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Dear Mr Grummitt

## REINSURANCE COUNTERPARTY DATA COLLECTION FOR GENERAL INSURERS

The Insurance Council of Australia ("Insurance Council") welcomes the opportunity to comment on APRA's discussion paper, Reinsurance Counterparty Data Collection for General Insurers ("Discussion Paper"). We appreciate the considerable consultation, both formal and informal, which has taken place with the Insurance Council and its members.

As a result of this consultation, the two draft reporting forms on reinsurance counterparty data have general industry endorsement. This submission sets out several suggestions to improve the forms and comments on related issues raised in the Discussion Paper.

### Materiality

The Insurance Council believes that the threshold for materiality relating to reinsurance exposure should be reconsidered. We are concerned with the proposal to require 95-99% of data to be reported at a detailed level, allowing only 1-5% to be included as "other". The Insurance Council considers that this will result in forms that are too long and detailed, and place an unnecessarily high burden on insurers.

The Insurance Council has considered with its members what would be an appropriate level of materiality that would also be acceptable to APRA from a supervisory perspective. We propose that APRA provide a concise list of reinsurers (we recommend 10) that are most important to the market, against which all insurers would be required to report. In addition, we propose that APRA require details for all other reinsurers that make up more 15% of entity's program, by capacity. This would lead to a blended approach likely to provide the top 90% of data in detail. We believe this would help to simplify forms, while also enabling APRA to build a robust view of reinsurance arrangements in the sector.

### Reinsurers' Use of Collateral

We recognise that as reinsurers are starting to use collateral against their exposures, APRA would like to capture greater detail on the forms of collateral. The Insurance Council seeks clarification from APRA as to whether it wants data on the reinsurers' *major forms* of collateral or *total* collateral in form GFF 460.

A reinsurer may fully collateralise their exposure to an insurer, but this may be done through several methods. Data collected only on the major form of collateral may overlook other

types of collateral and therefore give a skewed indication of an exposure. However, if an insurer must provide total reinsurance collateral in detail, this would result in a much greater compliance burden for insurers.

The Insurance Council proposes that APRA require the full amount of total reinsurance counterparty collateral be reported followed by the main form it takes, rather than requiring insurers to list exhaustively all of its forms. For example, a reinsurance exposure may be reported as 100% collateralised with its main forms being x, y and z. We consider that this provides the appropriate balance of detail required by APRA while not placing a significant burden on insurers.

### **Deferred Reinsurance Expense**

The Insurance Council requests that APRA take additional care in interpreting the strength of recoveries using Deferred Reinsurance Expense (DRE) proportion as a measure. While the Insurance Council does not object to its collection, the use of DRE as a proxy for expected reinsurance recovery on premium liabilities may be an inaccurate reflection of exposure risk.

Given that some smaller insurers may buy reinsurance cover well above APRA's minimum of a 1:200 year return period, the extra cover above this minimum may be available only from larger reinsurers. It is natural that there would be a greater proportion of DRE allocated to larger reinsurers. We therefore consider that it may be flawed to assume that the larger proportion of DRE equates to a larger risk exposure to recoveries on premium liabilities. The extra cost of DRE cover relates to a much higher return period or much lower probabilities.

### **Unique Identifiers for Reinsurers and Lodgement Format**

The Insurance Council supports the proposal for standard unique identifiers for reinsurers. We assume that APRA will be able to collate a list of material reinsurance counterparties from the data collected previously by APRA on a one-off basis. However, the Insurance Council would be willing to work with members to assemble such a list if that would help APRA.

To assist our members in providing APRA with the required data, the Insurance Council also recommends that the lodgement format be made as user friendly as possible, and to encourage automation where possible. We recommend that:

- the lodgement format allow insurers to input data in multiple ways: (a) allow cut and paste from external databases rather than requiring manual entry; and (b) have "drop-down" boxes; and
- the cells for the major reinsurers should be pre-populated where possible.

### **Cost of Compliance**

The Insurance Council would like APRA to recognise that members will face an additional cost as a result of the new reinsurance counterparty data requirements. The cost is correlated to the level of detail required by APRA. For example, there will be a significantly higher cost of supplying data to 99% rather than 95% accuracy.

**Date for First Lodgement**

The Insurance Council would like to raise with APRA that significant additional work will initially be required from insurers to meet the first lodgement timeframe. As a result, the Insurance Council requests that a time extension be granted to the end of June 2014 (with end of year figures to be used).

**Reinsurance Arrangement Statement**

The Insurance Council considers that the requirements for reinsurance arrangement statements under GPS 230 should be subject to a different consultation process and so will not comment on it as part of the existing consultation.

**Data Confidentiality**

The Discussion Paper raises the issue of making reinsurance counterparty data publicly accessible. We understand that APRA intends to issue a further discussion paper after the reinsurance counterparty reporting requirements are finalised to gain feedback from industry.

While the Insurance Council welcomes the forthcoming discussion paper, we wish to emphasise that reinsurance arrangements are highly commercially sensitive and that details should not be made public without prior approval from insurers and reinsurers. The Insurance Council would strongly oppose any proposal to make reinsurance counterparty data provided to APRA under the Financial Sector (Collection of Data) Act 2001 (FSCOD) publicly available. The potential harm done to an insurer's commercial interests would more than outweigh the small public benefit from the release of such information.

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate by email: [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au) or tel: 029253 5121.

Yours sincerely



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Executive Director & CEO