

Mr Neil Grummitt  
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5 September 2012

Dear Mr Grummitt

## **LAGIC: PROPOSED REVISIONS TO REPORTING REQUIREMENTS**

Further to our preliminary submission of 22 August 2012 (attached for ease of reference), the Insurance Council of Australia<sup>1</sup> (Insurance Council) appreciates the opportunity for members to discuss several aspects of APRA's reporting proposals with you and your colleagues on 31 August. I note the following outcomes:

- **Establishment of a materiality test on the detail direct insurers provide on their reinsurance arrangements:** APRA will consider whether it can achieve the level of analysis it wants with less reporting and will advise the Insurance Council of the next steps, and Insurance Council members will identify the problems they foresee with GRF 470 and advise APRA;
- **The difficulty reinsurers have in reporting inwards reinsurance in line with the revised class of business groupings:** APRA will consider reinsurer concerns and advise the Insurance Council of the next steps; and
- **The need for reinsurers to report the number of policies written:** APRA will consider reinsurer concerns and advise the Insurance Council of the next steps.

Since finalisation of the preliminary submission, members have identified several additional concerns. Explanation of these follow.

### **GRF 115.0 and GRF 115.1**

Members have identified that it would take costly systems changes to report gross and net figures for the stand alone risk margin. The Insurance Council would therefore appreciate APRA considering altering the reporting to requirements so that these figures are disclosed annually in the liability valuation report.

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The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2012 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$37.5 billion per annum and has total assets of \$118.2 billion. The industry employs approx 60,000 people and on average pays out about \$115 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

### **2.2.1 Data collection on reinsurance counterparty exposures**

Our preliminary submission requested an explanation of how collateralised and other non traditional reinsurance providers would be reported. We've received further feedback that a discussion would be appreciated on collateralised balances. As the 2010 and 2011 catastrophe events move into their second balance date, this issue will become more relevant. For example, the question has been raised whether an ADI have a reinsurance identifier provided by APRA?

#### **Scope for Audit**

The Insurance Council would appreciate confirmation that all the GRF 400 series of forms will not be subject to audit.

If you would like to discuss this matter, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate at email:

[janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au) or

tel: 02 9253 5121.

Yours sincerely



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22 August 2012

Dear Mr Grummitt

### **LAGIC: PROPOSED REVISIONS TO REPORTING REQUIREMENTS**

The Insurance Council of Australia<sup>2</sup> (Insurance Council) welcomes the opportunity to comment on the package of proposed revisions to prudential reporting requirements that APRA released for public consultation on 22 June 2012.

The Insurance Council appreciates APRA's understanding that the need of a significant number of members to complete work on their Annual Results has made it difficult for them to focus on the implications of APRA's proposals. We are therefore grateful that APRA has agreed to accept this preliminary submission which sets out at a high level the issues that will impact on design of the reporting forms, with a fuller Insurance Council submission to follow.

#### **2.1.8 Class of business groupings for direct business and inwards reinsurance**

Some reinsurers do not separately capture any segregation between domestic and commercial classes of business. The Insurance Council therefore suggests that the classes of business for inwards reinsurance could be altered by combining householders and Fire and ISR as "property" and commercial with domestic motor as "motor own damage".

If, however, APRA wishes to proceed with the new allocation, the Insurance Council urges it to discuss with the Australian reinsurers the timeframe and resources required to amend reporting systems and treaty wordings to meet the new requirements.

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Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

### **2.2.1 Data collection on reinsurance counterparty exposures**

The issues identified by members focus on the additional reinsurance program data to be submitted electronically (and for which APRA has yet to provide draft forms):

- While supporting APRA's goal of better understanding reinsurance arrangements, in view of the large amount of data that could potentially be captured, the Insurance Council strongly suggests that a materiality threshold be applied. The data collected should focus on the most significant catastrophe exposures and significant liabilities.
- Given the highly particular characteristics of many reinsurance contracts, the level of detailed reporting proposed such as treaty listings, treaty type, reinstatements, class of business, premium and limit of liability is most likely too granular from a prudential oversight perspective.
- There will be practical problems in aggregating reinsurance cover to particular groups. Apart from the need for APRA to provide missing identifiers, some systems will have reinsurance entered with former names of the reinsurer, be only under the broker's name; or under the AON grouping. In recent years, a lot has been done to clean up the information kept in systems so reporting going forward should be relatively straight forward but dealing with historic information may be difficult.
- Following on from the above point, we would appreciate confirmation that APRA's annual data collection of reinsurance programs will be on the basis of treaties currently in force and going forward only (on the same basis as the RAS) and not on an underwriting year basis.
- It was unclear how collateralised and other non traditional reinsurance providers would be reported.
- What is APRA's expectation in relation to treaties covering multiple classes of business and multiple entities? For example, is it expected that the insurer allocate Catastrophe Reinsurance premium by class? And similarly with Multi class Clash of retentions and Clash of Limits RI Premium? Would premium be expected to be allocated by entity and by class?
- If all the information was required to be provided in one form, it would result in considerable repetition on each line of the report with regard to general treaty layer details, for each reinsurer on each layer for every class and currency under that layer.
- The Insurance Council would like clarification as to whether reinsurance premiums would be reported by processed premiums during the calendar year or by Underwriting Year. Furthermore, are the totals meant to tally to the reinsurance expense in the returns?

### **2.2.3 Collection of data on recoveries**

Insurance Council members consider that the expanded data collection proposed for reinsurance and other recoveries is too ambitious and should be scaled back. It is unlikely that data on "other recoveries" would be easily found.

### **2.2.4 Collection of data on number of policies written**

The Insurance Council welcomes the proposed collection of data on the number of policies written as we have been advocating for some time that this would be invaluable for analysis of a wide range of trends in general insurance and would greatly promote industry

transparency. However, the numbers of policies written by reinsurers for inward reinsurance are not useful for wider analysis and we suggest should not be collected.

### **Assets**

GRF 114.0 Asset risk charge: The Insurance Council would appreciate clarification of the following post-stressed balance sheet items:

- Should the data on the forms match the required data/output for the application of the currency stress tests and the real interest rate stress for liabilities? In the forms, the pre and post stress OCL have been requested in accordance with AASB 1023 whereas it had been thought that the stress should be applied to insurance liabilities on the APRA basis (OCL and premium liabilities at 75% PoS).
- Regarding the asset risk charge section of the capital workbook, there is currently no section to input "Other Assets Not Guaranteed by AU State or Territory Govt" and "Other Assets Guaranteed by AU State or Territory Govt".

The Insurance Council requests APRA provide excel based versions of all forms that insurers could utilise for testing data validations.

If you would like to discuss this matter, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate at email:

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