



# Discussion Paper

## **Prudential supervision of general insurance – stage 2 reforms** **Risk and financial management**

3 May 2005

## Preamble

On 20 November 2003, APRA released a discussion paper entitled *Prudential Supervision of General Insurance – Stage 2 Reforms* (the 2003 discussion paper) seeking comments by the end of February 2004. This discussion paper is available on the APRA web site at [www.apra.gov.au/policy](http://www.apra.gov.au/policy). The 2003 discussion paper responded to a number of the recommendations made by the HIH Royal Commission in April 2003, which have been supported by the Government and which also reflect initiatives suggested by APRA in its submission to the Commission in September 2002.

The 2003 discussion paper outlined proposals to:

- revise the existing prudential standards and guidance notes in light of experience and market developments; and
- increase disclosure about the activities of general insurers (insurers) in order to promote market discipline.

The proposals relating to revisions of prudential standards covered a range of issues such as governance, capital, risk management, reinsurance, audit and actuarial arrangements, outsourcing and business continuity management. The primary objective of the proposals was to further strengthen the regulatory regime applying to insurers in Australia.

APRA received almost 80 submissions in response to the proposals, and met with a number of respondents who wished to present their case directly. In addition, a seminar was hosted jointly by APRA and the Insurance Council of Australia on 10 June 2004 to provide an opportunity for APRA to set out its perspective on the proposals and for the industry to respond.

This discussion paper responds to the issues raised in respect of risk management, reinsurance, audit and actuarial arrangements and outsourcing – collectively termed risk and financial management. Draft prudential standards incorporating the proposals are being released separately to this paper and are available on the APRA web site at [www.apra.gov.au/policy](http://www.apra.gov.au/policy).

In relation to other issues raised in the 2003 discussion paper:

- consultation in respect of governance is proceeding separately on a cross-industry basis (refer to [www.apra.gov.au/policy](http://www.apra.gov.au/policy)) with further proposals to be released shortly;
- proposals relating to capital and other issues will be consulted on in coming months;
- disclosure requirements for insurers are being reviewed separately, in the context of international developments; and
- the proposal to develop a separate standard for run-off insurers will not proceed, given there is little difference between the requirements for insurers now entering into run-off and those applying to other insurers.

APRA proposes to finalise and issue the prudential standards and guidance notes discussed in this paper in January 2006.

Written submissions on these proposals should be forwarded via email by 5 August 2005 to:

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## Glossary

ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority
BP	Business Plan
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMP	Capital Management Plan
Collection of Data Act	<i>Financial Sector (Collection of Data) Act 2001</i>
DCAT	Dynamic Capital Adequacy Testing
FCR	Financial Condition Report
GGN	General Insurance Guidance Note
GPS	General Insurance Prudential Standard
IAAust	Institute of Actuaries of Australia
Insurance Act	<i>Insurance Act 1973</i>
Insurer or general insurer	A general insurer authorised under the Insurance Act
LVR	Liability Valuation Report
MCR	Minimum Capital Requirement
MER	Maximum Event Retention
REMS	Reinsurance Management Strategy
RMS	Risk Management Strategy

# Introduction

The discussion paper, *Prudential Supervision of General Insurance – Stage 2 Reforms* (the 2003 discussion paper), proposed a number of changes to existing requirements relating to a general insurer's (insurer's) risk and financial management framework. The proposals that will be addressed in this discussion paper are summarised in Appendix 1 as follows<sup>1</sup>:

- Capital management (Item 1.1)
- Treatment of proportional reinsurance treaties (Item 1.7)
- Independence of Approved Auditors and Approved Actuaries – rotation of actuaries (Item 2.12c)
- Independence of Approved Auditors and Approved Actuaries – peer review (Item 2.12d)
- Role of Approved Actuary (Item 2.13)
- Board Declaration (Item 2.15)
- Risk Management Strategy (Item 2.16)
- Outsourcing (2.17)
- Reinsurance Management Strategy (Item 2.19)
- Reinsurance arrangements (Item 2.20)
- Confirmation that reinsurance arrangements are in place (Item 2.21)
- Non-risk transfer products (Item 2.22)
- Business plans (Item 4.17)

## Objectives of the proposals

There were a number of factors that led to APRA's proposals for change in relation to risk and financial management. While some of these, and APRA's objectives in addressing them, were set out in the 2003 discussion paper, they are reiterated here to provide context.

As a result of the re-authorisation process in early 2002 and experience since that time, APRA has identified considerable variance across the general insurance industry in the level and quality of risk and reinsurance management documentation required to be provided to APRA.

In many cases, this information has been insufficient and has limited APRA's ability to understand the

nature of an insurer's risks and the measures in place to address them. Some insurers have requested additional guidance in developing their risk and reinsurance management documentation – further evidence of the need for APRA to be more specific in clearly setting out its expectations and lifting the minimum standard to a level regarded as good practice within the industry.

APRA also saw a role for the Approved Actuary in compiling a Financial Condition Report (FCR) which incorporates and extends the current requirement to prepare a Liability Valuation Report (LVR). While the Approved Actuary role in the first round of reforms was one of the most significant improvements in the new prudential framework applying to insurers, it was limited to the LVR only.

This limitation was designed to give sufficient time to enable actuaries and the industry to bed down the new requirements. APRA has long held the view that an FCR is a valuable tool for an insurer's board and senior management and APRA, as an objective and professionally unbiased assessment of the overall financial condition of the insurer.

APRA considered that the role of the Approved Actuary in general insurance should be expanded to be broadly similar to the role of Appointed Actuaries in life insurance. This was consistent with HIH Royal Commission Recommendation 41 that APRA introduce a requirement for actuaries to produce a report on the overall financial condition of the insurer. The Government accepted this recommendation and referred it to APRA for action.

## Structure of this paper

This paper is divided into five chapters:

Chapter 1 summarises the key themes arising from the responses to APRA's proposals on risk and financial management.

Chapter 2 deals with APRA's proposals in relation to risk management, industry's response to these proposals and APRA's prudential approach.

Chapter 3 deals with APRA's proposals in relation to reinsurance management, industry's response to these proposals and APRA's prudential approach.

<sup>1</sup>References are to the numbering used in the 2003 discussion paper. Revisions of a minor nature detailed in chapter 4 of the 2003 discussion paper relating to risk and financial management matters are also covered by this discussion paper.

Chapter 4 deals with APRA's proposals in relation to audit and actuarial matters, industry's response to these proposals and APRA's prudential approach.

Chapter 5 deals with APRA's proposals in relation to outsourcing.

Appendix 1 summarises the original proposals set out in the 2003 discussion paper. Appendix 2 maps the proposals to their location in the proposed prudential standards and, where these proposals are not addressed in this paper, provides an estimated timeframe for further consultation. Appendix 3 maps the existing prudential standards to the new draft prudential standards to illustrate the proposed new structure of the prudential standards.

## **Proposed commencement and transitional arrangements**

The proposed release date for the prudential standards and guidance notes discussed in this paper is January 2006. The new requirements will apply from the beginning of the insurer's next financial year after release. This includes reports due to APRA covering the prior financial year.

Further details on specific transitional arrangements governing the submission of documentation, together with other requirements, will be released in due course.

# Chapter 1

## Industry responses to APRA's proposals

Industry responses to APRA's proposals on risk and financial management were mixed but there were some common themes, namely:

- the proposed level of detail and prescription;
- the interaction of APRA-required documents; and
- the applicability of the proposed requirements to groups.

