



3rd June 2022

General Manager
Data Analytics and Insights
Cross-Industry Insights and Data Division
Australian Prudential Regulation Authority General Manager, Policy

Sent to DataConsultations@apra.gov.au

Dear Sir/Madam,

QBE Submission: Draft reporting standards and proposed updates – Integrating AASB 17 into the Capital and Reporting Framework for Insurers

QBE welcomes the opportunity to comment on the seventeen draft general insurance reporting standards that are intended to replace the current Level 2 collection and the updates and clarifications to insurance reporting standards that were released for consultation in December 2021.

The Attachment to this letter outlines QBE's feedback on the relevant draft reporting standards.

QBE's key concerns with the draft reporting standards and proposed updates are as follows:

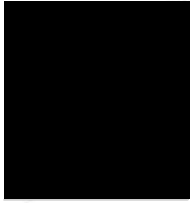
- Given that APRA does not seek to increase or reduce capital levels, in respect of GRS 114 Asset Risk Charge, APRA should consider stressing the AASB 17 equivalent of the deferred reinsurance expense (DRE) asset (which would be the asset for remaining coverage less reinsurance payables), rather than the proposal to stress the implied expected future reinsurance recoveries embedded in the actuarial GPS 340 calculations.
- The level of granularity being sought in respect of commissions, reinsurance commission, claims handling expenses and policy administration expenses is not justified for Level 2 reporting. There is no AASB 17-specific reason for the additional granularity and no impact on the capital outcome.
- The detail proposed in GRS 320.0.G – Liability Roll Forwards should be limited to the Group total and not segregated into Australia and the various international businesses. No other APRA-regulated entities have significant international operations against which it would be relevant for APRA to compare this QBE information. For QBE, the proposal would require a significant manual collation of data, as the information would not be used for management's own purposes.

QBE also wishes to highlight its previous comments on the start date for reporting to APRA under the new arrangements included in our 30 March 2022 response to the Discussion Paper: *Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework*. QBE remains strongly of the view that APRA should permit a 1 January 2023 start date for the revised APRA regulation for insurers, consistent with the Discussion Paper theme of ensuring the regulatory reporting burden is minimised. As noted in our previous letter, if a 1 July 2023 commencement is mandated, QBE will need to perform dual reporting for Q1 and Q2 2023 as we will be reporting under AASB 17 for financial reporting from 1 January 2023. The burden of maintaining dual reporting and systems for Q1 and Q2 2023 would extend to all 27 countries in which QBE operates, making this requirement particularly onerous.



Should APRA have any questions or would like to meet to discuss QBE's comments further, please contact Adam Douglas on [REDACTED].

Yours faithfully



Inder Singh
Group Chief Financial Officer

* Attachment



Attachment – QBE’s feedback on the draft reporting standards

GRS 001 – Reporting requirements

Allocation principles

1. QBE supports a principles-based approach (rather than a prescriptive approach), which will allow the process to be systematic and operationally efficient for insurers and permit the application of informed judgement.

GRS 110.1.G – Prescribed Capital Amount

Transition

2. QBE responded to the December 2021 consultation paper regarding the transition date for APRA reporting for both Level 1 and Level 2. As noted in our response letter to APRA dated 30 March 2022, QBE’s strong preference is to transition the revised APRA requirements on the same date AASB 17 applies (1 January 2023). In our 30 March 2022 response letter, QBE has highlighted the benefit of capital reporting from 1 January 2023. We also identified matters specific to Level 2 insurers, particularly the burden of maintaining dual reporting and systems for Q1 and Q2 2023 that would extend to all 27 countries in which QBE operates.

GRS 112.0.G – Determination of Capital Base

Premiums receivable – time classification

3. It is proposed that premiums receivable be disaggregated based on whether they are:
 - (a) due in six months or less; and
 - (b) due in more than six months.
4. QBE questions the benefit of requiring premiums receivable to be disaggregated in this manner for the purposes of GRS 112. We understand that the disaggregation is relevant for default risk charge and the information is reported under the existing GRS 300.0 Statement of Financial Position; however, the expected timing of receipt of premiums would not be the basis for an adjustment to the capital base.
5. We noted that the expected timing of receipt of premiums was not requested for the QBE Insurance (Australia) Limited (QIA) QIS. If this proposal is retained, it would be useful for APRA to provide an explanation of the purpose of the disaggregated information.
6. QBE also notes that the terminology ‘due in six months or less’ and ‘due in more than six months’ is potentially confusing. As noted below, the definition of ‘Premiums receivable’ refers to “premiums due but not yet received”. In theory that definition does not include amounts ‘due in more than six months’. If this proposal is retained, it would be useful for APRA to employ clearer language, for example, ‘amounts expected to be received in more than six months’.

