INSURANCE COUNCIL OF AUSTRALIA

Mr Charles Littrell
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20 December 2012

Dear Mr Littrell

LAGIC: CONSULTATION ON DRAFT PRUDENTIAL PRACTICE GUIDES AND INFORMATION PAPER

The Insurance Council of Australia[1] (Insurance Council) appreciates the opportunity to comment on the draft prudential guides and information paper which released for consultation on 27 September 2012. After consultation with members, we would like to raise with APRA a number of issues arising from draft CPG 110. These are detailed in the Attachment. Members have not identified any issues that they would like raised on GPG 116 or the Information paper on the Asset Risk Charge.

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate by email: or tel:

Yours sincerely

Robert Whelan
Executive Director & CEO

The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. September 2012 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of $37.9 billion per annum and has total assets of $115.7 billion. The industry employs approx 60,000 people and on average pays out about $116 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

ATTACHMENT

INSURANCE COUNCIL COMMENTS ON CPG 110: ICAAP AND SUPERVISORY REVIEW

ICAAP

Para 11: Most strategic risks would have a longer timeframe than the 3-5 years envisaged for the ICAAP and so would not be addressed in the ICAAP.

Para 17: The implementation of the LAGIC changes will still be occurring in 2014-2015. During this period, the Insurance Council requests that APRA apply the ICAAP requirements flexibly in recognition that ICAAPs will reflect work in progress.

Para 27: Insurance Council members welcome the acknowledgement that the capital position of a regulated institution will vary around target levels set in the ICAAP over time, and may fall below target capital levels from time to time.

Para 30: While the general meaning of the last sentence is understood, given that APRA has declined to define a non-viability trigger event, Insurance Council members note that it is difficult for insurers to take action to avoid declaration of such an event by APRA.

Para 43(c): While the ICAAP will highlight risks to be addressed by the insurer, it may be too much detail for it to describe key internal controls. It may be more workable for controls to be described in the Risk Management Strategy and referred to in the ICAAP.

Para 43(g) and (h): While the ICAAP would comment on the use of capital, the Insurance Council suggests that it may be expecting too much for the Board to be across the basis on which capital was allocated i.e. the risk weighting for each product. The extent of the ICAAP discussion should depend on the articulation of the risk appetite.

Para 46: The Insurance Council suggests that this paragraph is redundant and could be deleted. Board "ownership" of the ICAAP is clear.

APRA SUPERVISORY REVIEW

Para 60(f): The Insurance Council questions the meaning of "minimally compliant" and suggests that use of the term be dropped. Regulated entities were either compliant or not.

Para 61: The Insurance Council submits that the Guidance should note the need for due process by APRA in making a supervisory adjustment. Given that difficulties for insurers manifest themselves slowly, it is difficult to envisage scenarios where there would not be time for discussions with the insurer.

Para 63: Given a Board's responsibility for the ICAAP, this paragraph should make it explicit that APRA will explain to the Board the reason for the adjustment.

Para 64: The Insurance Council questions whether APRA's intention to make comparisons within peer groups isn't too heavily influenced by the situation in banking. It is doubtful that many Australian insurers are sufficiently similar to be classed as "peers".

Para 65: The Insurance Council suggests that it may not be practical to require an insurer not to disclose any supervisory adjustment. How could an insurer raise additional capital in response to the supervisory adjustment without external parties realising the reason why?