Munich RE

31 March 2021

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Dear Sir or Madam

Integrating AASB 17 into the capital and reporting frameworks and updates to the LAGIC framework

In November 2020, APRA released a Discussion Paper entitled "Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework". The proposals outlined in the Discussion Paper are open for consultation until 31 March 2021. APRA has invited written submissions on their proposals, provided they are submitted prior to 5 pm 31 March 2021.

Munich Re is pleased to be able to provide the attached comments in respect of APRA's proposals.

Munich Re conducts insurance business in Australia across both life and general insurance, therefore we have separated our feedback in two sections. We are pleased to have the opportunity to provide comments in respect of APRA's proposals and would welcome the opportunity to discuss further at your convenience.

Appendix A contains our response for our life insurance operation, MRA and Appendix B for our General Insurance operations, MRAu and GLA.

Should APRA require further clarification of comments made, please do not hesitate to contact me.

Yours sincerely,

[redacted]

[redacted]
Chief Financial Officer
Munich Re Australia

Appendix A
APRA Discussion Paper – Life Company Responses

Chapter	No.	Questions	MR Life responses
2	1	(GI, LI and Friendly societies) Would maintaining the existing regulatory capital and measurement substantially increase regulatory burden?	There are two possible interpretations to regulatory burden, an operational burden and a financial burden (i.e. a higher capital requirement). In principle we do not believe there should be a significant new burden from an operational perspective if the existing level of capital reporting is maintained. However, it remains unclear the extent of increased efforts required to support the potential reporting requirements associated with APRA's proposed product groups. As discussed below (No. 5) MRA is concerned that there will be a substantial increase in regulatory and operational burden. From a financial perspective we expect the adjustments required as a result of adjusting the existing regulatory capital and measurements for AASB17 would not result in a substantial increase in the level of capital required i.e. minimal financial burden. Critically this presumes that APRA maintains the current look through philosophy of the existing capital standards.
2	2	(GI) Are there any types of expenses that should not be included in the expense basis and its justification?	Not applicable
2	3	(LI) Will there be challenges calculating RFEFCF by projecting cash flows and not using account balance for all investment accounting business?	Not applicable

Chapter	No.	Questions	MR Life responses
2	4	(GI and LI) How would the new four quarters dividend test affect your entity?	We understand the objective for the change is to ensure the application of the four quarters dividend test remains consistent and fair for all (re)insurers, irrespective of their choice of adopting the FVOCI measurement method or not. For this purpose we concur with the change, however in regards to the proposed adjustment methodology, we make the following two technical observations: - The proposed adjustment is one-sided (i.e. only when the sum of *changes in fair value of financial assets through OCI* plus the *net insurance financial result* are negative). To reflect the implied investment profit or loss effects for (re)insurers adopting the FVOCI measurement method, we believe the adjustments should be applied irrespective if the sum is negative or positive. - The n*et insurance financial result* component is already included within the *after-tax earnings* result, therefore we believe the adjustment should only account for *changes in fair value of financial assets through OCI*, and not the sum of *changes in fair value of financial assets through OCI* plus the *net insurance financial result.*

