# RESPONSE PAPER

## Finalisation of the integration of AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework

September 2022

# Contents

# Executive summary

APRA has finalised a substantial number of changes to the insurance capital and reporting frameworks in response to the introduction of the Australian Accounting Standards Board's new standard, AASB 17 *Insurance Contracts* (AASB 17). These changes seek to minimise any ongoing regulatory burden caused by misalignment between APRA's frameworks and the accounting standards, while ensuring sound prudential outcomes. APRA has also used this project as an opportunity to make targeted updates to the Life and General Insurance Capital (LAGIC) framework. The key proposed changes include:

- clarifications of the regulatory capital calculation given the introduction of AASB 17;
- enabling insurers to use AASB 17 accounting policies and principles to report financial statement information to APRA;
- additional data requirements to ensure that APRA continues to have adequate data for capital assessments and profitability monitoring; and
- updates and clarifications to the LAGIC framework to keep it fit for purpose, given change in industry practices and operating environment over time.

This paper sets out APRA's response to feedback received in the December 2021 consultation on draft prudential and reporting standards and covers a range of issues relating to the impact of the changes. The response paper should be read in conjunction with the final prudential and reporting standards as well as the information paper *Insurance capital: AASB 17 and LAGIC updates.*

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.

## Policy development and consultation

In December 2021, APRA released a Response to Submissions paper, *Integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework* (2021 response paper). APRA invited stakeholder feedback on draft revisions to several prudential and reporting standards released with that paper.

Submissions were generally supportive of APRA's overall approach, welcoming many of the revised positions. Key areas of feedback on the draft standards related to the implementation date of 1 July 2023 and proposed capital data collection. Key feedback in relation to the specific LAGIC updates related to the procedural requirements for reinsurance contracts for general insurers and changes to rules preventing capital upgrading requirements by life companies.

APRA has considered industry feedback in the development of the final policy positions, aiming to strike an appropriate balance between prudential outcomes and regulatory burden. This response paper outlines APRA's position on the key issues raised in submissions to the 2021 response paper and draft standards.

## Next steps

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 an AASB 17 basis from 1 July 2023.

To support industry as it transitions to AASB 17 and the updated prudential framework, APRA will consider applications for transitional relief from insurers on a case-by-case basis. APRA will continue to monitor implementation of the revised requirements to ensure they remain fit for purpose and do not impose undue regulatory burden.

The final standards are available on APRA's website at www.apra.gov.au.

# Glossary

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| AASB | Australian Accounting Standards Board |
| AASB 1023 | AASB 1023 General Insurance Contracts |
| AASB 1038 | AASB 1038 Life Insurance Contracts |
| AASB 17 | AASB 17 Insurance Contracts |
| AASB 9 | AASB 9 Financial Instruments |
| ACRC | Asset Concentration Risk Charge |
| ADI | Authorised Deposit-taking Institution |
| APRA | Australian Prudential Regulation Authority |
| ARC | Asset Risk Charge |
| ASIC | Australian Securities and Investments Commission |
| CET1 | Common Equity Tier 1 |
| CSM | Contractual Service Margin |
| D&O | Directors and Officers |
| D2A | Direct to APRA prudential reporting system |
| DAC | Deferred Acquisition Costs |
| DII | Disability Income Insurance |
| DTA | Deferred Tax Asset |
| DTL | Deferred Tax Liability |
| Friendly society | A friendly society as defined in the *Life Insurance Act 1995* |
| General insurer | A general insurer authorised under the *Insurance Act 1973* |
| GICs | Groups of Insurance Contracts |
| IASB | International Accounting Standards Board |
| ICM | Internal Capital Model(s) |
| IFRS | International Financial Reporting Standards |
| IFRS 17 | IFRS 17 Insurance Contracts |
| IRC | Insurance Risk Charge |
| LAGIC | Life and General Insurance Capital |

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| **Life company** | A life company registered under the *Life Insurance Act 1995* (includes friendly societies) |
| **Life insurer** | A life insurer registered under the *Life Insurance Act 1995* (excludes friendly societies) |
| **LIC** | Liability for Incurred Claims |
| **Life Act** | *Life Insurance Act 1995* |
| **MEIs** | Mutual Equity Interests |
| **OCI** | Other Comprehensive Income |
| **ORC** | Operational Risk Charge |
| **PCA** | Prescribed Capital Amount |
| **PCR** | Prudential Capital Requirement |
| **Q1** | January, February and March |
| **Q2** | April, May and June |
| **Q3** | July, August and September |
| **Q4** | October, November and December |
| **QIS** | Quantitative Impact Study |
| **ReAS** | Reinsurance Arrangement Statement |
| **RoE** | Return on Equity |
| **RFBEL** | Risk Free Best Estimate Liability |
| **TPD** | Total and Permanent Disability |
| **VAF** | Value of assets of the statutory fund or general fund |
| **VSA** | Value of supporting assets |
| **WOAQS** | Whole of account quota share |

# Chapter 1 - Introduction

## 1.1 Background

AASB 17 is a new accounting standard issued in 2017 by the Australian Accounting Standards Board (AASB), which establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. AASB 17 is the Australian equivalent to International Financial Reporting Standard 17 (IFRS 17) and has a commencement date of 1 January 2023.

APRA's capital and reporting frameworks are based on the existing accounting standards. The introduction of AASB 17 will alter several accounting concepts which underpin APRA's prudential framework and introduce a number of new concepts. As a consequence, APRA's capital and reporting frameworks require adjustments to avoid unintended changes to reported capital levels across the insurance industries. Moreover, aligning APRA's prudential framework with AASB 17 would reduce regulatory burden by limiting the need for insurers to maintain dual valuation, actuarial, accounting and reporting systems.

APRA's approach to integrating AASB 17 into APRA's capital and reporting frameworks is based on the following principles:

- Maintain the resilience of the capital and reporting frameworks
- Not seek to generally increase or reduce capital levels
- Minimise the regulatory impact for industries
- Align to AASB 17 where appropriate

## 1.2 Consultation process

From 2017, APRA has communicated in its letters to industry its intention to align its prudential capital treatment with accounting standards unless departure was considered justified on prudential grounds. APRA conducted two information requests on industry readiness in 2017 and 2019 to understand the impacts of AASB 17 on industry from both an operational and capital perspective.

In November 2020, APRA released a discussion paper outlining APRA's detailed proposals to align the prudential framework with AASB 17. APRA also released a targeted QIS to assist with quantifying the impacts of its proposals. Submissions made to the discussion paper were broadly supportive of APRA's direction of aligning the prudential framework with AASB 17. Feedback was also received on a number of targeted areas within the capital and reporting framework, particularly proposals which could result in changing capital levels, or could potentially increase operational or regulatory burden.

In December 2021, APRA released a response paper which outlined its response to key issues raised in submissions to the November 2020 discussion paper. APRA also released for consultation draft prudential and reporting standards and a further QIS for all insurers.

In the most recent round of consultation, 18 written submissions were received on the prudential standards, 21 written submissions were received on the reporting standards, and 114 QIS submissions were provided by general insurers, life insurers, friendly societies, and private health insurers.[1]

This response paper outlines APRA's response to key areas of stakeholder interest raised in submissions. APRA has made a number of revisions to its policy proposals in response to feedback provided throughout the consultation process.

## 1.3 Commencement date

APRA has consistently signalled its intent to have a single commencement date of 1 July 2023 for the revised capital and reporting framework. This is to ensure consistent data was provided to APRA to inform its prudential supervision of insurers and minimise overall industry burden. Some submissions expressed concerns with this proposal due to the additional burden of temporarily maintaining dual systems.

APRA maintains that a single implementation date is necessary to maintain the integrity of industry data. Consistent with this, all insurers will commence reporting to APRA on an AASB 17 basis from 1 July 2023.[2] Although AASB 17 has a commencement date of 1 January 2023, insurers will be required to determine regulatory capital and submit regulatory reports under the existing prudential and reporting standards until the new prudential and reporting standards come into effect from 1 July 2023. APRA recognises that this will necessitate some insurers maintaining dual accounting systems for a period after the adoption of AASB 17 for financial reporting. However, APRA views it as important to ensure it has consistent and continued visibility of the reported capital strength, risks and operations of all insurers throughout the transition period.

