Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2026

Prudential Standard CPS 001 Defined terms

Banking Act 1959
Insurance Act 1973
Life Insurance Act 1995
Private Health Insurance (Prudential Supervision) Act 2015

I, Peter Kohlhagen, a delegate of APRA:

(a) under subsection 11AF(3) of the Banking Act, REVOKE *Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2025* including *Prudential Standard CPS 001 Defined terms* made under that determination;

(b) under subsection 32(4) of the Insurance Act, REVOKE *Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2025* including *Prudential Standard CPS 001 Defined terms* made under that determination;

(c) under subsection 230A(5) of the Life Insurance Act, REVOKE *Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2025* including *Prudential Standard CPS 001 Defined terms* made under that determination;

(d) under subsection 92(5) of the PHIPS Act, REVOKE *Banking, Insurance, Life Insurance and Health Insurance (prudential standard) determination No. 1 of 2025* including *Prudential Standard CPS 001 Defined terms* made under that determination;

(e) under subsection 11AF(1) of the Banking Act, DETERMINE the prudential standard which applies to all ADIs and authorised banking NOHCs;

(f) under subsection 32(1) of the Insurance Act, DETERMINE the prudential standard which applies to all general insurers and authorised insurance NOHCs and subsidiaries of general insurers or authorised insurance NOHCs, where subsidiaries are parent entities of Level 2 insurance groups;

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(g) under subsection 230A(1) of the Life Insurance Act, DETERMINE the prudential standard which applies to all life companies, including friendly societies, registered NOHCs and subsidiaries of life companies or registered NOHCs; and

(h) under subsection 92(1) of the PHIPS Act, DETERMINE the prudential standard which applies to all private health insurers.

This instrument commences on 1 July 2026.

Dated: 19 May 2026

Peter Kohlhagen
Executive Director
Policy and Advice Division

Interpretation

In this instrument:

ADI has the meaning given in section 5 of the Banking Act.

APRA means the Australian Prudential Regulation Authority.

authorised banking NOHC has the meaning given to the expression *authorised NOHC* in section 5 of the Banking Act.

authorised insurance NOHC has the meaning given to the expression *authorised NOHC* in subsection 3(1) of the Insurance Act.

friendly society has the meaning given in section 16C of the Life Insurance Act.

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

Level 2 insurance group has the meaning given in the prudential standard.

life company has the meaning given in the Schedule to the Life Insurance Act.

parent entity has the meaning given in the prudential standard.

private health insurer has the meaning given in section 4 of the PHIPS Act.

registered NOHC has the meaning given in the Schedule to the Life Insurance Act.

subsidiary has the meaning given in the *Corporations Act 2001*.

the Banking Act means the *Banking Act 1959.*

the Insurance Act means the *Insurance Act 1973*.

the Life Insurance Act means the *Life Insurance Act 1995*.

the PHIPS Act means the *Private Health Insurance (Prudential Supervision) Act 2015*.

the prudential standard means *Prudential Standard CPS 001 Defined terms* as set out in the schedule.

Schedule

Prudential Standard CPS 001 Defined terms comprises the document commencing on the following page.

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Prudential Standard CPS 001

Defined terms

Objectives and key requirements of this Prudential Standard

Prudential Standard CPS 001 Defined terms (CPS 001) is a prudential standard that supports interpretation of APRA's prudential framework. CPS 001 centralises defined terms used in the banking and insurance prudential frameworks within one prudential standard.

Some terms within this prudential standard refer, for accuracy and consistency, to definitions contained in legislative Acts, other prudential standards or standards issued by other bodies.

The terms are presented alphabetically so they can be easily looked up and apply to the APRA-regulated industry as specified at the start of each term.

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Authority

1. This Prudential Standard is made under:

   (a) section 11AF(1) of the *Banking Act 1959* (**Banking Act**);

   (b) section 32(1) of the *Insurance Act 1973* (**Insurance Act**);

   (c) section 230A(1) of the *Life Insurance Act 1995* (**Life Insurance Act**); and

   (d) paragraph 92(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (**PHIPS Act**),

   (collectively, 'Acts').

Application

2. Unless the contrary intention appears, terms in this Prudential Standard apply to:

   (a) all prudential standards made under section 11AF of the Banking Act;

   (b) all prudential standards made under section 32 of the Insurance Act;

   (c) all prudential standards made under section 230A of the Life Insurance Act; and

   (d) all prudential standards made under paragraph 92(1) of the PHIPS Act,

   (collectively, '**Relevant Prudential Standards**').

3. This Prudential Standard applies to all APRA-regulated institutions defined as:

   (a) all **authorised deposit-taking institutions** (**ADIs**), including **foreign ADIs**, and **non-operating holding companies** authorised under the Banking Act;

   (b) all **general insurers**, including **Category C insurers**, non-operating holding companies authorised under the Insurance Act (authorised insurance NOHCs) and **subsidiaries** of general insurers or authorised insurance NOHCs, where subsidiaries are **parent entities** of **Level 2 insurance groups**;

   (c) all **life companies**, including **friendly societies** and **eligible foreign life insurance companies**, **registered NOHCs** and subsidiaries of life companies or registered NOHCs; and

   (d) all **private health insurers**.

4. APRA-regulated institutions are to comply with Relevant Prudential Standards as though references in those Relevant Prudential Standards to *Prudential Standard APS 001 Definitions*, *Prudential Standard GPS 001 Definitions*, *Prudential Standard HPS 001 Definitions*, *Prudential Standard LPS 001 Definitions* and

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Prudential Standard 3PS 001 Definitions are references to this Prudential Standard.

5. Defined terms appear in bold the first time they are used in this Prudential Standard.

Interpretation

6. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulation, Prudential Standard, **Australian Accounting Standard** or **Australian Auditing and Assurance Standard** is a reference to the Act, Regulation, Prudential Standard, Australian Accounting Standard or Australian Auditing and Assurance Standard as it exists from time to time.

7. In this Prudential Standard, the indicators in square brackets appearing before each defined term refer to the industry context in which the definition applies as follows:

   (a) '[ADI]' indicates that the relevant definition applies in the context of APRA-regulated institutions specified in paragraph 3(a) of this Prudential Standard;

   (b) '[GI]' indicates that the relevant definition applies in the context of the APRA-regulated institutions specified in 3(b) of this Prudential Standard;

   (c) '[LI]' indicates that the relevant definition applies in the context of APRA-regulated institutions specified in 3(c) of this Prudential Standard; and

   (d) '[PHI]' indicates that the relevant definition applies in the context of APRA-regulated institutions specified in 3(d) of this Prudential Standard.

   Where a combination of indicators in square brackets appear before a defined term, it indicates that the relevant definition applies in each of those industry contexts.

Key terms

8. Key terms referred to in the Relevant Prudential Standards are defined as follows:

   [ADI, GI, LI, PHI] **AASB** means the Australian Accounting Standards Board.

   [ADI] **account-holder** has the meaning in section 5 of the Banking Act.

   [GI] **accounts** of a Level 2 insurance group, for the purposes of the prudential requirements applicable to Level 2 insurance groups, refers to accounts constituting reporting documents required to be prepared by the parent entity of the group in compliance with reporting standards made under the **FSCODA** and includes both annual accounts and half-yearly accounts in respect of a group's **financial year**.

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[PHI] **accrued premium** for the relevant class of business, is calculated as follows:

$$Accrued\ premium = Premiums\ received - A + B$$

where:

A equals premiums in advance at the end of the specified period minus premiums in advance at the start of the specified period;

B equals **unpaid premiums** at the end of the specified period minus unpaid premiums at the start of the specified period; and

premiums must be inclusive of relevant levies, loadings and discounts.

This item should be calculated net of any reinsurance arrangements.

[GI] **acquisition expenses** means the fixed and variable expenses of a **regulated institution** to the extent they are, either directly or indirectly, referable to those activities of the company related to the acquiring of that new or renewal business expected to derive from the expenditure.

[LI] **acquisition expenses** means the fixed and variable expenses of a **life company** to the extent they are, either directly or indirectly, referable to those activities of the company related to the acquiring of that new business expected to derive from the expenditure.

[GI, LI] **Actuarial Valuation Report** (AVR) is as defined in *Prudential Standard CPS 320 Actuarial and Related Matters*.

[ADI] **Additional Tier 1 Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[GI] **Additional Tier 1 Capital** is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **Additional Tier 1 Capital** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **Additional Tier 1 Capital** is as defined in *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **adequacy threshold** is the minimum value for expected future profits of a subcategory under *Prudential Standard LPS 340 Valuation of Policy Liabilities* - i.e. it is the level at which losses must be recognised. Subcategory is defined in the Life Insurance Act.

[LI] **adjusted policy liabilities** means the liabilities to policy owners as defined for the purpose of determining the capital base of a **statutory fund** and **general fund** in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

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[LI] **Advanced Illiquidity Premium** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital.*

[LI] **Advanced Illiquidity Premium Declaration** is as defined in *Prudential Standard CPS 320 Actuarial and Related Matters*.

[GI] **agent in Australia** has the same meaning as in the Insurance Act.

[ADI] **AIRB** refers to an advanced internal-ratings based approach to credit risk, as defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

[GI] **Appointed Actuary** means an actuary appointed under section 39(1)(b) of the Insurance Act.

[LI] **Appointed Actuary** means an actuary appointed under section 93 of the Life Insurance Act.

[PHI] **Appointed Actuary** has the same meaning as in the PHIPS Act.

[ADI] **appointed auditor** means an auditor appointed for the purposes of *Prudential Standard APS 310 Audit and Related Matters*.

[GI] **appointed auditor** means an auditor appointed under paragraph 39(1)(a) of the Insurance Act.

[PHI] **appointed auditor** means an auditor appointed for the purposes of *Prudential Standard HPS 310 Audit and Related Matters*.

[LI] **approved benefit funds** refers to friendly society benefit funds approved by APRA according to the provisions of *Prudential Standard LPS 700 Friendly Society Benefit Funds* and the Life Insurance Act.

[LI] **APRA product groups** means the product groups listed and defined in *Reporting Standard LRS 001 Reporting Requirements*. The product groups are to be used for the purpose of completing the information required under *Reporting Standard LRS 200.0 Capital Adequacy Supplementary Information*.