3	5	(All insurers) What types of challenges would the new product groups bring to your entity, including any transitional challenges?	*We would like to bring to APRA's attention the response to Question Nos.7 & 12 below regarding our views on APRA's proposal to understand profitability profiles by introducing requirements to allocate AASB17 financials to APRA product groups. On the assumption that APRA will introduce the new product groups in conjunction with the implementation of AASB 17, MRA provides its views below on the associated challenges.* Currently, MRA's proposed level of aggregation methodology indicates that MRA's AASB17 group of contracts will not directly map to the proposed APRA product groups, necessitating an apportionment of AASB 17 results to APRA product groups. This would lead to purpose, operational and methodological challenges. Purpose challenge: i. Reinsurance policies are priced, entered into and administered as a whole and according to the treaty policy terms and conditions. AASB17 accounting will appropriately follow MRA (re)insurance policies (treaties) and report their profitability according to those standards. ii. APRA's proposed product groupings do not necessarily align with a reinsurance policy and would require a fundamental reworking of the accounting standards and reporting systems. Applying AASB17 financial reporting standards to APRA's proposed product groupings is misconstrued and would likely deliver product profitability information fundamentally different to the company accounts. Operational challenges: iii. Implementation of the allocation. Munich Re's IFRS-17 architecture is well progressed but nevertheless under development. It remains unclear if the Munich Re architecture will be able to support this allocation for reporting purposes in Australia. If the functionality required to allocate to APRA product groups is not available, there will then be considerable effort and resource required to design and maintain the process, tools and infrastructure to support an allocation process. Furthermore, global AASB17 business reporting requirements will be finalised before the release of APRA's final requirements. iv. APRA's proposal appears to require maintaining a dual reporting framework, including a specific APRA sub-ledger. This results in incremental effort around the required process, systems and ledger to support the reporting framework. v. Additional one-off financial costs in the development and establishment of the additional systems. MRA also anticipate. higher ongoing costs in the form of higher audit fees. Methodological challenges: vi. Determination of an allocation methodology that is appropriate and enables reasonable and meaningful insights to be drawn. There is a high risk that an allocation method is unable to reasonably achieve APRA's stated requirement of representing the requested product group profitability.

Chapter	No.	Questions	MR Life responses
			vii. The use of different apportionment methods by companies could lead to inconsistent results between companies, and therefore challenging in achieving APRA's intention of obtaining meaningful data for analysis of profitability by product groups. viii. A company's own results may not be comparable from year to year as the apportionment drivers vary from year to year (i.e. unless a set of results are produced using the same apportionment factors as the prior year it may not be possible to compare MRA's results from year to year). ix. Apportioned results may require an audit sign-off, increasing complexity and costs.
3	6	(GI) How should APRA define Cyber and Directors & Officers insurance?	Not applicable
3	7	(All insurers) 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?	We do not consider that the allocation principles are adequate. Some of our concerns regarding the allocation principles are also set out above (No. 5). Further concerns on the proposal include: i. We are concerned that reporting at the proposed product group level and the need to develop an apportionment process is contrary to the profitability intention underpinning AASB17. Specifically AASB17 requires profitability to be assessed at a group of contract level and not at any lower level. For reinsurers, cross subsidies that exist in the pricing of a treaty containing both lump sum and disability income business are appropriately recognised within AASB17. Requiring a reinsurer to split results to lower levels is likely to give a misleading indicator of profitability under some circumstances. ii. Furthermore, within lump sum business, the split between death and rider benefits will result in a misleading indicator of profitability. Claims incurred under the rider benefit are an acceleration of the death benefit, yet the premium for these rider benefits is usually marginally costed. Claims costs are then likely to exceed these marginal premiums suggesting unprofitable business whilst the death benefit then presents an extremely favourable profit position. Munich Re will be in a position to provide additional comments after completing the QIS and we would encourage further dialogue with APRA to better understand both parties intentions and concerns.

Chapter	No.	Questions	MR Life responses
3	8	(LI) Would the proposal underlying separate valuation of insurance and reinsurance assets and liabilities in accordance with the Life Act reporting structure cause issues despite the proposed reporting exemption for Non-participating risk business? Are there any other specific issues in relation to the proposal?	The proposed exemption provided will reduce the burden placed on MRA. However, we read the current exemption applies only within a statutory fund and not across statutory funds. We note that many companies will have a reinsurance contract that covers business across multiple statutory funds. In these circumstances companies may have to use the apportionment principles to complete APRA's returns by statutory funds.
3	9	(LI) How should APRA define reporting components for Participating business given AASB 17 and the Life Act reporting structure?	Not applicable
3	10	(Friendly societies) Would the proposal underlying separate valuation of insurance and reinsurance assets and liabilities by benefit funds cause issues? Are there any specific issues in relation to the proposal?	Not applicable
3	11	(Friendly societies) Are there any reporting components that APRA should clarify for friendly societies given the existence and operation of benefit funds?	Not applicable

