



Solvency Standard

August 2007

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1. INTRODUCTION**STANDARD**

- 1.1 This Standard is published by the Health Funds Association of New Zealand and sets out the Minimum Solvency Requirement for an Accredited Member of the Health Funds Association of New Zealand. It has been developed in association with the New Zealand Society of Actuaries whose input is acknowledged and appreciated.**

Accredited Members of the Health Funds Association of New Zealand must comply with this standard and certify that compliance in the required format. The Minimum Solvency Requirement must be certified by a Fellow of the New Zealand of Actuaries.

- 1.2 If the health insurer is also a life insurer, the Minimum Solvency Requirement shall be the greater of:**

- (a) The Minimum Solvency Requirement determined in accordance with this Standard, with the life insurance policy liabilities determined in accordance with the Life Insurance Prudential Reserving Standard of the New Zealand Society of Actuaries excluding any expense reserve within that standard, and**
- (b) The insurer's Prudential Reserving Requirement determined under the Life Insurance Prudential Reserving Standard, with the health insurance policy liabilities determined in accordance with this Health Insurance Solvency Standard.**

Provided that where

- (i) the insurer's premium income from health insurance activities, gross of reinsurance, does not exceed 20% of its total premium income from all insurance activities, gross of reinsurance, OR**
- (ii) The insurer's health insurance policy liabilities determined in accordance with Section 5 of this Standard do not exceed 5% of its life insurance policy liabilities as defined in 1.2(a),**

only 1.2 (b) will apply.

- 1.3 The Standard is in bold typeface. Interpretative commentary paragraphs in plain typeface follow the Standard.**
- 1.4 This Standard is effective as from 1 January 2007.**

COMMENTARY

- 1.5 The Minimum Solvency Requirement of a health insurer, will be used as an indicator of the financial position of the health insurer, and may be disclosed in the financial statements of the health insurer.
- 1.6 This Standard sets out the requirements for determining the various components of the Minimum Solvency Requirement of a health insurer. To facilitate comparability across the industry, this Standard adopts a primarily prescriptive approach to the determination of the Minimum Solvency Requirement.
- 1.7 It is noted that there is a difference between meeting the solvency requirement under this Standard and being solvent in terms of the Companies Act. It would be expected that a health insurer meeting the solvency requirement of this Standard would be in a position, following a range of adverse circumstances, to avoid insolvency as defined under the Companies Act.
- 1.8 This Standard prescribes the Minimum Solvency Requirement of a health insurer to ensure that under a range of adverse circumstances, the health insurer would be expected to be in a position to meet its existing obligations to the members and other creditors of the insurer. It is noted that capital in excess of the Minimum Solvency Requirement may be required to secure the Financial Soundness of the health insurer in a going concern sense. It is expected that in most circumstances this second tier will provide an additional buffer of capital above the Minimum Solvency Requirement. This Standard does not prescribe how this additional second tier should be determined, and actuaries should use their own judgement in this area. They may however seek guidance from the Capital Adequacy Standard of the Private Health Insurance Administration Council of Australia in this regard.
- 1.9 The purpose of this Standard is to ensure as far as possible that the Minimum Solvency Requirement of a health insurer is properly determined, fully and clearly disclosed, accurate and reliable.
- 1.10 For any calculation of the Resilience Reserve under Section 1.2 (a), the assets of the life insurer may be hypothecated to the different lines of business. The insurer is referred to the Life Insurance Prudential Reserving Standard published by the New Zealand Society of Actuaries.
- 1.11 It is noted that for an insurer which is a branch operation of an overseas organisation, compliance with this Standard is not an indication of the solvency position of the overall entity.

2. DEFINITIONS**STANDARD**

- 2.1 Within this Standard, the following words have the meanings noted:**

“Actuary”: a Fellow of the New Zealand Society of Actuaries.

“Capital”: refers to the net assets of the insurer. In the case of a locally incorporated limited liability company, this represents the shareholder interest in the company. For other types of entity the “capital” might be termed “trust funds”, “member funds”, “general reserves”, “equity”, etc., and for branches of overseas companies the “capital” would comprise the home office balance held in the branch.

“Central Estimate”: an estimate that contains no deliberate or conscious over or under estimation.

