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Mr Charles Littrell
General Manager Policy Development
Australian Prudential Regulation Authority
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7 February 2012

Dear Charles,

Re: Submissions Response Paper– Review of capital standards for general and life insurers

We are writing in response to the most recent APRA Paper, "Responses to Submissions – Review of capital standards for general and life insurers" dated 9 December 2011.

We found that APRA's responses contained in the paper were generally necessary improvements or further clarification of the LAGIC proposals. However, there is one new proposal included which we view with significant concern and which we believe is unnecessary, will have an adverse impact on small insurers such as ourselves and consequently on APRA's regulatory supervision.

The proposal we are concerned about is the proposal to bring forward the submission deadline for the FCR and ILVR for general insurers from 4 months after financial year end to 3 months ostensibly to enable the outcomes to be used as input to the ICAAP report.

We acknowledge that this seemingly innocuous proposal would provide greater harmonisation with the life insurers, conforms to a logical sequence for preparing these documents and will not be of concern to larger insurers (disclosing entities). These entities are already required to complete their reporting, per ASIC requirements, within 3 months of financial year end. For other, generally smaller, insurers who currently have 4 months in which to complete their year-end reporting the situation is quite different.

The issue is that in proposing the change APRA does not appear to have considered its impact on the other reporting requirements for these insurers. The interrelationship between the FCR, ILVR finalisation, annual financial statement preparation, annual APRA return preparation and approval is such that finalising one without finalising the others is inappropriate and in some cases will be simply impractical. For example, it is unlikely that the Appointed Actuary would be agreeable to finalising their FCR prior to the conclusion of the annual audit and at least the Board Audit Committee recommending the accounts to the Board for approval. Therefore, implicit in the proposed change in FCR, ILVR submission timetable is a reduction by a month in the time available for small insurers to complete their year-end reporting processes.

Currently the Companies Act acknowledges, by providing non disclosing entities additional time to

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report, that these companies may not have the same access to resources as disclosing (predominantly larger) entities and that additional time may be needed to complete their annual reporting obligations. This additional time assists small entities in ensuring year end processes can be completed in an orderly manner and lead to accurate financial reporting.

To ensure finalisation of the ILVR, FCR, EPR, along with preparation, audit and Board approval of the annual financial report and annual APRA return within 3 months of financial year end would require a substantial revision of the year end timetable for some smaller insurers. A number of key processes would need to be brought forward which we strongly believe has the potential to reduce the quality and accuracy of the data reported to APRA and the other stakeholders.

Some specific examples of this issue are:

- It is likely that the Appointed Actuary's liability valuation would need to be completed on pre-year end data and rolled forward to year end. Our experience is that data around year end can be quite volatile particularly for insurers with smaller books (the January 2011 Queensland floods and December 2011 Melbourne hailstorm experience are good examples of this). Finalising the valuation outcome earlier simply provides less time to get it right.

- Finalising the results earlier provides less time for management to communicate with their Boards and for Directors to consider the other more complex valuation and reporting issues that may arise during accounts finalisation. Smaller entities have less access to specialist in house resources and so rely more heavily on external experts. Engaging and obtaining input from such experts takes time. Shorter reporting timetables place Boards under greater pressure to make decisions without the benefit of third party input.

- A shorter reporting timetable places smaller insurers in direct competition for audit and actuarial resources with the large insurers. Audit teams in particular tend to complete the audits of the larger insurers before moving on to their smaller clients. This is beneficial for both parties as high quality and experienced audit staff are available to perform small insurer audits helping the insurer meet their obligations while also spreading the workload for the audit firm. More accurate reporting is the result. Smaller insurers are unlikely to get access to the same quality of resources if at the same time they are also required at their larger clients.

- Small insurers tend to have only a small team of individuals with the technical expertise and company knowledge necessary to perform the year end functions accurately and completely. The slightly longer reporting timetable allows small insurers to manage the year end spike in workload within their in-house resources. This ensures that the most knowledgeable and appropriate staff prepare and review reports, Board papers and APRA returns etc and the most accurate result is achieved.

We also point out that not requiring the ILVR and FCR to be submitted within 3 months of financial year end will <u>not</u> prevent their outcomes from being considered during the ICAAP reporting process. This is particularly so in a smaller insurer where the same resources are likely to be involved in the preparation and finalisation of all of the reports. Given the risks identified above, we also do not see purely harmonisation with the life insurance requirements as a compelling reason to make this change.

We therefore respectfully request the proposed change to the submission requirements for the FCR and ILVR (at least for non-disclosing insurers) be reconsidered and the current requirement to submit within 4 months retained.

Thank you for the opportunity to provide comments on the Submissions Response paper and we hope you find our comments above useful.

Yours sincerely

Gregor Pfitzer
Chief Operating Officer

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