



7 December 2011

To chief executive officers of Level 2 insurance groups

Refinements to the prudential framework for Level 2 insurance groups

APRA has today released nine new reporting forms for Level 2 insurance groups, to implement the refinements to the prudential framework for Level 2 insurance groups.¹ These reporting forms are now available in D2A. Copies of the forms and instructions, along with the reporting standards, are now available on the APRA website.

- Reporting standards
<http://www.apra.gov.au/GI/ReportingFramework/Pages/GI-Level-2-reporting-standards.aspx>
- Reporting forms and instructions
<http://www.apra.gov.au/GI/ReportingFramework/Pages/GI-level-2-reporting-requirements.aspx>

The new reporting standards are effective for reporting periods commencing on or after 1 July 2011. The first half-yearly reporting under the new framework will be for the period ending 31 December 2011 and is due on 31 March 2012. The first annual reporting will be for the period ending 31 December 2011 and is due on 30 April 2012.

The refinements to the prudential framework that were outlined in the October 2011 letter to industry took effect on 1 December 2011. The updated prudential standards are available on the APRA website, at <http://www.apra.gov.au/GI/PrudentialFramework/Pages/general-insurance-prudential-standards-and-guidance-notes.aspx>

Minor variation to the instructions in the outstanding claims liability reporting standard

In finalising the forms for Level 2 insurance groups, APRA has identified a minor error in the instructions for calculating technical provisions in excess or deficit of the liability valuation. In accordance with paragraph 15 of *Reporting Standard GRS 210.0_G Outstanding Claims Liability - Insurance Risk Charge* (GRS 210.0_G), APRA has varied the instructions as outlined in Attachment 1 to this letter. As this is a minor variation and is within the scope of the power exercisable by APRA under paragraph 15 of GRS 210.0_G, APRA will not be re-lodging the reporting standard on the Federal Register of Legislative Instruments. However the instructions will be updated to remove the error.

Should you have any queries in relation to this letter or the final reporting or prudential standards, please contact Kate Bible on 02 9210 3502.

Yours sincerely

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¹ <http://www.apra.gov.au/GI/PrudentialFramework/Pages/Refinements-to-the-prudential-framework-for-general-insurance-groups-October-2011.aspx>

Attachment 1: Variation to instructions to the form attached to GRS 210.0_G

In accordance with paragraph 16 of GRS 210.0_G, this attachment provides written notice to parent entities of Level 2 insurance groups of a minor variation to the instructions to Form *GRF 210.0A_G Outstanding Claims Liability - Insurance Risk Charge - Australia by region* (GRF 210.0A_G) and Form *GRF 210.0B_G Outstanding Claims Liability - Insurance Risk Charge - Australia by class of business* (GRF 210.0B_G). The change is made pursuant to APRA's power under paragraph 15 of GRS 210.0_G to clarify the application of instructions to the forms without changing any substantive requirement in the form or instructions.

The variation to the instructions is to clarify the application of the determination of technical provisions in excess or deficit of liability valuation in *GRF 210.0A_G* and *GRF 210.0B_G*.

This item represents the value of outstanding claims liabilities on *GRF 300.0_G Statement of Financial Position (Level 2 Insurance Group)* (GRF 300.0_G) that are in excess or deficit of the actuarial outstanding claims liabilities valuation. Technical provisions in excess or deficit of liability valuation must only consider reinsurance recoverables on outstanding claims and not paid claims. The current wording of the formula in the instructions is:

- Item 12 GRF 300.0_G Outstanding Claims Liability;
- Less sum of reinsurance and non-reinsurance recoveries:
 - Item 3.4 GRF 300.0_G 'Net amount recoverable from reinsurance contracts on outstanding claims and paid claims'; plus
 - Item 3.2.1 GRF 300.0_G 'Total net amounts recoverable (other than reinsurance recoveries receivable) on outstanding claims';
- Less 'Total OCL Net of Reinsurance and Non-Reinsurance Recoveries' for all classes of business (including group adjustments) in GRF 210.0B_G.

The deduction of 'Net amount recoverable from reinsurance contracts on outstanding and paid claims' from GRF 300.0_G incorrectly includes paid claims, which is not the correct application of determining technical provisions in excess or deficit of liability valuation.

To amend this incorrect application, this item is replaced with item 1.1.5 'Net amount recoverable from reinsurance contracts on outstanding claims liabilities' from *GRF 301.0_G Reinsurance Assets and Risk Charge*.

This amendment has been reflected in the:

- 'Technical provisions in excess or deficit of liability valuation' calculation on page 12 of the Instruction Guide for GRF 210.0A_G; and
- 'Technical provisions in excess or deficit of liability valuation' calculation on page 12 of the Instruction Guide for GRF 210.0B_G.

This amendment will not be reflected in the version of the reporting standard that is available on the FRLI or the version of the reporting standard available on APRA's website. There will, however, be a note on the reporting standards webpage and instructions that indicates APRA has made the variation to the instructions pursuant to its powers under paragraph 15 of GRS 210.0_G.