

**Insurance, Life Insurance and Health Insurance (prudential standards)  
determination No.1 of 2018**

**Insurance (prudential standard) determinations Nos.2 to 3 of 2018**

**Life Insurance (prudential standard) determination No.2 of 2018**

**EXPLANATORY STATEMENT**

**Prepared by the Australian Prudential Regulation Authority (APRA)**

*Insurance Act 1973*, section 32

*Life Insurance Act 1995*, section 230A

*Private Health Insurance (Prudential Supervision) Act 2015*, section 92

APRA may, in writing, determine a prudential standard that applies to an APRA-regulated institution under:

- (1) subsection 32(1) of the *Insurance Act 1973* (Insurance Act), in relation to general insurers, authorised non-operating holding companies (authorised insurance NOHCs), and subsidiaries of general insurers and authorised insurance NOHCs. Under subsection 32(4) of the Insurance Act, APRA may, in writing, vary or revoke a prudential standard;
- (2) subsection 230A(1) of the *Life Insurance Act 1995* (Life Insurance Act), in relation to life companies (including friendly societies), registered non-operating holding companies (registered life NOHCs), and subsidiaries of life companies and registered life NOHCs. Under subsection 230A(5) of the Life Insurance Act, APRA may, in writing, vary or revoke a standard; and
- (3) subsection 92(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (PHI Act), in relation to registered private health insurers. Under subsection 92(5) of the PHI Act, APRA may, in writing, vary or revoke a prudential standard.

On 31 May 2018, APRA made the following determinations (the instruments):

- (1) Insurance, Life Insurance and Health Insurance (prudential standards) determination No. 1 of 2018, which revokes *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320) made under Insurance determination No. 1 of 2015; *Prudential Standard LPS 320 Actuarial and Related Matters* (LPS 320) made under Life Insurance determination No. 2 of 2014 and *Prudential Standard HPS 320 Actuarial and Related Matters* (HPS 320) made under Health Insurance determination No. 5 of 2015, and determines a new *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320);
- (2) Insurance (prudential standards) determination No. 2 of 2018 which revokes *Prudential Standard GPS 001 Definitions* (GPS 001) made under Insurance

determination No. 2 of 2014 and determines a new *Prudential Standard GPS 001 Definitions* (GPS 001);

- (3) Insurance (prudential standards) determination No. 3 of 2018 which determines a new *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340);
- (4) Life Insurance (prudential standards) determination No. 2 of 2018 which revokes *Prudential Standard LPS 001 Definitions* (LPS 001) made under Insurance determination No. 1 of 2014 and determines a new *Prudential Standard LPS 001 Definitions* (LPS 001);

The instruments commence on 1 July 2019.

## **1. Background**

APRA's mandate is to ensure the safety and soundness of prudentially regulated financial institutions so that they can meet their financial promises to depositors, policyholders and fund members within a stable, efficient and competitive financial system.

APRA carries out this mandate through a multi-layered prudential framework that encompasses licensing and supervision of institutions. APRA is empowered under the Banking Act, the Insurance Act, the Life Insurance Act and the PHI Act to issue legally binding prudential standards that set out specific prudential requirements with which APRA-regulated institutions in each industry must comply. These standards are supported by prudential practice guides which clarify APRA's expectations with regard to prudential requirements.

APRA regularly reviews its regulatory regime and amends its prudential requirements as a result of a number of factors including:

- international developments;
- changes in financial market conditions;
- changes in risk management practices, in response to identified weaknesses in the prudential framework; and
- to reduce potential negative impacts of emerging industry issues.

Since 2016, APRA has consulted with the general insurance, life insurance and private health insurance industries to review and reform the prudential requirements relating to the role of the Appointed Actuary. *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320) establishes a new prudential standard for general insurers, life insurers and private health insurers to establish appropriate frameworks to allow the Appointed Actuary to focus on the matters most material to the sound and prudent operation of the insurer's business. *Prudential Standard GPS 340* outlines requirements for liability valuation for general insurers that were previously outlined in GPS 320.

## **Purpose of the instruments**

The purpose of Insurance, Life Insurance and Health Insurance (prudential standards) determination No. 1 of 2018 is to set out prudential requirements for general insurers, life insurers and private health insurers to maintain appropriate actuarial advice. This advice is designed to assist the board and senior management in carrying out their responsibilities for the sound and prudent management of the insurer. The purpose of Insurance (prudential standards) determination No. 3 of 2018 is to set out the requirements for liability valuation for general insurers that were in GPS 320 in a new prudential standard, GPS 340. The purpose of Insurance (prudential standards) determination No. 2 of 2018 and Life Insurance (prudential standards) determination No. 2 of 2018 is to revoke and replace GPS 001 and LPS 001 respectively with new versions of those standards.

