



**Employers Mutual**  
Since 1910

**Employers Mutual Limited**

ABN 67 000 006 486

GPO Box 4143  
Sydney NSW 2001

DX 10175  
Sydney Stock Exchange

P: 02 8251 9000  
P: 1800 469 931 (toll free)  
F: 02 8251 9495

[www.employersmutual.com.au](http://www.employersmutual.com.au)

22 February 2012

Mr Neil Grummit  
General Manager, Policy Development  
Australian Prudential Regulation Authority  
GPO Box 9836  
SYDNEY NSW 2001

Email: [InsuranceCapital@apra.gov.au](mailto:InsuranceCapital@apra.gov.au)

Dear Mr Grummit

### **Submission on proposed APRA capital standards (9 December 2011)**

We are writing in response to the draft General Insurance capital standards issued for comment in December 2011. Our comments are by exception, ie we have only commented on issues that are of concern to us. These comments are on behalf of both Employers Mutual Limited and Hotel Employers Mutual Pty Limited.

#### **1. Relationship between ICAAP and FCR**

While this issue has been raised previously and APRA have addressed it in their response document of 9 December 2011, the position remains unclear. APRA have stated:

"The ICAAP is fundamentally the responsibility of the Board; the FCR and ILVR are the responsibility of the Appointed Actuary" (page 17).

"... it may be appropriate in some circumstances for an insurer to incorporate the ICAAP report into the FCR" (page 19).

"The ICAAP report and ICAAP summary statement could be contained in a single documents" (page 19).

Further the draft capital standard – GPS 110 – includes:

A requirement that the ICAAP must "be approved by the Board initially, and when significant changes are made to the process" (clause 9).

A requirement that "The ICAAP Report must be provided to APRA within four months of the end of the financial year of the regulated institution ... (and) ... must include ..." (clause 14).

When taken together these statements do not (in our view) provide sufficient clarity the respective roles and responsibilities of the Board, management and the Appointed Actuary in relation to ICAAP, the ICAAP Report and the FCR. It appears that there is no specific requirement around who completes and approves the ICAAP Report. It is possible for the Appointed Actuary to complete the ICAAP Report and incorporate into the FCR, presumably it is also possible for management or some other suitable third party to complete the ICAAP Report. It also appears Board approval of the ICAAP Report is not necessary as the Board do not approve the FCR, this appears inconsistent with APRA's stated intention that the Board "own" the ICAAP.



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We seek further clarification of these issues in the final standards and related guidance material.

## **2. Timing of FCR (and ICAAP Report)**

APRA have stated its intention to require general insurers to submit the FCR within a period of three months after the end of an insurer's financial year (page 19 of the response document). The stated rationale for this is to align with current requirements for life insurers.

In practice we currently operate to three processes concurrently: the completion of financial statements, the external audit of the financial statements and the FCR. The respective authors of these documents have the benefit of seeing "final" versions of the remaining documents and are able to ensure any issues arising are appropriately addressed. This ensures that the Board receive a comprehensive and consistent set of documents when asked to sign off the financial statements.

Bringing forward the timing of the FCR would lead to the Appointed Actuary forming conclusions subject to any changes to the draft financial statements and audit opinions. Where changes do occur after the finalisation of the FCR, the Board would need to seek a supplementary report or advice from the Appointed Actuary on whether their opinion was materially affected by the change.

The timing of the FCR (3 months) and ICAAP Report (4 months) are different yet there is significant overlap in the issues covered and the potential for the two documents to be integrated. To expect insurers (and their Appointed Actuaries) to develop the new ICAAP Report and at the same time bring forward the completion of the FCR appears onerous. The concatenated timeframe will place substantially increased pressure on the limited resources available to complete this work. This will in our view lead to a reduction in the quality of the product.

For these reasons we recommend APRA reconsider and retain the submission date for the FCR at four months after the financial year end. In the alternative, we recommend APRA consider retain the current four month timeframe as a transitional measure to enable the ICAAP arrangements to be fully embedded before reducing the timing of the FCR.

## **3. Robust Independent Review of ICAAP**

The draft capital standard requires "A regulated institution must ensure its ICAAP is subject to robust independent review at regular intervals" (clause 13).

It is not clear what is the expected scope of such a review, who it is expected to be independent of (the Board, management, the Appointed Actuary)? And who then would be considered independent? How this aligns with the Board's ownership of the ICAAP is also not clear. Further clarity on APRA's intent for the implementation of this review would assist insurers.

## **4. Timing of Guidance Material**

It may that the APRA intends to clarify a number of the above issues and other matters surrounding ICAAP in the (draft) prudential practice guides scheduled to be issued in September 2012. In practice to be ready for the 1 January 2013 effective date insurers need to commence ICAAP development "now" and be near completion by September 2012.

We commenced preliminary work on ICAAP, starting with a full review of our Risk Appetite Statement in late 2011. It is our intention to have developed a draft ICAAP by July 2012 and to finalise that prior to the 1 January 2013 effective date. Our timetable has been structured to involve the Board and has therefore been aligned with Board meeting dates – this places some limitations on the pace



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and timing of development. Issuing guidance material as close to the effective date as proposed will not deliver guidance when it is most useful to insurers and risks disrupting insurer ICAAP development and requiring substantial reworking. This will be exacerbated because the material issued will be "draft" and therefore subject to change.

We recommend that APRA issue guidance material at least six months in advance of the effective date to allow insurers reasonable time to incorporate any changes necessary into their ICAAP.

Thank you for considering our concerns. Should you require any further detail or wish to discuss our comments please contact me.

Yours sincerely

Rod McInnes  
Chief Financial Officer

