



# INFORMATION PAPER

## Insurance capital: AASB 17 and LAGIC updates

December 2021

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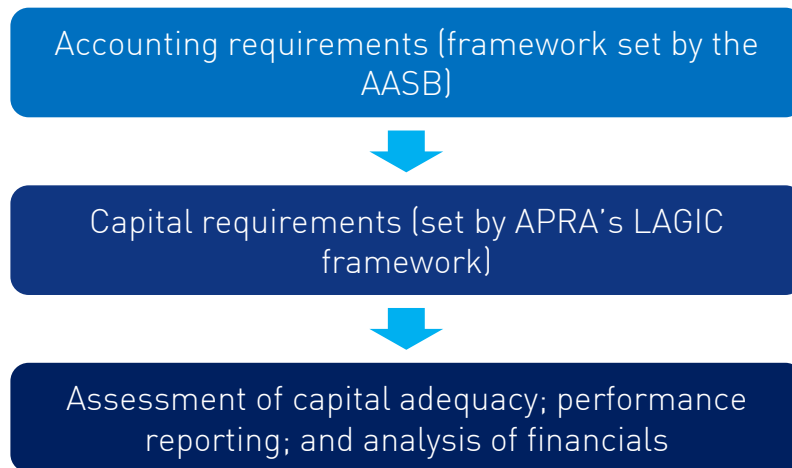
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# Proposed revisions

## Overview

In 2017, the Australian Accounting Standards Board (AASB) issued a new accounting standard, AASB 17 Insurance Contracts (AASB 17). This accounting standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It comes into effect from 1 January 2023, with early adoption permitted.<sup>1</sup>

APRA's current capital framework for life insurers and general insurers (commonly referred to as the Life and General Insurance Capital, or LAGIC, framework), was established in 2013. It was based on the accounting standards at the time. APRA is therefore updating the capital framework to align with the new AASB 17 accounting standard where possible, and using this opportunity to review other aspects of LAGIC that could be improved in light of experience. This process is illustrated in the graphic below.



## Objectives

APRA's approach to integrating AASB 17 into APRA's capital and reporting frameworks is based on the following principles:



Maintain the resilience of the capital and reporting frameworks



Not seek to generally increase or reduce capital levels



Minimise the regulatory impact for industries



Align to AASB 17 where appropriate

<sup>1</sup> AASB 17 incorporates the International Financial Reporting Standard 17 (IFRS 17)

The main intent is to achieve alignment with AASB 17 and clarify or enhance other aspects of LAGIC: there is not expected to be an increase or reduction in overall capital levels at an industry level as a result of the review.

## Proposed standards

APRA has released draft standards for consultation with industry, which incorporate proposed changes to capital and reporting requirements. As outlined in the appendix, there are 11 general insurance and 8 life insurance prudential standards, and 17 general insurance and 15 life insurance reporting standards being consulted on as part of the package. Only 4 of the draft prudential standards have material changes and these are highlighted in bold in the Appendix.

Private health insurers should refer to APRA's response paper *A proposed new capital framework for private health insurance* for details of the draft prudential and reporting standards that are being consulted on.

Further detail on the proposed changes is set out in the response paper *Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework*.

## Consultation process to date

The proposed standards reflect feedback received from industry during consultation to date. APRA invited submissions from stakeholders on initial proposals in its November 2020 discussion paper, *Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework* (discussion paper), and conducted a targeted quantitative impact study (QIS) to assess the impact AASB 17 would have on insurers' operations.

Submissions were broadly supportive of APRA's direction of aligning the prudential framework with AASB 17 where possible. Key areas of stakeholder feedback were on:

- the proposal for the expansion of the expense basis for general insurers;
- the introduction of new reporting product groups for life insurers;
- the removal of the two and six month rule for reinsurance contracts; and
- the proposed removal of the internal capital models for insurers.

APRA has considered feedback received in the submissions in the development of the proposed standards. In doing so, APRA has aimed to strike an appropriate balance between prudential benefit and regulatory burden, and has made key changes particularly on the more material issues where industry had strong views.

