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## Schedule 2 Solvency standard

### Part 1 Introduction

#### 1. Purpose of solvency standard

- (1) The purpose of the solvency standard, established for the purposes of Division 140 of the Act, is to ensure as far as practicable that at any time the financial position of a fund conducted by an insurer is such that the insurer will be able to meet, out of the fund's assets, all liabilities incurred for the purposes of the fund as those liabilities become due.
- (2) The Solvency Reserve to be calculated under this standard for each fund conducted by an insurer is based on a run-off view of the fund and therefore requires the insurer to demonstrate that the fund will be able to reliably meet the accrued liabilities and obligations of the fund in the event of the termination of the insurer's fund.

Note: An insurer may apply under Division 149 of the Act for the termination of each of its health benefits funds. In addition, if an external manager has been appointed, under Division 217 of the Act, to a health benefits fund of an insurer the Federal Court, under section 220-1 of the Act, may order the appointment of a terminating manager of each of the insurer's funds, and the termination is conducted in accordance with Part 6-5 of the Act.

#### 2. Application

This standard applies to each fund conducted by an insurer.

#### 3. Interpretation

- (1) In this standard:

**accounting standards** means standards made by the Australian Accounting Standards Board.

**actuary** means the insurer's appointed actuary.

**associate** in relation to an investor means an entity, including an unincorporated entity, over which the investor has significant influence and that is neither a subsidiary of the investor nor an interest in a joint venture.

**authorised deposit-taking institution** means a body corporate in relation to which an authority under subsection 9 (3) of the *Banking Act 1959* is in force.

**average deficit per single equivalent unit (SEU)** for each quarter means the amount determined by the Council for each risk equalisation jurisdiction as the gross deficit for the risk equalisation jurisdiction for that quarter divided by the average number of all SEUs for the risk equalisation jurisdiction for that quarter.

**best estimate** means a best estimate assumption, basis, projection or other best estimate of future experience which is:

- (a) made having regard to reasonably available statistics and other relevant information; and

(b) not deliberately or carelessly overstated or understated.

**calculated deficit** for a fund means the sum of the estimated amounts for each risk equalisation jurisdiction applicable to the insurer determined consistently with paragraph 11 (1) (e) of the *Private Health Insurance (Risk Equalisation Policy) Rules 2007* at the valuation date.

**capital** in relation to a fund means the assets of the fund less the reported liabilities of the fund.

**central estimate** means, if all the possible values of the liability being estimated are expressed as a statistical distribution, the mean of that distribution.

**expense amount** means the amount determined in accordance with Part 5 of this standard.

**fund** means a health benefits fund.

**gross deficit** means the sum of the estimated amounts for each risk equalisation jurisdiction applicable to the insurer determined consistently with paragraph 11 (1) (b) of the *Private Health Insurance (Risk Equalisation Policy) Rules 2007* at the valuation date.

**health-related insurance business** means health-related business referred to in paragraph 131-15 (1) (b) of the Act where that business is included as business of the fund.

Note: Health-related business referred to in paragraph 131-15 (1) (b) of the Act is the business of undertaking liability, by way of insurance, to indemnify people who are ineligible for Medicare for costs associated with providing treatment, goods or services that are provided to those people in Australia and are provided to manage or prevent diseases, injuries or conditions;

**inadmissible assets amount** means the amount determined in accordance with Part 7 of this standard.

**investment entity** means 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.

**reported liabilities** means the value of the liabilities of the fund determined at the valuation date in accordance with applicable accounting standards less the amount of subordinated debt that may be counted under clause 27 of this standard.

**repealed solvency or capital adequacy standards** means the solvency standard or capital adequacy standard, as the case may be, established under the *National Health Act 1953* and in force immediately before the commencement of these Rules.

**resilience amount** means the amount determined in accordance with Part 8 of this standard.

**risk equalisation** refers to the statutory pooling arrangements for the Risk Equalisation Trust Fund.

**solvency insurance liabilities amount** means the amount determined in accordance with Part 6 of this standard.

**solvency obligation** means the obligation specified in subclause 5 (1) of this standard.

***solvency requirement*** for a fund means the Solvency Reserve plus the reported liabilities.

***Solvency Reserve*** means the amount determined in accordance with subclause 6 (2) of this standard.

***subordinated debt*** for a fund means the amount of debt that meets the requirements of Part 9 of this standard.

***subsidiary*** means an entity, including an unincorporated entity, that is legally or practically controlled by another entity (known as the ***parent***).

