

Banking, Insurance, Life Insurance and Health Insurance (prudential standards) determinations Nos. 1 and 2 of 2019

Insurance (prudential standard) determinations Nos. 1 to 9 of 2019

Life Insurance (prudential standard) determination No. 1 of 2019

Health Insurance (prudential standard) determination No. 1 of 2019

EXPLANATORY STATEMENT

Prepared by the Australian Prudential Regulation Authority (APRA)

Banking Act 1959, section 11AF

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, vary or revoke a prudential standard that applies to an APRA-regulated institution under:

- (1) subsections 11AF(1) and (3) of the *Banking Act 1959* (Banking Act), in relation to authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (authorised banking NOHCs);
- (2) subsections 32(1) and (4) 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;
- (3) subsections 230A(1) and (5) of the *Life Insurance Act 1995* (Life Insurance Act), in relation to life companies, friendly societies, registered non-operating holding companies (registered life NOHCs), and subsidiaries of life companies and registered life NOHCs; and
- (4) subsections 92(1) and (5) of the *Private Health Insurance (Prudential Supervision) Act 2015* (PHIPS Act), in relation to registered private health insurers.

On 17 April 2019, APRA made the following determinations (the Instruments):

- (1) Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2019, which revokes *Prudential Standard CPS 220 Risk Management* (CPS 220) made under Banking, Insurance, Life Insurance and Health Insurance determination No. 1 of 2017, and determines a new *Prudential Standard CPS 220 Risk Management* (CPS 220);
- (2) Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 2 of 2019, which revokes *Prudential Standard CPS 510*

Governance (CPS 510) made under Banking, Insurance, Life Insurance and Health Insurance determination No. 1 of 2018, and determines a new *Prudential Standard CPS 510 Governance* (CPS 510);

- (3) Insurance (prudential standard) determination No. 1 of 2019 which revokes *Prudential Standard GPS 110 Capital Adequacy* (GPS 110) made under Insurance determination No. 3 of 2014 and determines a new *Prudential Standard GPS 110 Capital Adequacy* (GPS 110);
- (4) Insurance (prudential standard) determination No. 2 of 2019 which revokes *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112) made under Insurance determination No. 15 of 2012 and determines a new *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112);
- (5) Insurance (prudential standard) determination No. 3 of 2019 which revokes *Prudential Standard GPS 113 Capital Adequacy: Internal Model-based Method* (GPS 113) made under Insurance determination No. 4 of 2014 and determines a new *Prudential Standard GPS 113 Capital Adequacy: Internal Model-based Method* (GPS 113);
- (6) Insurance (prudential standard) determination No. 4 of 2019 which revokes *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114) made under Insurance determination No. 1 of 2017 and determines a new *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114);
- (7) Insurance (prudential standard) determination No. 5 of 2019 which revokes *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge* (GPS 115) made under Insurance determination No. 5 of 2012 and determines a new *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge* (GPS 115);
- (8) Insurance (prudential standard) determination No. 6 of 2019 which revokes *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116) made under Insurance determination No. 6 of 2012 and determines a new *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116);
- (9) Insurance (prudential standard) determination No. 7 of 2019 which revokes *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge* (GPS 118) made under Insurance determination No. 8 of 2012 and determines a new *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge* (GPS 118);
- (10) Insurance (prudential standard) determination No. 8 of 2019 which revokes *Prudential Standard GPS 120 Assets in Australia* (GPS 120) made under Insurance determination No. 9 of 2012 and determines a new *Prudential Standard GPS 120 Assets in Australia* (GPS 120);
- (11) Insurance (prudential standard) determination No. 9 of 2019 which revokes *Prudential Standard GPS 310 Audit and Related Matters* (GPS 310) made

under Insurance determination No. 5 of 2014 and determines a new *Prudential Standard GPS 310 Audit and Related Matters* (GPS 310);

- (12) Health Insurance (prudential standard) determination No. 1 of 2019 which revokes *Prudential Standard HPS 310 Audit and Related Matters* (HPS 310) made under Health Insurance (prudential standard) determination No. 1 of 2018 and determines a new *Prudential Standard HPS 310 Audit and Related Matters* (HPS 310); and
- (13) Life Insurance (prudential standard) determination No. 1 of 2019 which revokes *Prudential Standard LPS 700 Friendly Society Benefit Funds* (LPS 700) made under Insurance determination No. 16 of 2012 and determines a new *Prudential Standard LPS 700 Friendly Society Benefit Funds* (LPS 700).