In summary, the key proposals contained within the accompanying more detailed response paper are:

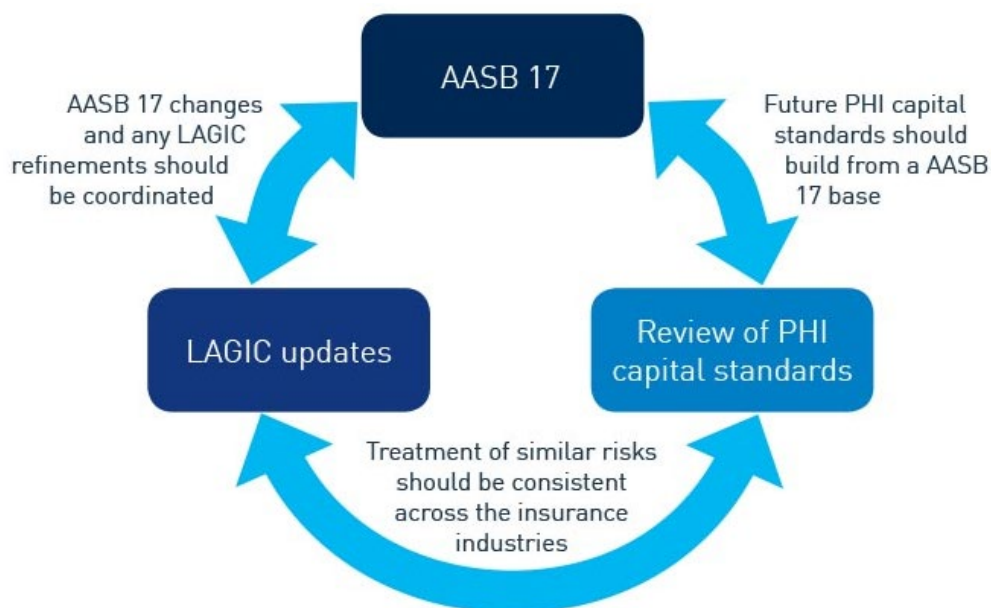
- For the capital framework, the majority of the existing requirements for the regulatory capital calculation for general insurers and life insurers will be maintained. Most of the

capital proposals in the response paper relate to clarifications of the regulatory capital calculation, given the introduction of AASB 17.

- For the reporting framework, insurers will be able to use the AASB 17 accounting policies and principles to report financial statement information to APRA. Additional data requirements are proposed to ensure that APRA continues to have appropriate data for capital assessments and profitability monitoring. New reporting product groups for general and life insurers are also proposed as existing APRA reporting does not provide sufficiently detailed insights on certain key product groups.
- Updates to the LAGIC framework are also proposed, given it has not been substantively reviewed since it was implemented in 2013. While the LAGIC framework continues to achieve its objectives, certain aspects of the framework will be clarified or are no longer appropriate in the current environment.

### Interactions with the private health insurance capital review

APRA is also concurrently reviewing the capital framework for private health insurers. APRA is aligning the private health insurance capital framework to LAGIC where appropriate, using it as a base for the review the proposed updated insurance capital framework (incorporating the proposed changes for AASB 17 and other LAGIC updates). The graphic below sets out how the various components fit together.



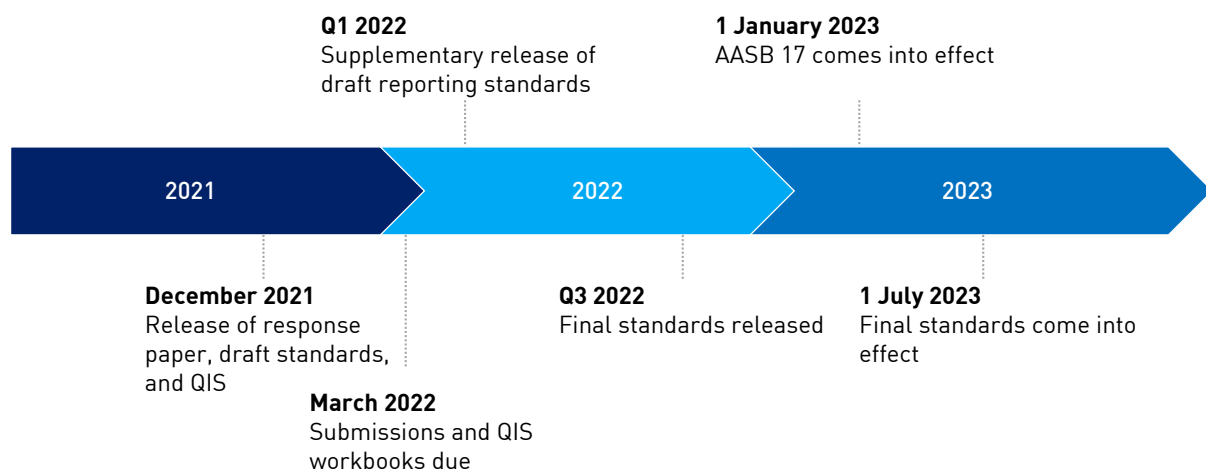
### Impacts

If no changes were made to APRA's capital and reporting frameworks, the introduction of AASB 17 would result in significant misalignment between the accounting and prudential standards and increased regulatory burden for industry. This is due to divergence between the new accounting standard (AASB 17) and APRA's current prudential framework. Making adjustments to APRA's capital and reporting frameworks reduces the likelihood of unintended changes to capital levels across the insurance industries, and reduces the level