3	12	(GI and LI) Would the liability data collection approach outlined 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?	We assume that this question is with reference to the tab “Liabilities – LI” in the QIS workbook. - We note that the liability data collection approach in the QIS workbook leverages current Life Insurance Reporting Form LRF 200. The liability data QIS workbook requires the stressed insurance liabilities to be determined separately for gross and ceded which requires extra effort as stresses are currently performed on the net insurance liabilities under LAGIC. However, this is not expected to cause significant issues for MRA. The liability tab does not collect profitability measures from AASB17 reporting (e.g. the CSM). From the proposed data collection, APRA may be able understand the profitability profiles by: Collecting the unstressed liability (and assessing the impact) from new business separately from in-force business. This enables an understanding of the expected profitability of new business (implied from the present value of future cash flows) to the profitability of the existing book. - Collecting data for insurance written and reinsurance ceded separately. This enables APRA to understand if the performance/profitability is driven by the underlying contracts and/or the performance of the reinsurance contract. In assessing the latter, MRA notes that this might be helpful in understanding the appetite in providing reinsurance coverage to the Australian insurance market. For a reinsurance writer, the gross results would provide a better indication of the overall appetite to provide reinsurance support to the Australian insurance market, with the retroceded results probably yielding less insights from this perspective. - Regarding APRA’s understanding of profitability profiles we note the potential lack of comparability between the apportioned results as discussed under question 5, and the difficulty in achieving the allocation principles outlined by APRA as discussed under question 7, it is unclear if APRA’s proposed reporting at the new level of product groups will result in greater insight to product profitability in general. - For reinsurers (as opposed to direct life insurance writers), MRA believes APRA would be able to sufficiently gauge the profitability of products by monitoring the BEL at inception for the new business cohort each year at the proposed product group level. For direct writers, such monitoring should be performed both before and after reinsurance to identify those direct writers relying on reinsurance support to be profitable. Poor new business profitability could then lead APRA to request specific tailored information regarding in-force profitability under APRA’s existing powers. Operationally, the BEL at inception should be readily available with little additional effort required. This would negate the necessity of apportionment methods or additional subledgers being built specifically for APRA reporting. - Loss ratios at product group may provide APRA sufficient data to understand profitability at the product group level.

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<td>(All insurers) Are there any supplementary data collections that insurers deems unnecessary in the AASB 17 environment?</td>
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Whilst the question relates to the potential reduction of returns collected by APRA in a post AASB 17 environment, MRA has a number of concerns that most of the existing returns will have to remain in place along with new forms as per the QIS to enable APRA to fulfil their monitoring role particularly during the transitional period. These concerns cover:

Increased audit costs
Dual reporting during the transitional period for the March and June 2023 quarters, where companies like MRA will already be reporting under AASB 17 but also under the existing MoS framework.

