

# The Dynamics of New Zealand's Solvency Reforms

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New Zealand Society of Actuaries Conference  
Blenheim  
November 2010

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- Purpose of Paper
- NZ general insurance balance sheet
- RBNZ non-life solvency standard
- Dynamics of solvency standard
- Conclusions

- Generate NZ general insurance industry position
- Understand potential impact of solvency reforms
- Comparison to APRA standard
- Stress test risk charges

# New Zealand non-life balance sheet



- 23 non-life, non-health insurers
  - ▶ ~90 – 95% of industry
- 2008 IFRS balance sheets
- GFC
- Christchurch earthquake impact

# New Zealand non-life balance sheet



## **2008 NZ Industry Balance Sheet**

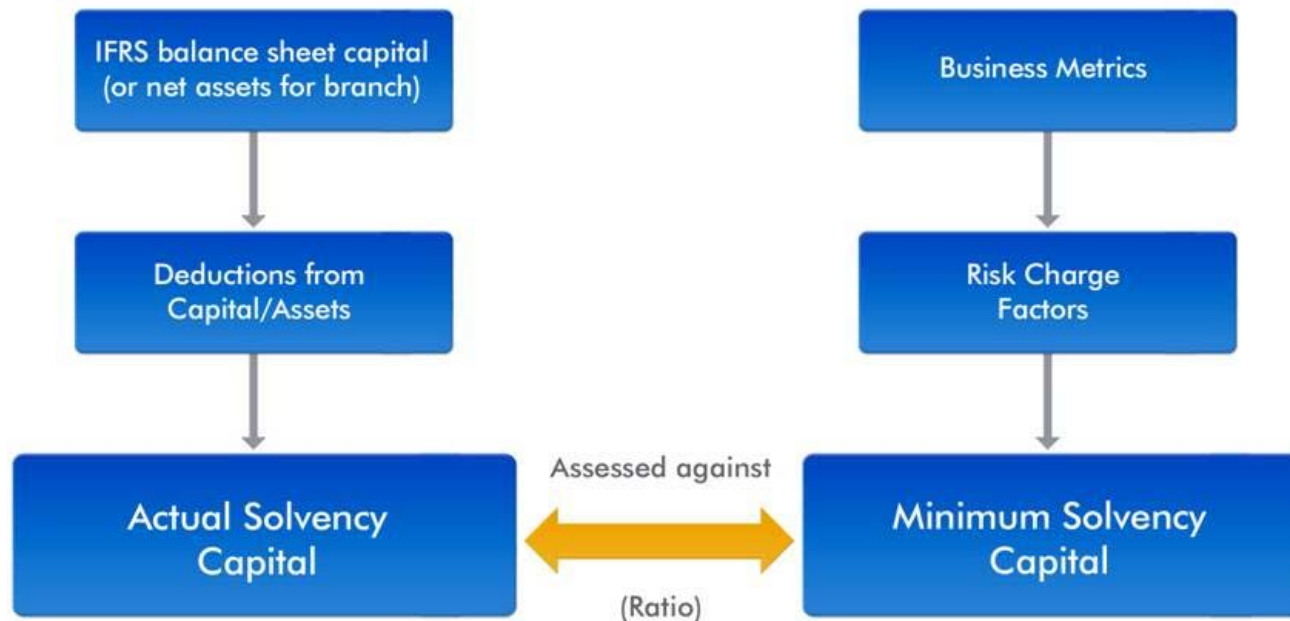
<b>Assets</b>	<b>\$m</b>
Cash and Investments	3,120
Receivables	1,060
Intangibles	370
Other Assets	1,030
<b>Total Assets</b>	<b>5,580</b>
<b>Liabilities</b>	
Outstanding Claims Provision	1,290
Unearned Premium	1,660
Other Liabilities	860
<b>Total Liabilities</b>	<b>3,810</b>
<b>Total Net Assets</b>	<b>1,770</b>

