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General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Via email Insurance.Policy@apra.gov.au

Cc: [redacted] - APRA

Dear Sir/Madam,

Re: Consultation responses on discussion paper *Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework*

Please find below feedback from Chubb Holdings Australia Pty Limited, Chubb Insurance Australia Limited (collectively referred to as Chubb) and Combined Life Insurance Company of Australia Limited on the consultation questions raised in your Discussion Paper *Integrating AASB 17 into the capital and reporting frameworks for insures and updates to the LAGIC framework*. We have reviewed the discussion paper and are pleased that APRA is working to align reporting with IFRS 17 requirements, and it is a sensible approach to keep the LAGIC framework largely consistent with the requirements of IFRS 17. Chubb are supportive of this overall policy direction from APRA.

Please find below responses to the questions relevant to Chubb:

Question 1: Would maintaining the existing regulatory capital and measurement substantially increase regulatory burden?

No; we do not believe this will materially increase the regulatory burden, however in the interim, before the new APRA requirements take effect, there will be increased work effort for the licensed insurers.

Question 2: Are there any types of expenses that should not be included in the expense basis and its justification?

No; in our view all expense types should be included.

Question 4: How would the new four quarters dividend test affect your entity?

Our existing treatment is in line with the requirements and this is not expected to impact the entity.

Question 5: What types of challenges would the new product groups bring to your entity, including any transitional challenges?

Segregating and reporting these products separately makes sense and we are in agreement with the approach. Internally, Chubb manages these lines of business separately under our existing model.

Question 6: How should APRA define Cyber and Directors & Officers insurance?

Chubb's definition for D&O is "Personal protection for directors, officers and management against a range of civil, criminal and regulatory proceedings arising from the potential exposures associated with managing or supervising a company". We feel the words "*and the company itself*" in APRA's definition should be removed as it implies entity cover.
For the definition of Cyber Insurance, we propose "Protection addressing a company's vulnerability to cyber security threats, outages, mistakes, or attacks. Specifically tailored to address both first and third party costs, expenses and exposures associated with a data and/or privacy breach, business interruption and extortion event".
In addition to Cyber and D&O, we recommend that the Management Liability class also be reported separately from the D&O class, which would be consistent with the upcoming changes to NCPD reporting.

Question 7: Are the allocation principles outlined in this Discussion Paper adequate for reporting of APRA product group data? Are there any ways to make the allocation principles more effective?

Yes, we consider them to be adequate and we do not have any suggestions for improvement.

Question 12: Would the liability data collection approach in the QIS workbook cause significant issues? How can APRA improve its collection of the liability data items to better understand profitability profiles by APRA product groups?

Chubb was not part of the QIS and therefore is not in a position to provide comment.

Question 13: Are there any supplementary data collections that insurers deems unnecessary in the AASB 17 environment?

We are not aware of anything at this stage.

Question 14: Are there any other potential impacts of low or negative interest rates, not already mentioned in this Discussion Paper, on the current capital framework?

Investment income will be constrained in a low interest rate environment, therefore the focus will be on generating underwriting income. When interest rates start to increase, the negative impact emanating from unrealised losses on fixed interest investments and reduction in market values on equity portfolios will place a strain on capital adequacy.

Question 15: Will the expected inflation stress to 50 basis points when nominal risk-free interest rates are negative cause any unintended consequences?

We do not believe this will have a material impact on capital adequacy for Chubb.

Question 16: Will removing the floor on nominal risk-free rates of zero that applies to the downward inflation stress cause any unintended consequences?

We do not believe this will have a material impact on capital adequacy for Chubb.

Question 17: Will the clarification on the usage of the inflation stress cause any unintended consequences?

Initial investigations highlight no unintended consequences, however further analysis will be required.

Question 18: What should the new dollar value limit be? Will indexing future-proof the value?

We do not believe this will have a material impact on capital adequacy for Chubb, however, any fixed dollar values should be updated to reflect the CPI index.

Question 19: Will the alignment of APS 111 for insurers and ADIs bring any significant burden to the insurance industry?

Chubb is not an ADI and cannot comment on the impact on ADIs. From a GI perspective, we do not expect a significant burden with the alignment of APS 111.

Question 20: What are industry views on the proposal to cease allowing use of ICMs in the calculation of regulatory capital?

We believe this is a positive measure and will allow for consistency and standardisation across the industry.

Question 21: Will applying a charge to the net rather than gross of the quota share position realign the risk to the insurer than the reinsurer? Are there any other methods that may achieve the same goal?

For both an operational risk and default risk perspectives, our view is that applying a charge on the gross basis is more appropriate.

Question 22: Are there situations where general insurers shouldn't use fair value for capital base determination?

Fair value is an appropriate measure to use and also underpins AASB 17 valuation methodology. There will be certain assets and asset classes where FV measurement is difficult to achieve and other valuations alternatives should be considered.

Question 24: APRA is seeking improvement suggestions on the current double counting risk charge under quota share reinsurance arrangements.

It is our view that the current treatment is appropriate for these arrangements, so we don't believe there are any areas for improvement.

Question 25: APRA is seeking improvement suggestions on solving the mismatch between IRC and the duration of quota share reinsurance policies.

As outlined in Question 21, we believe that, as direct and reinsurance business are subject to separate contractual arrangements, they should be dealt with separately as they are in the existing regime. Please also refer to comments in Question 27 with regard to the unequitable treatment of non-APRA regulated reinsurers.

Question 26: Would a requirement of inception date of having all procedural documentation of reinsurance arrangements formalised be a significate burden on the industry?

In our view, this requirement would place an unnecessary burden on the industry. The existing 2 and 6 month rules currently incorporated in *GPS 230 Reinsurance Management* are appropriate.

Question 27: Are there any additional LAGIC updates, not already mentioned, that would be beneficial to APRA and the industry?

1) The capital charges associated with greater than the second balance dates for non-APRA regulated reinsurers risk rated are punitive. A more risk rated approach should be adopted along the lines of a financial strength credit rating, as is applied to APRA regulated reinsurers.
2) We view the new Data Collection Solution (APRA Connect) as a positive improvement in the reporting process.

The above comments and narrative have been provided predominately in relation to the General Insurance business of the Company. We have not included specific commentary in relation to the Life Insurance questions as the Combined Life Insurance Company of Australia entity is in run-off and we do not expect a material impact on that business.

If you would like to discuss further, please do not hesitate to contact me.

Yours faithfully

[redacted]

[redacted]
Chief Financial Officer
Australia & New Zealand