[GI] **APRA-authorised reinsurer** means an **insurer** carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Insurance Act is an APRA-authorised reinsurer if it carries on reinsurance business. The Australian Reinsurance Pool Corporation is also considered an APRA-authorised reinsurer for the purposes of this definition.

[PHI] **APRA-authorised reinsurer** means an APRA-regulated insurer carrying on reinsurance business for a private health insurer.

[LI] **Assets backing illiquid liabilities** means assets held to meet best estimate **illiquid liability** cashflows. The value of the assets backing the illiquid liability cashflows may vary from the value of the assets backing the adjusted policy liabilities.

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[GI] **Asset Concentration Risk Charge** means the risk charge determined under *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge*.

[LI] **Asset Concentration Risk Charge** means the risk charge determined under *Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge*.

[PHI] **Asset Concentration Risk Charge** means the risk charge determined under *Prudential Standard HPS 117 Capital Adequacy: Asset Concentration Risk Charge*.

[GI] **Asset Risk Charge** means the risk charge determined under *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge*.

[LI] **Asset Risk Charge** means the risk charge determined under *Prudential Standard LPS 114 Capital Adequacy: Asset Risk Charge*.

[PHI] **Asset Risk Charge** means the risk charge determined under *Prudential Standard HPS 114 Capital Adequacy: Asset Risk Charge*.

[GI, LI, PHI] **associate** means an associate as defined under *Australian Accounting Standard AASB 128 Investments in Associates and Joint Ventures*.

[ADI, GI, LI, PHI] **AUASB** refers to the Auditing and Assurance Standards Board.

[ADI, GI, LI, PHI] **Australian Accounting Standards** is a reference to the Australian Accounting Standards issued by the AASB.

[ADI, GI, LI, PHI] **Australian Auditing and Assurance Standards** or **Auditing and Assurance Standards** is a reference to the Australian Auditing and Assurance Standards issued by the AUASB.

[GI] **Australian business** of a Level 2 insurance group, for the purposes of the prudential requirements applicable to Level 2 insurance groups, means **insurance business** carried on (whether in Australia or elsewhere) by any **Level 1 insurer** within the group.

[ADI] **Australian-owned ADI** refers to an ADI that is not a **foreign-owned ADI**.

[ADI, GI, LI, PHI] **authorised deposit-taking institution** (ADI) means a deposit-taking institution authorised by APRA under the Banking Act. It includes foreign ADIs as defined in the Banking Act.

[ADI] **authorised NOHC** has the same meaning as in the Banking Act.

[GI] **authorised NOHC** has the same meaning as in the Insurance Act.

[ADI] **Banking Act** refers to the *Banking Act 1959*.

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[PHI] **benefits incurred** are the value of all insurance claims incurred during the period for the relevant class of business, net of risk equalisation expense, net of reinsurance and include ambulance levies. This is to include the value of services provided in lieu of a benefit payment and movements in the **central estimate** of outstanding claims liabilities.

[LI] **best estimate assumptions** means assumptions about future experience determined in accordance with *Prudential Standard LPS 340 Valuation of Policy Liabilities*.

[LI] **best estimate bonus** refers to the maximum level of **bonus** which (on best estimate assumptions and taking into account a life company's profit distribution philosophy, including shareholder entitlements) can be added to a **participating benefit** over its benefit life without supplementary income from other sources, including policy owner retained profits.

[LI] **best estimate discretionary addition** means the level of **discretionary addition** which (on best estimate assumptions and taking into account a life company's crediting philosophy) can be added to a **non-participating benefit** over its benefit life without supplementary income from other sources, including policy owner retained profits.

[LI] **best estimate liability** is calculated in accordance with *Prudential Standard LPS 340 Valuation of Policy Liabilities* and refers to the amount expected on best estimate assumptions to be required to the end of the benefit period to meet future benefits and expenses related to past transactions for the business in force. The calculation process will take into account all factors which are known to be material, including future investment earnings, taxation, any options under the policies and future premiums, where relevant to the calculation.

[LI] **best estimate shareholder profit** refers to the maximum level of **shareholder profit** which (on best estimate assumptions and taking into account a life company's profit distribution philosophy, including policy owner entitlements) can be attributed to shareholders without supplementary income from other sources, including shareholders' retained profits.

[ADI] **Board** means the board of directors of an institution or, where relevant, the **senior officer outside Australia**.

[GI] **Board** means the board of directors or, where relevant, the **senior officer outside Australia**.

[LI] **Board** means the board of directors and includes, for an **Eligible Foreign Life Insurance Company**, the Compliance Committee as required under subsection 16ZF(4) of the Life Insurance Act.

[PHI] **Board** means the board of directors of an institution.

[PHI] **Board Audit Committee** has the same meaning as in *Prudential Standard CPS 510 Governance*.

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[PHI] **Board Remuneration Committee** has the same meaning as in *Prudential Standard CPS 510 Governance*.

[PHI] **Board Risk Committee** has the same meaning as in *Prudential Standard CPS 510 Governance*.

[LI] **bonus** means an amount of profit added at the discretion of a life company (including additions in respect of investment experience) to the benefits due under a participating benefit but excluding any guaranteed rate of addition also applicable to the benefit.

[ADI, GI, PHI] **business day** means a day that is not a Saturday, a Sunday or a public holiday or bank holiday in the place concerned.

[GI, LI, PHI] **business plan** refers to a written business plan as part of a general insurer, Level 2 insurance group, life company or private health insurer's **risk management framework** as required under *Prudential Standard CPS 220 Risk Management*.

[LI] **capital adequacy standards** collectively refers to all prudential standards relating to the capital adequacy of life companies and falls within the meaning of prudential standards in relation to capital adequacy referred to under the Life Insurance Act.

[GI] **capital base** is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **capital base** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **capital base** is as defined in *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital*.

[GI] **capital standards** refers collectively to all **GI Prudential Standards** relating to capital adequacy.

[PHI] **capital standards** refers collectively to all PHI Prudential Standards relating to capital adequacy.

[PHI] **cash** has the meaning given in Australian Accounting Standards Standard 107.6.

[GI] **Category A insurer** means an insurer incorporated in Australia. This category excludes all insurers falling within any of the other categories. For the purposes of clarification, wholly-owned subsidiaries of **corporate groups** that are not **insurance groups** fall into this category where they do not already fall into another category of insurer under this Prudential Standard. Category A insurers could be mutual companies or shareholder companies.

[GI] **Category B insurer** means an insurer that is:

(a) incorporated in Australia; and

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(b) a subsidiary of a local or foreign insurance group.

Category B insurers are part of a local or foreign insurance group. They could be subsidiaries of mutual or shareholder companies. An **insurance group captive** is not a Category B insurer.

[GI] **Category C insurer** means a 'foreign general insurer' defined under subsection 3(1) of the Insurance Act. A Category C insurer is a foreign insurer operating as a foreign branch in Australia and could be a branch of a foreign mutual or shareholder company.

[GI] **Category D insurer** means an insurer incorporated in Australia that:

(a) is owned by an industry or a professional association, or by the members of the industry or professional association, or a combination of both; and

(b) only underwrites business risks of the members of the association or those who are eligible, under the articles of association or constitution of the association, to become members of the association; but

(c) is not a medical indemnity insurer as defined under the *Medical Indemnity Act 2002*.

Category D insurers are often referred to as 'association captives' and could be mutual companies or shareholder companies.

[GI] **Category E insurer** means an insurer incorporated in Australia that is a:

(a) **corporate captive** as defined in this Prudential Standard; or

(b) **partnership captive** as defined in this Prudential Standard.

Category E insurers, often referred to as 'sole parent captives', will generally be shareholder companies.

[ADI] **CCR** refers to counterparty credit risk.

[PHI] **central estimate** means an estimate of the mean of the range of possible outcomes of any calculation required under *Prudential Standard HPS 110 Capital Adequacy*.

[ADI] **Cheques Act** refers to the *Cheques Act 1986*.

[PHI] **Chief executive officer** has the same meaning as in the PHIPS Act.

[PHI] **claims component** is the central estimate of claims that a private health insurer expects to incur. For the outstanding claims liabilities, this includes:

(a) claims payable for claims that have been reported, but are not yet settled at balance date;

(b) claims that have been incurred, but not yet reported; and

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(c) claims that have been administratively settled, but which may be reopened.

For each outstanding claims liabilities and premiums liabilities, the claims component is to be calculated gross of reinsurance and non-reinsurance recoverables.

[GI, PHI] **claims handling expenses** are the costs that a regulated institution expects to incur in the management and settling of claims, which includes an appropriate allocation of business overheads such as claims department and corporate office overheads. For the outstanding claims liability, this includes the cost of future claims management, claims administration expenses for all incurred claims and the establishment expenses of not yet reported claims. For premiums liabilities, this includes claims management and claims administration expenses for claims establishment and run-off.

[PHI] **claims incurred** are the value of all insurance claims incurred during the period for the relevant class of business, gross of risk equalisation, net of reinsurance. This is to include the value of services provided in lieu of a benefit payment and movements in the central estimate of outstanding claims liabilities.

[GI] **classes of business**, including **direct classes of business** and **reinsurance classes of business**, are defined in Attachment B to this Prudential Standard.

[LI] **commencement** means the time from which a life company is at risk under a policy.

[ADI] **Common Equity Tier 1 Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[GI] **Common Equity Tier 1 Capital** is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **Common Equity Tier 1 Capital** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **Common Equity Tier 1 Capital** is as defined in *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **company** means:

(a) a company within the meaning of the **Corporations Act**; and

(b) a constitutional corporation.

[PHI] **complying health insurance product** has the same meaning as in the PHIPS Act.

[ADI] **conglomerate group** is as defined in Attachment A to this Prudential Standard.

[PHI] **constitutional corporation** has the same meaning as in the PHIPS Act.

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[GI] **controlled entity** of a non-operating holding company or insurer, for the purposes of the prudential requirements applicable to Level 2 insurance groups, means a subsidiary as defined in Australian Accounting Standards for the purposes of determining the entities included in consolidated general purpose financial statements.

[GI] **corporate agent** has the same meaning as in the Insurance Act.

