



13 June 2014

Felicity Barker
Adviser
Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Dear Felicity

Solvency Standard for Life Insurance Business: Financial Reinsurance consultation on exposure draft

The New Zealand Society of Actuaries (“the Society”) welcomes the opportunity to comment on the consultation paper issued by the Reserve Bank of New Zealand (RBNZ) in May 2014 with regard to proposed changes to the Solvency Standard for Life Insurance Business.

Input to this submission has been provided by the Society’s Life Insurance Practice Committee, together with various Society members and has been approved by the Council. We would be happy to meet with you to provide further clarification to our points below if this would be useful. Please contact Catherine Johnston (Catherine_johnston@amp.co.nz or Ph 04-498-8551) in the first instance.

We note that the purpose of the current consultation paper is to seek comments regarding the technical workability of the text of the proposed amendments. Our comments below outline those areas where we believe there are potential issues in this respect.

Reinsurance Benefits

Appendix 1, New 62., indicates that the benefits of a reinsurance arrangement must not be netted from the Solvency Liability if certain conditions apply. 62.(b)iii.A. indicates that one of these conditions is that “the reinsurance agreement may be terminated or will terminate in relation to existing reinsured business without the licensed insurer giving consent or agreeing to that termination at the time of the termination”.

Many reinsurance agreements contain clauses which allow the reinsurer to unilaterally terminate the treaty on the insurer’s insolvency. Such a clause does not absolve the reinsurer with respect to claims already incurred on existing policies, but would allow the reinsurer to be released from the obligation to pay amounts on future claims yet to be incurred on existing policies.

This would effectively be the same outcome as clause New 63(a) if the insurer went into insolvency and could not pay premiums due to the reinsurer. However in the case of the former, the insurer cannot count any reinsurance benefit, while in the latter it can.



We submit that clause New 62.(b)iii. be amended to allow, in such circumstances, a reinsurance benefit to be recognised if the insurer is projected to be solvent under the stressed scenario on a gross basis and, in that scenario, the reinsurer could not terminate the arrangement.

This should also be reflected in the proposed amendment to paragraph 66 with respect to the Catastrophe Risk Capital Charge (CRCC) where we submit that an insurer should be able to count a reinsurance benefit as long as the reinsurer is obligated to cover incurred losses (arising from the catastrophe) prior to any termination.

Financial Condition Report

With regard to the additions to existing paragraph 151, we note that in v. the phrase “if subparagraph (vi)” should be “if subparagraph (iv)”.

Yours sincerely
for New Zealand Society of Actuaries (Inc)

A handwritten signature in black ink that reads "Catherine Johnston".

Catherine Johnston
Life Insurance Committee (Convenor)

A handwritten signature in black ink that reads "Paul Rhodes".

Paul Rhodes
President