusive) and Table 1 – Insurance Risk Capital Factors (which appears after paragraph 35) are replaced with the following paragraphs:

    32. The Insurance Risk Capital Charge is an amount equal to 20% of the largest per event retention of the **licensed insurer** plus the cost (if any) of one reinstatement of the relevant **reinsurance** programme.

    33. The largest per event retention is the cost to the **licensed insurer** of the largest individual claim or series of claims, relating to a single event, to which it could reasonably be exposed under policies issued, net of **reinsurance** recoveries.

    34. If the **licensed insurer** issues policies that do not have a maximum sum insured, or are not protected by excess of loss reinsurance, then the **licensed insurer** must seek the advice of its **appointed actuary** as to a reasonable approximation for the largest foreseeable per event retention.

12. For the avoidance of doubt, the section headed *Insurance Business with Long Term Risk Characteristics* (comprising paragraphs 41 to 44) continues to apply **to licensed insurers** to which this **solvency standard** applies.

13. Section 3.2 (Catastrophe Risk Capital Charge) does not apply for the purposes of this **solvency standard**.

14. In Section 3.3, in Table 2 – Exposure Classes and Resilience Capital Factors (which follows paragraph 60):

    (a) Exposure Class 5 (unpaid **premiums** < 6 months past due) does not apply; and

    (b) unpaid **premiums** (as referred to in column 1, and as defined in column 2 of exposure class 9 (other fixed interest and short term unpaid **premiums**)) does not apply; and

    (c) the following Exposure Class is inserted after Exposure Class 9:

9A Transactions between **captive insurer** and its parent owner or a subsidiary of its parent owner	Any debt, obligation, or other balance of any nature between a **captive insurer** and its parent owner or a subsidiary of its parent owner	15%

15. In section 3.3(c), Table 3 – Asset Concentration Risk Limits (which follows paragraph 79), the following obligation is inserted after the obligation relating to an obligation guaranteed by a New Zealand Local Authority or State-Owned Enterprise:

Exposures to the parent of the **captive insurer** or a subsidiary of that parent	66% (or $5m if greater)

15. Paragraph 86(c) is replaced with the following subparagraph:

(c) insurance liabilities are unearned premium liability plus unexpired risk liability plus net outstanding claims liability at a minimum 75% probability of sufficiency, as advised by the **appointed actuary**.

Standard Ends

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