



Discussion Paper

Reinsurance counterparty data collection for general insurers


28 June 2013

Disclaimer and copyright

While APRA endeavours to ensure the quality of this publication, it does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0).

 This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit www.creativecommons.org/licenses/by/3.0/au/.

Preamble

The exposure of the general insurance industry to reinsurers is a material source of counterparty risk. That risk may be heightened after domestic or global catastrophes. While APRA receives some information on the reinsurance counterparties of individual insurers, such information is not included in APRA's suite of reporting standards.

APRA undertook a one-off data collection during 2010/11 to assess the degree of industry exposure to particular reinsurers. This data collection provided APRA with valuable information on the industry position and concentrations of exposures.

In June 2012, as part of the life and general insurance capital (LAGIC) review, APRA consulted with the general insurance industry on proposals to collect reinsurance counterparty data on a regular basis. This data collection would enable APRA to assess the impact of a reinsurer downgrade or failure on the prescribed capital amount, capital base and hence capital coverage, for individual insurers and the general insurance industry.

Submissions on the June 2012 consultation package indicated overall support for APRA's goal of enhancing its collection of reinsurance counterparty data. Respondents raised concerns regarding the detail and implementation of the collection.

APRA has undertaken informal discussions with individual insurers and the Insurance Council of Australia to further consider, and address where appropriate, issues raised with the June 2012 proposals. This paper sets out the revised proposals for, and seeks feedback on, the collection of reinsurance counterparty data.

Next steps

Written submissions should be sent to insurance.policy@apra.gov.au by 14 August 2013 and addressed to:

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

Important disclosure notice – publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.

Contents

Glossary	5
Executive Summary	6
Chapter 1 – Introduction	8
Chapter 2 – Reinsurance counterparty data collection	9
2.1 Reinsurer downgrade	9
2.2 Reinsurer failure	10
2.3 Matters relating to submission of Draft GRF 460.0 and Draft GRF 460.1	11
2.4 Reinsurance Arrangements Statement	12
2.5 Level 2 insurance groups	12
2.6 Data confidentiality	13
Chapter 3 – Cost-benefit analysis information	14
Attachment 1 – Examples of ‘non-traditional’ arrangements and reporting on Draft GRF 460.0	15

Glossary

APRA	Australian Prudential Regulation Authority
Asset Risk Charge	The Asset Risk Charge as defined in <i>Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge</i> .
Capital base	The capital that is eligible under the relevant prudential standards for meeting the Prudential Capital Requirement.
Deferred reinsurance expense (DRE)	The deferral of reinsurance expense in accordance with the pattern of reinsurance service received.
Draft GRF 460.0	<i>Draft Reporting Form GRF 460.0 Reinsurance Assets by Counterparty</i>
Draft GRF 460.1	<i>Draft Reporting Form GRF 460.1 Exposure analysis by Reinsurance Counterparty</i>
GRF 300.0	<i>Reporting Form GRF 300.0 Statement of Financial Position</i>
GPS 114	<i>Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge</i>
GPS 230	<i>Prudential Standard GPS 230 Reinsurance Management</i>
GPS 310	<i>Prudential Standard GPS 310 Audit and Related Matters</i>
Insurance Concentration Risk Charge (ICRC)	The Insurance Concentration Risk Charge as defined in <i>Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge</i> .
Insurance Risk Charge	The Insurance Risk Charge as defined in <i>Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge</i> .
Insurer	A general insurer authorised under the <i>Insurance Act 1973</i> .
Level 2 insurance group	A consolidated general insurance group headed by either an APRA- authorised Level 1 insurer or an APRA- authorised NOHC and including all general insurance controlled entities.
Prudential Capital Requirement (PCR)	The required level of capital for regulatory purposes. It is determined as the prescribed capital amount plus any Pillar 2 supervisory adjustment.
Prescribed capital amount	Prescribed capital amount determined in accordance with the quantitative rules as set out in the prudential standards, including any Pillar 1 supervisory adjustment, but before any Pillar 2 supervisory adjustment is applied.
Reinsurance Arrangements Statement (RAS)	The Reinsurance Arrangements Statement as defined in <i>Prudential Standard GPS 230 Reinsurance Management</i> .
Supervisory adjustment	An adjustment that APRA may require to the Prudential Capital Requirement of an insurer or Level 2 insurance group. A Pillar 1 supervisory adjustment forms part of the prescribed capital amount. A Pillar 2 supervisory adjustment is separate from the prescribed capital amount.

