

**NEW ZEALAND SOCIETY OF ACTUARIES**  
**PROFESSIONAL STANDARD 31**  
**NON-LIFE INSURERS - FINANCIAL CONDITION REPORT**  
**MANDATORY STATUS**  
**EFFECTIVE DATE: 31 MARCH 2023**

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# **1 INTRODUCTION**

## **1.1 Application**

- 1.1.1 This Professional Standard applies to Members producing a Financial Condition Report (FCR) for an Entity that underwrites Non-Life Insurance and is applicable unless a more relevant RBNZ standard or Professional Standard applies.
- 1.1.2 Where the Entity carries on insurance business that is life insurance business, that is subject to the requirements of another solvency standard relevant to that life insurance business, as set out in the Solvency Standard, the Member must also take into account the requirements of that other solvency standard and of the Society's Professional Standards with respect to preparation of the FCR.
- 1.1.3 This Professional Standard does not override the requirements of the Society's Professional Standard 30.
- 1.1.4 When this Professional Standard refers to another document, the reference relates to the document as it was as at the effective date of this Professional Standard. The referenced document may be amended, restated, revoked, or replaced after the effective date. In such a case, the Member should consider the extent to which the modification is applicable and appropriate to the guidance contained in this Professional Standard.

## **1.2 Purpose**

- 1.2.1 The purpose of this Professional Standard is to provide Members with principles and directions that must be followed with regard to an impartial assessment of an Entity's financial condition and the adequacy of its Solvency Position in the preparation of the FCR.
- 1.2.2 The assessment includes discussing, and quantifying where practical, the implications of Material risks identified during the assessment and, where these implications are adverse, making recommendations as to how to address these risks.

## **1.3 Previous Versions**

This Professional Standard replaces Professional Standard 31, effective as at 1 January 2018.

## **1.4 Legislation**

- 1.4.1 The Act provides for RBNZ to issue prudential standards, regulating the activities of and imposing requirements on Insurers.

1.4.2 The Solvency Standard mandates that the Appointed Actuary must prepare an FCR in accordance with Section 56(d) of the Act.

1.4.3 If there is a difference between this Professional Standard and the applicable legislation, the legislation takes precedence. In this context, legislation includes regulations and any applicable standards made or issued under the authority of the Act, and any material incorporated by reference under Section 58 of the Act.

## 2 EFFECTIVE DATE

This Professional Standard takes effect on balance dates from and including 31 March 2023. Members may elect to use this Professional Standard earlier for balance dates from and including 31 December 2022 .

## 3 DEFINITIONS

Unless the context otherwise requires:

“**Act**” means the Insurance (Prudential Supervision) Act 2010.

“**Appointed Actuary**” has the meaning as defined in the Act.

“**Approved Rating Agency**” has the meaning as defined in the Act.

“**Board**” means the directors of an Entity, or equivalent.

“**Central Estimate**” has the meaning as defined in the Society’s Professional Standard 30.

“**Claims**” has the meaning as defined in the Society’s Professional Standard 30.

“**Class of Business**” has the meaning as defined in the Society’s Professional Standard 30.

“**Entity**” means one or more companies, corporations or other bodies with a liability to pay Claims, including Insurers as defined below.

“**Entity’s Plans**” means the plans of the Entity, current at the Report Date, including but not limited to budgetary, business, strategic and capital management plans.

“**FCR**” means Financial Condition Report, having the meaning as defined in the Solvency Standard.

“**Fund**” means a statutory fund.

**“Insurance Liability Valuation”** means a valuation of the non-life insurance liabilities of one or more Classes of Business carried out as at the Report Date.

**“Insurer”** means a licensed insurer as defined in the Act.

**“Material”** has the meaning as defined in Section 4. The Member must have due regard to the definition of Materiality in the Solvency Standard.

**“Member”** means a member of the Society.

**“Minimum Solvency Capital”** has the meaning as defined in the Solvency Standard. The terminology in the Solvency Standard may be “Minimum Solvency Capital” or “Prescribed Capital Requirement”

**“Outstanding Claims Liability”** has the meaning as defined in the Solvency Standard. The terminology in the Solvency Standard may be “Net Outstanding Claims Liability” or “Liability for Incurred Claims”

**“Premium Liabilities”** has the meaning as defined in the Solvency Standard. The terminology in the Solvency Standard may be “Premium Liabilities” or “Liability for Remaining Coverage”

**“Professional Standard”** means a Professional Standard of the Society.

**“RBNZ”** means the Reserve Bank of New Zealand.

**“Regulations”** means the Insurance (Prudential Supervision) Regulations 2010.

**“Report Date”** means the Entity’s financial year end to which the FCR relates (or any other date to which the FCR relates if not a financial year end).