[GI] **corporate captive** means an insurer that:

(a) is owned by a single company or a group of related bodies corporate; and

(b) exists for the purpose of underwriting risks of the parent company or members of a group of related entities, which may include the risks of joint venture partners and contractors of members of the group of companies.

Corporate captives include insurance group captives.

[ADI] **corporate finance activities** includes underwriting and any holdings of equity or debt arising from underwriting, arranging, facilitation, and management activities such as those associated with securitisation, mergers and acquisitions or privatisations and syndication activities that are undertaken, predominantly, with the intention of earning a fee. Corporate finance activities also includes longer term positions in equities that are held for strategic reasons and holdings in equity instruments, or in instruments that exhibit characteristics that are more like equity than debt, that arise as a consequence of loan restructurings.

[PHI] **corporate governance** means a system by which an APRA-regulated institution is directed and controlled.

[GI, LI, PHI] **corporate group** is a group of entities comprising two or more companies that are related bodies corporate within the meaning of section 50 of the Corporations Act.

[ADI, GI, LI, PHI] **Corporations Act** refers to the *Corporations Act 2001*.

[GI, LI, PHI] **counterparty grade** refers to the classification applied to an investment or exposure as per the requirements of Attachment C to this Prudential Standard.

[ADI] **credit rating grades** means grades of credit ratings to which **ECAI** ratings are mapped, and that correspond to relevant asset risk weights.

[LI] **current termination value** refers to the **termination value** of a policy at the reporting date.

[GI, PHI] **debt obligations** for the purposes of the Asset Risk Charge and Asset Concentration Risk Charge refers to all loans, deposits, placements, interest rate securities and other receivables.

[LI] **defined benefit fund** is as defined in *Prudential Standard LPS 700 Friendly Society Benefit Funds*.

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[LI] **defined contribution fund** is as defined in *Prudential Standard LPS 700 Friendly Society Benefit Funds*.

[GI] **direct classes of business** are as defined in Attachment B to this Prudential Standard.

[GI] **director** has the same meaning as in the Insurance Act.

[LI] **discretionary addition** means an amount added to a non-participating benefit, at the discretion of a life company, to reflect the investment experience of the assets backing the benefit, but excluding any guaranteed rate of addition also applicable to the benefit. For this definition an amount added to a benefit is defined to mean any change to the previously applying contractual conditions that is beneficial to the policy owner.

[LI] **discretionary participation feature** means a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

(a) that are likely to be a significant portion of the total contractual benefits;

(b) the amount or timing of which is contractually at the discretion of the issuer; and

(c) that are contractually based on:

  (i) the performance of a specified pool of contracts or a specified type of contract;

  (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

  (iii) the profit or loss of the company, fund or other entity that issues the contract.

A policy with a discretionary participation feature can provide benefits that are either participating benefits or non-participating benefits.

[LI] **education bond business** means a form of **unbundled investment business** where the policies provide for the payment of a benefit for the specific purpose of contributing towards the expenses of, and incidental to, the education of the beneficiary.

[LI] **Eligible Foreign Life Insurance Company** (EFLIC) has the meaning given in section 16ZD of the Life Insurance Act.

[ADI, GI, LI, PHI] **ensure**, when used in relation to a responsibility of the Board, means to take all reasonable steps and make all reasonable enquiries as are appropriate for a Board so that the Board can determine, to the best of its knowledge, that the stated matter has been properly addressed.

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[LI] **establishment fee** is a fee received at the commencement of a policy which is intended to, at least partially, cover acquisition expenses. It does not include contingent entitlement to exit fees or surrender penalties.

[GI] **expected reinsurance recoveries** means any amounts due to an insurer, or to an entity that carries on **international business** within a Level 2 insurance group, from a reinsurer that arise from the recognition of premiums liabilities referred to in the GI Prudential Standards (including *Prudential Standard GPS 340 Insurance Liability Valuation*). This is distinguished from **reinsurance recoverables**.

[PHI] **expected reinsurance recoveries** means any amounts due to a private health insurer from a reinsurer that arise from the recognition of premiums liabilities referred to in the PHI Prudential Standards (including *Prudential Standard HPS 340 Insurance Liability Valuation*). This is distinguished from reinsurance recoverables.

[LI] **expense category** refers to a grouping of expenses directly or indirectly referable to **life business**. For the purposes of prudential standards, three categories of expense are defined: acquisition expenses, **maintenance expenses** and **investment management expenses**.

[LI] **expense driver** means a quantifiable measure in relation to which the relevant expenses of a life company are expected to vary.

[LI] **experience profit** means the profit arising in a period from the difference between actual experience during that period and expected experience on the basis of best estimate assumptions at the beginning of the period.

[ADI] **extended licensed entity** (ELE) is comprised of an ADI and each subsidiary of that ADI as specified in any approval granted by APRA in accordance with *Prudential Standard APS 222 Associations with Related Entities*.

[ADI] **external credit assessment institution (**ECAI**)** means an entity that assigns credit ratings designed to measure the creditworthiness of a counterparty or certain types of debt obligations of a counterparty.

[GI, LI, PHI] **fair value** has the same meaning as it does in the Australian Accounting Standards and refers to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

[GI, LI, PHI] **Financial Condition Report** (FCR) is as defined in *Prudential Standard CPS 320 Actuarial and Related Matters*.

[ADI] **financial institution** includes any institution engaged substantively in one or more of the following activities – banking; leasing; issuing credit cards; portfolio management (including asset management and funds management); management of securitisation schemes; equity and/or debt securities, futures and commodity trading and broking; custodial and safekeeping services; insurance (both general and life) and similar activities that are ancillary to the conduct of

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these activities. A financial institution includes any authorised NOHC or overseas equivalent.

[LI] **financial instrument element** means the activities and associated cash flows of a **life investment contract** that relate directly to the establishment of a financial asset or financial liability.

[PHI] **financial interdependency**, in relation to a group of related counterparties, means a circumstance in which the financial soundness of one counterparty in the group may affect the financial soundness of another counterparty in the group.

[LI] **financial risk** refers to the risk of a possible future change in one or more specified economic variables – a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

[GI] **financial year**, in relation to a Level 2 insurance group, means the financial year (within the meaning of the Corporations Act) of the parent entity of the Level 2 insurance group.

[ADI] **FIRB** refers to Foundation IRB, as defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

[LI] **fixed term/rate business** means policies which provide for guaranteed investment returns at a disclosed rate for a specified period. The guaranteed returns may be paid in the form of income or as capital at maturity. The specified period of the guarantee may be the full term of the policy, or may be to an interim point at which the option exists to 'roll' the policy for a further specified period at a new guaranteed return.

[ADI] **foreign ADI** has the meaning in section 5 of the Banking Act.

[ADI] **foreign-owned ADI** means an ADI in relation to which an approval has been given, under section 14 of the *Financial Sector (Shareholdings) Act 1998*, for a bank that is not locally incorporated to hold a stake of more than 20 per cent in the ADI.

[LI] **friendly society** has the meaning given in section 16C of the Life Insurance Act.

[ADI, GI, LI, PHI] **FSCODA** means the *Financial Sector (Collection of Data) Act 2001*.

[LI] **funeral bond business** means policies providing continuous insurance against the contingency of death on terms and conditions agreed at the commencement of the policy, where:

(a) the primary purpose of the benefit is to meet the expenses of, and incidental to, the funeral of the policy owner, their spouse or children; and

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(b) the amount of the benefit (excluding any entitlement to bonus) is no greater than $15,000.

[LI] **general fund** means the management fund for a friendly society or the shareholders' fund for a life company other than a friendly society.

[PHI] **general fund** consists of the operations of a private health insurer that do not form part of a **health benefits fund** of the private health insurer. This includes assets, liabilities, revenue and expenses not attributed to a health benefits fund.

[GI] **general insurer** has the meaning given in section 11 in the Insurance Act.

[ADI] **general market risk** means the risk of loss owing to changes in the general level of market prices or interest rates. It arises from positions in interest rate, equities, foreign exchange and commodities.

[ADI] **general provisions** means provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified.

[PHI] **general treatment** has the same meaning as in the **PHI Act**.

[GI] **GI Prudential Standards** are all prudential standards made under section 32 of the Insurance Act.

[PHI] **gross margin** means the difference between accrued premium and benefits incurred (inclusive of State levies), as a proportion of accrued premium.

[LI] **gross policy liability** is as defined in *Prudential Standard LPS 340 Valuation of Policy Liabilities*.

[ADI] **group** refers to a **Level 2 group** or a **Level 3 group** and, more generally, refers to a corporate group that comprises more than one company that are related bodies corporate within the meaning of section 50 of the Corporations Act.

[GI] **group** means a **Level 2 group** or **Level 3 group**.

[GI] **Group Actuary** is as defined in *Prudential Standard CPS 320 Actuarial and Related Matters*.

[GI] **Group Auditor** is as defined in *Prudential Standard GPS 310 Audit and Related Matters*.

[ADI, GI] **head of a group** means a **Level 2 Head** or **Level 3 Head**, as relevant.

[PHI] **health benefits fund** has the same meaning as in the PHIPS Act.

[PHI] **health insurance business** (HIB) has the same meaning as in the PHIPS Act.

[PHI] **health-related business** has the same meaning as in the PHIPS Act.

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[PHI] **health-related insurance business** (HRIB) means the insurance component of health-related business such as insurance for overseas visitors and students.

[PHI] **hospital treatment** has the same meaning as in the PHI Act.

[GI] **ICAAP report** is as described in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **ICAAP report** is as described in *Prudential Standard LPS 110 Capital Adequacy*.

[GI] **ICAAP summary statement** is as described in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **ICAAP summary statement** is as described in *Prudential Standard LPS 110 Capital Adequacy*.

[LI] **illiquid liability** means the liability for policies to which the Advanced Illiquidity Premium applies.

[LI] **illiquidity premium** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **immediate life annuity** is an annuity that is not unbundled investment business and is not a variable annuity, where the next annuity payment is due within 12 months and payments continue until the death of the life insured. This includes deferred annuities that have commenced payment.

[GI] **Insurance Act** means the *Insurance Act 1973*.

[GI] **insurance business** has the same meaning as in the Insurance Act.

[GI] **Insurance Concentration Risk Charge** means the risk charge determined under *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge*.

