



Ian Laughlin
Member

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To all Chief Executive Officers (or equivalent) and Appointed Actuaries of general insurers and life insurers

As you know, we have been gathering feedback from the industry on our project to review the capital requirements for life insurers and general insurers (LAGIC), following the release of our discussion paper and technical papers and the QIS. Your submissions, QIS results and informal feedback have provided much useful information.

Attached is an update on LAGIC, in light of this information. Amongst other things this spells out a revised timetable and process.

We appreciate that there has been a great deal of work in providing the information we requested, so thank you very much for your efforts to date.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Laughlin'.

Attachment: LAGIC update

To all CEOs (or equivalent) and Appointed Actuaries of general insurers and life insurers

Update on review of capital standards for general insurers and life insurers

In 2009 APRA began a project (LAGIC) to review the capital standards for both general insurers and life insurers. In May 2010 APRA released a discussion paper outlining its objectives for the review and the major proposals to update the capital standards. This was followed by the release of two technical papers in July 2010 and a further technical paper in September 2010. APRA also conducted a quantitative impact study (QIS) from August to October 2010. APRA invited submissions on the discussion paper by 12 August 2010 and on the technical papers by 29 October 2010 and 15 November 2010. Insurers were also requested to complete the QIS by end October 2010.¹

Levels of capital

Most of the submissions received in response to the discussion paper and technical papers supported APRA's policy intent for LAGIC, but expressed concerns regarding the apparent increase in the overall level of required capital.

APRA indicated in its letter of 6 August 2010 that the QIS was intended to give industry an opportunity to provide quantitative input to the capital review project. This input would be critical for APRA in assessing and refining its proposals. APRA received QIS responses from 67 general insurers (representing 88% of industry assets) and 34 life insurers and friendly societies (representing 95% of industry assets).

APRA is reviewing its proposals in light of the submissions received and the QIS results. APRA's aim is to ensure that the proposed capital standards achieve an appropriate balance between APRA's objective of increasing the risk sensitivity of the capital standards and the impact on capital requirements for industry.

The submissions and the QIS have provided much useful information. APRA wants to give full and proper consideration to this feedback, and this will take some time.

Project timetable

Many submissions suggested that a longer timeframe for the project would be beneficial. Many also said that a second QIS would be necessary to properly gauge the effects of the changes made to APRA's proposals in response to the submissions and QIS results.

¹ A supplementary QIS related to the third technical paper was also released, with a requested submission date of 15 November 2010.

At the same time APRA is mindful of the comments in a number of submissions that it was undesirable to prolong the period of uncertainty that exists whilst the proposals are being finalised.

APRA also has discussed the timetable with representatives of both the Insurance Council of Australia and the Financial Services Council. On balance, APRA considers that it is appropriate to extend the project timetable for a short period to enable proper consideration of the feedback and to adequately review its proposals. APRA intends to:

- delay the issue of our response paper to March 2011;
- conduct a second QIS after the release of the response paper; and
- release draft prudential standards after completion of the second QIS, rather than with the response paper.

The proposed revised timetable is:

March 2011	Release of APRA's response to submissions and refinements to the original proposals
May -July 2011	QIS2
October 2011	Release draft prudential standards
November 2011 -January 2012	Consultation on draft prudential standards
April 2012	Release final prudential standards
2012	APRA to develop reporting standards
1 January 2013	Effective date of new standards
1 January - 31 March 2013	First reporting period under new standards

APRA will provide details of the refinements to its proposals when it releases its response paper in March 2011.

Any queries in relation to the capital review should be directed to InsuranceCapital@apra.gov.au.