**“Society”** means The New Zealand Society of Actuaries.

**“Solvency Capital”** has the meaning as defined in the Solvency Standard. The terminology in the relevant standard may be “Actual Solvency Capital” or “Capital Resources”

**“Solvency Position”** means the targeted level of solvency including Solvency Margin, Solvency Ratio or any other metric set out by condition of licence or under direction from the RBNZ.

**“Solvency Margin”** has the meaning as defined in the Solvency Standard.

**“Solvency Ratio”** has the meaning as defined in the Solvency Standard.

**“Solvency Standard”** means the RBNZ Solvency Standard made under Section 55 of the Act at the Report Date and includes any condition of licence, direction or otherwise imposed by the RBNZ specific to the Entity and any alternative RBNZ standard applicable to the Non-Life Insurer.

## **4 MATERIALITY**

### **4.1 Assessment of Materiality**

4.1.1 In case of omissions, understatements, or overstatements, the Member must assess whether or not the effect is material. The threshold of Materiality under which the work is being conducted must be determined by the Member unless it is imposed by another party such as an auditor or the party who engages the provider of actuarial services. When determining the threshold of Materiality, the Member must:

- Assess Materiality from the point of view of the intended user(s), recognising the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations;
- Consider the actuarial services and the entity that is the subject of those actuarial services; and
- Consult with the party who engages the provider of actuarial services if necessary.

4.1.2 Where Materiality has been imposed by another party it should be stated as such.

## **5 MATTERS TO CONSIDER AND REPORT**

### **5.1 Statements by Member**

5.1.1 The Member must sign and state the date of completion of the FCR.

5.1.2 Statements must be provided setting out who commissioned the Member's report, the scope of and purpose of the FCR, the Report Date, the specific terms of reference and any restrictions or limitations placed upon the Member.

5.1.3 The Member must state their opinion on the overall financial condition of the entity and as to whether:

- The policy information used to obtain the valuation of insurance liabilities is Materially accurate.
- All assumptions and methods used are appropriate for use in the preparation of the FCR and for the Entity's insurance contracts.
- All actuarial work in determining the Solvency Position was carried out in accordance with the relevant accounting

standard adopted by the Entity at the Reporting Date, the Solvency Standard applicable under the Entity's insurance licence and all Professional Standards issued by the Society;

- In their opinion and from an actuarial perspective, the Entity is maintaining the Solvency Position that applies under its licence;
- The Entity is likely to maintain the Solvency Position that applies under its licence at all times within the next three years, taking account of the Entity's forward looking assessment of the solvency position and the Member's view of the Entity's business plans, risk management practices and the external environment; The Entity needs to consider reporting to the RBNZ under Section 24 of the Act;
- The steps taken by the Entity to address the Material risks that pose a threat to its ability to meet the Solvency Standard now and in the future are adequate; and
- The FCR has been prepared in accordance with this Professional Standard and the applicable Solvency Standard.

5.1.4 In addition to the contents of this Professional Standard, in deciding on the content and the level of detail for reporting, the Member must have regard to the reporting requirements given in the Society's Professional Standard 90 and any applicable legislation, regulations, standards and guidance.

## **5.2 Information**

5.2.1 The Member must advise the Entity of the information required, including data and reports that the Member will need, as well as the staff and relevant contractors of the Entity with whom the Member will need to consult, in order to prepare the FCR.

5.2.2 The Member must document in the FCR the steps taken to verify to the extent possible the consistency, completeness and accuracy of the information provided by the Entity. Material discrepancies that cannot be resolved with the Entity must be reported in the FCR, together with the consequent limitations of the FCR.

5.2.3 Where the Member places reliance upon others to provide information required, and this information is limited, or not forthcoming, the Member must note this in the FCR, together with an assessment of the consequent limitations of the FCR. The Member should be aware that under Section 80 of the Act, the insurer is required to provide reasonable access to information.

5.2.4 Where the Entity does not provide adequate and timely access to

Material information (including data and reports) and staff as required by the Member, and the information cannot otherwise be practically obtained, the Member may omit from the FCR analysis that is dependent on that information, but must provide an explanation as to why it has been omitted and an assessment of the consequent limitations of the FCR.