### 1.1 Level of detail and prescription

#### 1.1.1 Industry response

A number of respondents expressed concern at the proposed level of detailed guidance in relation to the Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), claiming that this represented a move away from both a 'principles-based' approach and from the concept of a 'strategy'. It was suggested that a 'checklist' approach may result that would deter insurers from including additional detail that may be relevant or may encourage a culture that did not go beyond considering issues included in the guidance material. There was also doubt expressed over the value of detailed information for APRA, particularly in respect of reinsurance arrangements.

In contrast, there were a number of respondents who expressed support for the additional detailed guidance. Some respondents, for example, requested more detail than that proposed by APRA for the Capital Management Plan (CMP). It should also be noted that a number of insurers are already providing APRA with a significant amount of detail beyond the minimum requirements outlined in the prudential standards, particularly in their RMS and REMS.

#### 1.1.2 APRA prudential approach

As noted at the outset, one of APRA's main objectives was to strengthen the existing requirements in place for the management of risk and financial management. To achieve this, APRA proposed to enrich the level of information required to be provided to APRA in the key strategic documents

as a means of ensuring that all insurers regularly focus on these areas and strengthen their current arrangements.

Over time, APRA expects its proposed changes to provide the industry with a clear understanding of its minimum expectations and to raise minimum standards in relation to the management of risk and reinsurance. Insurers should not feel restricted from having in place more sophisticated systems and providing additional detail of those systems to APRA.

APRA will use its on-site reviews to encourage better compliance with prudential requirements, although it does not expect education alone to produce a consistent minimum standard across the industry.

### 1.2 Interaction of documentation

#### 1.2.1 Industry response

There are certain documents required by APRA that, by their nature, lend themselves to a degree of overlap. These include the CMP, Business Plan (BP), RMS, REMS, FCR and LVR.

There were a number of suggestions made that some of these documents should be combined, for example the CMP and BP, or the CMP, BP and RMS. This suggestion was not confined to the strategic documents, but also to the FCR and LVR where it was argued there may also be some duplication of information between these and the CMP and BP.

#### 1.2.2 APRA prudential approach

APRA agrees that there is scope to combine some requirements and has proposed the following as a way of reducing overlap:

CMP – a separate CMP will not be required as proposed in the 2003 discussion paper. Rather, the financial aspects of the CMP are to be included as part of the BP. The risk management aspects of the CMP (the processes and controls in place to support capital management planning) are to be captured by the RMS.

This proposed split reduces the number of documents required to be submitted to APRA but still ensures that insurers address weaknesses in capital management through their risk management framework, as identified in their RMS.

BP – the BP would continue to be required as at present (including the financial aspects of the CMP, as above).

RMS and REMS – the RMS and REMS would still both be required as separate documents and would be enhanced broadly along the lines already proposed.

FCR – the FCR could incorporate the LVR so that an Approved Actuary would not be required to submit two separate reports.

### **1.3 Application to ‘groups’**

#### **1.3.1 Industry response**

Some respondents commented that a CMP and BP should be permitted to be submitted for a ‘group’. A similar argument can be made in respect of the RMS, REMS and FCR. In any event, the requirements for a RMS and REMS state that information on ‘group’ policies and procedures should be provided to APRA and the group financial position should be considered in an FCR.

#### **1.3.2 APRA prudential approach**

A number of groups already prepare their REMS and RMS on a group basis. APRA sees this as a sound control process but there are challenges in fitting such an approach into the framework set by the current licensed entity focus of prudential standards.

APRA has no concerns with allowing the various documents to be submitted on a group basis as long as the documentation adequately identifies and covers the operations of each licensed insurer within the group. APRA is, after all, required by legislation to regulate each licensed insurer. This aspect will be incorporated into APRA’s proposals in relation to conglomerates which will also address issues of group capital, risk and reinsurance management.

To streamline documentation, APRA has stipulated in relevant draft standards that documentation (e.g. REMS, RMS, FCR) may be submitted for an insurance group (as defined in the prudential standards and guidance notes) provided the business of each individual insurer is adequately addressed. Where group documentation is insufficient to cover the operations of each licensed entity, APRA will request separate documents to be supplied.

# Chapter 2

## Risk management

This chapter deals with the major proposals relating to risk management and the revisions to the current prudential standards and guidance notes to reflect these proposals. It also outlines the broad industry comments on the proposals and APRA’s prudential approach. Firstly, however, it outlines some general changes to the existing standards and guidance notes as a result of this detailed review.

### 2.1 General

To facilitate the proposals, a number of changes to the existing risk series of prudential standards are being made.

The risk management terminology is being modified to reflect industry practice. The main change is to move from ‘risk management and control systems’ to ‘risk management framework’, an all-encompassing term to describe the totality of controls, systems, processes, procedures, structures and people charged with the management of risk.

Further, the responsibilities for risk management, touched on in the proposals for senior management, are being given more depth to include those of the board and operational management. These provide more clarity around APRA’s expectations for risk governance, without duplicating the proposed new governance prudential standard on which APRA is consulting separately.

In relation to the guidance notes, existing GGN 220.3 *Balance Sheet and Market Risk* contains matters likely to be better characterised as insurance risk. Insurance risk is proposed to be covered separately in a fourth risk note, GGN 220.6 *Insurance Risk*. This is more in line with both how APRA supervises, and the main risk types facing the industry.

Table 1 shows the existing risk series of prudential standards and guidance notes compared to the proposed series.

### 2.2 Capital management

APRA proposed that insurers should provide a CMP to APRA annually. This would set out their strategy for monitoring capital resources over time, particularly the need to plan capital resources to match growth plans, and the processes and controls to monitor and ensure continual compliance with the Minimum Capital Requirement (MCR), including setting trigger ratios appropriate for each insurer. APRA suggested that the CMP be set for a minimum of three years.

#### 2.2.1 Industry response

Industry was mostly supportive of the need for a CMP in driving greater discipline around capital management, with much of the commentary focussed on what the CMP should contain. There was some

Table 1	
Existing	Proposed
GPS 220 Risk Management for General Insurers	GPS 220 Risk Management (revised)
GGN 220.1 Governance (to be incorporated into a cross-industry standard). Some material is also incorporated in other locations.	
GGN 220.2 Risk Management Systems	GGN 220.2 Risk Management Framework – General Requirements (revised)
GGN 220.3 Balance Sheet and Market Risk	GGN 220.3 Balance Sheet and Market Risk (revised)
GGN 220.4 Credit Quality	GGN 220.4 Credit Quality (revised)
GGN 220.5 Operational Risks	GGN 220.5 Operational Risk (revised)
	GGN 220.6 Insurance Risk (new)

commentary, however, that other measures such as the FCR would contain the same information and that there was no real need for another discrete document for submission to APRA. Others questioned the three year requirement for a CMP given the difficulty of obtaining precise figures into the future.

### 2.2.2 APRA prudential approach

APRA now proposes that insurers build capital management matters into both their BP and RMS. *GGN 220.2 Risk Management Framework – General Requirements* has been revised to require insurers to include their approach to capital management for the next three years in their RMS, with the results included in the BP. The requirements for a CMP relate mostly to the inclusion of an insurer's strategy for setting and monitoring capital reserves over time and above the minimum requirement. The concept of trigger ratios in relation to the MCR has also been introduced, with insurers required to set their trigger ratios in line with the Board's risk profile to avert potential breaches of the MCR, or establish alternative means to achieve this. In setting such ratios, insurers must consider a number of factors, including capital requirements across business lines, peer and industry capital ratios and the need to ensure sufficient capital is available to meet the strategic development of the business for the future.

