



25 January 2011

To all APRA-authorised general insurers and Level 2 insurance groups

APRA's expectations regarding post reporting date events

APRA has received a number of queries in relation to the recent Queensland floods and APRA's expectations in relation to the reporting of such events for prudential purposes.

This letter outlines APRA's expectations in relation to post reporting date events and is intended to ensure a consistent approach across the industry for future post reporting date events. Please note this advice differs to APRA's note of 27 February 2009 to incorporate the impact of changes to APRA's prudential framework which were implemented in July 2010.

It is critical that APRA is able to accurately assess an insurer's solvency position at any point in time. For this reason, APRA's reporting framework requires capital elements to be reported on a prospective basis. To this end, it is APRA's expectation that an insurer includes the impact of relevant post reporting date information on its solvency position in quarterly and annual reporting to APRA to the extent it is practical to do so. This includes reflecting relevant events in the premiums liabilities valuation as well as any material impacts to capital base that occur as a result of a post reporting date event. Such impacts to the capital base may include, for example, the need to pay reinstatement premiums for relevant reinsurance arrangements.

Therefore, the premiums liabilities valuation should be determined in accordance with Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation and should allow for relevant post reporting date information that it is practicable to incorporate at the time the valuation is finalised, even if such information arose after the reporting date. For valuations which involved the Appointed Actuary, this principle is supported by the requirements of Professional Standard PS 300 of the Institute of Actuaries of Australia.

Where a significant event occurs a few days or weeks after the reporting date it should be practicable to make some allowance for it in reporting to APRA. Conversely, if an event occurs after the relevant valuation results are finalised then any allowance (other than perhaps by way of a note to the returns or accounts) would be impracticable. The delineation of what is practicable is a matter of judgement for insurers.

APRA therefore expects that:

- The quarterly APRA returns should allow for information on events that is able to be incorporated at the time that the returns are prepared. This may include an adjustment by the insurer to any premiums liabilities methodology provided by the Appointed Actuary for use in quarterly returns.
- The annual APRA returns should also allow for information on the same events, however this calculation will include the updated or more refined information which would be available to the insurer in relation to the events.

The adjustment to premiums liabilities valuation should be reflected in the 'GPS 310 Premiums Liabilities' table in General Insurance Reporting Form GRF 210.1 (GRF 210.1). Any other adjustments should be made on reporting form GRF 110.0 for branch insurers and both GRF 110.0 and GRF 120.0 for licensed insurers. For example, adjustments to the capital base for items such as the cost of reinstatement premiums should be contained in 13.9.12 on GRF 110.0 for branch insurers and 1.4.13 of GRF 120.0 and 17.4.13 of GRF 110.0 for licensed insurers.

Since July 2010 the balance sheet and income statement for APRA purposes are prepared in accordance with accounting standards. As such, these statements should remain consistent with the accounting standards as to whether or not to take account of post reporting date events. Therefore, unless required by accounting standards, no post reporting date events need to be recorded in data items for the GRF 300.0 and GRF 310.0, nor included in the 'AASB 1023 Premiums Liabilities' table of GRF 210.1.

The approach outlined above will ensure a consistent recognition of post reporting date events across the industry in the determination of the capital base and therefore capital coverage of each insurer and the industry as a whole.

Should you have any questions on this issue, please contact your APRA responsible supervisor.

Yours sincerely,



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