“Expense Reserve”: a reserve against the risk of the expenses of the insurer eroding the asset value of the insurer under conditions of the business being closed to new members and in run-off and where future contribution income has discontinued.

“Financial Soundness”: a measure of the sufficiency of the assets of a health insurer in the context of the continuing operation of that undertaking. In most circumstances a second tier of capital in excess of the Minimum Solvency Requirement will be required to secure an appropriate measure of financial soundness in a going concern sense.

“Health Insurer” or “Insurer”: any entity involved in health insurance activities in New Zealand.

“Inadmissible Assets Reserve”: a reserve in respect of any asset which has a value that is dependent upon the continuation of the business; holdings in an associated entity which is an institution itself subject to Minimum Solvency Requirements; and the risks arising from asset concentration.

“Liability Reserve”: the sum of Technical Liabilities plus an amount relating to other liabilities, and so provides for the risks pertaining to elements in respect of which an assumption is required in valuing the accrued liabilities of the insurer.

“Life Insurance Prudential Reserving Standard”: Guidance Note 5 of the New Zealand Society of Actuaries, or its successor(s).

“Management Capital Amount”: a reserve for management risks determined after consideration of the financial dimensions of the overall insurer and its risk profile outside the health insurance business.

“Minimum Solvency Requirement”: determined as the total of Liability Reserve, Expense Reserve, Inadmissible Assets Reserve, Resilience Reserve and Management Capital Amount less Approved Subordinated Debt. This is the minimum capital requirement to ensure that, under a range of adverse circumstances, the insurer would be expected to be in a position to meet its existing obligations to the members and other creditors of the insurer.

“Outstanding Claims Liabilities”: the present value of expected future payments on claims that were incurred on or before the calculation date, including future claims handling expenses.

“Outstanding Claims Provisions”: the total of the amounts in the insurer’s accounts that provide for Outstanding Claims Liabilities at the accounting date.

“Resilience Reserve”: an amount sufficient to enable the insurer to sustain shocks to the economic environment in which it operates and which are likely to result in an adverse movement in the value of its assets relative to the value of its liabilities.

“Reported Liabilities”: the value of the liabilities of the health insurer as set out in the Financial Statements of the Insurer at the valuation date.

“Solvency Reserve”: the amount by which the Minimum Solvency Requirement exceeds the Reported Liabilities.

“Technical Liabilities”: the total of the Unexpired Risk Liabilities and the Outstanding Claims Liabilities.

“Unexpired Risk Liabilities”: the unearned premium reserve plus any adjustment considered necessary to cover future outgoings, including future expenses, as defined in 5.7.

3. MINIMUM SOLVENCY REQUIREMENT

STANDARD

- 3.1** The Minimum Solvency Requirement, before the use of any alternative sources of capital such as subordinated debt, shall consist of the following components:
- The Liability Reserve,
 - Inadmissible Asset Reserve
 - Resilience Reserve
 - Expense Reserve and
 - Management Capital Requirement.
- 3.2** In determining the Minimum Solvency Requirement, allowance must be made for any guarantees or obligations stated or implied to policyholders arising from legislation, a Society’s membership rules, and current or past promotional material of the insurer.
- 3.3** The Minimum Solvency Requirement, in considering scenarios of adverse experience, must provide for risks associated with both the valuation of the liabilities and the valuation of the assets.
- 3.4** As the prescribed solvency test considers the obligations of the insurer in the state of the health insurance business being in run-off, an allowance for unfunded run-off costs must also be included in the Minimum Solvency Requirement.