***this standard*** means the solvency standard established by these Rules.

***valuation date*** is the day on which a calculation is carried out for the purposes of this standard.

- (2) For the purposes of making calculations required by this standard, the value of assets and liabilities of the fund and the insurer are to be determined in accordance with relevant accounting standards.
- (3) In this standard, the ***management capital amount*** for each fund is \$1 million.
- (4) In this standard, the number of SEUs in respect of a fund is to be calculated by reference to the number of SEUs applying to each category of policy as specified in the *Private Health Insurance (Risk Equalisation Policy) Rules 2007* made under the Act.

#### 4. Related parties

- (1) In this standard, a party is related to an entity if:
  - (a) directly, or indirectly through one or more intermediaries, the party:
    - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); or
    - (ii) has an interest in the entity that gives it significant influence over the entity; or
    - (iii) has joint control over the entity; or
  - (b) the party is an associate of the entity; or
  - (c) the party is a joint venture in which the entity is a venturer; or
  - (d) the party is a member of the key management personnel of the entity or its parent; or
  - (e) the party is a close member of the family of an individual referred to in (a) or (d); or
  - (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
  - (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

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- (2) ***Close member of the family of an individual*** means a family member who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:
- (a) the individual's domestic partner and children; and
  - (b) children of the individual's domestic partner; and
  - (c) dependants of the individual or the individual's domestic partner.

## **Part 2 Solvency Reserve**

### **5. Solvency obligation**

- (1) An insurer must ensure that at all times the value of the capital of each fund conducted by the insurer equals or exceeds the Solvency Reserve determined for that fund at the valuation date.
- (2) The insurer must disclose in its financial statements the Solvency Reserve for each of its funds for the period to which the financial statements relate.

Note: The Council will use the Solvency Reserve as an indicator of the financial position of the insurer.

### **6. Determination**

- (1) The insurer must determine, in accordance with this standard, the Solvency Reserve for each fund conducted by the insurer.
- (2) The Solvency Reserve for a fund is determined as the sum of the following amounts:
  - (a) management capital amount; plus
  - (b) expense amount; plus
  - (c) solvency insurance liabilities amount; plus
  - (d) inadmissible assets amount; plus
  - (e) resilience amount.

### **7. Treatment of negative amounts in calculations**

If the calculation of any of the amounts set out in subclause 6 (2), or the calculation of any of the components of those amounts under this standard, results in a value less than zero, the amount is to be taken to be zero for the purposes of this standard.

## **Part 3 Principles**

### **8. Asset exposure**

- (1) In assessing asset risks under this standard, the insurer is to:
  - (a) take account of the effective exposure of the fund to various asset classes, regardless of the physical asset holdings of the fund; and
  - (b) consider exposure to counterparty risks, being the risk that another party to a transaction may default on the agreement, relating, but not

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limited to, futures and options contracts, swaps, hedges, warrants, forward rate and repurchase agreements.

- (2) In the case of investments with an investment entity, the insurer is to consider the exposure of the fund's investments to the underlying assets of the entity.

#### **9. Integrity of asset risk calculations**

- (1) In applying this standard the insurer must determine whether the amounts calculated under this standard in respect of asset risks should be increased to provide additional assurance that the fund is able to meet its liabilities as and when they fall due.
- (2) In deciding whether to increase any amount calculated under this standard the insurer must consider the overall portfolio of assets of the fund, in particular the:
  - (a) overall diversification of the portfolio, and
  - (b) liquidity of the portfolio, and
  - (c) overall exposure to credit risks, including the fund's exposure to any obligor of low credit standing.

#### **10. Discounting of insurance liabilities**

- (1) The determination of insurance liabilities of the fund under this standard may include allowance for the discounting of future claim payments in accordance with the relevant accounting standards.
- (2) For the purposes of this standard, the determination of any discounted insurance liability must adopt a discount rate consistent with, and no greater than, the risk-free rate determined from the market yield available on Commonwealth Government Treasury Bonds for the relevant duration.

