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Dear Mr Brennan

APRA UPDATE ON REGULATORY COST SAVINGS

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback on the Australian Prudential Regulatory Authority's (APRA) Update on Regulatory Cost Savings. We wish to express our ongoing willingness to work with APRA to identify areas where compliance costs can be reduced without compromising prudential outcomes.

The Insurance Council is supportive of many of the initiatives outlined by APRA in response to concerns raised by industry and would encourage APRA to further develop its risk-based approach to supervision, with a greater emphasis on materiality. Consistent with such an approach, we request that APRA give greater consideration to the Insurance Council's recommendations that it has not taken up. These would result in significant additional savings to industry without relaxing prudential rigour.

Proposals Not Accepted by APRA

A flexible approach to the requirement for the reinsurance letter of credit: We note that APRA considers that the current requirements for reinsurance letters of credit are appropriate. However, the Insurance Council still considers that the requirement for a letter of credit from an Australian ADI has no material reduction in risk from the breach of a reinsurance contract with a well-capitalised, global reinsurer regulated in a jurisdiction with an equivalent level of prudential regulation.

The presence of a letter of credit from an Australian ADI implies that potential losses from a catastrophic event could be concentrated in the Australian financial system and overlooks the diversification benefits of tapping into deep global capital markets. As the compliance burden of the reinsurance letter of credit is estimated at approximately \$8 million across the general insurance industry, revision of this requirement would be a sizeable benefit with no prudential detriment. The Insurance Council notes that APRA indicated that the treatment of reinsurance recoverables under GPS 117 may be reconsidered as part of future reviews of the prudential framework.

APRA requirements should be consistent with common accounting treatments where possible: The Insurance Council notes APRA's arguments that it only deviates from accounting standards where there is a specific prudential purpose for doing so. However, as

outlined in our previous submission, the Insurance Council considers that it is unnecessary to diverge from the common accounting treatment in the following areas:

- calculation of non-reinsurance recoveries on paid claims;
- the methodology in calculating premium liabilities;
- calculation of risk charge on investments at end of duration; and
- the development of a more robust and efficient D2A.

Timeliness of APRA responses to Insurer queries: The Insurance Council notes that APRA did not comment on our recommendation to improve the timeliness of responses to insurer queries. As raised in our previous submission, Insurance Council members consider that APRA's responses to certain requests are routinely taking too long and contribute to an additional compliance burden for members.

Furthermore, from the insurer perspective, there can be difficulties in identifying the appropriate APRA decision maker and how to challenge or query decisions. This may result in less than efficient discussions with supervisory teams.

Consequently, the Insurance Council would appreciate if APRA further consider the arguments made on the matter in our previous submission of 18 June 2014 to improve the effectiveness of dialogue between APRA and regulated entities.

Proposals Accepted by APRA

Review of audit requirements: The Insurance Council notes that APRA has indicated that it will undertake further work to explore the areas where audit requirements can be changed to reduce compliance costs, with the intention to release a specific set of proposals for consultation. While we support this work, the Insurance Council wishes to confirm that our concerns will fall within the scope of this work. Specifically, we consider that it should examine our recommendation to allow a more flexible approach to requiring peer review of actuarial report. The Insurance Council submits that APRA should consider not requiring peer review of actuarial reports if it could be demonstrated that consulting actuaries undertook a comparable review.

The Insurance Council would also like APRA's review to consider our recommendation to reduce on-site supervision where external audit is undertaking the same work. As raised in our previous submission, we consider that more structured up-front dialogue between external experts and APRA could result in the external expert providing a report to both the insurer and APRA, which would save APRA doing a separate investigation. In some instances, this would be much more cost effective without compromising the rigour of APRA's supervision.

Effective operation of D2A: The Insurance Council argued in its previous submissions that the D2A process imposes unnecessary costs on the general insurance industry and the overall system falls short of APRA's original intent. We appreciate APRA's efforts to reduce validation rules and its commitment to conduct systematic regular ongoing reviews across regulated industries.

However, further work is necessary. For example, the process to obtain staff authorisations for AUSKeys (required in order to access D2A) from the Australian Business Register (ABR)

is onerous and requires online approval via ABR's website by a director or public officer of the regulated entity. Appropriate delegations (particularly for entities with non-executive directors) should be permissible.

While the Insurance Council recognises that the replacement of D2A is the optimal solution, we consider that such systems are essential to effective supervision and consequently should be funded by government through the Commonwealth budget rather than by the financial industry levy.

Reporting Form GRF 440.0 Claims Development Table: The Insurance Council supports the revisions to several reporting standards to ensure their intended application to a subset of general insurers remains clear, including the final versions of revised reporting standards giving effect to these changes.

Excluding general insurance forms from audit scope: The Insurance Council supports the exclusion of certain reporting forms from the audit certificate under Prudential Standard GPS 310 (Audit and Related matters).

Financial Condition Reports (FCR): The Insurance Council also supports the temporary extension of due dates for FCRs. We agree with the feedback that the shorter timeframe for submission is likely to increase compliance costs and may impact the FCR's quality and amount of time available for Board consideration.

Appointed Actuary: We welcome APRA's indication that it will conduct a holistic review of the appointed actuary requirements for general insurers in order to identify any areas of duplication.

Reporting framework: The Insurance Council supports APRA's intention to examine the feasibility of reducing the frequency of prudential data collections for other APRA-regulated industries as part of an internal review process. As outlined in our previous submission, we consider that most forms could be reduced to half yearly (some reduced to yearly) without any compromise of prudential outcomes.

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: janning@insurancecouncil.com.au or tel: 029253 5121.

Yours sincerely



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