[LI] **insurance contract** means a contract under which one party (the insurer) accepts significant **insurance risk** from another party (the policy owner) by agreeing to compensate the policy owner if a specified uncertain future event (the insured event) adversely affects the policy owner.

[GI] **insurance group** means a group of entities comprising:

(a) a company that is either:

(i) an insurer; or

(ii) an authorised non-operating holding company of an insurer; and

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(b) one or more controlled entities, including, but not limited to, subsidiary companies and trusts, or parent companies of the company referred to in subparagraph (a),

within a corporate group. There may be more than one insurance group within a corporate group. An insurance group includes but is not necessarily limited to a Level 2 insurance group as defined in this Prudential Standard.

[GI] **insurance group captive** means an insurer that:

(a) is a subsidiary of an insurer or an authorised NOHC; and

(b) exists for the purpose of reinsuring the risks of the insurer or members of the insurance group, which may include the risks of joint venture partners of the members of the insurance group.

[LI] **insurance risk** refers to risk, other than financial risk, transferred from the holder of a contract to the issuer.

[GI] **Insurance Risk Charge** means the risk charge determined under *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge*.

[LI] **Insurance Risk Charge** means the risk charge determined under *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge*.

[PHI] **Insurance Risk Charge** means the risk charge determined under *Prudential Standard HPS 115 Capital Adequacy: Insurance Risk Charge*.

[GI] **insurer** means a general insurer as defined in the Insurance Act, other than in *Prudential Standard CPS 320 Actuarial and Related Matters*.

[ADI] **Internal Capital Adequacy Assessment Process** (ICAAP) is as described in *Prudential Standard APS 110 Capital Adequacy*.

[GI] **Internal Capital Adequacy Assessment Process** (ICAAP) is as described in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **Internal Capital Adequacy Assessment Process** (ICAAP) is as described in *Prudential Standard LPS 110 Capital Adequacy*.

[PHI] **Internal Capital Adequacy Assessment Process** (ICAAP) is as described in *Prudential Standard HPS 110 Capital Adequacy*.

[ADI] **Internal ratings-based (IRB) approach to credit risk** refers to the approach to credit risk, as defined in *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk*.

[GI] **international business** of a Level 2 insurance group means, for the purposes of the prudential requirements applicable to Level 2 insurance groups, insurance business carried on by any entity within the group that is not authorised under the Insurance Act.

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[LI] **investment account benefit** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **investment account contract** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **investment fluctuation reserve** means a reserve used for smoothing discretionary additions for non-participating benefits. For the purpose of the capital adequacy standards the investment fluctuation reserve is defined to be the difference between the value of the assets administered for the purpose of a subcategory and the aggregate value of the accounts under the policies belonging to that subcategory.

[LI] **investment management expenses** means the fixed and variable expenses of a life company to the extent they are, either directly or indirectly, referable to managing the company's investment portfolio.

[LI] **investment performance guarantee** means an investment performance guarantee in accordance with section 42 of the Life Insurance Act.

[LI] **investment-linked benefit** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **investment-linked contract** has the meaning given in the Dictionary to the Life Insurance Act.

[ADI] **IRB approval** refers to the written approval from APRA for an ADI to adopt the IRB approach.

[ADI] **IRRBB** means interest rate risk in the banking book: the risk of loss in earnings or in the economic value on banking book items as a consequence of movements in interest rates.

[ADI] **legal risk** includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions as well as ordinary damages in civil litigation, related legal costs and private settlements.

[GI] **lenders mortgage insurance** has its ordinary commercial meaning and includes insurance under a policy that protects a lender from losses in the event of borrower default on a loan secured by a mortgage over residential or other property.

[GI] **lenders mortgage insurer** means an insurer that has written or reinsured, or proposes to write or reinsure, policies of lenders mortgage insurance.

[ADI] **Level 1** means either the ADI itself or the ELE.

[GI] **Level 1 insurer**, for the purposes of the prudential requirements applicable to Level 2 insurance groups, means an individual insurer that is authorised under the Insurance Act and is part of a Level 2 insurance group.

[ADI] **Level 2** means either:

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(a) if the ADI is not a subsidiary of an authorised NOHC and the ADI has subsidiaries in addition to those included in its ELE, the consolidation of the ADI and all its subsidiary entities other than **non-consolidated subsidiaries**; or

(b) if the ADI is a subsidiary of an authorised NOHC, the consolidation of the immediate parent NOHC of the ADI and all the immediate parent NOHC's subsidiary entities (including any ADIs and their subsidiary entities) other than non-consolidated subsidiaries;

unless APRA otherwise determines, in writing, a different Level 2 composition for a group of companies of which the ADI is a member.

[ADI] **Level 2 group** means the entities that comprise Level 2.

[GI] **Level 2 group** means the entities that comprise a Level 2 insurance group.

[ADI] **Level 2 Head** means:

(a) where an ADI that is a member of a Level 2 group is not a subsidiary of an authorised banking NOHC or another ADI, that ADI; or

(b) where an ADI that is a member of a Level 2 group is a subsidiary of an authorised banking NOHC, that authorised banking NOHC.

[GI] **Level 2 Head** means the parent entity of a Level 2 insurance group.

[GI] **Level 2 insurance group** is as defined in Attachment A to this Prudential Standard.

[ADI, GI, LI] **Level 3 group** means the institutions determined by APRA to be members of a Level 3 group, whether determined by reference to individual institutions and/or classes of institution.

APRA may determine a Level 3 group where it considers that material activities are performed within the group across more than one prudentially regulated industry and/or in one or more non-prudentially regulated industries, to ensure that the ability of the group's prudentially regulated institutions to meet their obligations to depositors, policyholders or **RSE** beneficiaries is not adversely impacted by risks emanating from the group, including its non-prudentially regulated institutions.

[ADI] **Level 3 Head** means an ADI or authorised NOHC under the Banking Act determined by APRA to be Level 3 Head of a Level 3 group.

[GI] **Level 3 Head** means a general insurer or authorised NOHC under the Insurance Act determined by APRA to be Level 3 Head of a Level 3 group.

[LI] **Level 3 Head** means a life company or registered NOHC under the Life Insurance Act determined by APRA to be Level 3 Head of a Level 3 group.

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[ADI, GI, LI] **Level 3 institution** means an institution that is a member of the Level 3 group.

[ADI] **Level 3** means the conglomerate group at the widest level.

[LI] **life business** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **life company** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **Life Insurance Act** means the *Life Insurance Act 1995*.

[LI] **life insurance contract** means an insurance contract or a financial instrument with a discretionary participation feature which is regulated under the Life Insurance Act.

[LI] **life investment contract** means a contract other than a life insurance contract which is regulated under the Life Insurance Act.

[ADI, GI] **limited assurance** is as defined according to *Framework for Assurance Engagements* issued by the AUASB.

[ADI] **listed** refers to an institution admitted to, and not removed from, a securities exchange.

[ADI] **locally-incorporated ADI** refers to an ADI that is incorporated in Australia or in a State or Territory of Australia, by or under Commonwealth, State or Territory legislation.

[LI] **long term risk business** refers to policies providing continuous insurance against the contingency of death, other than solely by accident, on terms and conditions agreed at the commencement of the policy, where:

(a) a level premium is paid through the term of the policy;

(b) the term of the policy is:

  (i) greater than or equal to 15 years; and

  (ii) such that the life insured is aged greater than 70 at the expiry of that term; and

(c) the amount of insurance (excluding any entitlement to bonus) is greater than $15,000.

[LI] **maintenance expenses** means the fixed and variable expenses of a life company to the extent they are, either directly or indirectly, associated with:

(a) the company's administration of policies subsequent to their sale, including policies subject to claim; and

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(b) the general operations, including maintenance of the overall health, of the company.

Maintenance expenses include all operating costs and expenses other than acquisition expenses and investment management expenses.

[ADI] **mark-to-model** refers to any valuation that has to be benchmarked, extrapolated or otherwise calculated from a market input.

[ADI] **material currency** means a currency for which the total book value of an ADI's banking book items in that currency is more than five per cent of the total book value of all banking book items. In determining whether a currency is material, the effect of currency hedges that reduce foreign currency exposure may be taken into account, provided those hedges are effective.

[PHI] **material risks** are those risks that could have a material impact, both financial and non-financial on the APRA-regulated institution, or on the interests of depositors and/or policy holders of the APRA-regulated institution. Material risks may include, but are not limited to, the examples included in *Prudential Standard CPS 220 Risk Management*.

[LI] **minimum paid-up value** is as defined in *Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values*.

[LI] **minimum surrender value** is as defined in *Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values*.

[LI] **minimum termination value** is as defined in *Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values*.

[ADI] **model approval** refers to the written approval from APRA to an ADI to adopt an internal model approach to a particular risk.

[ADI] **most significant financial institution** (MSFI) means an ADI or authorised NOHC that:

(a) is a significant financial institution, and

(b) has total assets[1] in excess of AUD $300 billion, and 12 months have elapsed since its total assets first exceeded AUD $300 billion; or

(c) is determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

[ADI] **net credit balance** has the meaning in section 5 of the Banking Act.

[1] The value of total assets at a particular time is the total assets as last reported to APRA under *Reporting Standard ARS 322.0 Statement of Financial Position (Consolidated)* or *Reporting Standard ARS 720.0 ABS/RBA Statement of Financial Position* for ADIs that do not report under ARS 322.0.

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[LI] **net life contract liabilities** equals the sum of the insurance, reinsurance and investment contract liabilities (net of insurance and reinsurance assets) disclosed in the statutory accounts determined under Australian Accounting Standards.

[ADI] **netting** refers to the process under a netting agreement of combining all relevant outstanding transactions between two counterparties and reducing them to a single net sum for a party to either pay or receive.

[GI, PHI] **non-APRA-authorised reinsurer** means any reinsurer that is not an APRA-authorised reinsurer.

[ADI] **non-consolidated subsidiaries** is as defined in Attachment A to this Prudential Standard.

[ADI] **non-operating holding company** (NOHC) has the meaning in section 5 of the Banking Act.

[GI] **non-operating holding company** (NOHC) has the meaning in the Insurance Act.

[LI] **non-operating holding company** (NOHC) has the meaning in the Life Insurance Act.