- 5.2.5 The Member may need to deal with issues that are not within the relevant skills and experience of the Member. In this situation the Member will need to utilise the skills and experience of others and may rely on other relevant experts provided adequate disclosure is included on the nature of that reliance.

### **5.3 Level of detail**

- 5.3.1 Unless otherwise required by RBNZ, a single FCR may be produced for an Entity. Where the FCR is produced for an Entity, this single FCR must address separately the operations of each Insurer / Fund within that Entity.

### **5.4 Matters for consideration**

- 5.4.1 The Member must consider each of the matters listed below, with consideration as at the Report Date of historical analysis and future implications, where applicable:
- business and operations;
  - recent experience;
  - insurance risk;
  - insurance and other liabilities;
  - investments and other assets;
  - reinsurance arrangements;
  - capital management;
  - solvency assessment;
  - capital adequacy;
  - risk management; and
  - any other items that the Member considers Material.



- 5.4.2 Where a member omits any of the above areas of consideration, that omission and the rationale behind that decision is noted in the FCR.

## **5.5 Business and operations**

- 5.5.1 The FCR must include general background information about the corporate structure and operations of the Entity, including its financial strength rating from an Approved Rating Agency where applicable. It must also include relevant information about the external environment in which the Entity operates.

- 5.5.2 General background information includes:

- relevant information about the Entity's Plans, including any conditions imposed on the Entity by RBNZ;
- the nature, terms and conditions of the contracts in force and currently being sold with particular reference to all options and guarantees; and
- the scope for adjusting the terms and conditions in the light of emerging experience.

- 5.5.3 The Member must comment on Material risks to the financial condition of the Entity, now or in the future, arising from the Entity's Plans and any Material risks that directly relate to the ongoing management of the Entity at the Report Date.

- 5.5.4 In preparing the FCR, the Member must comment on whether they are aware of any potential for other parts of the corporate group to which the Entity belongs to Materially affect the financial condition of the Entity.

- 5.5.5 In preparing the FCR, the Member must comment on whether they are aware of any operational risk matters that have the potential to Materially affect the financial condition of the Entity now or in the future.

## **5.6 Recent experience**

- 5.6.1 The Member must comment on the past performance of the Entity, including consideration of significant features or trends in the Entity's recent experience, over a period of at least three previous years, to the extent that it is available. This assessment must include premiums, claims, expenses, commissions, investment return, profits/losses, other comprehensive income and any other item that impacts retained earnings.

- 5.6.2 Deviations of actual experience from the expected experience in the

Entity's Plans over at least the period since the previous balance date must also be discussed, including an assessment of the reasons for these deviations.

- 5.6.3 The Member must comment on the steps taken, or proposed to be taken, by the Board or senior management of the Entity to address areas of Material deviation from expected experience.
- 5.6.4 The Member must provide an analysis of both the retained earnings reported and solvency surplus emerging that identifies the key drivers of the change in retained earnings over the year and the ramifications for future retained earnings and solvency results.

## **5.7 Insurance risk**

- 5.7.1 The Member must outline and comment on Material issues arising from the Entity's pricing processes and underwriting and claim management practices.
- 5.7.2 The Member must assess historical premium adequacy and comment on whether expected future profitability is Materially in line with the Entity's Plans.
- 5.7.3 The Member must comment on the risk profile of the business that has been underwritten. This commentary may include an analysis by sum insured, number of policies written, geographical spread of risks and by Class of Business.
- 5.7.4 The Member must comment on Material risks arising from exposure to large claims, claims variation and events such as catastrophes.

## **5.8 Insurance and other liabilities**

- 5.8.1 The FCR must include a summary of the Outstanding Claims Liability, Premium Liabilities, and Material considerations arising from the Insurance Liability Valuation. The Member must comment on whether the provisions adopted by the Board for the statutory accounts are different from the liabilities as noted in the valuation.
- 5.8.2 The Member must include an assessment of the adequacy of past Central Estimates of Outstanding Claim Liabilities against the subsequent actual claims experience over a period of at least three years, if available.
- 5.8.3 The Member must include comments on any Material implications for the adequacy of current estimates of Outstanding Claims Liabilities arising out of the review of historical estimates.
- 5.8.4 The Member must comment on the Material risks arising from the Entity's other liabilities, including off balance sheet liabilities.

5.8.5 The Member must comment on investigations they have made into the Entity's exposure to any contingent liabilities, as defined in the Solvency Standard, and if they exist, the impact on the financial condition of the Entity.