- \$1.8 billion of Equity
  - ▶ \$22 billion in Australia
- OSCP 33% of total liabilities
  - ▶ 60% on Aust Bal Sheet
- UEP 44% of total liabilities
  - ▶ 24% on Aust Bal Sheet
- Investments 56% of total assets
  - ▶ 64% on Aust Bal Sheet

# RBNZ non-life insurance solvency standard



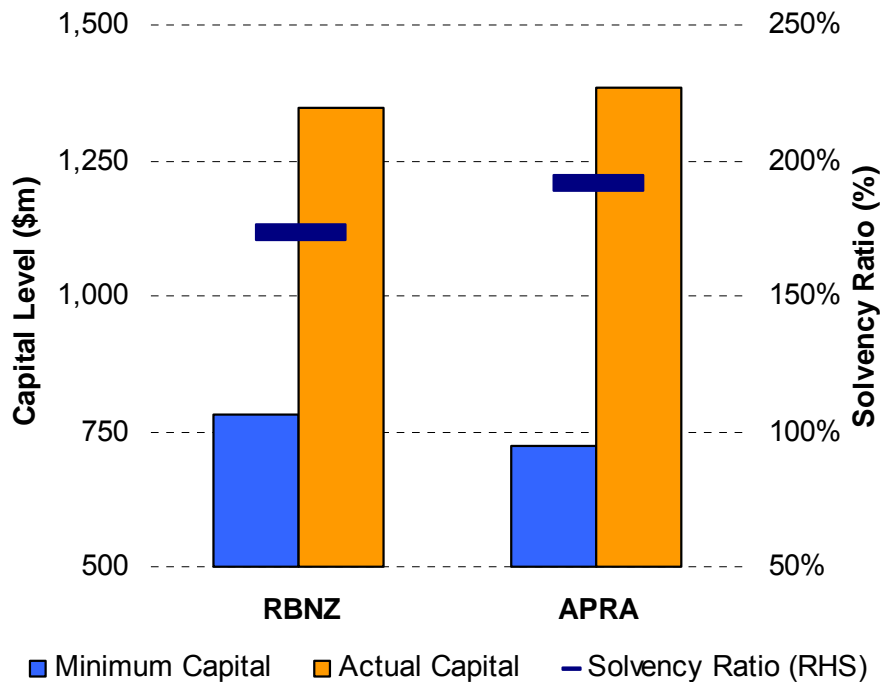
- 4<sup>th</sup> iteration released 20 October 2010
  - ▶ Close to final
- Minimum Solvency Capital (MSC)
  - ▶ 6 risk components
- Actual Solvency Capital (ASC)
  - ▶ Total Equity less Deductions