## 1.4 Transitional arrangements

In integrating AASB 17 into the capital framework, APRA has not been seeking to increase or decrease capital levels; however, some insurers may experience a change due to the substantial number of modifications to the prudential framework. APRA also recognises the delayed reduction in regulatory burden some insurers will experience due to the dual reporting associated with the 1 July 2023 commencement date for the revised capital and reporting framework. To support industry as it transitions to AASB 17 and the updated prudential framework, APRA will consider providing transitional relief for impacted insurers

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[1] Includes QIS submissions made to APRA's review of the Private Health Insurance Capital framework.

[2] Further information on reporting period basis is included in Chapter 3.

on a case-by-case basis. Insurers seeking relief from certain provisions of the revised framework should contact their responsible supervisor.

## 1.5 Interactions with other APRA policy priorities

APRA has been concurrently reviewing two other aspects of the prudential framework for insurers. The first is the framework for private health insurers, to ensure that the capital standards provide for an appropriate level of financial resilience, and that the level of capital required is better aligned with the risks in the insurer's operations. Consistent with the 2021 response paper, the revised framework for private health insurers has been designed from an AASB 17 base and has incorporated the applicable LAGIC updates as outlined in this paper. These changes have been reflected in the relevant prudential standards for private health insurers, which are being released alongside APRA's review of the private health insurance capital framework.[3]

The second, is the change in requirements under *Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge* (LPS 117), to strengthen the standard in response to prudential concerns from the increased use of offshore reinsurers.[4] The final round of consultation on these proposals took place during the first half of 2022. This consultation focused on consequential amendments to *Prudential Standard LPS 114 Capital Adequacy: Asset Risk Charge* (LPS 114) *and Reporting Standard LRS 117.0 Asset Concentration Risk Charge* (LRS 117.0). The consultation also covered AASB 17-related changes to LPS 117. The feedback received in submissions on the consequential changes to LPS 114 and LRS 117.0 was minor in nature and has been incorporated in the final version of the prudential standard that is being released as part of this package. Further details on the specific changes can be found in Appendix A. Feedback received on the AASB 17-related changes to LPS 117 are addressed in Chapter 2 of this paper.

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[3] See https://www.apra.gov.au/review-of-private-health-insurance-capital-framework.

[4] See https://www.apra.gov.au/offshore-reinsurers-and-review-of-prudential-standard-lps-117-capital-adequacy-asset-concentration.

# Chapter 2 - Changes to the capital framework due to AASB 17

Feedback received in response to the December 2021 consultation package continued to be supportive of APRA's overall approach to the calculation of regulatory capital. This chapter sets out the details of APRA's responses and revised positions for key areas raised by stakeholder in submissions. No changes have been made to AASB 17-related proposals outlined in the December 2021 response paper and draft standards that are not addressed in this chapter.

The positions articulated in this chapter are reflected in the final prudential standards released with this response paper. A summary of the changes made to the draft general insurance and life insurance prudential standards is set out in Appendix A. Changes made to the private health insurance prudential standards are set out in the September 2022 response paper, *Finalising the review of the Private Health Insurance framework*.

## 2.1 Key feedback and revisions

### 2.1.1 All industries - Accounting equity and the capital base

The 2020 and 2021 QIS identified instances where an insurer's accounting equity (or net assets) under AASB 17 was significantly lower than the capital base, a position contrary to the expected outcome as the prudential framework is generally more conservative than the accounting framework. This arose due to the excess of the accounting liability under AASB 17 over the prudential liability under APRA's capital standards being accounted for in the capital base through the regulatory adjustment mechanism.

In some circumstances the differences between the AASB 17 measurement and APRA's prudential liability measurement bases may result in a misalignment between the reported financial soundness in an insurer's general purpose financial reports and appropriately conservative triggers for supervisory intervention.[5] In extreme cases, an insurer's net assets may be fully depleted before the insurer breaches its regulatory capital requirements, and may hinder APRA's ability to identify potential financial weaknesses in an institution in a timely manner and undertake supervisory intervention where needed.

Recognising that the underlying economics of the insurance contracts remain unchanged, APRA is seeking to balance its overall objective of keeping capital levels across the industry broadly unchanged with the appropriateness of the point of supervisory intervention on

[5] These differences could be due to differing contract boundaries; the separate measurement of direct and reinsurance contracts; the differing components to the liability measurement; and increased optionality under AASB 17.

capital grounds for individual insurers. To achieve this without a recalibration of the entire capital framework, APRA proposes to require at the insurer and fund level[6] that:

- 120 per cent of the net assets exceeds 60 per cent of the prescribed capital amount (PCA);[7]
- the sum of 120 per cent of the net assets and the Additional Tier 1 Capital exceeds 80 per cent of the PCA; and
- the sum of 120 per cent of the net assets, the Additional Tier 1 Capital and the Tier 2 Capital exceeds the Prudential Capital Requirement (PCR).

These proposed requirements will:

- meet APRA's overall objective of keeping regulatory capital levels across the industry broadly unchanged, while ensuring there is still an appropriate point of supervisory intervention if needed; and
- be a pragmatic approach that would set prudent guardrails such that regulatory capital levels are sufficient to protect the prudential soundness of each insurer while not incentivising insurers to underestimate insurance liabilities.

Based on the 2021 QIS, the proposed requirements will only impact a small number of insurers. In general, APRA anticipates that this approach will support appropriate accounting policy choices that will ensure the capital components in the capital base are adequate and available to support the operations of the insurer; and, in the event of a loss, ensure the insurer can continue to meet its insurance obligations. This will also lead to the accounting equity and capital base being more closely aligned.

Insurers seeking transitional relief in relation to these requirements should contact their responsible supervisor to discuss potential transition arrangements in the context of the accounting policy decisions that they propose to adopt. APRA will monitor the appropriateness of these requirements and assess whether there is a need to review, or make adjustments, once the industry has transitioned to AASB 17.

These proposed changes have been included in *Prudential Standard GPS 110 Capital Adequacy* (GPS 110), *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112), *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital* (HPS 112), *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital* (LPS 112), *Reporting Standard GRS 112.0 Determination of Capital Base* (GRS 112), *Reporting Standard GRS 112.0.G Determination of Capital Base (Level 2 Insurance Group)* (GRS 112.0.G), *Reporting Standard HRS 112 Determination of Capital Base* (HRS 112), *and Reporting Standard LRS 112 Determination of Capital Base* (LRS 112).

[6] General, statutory, health benefit funds where applicable.

[7] For the purposes of these requirements, net assets excludes any equity components that are classified as Additional Tier 1 Capital. For friendly societies, the fund level requirements recognise seed capital within the net assets of a statutory fund and not within the general fund.

Stakeholders that wish to make a submission on these requirements are invited to do so by 31 October 2022. Written submissions should be sent to insurance.policy@apra.gov.au and addressed to the General Manager for Policy at APRA. APRA will review any industry feedback provided and consider whether there is a need to revise these requirements ahead of finalising the relevant prudential and reporting standards.

### 2.1.2 All industries - Regulatory adjustments

APRA's position has been to maintain the current framework for the calculation of the capital base. To maintain capital neutrality, a range of additional regulatory adjustments have been proposed throughout this consultation which broadly relate to the impact of accruals and clarifying the treatment of tax effects, for the purposes of the capital base.

#### Comments received

Submissions were supportive of APRA's approach to minimise impacts on industry, and to seek capital neutrality where possible and appropriate. Some submissions sought clarifications and recommended improvements for definitions of the adjustment line items, and the treatment of associated tax items due to the impact on the capital base at the point of AASB 17 transition.

#### APRA's response

APRA has made additional changes in response to the feedback received. These include revising the definitions to improve clarity and remove references to AASB 1023 and AASB 1038. The revised definitions also ensure that the regulatory adjustments would not be double counted in the capital base. These changes have been made in GRS 112.0, HRS 112.0 and LRS 112.0.

For general insurers and private health insurers, APRA has made an additional clarification to the regulatory adjustments. "Deferred reinsurance expense on future business not yet written" is currently a regulatory adjustment as part of the premium liabilities surplus / deficit. APRA has reintroduced this regulatory adjustment but replaced deferred reinsurance expense with "cost of reinsurance", given that deferred reinsurance expense will no longer exist under AASB 17. This has been clarified in *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340), *Prudential Standard HPS 340 Insurance Liability Valuation* (HPS 340), and the reporting standards GRS 112.0 and HRS 112.0.