Views in respect of each financial statement are provided below:
<table>
<tr><th>Current Requirement</th><th>Post ASSB 17 Implementation</th></tr>
<tr><td>LRF 300 – Statement of Financial Position</td><td>The level of information currently provided is more granular than that proposed within the QIS Balance Sheet. If APRA is prepared to accept this reduction in information then this form could be replaced.</td></tr>
<tr><td>LRF 310 – Income Statement</td><td>The items currently reported within this financial statement are not replicated by the new PL & OCI form within the QIS. If APRA is prepared to accept this reduction in information then this form could be replaced. However, we are concerned that APRA will still require some of these existing items (e.g. premium revenue) and hence, either hybrid forms will exist resulting in additional expenses being incurred by insurers.</td></tr>
<tr><td>LRF 330 – Summary of Revenue and Expenses</td><td>This could be replaced by the Income Statement but this would provide different information to that currently provided. Will APRA accept this different information.</td></tr>
<tr><td>LRF 340 – Retained Profits</td><td>Still required as it has not been replaced by any of the new statements.</td></tr>
<tr><td>LRF 400 – Policy Liabilities by Product Group</td><td>APRA has widened the product groups. However, items in this return are not covered by either the new balance sheet or income statement (e.g. statistics). If APRA is prepared to accept this reduction in information then this form could be replaced.</td></tr>
<tr><td>LRF 420 – Assets Backing Policy Liabilities</td><td>The information in this form is not covered by any of the forms within the QIS. Hence, it unlikely this form can be discontinued.</td></tr>
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Chapter	No.	Questions	MR Life responses	
			LRF 430 – Sources of Profit	We believe this return could be discontinued as APRA is requesting the IS by product group. Under AASB 17, the income statement is essentially a Sources of Profit statement with, margins being released, experience profit and investment income. There may be a small loss of information as the income statement does not split experience profit/loss into the categories currently requested by LRF 340.
4	14	(All insurers) Are there any other potential impacts of low or negative interest rates, not already mentioned in this Discussion Paper, on the current capital framework?	We do not expect any additional impacts of low or negative interest rates in determining regulatory capital, other than those mentioned in the Discussion Paper. MRA notes that the intended direction of the real interest rate (RIR) stress (and consequently the shock produced) would be reversed when nominal risk-free rates are negative, and that introducing a minimum stress would avoid this. The proposed changes to the RIR stress in the Discussion Paper would result in flat upward and downward stresses of 75bps and 60bps respectively once nominal interest rates fall below 3.00%, which may result in increases to (re)insurer's Asset Risk Charge and therefore overall industry capital levels. Whilst the proposed changes to expected inflation stress would provide some relief to this by reducing the downward expected inflation stress, the same relief is not available in upward expected inflation stress. This may counter APRA's aim of mitigating the risk of substantially changing industry capital levels, although for MRA, we expect the resulting increase to be not material at the overall PCR level.	
4	15	(All insurers) Will the expected inflation stress to 50 basis points when nominal risk-free interest rates are negative cause any unintended consequences?	We do not anticipate any unintended consequences.	
4	16	(All insurers) 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 anticipate any unintended consequences.	

Chapter	No.	Questions	MR Life responses
4	17	(All insurers) Will the clarification on the usage of the inflation stress cause any unintended consequences?	We do not expect this to cause any unintended consequences. Clarifying the application of expected inflation stress for all insurers (irrespective of whether explicit or implicit expected inflation rates are used) would bring greater alignment in the application of the regulatory capital framework in this area.
4	18	(GI and LI) What should the new dollar value limit be? Will indexing future-proof the value?	The current asset concentration limits are expressed as the greater of a dollar value limit and a % of capital base limit. We concur with updating the prescribed dollar limits reflecting current price values, with an indexation adjustment (e.g. CPI or wage inflation) to future-proofing the dollar value limits. Alternatively, concentration limits could be based on a combination of multiple % limits (e.g. greater of % of capital base and % of total assets).
4	19	(GI and LI) Will the alignment in APS 111 for insurers and ADIs bring any significant burden to the insurance industry?	Our internal assessment indicates this alignment will have only minor impact upon MRA.
4	20	(GI) What are industry views on the proposal to cease allowing the use of ICMs in the calculation of regulatory capital?	Not applicable
4	21	(GI) Will applying a charge to the net rather than gross of the quota share position realign the risk to the insurer rather than the reinsurer? Are there any other methods that may achieve the same goal?	Not applicable
4	22	(GI) Are there situations where general insurers shouldn't use fair value for capital base determination?	Not applicable