## 2.3 Board Declaration

APRA proposed to extend the Board Declaration to cover the financial information submitted to APRA and the Approved Auditor and Approved Actuary. It was proposed that this declaration be provided on both a quarterly and annual basis and attest whether the financial information lodged with APRA has been prepared in accordance with legislative requirements and prudential, reporting and accounting standards.

### 2.3.1 Industry response

This proposal was strongly opposed by industry. The majority of the concerns related to the significant onus the requirement would place on boards that rely heavily on the audit function, Chief Executive

Officer (CEO) or Chief Financial Officer (CFO) to supply and attest to this information. There was also disquiet around the need to supply such a declaration quarterly, on the basis that this is both unreasonable and not reflective of the fact that such information is not audited quarterly.

### 2.3.2 APRA prudential approach

APRA has taken note of these views and now proposes that both the CEO and CFO supply APRA with a financial information declaration, rather than the board. This submission will be required annually, to coincide with the submission of an insurer's statutory accounts to APRA. *GGN 220.2 Risk Management Framework – General Requirements* sets out what is proposed to be included in the declaration.

APRA expects that the declaration will be based on the insurer having adequate systems and controls backing the financial information contained within their returns. This should not be an undue burden given that well-controlled insurers have such underlying mechanisms already in place. It is also expected to enhance prudential supervision by improving the quality and accuracy of financial data supplied to APRA.

## 2.4 Risk Management Strategy

APRA proposed that insurers submit a RMS to APRA, not only if material changes are made, but on an annual basis (current requirements are for submission only when a material change is made). This was designed to ensure insurers do not become complacent in reviewing the RMS annually.

In addition, APRA proposed to provide additional guidance on the content of a RMS, expanding on certain areas including responsibilities for the risk management framework, review provisions, global and group risk management strategy and processes for identifying and assessing risks, including a risk matrix. This proposal was driven by the variability, noted in Chapter 1, in the quality of RMSs submitted by insurers at the time of reauthorisation in July 2002 and subsequently.

### 2.4.1 Industry response

On the whole, the industry responded positively to the intent behind the above proposal, with most supporting the need for increased effort in risk management. However, concerns about prescription discussed in Chapter 1 were reiterated by a few, who warned that a checklist mentality may result and reduce the flexibility required for insurers to adapt the RMS to their particular situation. Concerns about compliance costs and administrative burden were also expressed by some. A small number of insurers also opposed the annual submission requirement on the basis that sufficient controls are in place to provide APRA with the comfort that the RMS is subject to regular internal review. There were also a number of specific suggestions for changes to certain elements of the RMS.

### 2.4.2 APRA prudential approach

APRA accepts that many insurers have sufficient controls to ensure regular internal review. APRA's on-site reviews, however, have demonstrated that proper attention to and updating of risk management strategies is far from uniform industry practice. Hence, the requirement to review and submit a RMS annually will remain.

In line with the proposals for additional guidance on content, *GPS 220 Risk Management* and *GGN 220.2 Risk Management Framework – General Requirements* have been restructured to incorporate the new requirements for the RMS. The changes place more ownership and responsibility on the board and senior management of the insurer and make APRA's expectations in this area clearer. The BP requirement is placed towards the start of the document, reflecting the need for risk management and business planning to go together. The RMS requirements are clearly listed in the latter half of the document and further expanded in *GGN 220.2 Risk Management Framework – General Requirements*. The structure of both documents is similar so that they can be read together more easily.

Overall, APRA is confident that its proposal to strengthen the risk management practices of insurers will generate positive results for the industry and this view was shared by many respondents.

## 2.5 Business Plan

Insurers are already required to submit a BP to APRA on an annual basis. This plan should be used as a management and control tool that enables an insurer to communicate its strategic direction and objectives, forecast results, establish benchmarks and consider the impact of differing scenarios and assumptions on its financial position. APRA proposed to expand the details required in an insurer's BP to mirror the guidance already provided in the Authorisation Guidance Note.

### 2.5.1 Industry response

The industry expressed broad support for this proposal but claimed that it represented a more prescriptive approach than was warranted. Some insurers also opposed the three-year financial information requirement, arguing that these figures were both difficult to predict and thus were likely to be inaccurate.

### 2.5.2 APRA prudential approach

APRA acknowledges that financial projections for years further into the future will provide only a general indication as to the insurer's intentions. However, APRA considers it reasonable to expect insurance companies to have a good picture of their prospective financial position over the next three years.

The specific requirements for the BP are detailed in *GGN 220.2 Risk Management Framework – General Requirements*. While these are not intended to be applied as a checklist, they are considered to be core to any business planning activity and should act as a minimum set of considerations from which insurers can then tailor their plans.

# Chapter 3

## Reinsurance management

This chapter deals with the major proposals relating to reinsurance management and the revisions to the current prudential standards and guidance notes to reflect these proposals. It also outlines the broad industry comments on the proposals and APRA's prudential approach. Firstly, however, it outlines some general changes to the existing standards and guidance notes as a result of this detailed review.

### 3.1 General

To facilitate the proposals, changes to the current series of reinsurance prudential standards are being made.

Firstly, *GPS 230 Reinsurance Management* and *GGN 230.1 Reinsurance Management Strategy* are being amended to incorporate the proposals, particularly relating to additional detail and guidance.

Secondly, two new guidance notes are being introduced: *GGN 230.2 Reinsurance Arrangements Statement* and *GGN 230.3 Limited Risk Transfer Arrangements*.

Finally, the structure of the standard and guidance notes is being amended to improve consistency with other APRA prudential standards and to aid clarity. Table 2 shows the existing reinsurance series of prudential standards and guidance notes compared to the proposed series.

### 3.2 Treatment of proportional reinsurance treaties

APRA proposed that there be no change to the recognition of proportional reinsurance contracts by reinsurers for the purpose of liability valuation.

This meant that proportional reinsurance treaties would not be exempt from the requirements of existing *GPS 210 Liability Valuation* and that reinsurers would continue to be required to value premiums liabilities in respect of these treaties even though the underlying direct insurance business may not yet have been written, and hold capital against these liabilities. APRA's preference was to assess the need for more detailed professional guidance for actuaries in this area with the assistance of the Institute of Actuaries of Australia (IAAust).

#### 3.2.1 Industry response

Respondents were divided on this proposal. The 2003 discussion paper outlined some of the reasons previously raised with APRA by reinsurers as to why premiums and premiums liabilities arising after the reporting date should not be recognised as an asset or liability, respectively. Those that opposed the proposal reiterated this reasoning and also noted that the proposal is inconsistent with the approach of other regulators, Australian accounting standards and international accounting standards.

Some alternative suggestions included:

- premium revenue and premiums receivable assets falling due beyond the reinsurer's balance date should not be recognised. Similarly, claims costs and premium liabilities arising from those premiums should not be recognised;
- alternatively, the reinsurer's actuary should assess the estimated premium receivable beyond the balance date and corresponding premium liability. If, over the whole portfolio, the premium liability exceeds the premium receivable the insurer would establish an amount of premium liability in respect of the excess notional premium liability over the

Table 2	
Existing	Proposed
<i>GPS 230 Reinsurance Arrangements for General Insurers</i>	<i>GPS 230 Reinsurance Management (revised)</i>
<i>GGN 230.1 Reinsurance Management Strategy</i>	<i>GGN 230.1 Reinsurance Management Strategy (revised)</i>
	<i>GGN 230.2 Reinsurance Arrangements Statement (new)</i>
	<i>GGN 230.3 Limited Risk Transfer Arrangements (new)</i>

notional premium receivable. A variant of this is that this actuarial loss recognition test should be done at a 75 percent probability of sufficiency, plus the capital charge;

- adopting the principle that the value of any unclosed premium assets ought not to exceed the value of premiums liabilities in respect of those unclosed premiums; and
- increasing the capital charge for unclosed premium assets or prescribing that such assets be valued at the 25th percentile level of sufficiency.