of regulatory burden by avoiding the need for insurers to maintain dual valuation, actuarial, accounting and reporting systems.

## Next steps

A timeline is set out below, highlighting next steps. APRA invites written submissions on the proposals set out in the response paper and draft standards, as well as completed QIS workbooks, by 31 March 2022. APRA expects the revised standards to come into effect from 1 July 2023. Further details have been included in the response paper.



# Appendix A – Standards being updated

The tables below set out the prudential and reporting standards that form part of this consultation package. The draft prudential standards with material changes are highlighted in bold.

## Draft prudential standards

General insurance	Life insurance
GPS 001 - Definitions	LPS 001 - Definitions
GPS 110 - Capital Adequacy	LPS 110 - Capital Adequacy
<b>GPS 112 - Capital Adequacy: Measurement of Capital</b>	<b>LPS 112 - Capital Adequacy: Measurement of Capital</b>
GPS 113 - Capital Adequacy: Internal Model-based Method <sup>2</sup>	LPS 114 - Capital Adequacy: Asset Risk Charge
GPS 114 - Capital Adequacy: Asset Risk Charge	LPS 118 - Capital Adequacy: Operation Risk Charge
GPS 115 - Capital Adequacy: Insurance Risk Charge	LPS 310 - Audit and Related Matters
GPS 116 - Capital Adequacy: Insurance Concentration Risk Charge	<b>LPS 340 - Valuation of Policy Liabilities</b>
GPS 117 - Capital Adequacy: Asset Concentration Risk Charge	<b>LPS 600 - Statutory Funds</b>
GPS 118 - Capital Adequacy: Operational Risk Charge	
GPS 230 - Reinsurance Management	
GPS 340 - Insurance Liability Valuation	

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<sup>2</sup> APRA is proposing that this standard is removed.

## Draft reporting standards

General insurance	Life insurance
GRS 110.1 - Prescribed Capital Amount	LRS 110.0 - Prescribed Capital Amount
GRS 111.0 - Adjustments and Exclusions	LRS 111.0 - Adjustments and Exclusions
GRS 112.0 - Determination of Capital Base	LRS 112.0 - Determination of Capital Base
GRS 114.0 - Asset Risk Charge	LRS 114.0 - Asset Risk Charge
GRS 115.0 - Outstanding Claims Liabilities - Insurance Risk Charge	LRS 114.5 - Friendly Society Related Items
GRS 115.1 - Premiums Liabilities - Insurance Risk Charge	LRS 115.0 - Insurance Risk Charge
GRS 117.0 - Asset Concentration Risk Charge	LRS 118.0 - Operational Risk Charge
GRS 118.0 - Operational Risk Charge	LRS 200.0 - Capital Adequacy Supplementary Information
GRS 300.0 - Statement of Financial Position	LRS 300.0 - Statement of Financial Position
GRS 310.0 - Statement of Profit or Loss and Other Comprehensive Income	LRS 310.0 - Statement of Profit or Loss and Other Comprehensive Income
GRS 311.0 - Statement of Profit or Loss and Other Comprehensive Income by Product Group	LRS 311.0 - Statement of Profit or Loss and Other Comprehensive Income by Product Group
GRS 320.0 - Liability Roll Forwards	LRS 320.0 - Liability Roll Forwards
GRS 400.0 - Statement of Risk by Country	LRS 340.2 - Retained Profits and Share Capital
GRS 410.0 - Movement in Outstanding Claims Liabilities -	LRS 400.0 - Statement of Policy Liabilities
GRS 420.0 - Insurance Revenue and Insurance Service Expense by State and Territory of Australia	LRS 420.0 - Asset Backing Policy Liabilities
GRS 440.0 - Claims Development Table	
GRS 600.0 - Supplementary Capital Data - Premiums, Claims and Expenses	





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