[PHI] **non-operating holding company** (NOHC) has the meaning in the Insurance Act.

[LI] **non-participating benefit** has the meaning given in section 15 of the Life Insurance Act.

[GI, PHI] **non-reinsurance recoveries** are recoveries determined under *Prudential Standard CPS 320 Actuarial and Related Matters* that do not relate to exposures to a reinsurer.

[ADI] **non-significant financial institution** (non-SFI) means an ADI or authorised NOHC that is not a **significant financial institution**.

[GI] **non-significant financial institution** (non-SFI) means an insurer, authorised NOHC or parent entity of a Level 2 insurance group that is not a **significant financial institution**.

[LI] **non-significant financial institution** (non-SFI) means a life company or registered NOHC that is not a **significant financial institution**.

[PHI] **non-significant financial institution** (non-SFI) means a private health insurer that is not a **significant financial institution**.

[ADI] **offshoring** means the outsourcing by an ADI of a material business activity associated with its Australian business to a service provider (including a related body corporate) where the outsourced activity is to be conducted outside Australia.

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[LI] **operating profit** has the same meaning as in section 58 of the Life Insurance Act.

[ADI] **operational risk** means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks.

[GI] **Operational Risk Charge** is the risk charge determined under *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge*.

[LI] **Operational Risk Charge** is the risk charge determined under *Prudential Standard LPS 118 Capital Adequacy: Operational Risk Charge*.

[PHI] **Operational Risk Charge** is the risk charge determined under *Prudential Standard HPS 118 Capital Adequacy: Operational Risk Charge*.

[ADI] **ordinary shares** for **Regulatory Capital** purposes must meet the criteria in Attachment B to *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[PHI] **other business expenses** means the expenses associated with the management of the insurer. This includes claims handling expenses, and does not include benefits incurred, taxes or expenses ceded through a reinsurance arrangement.

[LI] **other liability** refers to a liability according to general accounting concepts, other than a policy liability or a liability in respect of an instrument that is eligible to be included in the capital base.

[PHI] **outstanding claims risk size margin** of a health benefits fund is as defined in *Prudential Standard HPS 115 Capital Adequacy: Insurance Risk Charge*.

[GI] **parent entity** is as defined in Attachment A to this Prudential Standard.

[LI] **participating benefit** has the same meaning as in section 15 of the Life Insurance Act.

[LI] **participating policy liability** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[GI] **partnership captive** means an insurer that:

(a) is owned by a partnership; and

(b) exists for the purpose of underwriting the business risks of the partners and/or the partnership.

[PHI] **PHI Act** means the *Private Health Insurance Act 2007*.

[PHI] **PHIPS Act** means the *Private Health Insurance (Prudential Supervision) Act 2015*.

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[GI, PHI] **policy administration expenses** are costs that a general insurer, Level 2 insurance group or private health insurer expects to incur in administering policies, which includes an appropriate allocation of business overheads such as corporate office overheads. This includes, but is not limited to, policy management and administration expenses to allow for the cost of managing unexpired policies for which the entity is on risk.

[PHI] **policy holder** has the same meaning as in the PHIPS Act.

[ADI, GI, LI] **policyholder** means a policyholder as referred to in the Insurance Act or a policy owner as referred to in the Life Insurance Act.

[LI] **policy liability** has the same meaning as in the Dictionary to the Life Insurance Act.

[LI] **policy owner profit share** means the entitlement of the policy owner to share in the profits emerging from the benefits.

[ADI] **PPF provider** or **purchased payment facility provider** refers to an ADI with authority to provide purchased payment facilities.

[GI] **prescribed capital amount** is as defined in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **prescribed capital amount** is as defined in *Prudential Standard LPS 110 Capital Adequacy*.

[PHI] **prescribed capital amount** is as defined in *Prudential Standard HPS 110 Capital Adequacy*.

[ADI] **Privacy Act** refers to the *Privacy Act 1988*.

[PHI] **private health insurer** has the same meaning as in the PHIPS Act.

[PHI] **probability of adequacy** means the percentile required to meet individual elements of *Prudential Standard HPS 110 Capital Adequacy*.

[ADI] **Prudential Capital Requirement** (PCR) means the minimum amount of Regulatory Capital that an ADI or NOHC must hold as defined in *Prudential Standard APS 110 Capital Adequacy*.

[GI] **Prudential Capital Requirement** (PCR) means the minimum amount of capital an insurer or Level 2 insurance group must hold as defined in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **Prudential Capital Requirement** (PCR) is as defined in *Prudential Standard LPS 110 Capital Adequacy*.

[PHI] **Prudential Capital Requirement** (PCR) means the minimum amount of capital that an insurer must hold as defined in *Prudential Standard HPS 110 Capital Adequacy*.

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[ADI] **prudential disclosures** means the minimum requirements relating to the disclosure by an ADI of information about its capital adequacy under *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information*.

[GI] **prudential matters** has the same meaning as in the Insurance Act.

[ADI] **prudential requirements** include requirements imposed by the Banking Act, prudential standards made under the Banking Act, reporting standards made under FSCODA, conditions on the ADI's authorisation and any other requirements imposed by APRA in writing.

[GI] **prudential requirements** include requirements imposed by the Insurance Act, the *Insurance Regulations 2002*, prudential standards determined under the Insurance Act, the FSCODA, reporting standards, conditions imposed under the Insurance Act on the insurer's authorisation, directions issued by APRA pursuant to the Insurance Act and any other requirements imposed by APRA in writing.

[LI] **prudential requirements** include requirements imposed by the Life Insurance Act, the *Life Insurance Regulations 1995*, prudential standards determined under the Life Insurance Act, the FSCODA, reporting standards made under FSCODA, conditions imposed under the Life Insurance Act on the life company's authorisation, directions issued by APRA pursuant to the Insurance Act and other requirements imposed by APRA in writing.

[PHI] **prudential requirements** include requirements imposed by the PHIPS Act, prudential standards and APRA rules made under the PHIPS Act, reporting standards made under FSCODA, conditions imposed at the time of registration under the PHIPS Act and any other requirements imposed by APRA in writing.

[ADI, GI, LI] **prudentially regulated institution** means an ADI, general insurer, life company, RSE licensee, authorised NOHC under the Banking Act or the Insurance Act, or registered NOHC under the Life Insurance Act.

[ADI] **RBA** refers to the Reserve Bank of Australia.

[ADI] **reasonable assurance** is defined in accordance with the *Framework for Assurance Engagements* issued by the AUASB.

[LI] **registered NOHC** has the same meaning as in the Life Insurance Act.

[LI] **regular premium business** means business under life policies where:

(a) there exists a contractual obligation on the policy owner to make subsequent premium payments after the first premium payment; or

(b) the scale or level of charges levied against the policy distinguishes between first and subsequent premiums.

[GI] **regulated institutions** refers collectively to both insurers and Level 2 insurance groups.

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[ADI] **Regulatory Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[GI, LI, PHI] **reinsurance** refers to all arrangements where some part of individual or aggregate insurance risks are ceded to another company or companies and include cessions of direct writing companies to reinsurance companies or other direct writing companies and parent companies as well as retrocessions of **reinsurers** to their parent companies or other reinsurers.

[GI] **Reinsurance Arrangements Statement** is as defined in *Prudential Standard GPS 230 Reinsurance Management*.

[GI, PHI] **reinsurance assets** in relation to an insurer or an entity that carries on international business within a Level 2 insurance group or in relation to a private health insurer comprises:

(a) reinsurance recoverables; and

(b) expected reinsurance recoveries.

[GI] **reinsurance classes of business** are as defined in Attachment B to this Prudential Standard.

[GI] **Reinsurance Management Strategy** is as defined in *Prudential Standard GPS 230 Reinsurance Management*.

[GI] **reinsurance recoverables** means any amounts due to an insurer, or to an entity that carries on international business within a Level 2 insurance group, from a reinsurer that arise from the recognition of outstanding claims liabilities referred to in the capital standards and *Prudential Standard CPS 320 Actuarial and Related Matters*. This is distinguished from expected reinsurance recoveries and forms part of reinsurance assets.

[PHI] **reinsurance recoverables** means any amounts due to a private health insurer from a reinsurer that arise from the recognition of outstanding claims liabilities referred to in the capital standards and *Prudential Standard CPS 320 Actuarial and Related Matters*.

[LI] **reinsured best estimate liability** means the component of the **reinsured policy liability**, being the best estimate liability in respect of outwards reinsurance business.

[LI] **reinsured policy liability** is as defined in *Prudential Standard LPS 340 Valuation of Policy Liabilities*.

[LI, PHI] **reinsurer** means any company providing reinsurance, whether a parent company, direct writing company or reinsurance company.

[ADI, GI, LI, PHI] **related body corporate** or **related company** has the same meaning as in section 50 of the Corporations Act.

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[GI, LI, PHI] **related entity** means an entity which is a 'related party' within the meaning of the relevant Australian Accounting Standards.

[GI] **related firms**, in the context of appointed auditors, Appointed Actuaries and Reviewing Actuaries, means either two or more firms, or a firm and a body corporate, that have common ownership or management, or where one has a substantial shareholding in the other.

[ADI] **relevant group of bodies corporate** has the meaning in section 5 of the Banking Act.

[GI, PHI] **reporting date** is the last day of the relevant **reporting period** of the general insurer, Level 2 insurance group or private health insurer.

[GI, LI, PHI] **reporting period** is the period that the general insurer, Level 2 insurance group, life company or private health insurer is required to report under the relevant reporting standards made under FSCODA.

[GI] **responsible auditor** is as defined in *Prudential Standard CPS 520 Fit and Proper*.

[PHI] **responsible persons** has the same meaning as in *Prudential Standard CPS 520 Fit and Proper*.

[LI] **retail business** means life business which is not **wholesale business**.

[GI] **Reviewing Actuary** means an actuary appointed by an insurer for the purpose of reviewing the AVR under *Prudential Standard CPS 320 Actuarial and Related Matters*.

[LI] **risk business** refers to policies that only provide for benefits to be paid to policy owners on the death or disability of the life insured, or if the life insured is found to have a specific disease or injury. The policies must not provide participating benefits or discretionary additions to benefits and must not be **traditional business** or funeral bond business.