COMMENTARY

- 3.5 At any time, the value of the assets of the insurer must be of an amount considered sufficient to meet the obligations of the insurer at that date, to policyholders, members and creditors referable to the insurer, under a range of adverse conditions.
- 3.6 The methodologies for determining the Minimum Solvency Requirement for an insurer incorporate prescribed minimum parameters. While the diversity of the health insurance industry is recognised, given the desire for understanding and comparability of what will be a reported measure, it has been determined that any significant flexibility in this Standard would not be appropriate.
- 3.7 The prudent management of the health insurance industry requires that the level of security offered to health insurance policyholders and members exceed that implied by a best estimate basis of calculation. This Standard deals with the determination of the Minimum Solvency Requirement sufficient to ensure that the insurer has available capital in excess of the Reported Liabilities to provide for the security of the insurer's health insurance policyholders' entitlements under a range of adverse conditions. The various risks which could impact the security of the insurer's policyholder entitlements, and the assessment of prudent provisions against such risks, are considered in the context of an insurance business being closed and hence operating in a run-off situation.
- 3.8 It is intended that the solvency requirements of an insurer may be met via a combination of shareholder / policyholder capital and retained earnings in the insurer, and other suitable means such as the use of Subordinated Debt. As any debt liability of an insurer is disclosed as part of the underlying reported liabilities of the insurer, the approach in this Standard is to allow the Solvency Requirement to be reduced by the amount of Approved Subordinated Debt that may be counted for solvency purposes.
- 3.9 The liabilities of a health insurer reported in its financial statements, and determined in accordance with relevant financial reporting standards, generally reflect a best estimate of the insurer's obligations at a particular date. The assets of an insurer are similarly generally disclosed in the financial statements on a best estimate or market value basis.
- 3.10 The Actuary should distinguish between the liability, which is the unknown actual value of the outstanding claims or unexpired risks for which a Central Estimate is made, and the provision, which is the total of the amounts shown in the accounts for that liability.
- ## 4. TRANSITIONAL PROVISIONS
- 4.1 The transitional provisions set out in this section only apply to Health Insurers registered as members of the Health Funds Association of New Zealand on the date that this standard is first effective.

4.2 Until 1 January 2012, the Minimum Solvency Requirement is defined as the lesser of:

- (a) $A + X * (B - A)$; and
- (b) B;

Where

A = the Reported Liabilities of the Health Insurer.

B = the Minimum Solvency Requirement as determined under this standard.

X = 17% in calendar year 2007
 33% in calendar year 2008
 50% in calendar year 2009
 67% in calendar year 2010
 83% in calendar year 2011.

5. LIABILITY RESERVE

STANDARD

5.1 Liability Reserve is the sum of Technical Liabilities plus a reserve for Other Liabilities.

5.2 The Technical Liabilities shall be determined as the greater of:

- (a) The sum of:
 - (i) 1.1 times the value of the Central Estimate Outstanding Claims Liability (net of reinsurance and other recoveries) plus
 - (ii) the greater of:
 - the value of the Contributions in Advance, net of reinsurance and acquisition expenses, and
 - 1.1 times the value of the Unexpired Risk Liability
- and
- (b) The value of these liability components reflected in the Reported Liabilities of the Insurer (net of reinsurance and other recoveries, and net of deferred acquisition expenses).

5.3 The valuation method to be adopted to determine the Outstanding Claims Liability must take appropriate account of:

- The historical pattern of claims experience over a minimum period of the 12 months immediately prior to the valuation date,
- Trends in utilisation rates and unit costs, especially regarding seasonality and other factors which may influence claims lodgement or processing trends, and
- Any special features or changes to the experience such as changes in benefit design, claims handling procedures and the mix of products and members.

- 5.4 Subject to materiality, separate analysis should be carried out for each class of claims that displays, or is expected to display a different claims development pattern.**
- 5.5 The allowance for claims handling expenses made should be based on an analysis of the ratio of historical claims handling expenses to historical claims payment amounts.**
- 5.6 The Contributions in Advance amount is the prorata amount of a contribution received prior to the valuation date in respect of the period of cover after that date relative to the total period originally covered by the contribution paid. The pro-rata calculation is to be determined on the number of days, provided that an approximate calculation may be used if the effect is not material. The Contributions in Advance amount shall be determined net of reinsurance, and net of acquisition expenses as defined in section 6.3 of this Standard.**
- 5.7 The Unexpired Risk Liability is determined as the Contributions in Advance times the sum of the Central Estimate claims ratio (net of reinsurance and other recoveries) and expense ratio applicable to the current contribution rates of the insurer based on the most recent available experience. The expense ratio should exclude acquisition expenses as defined in section 6.3 of this Standard.**
- 5.8 The reserve for Other Liabilities is to include all liability amounts of the insurer not counted under the other liability components specified under this Standard. They are to be assessed and determined on the basis of relevant Financial Reporting Standards or other generally accepted accounting practice and principles, provided that life insurance liabilities are to be determined on the basis of Life Insurance Prudential Reserving Standard as set out in Section 1.2.**