Executive Summary

The exposure of the general insurance industry to reinsurers is a material source of counterparty risk. That risk may be heightened after domestic or global catastrophes. While APRA receives some information on the reinsurance counterparties of individual insurers, such information is not included in APRA's suite of reporting standards.

In June 2012, as part of the life and general insurance capital (LAGIC) review, APRA consulted with the general insurance industry on proposals to collect reinsurance counterparty data on a regular basis. This data collection would enable APRA to assess the impact of a reinsurer downgrade or failure on the prescribed capital amount, capital base and hence capital coverage, for individual insurers and the general insurance industry.

Submissions on the June 2012 consultation package indicated overall support for APRA's goal of enhancing its collection of reinsurance counterparty data. Respondents raised concerns regarding the detail and implementation of the collection.

APRA has undertaken informal discussions with individual insurers and the Insurance Council of Australia to further consider, and address where appropriate, issues raised with the June 2012 proposals. This paper sets out the revised proposals for, and seeks feedback on, the collection of reinsurance counterparty data.

Proposed forms

APRA proposes to collect data on two forms; one to address reinsurer downgrade and one to address reinsurer failure.

Reinsurer downgrade

APRA proposes to introduce a form, *GRF 460.0 Reinsurance Assets by Counterparty* (Draft GRF 460.0), that reports data that would enable APRA to determine the impact on the prescribed capital amount, and hence capital coverage, due to the downgrade of a reinsurer.

APRA proposes to set a threshold for the reporting on Draft GRF 460.0 and a balancing item is proposed to be included in the form to capture unreported

individual balances. Only reinsurance recoverables that are reported on *GRF 300.0 Statement of Financial Position* (GRF 300.0) would be reported on Draft GRF 460.0. Attachment 1 of this paper sets out examples of how APRA envisages these would be reported on Draft GRF 460.0.

Reinsurer failure

APRA proposes to introduce a form, *GRF 460.1 Exposure Analysis by Reinsurance Counterparty* (Draft GRF 460.1), that reports exposure amounts of the insurer from the failure of a significant reinsurer. This would include the impact on the capital base and all components of the prescribed capital amount. This form provides APRA with a comprehensive insight into an insurer's reinsurance concentrations.

The analysis would assume that the reinsurer will not meet its outstanding claims or potential future claims and no longer participates in any current reinsurance programs. The analysis would assume that no recovery from the reinsurer will be made.

APRA proposes that an insurer may make simplifying assumptions where these assumptions do not materially alter the outcome.

Timing of submission and other matters

APRA proposes that Draft GRF 460.0 and Draft GRF 460.1 be completed by insurers and Level 2 insurance groups on an annual basis, linked to the financial year of the insurer or Level 2 insurance group. For Draft GRF 460.1 the analysis would be forward-looking and would consider the reinsurance program for the next six to 12 months (or longer), rather than the program that applied at the end of the financial year.

APRA proposes that Draft GRF 460.0 and Draft GRF 460.1 not be subject to regular audit or review by the Appointed Auditor, however, the Appointed Auditor may be requested by APRA to review the insurer's systems and controls.

Reinsurance Arrangements Statement

APRA is currently considering options for a standard format for the Reinsurance Arrangements Statement (RAS) as well as a Prudential Practice Guide on the RAS. APRA will consult with industry on this at a later date. As a first step to this review, APRA proposes to alter the RAS requirements in *Prudential Standard GPS 230 Reinsurance Management* (GPS 230) by requiring the reporting of reinsurance programs by individual reinsurer, including any group to which the reinsurer belongs.

Data confidentiality

APRA proposes to collect reinsurance counterparty data under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act). These data will be protected under section 56 of the *Australian Prudential Regulation Authority Act 1998* (APRA Act). After the reinsurance counterparty reporting requirements are finalised, APRA will consider the data that it determines to be non-confidential and therefore makes publicly accessible, and the data that it will publish in its statistical publications. APRA will provide general insurers with the opportunity to make representations about the data to be determined non-confidential and the data to be published.