[PHI] **risk equalisation** is the payments to be made to or receivables expected from the Risk Equalisation Special Account for the relevant period. Risk Equalisation Special Account has the same meaning as in the PHIPS Act.

[ADI, GI, LI, PHI] **risk management declaration** is as defined in *Prudential Standard CPS 220 Risk Management*.

[ADI, GI, LI, PHI] **risk management framework** is as defined in *Prudential Standard CPS 220 Risk Management*.

[ADI, GI, LI, PHI] **risk management strategy** is as defined in *Prudential Standard CPS 220 Risk Management*.

[LI] **risk-free best estimate liability** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

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[LI] **risk-free discount rate** for liabilities denominated in Australian currency means the rate (or rates) based on the yields of Commonwealth Government Securities that relate to the term of the future liability cash flows. If the term of the liability cash flows exceeds the maximum available term of Commonwealth Government Securities, APRA expects other instruments with longer terms to be used as a reference point for the purpose of extrapolation unless the insurer can demonstrate there are no other suitable instruments. Adjustments must be made to remove any allowances for credit risk and illiquidity that are implicit in the yields on these instruments. For foreign liabilities, the rate (or rates) must be based on the yields of highly liquid sovereign risk securities in the currency of the policy liabilities and with counterparty grade 1. If there are no securities satisfying these requirements, other instruments may be used as a reference point. Adjustments must be made to remove any allowances for credit risk and illiquidity that are implicit in the yields on these instruments.

[ADI, GI, LI] **RSE** means a registrable superannuation entity as defined in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

[ADI, GI, LI] **RSE licensee** has the meaning given in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

[GI] **run-off insurer** means an insurer that is closed to new business and has not written renewal business for a period of at least 12 months.

[LI] **seed capital** means an amount transferred, with the approval of APRA, from the management fund of a friendly society to one of its approved benefits funds for the purpose of meeting the capital standards for the benefit fund.

[PHI] **senior management** means a person who has or exercises any senior management responsibilities for the private health insurer.

[ADI, GI, LI] **senior management** means senior managers as defined in *Prudential Standard CPS 520 Fit and Proper*.

[ADI] **senior manager** has the meaning in the Banking Act.

[GI] **senior manager** has the meaning in the Insurance Act.

[LI] **senior manager** has the meaning in the Life Insurance Act.

[ADI] **senior officer outside Australia** is the senior nominated officer of a foreign ADI (whether a director or senior executive) outside Australia with delegated authority from the Board to be responsible for overseeing the Australian branch operation.

[GI] **senior officer outside Australia** is as defined in *Prudential Standard CPS 510 Governance*.

[LI] **servicing expense reserve** is as defined in *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge*.

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[LI] **servicing expenses** refers to the combination of maintenance expenses and investment management expenses.

[LI] **shareholder profit** is the amount of profit attributable to the shareholders.

[LI] **shareholder profit share** means the entitlement of the shareholder to share in the profit emerging from the benefits.

[LI] **shareholders' retained profits (Australian participating)** has the meaning given in the Dictionary to the Life Insurance Act.

[LI] **shareholders' retained profits (overseas and non-participating)** has the meaning given in the Dictionary to the Life Insurance Act.

[ADI] **significant financial institution** (SFI) means an ADI or authorised NOHC that is either:

(a) not a foreign ADI and has total assets[2] in excess of AUD $30 billion, and 12 months have elapsed since its total assets first exceeded AUD $30 billion; or

(b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

[GI] **significant financial institution** (SFI) means an insurer, authorised NOHC or parent entity of a Level 2 insurance group that is either:

(a) not a Category C insurer and has total assets[3] in excess of AUD $10 billion; or

(b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

[LI] **significant financial institution** (SFI) means a life company or registered NOHC that is either:

(a) not an EFLIC and has total assets[4] in excess of AUD $10 billion; or

(b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

[PHI] **significant financial institution** (SFI) means a private health insurer that either:

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[2] The value of total assets at a particular time is the total assets as last reported to APRA under *Reporting Standard ARS 322.0 Statement of Financial Position (Consolidated)* or *Reporting Standard ARS 720.0 ABS/RBA Statement of Financial Position* for ADIs that do not report under ARS 322.0.

[3] The value of total assets at a particular time is the total assets as last reported to APRA under *Reporting Standard GRS 300.0 Statement of Financial Position*.

[4] The value of total assets at a particular time is the total assets as last reported to APRA under *Reporting Standard LRS 300.0 Statement of Financial Position*.

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(a) has total assets[5] in excess of AUD$3 billion; or

(b) is determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.

[PHI] **single equivalent units** (SEUs) has the same meaning as in the *Private Health Insurance (Risk Equalisation Policy) Rules 2015*.

[LI] **single premium business** is life business which is not regular premium business.

[GI] **small insurer** means an insurer that satisfies the following criteria:

(a) the gross insurance liabilities of the insurer are less than $20 million when valued in accordance with *Prudential Standard CPS 320 Actuarial and Related Matters*; and

(b) the gross insurance liabilities of the insurer do not include a material amount in respect of long-tail business (comprising classes of business where the claims are typically settled more than one year after the date of occurrence of the event that gives rise to the claim).

[ADI] **SMEs** refers to small and medium-sized enterprises.

[GI, LI, PHI] **solicited credit rating** means a rating that has been initiated and paid for by the issuer or rated counterparty or a commercial associate of the issuer or rated counterparty.

[LI] **solvency standard** refers to *Prudential Standard LPS 100 Solvency Standard* and falls within the meaning of prudential standards in relation to solvency referred to under the Life Insurance Act.

[LI] **special purpose review** is a review relating to a life company's operations, risk management or financial affairs and is conducted by an Appointed Actuary or another actuary when requested to do so in writing by APRA, under *Prudential Standard CPS 320 Actuarial and Related Matters*.

[GI, LI, PHI] **Special Purpose Vehicle** (SPV) refers to an entity that is not a related entity and the activities of which are restricted to the acquisition and financing of specific assets.

[LI] **specialist reinsurer** refers to a statutory fund of a registered life company where all policies referable to the fund are reinsurance policies and none of the policies is owned by a related entity of the life company.

[ADI] **specific provisions** means provisions held against non-performing exposures, or performing exposures that represent identified losses.

[5] The value of total assets at a particular time is the total assets as last reported to APRA under *Reporting Standard HRS 300.0 Statement of Financial Position*.

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[LI] **Standard Illiquidity Premium** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital.*

[GI] **Standard Method** is as defined in *Prudential Standard GPS 110 Capital Adequacy*.

[ADI] **Standardised Approach to credit risk** refers to the approach to credit risk outlined in *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk*.

[GI, LI, PHI] **statutory accounts** means the reporting documents that a general insurer, a life company or a private health insurer is required to lodge with APRA under section 13 of FSCODA.

[LI] **statutory fund** means a statutory fund of a life company other than a friendly society, or an approved benefit fund of a friendly society.

[LI] **stressed policy liabilities** is as defined in *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge*.

[ADI, GI] **subsidiary** has the meaning in the Corporations Act.

[PHI] **substantial shareholder** means a person with a substantial holding within the meaning given by section 9 of the Corporations Act.

[LI] **superannuation business** is as defined in the Life Insurance Act.

[GI] **supervisory adjustment** is as defined in *Prudential Standard GPS 110 Capital Adequacy*.

[LI] **supervisory adjustment** is as defined in *Prudential Standard LPS 110 Capital Adequacy*.

[PHI] **supervisory adjustment** is as defined in *Prudential Standard HPS 110 Capital Adequacy*.

[LI] **term certain annuity** is an annuity that is not unbundled investment business and is not a variable annuity, where the next annuity payment is due within 12 months and payments continue for a fixed term that is not dependent on the survival of the life insured.

[PHI] **terminating management** has the same meaning as in the PHIPS Act.

[LI] **termination value** is as defined in *Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values*.

[ADI] **third party** means an entity that is not the ADI or a related body corporate of the ADI.

[ADI] **Tier 1 Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

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[GI] **Tier 1 Capital** is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **Tier 1 Capital** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **Tier 1 Capital** is as defined in *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital*.

[ADI] **Tier 2 Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[GI] **Tier 2 Capital** is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital*.

[LI] **Tier 2 Capital** is as defined in *Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital*.

[PHI] **Tier 2 Capital** is as defined in *Prudential Standard HPS 112 Capital Adequacy: Measurement of Capital*.

[ADI] **Total Capital** is as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

[LI] **traditional business** refers to whole of life and endowment policies with either a single premium or with regular premiums that are level throughout the term for which premiums are payable. Regular premiums are level if each premium is the same, or if the premium can only be increased due to indexation of the sum insured or policy fee, or because the life company increases its premium rates. Traditional business excludes funeral bond business, unbundled investment business, fixed term/rate business and annuity business.

[LI] **unbundled investment business** refers to life business that is not risk business, where the costs of the investment and the other services provided under the policy are separately disclosed to policy owners. Unbundled investment business excludes variable annuities and funeral bond business, but includes all other types of investment account business and investment-linked business.

[GI, PHI] **unclosed business** refers to premium revenue from insurance policies that have not yet been processed, but for which the general insurer, Level 2 insurance group or private health insurer is liable at the valuation date. There may be insufficient information available to report an exact amount of premium.

[LI, PHI] **unpaid premium** means the value of premiums due but not received. Premiums are defined as gross of commissions and before profit share rebates (for example included in group insurance and reinsurance contracts issued). Premiums must also be inclusive of stamp duty, policy fees, loadings and discounts.

[LI] **value of supporting assets** means the value of assets determined in accordance with Part C of *Prudential Standard LPS 340 Valuation of Policy Liabilities* as being available to support the life company's participating business.

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[LI] **variable annuity** means a policy with benefits calculated by reference to the value of the units allocated to the policy, but the benefits may exceed the value of those units in specified circumstances.

[LI] **wholesale business** means superannuation business where the effective purchasing decision is made by a trustee or company except that where the number of members has always been less than five it is retail business.

[ADI, GI, LI] **wider conglomerate group** means the group comprising all institutions within a consolidated group at the widest level to which the Level 3 group belongs.

[GI] **yearly statutory accounts** has the same meaning as in the Insurance Act.

[PHI] **yearly statutory accounts** has the same meaning as in FSCODA.