# NZ Industry Solvency Comparison

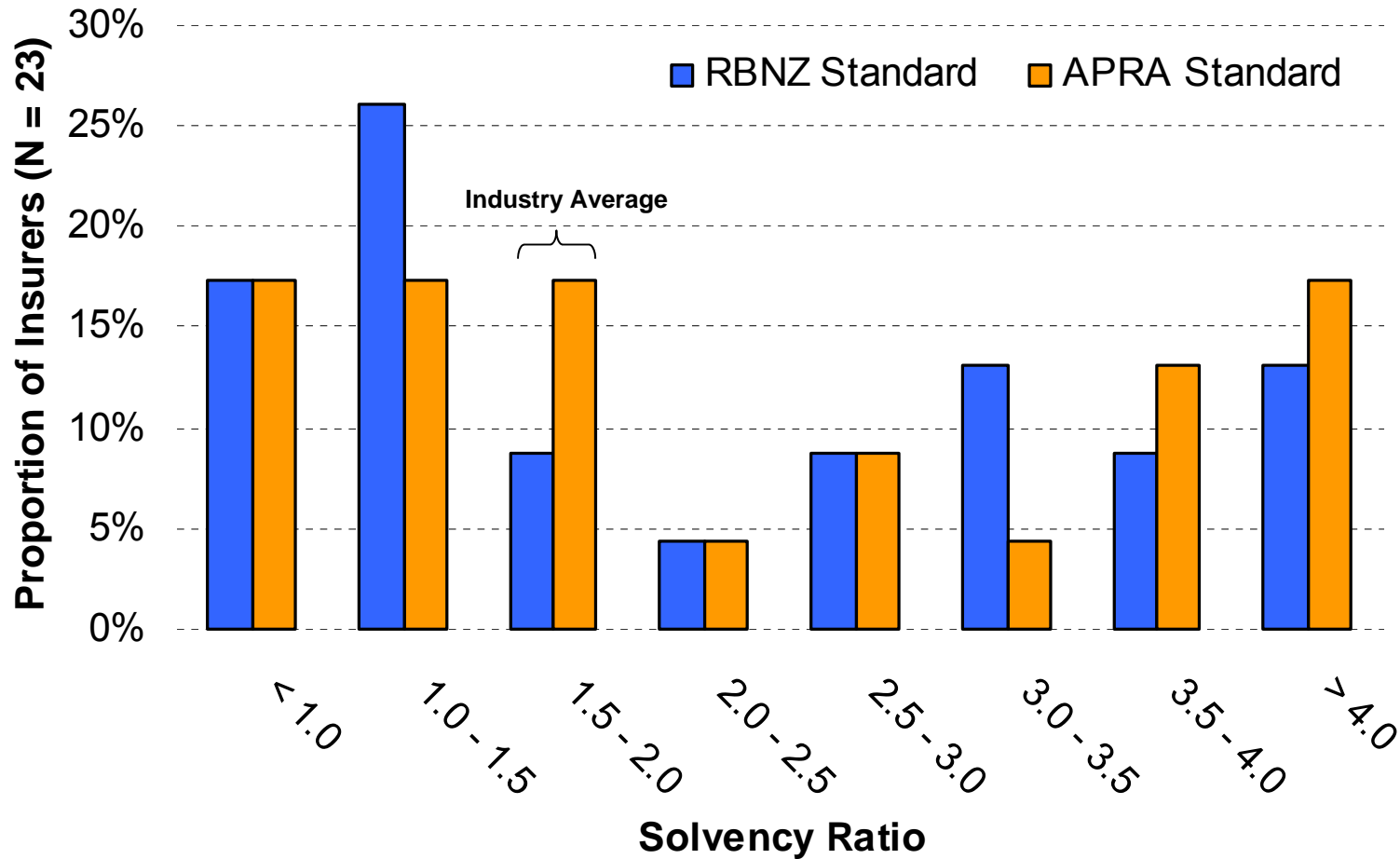


## New Zealand Industry

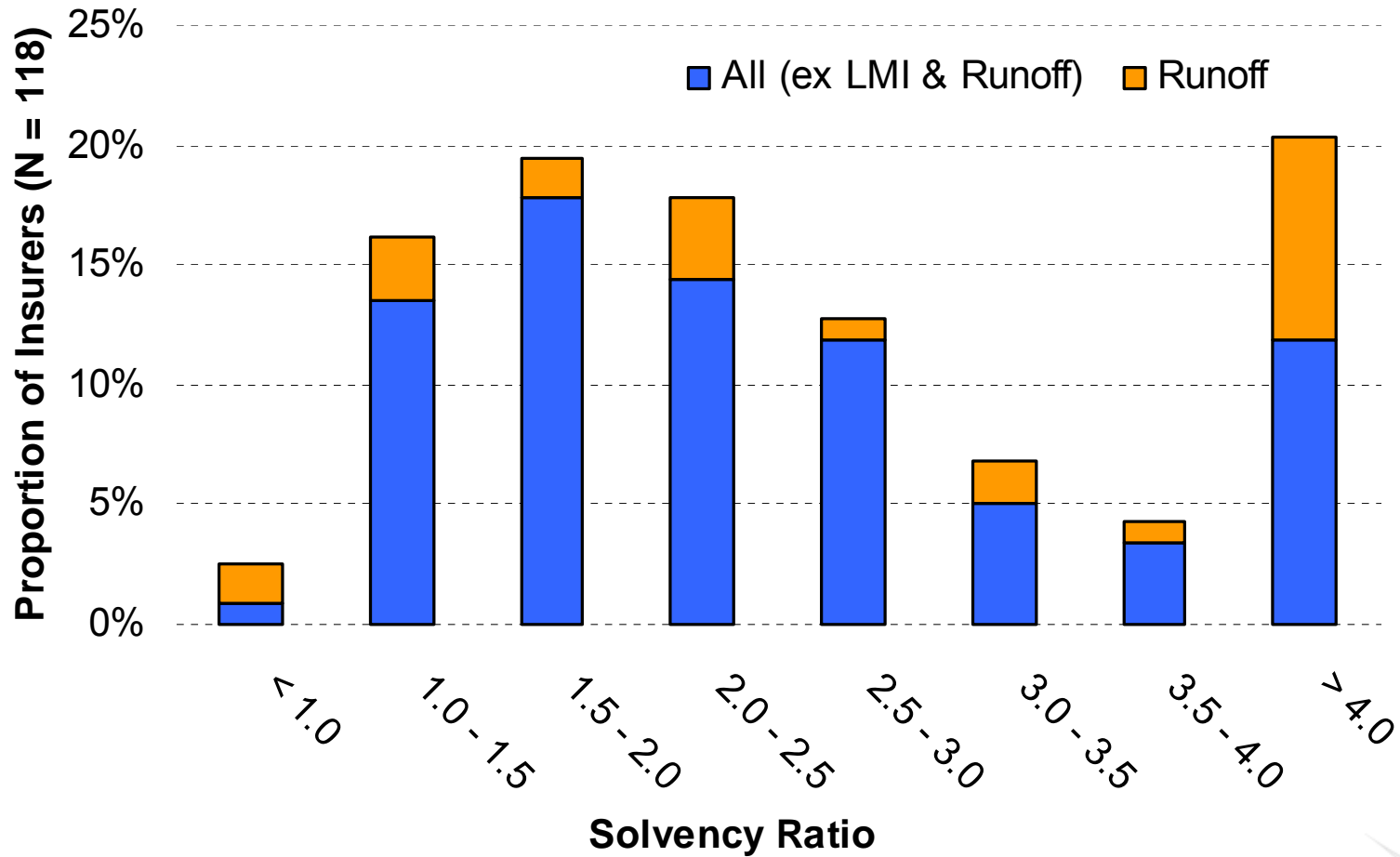


- Solvency Ratio -
  - ▶ 175% RBNZ vs.
  - ▶ 190% APRA
- RBNZ slightly lower actual capital
  - ▶ Excess risk margins
- RBNZ higher minimum capital
  - ▶ Asset risk charges
  - ▶ Interest rate risk charge

# NZ Industry Solvency Distribution



## APRA Solvency Basis



# Minimum Capital Breakdown



## New Zealand Industry only

Risk Charge	New Zealand	
	RBNZ	APRA
Asset Risk	23%	18%
Interest Rate Risk	1%	0%
Reinsurance Recovery Risk	3%	3%
Underwriting Risk	25%	27%
Run-off Risk	13%	14%
Catastrophe Risk	35%	38%
Total	100%	100%
Minimum Capital (\$m)	779	724