Next steps

Written submissions should be sent to insurance.policy@apra.gov.au by 14 August 2013 and addressed to:

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

Chapter 1 – Introduction

The exposure of the general insurance industry to reinsurers is a material source of counterparty risk. That risk may be heightened after domestic or global catastrophes. While APRA receives some information on the reinsurance counterparties of individual insurers, such information is not included in APRA's suite of reporting standards. Therefore, APRA is not readily able to assess concentrations of exposures to particular reinsurers or estimate the impact on the capital adequacy of individual insurers or the industry of a downgrade or failure of a reinsurer.

APRA undertook a one-off data collection during 2010/11 to assess the degree of industry exposure to particular reinsurers. This collection included on-balance sheet reinsurance counterparty exposures and also reinsurance expense as a proxy for exposure limits of current reinsurance treaty protections. This data collection provided APRA with valuable information on the industry position and concentrations of exposures to individual reinsurers and international reinsurance groups.

APRA's analysis of reinsurer exposures would be significantly enhanced by collecting individual reinsurance counterparty data on a regular basis. This collection would be similar to the 2010/11 collection. The collection would be modified, however, such that the impact of a reinsurer downgrade or failure on the insurer's prescribed capital amount, capital base and hence capital coverage, can be explicitly calculated from the data.

In June 2012, as part of the LAGIC review, APRA consulted with the general insurance industry on proposals to collect reinsurance counterparty data on a regular basis. The proposed data collection comprised three components:

- a breakdown of on-balance sheet exposures by reinsurer (similar to the one-off data collection in 2010/11), to ascertain the impact of a reinsurer downgrade;
- a breakdown by reinsurer of potential reinsurance recoverables included in the calculation of the Insurance Concentration Risk Charge (ICRC), to ascertain the impact of reinsurer failure; and

- a summary of the current reinsurance program, which may replace some or all of the requirements for the Reinsurance Arrangements Statement in its current form.

Draft forms for the first two components were included in the reporting consultation package and APRA invited comments on the proposal for a summary of the reinsurance program to be included in the data collection.

Submissions on the June 2012 consultation package indicated overall support for APRA's goal of enhancing its collection of reinsurance counterparty data. Respondents raised concerns regarding the detail and implementation of the collection, including that:

- reporting every on-balance sheet exposure by reinsurer could result in the submission of a large amount of data; respondents suggested that a threshold be applied for the purposes of reporting. Submissions also requested clarification of the reporting requirements for non-traditional reinsurance recoveries;
- the breakdown of potential reinsurance recoverables included in the ICRC calculation may not be able to be aggregated across the industry in a meaningful way as the largest component of the ICRC may not be the same for each insurer; and
- the reinsurance program may be difficult to capture in a standard format due to the complexity and non-standard structure of some elements of reinsurance programs.

In October 2012, APRA noted in its response paper on the life and general insurance capital review that it remains committed to collecting the reinsurance counterparty data, including possible changes to the RAS requirements. APRA indicated that further discussion with industry on the implementation of the proposals was necessary. APRA has undertaken informal discussions with individual insurers and the Insurance Council of Australia to further consider, and address where appropriate, issues raised on the June 2012 proposals. This paper sets out the revised proposals for, and seeks feedback on, the collection of reinsurance counterparty data.

Chapter 2 – Reinsurance counterparty data collection

This chapter sets out the proposed reinsurance counterparty data collection and details of the two proposed forms; one to address reinsurer downgrade and one to address reinsurer failure. It also addresses proposals in relation to the RAS and the application of the proposed requirements to Level 2 insurance groups.

This chapter includes details of the proposed data collection consulted on in June 2012 and the changes made to those proposals as a result of the informal feedback received to date. APRA requests submissions on the content of the revised proposals set out in this chapter.

2.1 Reinsurer downgrade

In June 2012, APRA proposed to introduce a form that provided a breakdown of on-balance sheet exposures by reinsurer. This data would enable APRA to determine the impact on the prescribed capital amount, and hence capital coverage, due to the downgrade of a reinsurer.

Respondents supported collecting this information via a standardised form. Some concerns were raised about the proposed level of detail in the form. This section sets out the revised proposals and Draft GRF 460.0 accompanies this discussion paper.