COMMENTARY

- 5.9 The claims experience should be analysed at least with respect to the development over time of claims or cohorts of claims. Where possible, analysis should include:
- the rate of incidence of claims,
 - the rate of reporting of claims,
 - the rate of settlement,
 - the development of payments, and
 - other analyses relevant to the circumstances.
- 5.10 The estimation of Outstanding Claims Liabilities requires the subdivision of the data into groups of claims exhibiting similar characteristics. For example, separate analysis may be appropriate for benefit tables with different annual benefit "excesses". When determining appropriate subdivisions a balance must be found between homogeneity and statistical reliability.
- 5.11 Although separate analysis is desirable for each class of claims that displays, or is expected to display a different claims development pattern, the nature and extent of

analysis that can be carried out using the data of the health insurer will depend on the volumes of business transacted. It may be necessary to take into account information available from external sources relating to features of some types of claims.

- 5.12 The experience should be analysed on a basis that is gross of reinsurance and recoveries. Analysis of the reinsurance and other recovery experience should be appropriate to the circumstances.
- 5.13 The Unexpired Risk Liability will normally be calculated at an aggregate level for the Fund.
- 5.14 The Other Liabilities relate to all other accrued liabilities of the insurer and would normally include such items as liabilities for employee entitlements and amounts due to trade creditors and other normal business obligations outstanding.
- 5.15 Where the determination of the liabilities of the insurer in accordance with this Standard would have the effect of changing the Other Liabilities assessment of the insurer, then such change should be reflected in the Other Liabilities amount. The primary adjustment that may be relevant to the Other Liabilities would be in respect of any deferred tax liability held where the insurer was subject to income tax. To the extent that any increase in the insurer's liability provisions would generate a corresponding tax benefit, it may be appropriate to allow for the tax benefit in respect of the cost of the solvency margin held via an adjustment to any deferred tax liability within the Other Liabilities.

6. EXPENSE RESERVE

STANDARD

- 6.1 **The Expense Reserve shall be the lesser of:**
- (a) 0.4 times total expenses, and**
 - (b) 0.5 times [total expenses, less acquisition costs].**
- 6.2 **Total Expenses for the purposes of this calculation are the total actual non-claims expenses of the insurer reflected in the financial statements of the insurer for the twelve months prior to the valuation date.**
- 6.3 **Acquisition costs for the purposes of this calculation are expenses directly incurred in acquiring new business, and include commissions and other incentives paid to external intermediaries, fees for medical reports, advertising costs, and the printing of sales brochures and policy documents. They do not include salaries or overheads of staff engaged in processing new business applications.**

COMMENTARY

- 6.4 The calculation basis and assumptions adopted in respect of the Liability Reserve do not cover the risk of the expenses eroding the asset value of the insurer under

conditions of the business being closed and in run-off and where future contribution income has discontinued.

- 6.5 The risk is concerned with an insurer forced into run-off, which incurs delays or unavoidable expenses in implementing the significant change to its expense structure that such a change in status would require. In particular non-contracted expenses that cannot be immediately terminated without cost to the insurer may continue to be incurred for a period, or incur the associated termination penalties, without the benefit of ongoing contribution income to the insurer. There is also likely to be a need to meet special additional costs such as staff retrenchment and redundancy payments, and the appointment of an external administrator and/or liquidator. It is inappropriate that benefit entitlements be reduced as a consequence of the insurer bearing such expenses.
- 6.5 Structurally, some New Zealand health insurers distribute their products via external intermediaries, who may be paid significant up-front commissions. Others distribute their products primarily via internal salaried employees. The two alternative expense reserve calculations are intended to take account of these two different structures in a reasonably consistent, objective way.

