

24th February 2012



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

Response to Submissions - Review of capital standards for general insurers and life insurers

Dear Sir / Madam,

In April 2011, RACT Insurance (RACTI) participated in a second quantitative impact study (QIS2) regarding the proposed capital standards for general insurers. We have subsequently reviewed APRA's response to the main issues raised by the industry in the submissions lodged and those arising from the QIS2 responses.

APRA's proposed approach for determining the insurance concentration risk charge (ICRC) for general insurers, which calculates both a vertical requirement and a horizontal requirement, produces a significantly material impact on RACTI's capital requirements.

The timing of the implementation of the ICRC needs to be considered against the backdrop of a turbulent global reinsurance market where the pricing of reinsurance as a source of capital is under pressure, as are attachment points. The requirement to consider horizontal cover in the form of an aggregate program, or alternatively 3rd and 4th loss covers resulting from this risk charge creates a large impost, in particular on industry participants who traditionally have not held this form of cover in the past.

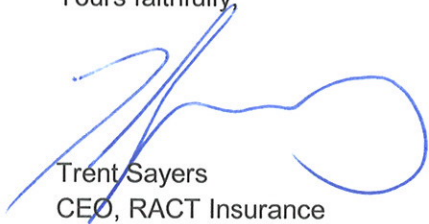
Accordingly we would propose APRA consider transitional arrangements for ICRC.

The proposed LAGIC timetable envisages that the final standards for the ICRC will be published by APRA in May 2012 (with Prudential Practice Guides expected to be released in September 2012). We believe that there are two components supporting a need to delay the application of the ICRC. First of all, given that premium changes for existing policies are made on their renewal, it will take a significant period of time for premium changes to be fully applied and premium earned. Secondly, those changes can only be made after there is complete clarity for the industry in relation to the application and effect of the standards.

For example, for insurers with a 30 June reinsurance treaty year, May 2012 coincides with the period during which those insurers will be finalising their reinsurance coverage for the year to 30 June 2013. As a result, those insurers, including RACTI, will be unable to determine with certainty the most effective reinsurance structure for their business.

We suggest that the implementation date for the ICRC standard be delayed until a reinsurance renewal date for each insurer occurring on or following 1 January 2014. This will provide the industry with sufficient time to obtain complete clarity around the standards, to ensure that appropriate reinsurance programmes can be put in place, and so that the industry has adequate time to reprice their portfolios.

Yours faithfully,

A handwritten signature in blue ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Trent Sayers.

Trent Sayers
CEO, RACT Insurance