



Insurance (prudential standard) determination No. 12 of 2019

Prudential Standard GPS 110 Capital Adequacy

Insurance Act 1973

I, Pat Brennan, delegate of APRA:

- (a) under subsection 32(4) of the *Insurance Act 1973* (the Act) REVOKE Insurance (prudential standard) determination No. 3 of 2014, including *Prudential Standard GPS 110 Capital Adequacy*, made under that Determination; and
- (b) under subsection 32(1) of the Act DETERMINE *Prudential Standard GPS 110 Capital Adequacy*, in the form set out in the Schedule, which applies to:
 - (i) all general insurers and authorised NOHCs; and
 - (ii) a subsidiary of a general insurer or authorised NOHC, where that subsidiary is a parent entity of a Level 2 insurance group.

This instrument commences on 1 July 2019.

Dated: 19 June 2019

[Signed]

Pat Brennan
Executive General Manager
Policy and Advice Division

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

authorised NOHC has the meaning given in section 3 of the Act.

general insurer has the meaning given in section 11 of the Act.

Level 2 insurance group has the meaning given in *Prudential Standard GPS 001 Definitions*.

parent entity has the meaning given in *Prudential Standard GPS 001 Definitions*.

Prudential Standard GPS 001 Definitions is a reference to *Prudential Standard GPS 001 Definitions* determined under Insurance (prudential standard) determination No. 2 of 2018 as in force from time to time.

subsidiary has the meaning given in *Prudential Standard GPS 001 Definitions*.

Schedule

Prudential Standard GPS 110 Capital Adequacy comprises the document commencing on the following page.



Prudential Standard GPS 110

Capital Adequacy

Objective and key requirements of this Prudential Standard

This Prudential Standard requires a general insurer or Level 2 insurance group to maintain adequate capital against the risks associated with its activities.

The ultimate responsibility for the prudent management of capital of a general insurer or Level 2 insurance group rests with its Board of directors. The Board must ensure that the general insurer or Level 2 insurance group maintains an adequate level and quality of capital commensurate with the scale, nature and complexity of its business and risk profile, such that it is able to meet its obligations under a wide range of circumstances.

The key requirements of this Prudential Standard are that a general insurer or Level 2 insurance group must:

- have an Internal Capital Adequacy Assessment Process;
- maintain required levels of capital;
- determine its prescribed capital amount having regard to a range of risk factors that may adversely impact a general insurer or Level 2 insurance group's ability to meet its obligations. These factors include insurance risk, insurance concentration risk, asset risk, asset concentration risk and operational risk;
- comply with any supervisory adjustment to capital imposed by APRA;
- make certain public disclosures about the capital adequacy position of the general insurer or Level 2 insurance group;
- seek APRA's consent for certain planned capital reductions of the general insurer or Level 2 insurance group; and
- inform APRA of any significant adverse changes in the general insurer or Level 2 insurance group's capital position.

Authority

1. This Prudential Standard is made under section 32 of the *Insurance Act 1973* (the Act).

Application

2. This Prudential Standard applies to each:
 - (a) **general insurer** authorised under the Act (**insurer**); and
 - (b) **Level 2 insurance group** as defined in *Prudential Standard GPS 001 Definitions* (GPS 001).

Where a requirement applies to a Level 2 insurance group, the requirement is imposed on the **parent entity** of the Level 2 insurance group.

3. This Prudential Standard applies to insurers and Level 2 insurance groups (**regulated institutions**) from 1 July 2019.

