

General Manager
Data Analytics and Insights
Cross-Industry Insights and Data Division
Australian Prudential Regulation Authority
1 Martin Place (Level 12)
Sydney, NSW 2000

31 March 2022

David Field
Chief Financial Officer

Dear Sir or Madam

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

In December 2021, APRA released a response paper on its previous consultation on proposals outlined in the 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 response paper and the changes detailed in the draft prudential and reporting standards released are open for consultation until 31 March 2022. APRA has invited written submissions on their proposals, provided they are submitted by 31 March 2022.

Munich Re is pleased to be able to provide the attached comments in respect of APRA’s proposals and draft reporting standards.

Munich Re conducts insurance business in Australia across both life and general insurance. With this letter we are providing a response in respect of our life insurance operation, Munich Reinsurance Company of Australasia Ltd (MRA). Our comments are set out in Appendix A.

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

Yours sincerely,

David Field
Chief Financial Officer
Munich Re Australia

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Appendix A

APRA's Response Paper

Sections 3.3 APRA Product Groups and Allocation principles

MRA supports the proposal to remove the reference to the word "profitability" in the APRA allocation principles given AASB 17 would require profitability/ onerousness to be determined at a level different to APRA product groups therefore allocating AASB 17 numbers to more/less granular level would likely give misleading indicator of profitability. For example, in applying APRA's proposed product grouping, Lump Sum Risk business and Disability Income Insurance will be separated into different product groups.

From MRA's perspective, treaties are priced, entered into and administered as a whole and according to the treaty policy terms and conditions. These treaties may include both Lump Sum Risks and Disability Income coverages. AASB 17 accounting will appropriately follow MRA's reinsurance policies (treaties) and report their profitability according to those standards.

MRA notes that APRA has maintained the separation of Lump Sum Risk business into death, TPD and trauma for capital data. MRA observes that within lump sum business, the split between death and rider (including acceleration of benefits) will produce loss ratios that are misleading under some circumstances. For example, claims incurred under rider benefits that are an acceleration of death benefit could significantly outweigh the premium for these rider benefits, leading to a favourable reported profit position for the death benefit but reported losses for the rider benefits.

APRA should note that it may be inappropriate for other government agencies to rely on these allocations.

Section 3.1 Discrete quarter reporting

From 1 July 2023, APRA's revised quarterly reporting forms will be on a discrete reporting period basis and not on a cumulative year to date basis. MRA will complete the quarterly reporting forms on a discrete reporting basis using the results generated on a cumulative basis.

Reporting Standards

LRS 200: Capital Adequacy: Supplementary Information

MRA would like to clarify APRA's intention with respect to stressed RFBEL information as required in LRS 200 Table 5 & Table 10. For a reinsurance business such as MRA with an early close and inherently delayed data receipt from cedants means there may be material cashflows relating to before the valuation / reporting date. Would APRA clarify that the 12 months of cashflows after the reporting date should be stressed, otherwise there could be an inadvertent increase in the capital requirements by the inclusion of cashflows prior to the reporting date from accounting classification changes. LPS 115 requires stress for 12 months after the reporting date. Including cashflows before the reporting date would result in the effective period of stress being longer than 12 months which we would understand is not the intention of the standard.

LRS 320: Liability Rollforwards

MRA would like to clarify that with the two half-yearly result submissions and a full year result submission, there would be a total of three submissions for each full financial year, instead of the five submissions as indicated in the note under paragraph 7.