



9 April 2010

To all Locally Incorporated General Insurers and Authorised Non-Operating Holding Companies under the *Insurance Act 1973*

BASEL PROPOSALS TO STRENGTHEN CAPITAL REQUIREMENTS

On 17 December 2009, the Basel Committee on Banking Supervision released a consultative document, *Strengthening the resilience of the banking sector*. This set out the Basel Committee's proposals to strengthen global capital requirements for banks. Among other things, this included proposals aimed at raising the quality, consistency and transparency of the regulatory capital base. The full version of this document can be located on the Bank for International Settlements' website [www.bis.org/publ/bcbs164.htm].

As you would be aware, since 2002 APRA has sought to maintain a broadly consistent approach to the definition of capital for general insurers and authorised deposit-taking institutions. This is the case for both Level 1 insurers and Level 2 insurance groups. The definition of eligible capital for general insurers is also being considered as part of the broader review of the general insurance and life insurance capital standards currently being undertaken by APRA.

While the exact details of any new requirements are still to be resolved, and will be the subject of extensive consultation with industry prior to finalisation, the international regulatory direction is clearly one which places a greater emphasis on higher quality forms of capital and, for non-equity capital, is likely to further limit its inclusion in regulatory capital calculations. APRA expects to follow this direction in its current review of insurance industry capital standards.

APRA is aware that any changes to the criteria for eligible regulatory capital will necessitate appropriate transitional and/or grandfathering arrangements for existing (i.e. already issued) instruments which may no longer meet the revised eligibility criteria. Such transitional arrangements can only be determined once any changes to the eligibility criteria have been finalised. General insurers should note that only capital instruments that meet all current APRA requirements and have been issued prior to the date of this letter will automatically be eligible for any transitional arrangements. Capital instruments that are issued subsequent to the date of this letter, and that are clearly inconsistent with the proposals recently put forward by the Basel Committee, are unlikely to be eligible for these arrangements. General insurers proposing to issue capital instruments are encouraged to contact APRA at an early stage.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Littrell'.

Charles Littrell
Executive General Manager
Policy, Research and Statistics