SUBMISSION ON APRA's CONSULTATION ON REINSURANCE COUNTERPARTIES

We make the following submission on the reinsurance counterparty data collection consultation paper.

Regarding failure of the counterparty, having reviewed and attempted to complete the draft forms, we believe we have the information available, however where there are multiple reinsurers, the difficulty is in splitting all the components and then applying the relevant stresses and increasing the risk charges.

One area where there may be confusion is with regard to the ICRC impact. A situation could arise where the participation on different programs give rise to different impacts. Eg where the reinsurer has a large exposure on the liability program (OA VR) but the insurers current ICRC is determined with reference to the NP VR.

Small insurers with intercompany reinsurance arrangements (ie single related counterparty) could end up with negative net assets in certain circumstances. This is prior to any changes in asset risk, liability risk, ICRC. With the significant reduction in net assets, the limit for unrated assets is reduced such that most assets would technically attract a 100% concentration risk charge (eg debtors). Perhaps, where the effect on net assets drives the coverage below 1, no additional charges need to be calculated.

Given the structure of the small insurers the effect on the ICRC is significant and the risks are (should) be covered in the ICAAP.

With insurers that have a diverse panel of reinsurers, the difficulty (especially with the new Asset Risk calculation) lies in identifying the point at which a reinsurer has a 5% impact on the solvency margin. This is not so difficult when looking at the balance sheet amounts and the impact on the net assets, however taking the individual effect on the asset risk, liability risk and ICRC as well can prove quite time consuming.

Of course having a diverse panel (not related) would also result in utilisation of reinsurer downgrade clauses which would in most cases result in replacement of the reinsurer prior to reaching the point of failure. There is always the possibility that the reinsurer could fail instantly, however there are usually signs earlier than that.

The worst case scenario does not take into account any difference between an insurer and a reinsurer. If a reinsurer fails, insurers will cancel and replace the relevant share of their reinsurance program (current expectation is that capacity is not an issue). This eliminates or at least reduces the impact of the failure on the reinsurers ICRC as there will be little or no exposure going forward.

Please note that we have assumed that all Lloyds syndicates will be considered as separate reinsurers.

Perhaps there should be a reduced level of reporting for APRA regulated reinsurers and only the downgrade form need be completed.

We would be happy to discuss our experience with completing the forms if this would assist.

In respect of the RAS, we support the standardisation of the format.

In respect of data confidentiality, we welcome the opportunity to make representations about the data determined non-confidential and the data to be published at the appropriate time.

Littlewoods Services P/L
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