2.1.1. Split of reinsurance recoverables and the inclusion of deferred reinsurance expense

In order to calculate the impact on the prescribed capital amount from a reinsurer downgrade the data collected needs to align to the methodology for the calculation of the Asset Risk Charge under *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114). The Asset Risk Charge includes the default stress applied, by counterparty grade, to the central estimate of reinsurance recoverables as well as deferred reinsurance expense (as a proxy for expected reinsurance recoveries on premiums liabilities). The default stress factors vary for amounts that are overdue for more than six months on paid claims and amounts outstanding from non-APRA-authorised reinsurers, including after the second balance date after the event giving rise to the recoverable has occurred ('second balance date recoverables').

APRA proposes that the data collected on Draft GRF 460.0 provides details of the central estimate for reinsurance recoverables by individual reinsurer, as well as identifying amounts overdue and second balance date recoverables. This expands on the aggregate information by counterparty grade currently provided for the purposes of the Asset Risk Charge.

2.1.2 Reporting threshold

In June 2012, APRA proposed that all reinsurance recoverables be included when reporting on-balance sheet amounts.

Submissions received indicated that reporting on-balance sheet exposures by individual reinsurer may include a large number of very small balances. Respondents suggested APRA apply a threshold for the purposes of reporting on Draft GRF 460.0.

APRA considers that collecting information on small balances with individual reinsurers will not significantly assist in assessing the impact of a downgrade of a reinsurer on an insurer's prescribed capital amount. Therefore, APRA proposes to set a threshold for the reporting on Draft GRF 460.0. A balancing item is proposed to be included in the form to capture unreported individual balances. APRA is considering a percentage between one and five per cent of central estimate of reinsurance recoverables. APRA seeks feedback from industry, with supporting rationale, on the appropriate level of this threshold.

2.1.3 'Non-traditional' arrangements

Industry submissions on the June 2012 reporting forms requested clarification of reporting requirements for 'non-traditional' reinsurance recoverables and alternative risk transfer arrangements. APRA notes that some insurers may have reinsurance arrangements that are supported by collateral, guarantees or letters of credit, either in relation to second balance date recoverables or for other risk mitigation purposes.

APRA proposes that only recoverables that are specifically included on GRF 300.0 as reinsurance assets be reported on Draft GRF 460.0. Attachment 1 of this paper sets out examples of how APRA envisages these would be reported on Draft GRF 460.0.

2.2 Reinsurer failure

In June 2012, APRA proposed to introduce a reporting form that would enable APRA to better understand and estimate the potential impact of a failure of a reinsurer on the capital coverage of an insurer and the general insurance industry. The proposed form included a breakdown of potential reinsurance recoverables in the ICRC.

Respondents noted that data from this form may not be able to be aggregated across the industry in a meaningful way, because the magnitude of the data in the form would depend on the relevant component of the ICRC (such as the natural perils horizontal requirement or other accumulations vertical requirement). APRA also notes that whilst the impact on the ICRC is likely to be the most significant, there are other potential impacts on capital from the failure of a reinsurer.

APRA proposes to introduce a form, Draft GRF 460.1, that reports exposure amounts of the insurer from the failure of a significant reinsurer. This would include the impact on the capital base and all components of the prescribed capital amount. This form is more wide-ranging than the reporting form released in June 2012 in order to provide APRA with a comprehensive insight into an insurer's reinsurance concentrations.

APRA expects that insurers are already considering this type of scenario as part of the stress-testing requirements under the Internal Capital Adequacy Assessment Process (ICAAP) and, as such, the information should be readily available to the insurer and APRA.

Further details of the components of Draft GRF 460.1 are outlined below and the draft form accompanies this discussion paper.

APRA proposes that a row of Draft GRF 460.1 be completed for each reinsurer that, upon failure, would have a material impact on the insurer's capital coverage (capital base divided by prescribed capital amount). This means that an insurer would need to consider both:

- impacts on capital base such as an increase in insurance liabilities due to on-balance sheet reinsurance recoverables no longer being recoverable; and
- impacts on the prescribed capital amount, such as the ICRC and Insurance Risk Charge, and, where material, the asset, asset concentration and operational risk charges and resulting aggregation benefit.

The analysis would assume that the reinsurer will not meet its outstanding claims or potential future claims, such as on-balance sheet obligations and expected reinsurance recoveries on premiums liabilities. It is also assumed that the reinsurer is no longer participating in any current reinsurance programs. The analysis would assume that no recovery from the reinsurer will be made. APRA notes that this is the worst case scenario with respect to recoveries from a failed reinsurer. This approach provides APRA with a consistent basis for analysis and avoids the need for insurers to assume a percentage recoverable from the reinsurer.

