

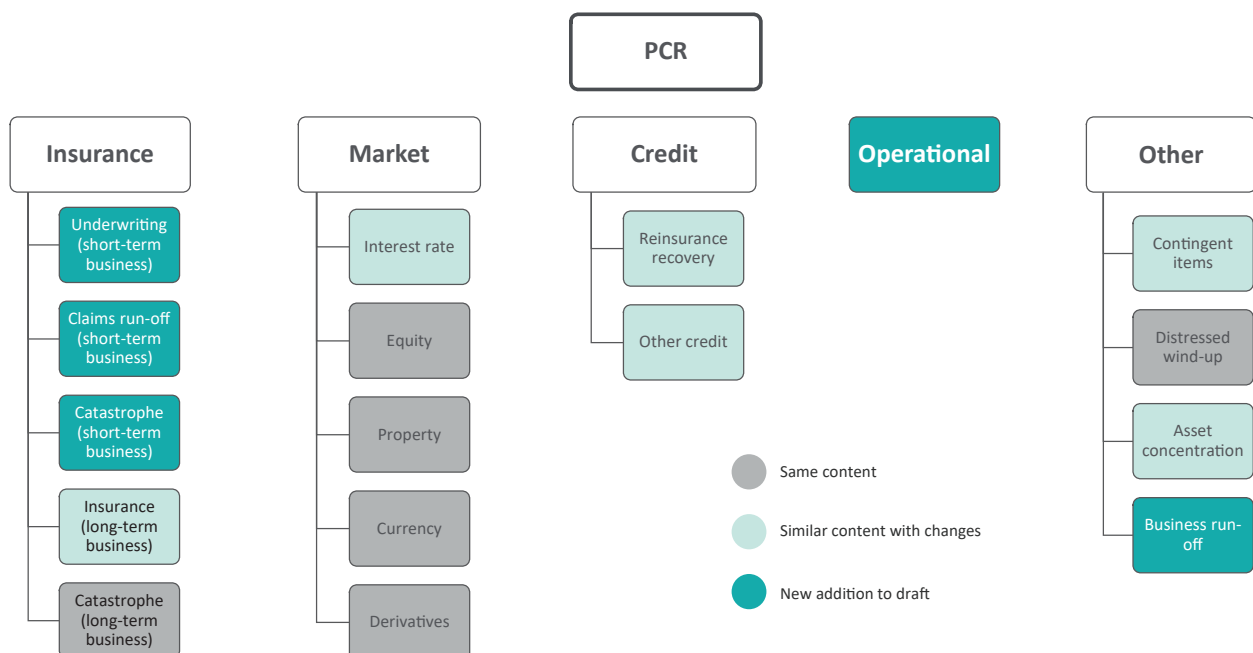


Solvency Consultation: Exposure draft of the Interim Solvency Standard Comparison to Life Standard

This document has been produced to assist life insurers in understanding both the broad changes in the capital requirements as prescribed in the Exposure draft of the Interim Solvency Standard and how these map to the existing Solvency Standard for Life Insurance Business 2014 .




Types of capital charge

The diagram below provides a summary of the capital charges included in the Exposure draft of the Interim Solvency Standard. Colour coded blocks are used to identify similarities, additions or changes compared to the Solvency Standard for Life Insurance Business 2014 .






Mapping




The table below provides a mapping of the Solvency Standard for Non-life Insurance Business 2014 to the Exposure draft of the Interim Solvency Standard. Equivalent paragraphs (with or without change) are identified along with new additions.