Previous exercise of discretion

9. An APRA-regulated institution must contact APRA if it seeks to place reliance, for the purposes of complying with Relevant Prudential Standards, on an exemption or other exercise of discretion by APRA made under a previous version of this Prudential Standard.

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Attachment A - Groups

Conglomerate group for ADIs

1. A conglomerate group is a group of companies that are related to each other within the meaning of section 50 of the Corporations Act where the group includes one or more ADIs that have been incorporated within Australia.

2. Subject to paragraph 3 of this Attachment, unless determined in writing by APRA, a conglomerate group must be headed by an ADI or an authorised NOHC and may include non-financial (commercial) as well as financial entities (regulated and unregulated). A reference to a regulated entity in a conglomerate group refers to any entity directly regulated by APRA or by an equivalent banking or insurance prudential regulator overseas.

3. A foreign-owned locally incorporated ADI and its subsidiaries will constitute a conglomerate group for the purposes of this Prudential Standard. However, where a foreign-owned ADI has a locally incorporated NOHC parent, the conglomerate group will comprise the locally incorporated NOHC (even if it is not an authorised NOHC) and all its subsidiaries. The ADI's foreign parent(s), the foreign parent's overseas-based subsidiaries and their directly owned non-ADI entities operating in Australia will not form part of the conglomerate group. APRA, however, expects the foreign parent to be subject to regulatory oversight broadly consistent with that applied by APRA and, if requested by APRA, to provide APRA with information concerning activities of its subsidiaries outside the Australian conglomerate group.

Non-consolidated subsidiaries for ADIs

4. For the purposes of determining an ADI's capital adequacy at Level 2, all banking and other financial activities (subject to paragraph 5 of this Attachment), both regulated and unregulated, conducted within the banking group must be consolidated.

5. Consolidation at Level 2 must cover the global operations of:

   (a) an ADI and all its subsidiaries; or

   (b) where an ADI is a subsidiary of an authorised NOHC, the ADI's immediate parent NOHC and all the immediate parent NOHC's subsidiaries,

   as well as any other controlled banking entities, securities entities and other financial entities, except for entities involved in the following business activities:

   (c) insurance (including friendly societies and health funds);

   (d) acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management;

   (e) non-financial (commercial) operations; and

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(f) securitisation special purpose vehicles, to which assets have been transferred in accordance with the operational requirements for regulatory capital relief outlined in Attachment A of *Prudential Standard APS 120 Securitisation.*

Level 2 insurance groups for general insurers

6. A Level 2 insurance group is:

(a) where there is no authorised NOHC and an insurer has controlled entities, the consolidation of the insurer and its controlled entities, subject to paragraphs 7 to 9 (inclusive) of this Attachment; or

(b) where there is an authorised NOHC, the consolidation of the authorised NOHC and its controlled entities, subject to paragraphs 7 to 9 (inclusive) of this Attachment; or

(c) where there is no authorised NOHC and an insurer does not have controlled entities, the consolidation of the insurer and any entity that meets the following criteria:

(i) the entity is subject to control by an entity or group of related entities that are the same or very similar to the entity or group of related entities that control the insurer;

(ii) the entity conducts insurance business or business related to insurance business[6]; and

(iii) APRA determines, in writing, that the entity is to be consolidated.

However, APRA may, in writing, determine that a group that meets subparagraph (a) or (b) is not to be treated as a Level 2 insurance group.

7. For the purposes of the prudential supervision of insurance groups at Level 2, all entities conducting insurance business (subject to paragraphs 8 and 9 of this Attachment), both regulated and unregulated, within the insurance group must be consolidated. Consolidation at Level 2 must be in accordance with the requirements of the Australian Accounting Standards for the production of consolidated financial statements except where APRA determines under paragraph 8 that an additional entity is to be consolidated or where an entity is to be treated as a non-consolidated subsidiary under paragraph 9.

8. APRA may, in writing, determine that an entity is to be consolidated, despite that entity not being a controlled entity of the insurer or authorised NOHC, if:

(a) the entity is subject to control by an entity or group of related entities that are the same or very similar to the entity or group of related entities that control other members of the Level 2 insurance group; and

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6 This includes controlled entities which provide a financing role to the insurance business, insurance intermediaries and service companies.

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(b) it conducts insurance business or business related to insurance business.[7]

9. The following types of controlled entities are to be treated as 'non-consolidated subsidiaries'[8] (unless APRA, in writing, determines otherwise):

(a) prudentially regulated entities that are neither insurers nor entities carrying on international business;

(b) entities acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management (including superannuation or pension fund business);

(c) entities involved in non-financial (commercial) operations;

(d) securitisation special purpose vehicles to which assets and/or liabilities have been transferred in accordance with any prudential standard made under section 32 of the Insurance Act; and

(e) an entity that APRA has determined, in writing, is to be deconsolidated because APRA is satisfied that its principal business is not related to any insurance business of the group or is immaterial to the group's total business.

10. Subject to paragraph 11, the parent entity of a Level 2 insurance group is:

(a) where the Level 2 insurance group is headed by an authorised NOHC, the authorised NOHC; and

(b) where the Level 2 insurance group is headed by an insurer, the insurer.

Note: 'authorised NOHC' does not refer to the holding company of a wider corporate group which includes the Level 2 insurance group where the holding company has not been authorised under the Act as a NOHC.

11. APRA may, in writing, determine that a different entity within a Level 2 insurance group (which must be an insurer, authorised NOHC or a subsidiary of an insurer or authorised NOHC) is the parent entity of that group.

12. APRA may apply transition arrangements to a Level 2 insurance group in respect of entities that would otherwise be consolidated within the group. APRA may agree, in writing, upon these arrangements with such Level 2 insurance groups on a case-by-case basis to allow a transition period before these entities are required to be consolidated within a Level 2 insurance group.

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7 This includes controlled entities that provide a financing role to the insurance business, insurance intermediaries and service companies.

8 However, any entity specified in subparagraphs (a), (b), (c) and (d) that is not material may be consolidated.

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Attachment B - Classes of business for a general insurer

1. Direct classes of business referred to in the GI Prudential Standards are defined as follows:

(a) **Householders**

This class covers the common Householders policies, including the following classes/risks:

(i) Contents;

(ii) Personal property;

(iii) Arson; and

(iv) Burglary.

Public liability normally attaching to these products is to be separated and included in the Public and Product Liability class of business – item (m). Similarly, Domestic Workers' Compensation attaching to these products is to be separated and included in the Employers' Liability class of business – item (q).

(b) **Commercial Motor**

Motor vehicle insurance (including third party property damage) other than insurance covering vehicles defined below under Domestic Motor. It includes long and medium haul trucks, cranes and special vehicles, and policies covering fleets.

(c) **Domestic Motor**

Motor vehicle insurance (including third party property damage) covering private use motor vehicles including utilities and lorries, motor cycles, private caravans, box and boat trailers, and other vehicles not normally covered by business or commercial policies.

(d) **Travel**

Insurance against losses associated with travel including loss of baggage and personal effects, losses on flight cancellations and overseas medical costs.

(e) **Fire and Industrial Special Risks (ISR)**

Fire

Includes all policies normally classified as 'Fire' and includes:

(i) Sprinkler leakage;

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(ii) Subsidence;

(iii) Windstorm;

(iv) Hailstone;

(v) Crop;

(vi) Arson; and

(vii) Loss of profits and any extraneous risk normally covered under fire policies, e.g. flood.

ISR

Standard policy wordings exist for this type of policy. All policies that contain such standard wordings or substantially similar wording are to be classified as ISR.

(f) **Marine**

Includes Marine Hull and Marine Liability (including pleasure craft), and Marine Cargo (including sea and inland transit insurance).

(g) **Aviation**

Aviation, including aircraft hull and aircraft liability.

(h) **Mortgage**

Insurance against losses to a lender in the event of borrower default on a loan secured by a mortgage over residential or other property.

(i) **Consumer Credit Insurance (CCI)**

Insurance to protect a consumer's ability to meet the loan repayments on personal loans and credit card finance in the event of death or loss of income due to injury, illness or unemployment.

(j) **Other Accident**

Includes the following types of insurance:

(i) Miscellaneous accident (involving cash in transit, theft, loss of money);

(ii) All risks (baggage, sporting equipment, guns);

(iii) Engineering when not part of ISR or Fire policy;

(iv) Plate glass when not part of packaged policy (e.g. Householders);

(v) Livestock;

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(vi) Pluvius; and

(vii) Sickness and Accident, which, by the terms of the policy, provides benefits for no more than 3 years.

(k) **Other**

All other insurance business not specifically mentioned elsewhere. It includes:

(i) Trade Credit;

(ii) Extended Warranty (includes insurance by a third party for a period in excess of the manufacturer's or seller's normal warranty);

(iii) Kidnap and Ransom; and

(iv) Contingency.

(l) **Compulsory Third-Party Motor Vehicle (CTP)**

This class consists only of CTP business.

(m) **Public and Product Liability**

(i) Public Liability covers legal liability to the public in respect of bodily injury or property damage arising out of the operation of the insured's business. Product Liability includes policies that provide for compensation for loss and/or injury caused by, or as a result of, the use of goods and environmental clean-up caused by pollution spills where not covered by Fire and ISR policies.

(ii) Includes Builders Warranty Insurance.

(iii) Includes public liability attaching to Householders policies.

(n) **Professional Indemnity (PI)**

PI covers professionals against liability incurred as a result of errors and omissions made in performing professional services that has resulted in economic losses suffered by third parties.

(o) **Directors and Officers (D&O)**

(i) D&O covers directors and officers of a company, and the company itself, for liability in the event of a legal action brought for alleged wrongful acts in their capacity as directors and officers.

(ii) Cover for legal expense is generally included in this type of policy.

(p) **Cyber**

Cyber insurance provides first party and third-party coverage in respect to the insured's exposures relating to indemnified cyber events.

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(q) **Employers' Liability (EL)**

Includes:

(i) Workers' Compensation;

(ii) Seamen's Compensation; and

(iii) Domestic Workers' Compensation.