APRA proposes that Draft GRF 460.1 be completed on an annual basis. This ensures that insurers consider the impact of reinsurer failure on an appropriately regular basis and that the data available to APRA is reasonably current. In addition, reinsurance programs tend to vary each treaty year. Even if there is not a material change in the reinsurance program, the interaction of the components of the prescribed capital amount and capital base means the analysis may also result in different reinsurers being reported in this form from year to year.

Draft GRF 460.1 sets out the data elements that would be collected for this exposure analysis. This is relatively high-level analysis information on the impact on each component of the prescribed capital amount and the capital base. This analysis would be needed for components where the impact is significant. APRA proposes that an insurer be required to document assumptions and underlying calculations and, upon request from APRA, provide these to APRA as supplementary information.

APRA also proposes that an insurer may make simplifying assumptions where these assumptions do not materially alter the outcome. For example, an insurer could apply an average Outstanding Claims Factor to recoverables reported on Draft GRF 460.0 to determine the impact on the Insurance Risk Charge. Another example could be the assumption that the reduction in the Asset Risk Charge is the same percentage as the calculation prior to the reinsurer failure, rather than re-applying the correlation matrix in GPS 114.

2.3 Matters relating to submission of Draft GRF 460.0 and Draft GRF 460.1

2.3.1 Reinsurer identifier

During the 2010/11 data collection, APRA identified a number of areas of inconsistency in reported reinsurer information, such as the use of colloquial names versus legal names, the identification of branch operations, use of abbreviations and differences in punctuation. APRA was therefore not able to easily aggregate information provided by insurers due to the way in which the names of reinsurers were reported. As a result, in June 2012, APRA noted that a column would be introduced to specify an identifier for that reinsurer.

APRA proposes that the unique identifier for APRA-authorized reinsurers be the reinsurer's Australian Company Number. For a large selection of non-APRA-authorized reinsurers, the unique identifier would constitute the first three letters of its legal name and a unique four digit number. These 'APRA identifiers'

would be made available in a list on APRA's website.

APRA acknowledges there will be a selection of reinsurance counterparties that will not be on this list. For these reinsurers, there would be a methodology for reporting the identifier for those counterparties. APRA welcomes feedback on this method for assigning unique identifiers. To assist with ensuring the unique identifier list is as complete as possible, APRA requests insurers provide, with their submission on this paper, a list of their material reinsurance counterparties for their on-balance sheet reinsurance recoverables as well as the current reinsurance program.

2.3.2 Timing of submission and audit requirements

APRA proposes that Draft GRF 460.0 and Draft GRF 460.1 be completed by insurers on an annual basis, linked to the financial year of the insurer. For Draft GRF 460.1 the analysis would be forward-looking and would consider the reinsurance program for the next six to 12 months (or longer), rather than the program that applied at the end of the financial year.

APRA proposes that the forms be submitted at the same time as other annual returns currently submitted to APRA (i.e., *Reporting Form GRF 410.0 Movement in Outstanding Claims Liabilities* and *Reporting Form GRF 440.0 Claims Development Table*). For reporting periods ending up until 31 December 2014, this is four months after the end of the financial year. For periods ending on or after 1 January 2015, this is three months after the end of the financial year.

APRA proposes that Draft GRF 460.0 and Draft GRF 460.1 not be subject to regular audit or review by the Appointed Auditor. APRA proposes, however, that it may use paragraph 17 of *Prudential Standard GPS 310 Audit and Related Matters* such that the Appointed Auditor be requested by APRA to undertake a special purpose review of the insurer's systems and controls surrounding the completion of the forms or the data contained within them.

2.4 Reinsurance Arrangements Statement

In June 2012, APRA proposed to collect an electronic summary of the current reinsurance program, and in conjunction with this, consider whether this would replace some or all of the requirements for the RAS under GPS 230. This summary of the reinsurance program would be split by individual reinsurer and would enable consistent review of the arrangements and facilitate monitoring of treaty protections provided by reinsurers and groups.

Respondents signified a difficulty in completing some elements of their reinsurance programs in a standard format due to the complexities of the programs in place.

APRA accepts that there are other mechanisms by which the RAS, and analysis of the data within the RAS, can be made consistent. APRA is currently considering options for a standard format for the RAS as well as a Prudential Practice Guide on the RAS. APRA will consult with industry on this at a later date.