 Same content
  Similar content with changes
  New addition to draft

Topic	Draft of the Interim Solvency Standard	Solvency Standard for Life Insurance Business 2014	Key Changes/Comments
Application	<i>Para 6 – 8</i>	<i>Para 4, 12, 14, 21 – 22</i>	
Purpose	<i>Para 9 – 12</i>		An explicit purpose of the standard is given, including the intended calibration of a 1 in 200 risk (apart from seismic risk)
General Provisions	<i>Para 14 – 16</i>	<i>Para 9 – 11</i>	
	<i>Para 17</i>		Clarifies interaction with other statutory fund requirements
Related party exposures	<i>Para 18</i>	<i>Para 20</i>	Para 18 (iii) relates to captive licensed insurers
Simplifying assumptions or methodologies	<i>Para 19</i>	<i>Para 24</i>	
Definitions	<i>Para 20</i>	<i>Para 25</i>	<p>The following points are addressed in the definitions section:</p> <ul style="list-style-type: none"> • Best Estimate Liability includes the non-financial risk adjustment on top of the probability-weighted mean • Discretions are now explicitly defined in Appendix 7 • Product classes are specified which replaces the previous alignment with Insurer defined IFRS4 Related Product Groups or the equivalent IFRS17 Portfolios • Short term contracts are defined and their insurance risk in the body of the standard aligns with the current non-life standard rather than the life standard.
Capital Resources	<i>Para 21 – 22</i>		
Capital	<i>Para 23 – 24</i>	<i>Para 26 – 27</i>	
Insurance Items	<i>Para 25 – 27</i>		The interim standard takes a different approach to the existing standard. Due to IFRS17 changes, the draft standard requires adjustments to balance sheet items to create a “Standardised Balance Sheet”. In addition, some adjustments have been moved between capital charges and adjustments to available capital.
Adjustments to insurance items	<i>Para 28</i>		
Standardised insurance items	<i>Para 29 – 31</i>		
Discretionary wind-up	<i>Para 32 – 34</i>		
Fair value adjustment	<i>Para 35 – 36</i>		

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Topic	Draft of the Interim Solvency Standard	Solvency Standard for Life Insurance Business 2014	Key Changes/Comments
Deductions from capital	<i>Para 37</i>	<i>Para 28</i>	Some items currently listed in the deduction from capital moved to wind-up charge
Financial reinsurance	<i>Para 38 – 39</i>	<i>Para 43 – 44</i>	There is new guidance that “highly unlikely” means a probability of less than 0.1. (Appendix 2) Moves the repayable amount from an insurance risk charge to a deduction from capital.
Contingent assets & liabilities	<i>Para 40 – 43</i>	<i>Para 68 – 69</i>	
Disallowed instruments	<i>Para 44 (Appendix 1)</i>	<i>Appendix D</i>	
Perpetual instruments	<i>Para 45</i>	<i>Para 26 (b)</i>	
Capital requirements	<i>Para 46</i>		New concepts that replace Actual Solvency Capital and Minimum Solvency Capital
Prescribed Capital Requirement	<i>Para 47 – 48</i>	<i>Para 35</i>	Explicitly notes that if maintaining capital above PCR, insurers will generally not be subject to additional supervision
	<i>Para 49 – 50</i>	<i>Para 15 – 17</i>	
Insurance Risk	<i>Para 51 – 52</i>		Components of Insurance risk – equivalent to Insurance Risk Capital charge and Catastrophe Risk
Short-term Insurance Risk	<i>Para 53 – 62</i>	<i>N/A (General Insurance)</i>	Note that this section may apply for any Short-term insurance contracts regardless of issuing entity
Long-term Insurance Risk	<i>Para 63</i>	<i>Para 39</i>	
	<i>Para 64</i>	<i>Para 43 (a-c), Para 34</i>	Deducts Best Estimate Liability within the Insurance Risk Charge
	<i>Para 65</i>	<i>Para 43 (i) excl d (ii & iii)</i>	Removal of other liabilities
Catastrophe Risk (Long-term)	<i>Para 66 – 73</i>	<i>Para 46 – 53</i>	
Collective Investment Vehicles	<i>Para 74 – 75</i>	<i>Para 63 – 64</i>	
Hypothecated portfolios	<i>Para 76</i>	<i>Para 58 (d)</i>	
Market Risk	<i>Para 77 – 78</i>	<i>Para 54</i>	Components of market risk – equivalent to Resilience Risk Capital Charge and Reinsurance Recovery Risk Capital Charge
Interest rates	<i>Para 79 – 82</i>	<i>Para 83 – 84, 87</i>	Charge now applied to unstressed liabilities which will be interest rate sensitive for long term liabilities (. Table of interest rate sensitivities is calibrated for different current interest rates including removal of interest rate floor.

