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APRA Member

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Dear

### **Consultation on Proposed Reporting Requirements for Medical Defence Organisations**

The purpose of this letter is to inform you of the legislative requirement for APRA to determine reporting standards for Medical Defence Organisations (MDOs) and to commence the consultation process in relation to those reporting standards.

The *Financial Sector (Collection of Data) Act 2001* ('the FSCOD Act') was amended by Parliament with effect from 1 July 2003 to give APRA the power to determine Reporting Standards for MDOs. This amendment was made as part of the package of reforms introduced by the Government to address the regulation of medical indemnity cover.

The Government requires APRA to keep it fully informed on the financial standing of the medical indemnity industry. Provision of the proposed information by MDOs will allow APRA to do this. Further, APRA regulates, via the *Insurance Act 1973*, the medical indemnity insurers (MIIs) that are subsidiaries of MDOs and the collection of data from MDOs will assist APRA with its prudential supervision of MIIs. The additional information that is proposed to be collected from MDOs will allow APRA to develop a greater understanding of the position of the overall group to which a MII belongs, and of the overall medical indemnity industry.

APRA is still finalising the detailed reporting requirements that we propose to implement for MDOs. We expect to provide them to you for review in early June and will need to receive your comments on the proposed reporting requirements **by no later than 18 June 2004**. This letter provides a broad outline of the information that APRA will be seeking in the reporting standards.

#### **Proposed reporting requirements**

APRA proposes to create reporting standards for MDOs which are based on the current prudential reporting requirements for general insurers, amended as appropriate to reflect the operations of MDOs. The proposed forms will collect information concerning the Statement of Financial Position, Statement of Financial Performance, Capital Levels, Investments, Derivatives, Outstanding Claims Provisions and Claims Development for each MDO.

APRA is therefore proposing to make 21 reporting standards as follows:

- MRS 110.0 Minimum Capital Requirement
- MRS 120.0 Determination of Capital Base
- MRS 130.0 Off Balance Sheet Business – Credit Substitutes Provided and Risk Charge
- MRS 130.1 Off Balance Sheet Business – Liquidity Support Facilities Obtained
- MRS 130.2 Off Balance Sheet Business – Charges Granted and Risk Charge
- MRS 130.3 Off Balance Sheet Business – Credit Support Received
- MRS 140.0 Investments – Direct Interest Rate Holdings and Risk Charge
- MRS 140.1 Investments – Direct Equity Holdings and Risk Charge
- MRS 140.2 Investments – Direct Property Holdings and Risk Charge
- MRS 140.3 Investments – Loans and Advances and Risk Charge
- MRS 140.4 Investments – Assets Indirectly Held by Entity
- MRS 150.0 Asset Concentration Charge
- MRS 160. Derivative Activity and Risk Charge
- MRS 170.0 Maximum Event Retention and Risk Charge
- MRS 201.0 Outstanding Claims Provision Insurance Risk Charge
- MRS 300.0 Statement of Financial Position
- MRS 310.0 Statement of Financial Performance
- MRS 310.1 Premium Revenue and Reinsurance Expenses
- MRS 310.2 Claims Expense and Reinsurance Recoveries
- MRS 310.3 Investment and Operating Income and Expenses
- MRS 440 Claims Development Tables

### **Basis on which Information Must be Calculated**

The reporting standards will specify the basis upon which the data contained in the forms must be calculated. Specifically, assets will be required to be valued on a net market value basis and liabilities will be required to be valued in accordance with the principles stated in the Instructions “Calculation of MDO Liabilities”, a copy of which is attached.

### **Reporting Frequency and Time frames**

The proposed reporting standards will require MDOs to provide the required information to APRA on a half yearly basis.

It is expected that the new reporting requirements will commence for the period ending on 30 June 2004. The initial lodgement date will be most likely be 30 October 2004 to allow time for MDOs to implement the new reporting requirements.

After the initial lodgement, MDOs will then be required to submit the required information within twenty (20) business days of the end of the relevant half year reporting period for the 31st December and the full year at the 30<sup>th</sup> June.

Copies of the forms will be provided as soon as possible and electronic copies of the forms and instructions in their entirety will also be made available on the APRA website at (<http://www.apra.gov.au/General/Medical-Indemnity-Insurance.cfm...>).

## **Obligations of the actuary**

The reporting standards will require that the liability valuations for outstanding claims are to be calculated in accordance with the Instructions "Calculation of MDO Liabilities." This liability valuation should be carried out by an actuary (where this actuary must be a member or fellow of the Institute of Actuaries of Australia) and a liability valuation report must be prepared and submitted to APRA. Consistent with GPS 210 *Liability Valuation for General Insurers*, MDO liability valuations will be required to be calculated based on a central estimate plus risk margin that is determined so as to ensure that the value of liabilities reflects a 75 percent level of sufficiency.

It should be noted that as from 1<sup>st</sup> July 2003 all medical indemnity insurance was required to be issued as contracts of insurance by general insurers authorised under the *Insurance Act 1973*. Thus, all discretionary policies previously issued by MDOs should have now expired and no new policies should have been issued by MDOs. This means MDOs should only have outstanding claims liabilities (including provisions for incurred but not reported claims) and there should be no requirement to determine a liability valuation for premiums

## **Audit Requirements**

The reporting standards will require that the annual accounts of the MDO be audited by the MDO's auditor (where this auditor must be registered as an auditor under the *Corporations Act 2001*) and that the information in the half yearly accounts, and the systems supporting their preparation, is tested by the auditor.

The auditor must therefore provide a certificate to the MDO specifying whether, in the auditor's opinion, the statistical and financial data provided by the MDO to APRA in its accounts are reliable. The MDO must submit this certification to APRA on an annual basis.

Where the auditor is unable to satisfy these requirements (for example, if there are accounting records that have not been appropriately kept, transactions that appear irregular or that have not been accurately or properly recorded, requests for information and explanation that have not been met, or aspects to the accounts that do not truly represent the transactions and financial position), the certificate should contain details of these matters.

## **Consultation period**

APRA would welcome any comments in relation to the proposed reporting requirements as soon as possible and by COB Friday 18 June 2004 at the latest. Given the requirements for auditors and actuaries under the proposed standards we would recommend that you seek the views of your auditor and actuary on these proposals.

Comments should be made in writing and addressed to:

Helen Martin  
General Manager – Technical Advice and Support  
Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001

Or fax: 02 9210 3322

We would be happy to meet with you to discuss the proposed reporting requirements should you wish. Should you wish to arrange a meeting or have any other queries please contact Nigel Boik (02 9210 3388) or at email address [nigel.boik@apra.gov.au](mailto:nigel.boik@apra.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Boik', with a long horizontal flourish extending to the right.