These instruments commence on 1 July 2019.

1. Background

On 31 May 2018, APRA made Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2018 which, effective 1 July 2019, revokes three actuarial prudential standards applying to general insurers, life insurers and private health insurers (*Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320), *Prudential Standard LPS 320 Actuarial and Related Matters* (LPS 320) and *Prudential Standard HPS 320 Actuarial and Related Matters* (HPS 320)) and determines *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320); a cross-industry prudential standard containing the consolidated actuarial requirements from GPS 320, LPS 320 and HPS 320.

For consistency between the industries, the valuation requirements specific to general insurance have been moved to a new *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340) which also commences on 1 July 2019.

The introduction of CPS 320 requires consequential amendments to twelve APRA prudential standards. These include two standards applying across APRA-regulated institutions in the banking, general insurance, life insurance and private health insurance industries, nine standards applicable to general insurers and one standard applicable to life insurers. As part of this process, APRA has taken the opportunity to make other practical minor and machinery updates, including a correction to one standard applicable to private health insurers.

The Instruments:

- replace references to the revoked GPS 320, LPS 320 and HPS 320 with references to the new CPS 320 and GPS 340;
- update references from the Insurance Liability Valuation Report to the Actuarial Valuation Report;
- streamline clauses regarding reliance on previous exercises of discretion by APRA;
- delete superseded transitional provisions;
- update legislative references; and

- correct typographical errors.

For general insurers, three minor changes to GPS 116 are proposed to reflect current definitions and practice and to continue the requirement for Group Actuaries to provide the Board of a Level 2 insurance group with an opinion on the Insurance Concentration Risk Charge.

2. Purpose and operation of the instruments

The purpose of each instrument is to revoke the thirteen existing prudential standards requiring consequential or minor and machinery amendments and replace them with corresponding standards which incorporate appropriate amendments.

The prudential standards which have been revoked and replaced are:

- *Prudential Standard CPS 220 Risk Management;*
- *Prudential Standard CPS 510 Governance;*
- *Prudential Standard GPS 110 Capital Adequacy;*
- *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital;*
- *Prudential Standard GPS 113 Capital Adequacy: Internal Model-based Method;*
- *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge;*
- *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge;*
- *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge;*
- *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge;*
- *Prudential Standard GPS 120 Assets in Australia;*
- *Prudential Standard GPS 310 Audit and Related Matters;*
- *Prudential Standard HPS 310 Audit and Related Matters;* and
- *Prudential Standard LPS 700 Friendly Society Benefit Funds.*

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

APRA undertook consultations on its proposed *Prudential Standard CPS 320 Actuarial and Related Matters* as part of its broader consultation on *the role of the Appointed Actuary and actuarial advice within insurers*.

The consequential amendments which the Instruments give effect to were foreshadowed as part of this consultation. As the changes are minor and machinery, APRA did not undertake consultation on the specific proposed amendments.

4. Regulation Impact Statement

A Regulation Impact Statement is not required for the machinery and minor changes described in this explanatory statement.

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).

Overview of the Legislative Instruments

The purpose of these instruments is to make consequential changes to prudential standards to reflect the introduction of CPS 320 and GPS 340 and to make other practical minor and machinery updates. The Instruments update references to the new prudential standards and change references from the Insurance Liability Valuation Report to the Actuarial Valuation Report. The Instruments also streamline clauses regarding exercises of discretion by APRA under previous prudential standards, delete outdated transitional provisions and correct typographical errors. Three minor practical changes have also been made to *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* to update definitions, clarify reporting periods and preserve reporting requirements for Group Actuaries of a Level 2 insurance group. The amendments effected by the Instruments form part of a broader review of the actuarial prudential framework designed to ensure CPS 320 and GPS 340 remain fit for purpose.

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.