Premiums receivable – definitions

7. QBE notes that:
 - (a) the definition of ‘Premiums receivable’ refers to “premiums due but not yet received”;
 - (b) the definition of ‘Reinsurance premiums payable’ refers to “reinsurance premiums due but not yet paid”;



- (c) the definition of 'Reinsurance recoveries and non-reinsurance recoveries payable' refers to "reinsurance recoveries and non-reinsurance recoveries due but not yet paid"; and
 - (d) the definition of 'Claims payable' refers to 'claims due but not paid'.
- 8 The use of the term 'due' is potentially ambiguous in the context of AASB 17. Amounts that are 'due' are generally taken to mean amounts that are contractually required to be paid or received – rather than amounts that are yet to be received or paid but are not yet due to be paid or received.
- 9 The meaning intended in the GRS is presumably amounts receivable or payable under in-force contracts, some of which may be due to be paid or received now in addition to some that are not yet due to be paid or received. It would be clearer to not use the term 'due' in the definitions.

GRS 114.0.G – Asset Risk Charge

10. QBE notes the following definitions:

Reinsurance recoverables on outstanding and paid claims

This is the value of the central estimate of reinsurance recoverables in relation to reinsurance contracts for both paid and outstanding claims. This item does not include amounts under reinsurance contracts that do not meet the reinsurance documentation test or governing law requirements under *Prudential Standard GPS 230 Reinsurance Management* (GPS 230).

Reinsurance recoveries receivable amount reflects reinsurance recoveries due but not received, which is added to reinsurance contract assets or netted against reinsurance contract liabilities under AASB 17

11. QBE suggests that the definition of '*Reinsurance recoverables on outstanding and paid claims*' should be qualified by referring to "in accordance with GPS 340 Insurance Liability Valuation". This would clearly distinguish that term from 'Reinsurance recoveries receivable'.
12. QBE also suggests that the definition of 'Reinsurance recoveries receivable' should include the statement "less reinsurance recoverables on outstanding and paid claims" under GPS 340 Insurance Liability Valuation for the sake of clarity. For the reason that the reinsurance recoverables added to reinsurance contract assets also include the reinsurance recoverable central estimate of outstanding claims and paid claims.

GRS 114.1.G – Assets by Counterparty Grade (Level 2 Insurance Group)

13. The specific instructions on page 8 propose reporting the following by counterparty grade:
- Expected reinsurance recoverables relating to APRA authorised reinsurers; and
 - Expected reinsurance recoverables relating to non-APRA-authorised reinsurers.
14. QBE notes that for the GRS 114 Asset Risk Charge – default stress element, instead of stressing the AASB 17 equivalent of the deferred reinsurance expense (DRE) asset (which would be the asset for remaining coverage less reinsurance payables), APRA's proposal is to stress the implied expected future reinsurance recoveries embedded in the actuarial GPS 340 calculations [GRS 114 Instructions - 2].
15. Given that APRA does not seek to increase or reduce capital levels, QBE strongly recommends that APRA should consider whether it is necessary to shift to stressing the implied expected future reinsurance recoveries embedded in the actuarial GPS 340 calculations, or whether greater comparability with the existing approach would be achieved by stressing the equivalent AASB 17 amounts (which would be the asset for remaining coverage less reinsurance payables).



16. Similar to the deferred reinsurance expense, the default charge on the expected reinsurance recoverables relating to premium liabilities is pro-rated based on reinsurance recoveries on the outstanding and paid claims counterparty profile. Accordingly, QBE recommends that APRA remove the proposed disaggregations for both Australian and International business.

GRS 115.0.G – Outstanding Claims Liabilities – Insurance Risk Charge

17. Table 8: *OCL Insurance Risk Charge - by region - GPS 340 basis* and Table 9: *OCL Insurance Risk Charge - by region - AASB basis*, we would expect to see 'Australia' as a region separate from the other regions being grouped under 'International region'. The same comment applies to Table 8 and Table 9 in GRS 115.1.G Premiums Liabilities – Insurance Risk Charge.