Interpretation

4. Terms that are defined in GPS 001 appear in bold the first time they are used in this Prudential Standard.

Responsibility for capital management

5. Capital is the cornerstone of a regulated institution's financial strength. It supports a regulated institution's operations by providing a buffer to absorb unanticipated losses from its activities and, in the event of such losses, enables the regulated institution to continue to meet its insurance obligations.
6. As a consequence of the key role played by capital in the financial strength of a regulated institution, the **Board** of a regulated institution must ensure that the regulated institution has capital that is adequate for the scale, nature and complexity of its business and its risk profile, such that it is able to meet its obligations under a wide range of circumstances.
7. In addition to the requirements in paragraph 6, the Board of the parent entity of a Level 2 insurance group must also have regard to:
 - (a) the potential for risk to compound across the group;
 - (b) concentration of capital and risk within individual entities in the group;
 - (c) guarantees and other commitments between entities in the group;
 - (d) the capital needs of individual entities in the group;
 - (e) the nature of capital held by the group, including its maturity, servicing costs and any double counting of capital within the group; and

- (f) the ability to readily transfer surplus or free capital within the group and the nature of capital that may be available to individual entities from other entities in the group, if required.

Internal Capital Adequacy Assessment Process

8. A regulated institution (except an insurer in run-off¹) must have in place an **Internal Capital Adequacy Assessment Process (ICAAP)** that must:
 - (a) be adequately documented, with the documentation made available to APRA on request; and
 - (b) be approved by the Board initially, and when significant changes are made.
9. A regulated institution's ICAAP must be appropriate to the regulated institution's size, business mix and complexity of its operations and group structure (as applicable).
10. A regulated institution that is part of a group may rely on the ICAAP of the group provided that the Board of the regulated institution² is satisfied that the group ICAAP meets the criteria in paragraph 11 of this Prudential Standard in respect of the regulated institution.
11. The ICAAP must include at a minimum:
 - (a) adequate policies, procedures, systems, controls and personnel to identify, measure, monitor and manage the risks arising from the regulated institution's activities on a continuous basis, and the capital held against such risks;
 - (b) a strategy for ensuring adequate capital is maintained over time, including specific capital targets set out in the context of the regulated institution's risk profile, the Board's risk appetite and regulatory capital requirements. This includes plans for how target levels of capital are to be met and the means available for sourcing additional capital where required;
 - (c) actions and procedures for monitoring the regulated institution's compliance with its regulatory capital requirements and capital targets. This includes the setting of triggers to alert management to, and specified actions to avert and rectify, potential breaches of the regulatory capital requirements;
 - (d) stress testing and scenario analysis relating to potential risk exposures and available capital resources;

¹ A **run-off insurer** is not required to have in place an Internal Capital Adequacy Assessment Process if it meets the requirements set out in Attachment A of this Prudential Standard. The requirements in Attachment A also replace the business plan requirements set out in *Prudential Standard CPS 220 Risk Management*.

² For the purposes of this paragraph, the Board of a **Category C insurer** refers to the **senior officer outside Australia** and Agent in Australia (as defined in section 118 of the Act).

- (e) processes for reporting on the ICAAP and its outcomes to the Board and senior management of the regulated institution, and for ensuring that the ICAAP is taken into account in making business decisions;
 - (f) policies to address the capital impact of material risks not covered by explicit regulatory capital requirements; and
 - (g) an 'ICAAP summary statement' as defined in paragraph 12.
12. The ICAAP summary statement is a high level document that describes and summarises the capital assessment and management processes of the regulated institution. It must outline at a minimum the aspects of the ICAAP listed in paragraph 11 (a) to (f) and this paragraph. The ICAAP summary statement must also include:
- (a) a statement of the objectives of the ICAAP, the expected level of financial soundness associated with the capital targets and the time horizon over which the ICAAP applies;
 - (b) a description of the key assumptions and methodologies utilised by the regulated institution in its ICAAP, including stress testing and scenario analysis;
 - (c) triggers for reviewing the ICAAP in light of changes to business operations, regulatory, economic and financial market conditions, group structure (as applicable) and other factors affecting the regulated institution's risk profile and capital resources;
 - (d) a summary of the regulated institution's policy for reviewing its ICAAP, including who is responsible for the review, details of the frequency and scope of the review, and mechanisms for reporting on the review and its outcomes to the Board and senior management;
 - (e) a description of the basis of measurement of capital used in the ICAAP, and an explanation of the differences where this basis differs from that used for regulatory capital; and
 - (f) references to supporting documentation and analysis, as relevant.
13. A regulated institution must ensure its ICAAP is subject to regular and robust review by appropriately qualified persons who are operationally independent of the conduct of capital management. The frequency and scope of the review must be appropriate to the regulated institution, having regard to its size, business mix, complexity of its operations and group structure (as applicable), and the nature and extent of any changes that have occurred or are likely to occur in its business profile or its risk appetite. A review must be conducted at least every three years. The review must be sufficient to reach a view on whether the ICAAP is adequate and effective.
14. A regulated institution must, on an annual basis, provide a report on the implementation of its ICAAP to APRA (ICAAP report). A copy of the ICAAP