Chapter	No.	Questions	MR Life responses
4	23	(LI) How can APRA best future-proof the requirement of illiquidity premium if written into the prudential standard?	The current illiquidity premium requirement under LPS 112 and the delay in getting the latest available input required for the illiquidity premium calculation do not present any significant issue/burden to MRA. In future proofing the requirement of illiquidity premium, APRA could consider publishing the illiquidity premium amount on a periodic basis, similar to how the European insurers are currently obtaining the volatility adjustment/ matching adjustment data on a monthly basis from EIOPA for the purpose of Solvency II reporting. We note that APRA is not specifying the illiquidity premium to be applied for the purpose of financial reporting to APRA, which is in line with APRA's approach to not specify the discount rates to be used in the financial reporting to APRA.
4	24	(All insurers) APRA is seeking improvement suggestions on the current double counting risk charge under quota share reinsurance arrangements.	We assume this question is with reference to the Operational Risk Charge ("ORC") applicable for proportional reinsurance arrangements. We believe that the ORC should be commensurate with the underlying operational risks to promote an efficient reinsurance market. ORC measured based on gross premium (or the net adjusted policy liability where this is higher) is a form of proxy measure and does not truly reflect the underlying operational risks. For a reinsurance writer, operational risk charge that is based on gross premium measure may introduce inappropriate volatility in its capital position due to natural business fluctuation in gross premium associated with writing large treaties (eg. group schemes). These fluctuations do not reflect changes in the underlying operational risks. Furthermore, for a reinsurer whose retrocession arrangements are with a parent/related entity, the gross operational risk is lower and MRA believes the operational risk charge should reflect this.
4	25	(All insurers) APRA is seeking improvement suggestions on solving the mismatch between IRC and the duration of quota share reinsurance policies.	Not applicable
4	26	(All insurers) Would a requirement of inception date of having all procedural documentation of reinsurance arrangements formalised be a significate burden on the industry?	No further comments

Chapter	No.	Questions	MR Life responses
4	27	(All insurers) Are there any additional LAGIC updates, not already mentioned, that would be beneficial to APRA and the industry?	No further comments.

Appendix B
APRA Discussion Paper – General Insurance Branch Responses

Chapter	No.	Questions	MR Non-Life responses
2	1	(GI, LI and Friendly societies) Would maintaining the existing regulatory capital and measurement substantially increase regulatory burden?	Maintaining the existing regulatory capital and measurement would not substantially increase regulatory burden, both financially and operationally for the MR non-life branches. We believe this is a sensible approach in times of significant changes being made to the accounting basis under AASB 17. Current methodologies and processes used to assess GPS 340 insurance liabilities (for determining regulatory capital) have been well embedded and in place for many years. Existing differences between GPS 340 and AASB 1023 insurance liabilities have been adjusted for via 'regulatory adjustments' and we welcome the continuation of this approach, without having to change the measurement bases at 'both ends' of the comparison. Maintaining the existing regulatory capital and measurement also supports APRA's aim to mitigate the risk of substantially changing the industry capital levels.
2	2	(GI) Are there any types of expenses that should not be included in the expense basis and its justification?	We believe expenses that are either directly or indirectly attributable to the servicing of GPS 340 insurance liabilities should be included. In our view, the current APRA expense basis (i.e. CHE + PAE) already achieves this purpose for MR non-life branches. We also make the following observations regarding APRA's proposal to include all expenses (other than one-off expenses) in the GPS 340 liabilities: i. The change would likely increase insurance liabilities for most (re)insurers', resulting in higher insurance risk capital charges. This would go against APRA's aim of mitigating risk of material change to industry capital levels. ii. Claims Handling Expenses (CHE) and Policy Admin Expenses (PAE) included in the existing GPS 340 liabilities already reflect portions of other expense types (e.g. overheads) that are deemed attributable to the servicing of the unexpired policies and settlement of future claims. iii. Including all expenses (even after deducting for one-off expenses) may lead to provisioning of expenses that are not attributable to the servicing of insurance liabilities. We question the appropriateness of including these non-insurance related expenses into the GPS 340 insurance liabilities.