#### **11. Adjustment for taxation**

- (1) Where an insurer is subject to taxation, allowance must be made for taxation in the determination of the solvency insurance liabilities amount.
- (2) To the extent that any increase in the fund's liability provisions would generate a corresponding tax benefit, an insurer is to allow for the tax benefit in respect of the cost of the margins held via an adjustment to the relevant reserve.

### **Part 4 Materiality**

#### **12. Materiality standards**

- (1) In calculating the amounts that comprise the Solvency Reserve for a fund under subclause 6 (2), an insurer:
  - (a) must strictly comply with the valuation methods set out in this standard for any such amount that is material; and

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- (b) may adopt an alternative valuation method to calculate any such amount that is immaterial under this Part.
  - (2) The materiality of an amount is determined by dividing a reasonable estimate of the amount by a reasonable estimate of the solvency requirement, expressing the result as a percentage, and then applying to that result the thresholds set out in subclause (3).
  - (3) For the purposes of these standards, where the result from subclause (2) in respect of an amount is:
    - (a) 10% or more—the amount is material; and
    - (b) 5% or less—the amount is immaterial.
  - (4) Where an insurer adopts an alternative valuation method in accordance with this Part, the insurer must consider at each subsequent reporting date whether detailed valuations need to be performed to demonstrate the continued appropriateness of any alternative valuation methods.

## Part 5 Expense amount

### 13. Calculation of the expense amount

- (1) The expense amount (*EA*) for a fund is to be determined as:
 
$$EA = 0.4 \times \text{total non-claim expenses}$$
- (2) The *total non-claim expenses* is the total of the expenses of the fund that are not benefit payments for the 12 months prior to the valuation date.
- (3) If the insurer has not been in operation for 12 months prior to the valuation date, subclause (2) does not apply and the insurer's total non-claim expenses for the purposes of the formula in subclause (1) is 40% of the expected expenses of the fund that are not benefit payments for the 12 months subsequent to the valuation date.

## Part 6 Solvency insurance liabilities amount

### 14. Calculation of solvency insurance liabilities amount

- (1) The *solvency insurance liabilities amount* for a fund is the sum of the following components:
  - (a) solvency health insurance liabilities component; and
  - (b) solvency health-related insurance liabilities component.

### 15. Calculation of solvency health insurance liabilities component

- (1) The *solvency health insurance liabilities component* for a fund is the sum of the following components calculated in accordance with this standard:
  - (a) health insurance outstanding claims component; and
  - (b) risk equalisation outstanding claims component; and

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- (c) risk equalisation accrued liability component; and
  - (d) health insurance unexpired risk component.
- (2) The **health insurance outstanding claims component** for a fund is determined as:
- (a) 1.1 times the **outstanding claims liability** in relation to the health insurance business of the fund calculated in accordance with clause 17 of this standard; less
  - (b) the liability in respect of outstanding claims in relation to the health insurance business of the fund reflected in the reported liabilities of the fund.
- (3) The **risk equalisation outstanding claims component** for a fund is the absolute value of 10 per cent of the risk equalisation outstanding claims liability calculated in accordance with clause 18 of this standard.
- (4) The **risk equalisation accrued liability component** is 10 per cent of the calculated deficit of the fund.
- (5) The **health insurance unexpired risk component** for a fund is determined as:
- (a) 1.1 times the **unexpired risk liability** in relation to the health insurance business of the fund calculated in accordance with clause 19 of this standard; less
  - (b) **unearned premium liability** in relation to the health insurance business of the fund reflected in the reported liabilities of the fund and calculated in accordance with clause 19 of this standard.

## 16. Calculation of solvency health-related insurance liabilities component

- (1) The **solvency health-related insurance liabilities component** for a fund is determined as the sum of the following components:
- (a) health-related insurance outstanding claims component (determined separately for each separate health-related insurance business); and
  - (b) health-related insurance unexpired risk component (determined separately for each separate health-related insurance business).
- (2) The **health-related insurance outstanding claims component** for a fund is determined as:
- (a) 1.1 times the **outstanding claims liability** in relation to the health-related insurance business of the fund calculated in accordance with clause 17 of this standard; less
  - (b) the liability in respect of outstanding claims in relation to the health-related insurance business of the fund reflected in the reported liabilities of the fund.
- (3) The **health-related insurance unexpired risk component** for a fund is determined as:

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- (a) 1.1 times the *unexpired risk liability* in relation to the health-related insurance business of the fund calculated in accordance with clause 19 of this standard; less
  - (b) the *unearned premium liability* in relation to the health-related insurance business of the fund reflected in the reported liabilities of the fund and calculated in accordance with clause 19 of this standard.