report must be provided to APRA no later than three months from the date on which the report has been prepared.

15. The ICAAP report must include:

- (a) detailed information on current and three-year projected capital levels relative to minimum regulatory capital requirements and target levels;
- (b) detailed information on the actual outcomes of applying the ICAAP over the period, relative to the planned outcomes in the previous ICAAP report (including analysis of the regulated institution's actual capital position relative to minimum regulatory capital requirements and capital targets, and actual-versus-planned capital management actions);
- (c) description of material changes to the ICAAP since the previous ICAAP report;
- (d) detail and outcomes of stress testing and scenario analysis used in undertaking the ICAAP;
- (e) a breakdown of capital usage over the planning horizon, as relevant, by material:
 - (i) business activity;
 - (ii) group members (as applicable);
 - (iii) geographic spread of exposures; and
 - (iv) risk types;
- (f) an assessment of anticipated changes in the regulated institution's risk profile or capital management processes over the planning horizon;
- (g) details of any review of the ICAAP since the previous ICAAP report, including any recommendations for change and how those recommendations have been, or are being, addressed; and
- (h) references to supporting documentation and analysis, as relevant.

16. The ICAAP report submitted to APRA by the regulated institution must be accompanied by a declaration approved by the Board and signed by the CEO stating whether:

- (a) capital management has been undertaken by the regulated institution in accordance with the ICAAP over the period and, if not, a description of, and explanation for, deviations;
- (b) the regulated institution has assessed the capital targets contained in its ICAAP to be adequate given the size, business mix and complexity of its operations, and specifically for Level 2 insurance groups, given the

location of operations of group members and the complexity of the group structure; and

- (c) the information included in the ICAAP report is accurate in all material respects.

Capital base

17. In assessing the adequacy of a regulated institution's **capital base**, attention must be paid not only to the risks it is likely to face, but also to the quality of the support provided by various forms of capital. In assessing the quality of support provided by a particular form of capital, regard must be had to the extent to which it:
 - (a) provides a permanent and unrestricted commitment of funds;
 - (b) is freely available to absorb losses;
 - (c) does not impose any unavoidable servicing charges against earnings; and
 - (d) ranks behind the claims of policyholders and creditors in the event of the winding-up of the regulated institution.
18. Not all forms of capital meet these criteria equally. Due to the need to ensure that the capital base of a regulated institution provides adequate support for its activities, APRA imposes some restrictions on the composition of the capital base. The forms of capital deemed eligible for inclusion in the capital base, and the conditions as to their inclusion, are specified in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112). GPS 112 defines the different categories and components of the capital base, and the restrictions on the quality of the capital that is used to meet the required level of capital for regulatory purposes.
19. A regulated institution's balance sheet may contain certain assets (such as deferred tax assets, goodwill and other intangibles) that are acceptable from an accounting perspective. However, for supervisory purposes, such assets are either generally not available, or of questionable value, should the regulated institution encounter difficulties. A regulated institution is therefore required to make certain adjustments in determining the capital base. Details of these adjustments are specified in GPS 112.

Prudential Capital Requirement

20. This Prudential Standard establishes a risk-based approach for measuring the capital adequacy of a regulated institution. The required level of capital for regulatory purposes is referred to as the **Prudential Capital Requirement** (PCR). The PCR is intended to take account of the full range of risks to which a regulated institution is exposed.

