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By email: Insurance.Policy@apra.gov.au

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Dear Mr Littrell

### **PROPOSED CHANGES TO GRF 440.0 CLAIMS DEVELOPMENT TABLE**

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback on the proposed changes to three reporting standards which you raised in your letter to general insurers of 11 November 2014. The changes are:

- to revoke reporting standard GRS 440.0 Claims Development Table (GRS 440.0), and replace it with a revised version of GRS 440.0 which does not include the claim count data columns for reinsurance business;
- to clearly indicate that Reporting Standard GRS 112.0 Determination of Capital Base does not apply to Category C insurers, as defined in Prudential Standard GPS 001 Definitions; and
- to clearly indicate that Reporting Standard GRS 116.1 Probable Maximum Loss for LMIs applies only to lenders mortgage insurers, as defined in Prudential Standard GPS 001 Definitions.

The Insurance Council has consulted with its members and supports all three proposals. The rationales for the second and third set of changes are self evident and there are no further comments that we would like to make.

However, the Insurance Council would like to strongly endorse the proposed deletion from GRF 440.0 of the claims count columns for reinsurance business.

There are practical challenges with meeting the claims count requirements. Reinsurance is currently transacted in bulk or at a portfolio level. No meaningful data is currently available to complete “number of reported claims” or “number of claims outstanding” in GRF 440. This is particularly the case for proportional reinsurance business.

We note that APRA recognised the difficulties associated with obtaining the information within the GRF440 instructions applicable in the previous reporting forms. APRA also previously provided the ability for insurers to take a more pragmatic approach to completing the form.

Feedback from our reinsurer members is that efforts to provide meaningful claims count figures requires data to be provided by their clients, which may require changes to systems and additional personnel. These costs are likely to be passed on from the cedent to the reinsurer. Additionally, there will be costs to the reinsurer to alter its own systems and pay for additional personnel.

The cost of deriving claims count figures may be at the low end of the spectrum where a reinsurer accepts data with relatively light review and where no issues are raised by auditors. However, given the scope for different interpretations of what constitutes a "claim", the cost of proving claims cost data as currently required could rise significantly if audit issues arise and a reinsurer needs to satisfy an alternative interpretation of how "claims" should be counted.

Maintaining the requirements for provision of meaningless and inconsistent data by reinsurers will lead to erroneous analysis by APRA and generate queries to reinsurers that will be difficult for them to answer in any meaningful manner. Reinsurance is an effective method of risk management because taking a portfolio view reduces transactional costs. If reinsurers are required to capture individual risk data via a bordereau this would make the transactional costs uneconomical.

The Insurance Council's reinsurance members have provided cost estimates of complying with the requirement to provide claims count data for columns 5 and 6. The cost per reinsurer to create a more robust, transparent, quality assured process ranges from \$3,400 per annum to up to \$200,000 (made up as explained above of staff costs, consultancy fees, and systems changes for the reinsurer and insurer clients). This range reflects the different specific circumstances of individual reinsurers and hence the different levels of investment which may be required if the claims count requirements were not to be discontinued.

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



Robert Whelan  
Executive Director & CEO