

General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: insurance.policy@apra.gov.au

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Submission - APRA 2022 QIS – PRUDENTIAL STANDARDS

We would like to thank APRA for giving Resolution Life Australasia the opportunity to provide feedback on the draft standards further to your December 2021 Response Paper. Please find below our responses, and we would welcome the opportunity meet with you to discuss our views when you have had an opportunity to review the industry's feedback.

1. LPS 001 – Definitions

- a. We note the removal of definitions for 'Acquisition expense recovery carrier', 'Acquisition expense recovery component', and 'Profit margin', however the definition for 'Commencement' refers to both profit margins and acquisition expense recovery components. We suggest that the definition for Commencement be similar to:

Commencement means the time from which a life company is at risk under a policy and is the point from which expected future profits ~~profit margins or acquisition expense recovery components~~ are, or would be, first determined.

- b. We suggest that the definition for 'Related body corporate, or related company' have the end two words '(Corporations Act)' removed as a duplication.

2. LPS 110 – Capital Adequacy

No feedback to provide.

3. LPS 112 – Capital Adequacy Measurement of Capital

- a. Para 37: This change is likely to introduce complexity on determining current year earnings and lead to deviations from the audited accounting figures. It is unclear what the benefit is, especially when the Insurance Revenue under AASB17 already includes an experience adjustment arising from the difference between expected and actual premiums received in that period. Any experience adjustments arising from premiums received in the period that relates to future service will be adjusted via CSM.

We would also like to seek clarification from APRA on the definition of "fee income". For example, does this include items such as risk premium income?

- b. Attachment B, para 25: We would like to seek clarification on whether "Loan on policies" should also be included in the "policy liability to adjusted policy liability" regulatory adjustment, similar to accounts payable/receivables treatment. We suggest that the definition of insurance policy

receivables in para 10. (d) include the words “(including loans on policies)” after “other accounts receivable” to clarify.

c. Attachment E, para 2 and para 6-8:

- i. For para 2, it is unclear whether a non-viable event is defined as “2a *and* 2b” OR “2a *or* 2b”. The use of the word “may” subsequently in paragraph 7 suggests that the intention is that it is meant to be “2a *or* 2b”. That is, a qualifying instrument for a subsidiary with an overseas regulated parent may be based on trigger related to itself or the parent, but is not required to have both triggers. We agree with such an intension. Could you please confirm the intention and clarify the wording?
 - ii. Alternatively, if the intent is “2a *and* 2b” then we disagree with addition of 2b as a non-viable event requirement for locally incorporated life company that is a subsidiary of a foreign regulated institution. It is inappropriate and impractical to require the inclusion of such terms in Tier 2 notes issued by the local insurer contingent on a non-viability event based on non-viability requirements applied to the foreign parent, and will hinder any future issuance of Tier 2 notes by local insurers falling in this category. We can provide further explanation of the issues involved should APRA intend this interpretation.
 - iii. Subject to i and ii above, if the intention to add 2b as an “*and*” requirement, we would like to seek for this amendment to be grandfathered for existing Tier 2 notes issued in accordance with the current version of LPS112.
- d. The changes and clarifications added to this draft standard with respect to Tier 2 capital are very detailed and, for the existing Tier 2 notes already issued by RLAL, may have been addressed at a higher level rather than specifically in all the terms and conditions at the level referred to by the draft standard. It would be difficult and impractical to have those terms amended to reflect the proposed changes so as to allow the existing Tier 2 notes to continue to qualify as capital, we would therefore ask for these amendments to be grandfathered for existing Tier 2 notes issued in accordance with the current version of LPS112.

4. LPS 114 – Capital Adequacy Asset Risk Charge

- a. Para 15: We would like to seek clarification that participating business “loan on policies” should be included as part of the asset risk stresses, given that insurance policy receivables and payables are explicitly mentioned? We suggest that the definition of insurance policy receivables in para 7. (d) include the words “(including loans on policies)” after “other accounts receivable” to clarify.

5. LPS 118 – Capital Adequacy Operational Risk Charge

- a. We are supportive of replacing the term “premium income” following the changes made in AASB 17 to the definition of insurance revenue. We recommend, however, that the replacement term be “earned premium” rather than “accrued premium” as the latter implies a balance sheet item.

6. LPS 310 – Audit and Related Matters

No feedback to provide.


7. LPS 340 – Valuation of Policy Liabilities

- a. We have reviewed the sections relevant to valuing participating business under AASB17 (paragraphs 26 to 29) and agree with the changes.
- b. We have not reviewed the 'Part C – VSA led method' because Resolution Life will not be adopting this approach.

8. LPS 600 – Statutory Funds

We have reviewed the draft and agree with the proposed changes.

Yours faithfully



Yvonne Le Bas
Chief Financial Officer – Resolution Life Australasia



Greg Martin
Appointed Actuary