21. A regulated institution must ensure that it has a capital base, at all times, in excess of its PCR.³
22. The PCR for a regulated institution equals:
 - (a) a **prescribed capital amount** determined either:
 - (i) by applying the 'Standard Method' set out in this Prudential Standard; or
 - (ii) by using an internal model developed by the regulated institution to reflect the circumstances of its business – the **Internal Model-based Method** (IMB Method); or
 - (iii) by using a combination of the methods specified in (i) or (ii) above; plus
 - (b) any **supervisory adjustment** determined by APRA under paragraph 36.
23. Regardless of the outcome of the method used for determining the prescribed capital amount, a regulated institution's prescribed capital amount cannot be:
 - (a) in the case of a regulated institution other than a **Category D insurer** or **Category E insurer**, less than \$5 million; and
 - (b) in the case of a Category D insurer or Category E insurer, less than \$2 million.

Standard Method

24. For regulated institutions using the Standard Method, the prescribed capital amount is determined as:
 - (a) the **Insurance Risk Charge**; plus
 - (b) the **Insurance Concentration Risk Charge**; plus
 - (c) the **Asset Risk Charge**; plus
 - (d) the **Asset Concentration Risk Charge**; plus
 - (e) the **Operational Risk Charge**; less
 - (f) an 'aggregation benefit', as defined in paragraph 31.
25. The prescribed capital amount in respect of a regulated institution determined under the Standard Method is intended to be sufficient, such that if a regulated institution was to start the year with a capital base equal to the prescribed capital amount and losses occurred at the 99.5 per cent confidence level, then the assets remaining would be at least sufficient to provide for the central estimate of the insurance liabilities and other liabilities at the end of the year. The other

³ However, this does not apply to Category C insurers: refer to paragraphs 37 to 39.

liabilities to be provided for exclude those liabilities that satisfy the criteria for inclusion in the capital base.

Insurance Risk Charge

26. The Insurance Risk Charge relates to the risk that the value of net insurance liabilities determined in accordance with *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340) is insufficient to cover associated net claim payments and associated claim expenses as they fall due. The method for determining the Insurance Risk Charge is set out in *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge*.

Insurance Concentration Risk Charge

27. The Insurance Concentration Risk Charge for a regulated institution represents the net financial impact on the regulated institution from either a single large event, or a series of smaller events, within a one year period. The determination of the Insurance Concentration Risk Charge is based on the formulae and requirements set out in *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116). For **lenders mortgage insurers**, additional requirements for calculating the Insurance Concentration Risk Charge are also set out in GPS 116.

Asset Risk Charge

28. The Asset Risk Charge relates to the risk of adverse movements in the value of a regulated institution's on-balance sheet and off-balance sheet exposures. The method for determining the Asset Risk Charge is set out in *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge* (GPS 114). Asset risk can be derived from a number of sources, including market risk and credit risk. For the purposes of this Prudential Standard and GPS 114, assets and exposures must be valued in accordance with the relevant reporting standards made under the *Financial Sector (Collection of Data) Act 2001* (Collection of Data Act).

Asset Concentration Risk Charge

29. The Asset Concentration Risk Charge relates to the risk resulting from concentrations in individual assets or large exposures to individual counterparties or groups of related counterparties. The method for determining the Asset Concentration Risk Charge is set out in *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge*.

Operational Risk Charge

30. The Operational Risk Charge relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The method for determining the Operational Risk Charge is set out in *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge*.