APRA understands that there may be instances where capital neutrality will not be achieved at the point of AASB 17 transition as a result of the treatment of tax in the capital framework. This could be due to changes in an insurer's underlying tax profile at the point of AASB 17 transition. Submissions from insurers and analysis from the 2021 QIS indicates that the variability does not appear to be material.

### 2.1.3 Life companies - Value of assets of the statutory fund or general fund for non-reinsurance assets

APRA's asset concentration risk charge (ACRC) limits for non-reinsurance assets currently reference the value of assets of the statutory fund or general fund (VAF) as per the life company's statutory accounts. APRA recognises that AASB 17 would impact the VAF by including new insurance and reinsurance asset items on the balance sheet, and netting insurance policy receivables against liabilities. As such, APRA proposed that non-reinsurance asset exposures be measured against ACRC limits based on the sum of the total value of assets in the fund, excluding insurance and reinsurance assets and including insurance policy receivables.

### Comments received

Submissions commented that excluding AASB 17 insurance and reinsurance assets would be overly conservative and could trigger an ACRC.

### APRA's response

Following industry feedback, APRA has amended its approach to calculating VAF for non-reinsurance assets. The revised approach is that, after removing AASB 17 insurance and reinsurance assets and adding premiums and other receivables, insurers will also add adjusted reinsurance assets. The adjusted reinsurance asset is the amount by which the adjusted policy liabilities of the fund (as determined under LPS 112) would increase if the adjusted policy liabilities were determined gross of reinsurance exposures. While APRA initially proposed to take the most prudent approach to remove the impact of AASB 17 on VAF, APRA recognises the potential undesirable capital implications and believes the revised approach will continue to achieve the desired prudential outcome.

These changes have been included in LPS 117.

## 2.2 Other clarifications and revisions

### 2.2.1 All industries - Four quarters dividend test

In the 2021 response paper, APRA proposed to modify its approach to the four quarters dividend test outlined in GPS 110 and *Prudential Standard LPS 110 Capital Adequacy* (LPS 110). The modification to the four quarters dividend test was also included in the draft *Prudential Standard HPS 110* (HPS 110), as the revised capital framework for private health insurers has been designed from an AASB 17 base. APRA's proposed modification looked to respond to the impact of options that would be available to insurers upon implementation of AASB 9 Financial Instruments (AASB 9) and AASB 17.

The options under AASB 9 and AASB 17 may result in insurers paying dividends based on reported profits, which exclude unrealised fair value losses recognised in Other Comprehensive Income. APRA's proposed adjustment looked to ensure this optionality did not result in a less sound prudential outcome compared to the existing framework.

### Comments received

One submission suggested that APRA align its treatment more closely with the accounting treatment under AASB 17 (and AASB 9) for the purposes of the four quarters dividend test. Other submissions also indicated that if the adjustment for items in Other Comprehensive Income is one-sided (losses are included in the test but not gains), then over time there may be a component of "profits" which are not able to be distributed. Unrealised losses in a period, that are reversed in a future period, would permanently reduce dividend capacity. Another submission also sought clarification on which profit to reference for the four quarters dividends test after 1 July 2023 in relation to the 1 January to 30 June period (AASB 17 restated numbers or AASB 1023 / AASB 1038 numbers).

### APRA's response

Following industry feedback, APRA has refined its proposed modification to the four quarters dividend test. The adjustment to only include unrealised losses that are recognised in Other Comprehensive Income for the purposes of the four quarters dividend test has been removed. Instead, to maintain sound prudential outcomes, reliance will be placed on the accounting requirements in AASB 9 and AASB 17 when recognising gains and losses in Other Comprehensive Income as part of current year's earnings.

In relation to referenced profit for the purposes of the four quarters dividend test, APRA expects that the current year's earnings would need to be calculated on an AASB 1023 or AASB 1038 basis until 1 July 2023 when AASB 17 comes into effect for prudential purposes. Insurers looking to pay dividends on an AASB 17 basis between 1 January 2023 and 30 June 2023 must seek approval for this approach from their responsible supervisor and make available relevant evidence to support the application.

These changes have been included in prudential standards GPS 110, HPS 110 and LPS 110.

## 2.2.2 General insurers - Assets in Australia

Section 28 of the *Insurance Act 1973* requires all general insurers to maintain assets in Australia (excluding assets specified by prudential standards) of a value that equals or exceeds the total amount of the general insurer's liabilities in Australia (other than its pre-authorisation liabilities). GPS 110 also requires that a Category C insurer operating in Australia as a branch maintains assets in Australia (excluding assets specified by prudential standards) that exceed its liabilities in Australia (adjusting for excess technical provisions) by an amount that is greater than its PCR.

### Comments received

Some submissions noted that there could be a material increase in insurance liabilities because of AASB 17. These submissions queried whether APRA had any appetite to either grant insurers an exemption from this requirement, or to adjust what items are to be included in the calculation of liabilities.

In relation to *Prudential Standard GPS 120 Assets in Australia* (GPS 120), clarification was also sought from Category C insurers on the treatment of premium receivable that is outstanding for more than six months from the date it became due and payable. The submissions noted that premium receivable is not disclosed separately on the balance sheet under AASB 17.

### APRA's response

The requirement for general insurers to maintain assets in Australia of a value that equals or exceeds the total amount of the general insurer's liabilities is made under the *Insurance Act 1973.* APRA's view is that this requirement continues to be prudentially sound and is not seeking to make an exception due to changes in the liabilities as a result of AASB 17.

While premium receivable is no longer disclosed as a separate item on the balance sheet under AASB 17, it will continue to be reported to APRA for the purposes of the calculation of regulatory capital. For Category C insurers, paragraph 27(b) of GPS 120 is only relevant to the extent that there is a premium receivable amount disclosed on the balance sheet. No change to GPS 120 is proposed.

# Chapter 3 - Changes to the reporting framework

This chapter outlines APRA's response to key industry feedback on the reporting framework. Relevant proposals outlined in the 2021 response paper and draft reporting standards that are not addressed in this chapter remain unchanged and did not attract significant feedback during consultation.

APRA's positions outlined in this chapter have been reflected in the relevant reporting standards. A summary of the changes made to the general insurance and life insurance reporting standards is set out in Appendix B. APRA has also made changes to the private health insurance reporting standards and the September 2022 response paper, *Finalising the review of the Private Health Insurance framework*, contains details of these changes.

## 3.1 Key feedback and revisions

### 3.1.1 All industries - Approach to supplementary data collection

APRA proposed in its November 2020 discussion paper to collect supplementary data that is important for APRA's capital assessment. As part of its December 2021 QIS package, APRA introduced *Reporting Standard GRS 600.0 Supplementary Capital Data – Premiums and Claims* (GRS 600.0) for general insurers, and a revised *Reporting Standard LRS 200.0 Capital Adequacy Supplementary Information* (LRS 200.0) for life insurers.

GRS 600.0 was introduced to collect loss ratio and combined operating ratio data (COR) on a capital basis including accrued premiums, claims incurred and total underwriting expenses. Currently, these data items are collected under the income statement reporting standards.

LRS 200.0 was expanded to collect granular data based on risk-free best estimate liabilities (RFBEL). In particular, LRS 200.0 collects data by gross and net of reinsurance, by different valuation bases and by granular APRA product groups, including the split of lump sum risk into death, Total and Permanent Disability (TPD) and trauma.

#### Comments received

A number of submissions from general insurers expressed strong opposition to including items that use AASB 1023 concepts in GRS 600.0 as it would require the maintenance of dual reporting arrangements.

Feedback received from life insurers flagged that the proposed data collection in LRS 200.0 would result in significant regulatory burden. In particular, life insurers flagged that the detailed product groups would significantly increase the effort required to complete LRS 200.0 and would require additional resourcing and modifications to systems as granular product group level data would not be available.

## APRA’s response

For general insurers, APRA has considered the feedback received and has simplified GRS 600.0 to reduce reporting burden. In particular:

- Total underwriting expenses will not be collected. As such, Combined Operating Ratio on a capital basis will no longer be available.
- General insurers can use proxies to calculate the remaining items on GRS 600.0, thus removing any linkage with AASB 1023.

The remaining items on GRS 600.0 have been retained as they are important for APRA’s prudential monitoring of potential cash flow issues and as inputs into calculating the loss ratio on a capital basis.