## 17. Outstanding claims liability

- (1) The *outstanding claims liability* is the central estimate of the value of the outstanding claims as at the valuation date.
- (2) This component includes an allowance for claims-handling expenses.
- (3) *Outstanding claims* are claims that have been reported and have not yet been settled, claims that have been incurred but not yet reported (*IBNR*), claims that have been incurred but not yet fully settled (*IBNER*) and claims which have been administratively finalised but which may be reopened.
- (4) The outstanding claims liability is to be determined gross of recoveries from the Risk Equalisation Trust Fund.
- (5) The valuation method adopted to determine the outstanding claims liability must take appropriate account of:
  - (a) the historical pattern, over a minimum period of the 12 months immediately prior to the valuation date, of the rate of reporting of claims, the rate of settlement of claims, the development of benefit payments and the impact of refunds of benefit payments; and
  - (b) trends in utilisation rates and unit costs, especially regarding seasonality and other factors which may influence claims lodgement or processing trends; and
  - (c) any special features or changes to the ordinary experience, such as changes in benefit design, claims-handling procedures and the mix of products and insured persons.

## 18. Risk equalisation outstanding claims liability

- (1) The *risk equalisation outstanding claims liability* for a fund is the amount in respect of the outstanding claims mentioned in clause 17 of this standard, determined as:
  - (a) calculated deficit; less
  - (b) gross deficit.
- (2) The amounts determined in subclause (1) must be determined from a best estimate of the business of the insurer's fund and a best estimate of the risk equalisation trust fund levies for the relevant period.
- (3) The amounts are to be determined taking into account the experience of previous quarters, historical seasonal trends, reasonable assumptions in respect of the claims experience of the industry at the risk equalisation

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jurisdiction level for the fund and reasonable assumptions in respect of the total insured population of the industry at the risk equalisation jurisdiction level.

## 19. Unearned premium liability and unexpired risk liability

- (1) The *unearned premium liability* is the liability determined in respect of *premiums paid in advance*, being premiums paid for policies prior to the date of valuation which provide cover in respect of some period beyond the valuation date.
- (2) The *unexpired risk liability* is determined as the premiums paid in advance times the loss ratio.
- (3) The *loss ratio* is ordinarily to be determined as the sum of the claims ratio and the expense ratio. Where the insurer believes that this may no longer be a best estimate measure of the prospective annualised loss ratio for the insurance business on the current premium rates, a suitable alternative ratio is to be adopted.
- (4) The *claims ratio* is the ratio of the expected claims and, where applicable, risk equalisation levy and payments from the Risk Equalisation Trust Fund to earned premiums underlying the effective premium rate of the business.
- (5) The *expense ratio* is the ratio of the expenses to earned premiums underlying the effective premium rate of the business.
- (6) The unexpired risk may be determined at an aggregate level for the health insurance business of the fund and must be determined separately for each health-related business.

## Part 7 Inadmissible assets amount

### 20. Calculation of the inadmissible assets amount

- (1) The *inadmissible assets amount* for a fund is the sum of the following three components:
  - (a) an amount in respect of assets used for the conduct of business calculated in accordance with clause 21 of this standard; plus
  - (b) an amount in respect of holdings in associate and subsidiary entities calculated in accordance with clause 22 of this standard; plus
  - (c) an amount in respect of asset concentration risks calculated in accordance with clause 23 of this standard.
- (2) Where the inadmissible assets amount is reduced by deferred tax provisions or other liabilities relevant to the inadmissible portion of the assets, the reduction must be only to the extent those provisions or liabilities are assessed as likely to be realised.