Aggregation benefit

31. The aggregation benefit makes an explicit allowance for diversification between asset risk and the sum of insurance risk and insurance concentration risk in the calculation of the prescribed capital amount.
32. The aggregation benefit formula is:

$$\text{Aggregation benefit} = (A + I) - \sqrt{A^2 + I^2 + 2 \times \text{correlation} \times A \times I}$$

where:

- (a) 'A' is the Asset Risk Charge;
- (b) 'I' is the sum of the Insurance Risk Charge and Insurance Concentration Risk Charge; and
- (c) 'correlation' is:
 - (i) 20 per cent for all insurers except lenders mortgage insurers;
 - (ii) 50 per cent for lenders mortgage insurers; or
 - (iii) the weighted average of the factors in sub-paragraphs (i) and (ii) for Level 2 insurance groups. The weighting of the factors must be by the size of the insurance risk charges for the non-lenders mortgage insurance and lenders mortgage insurance business, respectively.
33. The Asset Concentration Risk Charge and the Operational Risk Charge are not included in the calculation of the aggregation benefit.

APRA may adjust the Standard Method for calculating the prescribed capital amount

34. If APRA is of the view that the Standard Method for calculating the prescribed capital amount does not produce an appropriate outcome in respect of a regulated institution, or a regulated institution has used inappropriate judgement or estimation in calculating the prescribed capital amount, APRA may, in writing, adjust any aspect of the prescribed capital amount calculation for that regulated institution. If such an adjustment is applied to a regulated institution under this paragraph, the regulated institution must comply with the adjusted calculation.

Internal Model-based Method

35. A regulated institution may use its own internal capital measurement model to calculate the prescribed capital amount. Use of the IMB Method is conditional on APRA's approval.⁴ APRA approval requires a regulated institution to satisfy

⁴ Approval will take the form of a modification to this Prudential Standard pursuant to subsection 32(3A) of the Act, which permits APRA to modify a prudential standard to replace particular requirements in the standard with an in-house capital adequacy model.

a range of criteria, as set out in *Prudential Standard GPS 113 Capital Adequacy: Internal Model-based Method* (GPS 113). Regulated institutions that do not use an internal model that meets the criteria specified in GPS 113 must use the Standard Method described in this Prudential Standard.

Supervisory adjustment

36. APRA recognises that any measure of the adequacy of a regulated institution's capital involves judgement and estimation, including quantification of risks that may be difficult to quantify. If APRA is of the view that there are prudential reasons for doing so, APRA may, in writing, determine a supervisory adjustment to be included in the PCR of the regulated institution.

Category C insurers

37. By the nature of its Australian balance sheet, a **Category C insurer** will not typically have capital instruments of the type specified in GPS 112. Category C insurers are nevertheless required to meet a variant of the PCR. Specifically, Category C insurers are required to maintain assets in Australia⁵ that exceed their liabilities in Australia (adjusted for any surplus or deficit of technical provisions as required by GPS 340) (adjusted net assets in Australia) by an amount that is greater than the PCR determined by this Prudential Standard.
38. References to the capital base of a regulated institution elsewhere in this Prudential Standard are, where they are being applied to a Category C insurer, to be read as referring to 'adjusted net assets in Australia' of that insurer.
39. For further detail regarding the treatment of Category C insurers, refer to *Prudential Standard GPS 120 Assets in Australia*.

Disclosure

40. To improve the understanding of its capital adequacy position by policyholders and other market participants, a regulated institution must publish, at least annually, the following items:
- (a) the amount of **Common Equity Tier 1 Capital**;
 - (b) the aggregate amount of any regulatory adjustments applied in the calculation of Common Equity Tier 1 Capital;
 - (c) the amount of **Additional Tier 1 Capital**;
 - (d) the aggregate amount of any regulatory adjustments applied in the calculation of Additional Tier 1 Capital;
 - (e) the amount of **Tier 2 Capital**;

⁵ An asset will not be counted as an asset in Australia for the purpose of this paragraph if *Prudential Standard GPS 120 Assets in Australia* excludes it from being an asset in Australia for the purpose of paragraph 28(a) of the Act, or it is not otherwise an asset in Australia within the meaning of paragraph 28(a) of the Act.

