

INFORMATION PAPER

Insurance capital: AASB 17 and LAGIC updates

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Insurance capital: AASB 17 and LAGIC updates

Overview

The finalisation of the integration of the Australian Accounting Standards Board new standard on insurance contracts (AASB 17) into APRA's capital and reporting framework for insurers, and updates to the Life and General Insurance Capital (LAGIC) framework, will be a key milestone for the insurance industry. This concludes a consultation process that APRA commenced in 2017.

This Information Paper outlines the objectives that have guided APRA during this process and is intended to help boards, senior management, investors and other interested parties understand the key implications of the changes being made.

Further information on the final changes to the framework and APRA's response to stakeholder feedback can be found in the accompanying Response to Submissions Paper: Finalisation of the integration of AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework.

The 2020 and 2021 quantitative impact studies (QIS) identified instances where an insurer's accounting equity (or net assets) under AASB 17 was significantly lower than the capital base. APRA is seeking to address this issue through a targeted consultation on proposed additional requirements to ensure that regulatory capital levels are sufficient to protect the prudential soundness of insurers while incentivising them to make appropriate accounting decisions. Submissions on these requirements are invited by **31 October 2022**.

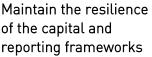
Objectives

APRA's capital and reporting frameworks are based on the existing accounting standards. The introduction of AASB 17 will modify several accounting concepts which underpin APRA's prudential framework and introduce some new concepts.

Where appropriate, updates to APRA's prudential and reporting standards have been made to ensure compatibility with the new accounting standard whilst also seeking to avoid unnecessary ongoing reporting burden arising from misalignment between AASB 17 and APRA's capital and reporting frameworks.

APRA also took the opportunity to review the LAGIC framework given it has not been substantively reviewed since it was implemented in 2013. While the LAGIC framework continues to achieve its objectives, certain aspects of the framework have been updated or removed. The guiding principles applied during this process are set out below:







Not seek to generally increase or reduce capital levels



Minimise the regulatory impact for industries



Align to AASB 17 where appropriate

AASB 17 implementation

The implementation of AASB 17 has, and will continue to, lead to significant change for the industry. Several business processes are likely to be materially impacted including, but not limited to:

- business planning and forecasting;
- expenses and cost allocation;
- KPIs and performance reporting; and
- capital and risk management.

APRA expects insurers to be well progressed in their readiness for the implementation of AASB 17, including identifying and managing the risks associated with the transition process.

Boards need to be aware of the progress of their institution's implementation plans. Poorly executed plans will lead to heightened operational risks and may ultimately result in increased implementation costs.

It is also important that boards have an appropriate level of understanding of how accounting changes arising from AASB17 may impact their institution's regulatory capital position.

APRA Connect

APRA has embarked upon a major data change program that will ultimately streamline requirements of industry and enrich data and insights for APRA and other key stakeholders. A key enabler of this change is APRA's new APRA Connect system, which went live in September 2021.

APRA's revised data collection incorporating changes due to AASB 17 and LAGIC updates will be collected through APRA Connect. Insurers may explore collections in the APRA Connect test environment or volunteer to participate in proof-of-concept and pilot activities. Further information is available at https://www.apra.gov.au/apra-connect.

Final prudential and reporting standards

APRA has released final standards, which incorporate the changes to the capital and reporting requirements. This package comprises 10 general insurance and 9 life insurance prudential standards, and 39 general insurance and 18 life insurance reporting standards. Private Health Insurers should refer to APRA's September 2022 response paper, *Finalising the review of the Private Health Insurance Capital Framework* for details on the final private health insurance prudential and reporting standards, which have incorporated the relevant changes due to AASB 17 and the LAGIC updates.

As noted above, APRA is undertaking a targeted consultation, until 31 October 2022, on additional requirements to address an issue relating to the level of accounting equity relative to the capital base.

Commencement date

While AASB 17 has a commencement date of 1 January 2023, the revised prudential and reporting standards will come into effect from 1 July 2023. This will require insurers, regardless of their financial year end, to commence reporting to APRA (for quarterly, interim, and annual reports) and determining regulatory capital requirements on a AASB 17 basis from 1 July 2023.

APRA recognises that this will necessitate some insurers maintaining dual accounting systems for a short period after the adoption of AASB 17 for financial reporting. This is necessary to ensure APRA has continued visibility of the reported capital strength, risks and operations of insurers throughout the transition period.

Transitional arrangements

Some insurers may experience a change in capital due to the substantial number of modifications to the prudential framework. APRA also recognises that implementing AASB 17, including the resulting changes to the capital and reporting frameworks, involves significant work for insurers, particularly during transition.

To support industry as it transitions to AASB 17 and the updated prudential framework, APRA will consider providing transitional relief for insurers on a case-by-case basis. Insurers seeking relief from certain provisions of the revised framework should contact their responsible supervisor.

APRA will continue to monitor implementation of the revised requirements to ensure they remain fit for purpose and do not impose undue regulatory burden. This will inform whether there is a need for APRA to revisit the framework and address any unintended consequences should they arise.

