

31 March 2014

To: All general insurers

Reporting on the number of risks written

Under the revised general insurance reporting frameworks effective from 1 January 2013, insurers are required to report the number of risks written for direct business on *Reporting Form GRF 310.1 Premium revenue and reinsurance expense* (GRF 310.1).

Industry feedback and APRA's analysis of data submitted by insurers has identified that some insurers are not reporting the number of risks written consistent with the intent of collection of this data and with the reporting instructions. Inconsistent reporting of the number of risks written will ultimately impact on the usefulness of the data for analysis and decision-making.

The number of risks written is collected primarily to understand the underlying exposure of insurers. It also provides context to changes in gross written premium. This data item is used in conjunction with other data items, particularly premium, for time series analysis. Therefore, the number of risks written should be linked to premium and should be reported on a basis that is consistent over time. It should reflect the underlying risk exposure that was written by the insurer, such that it is a defined exposure for a particular time with a premium to cover that risk. As with premium data, the number of risks written should be reported on a cumulative year to date basis, and not as 'risks in force' at the end of the quarter

Insurers should consider these principles and purposes when determining how best to report or estimate the number of risks written. Previous examples of this consideration have included:

- For the master policy, the number of risks written should include a risk for each underlying risk exposure covered under the policy, not the single master policy.
- The number of risks written should be reported on the same basis as the gross written premium, which includes unclosed business.¹ Similarly, the number of risks written should include estimates of risks relating to unclosed business.
- For regularly renewed policies, the measure of the number of risks written should be linked to the premium and defined exposure covered by that premium. For example, if a mobile phone policy is renewed each month and premium is also received on a monthly basis, then one risk should be recognised for each renewed policy each month.

¹ The gross written premium of unclosed business is the premium that has been accepted by the reporting insurer/reinsurer prior to the balance date but with insufficient information to fully identify the business.

APRA notes that, given the different natures of business and systems of insurers, it may be difficult for some types of business for insurers to provide an exact number of risks written, such as for unclosed business. In this case, insurers may use an estimation approach to report the number of risks written for the unclosed business, provided that the number of risks written is meaningful and can be used for analysis and decision making. This approach should consider the historical experience of the insurer as well as the nature of the business. Furthermore, APRA expects that the use of the estimation approach would be documented by a general insurer and such documentation be available to APRA on request.

Where insurers have not been accurately reporting or have been misinterpreting the number of risks written, insurers are expected to undertake analysis to determine the extent of misstatement. Insurers should then contact APRA Statistics by **22 April 2014** to confirm and discuss the potential scope, and timing, of the resubmission of previous returns.

If you have any questions in relation to this matter, please contact Statistics through statistics.insurance@apra.gov.au.

Yours sincerely

Barton Ashcroft
Senior Manager- Data Collections