7. INADMISSIBLE ASSETS RESERVE

STANDARD

- 7.1 **The value of an asset is the value as determined in accordance with appropriate accounting standards and is generally the net realisable market value.**
- 7.2 **The Inadmissible Assets Reserve shall be determined as the sum of reserves in respect of:**
- **assets used for the conduct of business,**
 - **holdings in associated and subsidiary entities and**
 - **asset concentration risks.**
- 7.3 **Where the Inadmissible Assets Reserve is reduced by deferred tax provisions or other liabilities relevant to the inadmissible portion of the assets, the reduction must only be to the extent those provisions/liabilities are assessed as likely to be realised.**
- 7.4 **The prescribed reserve for assets used in the conduct of business shall be determined as the amount by which the stated value of the asset in the financial statements exceeds the value the asset would have in a run-off situation. For this purpose, the value to be ascribed to certain assets is subject to the following specific requirements:**
- **Loans to Directors, Employees, Advisers and Related Parties**
 - **In respect of money loaned or advanced on an unsecured basis, no value is to be ascribed to the debt.**

- **In respect of money loaned or advanced on a secured basis, the value to be ascribed to the debt must not exceed the amount of the security available to extinguish the debt.**
- **Where the loan to a related party is the provision of subordinated debt, the party is a prudentially regulated financial institution, and the subordinated debt qualifies as capital within that institution, the value to be ascribed is to be determined in accordance with paragraph 9.6 below.**
- **Contributions in Arrears**
Where the amount of the contributions has been collected by a third party and is in effect “in transit” from the third party to the Fund, the value ascribed to the contributions must not be greater than the value of the contributions. In any other circumstances a nil value must be adopted.
- **Equipment (other than Computer Software)**
The value of equipment (other than computer software) owned by the health insurer must not exceed the net realisable value of that asset.
- **Computer Software**
The value of computer software owned by the health insurer must not exceed the known resale value of that asset. If the resale value is not known, then a zero value must be assumed.
- **Future Income Tax Benefits**
The value of any future income tax benefit due to the health insurer must not exceed the value of any income tax benefit that would accrue and be realised on ceasing business.
- **Holdings in Associated and Subsidiary Entities**
Where the entity is financially and operationally interdependent, directly or indirectly, with the health insurer, the value placed on the entity must not exceed the value of net tangible assets.
Otherwise, (that is, where the entity is a self sustaining operation), the value placed on the entity must not exceed its market value.
Where the associated entity is a financial institution or insurer which is required to maintain minimum capital levels, it is not appropriate that, in determining the solvency requirement for the health insurer, credit be taken for the capital already securing those minimum capital requirements.
- **Pre-paid expenses**
The value of any pre-payment must not exceed the value of the recoverable amount.
- **Intangible assets.**
Nil value.
- **Deferred acquisition costs.**
Nil value.

7.5 A reserve must be established against the adverse impact of a concentration of investment in a particular asset, with a particular obligor or with a related party.

The prescribed reserve for asset concentration risks is determined as the amount by which the value of any single asset or credit exposure (with a particular obligor or related party) exceeds the amounts set out below:

- 100% of the value of the total assets where the asset or credit exposure concerned is guaranteed by the New Zealand government.
- 50% of the value of the total assets where the asset or credit exposure concerned is guaranteed by a local government or State Owned Enterprise.
- 25% of the value of the total assets where the asset or credit exposure concerned is secured by bank bills.
- 25% of the value of the total assets where the asset or credit exposure concerned is secured by deposits with a bank registered under the Reserve Bank of New Zealand Act.
- 5% of the value of the total assets of the insurer where the asset or credit exposure concerned is:
 - (a) a first mortgage not exceeding 70% of the market value of the underlying asset, or
 - (b) a mortgage which is 100% insured with a mortgage insurer
- 2.5% of any loan by the insurer, excluding a mortgage that is 100% insured or a mortgage with a loan value ratio of 70% or lower.
- For any other asset or credit exposure, 10% of the value of the total assets of the insurer or such lesser proportion as the actuary considers appropriate.

7.6 Notwithstanding the prescribed limits, if in the opinion of the Actuary, the overall portfolio of assets of the insurer has too little diversification, is too illiquid or has too great an exposure to one obligor of low credit standing, an additional amount should be added to protect the interests of the policyholders of the insurer.

7.7 In assessing the asset risks, the Actuary must:

- take account of the effective exposure of the insurer to various asset classes, regardless of the physical asset holdings of the insurer; and
- consider exposure to counterparty risks including, but not limited to, futures and options contracts, swaps, hedges, warrants, forward rate and repurchase agreements.

COMMENTARY

7.8 In the case of investment entities, it is the exposure of the insurer to the underlying assets of the entity, determined by adopting a “look through” approach, that is relevant. For this purpose, an investment entity is an entity whose assets are solely investments, where the sole purpose of the entity is investment activities and where the investor investing in that entity has security directly linked to those assets.