- (f) the aggregate amount of any regulatory adjustments applied in the calculation of Tier 2 Capital;
 - (g) the total capital base derived from the items (a) to (f);
 - (h) the prescribed capital amount;
 - (i) the components of the prescribed capital amount⁶; and
 - (j) the capital adequacy multiple (item (g) divided by item (h)).
41. A regulated institution must publish the information specified in paragraph 40 so that it is readily accessible to both policyholders and other market participants.
 42. A regulated institution must not disclose any supervisory adjustment determined by APRA in accordance with paragraph 36.
 43. Compliance with paragraphs 40 and 41 by Level 2 insurance groups does not replace the obligation of insurers to comply with the disclosure requirements of this Prudential Standard. However, the parent entity of the Level 2 insurance group may make the disclosures required by this Prudential Standard on behalf of each insurer within the group.

Reductions in capital base

44. A regulated institution must obtain APRA's written approval prior to making any planned reduction in the capital base.
45. A reduction in a regulated institution's capital base includes:
 - (a) a share buyback or the redemption, repurchase or repayment of any qualifying Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital instruments issued by the regulated institution;
 - (b) trading in the regulated institution's own shares or capital instruments outside of any arrangement agreed upon with APRA in accordance with GPS 112; and
 - (c) the aggregate amount of dividend payments on ordinary shares that exceeds a regulated institution's after-tax earnings (as reported to APRA in the regulated institution's **statutory accounts**), after taking into account any payments on more senior capital instruments, in the financial year⁷ to which they relate.

⁶ This item must separately identify any transition amount approved by APRA under the **capital standards**.

⁷ 'Financial year' means the last four quarters for which the insurer was required to submit quarterly returns, or the last two six monthly periods for which the Level 2 insurance group was required to submit semi-annual returns, in accordance with reporting standards made under the Collection of Data Act, to APRA preceding the date of the proposed dividend. For avoidance of

46. A regulated institution proposing a capital reduction must provide APRA with a forecast showing the projected future capital position (including PCR) after the proposed capital reductions. The forecast should extend for at least two years.
47. A regulated institution must satisfy APRA that its capital base will remain adequate for its future needs after a proposed reduction.

Reductions in capital for run-off insurers

48. This paragraph applies to **run-off insurers** planning a reduction in capital. The insurer must submit to APRA:
 - (a) documents clearly setting out and evidencing its current financial position; and
 - (b) documents setting out the projected capital position with insurance liabilities valued in accordance with the methodology set out in GPS 340, except that the valuation must demonstrate that the tangible assets⁸ of the insurer, after the proposed capital reduction, are sufficient to cover its insurance liabilities to a 99.5 per cent level of sufficiency, plus any other liabilities, as calculated by its **Appointed Actuary**.⁹

Category C insurers

49. Any repatriation of assets in Australia, whether direct or indirect¹⁰, by a Category C insurer that will result in a reduction in its net assets in Australia must be subject to APRA's prior consent consistent with the requirements of paragraphs 44 to 47.
50. Paragraph 49 does not apply to any repatriation of assets in Australia out of the current year profits of a Category C insurer where the assets being repatriated to the head office of the Category C insurer or any other branch or **related entity** of the Category C insurer do not exceed the Category C insurer's after-tax earnings in the year to which they relate (i.e. a repatriation of assets not wholly or partly funded from retained earnings).

Materiality

51. A regulated institution must take into account materiality when calculating its capital base and prescribed capital amount. Particular values or components are considered material to the overall result of a calculation if misstating or omitting

doubt, the definition of 'financial year' in GPS 001 does not apply for the purposes of this paragraph.

⁸ Measured in accordance with the Collection of Data Act.

⁹ Where an insurer does not have an Appointed Actuary, the insurer must ensure that the actuary engaged to provide this valuation meets the fit and proper criteria applicable to an Appointed Actuary under *Prudential Standard CPS 520 Fit and Proper*.

¹⁰ For example, the head office of a Category C insurer might cause a liability of another offshore branch to become a liability of the Category C insurer in Australia. If this change is unfunded, there will effectively be a weakening of the net assets in Australia of the Category C insurer but not an actual direct repatriation of assets. APRA will view this as amounting to an indirect repatriation of assets from Australia.

them would produce results likely to be misleading to the users of the information.