Chapter	No.	Questions	MR Non-Life responses
			iv. Provisioning for non-attributable expenses also results in a misalignment to the AASB 17 definition. This can lead to additional burden such as multiple expense calculations and duplicated processes and potential misinformation to stakeholders. We question the 'prudential' value of requiring a very different expense basis between GPS 340 and AASB 17 insurance liabilities. v. For non-insurance related expenses, their inclusion in the insurance liabilities would also require allocations between Outstanding Claims and Premium Liabilities. These could vary between (re)insurers and work against APRA's aim to promote consistency in the area. Overall we believe there is merit in aligning the expense types included in GPS 340 liabilities to that of AASB 17. Furthermore, most (re)insurers conduct expense reviews at regular intervals to ensure the ongoing adequacy of their adopted CHE% and PAE% assumptions, and disclose these within the Actuarial Valuation Report. Should APRA have concerns regarding the adequacy of (re)insurers' expense allowances, this can be addressed by prescribing a more transparent and consistent disclosure of these expense analyses.
2	3	(LI) Will there be challenges calculating RFEFCF by projecting cash flows and not using account balance for all investment accounting business?	Not applicable.
2	4	(GI and LI) How would the new four quarters dividend test affect your entity?	We understand the objective for the change is to ensure the application of the four quarters dividend test remains consistent and fair for all (re)insurers, irrespective of their choice of adopting the FVOCI measurement method or not. For this purpose we concur with the change, however in regards to the proposed adjustment methodology, we make the following technical observation: - The proposed adjustment is one-sided (i.e. only when the sum of *changes in fair value of financial assets through OCI* plus the *net insurance financial result* are negative). To reflect the implied investment profit or loss effects for (re)insurers adopting the FVOCI measurement method, we believe the adjustments should be applied irrespective if the sum is negative or positive.

Chapter	No.	Questions	MR Non-Life responses
3	5	(All insurers) What types of challenges would the new product groups bring to your entity, including any transitional challenges?	The new D&O and Cyber product groupings is not expected to bring any material regulatory reporting challenges for the MR non-life branches.
3	6	(GI) How should APRA define Cyber and Directors & Officers insurance?	Product group definitions should be clear and concise with the aim of avoiding varying interpretations by the industry, which could add to challenges for (re)insurers in submitting the data and also adversely affecting the quality of product data collected by APRA. For Cyber, APRA should draw clear distinctions between affirmative vs non-affirmative (i.e. silent) cyber exposures in its definition. Non-affirmative cyber cover can be deemed to exist within all types of traditional property and liability policies and might prove challenging in identifying reliable data to report against.
3	7	(All insurers) 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?	The proposed allocation principles are fair, concise and is expected to be adequate for the reporting of APRA grouping data for MR non-life branches. We welcome the use of a principles-based approach for allocation, as an overly prescriptive 'one size fits all' approach would not only be difficult to implement but may also lead to undesired allocation outcomes for some (re)insurers.
3	8	(LI) Would the proposal underlying separate valuation of insurance and reinsurance assets and liabilities in accordance with the Life Act reporting structure cause issues despite the proposed reporting exemption for Non-participating risk business? Are there any other specific issues in relation to the proposal?	Not applicable.

Chapter	No.	Questions	MR Non-Life responses
3	9	(LI) How should APRA define reporting components for Participating business given AASB 17 and the Life Act reporting structure?	Not applicable.
3	10	(Friendly societies) Would the proposal underlying separate valuation of insurance and reinsurance assets and liabilities by benefit funds cause issues? Are there any specific issues in relation to the proposal?	Not applicable.
3	11	(Friendly societies) Are there any reporting components that APRA should clarify for friendly societies given the existence and operation of benefit funds?	Not applicable.
3	12	(GI and LI) Would the liability data collection approach outlined 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?	There are elements of the QIS workbook that will lead to additional complexities and operational burdens for (re)insurers, especially if APRA requires these data to be collected on a regular basis (e.g. quarterly). In particular, the roll-forward analysis for outstanding claims liability (in section 1 of the 'Liabilities-GI' workbook) is effectively an 'Analysis of Change' conducted in a prescribed format. Analysis of change of insurance liabilities is already performed as part of (re)insurers' annual actuarial valuation and disclosed in the AVR. We believe there is merit in aligning this analysis, avoid duplication of processes and minimize the risk of misinformation if both approaches are undertaken in slightly different manners leading to different outcomes. For items relating to additional regulatory adjustments (in section 5 of the 'Liabilities-GI' workbook), we would like to clarify if there are any 'prudential' reasons for APRA to require a split of the expected premiums due and the expected reinsurance premium payables, by invoiced and not invoiced. For the split of the insurance service result by APRA product groups (in the 'IS by PG-GI' workbook), this may result in additional operational burdens for (re)insurers, if there are complex allocation approaches.