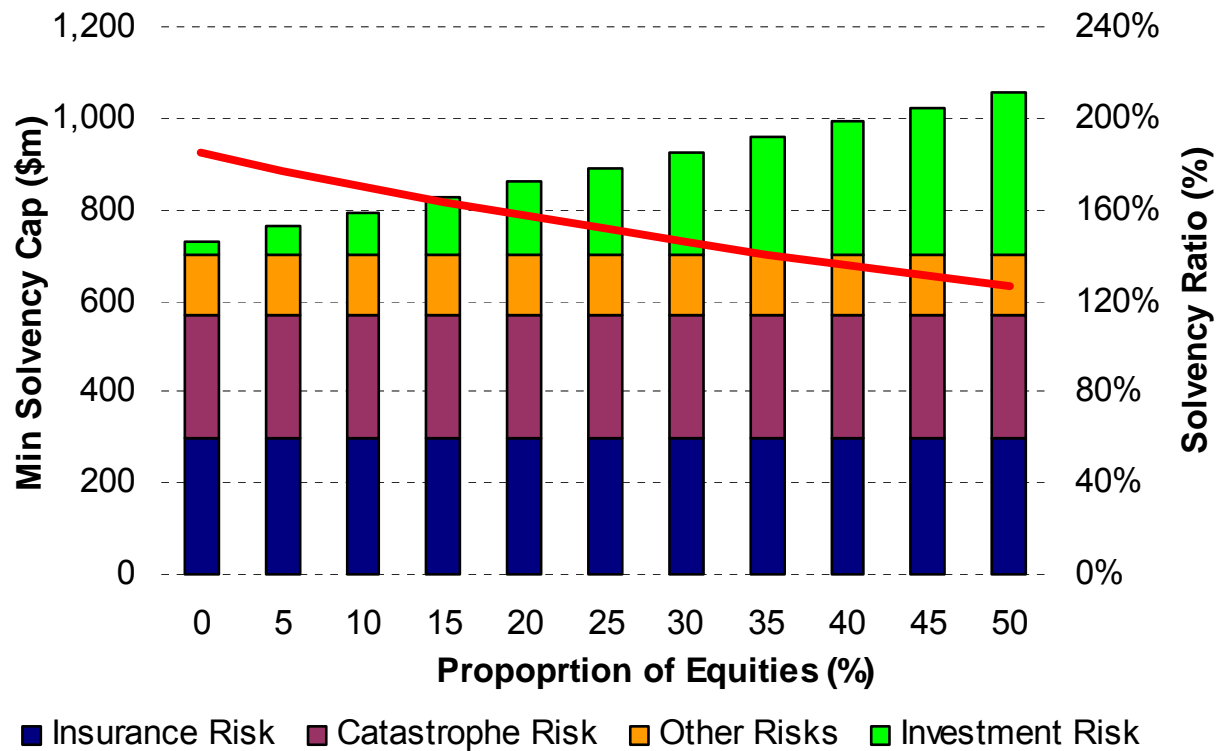
- Asset risk \$50 million higher relative to APRA
- Interest rate risk around \$4 million
- Other charges similar \$ amounts

## New Zealand v. Australia Industry (APRA Basis)

Risk Charge	APRA Basis	
	NZ	Australia
Asset Risk	18%	22%
Interest Rate Risk	0%	0%
Reinsurance Recovery Risk	3%	5%
Underwriting Risk	27%	18%
Run-off Risk	14%	39%
Catastrophe Risk	38%	15%
Total	100%	100%
Minimum Capital (\$m)	724	9,645

- NZ industry has -
  - ▶ Higher Underwriting and Catastrophe risk
  - ▶ Lower Run-off and Asset risk
- APRA proposing significant changes

# Solvency Dynamics - Investments



- 0% to 50% equity mix will result in -
  - ▶ 45 point differential in RBNZ solvency ratio
  - ▶ 34 point difference under APRA

