

Insurance (prudential standard) determinations Nos. 1 to 4 of 2022

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Insurance Act 1973, section 32

APRA may, in writing, determine, vary or revoke a prudential standard that applies to an APRA-regulated institution under subsections 32(1) and (4) of the *Insurance Act 1973* (the Act), in relation to general insurers, authorised non-operating holding companies (authorised insurance NOHCs), and subsidiaries of general insurers and authorised insurance NOHCs.

On 22 June 2022, APRA made the following determinations (the Instruments):

- (1) Insurance (prudential standard) determination No. 1 of 2022 which revokes *Prudential Standard GPS 001 Definitions* made under Insurance determination No. 2 of 2018 and determines a new *Prudential Standard GPS 001 Definitions*;
- (2) Insurance (prudential standard) determination No.2 of 2022 which revokes *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* made under Insurance determination No. 4 of 2019 and determines a new *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge*;
- (3) Insurance (prudential standard) determination No. 3 of 2022 which revokes *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* made under Insurance determination No. 13 of 2019 and determines a new *Prudential Standard GPS 116: Capital Adequacy: Insurance Concentration Risk Charge*; and
- (4) Insurance (prudential standard) determination No. 4 of 2022 which revokes *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge* made under Insurance determination No. 2 of 2017 and determines a new *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge*.

These Instruments commence on 1 July 2022.

1. Background

On 22 June 2022, APRA determined four general insurance prudential standards incorporating consequential amendments to the prudential framework to support the operation of the Australian Government's cyclone and related flood damage reinsurance pool. The amendments clarify that reinsurance provided by the Australian Reinsurance Pool Corporation (ARPC) are not subject to a capital charge in recognition of the Australian Government guarantee that supports the reinsurance pool.

The Instruments:

- amend the definition of an APRA-authorised reinsurer to include the ARPC;
- remove footnotes made redundant by the change to the definition of an APRA-authorised reinsurer; and
- add footnotes to clarify the treatment of reinsurance cover provided by the ARPC.

2. Purpose and operation of the instruments

The purpose of these Instruments is to revoke the four existing prudential standards requiring consequential amendments and replace them with corresponding standards which incorporate appropriate amendments.

The determined prudential standards will recognise the ARPC as a high-grade APRA-authorized reinsurer and ensure that reinsurance recoverables from the ARPC are not subject to a capital charge in recognition of the Australian Government guarantee that supports the pool.

The prudential standards which have been revoked and replaced are:

- *Prudential Standard GPS 001 Definitions;*
- *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge;*
- *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge;*
and
- *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge.*

Where these standards 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.

3. Consultation

On 28 April 2022, APRA undertook consultation with all general insurers in relation to its proposed consequential amendments to the prudential framework to support the operation of the Australian Government's cyclone and related flood damage reinsurance pool.

As part of the consultation, APRA requested written submissions by 1 June 2022 on its proposal to recognise the ARPC as a high-grade APRA-authorized reinsurance and its proposal that reinsurance recoverables from the ARPC are not subject to a capital charge in recognition of the Australian Government guarantee that supports the pool.

No submissions were received. APRA is satisfied the consultation was appropriate and reasonably practicable as the consequential amendments can be regarded as minor and machinery.

4. Regulation Impact Statement

The OBPR confirmed that a Regulation Impact Statement was not required for the changes described in this explanatory statement as they were considered minor and machinery.

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*

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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).

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Insurance (prudential standard) determination No. 2 of 2022

Insurance (prudential standard) determination No. 3 of 2022

Insurance (prudential standard) determination No. 4 of 2022

Overview of the Legislative Instruments

The purpose of the Legislative Instruments is to make consequential changes to Prudential Standard GPS 001 Definitions, Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge, Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge and Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge to recognise the Australian Reinsurance Pool Corporation (ARPC) as a high-grade APRA-authorized reinsurer and to ensure that reinsurance recoverables from the ARPC are not subject to a capital charge in recognition of the Australian Government guarantee that supports the scheme.

Human rights implications

APRA has assessed the Legislative Instruments and is of the view that they do not engage any of the applicable rights or freedoms recognised or declared in the international instruments listed in section 3 of the HRPS Act. Accordingly, in APRA's assessment, the Instruments are compatible with human rights.

Conclusion

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