GRS 115.1.G – Premiums Liabilities – Insurance Risk Charge

18. QBE questions whether the level of granularity being sought in respect of commissions, reinsurance commission, claims handling expenses and policy administration expenses is justified for Level 2 reporting. Some of these expenses may be recorded in aggregate and therefore it may not be possible to segregate them for reporting. There is no AASB 17-specific reason for the additional granularity and no impact on the capital outcome. Unless there is a compelling case on other grounds that can be identified by APRA for collecting this level of detail, we recommend that the proposal not be implemented.

GRS 300.0.G – Statement of Financial Position

19. GRS 300.0.G refers to an 'insurance/reinsurance finance reserve' [Item 28.2.9] described as representing "... the reserve of insurance finance income (expenses) from insurance contracts issued excluded from profit or loss".
20. This would only be relevant for insurers choosing to disaggregate insurance finance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts [AASB 17.88(b)]. QBE plans to immediately recognise insurance finance income or expenses in profit or loss [AASB 17.88(a)].
21. It should be made clear in GRS 300.0.G that reporting this 'reserve' is only relevant to insurers taking the accounting policy choice to disaggregate insurance finance income or expenses.

GRS 310.0.G – Statement of profit or loss and other comprehensive income by region

22. Items 1.1.1 and 1.2.1 relate to reporting insurance revenue for contracts that existed at the transition date to which the entity has applied the modified retrospective approach. We note that an insurer applying the modified retrospective approach and AASB 17.C9A would not recognise any revenue for those items in respect of acquired contracts when they relate to a transfer of insurance contracts that do not form a business or as part of a business combination because they only give rise to liabilities for incurred claims.
23. QBE recommends that items 34 to 48 relating to 'Other Comprehensive Income' disclosure should be restricted to Column 1 'Total business' only. The information is not available at the regional level.

GRS 311.0.G – Statement of profit or loss and other comprehensive income by Product Group and by region

24. The requirement of GRS311.0G reporting of Level 2 could result in duplicate information reported at both Level 1 and Level 2. APRA can source the relevant information for Australian industry analysis by using Level 1 reported data.



25. Accordingly, QBE recommends that APRA exempt Level 2 insurance groups from GRS311.0.G reporting if the group also has Level 1 Australian entities reporting the same information for Australian business by product group. This would be consistent with the existing approved adjustment from APRA exempting Level 2 from reporting GRS 115.0.G and GRS 115.1.G information by product group.

GRS 320.0.G – Liability Roll Forwards

26. The requirements to report roll forward reconciliations of the liabilities for remaining coverage and liabilities for incurred claims for insurance contracts issued and corresponding reconciliations for reinsurance contracts held appear to be closely aligned with the requirements of AASB 17 and we would expect this reporting to be practicable to apply.
27. At the outset, GRS 320 notes: “This Reporting Standard sets out requirements for the provision of information to APRA relating to a Level 2 insurance group’s reconciliations of insurance contract liabilities required by AASB 17 *Insurance Contracts*.” It would be helpful for APRA to unequivocally state that the GRS 320.G liability roll forward line items align with those required to be prepared under AASB 17 for general purpose financial reporting purposes.
28. We note that few APRA regulated entities other than QBE have substantial international operations across multiple overseas jurisdictions. Accordingly, there is not a pressing need to compare APRA-regulated entities with international activities at the level of detail identified in the roll forward tables. QBE considers it would be reasonable to limit the roll forward detail to the Group total only and not segregated into Australia and the various international businesses. Disclosing roll forward information for Australia and the International businesses would require a significant manual collation of data. We note that APRA can obtain the Australian business liabilities roll forward information from Level 1 GRS 320.

GRS 460.0.G – Reinsurance Assets by Counterparty (Level 2 Insurance Group)

29. APRA proposes to replace deferred reinsurance expense with ‘expected reinsurance recoverables’ on ‘premiums liabilities’. As mentioned above in paragraph 15, QBE recommends APRA adopting the AASB 17 equivalent of the deferred reinsurance expense (DRE), which would be the asset for remaining coverage less reinsurance payable, to be consistent with the existing approach.