## **5.9 Investments and other assets**

5.9.1 The Member must comment on the Entity's approach to asset management, state its investment philosophy if any, and summarise the asset allocation.

5.9.2 The Member must comment on Material risks arising from the Entity's:

- liability profile and liquidity needs;
- investment assets;
- other assets;
- nature, currency and duration mismatch of assets with respect to insurance liabilities;
- methods for valuing assets and non-insurance liabilities, particularly changes in those methods since the previous valuation; and
- use of derivatives.

## **5.10 Reinsurance arrangements**

5.10.1 The Member must state the Entity's reinsurance approach.

5.10.2 The Member must outline and comment on Material risks arising from the use of the Entity's specified reinsurance approach, and from its actual current and past reinsurance arrangements, having regard to the Entity's liability profile.

5.10.3 The Member must outline and comment on Material risks arising from the Entity's reinsurance arrangements, having regard to the documentation and extent of placement of reinsurance arrangements, obligations to pay future reinsurance premiums and the degree of certainty of the Entity's ability to make reinsurance recoveries under these arrangements, the termination conditions of the arrangements and the degree of risk transfer.

5.10.4 The Member must comment on the method used to calculate the Entity's Catastrophe Risk Capital Charge (as defined in the Solvency Standard) and comment on any limitations of the

method.

### **5.11 Capital management**

- 5.11.1 The Member must describe the Entity's capital management framework and approach.
- 5.11.2 The Member must comment on the setting of the Entity's capital targets adopted within its management framework.
- 5.11.3 The Member must describe and comment on Material risks to the financial condition arising from the Entity's approach to setting and monitoring capital resources over time, including dividend policy and needs for future capital to support the Entity's Plans.

### **5.12 Solvency assessment**

- 5.12.1 The Member must summarise the Solvency Standard assessment as at the Report Date and include historical assessments if available. The summary must explain the adjustments between the Statement of Financial Position and the solvency items. The Solvency Capital, Minimum Solvency Capital and detail the individual capital charges as defined in the Solvency Standard must be shown. Where a solvency licence condition requires additional amounts of capital to be held this must be disclosed.
- 5.12.2 The Member must comment on trends in the Entity's compliance with the Minimum Solvency Position imposed under its licence, and its capital targets, for the last three years, if available. The Member must comment on the extent of, and reasons for, identified breaches of the Entity's Solvency Position or of its capital targets since the previous FCR, and the actions that were taken by the Entity to rectify such breaches.
- 5.12.3 The Member must comment on the nature and quality of the capital of the Entity and whether it is freely available.
- 5.12.4 The Member must identify the key inputs to which the Entity's Solvency Position is most sensitive and quantify the impact on the Solvency Position of changes to those inputs.

### **5.13 Capital adequacy**

- 5.13.1 The Member must comment of the Entity's ability to adhere to its internal capital targets set out in section 5.11.1.
- 5.13.2 The Member must report and comment on the sources of movement in the projected Solvency Position over the three year period starting from the Report Date. The forward looking assessment of the Solvency Position must take account of:

- the Entity's business plans;
- the Entity's risk management practices;
- the external environment; and
- variations in key assumptions.

5.13.3 The Member must consider and comment on the Entity's capacity to meet the Solvency Position imposed under its licence and its capital targets over at least the next three years.

5.13.4 The Member must comment on the adequacy of the projected Solvency Position. The Member must note the basis used to carry out the forward looking assessment of the Solvency Position.

#### **5.14 Risk management**

5.14.1 The Member must comment on Material risks identified from the Risk Management Programme as defined under Section 73 and 74 of the Act

#### **5.15 Other Matters**

5.15.1 Where the RBNZ requires the actuary completing a Financial Condition Report for the purposes of the Solvency Standard to investigate and comment on other matters these should be included in the report

#### **5.16 Conclusions and recommendations**

5.16.1 The Member must provide a general statement as to their opinion of the financial condition of the Entity.

5.16.2 The Member must comment on the Material risks (of which it is reasonable to expect the Member to be aware) facing the Insurer that, in the Member's opinion, pose a threat to the Insurer's financial condition and in particular its ability to maintain an adequate Solvency Position as at the Report Date and subsequent three years, and where practicable quantify such risks.

5.16.3 The Member must comment on any steps being carried out by the Entity to mitigate these risks and provide recommendations to further address these risks, if required.

5.16.4 The Member must state the recommendations set out in the previous FCR and comment on the extent to which the Entity has addressed them.

