

Allianz Australia Limited

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Head Office

29 February 2012

Mr. Neil Grummit
General Manager, Policy Development
Australian Prudential Regulation Authority
Level 26, 400 George Street
Sydney NSW 2000
EMAIL: InsuranceCapital@apra.gov.au

Dear Mr. Grummit

REVIEW OF CAPITAL STANDARDS FOR GENERAL INSURERS AND LIFE INSURERS

Allianz Australia welcomes the opportunity to comment on the response paper and subsequent draft prudential standards that APRA released on 9 December 2011, as part of its review of capital standards for general insurers and life insurers (LAGIC).

Allianz Australia supports APRA's goal of making its capital requirements more risk sensitive and APRA's intention to improve the alignment of its capital standards across the industries it regulates.

We have the following specific feedback in relation to the response paper:

1. ICAAP Proposals

The response paper says that the ICAAP report will be required to be submitted to APRA four months after an insurer's year end. We would recommend that the ICAAP be submitted on an annual basis following Board approval. The date would be agreed between APRA and the individual insurer. For instance, the items addressed in Allianz Australia's ICAAP will feed from our business planning process. As such, it would make more sense if we were to submit this to APRA as part of the submission of the business plan (following Board approval). This would also prevent confusion with the FCR which is due to APRA three months after year end and will cover some of the same material.

Paragraph 13 of GPS 110 states that the ICAAP must have a robust review at regular intervals, at least every three years, having regard to the complexity of the business.

At this stage, no guidance is given on this, hence we are interested in APRA's perspective on the likely frequency of such a review for a company such as ourselves.

We would appreciate APRA also clarifying the purpose of this review (i.e. is it a review of the ICAAP process or of the substance of the ICAAP). We would also recommend clarification in the prudential standards as to who can perform such a review. The response paper indicates that whilst the review must be independent, the review could be undertaken internally.

2. Operational Risk

We note that the proposed definition of Operational Risk is very broad and includes external events. For instance, a natural catastrophe could be considered an external event, yet this risk is covered in the Insurance Concentration Risk Charge rather than the Operational Risk Charge. A better definition may be:

"risk of loss resulting from inadequate or failed internal process, people and systems or from external events, which are not captured in any of the other risk charges."

In the attached appendix we have also provided some minor feedback in relation to the draft standards issued on 9 December 2011.

If you have any questions or comments in relation to this submission, please contact Jonathan Perkins, Senior Actuary, Insurance Liabilities on [REDACTED] [REDACTED] or myself.

Yours sincerely



David Hosking
Chief Financial Officer

[REDACTED]

Copy to:

Terry Towell, Managing Director, Allianz Australia Limited
Colleen Chapman, Financial Controller, Allianz Australia Limited
Noeline Woof, Group Actuary and Appointed Actuary, Allianz Australia Limited
Jonathan Perkins, Senior Actuary, Insurance Liabilities, Allianz Australia Limited

APPENDIX

- **Prudential Standard GPS 001 - Definitions**

GPS 001 makes reference in several places to items defined in other standards. For example, the prescribed capital amount and the ICAAP, which are defined in GPS 110. However, it is not clear where in GPS110 these items are defined. Some further clarity on which paragraphs contain 'definitions' in standards other than GPS001 would be helpful.

Paragraph 31 of GPS 110 states that APRA may adjust the calculation of Prescribed Capital Amount if the Standard Method does not produce an "appropriate outcome". Whilst, we can appreciate the intention behind this, given the potentially subjective capture of some of the calculations required under the new standards, some clarity would be appreciated over what type of outcomes would be deemed inappropriate.

For completeness, Paragraph 20 of GPS 110 should reference Paragraph 32 of GPS 110 of this standard and vice versa.

- **Prudential Standard GPS 115 - Capital Adequacy : Insurance Risk Charge**

It would be helpful if APRA could provide some illustrations of how it would envisage the class of business "Other" to be split between the various risk profiles. Whilst it is appreciated that the Appointed Actuary or Group Actuary should make this decision, illustrations for the classes mentioned in GPS 001 would be appreciated to ensure consistency across the industry for these broadly written lines. Other classes falling into the broader definition could be allocated based on comparison.

Given the timing of the implementation of the standard, would APRA be expecting that the reasons for the allocation of "other" to risk category be documented in the first ILVR after the implementation of the standard. For instance, for Allianz Australia, this would not be until 31 December 2013.

- **Prudential Standard GPS 116 - Capital Adequacy : Insurance Concentration Risk Charge**

Allianz Australia understands that a joint industry and APRA workshop on GPS 116 is scheduled for 13th March 2012. Therefore, we have not provided any comments on this GPS in this response but will highlight all issues in that workshop.

- **Prudential Standard GPS 117 - Capital Adequacy : Asset Concentration Risk Charge**

Paragraph 7 wording needs tightening to make reference to exposure to a single asset, counterparty or group of related counterparties. The current wording incorrectly implies that exposure to a single group of assets (such as equities) is the key concern, regardless of the counterparty spread. This wording is also carried forward in the introductory paragraphs of GPS117.

- **Prudential Standard GPS 118 - Capital Adequacy : Operational Risk Charge**

The definition of Written Premium Revenue in Paragraph 8(c) includes “fire services levy, other levies imposed by state and territory governments”. Given the current discussion over the removal of fire services levy (in particular in Victoria), it is possible that this levy may not exist in the future. From the APRA Quarterly General Insurance Performance Statistics as at September 2011, the fire services levy on an earned basis across the industry totalled \$1,176m across the previous 12 months. Therefore, if this was abolished then the insurance industry would see a reduction in capital of approximately \$35m. Therefore should this be included given future potential changes?