



27 February 2009

To All APRA-authorised General Insurers

Guidance re APRA Reporting on the Victorian Bushfires

APRA has been made aware that there is some uncertainty, and some potential variations in practice, regarding the allowance for the Victorian bushfires in Premium Liabilities as at 31 December 2008 for APRA reporting purposes. This note is intended to outline APRA's expectations in that regard, in order to ensure a consistent approach across the industry.

In determining the Premium Liabilities for APRA reporting purposes, the Appointed Actuary should allow for relevant post balance date information that it is practicable to incorporate at the time the valuation is finalised, even if such information arose after the balance date. The same principle is generally applied under the application of accounting standards in the preparation of general purpose financial statements.

This principle is confirmed by the requirements of Professional Standard PS300 of the Institute of Actuaries of Australia, which provides supporting guidance for APRA's prudential and reporting standards. In PS300, Premium Liabilities are defined as representing

“the value of Claim Payments and related Indirect Expenses, to be made after the valuation date, arising from future events for which the Entity is liable under its insurance policies.” (Paragraph 3 ‘Future Claim Liability’)

and furthermore the valuation method employed by the Appointed Actuary in determining the Premium Liabilities must

“appropriately allow for changes in experience after the valuation date (if the impact is extreme and known to the Member and there is sufficient time for making such allowance prior to finalising the valuation results).” (Paragraph 7.1.5(c))

Clearly, where an event occurs a few days after the balance date it should be practicable to make some allowance for it in the reported Premium Liabilities. Conversely, if an event occurs after the relevant valuation results are finalised then any allowance (other than perhaps by way of a note to the returns or accounts) would be impracticable. The exact delineation of what is practicable is a matter of judgement.



The Victorian bushfires occurred in early February 2009, which was:

- after APRA's December quarterly returns were due;
- close to the time that half-yearly and annual financial statements were being finalised by many companies; but
- well before the December annual returns are due to APRA for companies with a December balance date.

The following represents the position that APRA expects companies to adopt in preparing their APRA returns, both in the case of the Victorian bushfires, and for any other significant post-balance date events (such as the Queensland floods) that may occur in the future:

- The quarterly returns should allow for information on events that is able to be incorporated at the time that the returns are prepared.
- The annual returns, for companies that balance at that quarter, should allow for information on the same events that have been allowed for in the corresponding quarterly return, albeit that the information in relation to those events may be able to be more refined by the time the annual returns are finalised. Information in relation to events that were not allowed for in the quarterly return, should not be allowed for in the annual return, notwithstanding that such an event may be regarded as extreme.

APRA is not in a position to advise on the preparation of general purpose financial statements. However, we would note that, other than where specifically required to satisfy APRA's prudential and reporting standards, APRA's desire is that there be as much consistency as possible between APRA returns and general purpose financial statements, and that the need for reconciliations between the two be kept to a minimum.

The approach outlined above should ensure consistency between what is represented in the quarterly and annual APRA returns, and ensure a consistent recognition of post-balance date events across the industry in APRA's published statistics.

The consequences of the above principle when applied to the Victorian bushfires are that no allowance would be made for the fires in either the December quarterly returns or in the annual returns for December balancing companies. The impact of the bushfires will therefore first appear in APRA's statistical collections in the quarterly returns at 31 March 2009.

Given the significance of the Victorian bushfires, APRA has requested (or will request) from some insurers information on the claims expected to be incurred arising from the bushfires and the impact on the company's capital position. Supervisors will be in contact with companies directly to request this information if and when required.

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Should you have any questions on this issue, please contact your APRA responsible supervisor.

Yours sincerely,

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