



Ian Laughlin  
Deputy Chairman

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## To all life companies (including friendly societies)

### Response to submissions: enhanced reinsurance counterparty reporting requirements for life insurers

In December 2013<sup>1</sup>, APRA consulted with life companies on proposals to collect further information in *Reporting Form LRF 117.0 Asset Concentration Risk Charge* (LRF 117.0) on exposures to reinsurers both before and after the application of the insurance risk charge stresses.

The proposed changes to the LRF 117.0 reporting instructions are intended to allow APRA to better assess the impact of a reinsurance failure on the capital coverage of individual life insurers and the industry as a whole.

#### 2013 Consultation

APRA received two submissions on the letter and draft reporting instructions from life companies. Submissions supported the initiative but sought further clarification on certain aspects of the data collection. These included the reporting methodology to be used, the layout of the reporting form, and data confidentiality.

#### *Reporting Methodology*

Submissions requested greater clarity in the definition of specific items required to be calculated, and the expected methodology to be followed for reporting. Materiality was also raised as well as the extent to which life insurers can rely on approximations.

APRA has amended the reporting instructions to clarify the approach to determining the stressed value of reinsurance assets and the adjusted reinsurance assets.

APRA expects that the reporting instructions will provide sufficient guidance to life companies in completing the reporting items on LRF 117.0. APRA accepts that in some instances life companies may need to make approximations in order to complete the required data items. Approximations are acceptable as long as they do not have a material impact on the exposure reported.

#### *Form design*

One submission suggested that LRF 117.0 could be redesigned to better accommodate the information requested to be collected.

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<sup>1</sup> See: <http://www.apra.gov.au/lifs/Pages/Reinsurance-Counterparty-Reporting-Requirements-December-2013.aspx>

APRA notes that redesigning the form would offer certain advantages. There would be regulatory costs and implementation costs associated with redesigning, or introducing a new, reporting form. APRA's view is that it can collect sufficient data to meet its objective by amending the reporting instructions to LRF 117.0. The costs for industry and APRA associated with redesigning the reporting form outweigh the potential benefits.

#### *Data confidentiality*

Feedback from one submission expressed concern regarding the commercial detriment of publishing data about a life company's exposures to individual reinsurance counterparties. APRA noted in the consultation letter that it would undertake a separate consultation before making any decision on data confidentiality and publication of the data. In the meantime, all data collected on the reporting form will remain confidential.

Accompanying this letter, and available on APRA's website, are the final reporting instructions presented in mark-up.

#### Next steps

APRA intends that a final reporting standard will apply to all life companies (including friendly societies), and will come into effect for reporting periods ending on 30 June 2015. If you have any questions in relation to the reinsurance counterparty data collection, please contact your APRA Responsible Supervisor.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Hugh', followed by a period.