APRA's approach to AASB 17

Discussion with AASB 17 TRG

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Outcomes desired from TRG discussion

- APRA's letter sets out its objectives and proposed approach
- APRA is open to alternative approaches and is seeking constructive feedback from the TRG on alternative options (if any) to achieve the objectives

APRA's approach – Guiding principles

- Accounting standards are the starting point from which the existing regulatory capital framework (the framework) is built.
- APRA intends to explore how it can continue to build the framework from the accounting standards and will consider the adjustments needed in the framework to ensure a sound prudential outcome.
- APRA will only move away from the current framework if satisfied that the revised treatment continues to lead to prudent outcomes.
- Structurally, the framework continues to be fit-for-purpose, and its overall calibration is considered appropriate. Hence, APRA does not intend to generally increase or reduce capital levels.
- The future approach needs to result in appropriate treatment for all policyholders under Australian legislation.
- APRA has committed to consider, consult upon and address issues regarding the operation of the existing regulatory capital framework.
- PHI capital review is currently under way and is starting from LAGIC basis.

Overview of the APRA letter

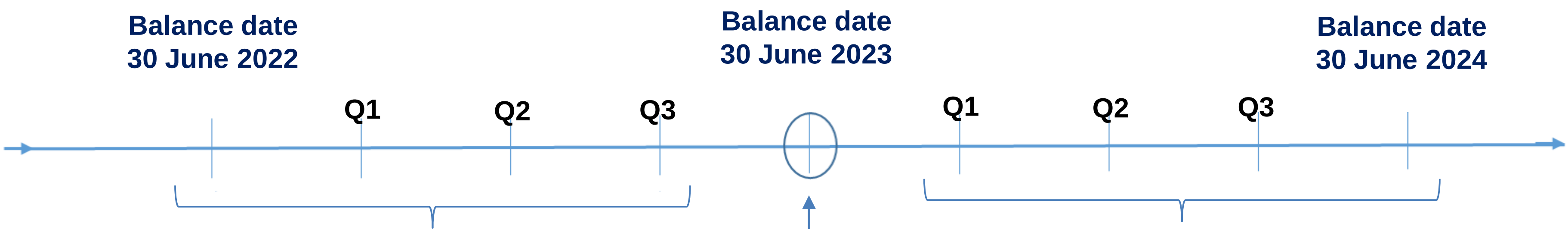
- APRA's areas of interest in the context of AASB 17

Regulatory capital	Regulatory reporting
Data granularity	Profitability

- Implementation readiness to mitigate risk
  - APRA expects insurers to be actively planning for the implementation of AASB 17
  - Rushed implementation would heighten operational risks and may increase implementation costs
  - APRA requested information from all insurers on their preparedness for AASB 17
  - Responses due by 8 November 2019

- Implementation timeframe and technical directions

Transition to AASB 17 for prudential purposes



Report to APRA using existing APRA prudential standards:
- Quarterly, interim and annual reporting to APRA using superseded accounting standards
- Transition template data request* to reconcile to new accounting standard

Indicative commencement of AASB 17 for APRA reporting purposes FOR ALL ENTITIES

Report to APRA:
- Existing APRA standards (last time)
- Transition template data request* (last time)

Report to APRA using new prudential standards:
- Quarterly, interim and annual reporting on AASB 17 accounting standard
- New APRA standards (first time)

* Transition template data request likely to include capital, insurance liabilities and other items (e.g. sources of profit). The specific collection is yet to be determined.

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Indicative directions – Regulatory reporting

Topic	APRA proposal
Product groupings	Enable greater understanding of the sources of profit and sustainability of an insurer's business Enhance the granularity of APRA reporting groups to obtain more detailed insights on products Groupings used to distinguish onerous contracts under AASB 17 must not extend across APRA reporting groups Life insurance specific: Product groups could not extend over subcategories, where a subcategory is defined in the Life Insurance Act 1995

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Indicative directions - Regulatory reporting (cont'd)

Topic	APRA proposal
Discount rates	Accept insurer's determination as required by AASB 17, with information on the determination of discount rates expected to be provided in the Actuarial Valuation Report
Illiquidity premium	Accept insurer's determination as required by AASB 17, with information on the determination of illiquidity premium expected to be provided in the Actuarial Valuation Report
Participating and non-participating benefits	Maintain a mechanism for life companies to request a declaration from APRA that a contract is non-participating

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Indicative directions - Regulatory capital

Topic	APRA proposal
Discount rates	Continue to require insurers to apply specified risk-free discount rates for determining regulatory capital
Acquisition costs	Exclude deferred acquisition costs when determining the capital base (For PHIs, APRA will consult)
Reinsurance default risk	Continue to apply the current prudential default risk charge to reinsurance recoveries APRA is willing to consider an adjustment to the default risk charge for reinsurance to reduce the potential for double counting
Illiquidity premium (LI)	Continue to allow life insurers to apply an illiquidity premium for certain illiquid liabilities
Contract boundary (PHI)	Contract boundary for PHI contracts will generally be one year

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Indicative directions - Regulatory capital (cont'd)