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**21. Assets used for the conduct of business component**

- (1) The *assets used for the conduct of business component* for a fund is the amount by which the stated value of the assets in the financial statements exceeds the value the assets would have if the fund was in terminating management.
- (2) The value to be ascribed to the assets referred to in subclause (1) is subject to the following:
  - (a) loans to directors, employees, advisers and related parties:
    - (i) in respect of money loaned or advanced on an unsecured basis, no value is to be ascribed to the debt; and
    - (ii) 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; and
    - (iii) 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 clause 22.
  - (b) premiums in arrears:
    - (i) where the amount of the premiums 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 premiums must not be greater than the value of the premiums; and
    - (ii) in any other circumstances a nil value must be adopted.
  - (c) equipment (other than computer software) — the value of equipment owned by the insurer must not exceed the net realisable value of that asset; and
  - (d) computer software:
    - (i) if the resale value is known, the value ascribed to computer software must not exceed the known resale value of that asset; and
    - (ii) if the resale value is not known, a zero value must be ascribed; and
  - (e) future income tax benefits — the value of any future income tax benefit due to the insurer must not exceed the value of any income tax benefit that would accrue and be realised on ceasing business; and
  - (f) pre-paid expenses — the value of any pre-payment must not exceed the value of the recoverable amount; and
  - (g) intangible assets including deferred acquisition costs — nil value.

**22. Holdings in associate and subsidiary entities component**

- (1) The insurer must determine the value of holdings in associate and subsidiary entities that are assets of the fund.

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- (2) Where the associate or subsidiary entity is directly, or indirectly, financially or operationally dependent upon the fund, the value placed on the investment in the entity must not exceed the value of net tangible assets.
  - (3) Where the associate or subsidiary entity is a self sustaining operation the value placed on the investment in the entity must not exceed its fair value.
  - (4) Where an associate or subsidiary is a financial institution subject to prudential regulation that requires the maintenance of minimum capital, the insurer must include in the amount to be calculated under this clause an additional amount that reflects the extent that the value on the investment in the entity in the financial statements includes the prudential capital requirement on the entity.

### 23. Asset concentration risks component

- (1) The *asset concentration risks component* for a fund is determined as the sum of the amounts by which the value of any single asset or credit exposure (with a particular obligor or related party) of the fund exceeds the relevant amount specified in subclause (2) or, if subclause (2) is not applicable, the amount by which the value of the asset or credit exposure exceeds 10% of the value of the assets of the fund.
- (2) For the following assets and credit exposures, the relevant amount is:
  - (a) 100% of the value of the assets of the fund, where the asset or credit exposure concerned is:
    - (i) guaranteed by a national government, being the national government of the country in whose currency the liabilities of the fund are denominated; or
    - (ii) guaranteed by an Australian State or Territory government; and
  - (b) the greater of 50% of the value of the assets of the fund and \$5 million, where the asset or credit exposure concerned is:
    - (i) guaranteed by an Australian local government or public sector entity; or
    - (ii) secured by bank bills or deposits with an authorised deposit-taking institution which has net assets of at least \$50 million; and
  - (c) the greater of 25% of the value of the assets of the fund and \$5 million, where the asset or credit exposure concerned is secured by deposits with an authorised deposit-taking institution which has net assets of less than \$50 million and which is not a related party.

## Part 8 Resilience amount

### 24. Determination of resilience amount

- (1) The *resilience amount* for a fund is to be determined in accordance with the following formula—

$$RA = \{ L' \times f \} - L$$

where:

- RA = resilience amount.
- L = The risk adjusted liabilities of the fund determined by application of this standard to reflect the liability risks prior to the prescribed economic changes. That is, L is equal to the reported liabilities of the fund plus the solvency insurance liabilities amount, plus the expense amount, plus the management capital amount.
- L' = The value of the liabilities after the prescribed economic changes.
- f =  $A / A'$ .
- A = Value of the assets of the fund less any inadmissible assets amount determined in accordance with this standard, prior to the prescribed economic changes.
- A' = Value of those assets of the fund less any inadmissible assets amount determined in accordance with this standard, after the prescribed economic changes.