### 3.2.2 APRA prudential approach

Although APRA is mindful of the difficulties faced by reinsurers under the current regime, it does not believe that the liability valuation requirements should be removed for proportional reinsurance treaties.

At the same time, APRA recognises that the current approach results in reinsurers recognising profit and hence capital before the underlying direct business has been written. This will be further considered in a forthcoming discussion paper on capital adequacy.

APRA proposes to clarify the liability valuation requirements to provide for the premiums liabilities relating to reinsurance contracts written on a long-term (or continuous) basis, but which are able to be reviewed at interim dates, to be accounted for only up to the effective date following that review date. This is included in *GPS 310 Audit and Actuarial Reporting and Valuation*.

### 3.3 Reinsurance Management Strategy

APRA proposed to require insurers to review and lodge their REMS with APRA for approval on an annual basis, as well as when amended. This was to ensure the REMS remains appropriate to the size, business mix and complexity of the insurer's operations.

In addition, in response to the wide variability in quality of REMSs, as outlined in Chapter 1, APRA proposed to provide additional guidance on the content of a REMS, including guidance on:

- non-risk transfer products (refer 3.6);

- responsibilities for reinsurance purchasing and recoveries;
- monitoring arrangements;
- substantiation, testing and analysis; and
- greater detail and transparency in respect of the MER calculation.

#### 3.3.1 Industry response

Industry was mostly supportive of the above proposals, subject to the caveat about excessive prescription. Annual lodgement of the REMS was supported in general, with the suggestion that timing of lodgement be extended to 30 days after board approval from the existing 10 days. There were also a number of comments that, if the timing for submission remained tight, APRA must itself commit to a tight turnaround time for approving the REMS.

#### 3.3.2 APRA prudential approach

APRA remains of the view that the REMS should be in its finalised state at the time of board approval and that submission 10 days after this should not be problematic. On the issue of turnaround time for APRA approval, APRA is not proposing a specified time since its approval does not constitute an approval of the reinsurance program (as per the Reinsurance Arrangements Statement – see 3.4) and as such should not affect reinsurance placements or inception dates. However, APRA accepts that a swift turnaround time for REMS approval will provide assurance that the REMS is sufficient for the prudent management of reinsurance as a whole and will take steps to speed up the approval process.

Additional guidance has also been provided on the criteria APRA considers when deciding to approve an insurer's REMS and on the procedures applicable when an insurer materially deviates from its REMS.

The minimum requirements for inclusion in the REMS for both individual insurers and where an insurer is part of a group also required further work. As discussed in Chapter 1.3, this has been dealt with by stipulating that a REMS may be submitted for an insurance group consistent with the application of the RMS and FCR to groups.

### 3.4 Reinsurance arrangements

APRA also proposed that the REMS include information on the actual reinsurance arrangements in an attachment. This was something that was expected but not specified under the current regime and which better REMSs often provide. Such information assists APRA in understanding and assessing the adequacy of the reinsurance arrangements.

For this purpose, APRA proposed to introduce a Reinsurance Arrangements Statement which must be submitted as part of an insurer's REMS.

#### 3.4.1 Industry response

The industry expressed mixed support for this proposal. Some commentators opposed it on the grounds that it went against principles-based regulation; they preferred that APRA conduct random investigations or reviews into insurer's reinsurance programs and deal with any anomalies via this mechanism. This was consistent with HIH Royal Commission recommendation 30. Many insurers felt the proposal onerous and overly interventionist, questioning whether APRA had the expertise to assess such arrangements.

#### 3.4.2 APRA prudential approach

APRA is proceeding with this proposal because it considers that the extra information to be provided is vital to its understanding of reinsurance arrangements in place. It is clear from APRA's supervisory activities that a number of insurers have insufficient reinsurance management arrangements. APRA's enforcement activities have dealt with reinsurance arrangements that apparently had no other purpose but to facilitate deceptive or fraudulent accounting by the primary insurer. Faced with these facts, APRA believes that increased and detailed reporting on and attention to reinsurance arrangements is necessary from a prudential perspective.

A new guidance note, *GGN 230.2 Reinsurance Arrangements Statement*, has been introduced to give effect to this proposal. A Reinsurance Arrangements Statement may be submitted as part of the REMS, as an appendix to the REMS or separate to the REMS where lodgement with the REMS is not practical.

### 3.5 Confirmation that reinsurance arrangements are in place

APRA proposed a strengthening of the documentation and certification requirements relating to reinsurance arrangements. Specifically, it proposed to require insurers to advise APRA within two months of their reinsurance arrangements taking effect that these arrangements had been fully documented. In addition, APRA proposed that reinsurance recoveries could not be taken into account in calculating an insurer's minimum capital requirements unless the reinsurance contract had been fully documented.

#### 3.5.1 Industry response

The response to these proposals was mixed. Some respondents expressed support for the principle that where reinsurance arrangements have been put in place, they are matched by fully documented, executed and enforceable reinsurance contracts.

Many submissions, however, highlighted the difficulty of meeting the two month timeframe, with suggestions for longer lag times ranging from 90 days to nine months to have reinsurance contracts fully documented. It was claimed that the proposal was not workable and failed to reflect practices in the international reinsurance market. Several respondents argued that it also detracted from the role of the board and senior management of an insurer in overseeing reinsurance arrangements and compliance with the REMS.

There was a suggestion that, should APRA's proposal proceed, existing arrangements be grandfathered or at least be subject to transitional provisions.

#### 3.5.2 APRA prudential approach

There are clearly divergent views amongst the industry and other respondents as to what constitutes 'legally enforceable', and what is the appropriate time frame within which to execute reinsurance arrangements and certify them with APRA. APRA remains firmly of the view that current practices in reinsurance documentation need to be improved to ensure certainty in respect of insurers' reinsurance arrangements, in line with international regulatory trends.

One suggestion was for a two-stage process. This would involve a sign-off process at the inception of reinsurance arrangements (or at least within two months of inception) that some minimum agreed level of documentation is in place. This would be followed by full documentation within six months of inception. Use of relatively standard form policy wordings, which is a growing practice in the market, would facilitate this. APRA proposes to accept this suggestion as a practical way forward and this is reflected in the verification of reinsurance arrangements now proposed in *GPS 230 Reinsurance Management*.

Under the proposals, insurers would be required to prepare two signed declarations: the first relating to the degree of documentation in place two months after the reinsurance arrangements take effect, and the second relating to the degree of documentation six months after the reinsurance arrangements take effect. Both declarations must be signed by the CEO and the Chief Reinsurance Officer (or equivalents).

The two month declaration is not required to be submitted to APRA but must be retained for inspection on-site and provided to APRA upon request. The six month declaration must be lodged within 10 business days following the conclusion of the six month period after inception.

The two month declaration will require the insurer to attest that the reinsurance has been fully placed and that it holds the final contract wording of the reinsurance arrangements as detailed in the Reinsurance Arrangements Statement previously lodged with APRA, or a detailed placing slip, a slip wording or cover note. However, an insurer will only be permitted to use a cover note where it has systems in place to verify that the content of the cover note is the same as the placing slip agreed between the insurer and/or reinsurance broker and the reinsurers.

The six-month declaration will require the insurer to attest that it holds the final signed contracts relating to all its reinsurance arrangements.