Chapter	No.	Questions	MR Non-Life responses
			We also expect both the 'Liabilities-GI' and 'IS by PG-GI' data collection to replace many of the existing GRS 310 series and 400 reporting forms.
3	13	(All insurers) Are there any supplementary data collections that insurers deems unnecessary in the AASB 17 environment?	In additional to comments in Question 12 above, we are concerned that during the transitional period, the existing APRA returns will have to maintained alongside the new forms as per the QIS to enable APRA to fulfil their monitoring role. These concerns cover: i. Increased audit costs ii. Dual reporting (and retention of dual systems and processes) during the March and June 2023 quarters, where MR non-life branches would have already commenced IFRS/AASB 17 reporting under Group reporting.
4	14	(All insurers) Are there any other potential impacts of low or negative interest rates, not already mentioned in this Discussion Paper, on the current capital framework?	We do not expect any additional impacts of low or negative interest rates in determining regulatory capital, other than those mentioned in the Discussion Paper. With regards to the real interest rate stress, we observe the proposal to apply a 'three per cent floor' to the nominal risk-free rate in setting the stress parameters may result in increases to (re)insurer's Asset Risk Charge and therefore overall industry capital levels. This may counter APRA's aim of mitigating the risk of substantially changing industry capital levels, however, for MR non-life branches, we expect the resulting increase to not be material at the overall PCR level.
4	15	(All insurers) Will the expected inflation stress to 50 basis points when nominal risk-free interest rates are negative cause any unintended consequences?	Adopting a lower (i.e. from 100 to 50 basis points) downward expected inflation stress when nominal risk-free rates are negative is sensible and does reflect the reduced propensity for further downward rate movements when the nominal rates are already low or negative. APRA also proposed using a downward stress parameter of '*50 basis points plus half of the nominal risk-free rate'* when nominal rates are between zero to one percent. Whilst mathematically such application is correct in achieving a 'proportional' swing of applying a 50 basis points downward stress (when nominal rates are negative) to a 100 basis points downward stress (when nominal rates are positive), it results in a three step approach when determining a single stress parameter. We believe the added technical complexity may undermine the overall merits of the proposed change, with possibly very minimal prudential capital effect.
4	16	(All insurers) Will removing the floor on nominal risk-free rates of zero that applies to the downward inflation stress	For MR non-life branches, removing the floor on nominal risk-free rate of zero for the downward expected inflation stress would not cause any unintended consequences.

Chapter	No.	Questions	MR Non-Life responses
		cause any unintended consequences?	Section 4.2.3 of the Discussion Paper refers to removing the floor on zero interest rates on both the expected inflation and real interest rate stresses, but our understanding the floor currently only exist for the expected inflation stress (GPS 114 paragraph 39).
4	17	(All insurers) Will the clarification on the usage of the inflation stress cause any unintended consequences?	Clarifying the application of expected inflation stress for all insurers (*irrespective of whether explicit or implicit expected inflation rates are used)* would bring greater alignment in the application of the regulatory capital framework in this area. For MR non-life branches, we do not expect this change to cause any unintended impacts.
4	18	(GI and LI) What should the new dollar value limit be? Will indexing future-proof the value?	The current asset concentration limits are expressed as the greater of a dollar value limit and a % of capital base limit. We concur with updating the prescribed dollar limits reflecting current price values, with an indexation adjustment (e.g. CPI or wage inflation) to future-proofing the dollar value limits.
4	19	(GI and LI) Will the alignment in APS 111 for insurers and ADIs bring any significant burden to the insurance industry?	For MR non-life branches, we do not expect any significant impacts of aligning insurer's measurement for capital instruments to ADIs under APS111.
4	20	(GI) What are industry views on the proposal to cease allowing the use of ICMs in the calculation of regulatory capital?	No further comments.
4	21	(GI) Will applying a charge to the net rather than gross of the quota share position realign the risk to the insurer rather than the reinsurer? Are there any other methods that may achieve the same goal?	Under a whole of account quota share arrangement, the potential for double counting Asset Risk Charge relating to unpaid premiums can only exist if: i. default risks associated with the insurer's unpaid premium assets can be contractually transferred to the reinsurer, under the terms of the contract; and ii. the insurer's account of its unpaid premium assets reflects the amount gross of the quota share arrangement; and