As a first step to this review, APRA proposes to alter the RAS requirements in GPS 230 by requiring the reporting of reinsurance programs by individual reinsurer, including any reinsurance group to which the reinsurer belongs. This would enable APRA to understand exposures and concentrations to individual reinsurers and reinsurance groups. APRA therefore proposes to add a new sub-paragraph to paragraph 30 of GPS 230 requiring the RAS to include 'details of each individual reinsurer and, where applicable, the reinsurance group, that participates in each layer of the regulated institution's reinsurance program'.

2.5 Level 2 insurance groups

APRA proposes that the data collection be completed by both insurers and Level 2 insurance groups. The collection of this information at both levels is required to gain a complete picture of how a reinsurer downgrade or failure would impact across a group.

Collection for insurers on a stand-alone basis would ensure that APRA has a full understanding of the exposures of the individual insurer. APRA's prudential framework for Level 2 insurance groups is focused on contagion risk: the risk that adverse developments in activities conducted by other group members could affect the health of the APRA-regulated insurer (or insurers) in the group. Collecting reinsurance counterparty data for the group, as one economic entity, would enable APRA to enhance its understanding of the reinsurance exposures of the group, including concentrations to individual reinsurers that may not be apparent from reviewing the information from individual APRA-regulated insurers within the group. For example, this information would enable APRA to understand which parts of a Level 2 insurance group are most significantly impacted by the downgrade or failure of individual reinsurers or groups and adjust its supervisory actions as a result.

Drafts of *Reporting Form GRF 460.0_G Reinsurance Assets by Counterparty (Level 2 Insurance Group)* and *Reporting Form GRF 460.1_G Exposure Analysis by Reinsurance Counterparty (Level 2 Insurance Group)* accompany this discussion paper.

2.6 Data confidentiality

APRA collects a broad range of financial and risk information from general insurers that are an essential input to its supervision of these insurers. APRA recognises the public value of these data and seeks to make as much of these data publicly available as possible. APRA also seeks to publish as many statistics as are useful. By publishing statistics, APRA intends to promote understanding and assist research and public discussion on policy issues, and well-informed decision making by policy-makers, other regulators, market analysts, researchers and senior management of general insurers. By publishing institution-level statistics, APRA intends to promote the transparency and accountability of the general insurers that it regulates.

As a result of the introduction of the reinsurance counterparty reporting requirements, APRA needs to consider the data that it determines to be non-confidential and therefore makes publicly accessible. APRA also needs to consider the reinsurance counterparty data that it will publish in its statistical publications to meet stakeholders' needs.

Section 57 of the APRA Act provides that APRA may, by legislative instrument, determine whether data submitted to it by general insurers under the FSCOD Act contains confidential information. APRA must not make such a determination unless it has:

- given all relevant general insurers a reasonable opportunity to make representations as to whether the information of the kind that is proposed to be released is confidential; and
- taken any representations into account.

APRA intends to issue a discussion paper after the reinsurance counterparty reporting requirements are finalised, which will propose to make certain reinsurance counterparty data submitted by general insurers to be non-confidential. This discussion paper will provide general insurers with the opportunity to make representations regarding the proposal. The discussion paper will also contain proposals to update APRA's general insurance statistical publications to include data collected under the new reinsurance counterparty reporting requirements to meet stakeholders' needs.

In February 2013, APRA undertook a similar consultation that proposed to determine all data submitted by general insurers under APRA reporting standards¹ to be non-confidential and therefore publicly accessible.² The February discussion paper did not include the proposed reinsurance counterparty data collection. APRA is currently considering the representations made by general insurers and will decide which general insurance data submitted to APRA, excluding reinsurance counterparty data, is to be determined non-confidential in the third quarter of 2013.

In the absence of a determination that data collected under the reinsurance counterparty reporting requirements are not confidential, APRA will apply a set of confidentiality protection measures to the data. The protection measures ensure that information relating to an individual institution cannot be identified.

¹ As determined under the FSCOD Act

² See the discussion paper (available at <http://www.apra.gov.au/GI/Publications/Pages/Confidentiality-of-GI-data-statistics-publications.aspx>) for further details.