The two- and six-month attestations will be considered by APRA when calculating the insurer's capital requirements in accordance with *GPS 110 Capital Adequacy*. The intention is that reinsurance not satisfying the two- and six-month documentation

tests will not be able to be taken into account for purposes of capital adequacy calculations. That is, reinsurance recoveries to which they relate will not be eligible assets of the insurer, nor will they be eligible to be included in Maximum Event Retention (MER) calculations.

It is proposed that insurers will need to submit to APRA a revised Reinsurance Arrangements Statement where the content or intention of the treaty contract wording at six months materially differs from that of the slip held at two months. If the amended Reinsurance Arrangements Statement also warrants a change in the insurer's REMS, this must also be reviewed, amended and approved accordingly.

APRA does not support 'grandfathering' of existing arrangements. Allowing existing inadequately documented arrangements to continue is not acceptable from a prudential, legal, commercial or risk management perspective. However, APRA accepts that, for this specific requirement, transitional arrangements are warranted to allow further time to document existing contracts.

For reinsurance recoveries on the balance sheet, APRA will consider that an insurer has complied with the reinsurance documentation requirements in *GPS 230 Reinsurance Management* where:

- one year after the commencement of the amended prudential standard, 60 per cent of recoveries by value are supported by legally binding contractual agreements in accordance with *GPS 230 Reinsurance Management*; and
- two years after the commencement of the amended prudential standard, 80 per cent of recoveries by value are supported by legally binding contractual agreements in accordance with *GPS 230 Reinsurance Management*.

If these tests are not met, no reinsurance recoveries will be able to be taken into account in MCR calculations.

For MER calculations, reinsurance arrangements which are not documented in accordance with *GPS 230 Reinsurance Management* will not be eligible to be included after the commencement of the amended prudential standard.

APRA expects that insurers will have 100 per cent of their reinsurance arrangements documented in accordance with *GPS 230 Reinsurance Management* three years after the commencement of the amended prudential standard. If an insurer does not have their entire reinsurance program appropriately documented by this date, it will not be permitted to take undocumented reinsurance into account for calculations of capital adequacy.

### 3.6 Non-risk transfer products

APRA proposed that insurers seek APRA's approval prior to entering into a non-risk transfer arrangement (including financial reinsurance and other contracts). Any such arrangements would be required to be disclosed in detail in an insurer's REMS and be supported by full documentation of the contracts. APRA also proposed to require that the Approved Actuary (via the proposed FCR) and Approved Auditor (via the annual audit requirements) consider the impact of these contracts on the insurer.

#### 3.6.1 Industry response

The response to these proposals was mixed. There was some support for the proposal in its entirety, where others expressed only qualified support. Generally speaking, there was broad support for increased transparency with APRA about the use of non-risk transfer products. Conversely, some submissions felt that this proposal contradicted APRA's stated aim of principles-based regulation.

Many submissions suggested that APRA should focus on the timely disclosure and correct accounting for non-risk transfer arrangements, rather than on approval prior to their commencement. Some submissions, however, felt that if APRA were to pursue the approval of such arrangements, it must clearly define those contracts that must be submitted for approval. This could be achieved by focusing on the materiality of the contract in the context of the insurer's business, and how such arrangements may differ from traditional reinsurance.

A number of submissions also requested clarification of the role of the Approved Auditor in the management of non-risk transfer arrangements.

#### 3.6.2 APRA prudential approach

APRA adheres strongly to the view that insurers should exercise particular prudence in entering into non-risk transfer arrangements. As is now well known, such arrangements have been used in Australia to facilitate deceptive accounting by the primary insurer. Accordingly, APRA wishes to satisfy itself that only those arrangements that involve a genuine transfer of risk are treated as reinsurance by the insurer.

In so doing, APRA has decided to use the term 'limited risk transfer arrangements' to acknowledge that whilst some arrangements may not fit the definition of traditional reinsurance, there may be a limited transfer of risk that is of benefit to the insurer.

APRA proposes to introduce a new guidance note, *GGN 230.3 Limited Risk Transfer Arrangements*. For the purposes of defining a limited risk transfer arrangement, APRA proposes to adopt a broad, principles-based definition which focuses on whether the insurer may realise a significant loss from the arrangements, there is a significant range of possible adverse outcomes negated under the arrangements, or there are requirements placed on the insurer to mitigate losses experienced by the reinsurer.

The prudential standard also requires insurers to seek APRA's approval before entering into limited risk transfer arrangements. The guidance note prescribes that, where APRA determines that such an arrangement is for financing purposes only, it must be accounted for accordingly for prudential purposes. Only those arrangements that involve a material transfer of risk can be treated as reinsurance and taken into account in the calculation of the insurer's MCR (including the MER).

# Chapter 4

## Audit and actuarial

This chapter deals with the major proposals relating to audit and actuarial arrangements, particularly reporting and valuation, and the revisions to the current prudential standards and guidance notes to reflect these proposals. It also outlines the broad industry comments on the proposals and APRA's prudential approach. Firstly, however, it outlines some general and specific changes to the existing standards and guidance notes as a result of this detailed review.

### 4.1 General

To facilitate the proposals, the following changes to the current documents relating to audit and actuarial arrangements are being made.

A new prudential standard, *GPS 310 Audit and Actuarial Reporting and Valuation*, is proposed. This standard focuses on the receipt by the board and senior management of objective advice concerning the operations, financial condition and insurance liabilities of the insurer. Two new guidance notes are also proposed: *GGN 310.1 Financial Condition Report* and *GGN 310.2 Liability Valuation*.

In introducing these, APRA is restructuring the current prudential standards and redrafting content to ensure clarity. Those parts of *GPS 220 Risk Management* and *GGN 220.1 Governance* (which is being revised separately on a cross-industry basis) relating to the roles and responsibilities of Approved Auditors and Approved Actuaries are being incorporated into *GPS 310 Audit and Actuarial Reporting and Valuation*. Also, *GPS 210 Liability Valuation* is being incorporated in

*GGN 310.2 Liability Valuation* with *GGN 210.1 Actuarial Opinions and Reports on General Insurance Liabilities* to be deleted.

*GGN 310.1 Financial Condition Report* contains substantive detail in relation to the content and scope of an FCR and outlines APRA's expectations of an Approved Actuary in this area. The IAAust has established a taskforce for the development of a professional standard and guidance note for FCRs. APRA is working with the IAAust to ensure consistency across both sets of standards and may consider, once the IAAust's standard and guidance note is agreed and released, withdrawing *GGN 310.1 Financial Condition Report* where it is considered to be sufficiently covered by the IAAust documentation.

Table 3 shows the existing series of prudential standards and guidance notes compared to the proposed series:

### 4.2 Specific aspects of the standard

The following outlines some more specific aspects of the new GPS 310 series of prudential standards to reflect the substantive changes in this area.

#### 4.2.1 Obligations of the insurer

The *Insurance Act 1973* (Insurance Act) requires insurers to make arrangements to enable the Approved Auditor and the Approved Actuary to undertake their roles and responsibilities. Insurers must also submit to APRA all certificates and reports required to be prepared by the Approved Auditor and Approved Actuary.

Table 3

Existing	Proposed
<i>GPS 210 Liability Valuation for General Insurers (to be incorporated in GPS 310 series)</i>	<i>GPS 310 Audit and Actuarial Reporting and Valuation (new)</i>
<i>GGN 220.1 Governance (to be incorporated into a cross-industry standard. Some material is incorporated in GPS 310 series)</i>	
	<i>GGN 310.1 Financial Condition Report (new)</i>
<i>GGN 210.1 Actuarial Opinions and Reports on General Insurance Liabilities (to be deleted)</i>	<i>GGN 310.2 Liability Valuation (new)</i>

In developing *GPS 310 Audit and Actuarial Reporting and Valuation*, it was decided that further detail about these statutory requirements was warranted, including the time within which insurers must submit all certificates and reports to APRA. In addition, the revisions to this standard seek to clarify the definition of prudential requirements of which both the Approved Auditor and Approved Actuary must be made aware. These include not only all statutory requirements but requirements imposed by APRA in writing (for example, APRA may impose requirements following a prudential review of an insurer to ensure that the insurer is meeting prudential standards).