Notification requirements

52. A regulated institution must inform APRA as soon as practicable of:

- (a) any breach or prospective breach of its PCR;
- (b) any significant departure from its ICAAP; or
- (c) any significant adverse changes in the capital base or PCR.

The notice must include any remedial actions taken or planned to be taken to address the situation, and the timing of these actions.

Adjustments and exclusions

53. APRA may, by notice in writing to a regulated institution, adjust or exclude a specific requirement in this Prudential Standard in relation to that regulated institution.

Determinations made under previous prudential standards

54. An exercise of APRA's discretion under a previous version of this Prudential Standard continues to have effect under this Prudential Standard. For the purposes of this paragraph, 'a previous version of this Prudential Standard' means:

- (a) *Prudential Standard GPS 110 Capital Adequacy* made on 3 December 2014; and
- (b) *Prudential Standard GPS 110 Capital Adequacy* made on 30 November 2012.

Attachment A

Run-off plan

1. Subject to Attachment A paragraphs 14 to 17 of CPS 320, a run-off insurer must at all times maintain a 'run-off plan' (including a description of the run-off insurer's approach to capital management), unless otherwise agreed to by APRA.
2. The run-off plan must be approved by the Board:
 - (a) prior to its adoption; and
 - (b) at any time it is amended during its operational cycle.
3. The run-off insurer's run-off plan must be a three-year rolling plan and the run-off insurer must review it at least annually (or as close to annually as is practicable). Under CPS 320, the Appointed Actuary of the run-off insurer must also review the run-off plan according to the requirements of CPS 320.
4. The run-off insurer must submit to APRA:
 - (a) a run-off plan after each annual review; and
 - (b) any amended run-off plan within 10 business days of Board approval.
5. APRA may, in writing, specify that a run-off plan be:
 - (a) a rolling plan of more or less than three years; and
 - (b) reviewed less frequently than as required in paragraph 3 of this Attachment;

if, having regard to the particular circumstances of the run-off insurer, APRA considers it unnecessary for the purposes of the prudential supervision of the run-off insurer.
6. A run-off insurer that is both a Category C insurer and a run-off insurer must prepare a run-off plan in respect of the Australian branch operation but with consideration given to the ability of the insurer to transfer assets into Australia in order to ensure that the requirements of this Prudential Standard are met.
7. A run-off plan must include the matters listed in paragraph 8 of this Attachment.

Matters to be included in a run-off plan

8. For the purposes of paragraph 7 of this Attachment, the following matters must be included in a run-off plan, where relevant:

Matters to be addressed in a run-off plan (to be prepared by run-off insurer)	Areas to be reviewed and assessed by Appointed Actuary¹¹
(a) Business overview, including details of significant changes to the run-off insurer's liability portfolio, assets, capital position or operating environment	Significant issues or material anomalies
(b) Details of the run-off insurer's recent experience, including the profitability for the most recent year	Significant variations between actual and expected experience, and the adequacy of past estimates
(c) Assessment of the run-off insurer's expected future claims run-off experience on a rolling three-year basis	Appropriateness of the insurer's expected future claims run-off assessment
(d) Details of the run-off insurer's asset and liability management processes, including the insurer's investment and liquidity strategies	Appropriateness of the insurer's asset and liability management processes, and investment and liquidity strategies, in light of the expected future claims run-off
(e) Details of the run-off insurer's current and projected future capital adequacy and a discussion of the insurer's approach to capital management	Appropriateness and reasonableness of the assumptions used for the capital projections and for scenario/stress-testing
(f) Assessment of the suitability and adequacy of reinsurance arrangements, including recoverability of reinsurance, documentation of reinsurance arrangements and the existence and impact of any limited risk transfer arrangements	Appropriateness of the insurer's reinsurance arrangements in light of the expected future claims run-off
(g) Details of the run-off insurer's risk management framework	Suitability and adequacy of the risk management framework

¹¹ A review of the run-off plan by the Appointed Actuary is required under CPS 320.