Chapter	No.	Questions	MR Non-Life responses
			iii. the reinsurer's account of its share of the unpaid premium asset and the associated default risks are identical to the insurer's assessment. Only in the above circumstances would applying the default risk charges at the net of whole of account quota share realign the risk to the insurer. However, in practice, contractual terms of each individual whole of account quota share arrangement can vary and the measurement of unpaid premiums between insurers and reinsurers can also be accounted differently. Therefore, any potential effects of double counting must be assessed on an individual case basis. In this regard, APRA needs to balance the complexity of introducing such adjustments against the materiality of the double count that currently exists at the industry level. We also agree with APRA's view that any changes made to the risk charges should not disadvantage insurers from placing whole of account quota share arrangements with local APRA authorised reinsurers, over placements with non-APRA reinsurers. Finally, we would like to understand APRA's intention to only call out the potential double count specifically on whole of account quota share reinsurance, rather than for all types of quota share arrangements.
4	22	(GI) Are there situations where general insurers shouldn't use fair value for capital base determination?	No further comments.
4	23	(LI) How can APRA best future-proof the requirement of illiquidity premium if written into the prudential standard?	Not applicable.
4	24	(All insurers) APRA is seeking improvement suggestions on the current double counting risk charge under quota share reinsurance arrangements.	Technically, the use of a 'gross' written premium measure in determining operational risk charges will always lead to some degree of double counting between the insurer and reinsurer under all types of reinsurance arrangements. It is also widely accepted that a premium measure serves only as a proxy for measuring (re)insurer's true underlying operational risk exposures, so the effect of double counting may also be viewed as somewhat artificial. We believe the placement of whole of account quota share arrangements does not materially lower the operational risks associated with the underlying direct business for the insurer, hence the calculation of operational risks based on insurer's gross premium measure remains fair.

Chapter	No.	Questions	MR Non-Life responses
			Reinsurers' underlying operational risk profile are perceived to be lower than that of a comparable insurer (i.e. even lower than its ceded %). We believe currently the lower operational risk charge % applied to inwards reinsurance business already reflects the lower operational risk level for reinsurers. We also believe that there is no apparent heightened level of operational risks associated with whole of account quota share arrangements, compare to other reinsurances. Arguably the management of a single whole of account quota share contract can be seen as administratively simpler than managing a series of separate quota share contracts.
4	25	(All insurers) APRA is seeking improvement suggestions on solving the mismatch between IRC and the duration of quota share reinsurance policies.	We concur with APRA's recognition that placement of multi-year whole of account quota share arrangements should not present a capital disadvantage to local authorised reinsurers compared to non-APRA authorised reinsurers. The assessment of reinsurer's premium liabilities (including BBNI) for calculating the corresponding insurance risk charge in a multi-year quota share arrangement, should reflect the contractual boundary as defined in the contract. GPS 115 paragraph 18 does allow reinsurers to set the duration of the multi-year contract *up 'to the earliest cancellation date that is not less than 12 months from the previously cancellable date'*. In this regard, there is already a commercial remedy for reinsurers to structure the terms of the multi-year contract that reflects its desired level of capital.
4	26	(All insurers) Would a requirement of inception date of having all procedural documentation of reinsurance arrangements formalised be a significate burden on the industry?	We welcome APRA's observation that significant improvements have already been made in the formalisation of reinsurance documentation procedures in the industry. However, we do not believe removing the current 'two and six month' rule would achieve significant 'prudential' benefits to the industry, and may result in unintended operational consequences for the industry to amend its current embedded practices. We would like to seek APRA's clarification on its intention for the change and the benefits it expects to arise from this proposal.
4	27	(All insurers) Are there any additional LAGIC updates, not already mentioned, that would be beneficial to APRA and the industry?	No further comments.