#### 4.2.2 Exemption from requirement to appoint an actuary

*GPS 310 Audit and Actuarial Reporting and Valuation* specifies the circumstances in which an insurer will be exempt from the requirement to appoint an actuary. The criteria to be met by an insurer before it will be exempt have been clarified and strengthened in the revised standard. An insurer will now have to provide documentary evidence that it meets the criteria for exemption and must also attest to APRA that it will continue to meet the criteria for the coming year. At the time of commencement of the new standard, all insurers with existing exemptions will need to reapply under the revised criteria. Once an insurer is exempt, the insurer must annually attest to APRA that it has met, and will continue to meet, the criteria.

Where an insurer is exempt from the requirement to appoint an actuary, it will consequently be exempt from the requirement to provide an FCR and an LVR to APRA.

#### 4.2.3 Roles and responsibilities of Approved Auditors and Actuaries

While there have been no substantive changes to the overall roles and responsibilities of Approved Auditors, the manner in which annual audit certificates and reports are to be prepared has been clarified. Further detail in respect of the annual audit certificate and report is set out below. The time within which Approved Auditors are to submit the certificate and reports to the insurer is detailed in *GPS 310 Audit and Actuarial Reporting and Valuation*.

As mentioned earlier, the Approved Actuary's role has been broadened to include an FCR. The time within which Approved Actuaries are to submit this and the LVR to the insurer is detailed in the new standard; APRA may also require that these reports be prepared on a more or less frequent basis, depending on the circumstances.

#### 4.2.4 Requirements for the Audit Certificate and Report

*GPS 310 Audit and Actuarial Reporting and Valuation* has clarified the requirements for audit reporting to more clearly align them with auditing standards and to confirm APRA's requirements.

Currently, *GPS 220 Risk Management* prescribes a single certificate covering both financial and other matters. However, Auditing and Assurance Guidance Statement AGS 1064 *Audit Implications of Prudential Reporting Requirements for General Insurers*, issued by the Auditing and Assurance Standards Board (AGS 1064), provides for two separate reports. Although this issue was not addressed in the 2003 discussion paper, comments were received that *GPS 220 Risk Management* should be amended to align with AGS 1064. Such requirements are now all contained within the new *GPS 310 Audit and Actuarial Reporting and Valuation*.

The Insurance Act requires an Approved Auditor to audit the yearly statutory accounts of an insurer and provide a certificate to the insurer in respect of those accounts. *GPS 310 Audit and Actuarial Reporting and Valuation* requires this certificate to specify whether, in the Approved Auditor's opinion, the yearly statutory accounts of the insurer present a true and fair view of the results of the insurer's operations for the year and financial position at year end, in accordance with the provisions of the Act and prudential standards, the *Financial Sector (Collection of Data) Act 2001* (Collection of Data Act) and reporting standards and, to the extent that they do not contain any requirements that conflict with the aforementioned, Australian accounting standards and other mandatory professional reporting requirements in Australia.

The Insurance Act also requires an Approved Auditor to undertake other functions and prepare other reports as required by the prudential standards.

Accordingly, *GPS 310 Audit and Actuarial Reporting and Valuation* will require an Approved Auditor to prepare a report providing an opinion on the following matters:

- the insurer has systems, procedures and controls in place which are effective in ensuring compliance with all prudential requirements;
- during the course of testing the insurer's systems, procedures and controls, whether instances of non-compliance with prudential requirements have been identified. This should flow from the work an Approved Auditor undertakes in testing whether the insurer has effective systems, procedures and controls;
- the insurer has complied, in all significant respects, with its RMS and REMS – this clarifies and strengthens existing requirements;
- the insurer has systems, procedures and controls in place which are effective in ensuring that reliable statistical and financial data are provided to APRA in the quarterly returns required by reporting standards made under the Collection of Data Act – this clarifies and strengthens existing requirements; and
- there are matters which will, or are likely to, adversely affect the interests of policyholders of the insurer – this is consistent with current requirements.

APRA seeks, at a minimum, a limited assurance report in relation to the latter opinions, as defined in *AUS 108 Framework for Assurance Engagements*. APRA intends to consult with the Auditing and Assurance Standards Board to ensure consistency and clarity between APRA's requirements in the standard and those in AGS 1064.

#### 4.2.5 Valuation of insurance liabilities

There have been no substantive changes to the principles underlying the requirements for the valuation of insurance liabilities. As already noted, *GPS 210 Liability Valuation* has been incorporated

into both *GPS 310 Audit and Actuarial Reporting and Valuation* and *GGN 310.2 Liability Valuation*. Relevant prudential aspects of *GGN 210.1 Actuarial Opinions and Reports on General Insurance Liabilities* have also been incorporated, but others have been deleted given the IAAust's professional standard and guidance note on this. There are, however, some technical and drafting amendments to note.

The existing requirement that an insurer should disclose in its published annual accounts that it has included in its accounts a value for insurance liabilities that is inconsistent with the advice of its Approved Actuary, or is determined in a manner inconsistent with the principles of *GPS 210 Liability Valuation*, has been removed. For the present, the requirements of accounting standards seem likely to differ from those in the prudential standards, and this requirement no longer seems appropriate. Reporting to APRA of departures from the advice of the Approved Actuary will, however, still be required.

APRA will revisit the issue of public disclosure. APRA plans to take a cross-industry approach to disclosure where possible, taking into account a number of ongoing developments such as International Financial Reporting Standards and their adoption into Australian accounting standards and disclosure principles in the new Basel II Framework for banks. From APRA's perspective, these developments will heavily impact on the progress of its proposals, both in terms of timing and content, and there will be further consultation on the issues.

The term 'co-efficient of variation' has been replaced throughout *GPS 310 Audit and Actuarial Reporting and Valuation* and *GGN 310.2 Liability Valuation* by 'standard deviation'. APRA received comments that the latter was more appropriate to use given that it produces a dollar value that can be added to the dollar value of the central estimate rather than calculating a ratio (the co-efficient of variation) to add to the central estimate.

*GPS 310 Audit and Actuarial Reporting and Valuation* has clarified that all insurers, regardless of whether they are required to have an Approved Actuary, must value their insurance liabilities in accordance with the principles of this standard and of *GGN 310.2 Liability*

*Valuation* to meet their prudential requirements and their reporting requirements under the Collection of Data Act.

It is also timely to reinforce the prospective nature of APRA's requirements relating to insurance liability valuation. An insurer must determine a value for premiums liabilities that represents all future claims payments that may arise from future events insured under existing policies that have not yet expired. Accordingly, this valuation is not limited to claims payments that may arise until the insurer's next balance date, or calculation date, but extends to cover the same time period as the insurer's existing policies whether they be written on an annual or longer-term basis. For example, where an insurer writes a five-year policy, all claims that may arise under this policy for the five-year period must be valued.

As mentioned earlier, however, APRA proposes to provide for the premiums liabilities relating to reinsurance contracts written on a long-term (or continuous) basis, where the reinsurer and cedant have the option to review (and cancel) annually, to be accounted for only up to the effective date following that review date. This principle will also be extended to direct insurance contracts.