(2) The prescribed economic changes are:

	INVESTMENT SECTOR	PRESCRIBED ECONOMIC CHANGE FOR SOLVENCY
1.	Equities	Fall in capital value of (25% x DF)
2.	Property (other than listed property trusts)	Fall in capital value of (25% x DF)
3.	Listed property trusts	Fall in capital value of (15% x DF)
4.	Interest bearing	Rise in yield of (1.5% x DF)
5.	Indexed bonds	Rise in yield of (0.50% x DF)

	CURRENCY	PRESCRIBED EXCHANGE RATE MOVEMENT FOR SOLVENCY
6.	All	10% reduction in value of assets exposed to a denomination other than that of the liabilities.

where *yield* means:

- (a) for interest bearing securities other than irredeemable securities — redemption yield;
  - (b) for irredeemable interest bearing securities — running yield; and
  - (c) for indexed bonds — real yield.
- (3) DF is determined in accordance with the following formula—

$$DF = \{ \sqrt{(E^2 + P^2 + F^2)} \} / (E + P + F)$$

where:

- E = the proportionate holding of admissible assets in the equity sector times 30%.
- P = the proportionate holding of admissible assets in the property sector times 20%.
- F = the proportionate holding of admissible assets in the cash and fixed interest sector times 1.5% times the average term to maturity, measured in years, for the sector.

## Part 9 Subordinated debt and alternative sources of capital

### 25. Overview

- (1) The purpose of this Part is to specify:
  - (a) the terms on which debt qualifies as subordinated debt within the meaning of this Part; and
  - (b) the amount of subordinated debt that may be counted for the purposes of this standard.
- (2) The solvency obligation may be satisfied by either:
  - (a) shareholders' or members' funds represented by the disclosed capital of a fund, in terms of the retained earnings and capital held within the fund, that are subordinate to the other obligations of the fund; or
  - (b) the use of alternative sources of capital support for the business of a fund such as subordinated debt, where the obligations to the debt party under the instrument are subordinate to the other obligations of the fund.
- (3) Only subordinated debt within the meaning of this Part will qualify as an alternative source of capital for the purposes of this standard.
- (4) This Part sets out the terms that an instrument or agreement must contain and the requirements that it must satisfy in order to be subordinated debt within the meaning of this Part.

### 26. Subordinated debt

- (1) All proposals to issue or borrow subordinated debt, the purpose of which is, at the time of issue or borrowing, or may be in the future, to contribute to the capital requirements of a health benefits fund, must be submitted to the Council for individual approval if the debt is to be taken into account for the purposes of this standard.
- (2) An instrument or agreement of issue of subordinated debt will be assessed once only, prior to the time of issue. The quantum of the proposed issue and timing for draw down will be important items in that assessment. However,

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separate requirements limit that quantum, to the extent it is subordinated debt within the meaning of this Part, on a continuous basis into the future.

- (3) A subordinated debt must be created by a debt instrument or agreement which continuously meets the conditions and requirements set out in subclause (4).
- (4) The debt instrument or agreement must provide for the following terms and conditions:
  - (a) it must have a minimum term of 10 years from the commencement of the loan; and
  - (b) there must be no circumstances where repayment may be accelerated or called at the lender's or any third party's option; and
  - (c) interest charged under the instrument or agreement may only be fixed or floating by reference to a benchmark interest rate. The basis for the calculation of interest must be set on a defined non-escalating basis for minimum periods of five years under the instrument or agreement; and
  - (d) interest bases may include default rate escalation, subject to a maximum of 2% escalation, or where interest is charged at a lower rate when it is paid within a defined period, the lower rate must not be more than 2% less than the highest interest rate payable under the instrument or agreement; and
  - (e) interest payments are not to be payable where the payment of these would cause the fund to breach the solvency obligation; and
  - (f) interest payment obligations may be capitalised and interest may be charged on capitalised interest; and
  - (g) capital repayments are not to be made where the repayment of these would cause the fund to breach its solvency or capital adequacy obligations; and
  - (h) delayed capital repayments may be subject to continuing interest charges, on the interest charge and repayment conditions specified in this subclause.

## **27. Amount of subordinated debt to be counted**

- (1) The maximum amount of subordinated debt that may be counted for the purposes of this standard is the greater of:
  - (i) 50% of the Solvency Reserve; or
  - (j) if subclause (2) applies, the amount calculated under that clause.
- (2) If an insurer has an Approved Subordinate Debt, in the meaning of that term in the repealed solvency or capital adequacy standards, the maximum amount for that Approved Subordinate Debt that may counted as a subordinated debt for the purposes of this standard is the lesser of the approved amount and 50% of the solvency requirement.

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- (3) Subclause (2) applies only for an Approved Subordinate Debt that was in existence at the commencement of these Rules and only for so long as the debt complies with the requirements of subclause 26 (4) of this standard.