Chapter 3 – Cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary assessment to establish whether it is likely that there will be business compliance costs. In order to perform a comprehensive cost-benefit analysis, APRA welcomes information from interested parties on the financial impact of the changes proposed and any other substantive costs associated with the proposed reporting requirements. These costs could include the impact on balance sheets, profit and loss, and capital.

As part of the consultation process, APRA also requests respondents to provide an assessment of the compliance impact of the proposed changes. Given that APRA's proposed requirements may impose some compliance and implementation costs, respondents may also indicate whether there are any other requirements that should be improved or removed to reduce compliance costs. In doing so, please explain what they are and why they need to be improved or removed.

Respondents are requested to use the Business Cost Calculator (BCC) to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment. APRA would appreciate being provided with the input to the BCC as well as the final result. The BCC can be accessed at www.finance.gov.au/obpr/bcc/index.html.

Attachment 1 – Examples of ‘non-traditional’ arrangements and reporting on Draft GRF 460.0

The following four scenarios are examples of how certain reinsurance arrangements, including those that are supported by collateral or guarantee arrangements, would be reported in Draft GRF 460.0.

1. The insurer has reinsurance recoverables of \$1,220 (central estimate \$1,000) due from ABC Reinsurance. ABC Reinsurance is a non-APRA-authorised reinsurer, domiciled in Singapore and is APRA Counterparty Grade 3. ABC Reinsurance is part of AAA Group, domiciled in Switzerland. The insurer also has deferred reinsurance expense of \$150 to ABC Reinsurance. A small portion (central estimate \$100) of the reinsurance recoverables relate to an event that occurred more than two annual balance dates ago. The insurer has sought collateral to reduce the Asset Risk Charge for these reinsurance recoverables. The collateral covers the full amount of the recoverable and is provided by a bank domiciled in Australia and is APRA Counterparty Grade 2.
2. The insurer has reinsurance recoverables of \$1,064 (central estimate \$964) due from BCD Re, which is not part of a group. The insurer has no deferred reinsurance expense exposure to BCD Re. The reinsurer is located in Bermuda and is APRA Counterparty Grade 3. BCD Re has arranged for the reinsurance arrangement to be backed by collateral lodged in a foreign country. The reinsurance contract states that the payments to the insurer will be made in Australia via a branch of the foreign bank that holds the collateral in the foreign country.
3. The insurer has reinsurance recoverables of \$5,300 (central estimate \$4,800) due from Inter Re which is a non-APRA-authorised reinsurer, domiciled in Germany and APRA Counterparty Grade 4. There is no deferred reinsurance expense exposure. Inter Re is part of INT Group, which is also domiciled in Germany. The reinsurance recoverables are backed by a guarantee from a third party with an APRA Counterparty Grade of 2. The guarantee does not cover the full amount of the central estimate of the reinsurance recoverable.
4. The insurer has reinsurance recoveries due from a catastrophe bond arrangement. The recovery is not considered reinsurance and so no entry is to be reported in this form. Depending on whether it is approved by APRA for inclusion in the calculation of the Insurance Concentration Risk Charge, the exposure may need to be considered in Draft GRF 460.1.

Extract from Draft GRF 460.0: Reinsurance Assets by Counterparty

Example no.	Name of counterparty (reinsurer) (1)	Reinsurer identifier (2)	Counterparty group name (3)	APRA counterparty grade (4)	Major form of collateral / guarantee (5)	Amount of collateral / guarantee (6)	APRA counterparty grade after collateral / guarantee (7)	Counterparty domicile (8)	Group domicile (9)	Central estimate of reinsurance recoverables (10)	Net reinsurance recoverable on paid claims overdue for more than 6 months - central estimate (11)	Reinsurance recoverable outstanding from 2nd annual balance date after the event - central estimate (12)	Deferred reinsurance expense (13)
1	ABC Reinsurance	ABC0003	AAA Group	3	Collateral	1,220	2	Singapore	Switzerland	900		100	150
2	BCD Re	BCD0001		3				Bermuda		964			
3	Inter Re	INT0012	INT Group	4	Guarantee	4,000	2	Germany	Germany	4,800			
4	N/A												
	Other					0				0	0	0	0
	Total					5,220				6,664		100	150

Data entered by insurer

Derived data item

Not applicable



Telephone
1300 55 88 49

Email
info@apra.gov.au

Website
www.apra.gov.au

Mail
GPO Box 9836
in all capital cities
(except Hobart and Darwin)