Finally, *GPS 310 Audit and Actuarial Reporting and Valuation* refers to the requirement for run-off insurers wishing to repatriate capital to have a different valuation for insurance liabilities. This formalises the existing conditions for most run-off insurers that prohibit such reductions in capital unless assets are sufficient, after the capital reduction, to cover all non-insurance liabilities in full and insurance liabilities at a 99.5 per cent level of sufficiency. The details will be reflected in *GPS 110 Capital Adequacy* to be released in the coming months.

This approach reflects APRA's decision not to produce a separate prudential standard for run-off insurers on the basis that there is not sufficient difference between the requirements imposed on insurers newly entering run-off and other insurers to warrant a specific standard.

#### **4.2.6 Special purpose reviews – extension to include Approved Actuary**

Under existing arrangements, an Approved Auditor must undertake a special purpose review of matters specified by APRA relating to the insurer's operations, risk management and financial affairs. The new requirements extend this to include the Approved Actuary, on the basis that the specific 'topics' for such a review may be more suitable to the skills and expertise of the Approved Actuary.

#### **4.3 Independence of auditors and actuaries – rotation and the use of in-house actuaries**

The 2003 discussion paper proposed a number of changes to strengthen existing requirements relating to independence of auditors and actuaries. Those relevant to this discussion paper relate to rotation and the use of in-house actuaries (below) and peer review (see 4.4). Other aspects of independence for auditors and actuaries will be dealt with in separate proposals on governance and fit and proper requirements.

APRA proposed that there be rotation for Approved Auditors but not for Approved Actuaries. APRA, however, stated that it was considering removing the ability for insurers to use in-house actuaries, and that it was seeking views on the feasibility of such an option in the future.

##### **4.3.1 Industry response**

Although the 2003 discussion paper did not propose rotation of actuaries, there was almost unanimous opposition to regular rotation or any possible prohibition of in-house actuaries from being the Approved Actuary. The submissions argued that rotation is not required as actuaries provide advice, rather than assurance, and the proposed requirement for peer review should suffice to address any independence issues that may arise. It was also argued that there are already a number of systems in place to ensure the independence of the Approved Actuary, including the IAAust Code of Conduct which mandates unbiased and transparent advice.

Submissions claimed that the potential prohibition of in-house actuaries would deny the advantage internal actuaries have over external actuaries since they are closer to the business and strategic operations of the insurer. This close proximity, it is argued, is essential to more accurately determine reserves and pricing through the requirement of unfettered access to information and proximity to business lines. It also enables direct access to the board and senior management. At a practical level, insurers may be discouraged from employing actuaries within their business and this may undermine financial risk management since an internal chief actuary is a key member of the senior management team.

Some submissions also highlighted the fact that Appointed Actuaries of life insurance companies can be in-house actuaries.

#### 4.3.2 APRA prudential approach

Rotation of auditors is covered in the revised governance prudential standard to be released separately. In relation to actuaries, as originally proposed, APRA does not intend to require rotation. Further, APRA recognises the benefits for insurers in being able to appoint an in-house actuary as an Approved Actuary, and will not prohibit such arrangements. APRA will assess the quality and independence of actuarial reporting over time.

### 4.4 Independence of auditors and actuaries – peer review

Given its approach to the rotation of Approved Actuaries, and in line with a suggestion of the HIH Royal Commission, APRA proposed to require peer review of actuarial reporting to assist in maintaining and, if required, improving the quality and consistency of reports and work undertaken by Approved Actuaries.

#### 4.4.1 Industry response

This proposal was broadly supported but subject to a number of qualifications, including that any peer reviewer has access to the same primary source data and business information as the Approved Actuary

and that insurers should decide who should conduct the peer review. A number of submissions suggested that APRA not finalise its proposal until the IAAust Taskforce on Independent Peer Review had released its recommendations.

Some respondents suggested that the scope of the peer review should be no more than an internal review of the Approved Actuary's work from someone within an insurer's own actuarial team, combined with a review undertaken as part of the audit process. The argument was that the engagement of a third party would unnecessarily increase compliance costs.

Other concerns related to the possibility of over-reliance by the board on a limited scope peer review report on liability valuations, resulting in the board abdicating its responsibility for the determination of insurance liabilities. It was suggested that as an alternative to peer review, APRA could introduce other methods to ensure the rigorous preparation of actuarial reports, such as tripartite consultations and questionnaires.

#### 4.4.2 APRA prudential approach

APRA remains of the view that peer review of an Approved Actuary's work and reports is a valuable tool in maintaining and strengthening the quality of actuarial reporting. The intention of peer review is not to provide the board of an insurer with an excuse to abdicate its responsibilities. Peer review, together with advice from the Approved Actuary, is designed to assist the board and senior management in carrying out their responsibility to ensure the sound and prudent management of the insurer.

Peer review is not proposed to be a replication or audit of the work performed by the Approved Actuary. Rather it is viewed as a quality checking mechanism of the data, methods and assumptions employed by the Approved Actuary, for reasonableness.

The subject of peer review will be the LVR. *GPS 310 Audit and Actuarial Reporting and Valuation* requires that insurers arrange to have the LVR prepared by the Approved Actuary (including the investigations associated with the preparation of the LVR) peer reviewed by another actuary (the Reviewing Actuary) before submission to APRA.

At this stage, the FCR is not required to be subject to peer review (except to the extent that it includes the LVR). However, APRA intends to review this when the new FCR is bedded down.

The insurer must submit the reports of both the Approved Actuary and the Reviewing Actuary to APRA. Reviewing Actuaries are subject to the same eligibility criteria as the Approved Actuary, with additional criteria relating to independence to be satisfied. The scope of the report prepared by the Reviewing Actuary is also outlined in this standard.

APRA has sought to ensure that its proposals are consistent with the guidance note on peer review being prepared by the IAAust, a significant development for the actuarial profession.

#### **4.5 Role of Approved Actuary – Financial Condition Report**

APRA's reasoning behind the proposal to introduce an FCR for insurers was discussed earlier; HIH Royal Commission Recommendation 41 was that APRA require an FCR, with Justice Owen noting in his report that the FCR should be along the lines of that required for life insurers.

The proposals in the 2003 discussion paper align for the most part with the requirements for life insurance. Aspects such as pricing, investment policy, future capital adequacy and solvency, asset and liability management, reinsurance arrangements and information systems are all included in a life insurance FCR.

##### **4.5.1 Industry responses**

As outlined earlier, although there was broad support for the concept of an FCR for insurers, some respondents opposed the requirement for three main reasons: costs, content and relevance.

##### **Costs**

A number of submissions, particularly from smaller insurers, commented that the proposed FCR requirement would impose significant compliance costs. These costs were not quantified, but it was suggested that the costs would be disproportionate

to the benefit to be gained by insurers. This would be particularly so if the FCR was highly qualified, which might occur where the Approved Actuary had not yet built up the necessary expertise and was significantly reliant on information provided by the insurer.

Further potential costs cited included the additional administrative burden and costs involved in introducing another layer of monitoring and review on top of an effective risk management system. It was suggested that transitional arrangements, such as a phased implementation approach, could assist in alleviating the cost burden.

##### **4.5.1.1 APRA prudential approach**

APRA accepts that the cost of an FCR might outweigh the benefits in the initial stages of implementation. As the broader expertise of Approved Actuaries grows, however, the benefits of an objective review of the financial condition of an insurer will, in APRA's view, rapidly and materially outweigh the associated costs, especially for smaller insurers with more limited access to in-house expertise. APRA will look for the quality and detail of this work to develop during the early years of the new arrangements.