For life insurers, APRA has updated LRS 200.0 such that insurers will be required to complete RFBEL data for combined lump sum risk benefits and not separately for death, TPD and trauma benefits. APRA views that this will substantially reduce regulatory burden. APRA has retained the proposed premiums, claims and expense related data items split by death, TPD and trauma. To minimise additional reporting burden, APRA will allow life insurers to apply allocations to complete these items.

### 3.1.2 Life companies - Valuation of policy liabilities for participating business and retained profit ‘starting amounts’

In the 2021 response paper, APRA proposed an approach whereby insurers would be allowed to choose one of the following methods to value policy liabilities for participating business:

- Accounting standard led method: The *Life Insurance Act 1995* (Life Act) operating profit allocated to shareholders would be the same as the shareholder profit reported under AASB 17. The Life Act operating profit allocated to policy owners would reflect the allocation percentages applied according to the Life Act. The Life Act policy liability would be the balance of the AASB 17 liability after deducting Policy Owners’ Retained Profits.
- Value of supporting assets (VSA) led method: The Life Act operating profit allocated to shareholders and policy owners as well as the Life Act policy liabilities would continue to be determined using the VSA method, unchanged from the current valuation methodology. Insurers would separately determine shareholder profit and insurance liabilities under AASB 17, recognising the fact that profit patterns and policy liabilities between the VSA method and AASB 17 could be different.

In *Prudential Standard LPS 600 Statutory Funds* (LPS 600), APRA introduced requirements specifying how AASB 17 liability restatements impact Life Act retained profit balances. The Appointed Actuary of a life company must assess the impact of the AASB 17 liability restatements on participating policy owners and provide written advice to the company regarding the AASB 17 starting amount adjustments.

## Comments received

Insurers were supportive of the proposal to allow insurers to select one of the two methods to value policy liabilities of participating business under the Life Act.

## APRA's response

APRA has retained its proposed approach, however minor modifications have been made within *Prudential Standard LPS 340 Valuation of Policy Liabilities* (LPS 340) to better define a number of Life Act reporting components under the accounting standard method and the VSA led method.

APRA has also made minor modifications to LPS 600 to improve clarity on how starting amounts of the retained profits would be determined under the accounting standard led method and the VSA led method.

### 3.1.3 Friendly societies - Valuation of policy liabilities

In the 2021 response paper, APRA proposed that friendly societies make a separate valuation of policy liabilities for each approved benefit fund. In addition, friendly societies would report adjustments to reconcile policy liabilities reported under Australian Accounting Standards with the sum of policy liabilities across the benefit funds (determined for APRA reporting) in the management fund.

## Comments received

Submissions noted that APRA's proposed approach would require friendly societies to determine insurance liabilities on an AASB 17 basis and policy liabilities based on the APRA valuation requirements which may be different to the AASB 17 requirements. This would require friendly societies to maintain two sets of accounts on an ongoing basis, resulting in significant regulatory burden.

## APRA's response

APRA has considered the feedback and refined its proposed approach. Dual reporting will only be required for benefit funds where the Board has discretion on whether to transfer surplus to the management fund or use it to enhance policyholder benefits. For other benefit funds, friendly societies may apportion AASB 17 liabilities between the benefit and management funds where the Australian Accounting Standards do not allow valuing policy liabilities of approved benefit funds as stand-alone entities. APRA has reflected this change in LPS 340.

### 3.1.4 Friendly societies - Reporting approach

In the 2021 response paper, APRA made the following reporting proposals for friendly societies:

- APRA proposed to collect additional data items that form the basis of the determination and distribution of the surplus in an approved benefit fund (reflected in *Reporting Standard LRS 114.5 Friendly Society Related Items* (LRS 114.5)).

- APRA proposed that friendly societies that provide defined benefit risk products (i.e. product group F4) submit LRS 200.0 on an annual basis. This would help APRA to analyse comparability of profitability and risk profiles of insurance risk components across different friendly societies.

### Comments received

Submissions did not oppose the additional reporting introduced by LRS 114.5.

In relation to LRS 200.0, there was the view that regulatory burden might be eased if APRA were to exercise discretion and only apply the LRS 200.0 requirement to more complex defined benefit funds.

### APRA's response

APRA has included additional data items within LRS 114.5 to capture data on determination and distribution of surplus. APRA does not consider that these will add significant regulatory burden.

APRA has not removed the proposal that friendly societies complete LRS 200.0 for all approved benefit funds with defined benefit risk products (i.e. product group F4). However, friendly societies may request exemptions from the requirement to complete LRS 200.0 for insignificant risk product benefit funds. For friendly societies, LRS 200.0 will only need to be completed on an annual basis in respect of product group F4.

## 3.1.5 General Insurers - Category C insurers

A Category C insurer ('foreign general insurer' defined under subsection 3(1) of the *Insurance Act 1973*) is a foreign insurer operating as a foreign branch in Australia and could be a branch of a foreign mutual or shareholder company. APRA's reporting requirements apply to all insurers, including Category C insurers.

### Comments received

Several Category C insurers indicated in submissions that they are not required to use AASB 17 (IFRS 17) for reporting to their Group. Additionally, as a branch of a foreign entity, general purpose financial statements are not required. However, they acknowledged APRA's need to have an AASB 17 starting point for the Assets in Australia test as per GPS 110. As a result, these insurers would only adopt AASB 17 reporting for regulatory reporting to APRA.

It was suggested that APRA could exempt Category C insurers from applying a number of AASB 17 requirements for APRA reporting, including illiquidity premium and onerous contracts. It was also suggested that APRA could exempt Category C insurers from completing *Reporting Standard GRS 320.0 Liability Roll Forwards* (GRS 320.0) and *Reporting Standard GRS 320.0.G Liability Roll Forwards* (GRS 320.0.G).

### APRA's response

APRA has considered the feedback received and has simplified reporting relating to GRS 320.0 and GRS 320.0.G. Category C insurers will not need to report GRS 320.0 if the insurer or its foreign parent are not required to prepare general purpose financial statements in accordance with AASB 17. Similarly, GRS 320.0.G will not apply if the Level 2 insurance group is not required to prepare general purpose financial statements in accordance with AASB 17.

APRA expects insurers to consult with their auditors to develop an appropriate approach with consideration of materiality in relation to the AASB 17 requirements including onerous contracts and illiquidity premium.

## 3.2 Other clarifications and revisions

### 3.2.1 Reporting basis

In its 2021 response paper, APRA proposed that quarterly reporting under the revised reporting standards would change to be on a discrete reporting period basis from 1 July 2023. This change, which was proposed to apply to all general and life companies, represents a change from the year-to-date basis used under the existing reporting standards.

### Comments received

Feedback from general and life insurers on the proposed change to discrete period reporting indicated that most insurers preferred to report year-to-date, rather than discrete data as they use their year-to-date results for internal analysis. Some general and life insurers sought clarity on the reasons for the proposed change and noted discrete data could be calculated using the results generated on a year-to-date basis. Some general insurers opposed the proposed change.

### APRA's response

Following feedback from industry, APRA has determined that it will continue to collect data each quarter on a year-to-date basis rather than on a discrete basis, unchanged from the current collection approach.

APRA has reflected this in *Reporting Standard GRS 001 Reporting Requirements* (GRS 001) and *Reporting Standard LRS 001 Reporting Requirements* (LRS 001).

### 3.2.2 General Insurance financial – Group Level Reporting

In its April 2022 letter, APRA introduced additional geographic splits for reporting standards GRS 320.0.G and GRS 311.0.G *Statement of Profit or Loss and Other Comprehensive Income by Product Group and by Region* (GRS 311.0.G).

### Comments received

Feedback from general insurers on the proposed reporting standards indicated this additional granularity would be difficult to produce. The processes used to derive it would be manual as the information would not be used for management's own purposes.

### APRA's response

Following feedback from industry, APRA has determined that it will defer the commencement of GRS 320.0.G until 1 January 2025. In addition, GRS 311.0.G may be prepared on a best-endeavours basis until 1 January 2025. APRA believes this will provide industry with sufficient time to implement the necessary changes in their systems. APRA has reflected this clarification in the respective reporting standards.

### 3.2.3 Audit requirements

In the 2021 response paper, APRA proposed a broadly similar approach to the audit and assurance requirements for submission of data to current requirements. For data and controls related to LRS 200.0, APRA proposed an increase to the required level of assurance from none to limited assurance. This proposal was aimed at ensuring APRA would receive higher quality data on regulatory liabilities.