7.9 As an example of the asset exposure to be adopted in assessing asset risks, an unlisted unit trust or securitised mortgage instrument would generally be considered

an investment entity and the assessment of asset risks should be based on the underlying assets of the trust/instrument. However, in practice, examples exist of arrangements where the security of the investor is not directly linked to the underlying assets, but is subordinated to the interests of a third party. In this case, it would not be appropriate to base the assessment on the underlying assets.

8. RESILIENCE RESERVE

STANDARD

8.1 The Resilience Reserve is determined as $\{ L' \times A / A' \} - L$, where

| | | |
|-----------|----------|-------------------------------------------------------------------------------------------------------------------------------------|
| L | = | The liability held for the Fund for solvency purposes to reflect the liability risks prior to the prescribed economic change |
| L' | = | The value of the liabilities after the prescribed economic change |
| A | = | Value of the admissible assets of the Fund prior to the prescribed economic change, and |
| A' | = | Value of those assets after the prescribed economic change. |

8.2 For the determination of A', the prescribed changes to the economic environment are:

| | |
|-------------------------------|-------------------------------------------------------------------------------------------------------|
| Equities | Fall in Capital Value of 25% |
| Listed Property | Fall in Capital Value of 25% |
| Direct Property | Fall in Capital Value of 15% |
| Interest Bearing Bonds | Rise in Yield of 1.5% |
| Indexed Bonds | Rise in Yield of 0.50% |
| Currency | 10% reduction in value of assets exposed to denomination in other than that of the liabilities |

8.3 The Resilience Reserve must not be less than zero.

COMMENTARY

8.4 In this context, resilience is assessed as the ability of the insurer to sustain shocks to the economic environment in which it operates and which are likely to result in an adverse movement in the value of its assets relative to the value of its liabilities.

8.5 An assessment of the resilience of the insurer, while targeting the assessment of an asset related risk, theoretically involves consideration of the movements in both the value of assets and the value of liabilities under the prescribed scenario of adverse market movement. While this will often not be a significant concern in the circumstances of the generally short term liabilities and renewal option risks of a health insurer, it is important that this position is verified, and appropriate allowance be made where relevant.

9. MANAGEMENT CAPITAL REQUIREMENT**STANDARD**

9.1 The Company must consider whether there is a need for a Management Capital Requirement in addition to the total of Solvency Liability, Expense Reserve, Inadmissible Assets Reserve, Resilience Reserve and Reported Liabilities.

9.2 The Management Capital Requirement must not be less than zero.

COMMENTARY

9.3 It is acknowledged that some business risks are not proportional to the size of an operation and some risks, if crystallised, are likely to be incurred in amounts of at least a minimum practical dollar amount per event. Where a health insurer comprises one health insurance fund, with no other business funds directly within the health insurer entity, then practical matters may dictate that a fixed dollar minimum should apply rather than the total Solvency Requirement amount calculated under other sections of this Standard.

9.4 This Standard does not include a specific dollar minimum to be used to determine the total Minimum Solvency Requirement. However, such a dollar amount may be specified for all health insurers by legislation.

9.5 Where the health insurer maintains a management fund, shareholders' fund or members' fund (or similar) outside the health insurance fund but available within the health insurer to support its obligations, then it may be appropriate to offset some or all of the minimum reserve requirements by the net assets available within these other funds. In this case any offset would need to be subject to the business risks reflected in these other funds being properly reserved against.

10. DATA AND ANALYSIS**STANDARD**

10.1 The Company must determine if suitable procedures are in place to verify that the data is reliable and sufficient.

10.2 An approximation to an assumption or method is acceptable provided it is disclosed and does not materially affect the result. A matter is material when its misstatement or omission would cause the report or statement to influence users when they make decisions or assessments.

COMMENTARY

10.3 The Company may seek assurance from the Actuary having regard to the insurer's available data, level of expenses, organisational structure, future administrative developments and other relevant matters.

- 10.4 The complexity of the approach used to determine any reserve should be commensurate with the materiality of the amount of the reserve.
- 10.5 The Company should compile and retain documentation that shows that the work undertaken conforms to this Standard, and to generally accepted accounting practice and taxation rulings.