## **2. Operation of the instruments**

The key requirements of CPS 320 are:

- an insurer must establish an actuarial advice framework;
- an insurer must provide the Appointed Actuary with sufficient information, and access to the board and senior management, to allow the Appointed Actuary to fulfil specified roles and functions;
- the Appointed Actuary must provide advice to the insurer on the valuation of the insurance liabilities, the insurer's financial condition, and matters specified under the insurer's actuarial advice framework, consistent with the insurer's materiality policy;
- the Appointed Actuary must assess the insurer's financial condition and prepare a Financial Condition Report;
- an insurer must submit a copy of the Financial Condition Report to APRA;
- the Appointed Actuary must provide advice on the valuation of insurance liabilities, and Appointed Actuaries of general insurers and life companies must prepare an Actuarial Valuation Report; and
- a general insurer or life company must submit a copy of the Actuarial Valuation Report to APRA.

The key requirements of GPS 340 are:

- the ultimate responsibility for the valuation of insurance liabilities rests with the board of the general insurer or Level 2 insurance group;
- a general insurer or Level 2 insurance group must value its insurance liabilities in accordance with the principles and methodology set out in GPS 340.

GPS 001 defines key terms referred to in other prudential standards applicable to general insurers and Level 2 insurance groups

LPS 001 defines key terms referred to in other prudential standards applicable to life companies.

Where CPS 320, GPS 340, GPS 001 and LPS 001 refer to an Act, Regulation or prudential standard, this is a reference to the document as it exists from time to time, and which is available on the Federal Register of Legislation at [www.legislation.gov.au](http://www.legislation.gov.au).

### **3. Consultation**

APRA undertook consultations on its review of the role of the Appointed Actuary between June 2016 and December 2017. Submissions were received from, and discussions held with, numerous insurers, industry bodies, and the professional body.

In June 2016, APRA released for public consultation a discussion paper, *The role of the Appointed Actuary and actuarial advice within insurers*. APRA received 26 written submissions in response to the discussion paper and presented the proposed reforms via a wide range of industry forums.

In September 2017, APRA released for public consultation a response to submissions paper which included two new draft prudential standards and a draft prudential practice guide. In the response, APRA outlined the significant issues raised in the submissions and APRA's response to them. APRA received 10 submissions in relation to the response paper.

All submissions to the response paper were generally supportive of the proposed changes and mainly sought minor clarifications to the draft CPS 320. The key issue of concern related to the date of implementation with some stakeholders noting that given other concurrent regulatory changes, a later implementation date would be preferred.

### **4. Regulation Impact Statement**

The Office of Best Practice Regulation has advised that a Regulation Impact Statement is not required for these legislative instruments.

### **5. Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011***

A Statement of compatibility prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* is provided at Attachment A to this Explanatory Statement.

## ATTACHMENT A

### Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

#### **Insurance, Life Insurance and Health Insurance (prudential standard) determination No.1 of 2018**

#### **Insurance (prudential standard) determinations Nos.2 to 3 of 2018**

#### **Life Insurance (prudential standard) determination No.2 of 2018**

These Legislative Instruments are compatible with the human rights and freedoms recognised or declared in the international instrument listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011* (HRPS Act).

#### **Overview of the Legislative Instruments**

The purpose of these instruments is to set out prudential requirements for general insurers, life insurers and private health insurers to maintain appropriate actuarial advice. This advice is designed to assist the board and senior management in carrying out their responsibilities for the sound and prudent management of the insurer. It is also to set out the requirements for liability valuation for general insurers and to make consequential amendments to definitions contained in GPS 001 and LPS 001.

CPS 320 and GPS 340 are new prudential standards which are designed to ensure that the prudential framework for insurers remains fit for purpose. In particular, to protect policyholder interests and ensure sound prudential outcomes by improving the functioning of the Appointed Actuary role.

#### **Human rights implications**

APRA has assessed the instruments against the international instruments listed in section 3 of the HRPS Act and has determined that the instruments do not engage any of the applicable rights or freedoms.

#### **Conclusion**

These Legislative Instruments are compatible with human rights as they do not raise any human rights issues.