



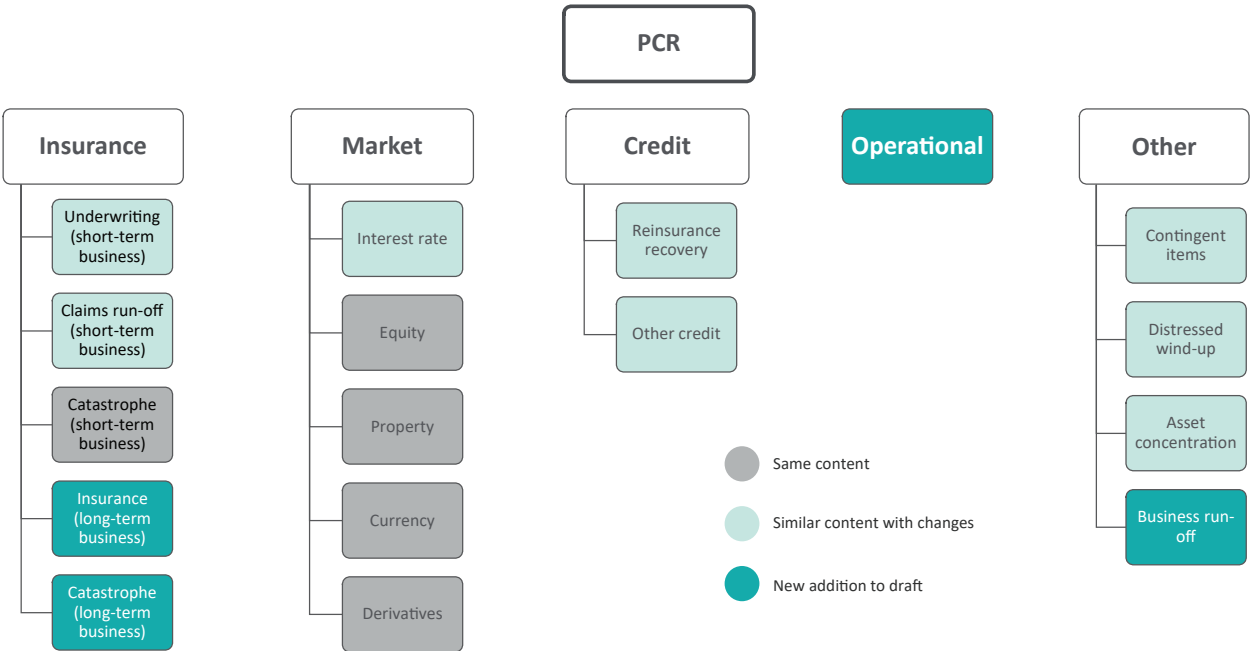
Solvency Consultation: Exposure draft of the Interim Solvency Standard

Comparison to Non-life Standard

This document has been produced to assist non-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 Non-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 Non-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 Non-life Insurance Business 2014	Key Changes/Comments
Application	Para 6-8	Para 4, 17-19	Continued exemption under Section 59(1) of the act
Purpose	Para 9 – 12		Now explicit 1 in 200 risk (apart from seismic) & noting that excess capital is not guaranteed non-failure
General Provisions	Para 14 – 16	Para 9-11	
	Para 17		Reference is made to a Statutory Fund (so not applicable)
Related party exposures	Para 18	Para 16	Para 18 (iii) relates to captive licensed insurers
Simplifying assumptions or methodologies	Para 19	Para 20	
Definitions	Para 20	Para 21	New definitions are introduced, many of which relate to life insurance. Also includes long-term references previously seen just in the life insurance standard.
Capital Resources	Para 21 – 22		Catastrophe risk capital charge is separate for long-term and short-term business.
Capital	Para 23 – 24	Para 22 – 23	Net outstanding claims liability and premium liabilities replaced by liability for incurred claims (LIC), liability for remaining coverage (LRC) as defined by IFRS 17.
Insurance Items	Para 25 – 27		Product classes are specified explicitly
Adjustments to insurance items	Para 28		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.
Standardised insurance items	Para 29 – 31		
Discretionary wind-up	Para 32 – 34		The interim standard states that it is not possible to use the Premium Allocation Approach to determine liability. This is a key point for non-life insurers and requires clarification.
Fair value adjustment	Para 35 – 36		
Deductions from capital	Para 37	Para 24	Some items currently listed in the deduction from capital moved to wind-up charge
Contingent assets & liabilities	Para 40 – 43	Para 64 – 66	The interim standard makes explicit mention of contingent assets (which should not contribute to Capital Resources)