#### Comments received

Feedback from general insurers was broadly supportive of the approach to retain existing audit and assurance requirements.

A number of life insurers noted that the increased scope along with the limited assurance requirement for data and controls relating to LRS 200.0 would increase reporting burden and costs.

#### APRA's response

APRA has kept the proposed audit requirements for LRS 200.0 unchanged. LRS 200.0 will be subject to limited assurance for data and controls. The limited assurance requirement will ensure APRA receives reliable LRS 200.0 data, which APRA expects to increasingly rely on to understand life companies' financial and risk profiles. AASB 17 financials are expected to be significantly influenced by differences in insurers' accounting policy decisions, resulting in significant challenges in performing analysis and comparison.

APRA has clarified the audit requirements for GRS 600.0, which will be subject to limited assurance for both data and controls.

*Prudential Standard GPS 310 Audit and Related Matters* (GPS 310) and *Prudential Standard LPS 310 Audit and Related Matters* (LPS 310) outline the respective audit requirements.

## 3.3 Reporting via APRA Connect and direction of future data collections

As outlined in previous industry communications and the *Discussion Paper – Direction for Data Collections*[8], APRA has introduced a new data collection solution, APRA Connect, to progressively replace Direct to APRA (D2A) and facilitate entities meeting other reporting obligations. APRA Connect will enable APRA to improve the way data is collected, strengthening APRA's data-enabled decision-making and enabling enhanced data submission capabilities.

From 1 July 2023, APRA's revised data collection incorporating changes due to AASB 17 and LAGIC updates will be collected through APRA Connect. To clarify, quarterly, semi-annual,

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[8] See Discussion paper - Direction for data collections (apra.gov.au)

and annual data for periods ending up to 30 June 2023, which may be due for submission post 1 July 2023 will be submitted in D2A.

APRA expects to migrate any remaining D2A insurance collections in 2024, after which regulated insurers will be making all data submissions to APRA via APRA Connect. The remaining D2A insurance collections mainly relate to related party exposures, derivatives activity and off-balance sheet business. The migration exercise is deliberately limited in scope and will not significantly increase the breadth or depth of insurance data collected.

In parallel, APRA will work with stakeholders to scope ways to enhance the insurance data collections in the longer term. These enhancements are intended to enable exploration of strategic issues within each insurance industry, such as product affordability, accessibility and sustainability.

# Chapter 4 - LAGIC updates

Through the most recent round of consultation, significant stakeholder input was received in relation to proposed amendments to procedural requirements for reinsurance contracts for general insurers; and proposed requirements concerning restrictions on capital upgrading for life companies. APRA's responses and revised positions to this feedback are detailed in section 4.1 below.

Further feedback was also received regarding points for clarification, suggested possible enhancements, or matters raised by only one or two insurers. This feedback, together with APRA's responses, can be found in section 4.2 below.

Proposals detailed in the 2021 response paper and draft standards that are not addressed in this chapter remain unchanged and did not attract significant stakeholder feedback during the most recent consultation.

## 4.1 Key feedback and revisions

### 4.1.1 General insurers - Procedural requirements for reinsurance contracts

Following feedback received in response to the 2020 discussion paper, APRA revised its position regarding procedural requirements for reinsurance contracts. The 2021 response paper outlined APRA's revised proposal that instead of requiring reinsurance contracts to be fully finalised by inception, there would be an 'inception date and two month rule'. APRA advised that this was a transitory measure.

#### Comments received

Submissions to this proposal were mixed. While there was support for APRA's revised proposal of an 'inception date and two month rule' relative to APRA's original proposal, there was significant opposition to further tightening the requirement toward finalising contracts by inception without further industry consultation.

Several submissions requested clarification on the impact that further tightening reinsurance contract requirements to inception may have on aspects of reinsurance documentation like the Reinsurance Arrangement Statement (ReAS) and Reinsurance Declaration. It was also requested that APRA make minor adjustments to the wording within *Prudential Standard GPS 230 Reinsurance Management* (GPS 230) to include the specific language of 'terms and coverage' and 'wordings' used in the 2021 response paper.

#### APRA's response

APRA's proposal to adjust to an 'inception date and two month rule' will be maintained. This will require insurers to have a signed slip with terms and coverage outlined at inception, and provide an additional two months for wordings to be finalised, stamped and signed. In response to industry feedback, APRA will not consider further tightening at this stage. APRA will undertake consultation with industry should further changes be considered necessary.

As noted in the 2021 response paper, the 'two and six month rule' was originally introduced to formalise reinsurance contract procedures and promote contract certainty. There was, and continues to be, significant prudential risk where claims occur under reinsurance contracts without finalised terms and coverage. The intention was for this requirement to be tightened as industry practice improved over time. However, APRA has observed that practices have not further improved since the introduction of this rule and in some cases practices have slipped.

As the intent of this proposal is to improve contract procedures rather than alter documentation practices, the timeframes that currently apply to the ReAS and Reinsurance Declaration, outlined in GPS 230, will remain the same. However, where an insurer fails to meet the inception rule, the Reinsurance Declaration must set out the actions that an insurer is taking, or has taken, to comply with the rule even where the two month rule is met.

APRA has also made minor adjustments to the final wording of GPS 230. The revisions seek to better align the wording in the standard with APRA's original intent by ensuring that, should a loss occur, the terms and coverage that could influence the quantum of a loss be settled prior to the inception of a contract.

These changes have been included in GPS 230.

### 4.1.2 General insurers and life companies – Capital upgrading

To maintain alignment in approach to the measurement of capital for ADIs and insurers, changes were proposed to LPS 112 and GPS 112. These changes reflected amendments recently made to *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* that improve the simplicity and transparency of capital instruments, as well as those which clarify expectations and existing requirements. As part of these changes, APRA clarified restrictions on capital upgrading.

#### Comments received

Several life companies submitted feedback on changes made to LPS 112 relating to restrictions on capital upgrading. Input was mixed. Some respondents noted the change would have no impact, some requested clarification on how to apply the new requirement, and others requested that the requirement not be applied to existing arrangements. Notably some stakeholders raised the concern that this change could result in a material, potentially unintended, impact on life companies' solvency positions.

#### APRA's response

Stakeholder feedback has highlighted that some elements of the proposed requirements in draft LPS 112 are more restrictive than intended. Revisions have been made to LPS 112 and HPS 112 to make aspects of the requirements less onerous and more closely aligned with those that apply for general insurers and ADIs.

While some aspects of the capital upgrading restrictions in draft LPS 112 and HPS 112 have been revised, APRA's position on capital upgrading and its associated risks remains unchanged. By changing these standards, APRA is seeking to better align the expression of the requirements with other industries, rather than weakening its position on capital upgrading.

## 4.2 Other clarifications and revisions

### 4.2.1 General insurers and life companies – Mutual Equity Interests

In the 2021 response paper, APRA proposed to introduce provisions to allow mutual insurers and friendly societies to issue Mutual Equity Interests (MEIs). This follows APRA's 2017 change to enable mutually owned ADIs to issue capital instruments that meet the definition of CET1 capital.

#### Comments received

Industry was generally supportive of the introduction of a framework for MEIs into the capital standards for insurers and friendly societies. However, there was some opposition to the proposed 25 per cent cap on the contribution of MEIs to CET1 capital. Submissions also sought the removal of the distribution limit of 50 per cent of net profit after tax and suggested APRA remove the requirement for APRA approval prior to issuing MEIs.

#### APRA's response

APRA intends to implement its proposal without revision. Much of the commentary received to this consultation was similar to that received in APRA's initial MEI consultation in 2017. As MEIs continue to be relatively untested, APRA's position remains unchanged from the 2017 consultation.

Therefore, the cap of 25 per cent on the contribution of MEIs to CET1 capital will be retained because an entity may risk diluting future earnings and dampening long-term growth capacity if the cash distribution rate on a MEI is greater than return on equity (ROE). A review of the current cap is not currently planned. The distribution limit and requirement for APRA approval will also be maintained.

This proposal is consistent with the equivalent requirements in the ADI prudential framework.

### 4.2.2 General insurers and life companies – Fair value

In the 2021 response paper, APRA's revised position was to allow non-financial assets, short-term receivables and intercompany receivables and payables to be measured in accordance with AASB standards.