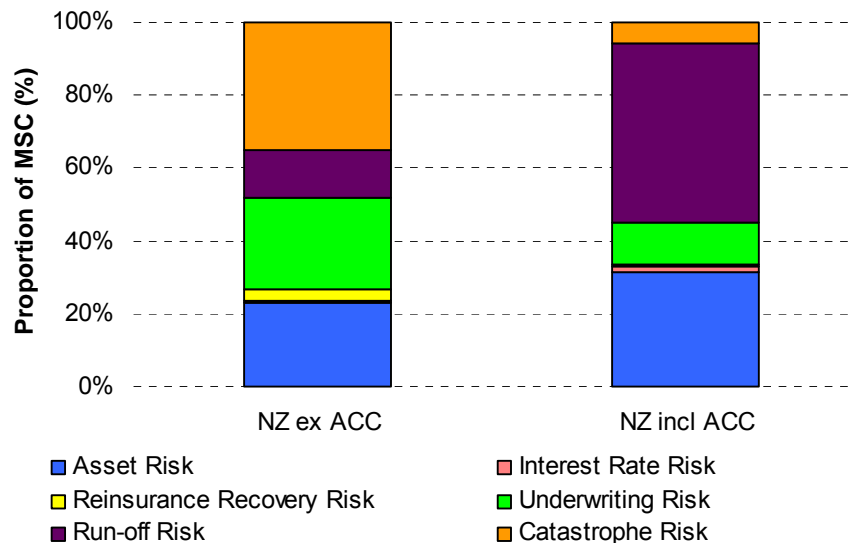
# Solvency Dynamics – A/L Matching



Duration Mismatch	\$ MSC Impact	% of MSC
	\$m	
- 1.0 years	37.2	4.6%
- 0.5 years	16.5	2.1%
Matched	4.3	0.6%
+ 0.5 years	24.3	3.1%
+ 1.0 years	44.1	5.5%

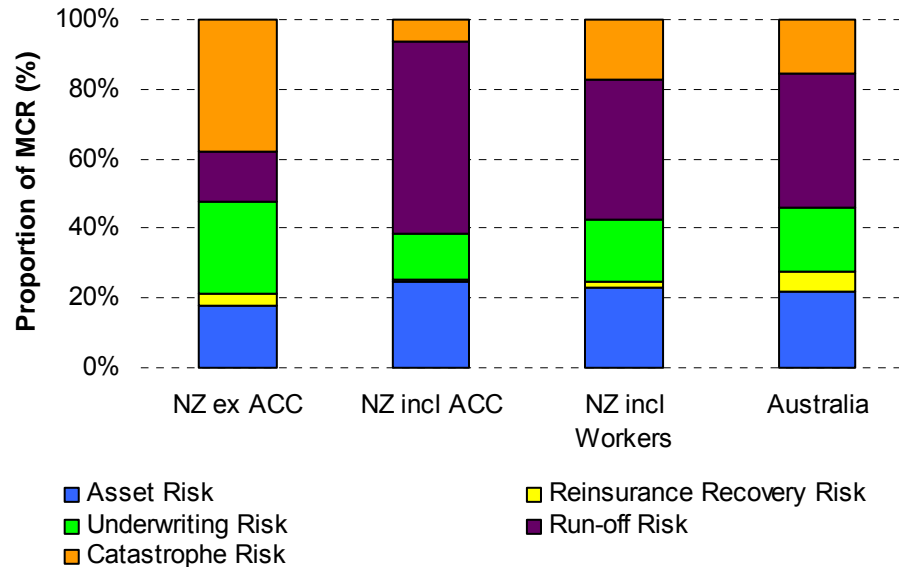
- 1 year mismatch would lead to 9 point fall in solvency
- More significant for long-tailed business
- No impact under current APRA standard
  - ▶ Under review → Large increase in APRA MCR

## RBNZ Solvency Basis



- Bodily injury insurance in New Zealand dominates
- Unrealistic comparison
  - ▶ ACC has no reinsurance
  - ▶ Some parts of ACC will never go to private market

## APRA Solvency Basis



- NZ industry + ACC Workers' account
  - ▶ Possibly most realistic long term outcome
  - ▶ Similar proportions to Australia

- NZ Industry looks to be in a reasonable state
  - ▶ Industry isn't broken
  - ▶ Some below minimum but still time for insurers to prepare
- RBNZ ≠ APRA
  - ▶ Was never the intention
  - ▶ APRA undergoing further changes
- ACC
  - ▶ Potential opening up to insurers would have big impact on relative solvency position of industry



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