11. REPORTING

STANDARD

- 11.1 The Company must provide a Solvency Certification Report to the Health Funds Association in the format required by the Association.**

Appendix 1: Solvency Certification Report**Reporting Requirements**

- A1.1 The health insurer must provide the Health Funds Association with a Solvency Certification Report every 12 months, together with a copy of the insurer's audited accounts. An interim Solvency Certification Report together with unaudited accounts is to be provided mid-year. The required information must be supplied to the Health Funds Association within 4 months of the end of the financial year or mid-year.
- A1.2 The reports must include the following items:
- (i) A statement of the Minimum Solvency Requirement determined in accordance with the Health Funds Association Solvency Standard, including any transitional provisions allowed under that standard, signed by the Actuary carrying out the analysis.
 - (ii) A statement of the total assets of the fund and the resulting solvency margin, being the difference between the total assets and Minimum Solvency Requirement.
 - (iii) A table showing the total assets, reported liabilities, the level of Minimum Solvency Requirement if transitional provisions are ignored, Minimum Solvency Requirement including any transitional provisions, and the solvency margin for each 6 months for the past 3 years. There is no requirement to provide historical data for the period prior to the introduction of this standard.
 - (iv) Any qualifications to the solvency result or calculation provided by the Actuary.
 - (v) Assurance from the Actuary that the health insurer has suitable procedures in place to verify that the data is reliable and sufficient for the purposes of determining solvency in accordance with the Association's Solvency Standard.
 - (vi) Certification by the Board of Directors (or Trustees):
 - (a) that the health insurer has determined its Minimum Solvency Requirement in accordance with the current Solvency Standard issued by the Health Funds Association of New Zealand;
 - (b) that the health insurer has appointed a member of the New Zealand Society of Actuaries to carry out the investigation into the solvency position of the health insurer, and the name of that Actuary;
 - (c) that the health insurer has assets in excess of the Minimum Solvency requirement; and
 - (d) that it expects to do so continuously for the next 3 years, or has identified additional capital requirements and sources of capital if current plans identify additional capital will be required during this time.

Appendix 2: Sample Report – Actuary’s Certification

The Minimum Solvency Requirement, as set out in the Health Funds Association of New Zealand Solvency Standard dated August 2007, for [name of Health Insurer] as at [end of financial year or mid year date] has been assessed by [name of actuary and qualifications], a Fellow of the New Zealand Society of Actuaries (the Actuary). Total assets exceed the Minimum Solvency Requirement as at [end of financial year or mid year date].

The financial position as at [end of financial year or mid year date] is set out in the table below:

| | \$ million [mmm yy] [un]audited |
|-------------------------------------------------------------|---------------------------------------|
| Total Assets | xxx.x |
| Reported Liabilities | xxx.x |
| Minimum Solvency Requirement ignoring transition provisions | xxx.x |
| Minimum Solvency Requirement | xxx.x |
| Solvency Margin | xxx.x |

As the [end of financial year or mid year date] certification is [not] the first for [name of Health Insurer] since the standard came into effect, historical figures are [not] included in the above table.

The data used in the solvency calculations is routinely checked and reconciled. In the opinion of the Actuary the data is sufficiently reliable and complete to be used for this purpose. [Accordingly there are no qualifications to the solvency result. OR statement on any qualifications]

[dated]

Appendix 3: Sample Report — Board of Directors' Certification

The Board of Directors of [name of Health Insurer] certifies:

- (a) that [name of Health Insurer] has determined its Minimum Solvency Requirement in accordance with the current Solvency Standard issued by the Health Funds Association of New Zealand, dated August 2007
- (b) that [name of Health Insurer] has appointed [name of actuary], a Fellow of the New Zealand Society of Actuaries, to carry out the investigation into the solvency position as at [end of financial year or mid year date]
- (c) that [name of Health Insurer] has assets in excess of the Minimum Solvency Requirement as at [end of financial year or mid year date]
- (d) that [name of Health Insurer] expects to continue to have assets in excess of the Minimum Solvency Requirement at all times in the period [day after end of financial year or mid year date] to [3 years after end of financial year or mid year date]

A copy of the audited financial accounts is being provided to HFANZ along with this certification.

[dated]