2. **Reinsurance classes of business** referred to in the GI Prudential Standards are defined in accordance with both the direct classes of business defined in paragraph 1 of this Attachment and by the following types of reinsurance classification:

(a) **Proportional reinsurance**

This refers to either:

(i) traditional forms of quota share and/or surplus reinsurance placed on a treaty reinsurance basis; or

(ii) reinsurance written on an individual offer and acceptance basis;

where the reinsurer and reinsured share, in proportion, the premium and losses of the reinsured.

(b) **Non-proportional reinsurance**

This refers to either:

(i) traditional forms of excess of loss reinsurance arrangements written on a treaty reinsurance arrangement basis; or

(ii) reinsurance written on an individual offer and acceptance basis;

where the reinsurer pays losses only above an agreed retention/deductible up to an agreed maximum limit.

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Attachment C - Counterparty grades for a general insurer, life company and private health insurer

1. Unless otherwise determined by APRA, assets subject to credit risk must be assigned a counterparty grade using one of the following methods:

   (a) for publicly rated assets refer to paragraphs 2 and 3 of this Attachment;

   (b) for non-publicly rated assets secured by a residential mortgage refer to paragraphs 8 to 12 of this Attachment. An asset secured by a residential mortgage comprises an investment held by way of a registered lien, charge or mortgage over residential property. The valuation must have been performed by a qualified valuer. The property cannot be a speculative construction or a property development;

   (c) assets other than those referred to in (a) and (b) may be rated using private external ratings or a general insurer, Level 2 insurance group, a life company or a private health insurer's own ratings, but only with the prior approval of APRA;

   (d) assets other than those referred to in (a) and (b) that have not been rated using methods approved by APRA must be assigned a counterparty grade of 5; or

   (e) for life companies, the following additional requirements apply to assets backing policies that are subject to the Advanced Illiquidity Premium within a statutory fund:

      (i) for assets assigned a counterparty grade of 5 under (d), a life company must reassign a counterparty grade of 7 to the amount that exceeds 10% of the value of the assets held against adjusted policy liabilities and PCR in respect of the policies that are subject to the Advanced Illiquidity Premium.

      This does not apply to assets that are subject to the limit under (e)(ii);

      (ii) for assets that are privately rated by rating agencies recognised in this Attachment, without APRA approval, a life company can assign a counterparty grade according to Table 1 and Table 2 of this Attachment instead of assigning a counterparty grade of 5 under (d), for up to 15% of the value of the assets held against adjusted policy liabilities and PCR in respect of the policies that are subject to the Advanced Illiquidity Premium. A life company may only take this approach subject to meeting the conditions in (e)(iii).

      For the amount that exceeds the 15% limit, a life company must assign a counterparty grade of 7;

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(iii) the conditions for applying the approach set out in (e)(ii) are as follows:

(A) the asset is not a securitisation exposure;

(B) the external rating is a solicited credit rating;

(C) a life company must only use an external rating that takes into account and reflects the entire amount of credit risk exposure that the life company has with regard to its debt security holdings;

(D) a life company must perform due diligence to ensure that the external ratings appropriately and conservatively reflect the risk characteristics of the counterparty exposure. If the due diligence analysis reflects higher risk characteristics than that implied by the exposure's external rating, the life company must assign a counterparty grade at least one grade lower than the grade determined by the external rating. Due diligence analysis must not result in the application of a counterparty grade that is higher than the grade determined by the external rating;

(E) a life company must not use credit ratings for one exposure within a corporate group to determine the counterparty grade for other exposures within the same group. If a counterparty exposure is guaranteed, the guarantee may be recognised for the purposes of assigning the counterparty grade if treatment of collateral and guarantee as risk mitigants meets the criteria set out in *Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge*; and

(F) a life company must have timely access to rating updates and analysis. The external rating must not be a point in time rating and it must be monitored and updated in line with the rating agency's standard policies for public ratings. The external rating must reflect the same standard of information, rigour, analysis, approval process and reporting as that applied in generating a public external rating; and

(iv) APRA may, in writing, approve an increase to the limits stated under (e)(i) and (e)(ii) if it is satisfied with the risk profile and quality of the underlying assets and that the life company demonstrates sophisticated risk management approaches to managing assets and illiquid liabilities.

2. Publicly rated assets are assigned a counterparty grade based on Table 1 and Table 2. The short-term ratings in Table 1 are typically used for assets with original term to maturity of not more than 13 months. For other assets the long-term ratings in Table 2 apply. The credit ratings in Table 1 and Table 2 include structured finance ratings with the (sf) indicator.

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Table 1: Short-term ratings

Grade	S&P Global	Moody's	AM Best	Fitch
1	A1+		AMB-1+	F1+
2	A1	P1	AMB-1	F1
3	A2	P2	AMB-2	F2
4	A3	P3	AMB-3	F3
5	-	-	-	-
6	B	NP Vulnerable	AMB-4	B
7	C	NP Currently Vulnerable		C

Table 2: Long-term ratings

Grade	S&P Global	Moody's	AM Best		Fitch
			Debt	FSR[9]	
1	AAA	Aaa	aaa	A++	AAA
2	AA+ AA AA-	Aa1 Aa2 Aa3	aa+ aa aa-	A+	AA+ AA AA-
3	A+ A A-	A1 A2 A3	a+ a a-	A A-	A+ A A-
4	BBB+ BBB BBB-	Baa1 Baa2 Baa3	bbb+ bbb bbb-	B++ B+	BBB+ BBB BBB-
5	BB+ BB BB-	Ba1 Ba2 Ba3	bb+ bb bb-	B B-	BB+ BB BB-
6	B+ B B-	B1 B2 B3	b+ b b-	C++, C+ C C-	B+ B B-
7	Below B-	Below B3	Below b-	Below C-	Below B-

3. Where investments are held via a trust that has itself been separately rated by a recognised rating agency, that rating may be applied to all the investments in the trust in lieu of the ratings of the individual trust assets, provided that the trust is treated as a single investment for asset concentration purposes and is not subject to 'look-through'. When a 'look-through' approach is adopted the underlying assets need to be individually rated. If the trust is separately rated, that overall trust rating cannot be applied to the individual underlying assets.

[9] 'FSR' refers to the Financial Strength Rating issued by AM Best.

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4. In the context of general insurance, for Level 2 insurance groups APRA may determine the counterparty grade of a non-APRA-authorised reinsurer that:

   (a) has no external credit rating; and

   (b) is a member of the Level 2 insurance group.

5. A general insurer, Level 2 insurance group, a life company or a private health insurer must, in general, use the same rating agency for determining all counterparty grades. A general insurer, Level 2 insurance group, life company or a private health insurer may depart from this general rule where there are good reasons for doing so, such as under the following circumstances:

   (a) where the rating agencies usually monitored by a general insurer, Level 2 insurance group, a life company or a private health insurer do not issue a solicited credit rating for a particular debt obligation and only one other rating agency issues a solicited credit rating for that debt obligation, a general insurer, Level 2 insurance group, life company or a private health insurer may use that solicited credit rating; or

   (b) where the rating agencies usually monitored by the general insurer, Level 2 insurance group, a life company or a private health insurer do not issue a solicited credit rating for a particular debt obligation, the credit ratings issued by all other rating agencies listed in Table 1 and Table 2 must be reviewed and the rule in paragraph 6 of this Attachment must be used to determine the rating agency used to determine the counterparty grade and therefore the credit spreads or default factors to be applied; or

   (c) the rule in paragraph 6 of this Attachment may also be applied where a general insurer, Level 2 insurance group, a life company or a private health insurer monitors multiple rating agencies that provide different solicited credit ratings for a particular debt obligation.

6. For the purposes of paragraph 5 of this Attachment the following rule applies: where a counterparty or debt obligation has solicited credit ratings from multiple rating agencies, the following guidelines must be followed in determining the counterparty grade:

   (a) if there are two solicited ratings that correspond to different counterparty grades, the lower counterparty grade must be used for the debt obligation; or

   (b) if there are three or more solicited ratings that correspond to different counterparty grades, the ratings corresponding to the second-best of those counterparty grades must be used for the debt obligation.

7. APRA's written approval must be sought if a general insurer, Level 2 insurance group, a life company or a private health insurer wishes to use the rating determined by a rating agency not included in Table 1 and Table 2 above.

8. The counterparty grade for assets secured by residential mortgages (as defined in paragraph 1(b) of this Attachment) is determined in Table 3.

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Table 3: Assets secured by residential mortgages

Counterparty grade	Standard residential mortgages		Other residential mortgages	
'Loan to value ratio'	No LMI	>40% LMI	No LMI	>40% LMI
≤ 60%	2	2	3	2
> 60% but ≤ 80%	2	2	4	3
> 80% but ≤ 90%	3	2	5	4
> 90% but ≤ 100%	4	3	5	4
> 100%	5	4	5	5

9. 'Loan to value ratio' is the ratio of the value of the asset (i.e. loan) to the market value of the collateral. The market value of the collateral is the value at inception or, where a substantive valuation has subsequently been carried out, this subsequent valuation.

10. A standard residential mortgage is defined as a mortgage on an existing residential property where the general insurer, Level 2 insurance group, the life company or the private health insurer has:

    (a) prior to loan approval and as part of the loan origination and approval process, documented, assessed and verified the ability of the borrowers to meet their repayment obligation;

    (b) valued any residential property offered as security;

    (c) established that any property offered as security for the loan is readily marketable; and

    (d) the general insurer, Level 2 insurance group, the life company or the private health insurer has at all times unequivocal enforcement rights over the mortgaged property (including a power of sale and a right to possession) in the event of default by the borrower.

    The general insurer, Level 2 insurance group, the life company or the private health insurer must also revalue any property offered as security for such loans when it becomes aware of a material change in the market value of property in an area or region.

11. Loans that are secured by residential properties but fail to meet the criteria detailed in paragraph 10 of this Attachment must be classified as other residential mortgages. Such loans may be reclassified as standard residential mortgages where the borrowers have met their contractual loan repayments to the general insurer, Level 2 insurance group, life company or the private health insurer continuously over the previous 36 months.

12. LMI refers to lenders mortgage insurance. '>40% LMI' refers to mortgages where insurance cover has been obtained for all realised losses up to at least 40 per cent

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of the higher of the original loan amount and outstanding loan amount if higher than the original loan amount. Such insurance must be with a lenders mortgage insurer that is regulated by APRA.

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