

31 March 2021

General Manager  
Policy Development  
Policy and Advice Division  
Australian Prudential Regulatory Authority  
Level 12, 1 Martin Place  
SYDNEY NSW 2000

Via email: [insurance.policy@apra.gov.au](mailto:insurance.policy@apra.gov.au)

**Re: Feedback on APRA Round 3 Response Paper and Draft Prudential Standards on Integrating AASB 17 into the capital and reporting frameworks for insurers**

Hannover Life Re of Australasia (“HLRA”, “Company”, “We”) welcome the opportunity to provide feedback on APRA’s Round 3 Response Paper and Draft Prudential Standards on Integrating AASB 17 into the capital and reporting framework for insurers.

HLRA previously provided our comments on APRA’s Round 2 Discussion Paper in our letter dated 7 April 2021 and we appreciate that many of our comments have been considered and reflected in the latest Response Paper and Draft Prudential Standards.

Overall, we support APRA’s proposals in the Response Paper and Draft Prudential Standards. We have however the following specific comments for APRA’s consideration. We would welcome the opportunity to discuss with APRA the points raised in this submission.

**Proposed changes to capital framework**

**Four Quarters Dividend Test**

APRA has proposed a change to the four quarters dividend test by requiring after-tax earnings to be reduced by the sum of an insurer’s ‘change in fair value of financial assets’ through other comprehensive income (OCI) and ‘net insurance financial result’ through OCI, if this sum is negative.

HLRA contends that this amendment to the definition of after tax earnings is unnecessarily restrictive and will be detrimental to those entities that have elected under AASB 17 to report ‘change in fair value of financial assets’ and ‘net insurance financial result’ through OCI rather than through the Profit or Loss.

HLRA proposes that the adjustment to after tax earnings should be applied for both negative and positive sums of an insurer’s ‘change in fair value of financial assets’ through OCI and ‘net insurance financial result’ through OCI. Other Comprehensive Income, for the purposes of the four dividend test, would comprise of unrealised gains and losses and excludes items such as foreign currency translation differences, property revaluation movements, and defined benefit superannuation plan surpluses (and deficits).

The extension of the adjustment to both negative and positive sums will ensure the consistent treatment across the industry regardless of entities’ accounting choices and will maintain the status quo.

## **Proposed LAGIC updates**

### **Real Interest Rate Stress Test**

HLRA supports APRA's proposed introduction of a floor to the nominal risk-free rate (before multiplying by the prescribed factors) for the calculation of the real interest rate stress. However, we are of the view that a 3% floor is too onerous and that a floor of 1% would be more reasonable over a wider range of interest rate scenarios.

### **Removal of Internal Capital Models**

As per HLRA's 2021 submission, we would prefer that APRA continues to allow insurers the option to use Internal Capital Models for regulatory capital as this provides insurance organisations the flexibility to adopt a global insurance capital standard for the calculation of regulatory capital.

If you have any comments or questions in relation to our submission, please do not hesitate to contact us.

Yours faithfully,

General Manager, Finance

Appointed Actuary