**Insurance (prudential standard) determinations Nos. 10 to 13 of 2019**

**EXPLANATORY STATEMENT**

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

*Insurance Act 1973*, section 32

Under subsection 32(1) of the *Insurance Act 1973* (the Act), APRA has the power to determine standards (prudential standards), in writing, in relation to prudential matters to be complied with by general insurers, authorised non-operating holding companies (authorised insurance NOHCs), and subsidiaries of general insurers and authorised NOHCs. Under subsection 32(4) of the Act, APRA may, in writing, vary or revoke a prudential standard.

On 19 June 2019, APRA made the following determination instruments (the Instruments):

1. Insurance (prudential standard) determination No. 10 of 2019 (the instrument) which revokes *Prudential Standard* *GPS 110 Capital Adequacy* made under Insurance (prudential standard) determination No. 1 of 2019;
2. Insurance (prudential standard) determination No. 11 of 2019 (the instrument) which revokes *Prudential Standard* *GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* made under Insurance (prudential standard) determination No. 6 of 2019;
3. Insurance (prudential standard) determination No. 12 of 2019 (the instrument) which revokes *Prudential Standard* *GPS 110 Capital Adequacy* made under Insurance (prudential standard) determination No. 3 of 2014 and determines a new *Prudential Standard GPS 110 Capital Adequacy* (GPS 110); and
4. Insurance (prudential standard) determination No. 13 of 2019 (the instrument) which revokes *Prudential Standard* *GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* made under Insurance (prudential standard) determination No. 6 of 2012 and determines a new *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116).

Insurance (prudential standard) determination No. 10 of 2019 and Insurance (prudential standard) determination No. 11 of 2019 commence on the date they are signed, and Insurance (prudential standard) determination No. 12 of 2019 and Insurance (prudential standard) determination No. 13 of 2019 commence on 1 July 2019.

1. **Background**

On 17 April 2019, APRA determined nine general insurance prudential standards reflecting consequential amendments arising from the introduction of the new *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320) and *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340).

During the process of revoking the former versions of those nine general insurance prudential standards and determining new versions of those standards, several words were inadvertently omitted from GPS 110 and GPS 116 as made under Insurance (prudential standard) determination No. 1 of 2019 and Insurance (prudential standard) determination No. 6 of 2019 (respectively).

1. **Purpose and operation of the instruments**

The purpose of these instruments is to revoke the versions of GPS 110 and GPS 116 as made under Insurance (prudential standard) determination No. 1 of 2019 and Insurance (prudential standard) determination No. 6 of 2019 (respectively) containing the minor omissions, and to determine new versions of GPS 110 and GPS 116 correcting those minor omissions. The instruments do not make any other changes.

Prudential standards GPS 110 and GPS 116 provide for APRA to exercise various discretions, including the power to adjust or exclude a specific requirement in the standard in relation to a regulated entity. Decisions made by the APRA exercising those discretions are not directly subject to merits review. This is because these decisions are preliminary decisions that may facilitate or lead to substantive decisions which are subject to merits review.

A breach of a prudential standard is also breach of the enabling legislation, as each enabling Act provides that regulated entities must comply with the standard.  However there are no penalties prescribed for such breaches. Instead, an entity’s breach of the prudential standard/enabling legislation is grounds for the APRA to make further, substantive decisions under the *Insurance Act 1973* (Insurance Act) in relation to the entity. Those decisions are:

1. to revoke an authorisation to carry on insurance business (s.15A Insurance Act); and
2. to issue a direction to the insurer, including a direction to comply with the whole or part of a prudential standard (s.104 Insurance Act).

It is only at this stage that an entity is exposed to a penalty: loss of licence under s.15A or 50 penalty units if it breaches the direction (s.108 Insurance Act). The subsequent substantive decisions of APRA to impose a direction or revoke a licence are subject to merits review. In nearly all cases the substantive decisions are preceded by consultation with the regulated entity to raise any concerns they may have in relation to the decision.  The exception is provided in section 15(4) of the Insurance Act, whereby APRA may dispense with consultation if it is satisfied that doing so would result in a delay in revocation that would be contrary to the national interest.

1. **Consultation**

The instruments are minor and machinery in nature and do not substantially alter existing arrangements.

1. **Regulation Impact Statement**

The Office of Best Practice and Regulation advised that a Regulation Impact Statement was not required for the prudential standards (CPS 320 and GPS 340) that gave rise to these consequential amendments.

1. 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 (prudential standard) determination Nos. 10 to 13 of 2019**

These Legislative Instruments (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 Instrument**

The purpose of these instruments is to correct minor omissions in the versions of GPS 110 and GPS 116 as made under Insurance (prudential standard) determination No. 1 of 2019 and Insurance (prudential standard) determination No. 6 of 2019 (respectively) arising from consequential amendments made to GPS 110 and GPS 116 in April 2019to reflect the introduction of CPS 320 and GPS 340.

**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 instruments are compatible with human rights as they does not raise any human rights issues.