Topic	APRA proposal
Contract boundary – potential mismatch of insurance and reinsurance boundaries	Align contract boundaries to avoid the emergence of such mismatches and possible volatility in economic capital Await the outcome of the IASB's deliberations prior to considering its treatment of contract boundary for the determination of regulatory capital
Calibration of capital charges	APRA does not intend to generally increase or reduce capital levels APRA will engage with insurers on the quantitative impacts arising from the implementation of AASB 17 to inform its view on calibration of the risk charges and the overall LAGIC framework

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Reinsurance

- APRA has not settled its position on the capital treatment of reinsurance

- APRA will observe the IASB deliberations on the IASB Exposure Draft before settling on an appropriate capital treatment for reinsurance

- APRA's approach will be directed by its guiding principles

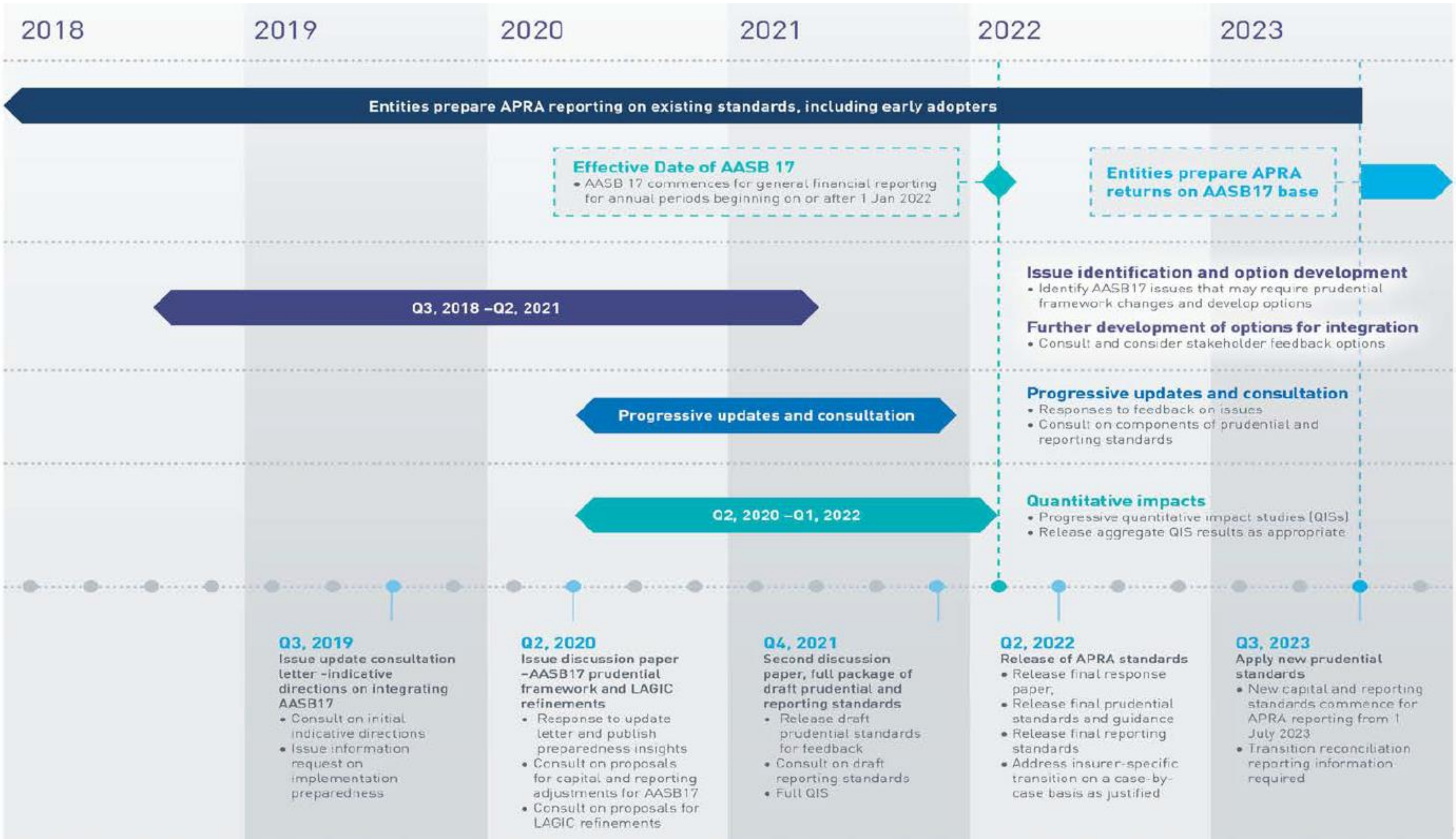
What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Issues for future directions by APRA

- Approach to unpaid premiums
- VFA
- Friendly societies implications
- Risk Adjustment
- Contractual Service Margin
- Deferred Acquisition cost
- Regulatory capital impact at transition
- Expenses (directly attributable)
- And more…

What are the implications for GI, LI and PHI?
What alternative approaches could achieve prudent outcomes?

Indicative timeframe for AASB 17 integration



Effective date of AASB 17 is proposed IASB effective date.

What are the implications for GI, LI and PHI?

What alternative approaches could achieve prudent outcomes?