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Topic	Draft of the Interim Solvency Standard	Solvency Standard for Life Insurance Business 2014	Key Changes/Comments
Equity	<i>Para 83</i>	<i>Para 66 (Table 1)</i>	
Property	<i>Para 84 – 85</i>	<i>Para 66 (Table 1)</i>	
Foreign currency	<i>Para 86 – 90</i>	<i>Para 77 – 81</i>	
Derivative instruments	<i>Para 91 – 92</i>	<i>Para 71 – 75</i>	
Credit Risk	<i>Para 93 – 94</i>		Now groups Reinsurance Recovery Risk with credit risk
Counterparty grades	<i>Para 95 – 98</i>	<i>Para 104 – 107</i>	
Reinsurance Recovery	<i>Para 99</i>	<i>Table 5</i>	New “in dispute” category with 50% charge
	<i>Para 100</i>	<i>Para 100 – 102</i>	Applied to standardised reinsurance LRC where an asset to the entity (currently applied to Solvency LRC which includes the CTV floor). Also applied to Reinsurance LIC (currently applied to stressed Reinsurance Incurred Claims).
Other Credit Risk	<i>Para 102 – 104</i>	<i>Para 66 (Table 1)</i>	Some minor changes including AA rate fixed interest < 1 year now has a 1% charge rather than 2%
Operational Risk	<i>Para 105</i>		New charge for Operational Risk
Other Capital Charges	<i>Para 106</i>		Components of other Capital Charges – Contingent items (previously part of Resilience Risk), Distressed Wind-up (previously included in Deductions from capital), Asset Concentration Risk and new Business Run off Risk.
Contingent items	<i>Para 107 - 108</i>	<i>Table 1</i>	Previously there was a charge of 20% of contingent liabilities. Now consideration must be given to a range of outcomes & holding the 99.5th percentile vs the standard outcome
Distressed wind-up	<i>Para 109</i>	<i>Para 28 (a-e)</i>	
Asset Concentration Risk	<i>Para 111 – 115</i>	<i>Para 90 – 93, 97</i>	
	<i>Para 116</i>		Now applies concentration risk to interest rate risk as well as credit risk
	<i>Para 117</i>	<i>Para 93</i>	Now includes market risk
	<i>Para 118 – 120</i>	<i>Para 95 – 96</i>	
Business run-off	<i>Para 121 – 123</i>		New charge for run-off maintenance expenses as business falls below scale
Other Capital Requirements	<i>Para 124 – 130</i>		Formalises the Reserve Bank authority to adjust solvency requirements for individual insurers, makes these adjustments visible through new definitions, and introduces Minimum Capital Requirement @ 80% PCR

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Topic	Draft of the Interim Solvency Standard	Solvency Standard for Life Insurance Business 2014	Key Changes/Comments
Reporting and accountability: Obligations of the licensed insurer	<i>Para 131 – 140</i>	<i>Para 125-134</i>	
	<i>Para 141</i>	<i>Para 135-136</i>	Updated disclosure requirements for the concepts that replace Actual Solvency Capital and Minimum Solvency Capital
	<i>Para 142 – 143</i>	<i>Para 137-138</i>	Requires two bases – allowing for capital movements and allowing for no capital movements
Reporting and accountability: Obligations of the appointed Actuary	<i>Para 144 – 150</i>	<i>Para 139-143</i>	Specified actuarial information now underpinned by IFRS 17
	<i>Para 151-153</i>		Explicit requirement for adjustments as a result of the Appointed Actuary review to be incorporated in Solvency Calculations
	<i>Para 154 – 155</i>	<i>Para 144 – 145</i>	
	<i>Para 156</i>	<i>Para 147</i>	Four materially new obligations (xi) Outsourcing; (xii) Financial projections; (xiii) Conduct; (xiv) Premium adequacy
	<i>Para 157</i>	<i>Para 147 h,i,l</i>	
	<i>Para 158</i>	<i>Para 148</i>	
	<i>Para 149-150</i>	<i>Para 159-160</i>	

Get in touch:



Shami Shearer

Director

Tel: +64 9 306 4407

Email: sshearer@deloitte.co.nz



Caroline Moy

Associate Director

Tel: +64 4 495 3937

Email: cmoy@deloitte.co.nz



Lee-Ann Du Toit

Partner

Tel: +64 4 470 3541

Email: ldutoit@deloitte.co.nz



Darren Fleming

Associate Director

Tel: +64 9 303 0783

Email: dafleming@deloitte.co.nz

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