 Same content
  Similar content with changes
  New addition to draft

Topic	Draft of the Interim Solvency Standard	Solvency Standard for Non-life Insurance Business 2014	Key Changes/Comments
Disallowed instruments	<i>Para 44 (Appendix 1)</i>	<i>Para 22 (Appendix C)</i>	
Perpetual instruments	<i>Para 45</i>	<i>Para 22 (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>		Explicitly notes that if maintaining capital above PCR, insurers will generally not be subject to additional supervision
	<i>Para 49 – 50</i>	<i>Para 12 – 15</i>	
Short-term Insurance Risk	<i>Para 53 – 54</i>	<i>Para 34 – 35</i>	The interim standard refers to a standardised liability for incurred claims (LIC) and liability for remaining coverage (LRC), and differentiates between open and closed entities for choice of LIC multiplication factor
	<i>Para 55 – 62</i>	<i>Para 46 – 55</i>	
Collective Investment Vehicles	<i>Para 74 – 75</i>	<i>Para 58 – 59</i>	
Hypothecated portfolios	<i>Para 76</i>		Now applies to both Life and Non-life business
Market Risk	<i>Para 77 – 78</i>		Now applies to both Life and Non-life business
Interest rates	<i>Para 79 – 82</i>	<i>Para 86 – 89</i>	Applies to “insurance items” as defined in para 25. Table of interest rate sensitivities calibrated for different current interest rates including removal of interest rate floor
Equity	<i>Para 83</i>	<i>Para 56, Table 2</i>	
Property	<i>Para 84 – 85</i>	<i>Para 56, Table 3</i>	
Foreign currency	<i>Para 86 – 90</i>	<i>Para 81 – 84</i>	
Derivative instruments	<i>Para 91 – 92</i>	<i>Para 67 – 71</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 93 – 96</i>	The draft standard more explicitly defines short-term issues. Tables 5.1, 5.2, and 6 now combined.
Reinsurance risk charge	<i>Para 99</i>	<i>Para 91</i>	
Reinsurance recovery asset	<i>Para 100 – 101</i>	<i>Para 92</i>	

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Topic	Draft of the Interim Solvency Standard	Solvency Standard for Non-life Insurance Business 2014	Key Changes/Comments
Other Credit Risk	Para 102	Para 60	
	Para 103 – 104	Table 2	<p>Four new exposure classes in addition to 'Short-term related party debt' being split from 'BBB rated fixed interest'.</p> <p>Instruction for how to treat an item that is attributable to multiple classes</p>
Operational Risk	Para 105		New charge for Operational Risk of at least 3% of premiums plus additional charge for a growing business
Other Capital Charges	Para 106		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	Para 107 – 108		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	Para 109 – 100		Applies to both Life and Non-life business
Asset Concentration Risk	Para 111 – 115	Para 72 – 74, 79	
	Para 116		Now applies concentration risk to interest rate risk as well as credit risk
	Para 117	Para 75	Now includes market risk
	Para 118 – 120	Para 76 – 78	New simplified explanation of calculation
Business run-off	Para 121 – 123		New charge for run-off maintenance expenses as an insurer in run-off falls below scale
Other Capital Requirements	Para 124 – 130		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 Non-life Insurance Business 2014	Key Changes/Comments
Reporting and accountability	Para 131 – 140	Para 97 – 106	
	Para 141		Updated disclosure requirements for the concepts that replace Actual Solvency Capital and Minimum Solvency Capital
	Para 142 – 143	Para 109 – 110	
	Para 144 – 145	Para 111	Now underpinned by IFRS 17
	Para 146 – 149	Para 112 – 114, 119	
	Para 150	Para 115	Now underpinned by IFRS 17
	Para 151	Para 116	
	Para 152 – 153	Para 117 – 118	Now underpinned by IFRS 17
	Para 154 – 155	Para 120 – 121	
	Para 156	Para 125	Four materially new obligations (xi) Outsourcing; (xii) Financial projections; (xiii) Conduct; (xiv) Premium adequacy
	Para 157 – 158		Additional requirements for long-term insurance contracts (para 157), with focus on reinsurance statements (para 158)
	Para 159 – 160	Para 126 – 127	

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