#### Comments received

Submissions were supportive of APRA's revised proposal to allow general insurers to measure select assets in accordance with AASB standards. Some respondents requested that APRA clarify whether the exemptions extend to assets such as interests in equity accounted investees and investments in subsidiaries, while others requested APRA review the wording of certain prudential standards to ensure they align with APRA's original intent.

## APRA's response

In response to the feedback received, APRA has made minor adjustments to the final wording of LPS 112, LPS 114, GPS 112, *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114), HPS 112 and HPS 114.

Further, for clarity, the exemption to measure items in accordance with AASB standards will apply to investments in other entities.

### 4.2.3 General insurers and life companies – asset risk charge in a low or negative interest rate environment

Changes were proposed to ensure the asset risk charge (ARC) calculation produces robust outcomes in all interest rate environments.

## Comments received

Respondents were generally supportive of the proposed changes to the real interest rate and expected inflation stresses within the ARC calculation to ensure they remain appropriate in a low or negative interest rate environment. Some submissions raised areas for clarification or suggested enhancements to ensure the stresses were explained clearly and produced appropriate outcomes in a variety of interest rate environments.

## APRA's response

Given stakeholder support for this revision, APRA's proposal to amend aspects of the ARC calculation remains largely unchanged. While APRA recognises the merit of suggested enhancements, it considers the complexity introduced by these proposals to outweigh the benefit.

In response to feedback, APRA has clarified through amendments to LPS 114, GPS 114 and HPS 114 that downward interest and inflation stresses may result in negative real interest rates.

### 4.2.4 General insurers and life companies – operational risk charge and whole of account quota share

In the 2021 response paper, APRA proposed that it would not proceed with an adjustment to the operational risk charge for whole of account quota share (WOAQS) arrangements.

## Comments received

Similar to the initial round of consultation, APRA received diverse feedback on this proposal. While some submissions were supportive of APRA's intention to maintain its existing methodology, other submissions maintained that the current methodology leads to double counting of risk charges at the industry level. Industry also requested APRA clarify why this proposal only applies to WOAQS arrangements rather than facultative or portfolio quota shares and requested a definition for 'whole of account'.

## APRA's response

As much of the feedback received on this proposal was similar to that received in response to the 2020 discussion paper, APRA's position remains unchanged. Therefore, the current methodology for calculating the operational risk charge (ORC) will be retained because the complexity of making a change to the calculation will likely outweigh any potential benefits.

This proposal was targeted at WOAQS arrangements because of the higher potential for double counting operational risk charges at an industry level with those arrangements. The term 'whole of account' quota share refers to a quota share treaty that spans across all risks in an insurer's portfolio.

### 4.2.5 General insurers – Default stress in the asset risk charge

In the 2021 response paper, APRA proposed amendments to GPS 114 to reduce double counting in the ARC calculation of business ceded under WOAQS arrangements.

## Comments received

While stakeholders were generally supportive of the proposed amendments, several general insurers questioned the rationale for extending this amendment only to WOAQS arrangements, rather than including other reinsurance arrangements such as facultative and portfolio quota share.

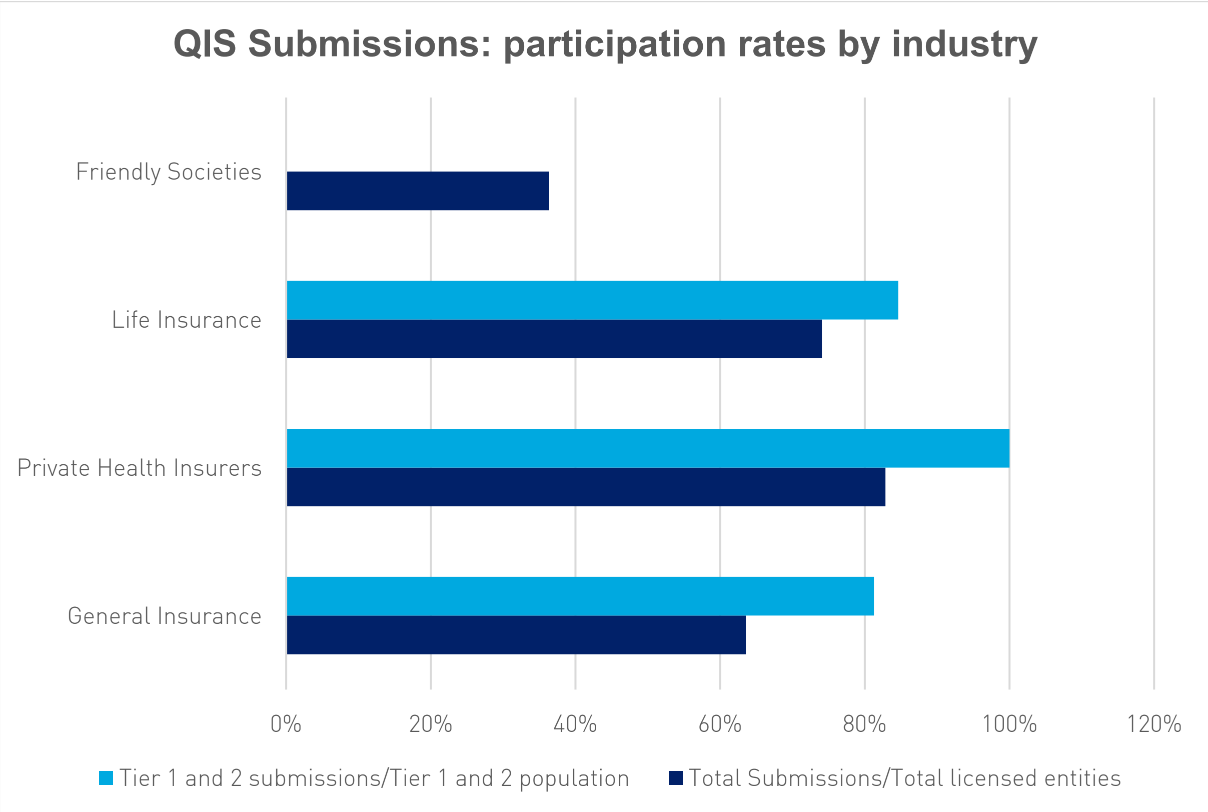
## APRA's response

As noted above in relation to APRA's position on the interaction between WOAQS and the ORC, this proposal extends only to WOAQS because of the higher potential for double counting of risk under these arrangements. Furthermore, when considering whether to extend this proposal to other reinsurance arrangements, APRA needed to balance the complexity this would introduce with the potential benefit the change would provide. APRA's position on this matter remains unchanged.

# Chapter 5 - Insights from the Quantitative Impact Study

To evaluate APRA's revised proposals, all general insurers[9], life insurers and friendly societies, and private health insurers were invited to complete the QIS issued alongside the draft standards in December 2021 (2021 QIS). The purpose of the 2021 QIS was to assist in the calibration of APRA's proposals, ensuring that sound prudential outcomes are being achieved and to minimise unintended consequences and additional burden on industry.

APRA acknowledges the efforts of the industry in providing responses to the 2021 QIS. There was a strong participation rate overall, with 114 QIS submissions provided by general insurers, life insurers, friendly societies and private health insurers. The submissions have informed APRA's understanding of the impacts of the proposed policy settings and areas of focus going forward.




[9] Level 2 insurance groups have not been asked to complete to this QIS.

## 5.1 Key findings from the Quantitative Impact Study

The 2021 QIS has showed that the key capital and accounting metrics for general insurers (except for reinsurance) and private health insurers are broadly comparable to existing D2A data. For life insurers the accounting metrics (e.g., profitability) have showed considerable variability. Another key observation in submissions was that, as mentioned in section 2.1.1, there were instances where an insurer's accounting equity (or net assets) under AASB 17 was significantly lower than the capital base under AASB 17.

While APRA is sharing some observations from the analysis undertaken, it should be noted that the 2021 QIS submissions were provided on a best endeavours basis and were based on the accounting policies and choices that insurers had made at that time. These may be subject to change ahead of AASB 17 coming into effect. APRA will continue to refine its key capital and accounting metrics in the lead up to AASB 17 implementation and will engage with industry as needed.

Observations from the analysis include:

- For general insurers, existing D2A data and QIS data were broadly comparable for direct insurers. Reinsurers' cession and combined ratios were significantly different between existing D2A data and the QIS data, due to changes to how reinsurance is being accounted for under AASB 17.

