



9 December 2010

To GIs,

Reinsurer Counterparty Data Collection

Reinsurers are an important source of financial strength for the Australian insurance industry. Total reinsurance recoverables were \$12.9bn as at June 2010, or 13 per cent of total assets¹. While there are other sources of financial strength, APRA considers reinsurance a key risk area for the general insurance industry. Reinsurer downgrades and/or failures have the potential to materially damage the capital adequacy position of a single general insurer, and in some cases the insurance industry.

Currently APRA collects limited reinsurer counterparty information from the Reinsurance Arrangement Statements (RAS) submitted to APRA by insurers. However, there is no standard RAS format, the level of detail provided from general insurer to general insurer varies widely and detailed information on reinsurance expense and recoveries by counterparty is not provided.

Following an initial consultation with the Insurance Council of Australia (ICA) and its members on 14 October 2010, this letter and its attachments set out APRA's proposed approach to undertaking a voluntary data collection of reinsurer counterparty information. This will provide APRA with a deeper understanding of current reinsurer counterparty exposures across the general insurance industry, on a consistent basis. APRA appreciates the contribution of the ICA and the general insurance industry to this initiative.

Data to be collected

The form on the link below sets out the categories of data to be collected. It is proposed that a one-off data collection is undertaken which will allow a much more detailed analysis to be conducted than is possible with the data currently provided to APRA on balance sheet reinsurance recoverables (GRF 301.0) and premium ceded (GRF 310.0). The data to be provided are:

- Reinsurance recoverables - as at 30 June 2010
- Reinsurance expense - for the period covered by the last annual return up to 30 June 2010 (e.g. for the 2009 year if the last annual return was for the period ending 31 December 2009)

What we will do with the data

APRA will analyse the data to:

- more accurately assess the capital impact for individual insurers and the insurance industry of reinsurer downgrades or failures;
- better identify any systemically important reinsurers and domiciles; and
- identify any reinsurer counterparty concentration risk of individual insurers, market segments and the insurance industry as a whole.

¹ See APRA's *Quarterly General Insurance Performance Statistics* for June 2010.

This one-off data collection will also assist APRA to consider whether a permanent change to D2A reporting to collect reinsurer counterparty information is appropriate for the future and if so, the likely format of the revised D2A forms.

Process and timing

The data are to be directed to the following email address: insurance@apra.gov.au and should be submitted by 31 March 2011. The format to submit the data is available on the following link: http://www.apra.gov.au/GI/ReportingFramework/Documents/GRF_301_1_FINAL.xls

APRA will contact insurers directly in relation to data quality matters. General queries about the data collection should be directed to Jurgen Hoffman (jurgen.hoffman@apra.gov.au) or Paul Irving (paul.irving@apra.gov.au). Note that this is not a mandatory data collection under the *Financial Sector Collection of Data Act 2001*.

Yours sincerely,



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