- For life insurers, there were many instances of significant differences noted between existing D2A data and QIS data for key metrics. There were RoE and net profit after tax outliers identified across multiple entities for all tiers, and for tier 1 and 2 entities the net combined ratio for disability income insurance was over 100% (i.e. loss making) across the majority of life insurers.

- For private health insurers, there were minor and typically explainable impacts observed (such as DAC treatment, onerous contracts). The key profitability metrics were largely unchanged.

# Appendix A: Summary of changes to prudential standards

This appendix summarises the key changes to the prudential standards. It has been included to assist industry in identifying and understanding the intent of changes. In addition to the changes listed below, a number of minor changes have been made to fix errors and standardise wording and formatting.

The final consequential changes to LPS 114 following APRA's consultation on offshore reinsurance and the review of prudential standard LPS 117 has also been included in the table below.

**General Insurance**

| Prudential standard | Key changes |
|---|---|
| GPS 110 | • Added an additional capital requirement for Category C insurers to ensure APRA's point of supervisory intervention remains appropriate.<br>• Removed a footnote to reflect the changes to the four quarters dividend test. |
| GPS 112 | • Added additional capital requirements for non-Category C insurers to ensure APRA's point of supervisory intervention remains appropriate.<br>• Clarified the definition of fee income for the purposes of defining current year earnings.<br>• Added a footnote to clarify that a parent of the insurer can hold the instrument issued by the insurer to the parent for the purposes of outlining criteria of paid-up ordinary shares. |
| GPS 114 | • Amended wording to clarify that downward interest and inflation stresses may result in negative real interest rates.<br>• Removed the wording 'reinsurance assets and non-reinsurance assets' to enhance clarity on the applicability of stresses. |
| GPS 230 | • Updated wordings to clarify APRA's intent of the 'inception date and two month rule' requirement. |
| GPS 340 | • Reinstated a paragraph deleted in the last round of drafting and replaced the term 'DRE' with 'cost of reinsurance'. This is to retain the existing regulatory adjustment mechanism relating to premiums liabilities while not referencing the existing accounting term 'DRE'. |

### Life Insurance

| Prudential standard | Key APRA changes |
|---|---|
| LPS 001 | • Revised the definition 'commencement' to remove the terms used under the existing accounting standard which will be revoked. |
| LPS 110 | • Removed a footnote to reflect the changes to the four quarters dividend test. |
| LPS 112 | • Clarified that 'loans on policies' is included in insurance policy receivables.<br>• Added additional capital requirements to ensure APRA's point of supervisory intervention remains appropriate.<br>• Deleted paragraph 19 as the previous drafting on capital upgrading was unintentionally onerous.<br>• Clarified the definition of fee income for the purposes of defining current year earnings.<br>• Used the word 'entity' to better articulate the requirements relating to loss absorption at non-viability.<br>• Clarified that adjusted policy liabilities for a management fund is zero. |
| LPS 114 | • Clarified that 'loans on policies' is included in insurance policy receivables.<br>• Following the LPS 117 review, amendments were made to clarify interactions between LPS 114 and LPS 117.<br>• Amended wording to clarify that downward interest and inflation stresses may result in negative real interest rates. |
| LPS 117 | • Revised the definition of VAF for non-reinsurance assets to include 'adjusted reinsurance assets' calculated with reference to adjusted policy liabilities. |
| LPS 310 | • Minor amendments were made to reporting standard references. |
| LPS 340 | • Added new terms for the purposes of outlining policy liability valuation requirements for friendly societies.<br>• Added the definition of 'value of supporting assets' such that LPS 340 continues to link with the tax legislation.<br>• Amended requirements related to policy liability valuation for approved benefit funds to allow allocations of insurance liabilities determined under AASB 17.<br>• Revised terms to better align with definitions included in LPS 001.<br>• Clarified that the same valuation method must be used for all par business of a statutory fund.<br>• Clarified the definition of policy liabilities under the VSA led method that the policy liabilities includes insurance policy receivables and payables.<br>• Clarified that insurance policy payables net of insurance policy receivables are not included in best estimate liabilities.<br>• Replaced references to 'related product group' and 'Life Act reporting component' with 'subcategory'. |
| LPS 600 | • Replaced references to 'transition' and 'transition date' to 'adjustment date' because 'transition' is also a term defined in AASB 17.<br>• Clarified that if the VSA led method is used to value participating liabilities, there is no change to participating business starting amounts.<br>• Added a new paragraph allowing APRA to make further adjustments to the starting amounts if the life company changes the method of valuing participating business policy liabilities. |

# Appendix B: Summary of changes to reporting standards

This appendix summarises the key changes to the reporting standards. It has been included to assist industry in identifying and understanding the intent of changes.

Throughout the general and life insurance reporting standards, APRA has removed duplicate data items relating to individual risk charges and adjustment to risk charge as approved by APRA because these items are collected in 110 and 111 reporting standards.

**General insurance**

| Reporting standard | Key proposals |
|---|---|
| GRS 001 | • Clarified that insurers must submit reporting standards as at the last day of the stated reporting period (whether it is a quarter or a year) on a financial year-to-date basis<br>• Included GRS 310.0, GRS 310.0.G, GRS 311.0 and GRS 311.0.G in the list of forms in section 3.8 netting. This edit is made so that insurers can apply netting arrangements as permitted under Australian Accounting Standards.<br>• Removed the section on insurance risk charge because the underlying information is outlined in individual reporting standards |
| GRS 112.0<br>GRS 112.0.G | • **Applicable to GRS 112.0 only:** Clarified that Category C insurers must also complete GRS 112.0.<br>• Added data items relating to mutual equity interest to reflect the updated GPS 112.<br>• Added data metrics to reflect the proposed capital requirements aimed at ensuring that APRA's point of supervisory intervention remains appropriate.<br>• **Applicable to GRS 112.0 only:** Added tables and data items to capture movements in retained earnings.<br>• Revised the data labels and definitions of regulatory receivables and payables to improve clarity, leveraging the definitions within the existing reporting standards.<br>• Added core capital related ratios.<br>• Added "cost of reinsurance for future business not written" as an explicit regulatory adjustment item. This is a replacement item for 'deferred reinsurance expense for future business not yet written'.<br>• **Applicable to GRS 112.0 only:** Added premiums receivable splits (premiums expected to be received in less or more than 6 months, and premiums receivable on unclosed business).<br>• **Applicable to GRS 112.0 only:** Clarified that Table 2 (adjusted net assets in Australia) must be completed by all insurers.<br>• **Applicable to GRS 112.0.G only:** Aligned the structure of retained earnings tables to GRS 112.0. |

| Reporting standard | Key proposals |
|---|---|
| GRS 114.0<br>GRS 114.0.G | • **Applicable to GRS 114.0.G only:** Clarified that a Level 2 insurance group may use accounting records to derive values for GPS 340 insurance liabilities related data items for international business.<br>• Aligned the data labels and definitions of regulatory receivables and payables with GRS 112.0.<br>• Removed the words “and paid” from “reinsurance recoverables on outstanding and paid claims” such that there is no double counting.<br>• Removed the data item “tax benefit deduction” (collected in GRS 110.0)<br>• Changed the structure of the table on yields to be consistent with other tables<br>• Changed the playback layout to be more aligned with the existing GRS 114.0 data layout. |
| GRS 114.1<br>GRS 114.1.G | • **Applicable to GRS 114.1.G only:** Clarified that a Level 2 insurance group may use accounting records to derive values for GPS 340 insurance liabilities related data items for international business. |
| GRS 115.0<br>GRS 115.0.G | • **Applicable to GRS 115.0.G only:** Clarified reporting requirements for the tables for a Level 2 insurance group. |
| GRS 115.1<br>GRS 115.1.G | • **Applicable to GRS 115.1.G only**: Clarified that a Level 2 insurance group can use approximate methods to report data items relating to premiums liabilities.<br>• Renamed label of data item to “expected future reinsurance costs for current and future reinsurance arrangements needed to cover PL” for clarity.<br>• **Applicable to GRS 115.1.G only:** Clarified reporting requirements for the tables for a Level 2 insurance group. |
| GRS 300.0<br>GRS 300.0.G<br>GRS 302.0.G | • Clarified the reporting of deferred tax assets in circumstances when the insurer does not have sufficient information on unused tax losses.<br>• Added instructions to specify when the insurance/reinsurance finance reserve is relevant for an insurer. |
| GRS 310.0<br>GRS 310.0.G | • Clarified reporting of reversals of recoveries of losses from the reinsurance contracts; expenses recognised under AASB 17.59 (a); and ‘effect of changes in non-performance risk of reinsurers’.<br>• Removed split of impairment losses and impairment loss reversals on insurance acquisition cash flows assets.<br>• Introduced requirements for insurers to present ‘allocation of reinsurance premiums’ separately from ‘amounts recoverable from reinsurers’ because APRA requires this level of granularity for its analysis.<br>• Reduced requirement to report items in the Other Comprehensive Income section split by region in GRS 310.0.G. Insurers will have the option to only report the ‘Total’ if reporting region information will only be available at undue cost or effort to the reporting insurer. |
| GRS 311.0<br>GRS 311.0.G | • Clarified reporting of reversals of recoveries of losses from the reinsurance contracts; expenses recognised under AASB 17.59 (a); and ‘effect of changes in non-performance risk of reinsurers’.<br>• Removed split of impairment losses and impairment loss reversals on insurance acquisition cash flows assets. |

| Reporting standard | Key proposals |
| --- | --- |
| | • Introduced requirements for insurers to present 'allocation of reinsurance premiums' separately from 'amounts recoverable from reinsurers' because APRA requires this level of granularity for its analysis.<br>• Removal of signage conventions for the section 8 Balance sheet memo items to address inconsistencies in the signage used in the QIS submissions.<br>• GRS 311.0.G is to be prepared on a best endeavours basis for all reporting periods until 1 January 2025. |
| GRS 320.0<br>GRS 320.0.G | • Reporting exemption provided to Category C insurers and parent entity of a Level 2 insurance group (refer to section 3.2.5 above).<br>• In Part B (disclosures for reinsurance contracts held): added an additional column for assets for insurance acquisition cash flows; and revised the labels for certain cash flow items, to ensure consistency with Part A (disclosures for insurance contracts issued).<br>• Removed signage instructions and introduced cross form validation rules to help ensure closing balances for insurance contract assets/liabilities and reinsurance contract assets/liabilities reconcile to amounts reported on the Statement of Financial Position (GRS 300.0 and GRS 300.0.G).<br>• GRS 320.0.G reporting commences for all reporting periods from 1 January 2025. |
| GRS 400.0 | • Updates the definitions such that they are consistent with the accounting reporting standards. |
| GRS 410.0 | • Clarified when insurers should use accident year basis vs underwriting year basis for reporting. |
| GRS 420.0 | • Changed the reporting standard name to "Insurance Revenue and Incurred Claims by State and Territory of Australia" given that incurred claims will be collected instead of insurance service expense |
| GRS 440.0 | • Updated "gross accrued premium" and "net accrued premium" definitions to improve clarity and allow the use of approximate methods and consider materiality to report this item<br>• Clarified when insurers should use accident year basis vs underwriting year basis for reporting.<br>• Removed the section which clarifies whether the data should be reported on a "cumulative" or "close of business" basis because this information is included in GRS 001. |
| GRS 460.0<br>GRS 460.0.G | • **Applicable to GRS 460.0.G only:** Clarified that a Level 2 insurance group may use accounting records to derive values for GPS 340 insurance liabilities related data items for international business. |
| GRS 600.0 | • Changed the reporting standard name to "Supplementary Capital Data – Premiums and Claims" given that expense related items will not be collected.<br>• Clarified that audit of the annual submission under GRS 600 must be done on at least a limited assurance engagement.<br>• Simplified data items – GRS 600.0 will collect premiums, claims, reinsurance recoveries and non-reinsurance items (on accruals and cash bases). Insurers may use approximate methods for a number of GRS 600 data items. |

### Life insurance

| Reporting standard | Key APRA proposals |
|---|---|
| LRS 001 | • Clarified that insurers must submit reporting standards as at the last day of the stated reporting period (whether it is a quarter or a year) on a financial year-to-date basis. |
| LRS 110.0 | • Included the minimum capital requirement of $10 million for the calculation of prescribed capital amount. |
| LRS 112.0 | • Clarified the treatment of tax benefits / liabilities relating to liability adjustments.<br>• Added data items relating to mutual equity interest to reflect the updated LPS 112.<br>• Added data metrics to reflect the proposed capital requirements aimed at ensuring that APRA's point of supervisory intervention remains appropriate.<br>• Added core capital related ratios.<br>• Revised the definitions of regulatory receivables and payables relating to insurance contracts issued and reinsurance contracts held to improve clarity. |
| LRS 114.0 | • Clarified that APL should be reported net of tax effect arising from liability adjustments and DTA and DTL should be grossed up by the tax effect. This approach is consistent with LRS 112.0.<br>• Clarified that "adjusted policy ceded (reinsurance asset)" is part of "assets not supporting investment liabilities".<br>• Added the data item "assets supporting investment linked liabilities".<br>• Deleted the data item "capital base" due to the complexity of reflecting the treatment of tax across statutory and general funds but instead clarified in the specific instructions that the table has been designed such that the pre-stress data items can be used to calculate the capital base.<br>• Aligned the definitions of regulatory receivable and payable items to LRS 112.0.<br>• Clarified how deferred tax asset and liability should be treated for the impact on the capital base from the stresses.<br>• Removed data items on accounting liability items to reduce regulatory burden.<br>• Clarified that subordinated debts exclude Tier 2 Capital because Tier 2 Capital is reported separately. |
| LRS 114.5 | • Included additional data items to help APRA to better capture data relating to determination and distribution of surplus. |
| LRS 117.0 | • Changed the term "adjusted value of reinsurance asset" to "adjusted reinsurance asset" to be consistent with LPS 117.<br>• Clarified that life companies can use approximate methods and take into account materiality to report notional offshore reinsurance premium.<br>• Clarified that only non-investment linked statutory fund needs to report the tables. |
| LRS 200.0 | • Made updates to clarify that friendly societies (which have the product group F4) need only submit LRS 200 as part of the annual submission.<br>• Removed VAF data items (collected under LRS 117). |

| Reporting standard | Key APRA proposals |
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| | • Replaced the death, TPD, trauma product groups with the lump sum risk product group for the tables other than tables relating to loss and combined ratio components. This is to reduce regulatory burden. |
| LRS 300.0 | • Clarified the reporting of deferred tax assets in circumstances when the insurer does not have sufficient information on unused tax losses.<br>• Added instructions to specify when the insurance/reinsurance finance reserve is relevant for an insurer. |
| LRS 310.0<br>LRS 311.0 | • Clarified reporting of reversals of recoveries of losses from the reinsurance contracts; expenses recognised under AASB 17.59 (a); and 'effect of changes in non-performance risk of reinsurers'.<br>• Removed split of impairment losses and impairment loss reversals on insurance acquisition cash flows assets.<br>• Introduced requirements for insurers to present 'allocation of reinsurance premiums' separately from 'amounts recoverable from reinsurers' because APRA requires this level of granularity for its analysis. |
| LRS 320.0 | • In Part B (disclosures for reinsurance contracts held): added a column for assets for insurance acquisition cash flows; and revised the labels for certain cash flow items, to ensure consistency with Part A (disclosures for insurance contracts issued).<br>• Removed signage instructions and introduced cross form validation rules to help ensure that closing balances for insurance contract assets/liabilities and reinsurance contract assets/liabilities reconcile to amounts reported on the Statement of Financial Position (LRS 300.0). |
| LRS 340.0 | • Clarified how EFCF (PRP portion) can be determined under the VSA led method.<br>• Updated the AASB 17 section of the VSA led method such that the data items within the section are consistent with the accounting standard led method.<br>• Clarified that EFCF (PRP portion) must be determined separately if using the accounting standard led method.<br>• Removed playback in relation to policy liabilities under the accounting standard led method because policy liabilities can be calculated using AASB 17 reporting components. |
| LRS 420.0 | • Clarified that LRS 420.0 is about assets backing insurance and investment liabilities (net of insurance assets) determined under the Australian Accounting Standards. The data items have been updated to reflect this.<br>• Clarified that life insurers must complete Table 1 for annuities with longevity risk and annuities without longevity risk even though the products may not include an investment component. |

APRA