##### **Content**

Some respondents supported the proposed scope of the FCR in its entirety. Others, however, argued that the proposed scope went beyond the role and expertise of an Approved Actuary. The main areas that were considered to raise difficulty were risk management and reinsurance arrangements, on the view that these might be beyond the experience of the Approved Actuary, and that the Approved Auditor also has a role in these areas. There were also concerns in relation to other areas, for example premium setting, valuations of assets and investment policy and quality, and over disclosure of sensitive information.

At the seminar hosted jointly by APRA and the Insurance Council of Australia on 10 June 2004, the Canadian experience with Dynamic Capital Adequacy Testing (DCAT)<sup>2</sup> was raised, in particular the apparent limited usefulness of DCAT reports for boards and senior management. Attendees noted that

APRA should avoid FCR requirements that would impose an additional layer of regulation without any tangible benefits for boards and senior management.

#### 4.5.1.2 APRA prudential approach

The IAAust has established a taskforce to develop a professional standard and guidance note in relation to FCRs. APRA is represented on this taskforce. Consultation with IAAust will continue but, as a general principle, APRA does not consider that the scope of an FCR should be restricted to the existing liability valuation requirements and limited financial aspects. The intention is to have an objective assessment of the overall financial condition of an insurer, and APRA sees value for both the insurer as well as itself in requiring this report.

Although only a few general insurance actuaries have traditionally been involved in all aspects of an insurer's business, APRA does not consider that this is sufficient argument for limiting the scope of the FCR. The profession has demonstrated its ability to undertake tasks in other areas and to draw and rely on, where appropriate, the base work of other professionals. APRA also considers that actuaries would be able to provide a different perspective to that of the Approved Auditor. Therefore, APRA proposes to continue with the broad scope of the FCR as proposed in the 2003 discussion paper. APRA acknowledges that not all Approved Actuaries will initially have the necessary skills, expertise and experience to thoroughly complete all aspects of the proposed FCR, and will look for the quality and detail of this work to develop during the early years of the new arrangements.

APRA notes that the DCAT reports prepared in Canada currently have a narrower focus than is proposed for the FCR. DCAT is the primary tool used by actuaries to examine the numerical effects of various plausible adverse scenarios on an insurer's capital position. Through the testing process, actuaries are required to:

- identify the plausible scenarios that will threaten the satisfactory financial condition of the insurer;
- provide management with recommendations to minimise the likelihood of these threats; and
- provide management with recommendations that could potentially mitigate a threat if it materialises.

Criticisms of DCAT reports by boards and senior management appear to stem from this limited scope. The proposed scope of APRA's FCR proposal is wider and is not limited to quantitative assessments relating to capital adequacy. There will be greater scope for a qualitative actuarial assessment of the overall financial condition of an insurer, especially with the Approved Actuary's intimate understanding of the factors incorporated within the LVR calculation and how they would be expected to unfold and release reserves and profits over time.

The Office of the Superintendent of Financial Institutions (OSFI) in Canada has formulated some recommendations to improve the quality of DCAT reports. These recommendations focus on extending the scope of the report to qualitative aspects and to other areas of an insurer's operations that can potentially affect its capital position (such as reinsurance, pricing and significant structural changes) and on increasing management's involvement in the assessment process to ensure DCAT becomes an integral part of the business planning practice. APRA's proposals incorporate these recommendations.

Finally, on the disclosure issue, APRA has no intention of disclosing individual insurer information included in the FCR. This is consistent with the approach that has been in place for life insurance for many years.

#### Relevance

Smaller insurers also expressed concerns about the relevance of an FCR for less-sophisticated businesses. Some respondents also suggested that the FCR be an 'executive' FCR (i.e. the responsibility of a range of senior management, such as the CEO, CFO, Chief Information Officer and the Chief Risk Officer). It was argued that this would ensure that the document was useful and meaningful for board and management use.

<sup>2</sup>DCAT is performed by a general insurer's appointed actuary as part of the annual investigation process to numerically assess an insurer's recent, current and prospective financial position and financial condition (refer Standard of Practice 2500 *Dynamic Capital Adequacy Testing*, Canadian Institute of Actuaries, December 2002).

#### 4.5.1.3 APRA prudential approach

APRA acknowledges the concerns about relevance for some insurers and has addressed them through the exemption requirements. Where certain criteria are met, an insurer will be exempt from the requirement to appoint an actuary and thus will not be required to submit to APRA an LVR or an FCR. APRA has also reviewed the criteria to ensure that actuarial advice is required only in those circumstances where APRA considers there will be benefits for the board and senior management of the insurer and where there is a prudential need.

In relation to the comments about an 'executive' FCR, APRA notes that the FCR is intended to provide an objective or professionally unbiased assessment of the financial condition of the insurer. Creating an 'executive' FCR would not achieve this objective.

The Approved Actuary will be required to gather information from a number of sources within the insurer, and will be entitled to rely on that information and the work of others. APRA is of the view that

the Approved Actuary must retain the prime responsibility for the FCR due to the profession's unique insights, particularly into the dynamics of the outstanding claims liabilities valuation. The FCR is not intended to be a report that simply re-presents management's current view. APRA's approach is consistent with the recommendation of the HIH Royal Commission.

*GPS 310 Audit and Actuarial Reporting and Valuation* requires the FCR to be prepared on an annual basis (although APRA can require more or less frequent preparation) and in doing so an Approved Actuary must have regard to professional standards and guidance issued by the IAAust. The standard outlines the scope of the FCR, consistent with the scope proposed in the 2003 discussion paper. *GGN 310.1 Financial Condition Report* provides additional guidance and makes provision for an FCR to be completed on a group basis. Provision is also made for the FCR to attach the LVR as an appendix.

# Chapter 5

## Outsourcing

This chapter deals specifically with APRA's proposal relating to outsourcing and the revisions to the existing prudential standards and guidance notes to reflect these proposals.

### 5.1 General

Guidance on outsourcing is currently included in *GGN 220.5 Operational Risks*. In its discussion paper, APRA proposed to strengthen outsourcing requirements in light of the increasingly common practice for insurers to outsource business activities to external service providers, including intermediaries such as brokers.

A new prudential standard *GPS 221 Outsourcing* is proposed, which focuses on the adequacy of an insurer's risk management policies and processes to manage such outsourcing arrangements. A new guidance note *GGN 221.1 Managing Outsourcing Arrangements* is also proposed, to provide further detail on the prudential standard requirements. These incorporate all of the outsourcing requirements currently in *GGN 220.5 Operational Risks*. Both the prudential standard and the guidance note are largely modelled on the existing ADI prudential standard (*APS 231 Outsourcing*).

Table 4 below shows the existing documents relating to outsourcing compared to those proposed.

### 5.2 Material business activities

The proposed new requirements will apply to all material business activities being outsourced to another party (even if related). *GPS 221 Outsourcing* details the criteria necessary for an insurer to

assess whether the activity being outsourced is material. The current requirements apply to all outsourcing arrangements, whereas the proposed new requirements will apply only to material business activities being outsourced.

### 5.3 Outsourcing policy and risk management

An insurer will be required to develop an outsourcing policy to be incorporated in the existing risk management framework. The policy should identify the risks associated with the material outsourcing arrangements and introduce policies and processes to mitigate those risks. The prudential standard and guidance note prescribes the minimum requirements to be included in the policy, including the preparation of a business case for outsourcing the activity, tender or other selection processes for service providers, the role of the board or delegated committee in approving the arrangement and the factors to be included in the outsourcing agreement.

### 5.4 Roles and responsibilities of the board and management

It is emphasised in both *GPS 221 Outsourcing* and *GGN 221.1 Managing Outsourcing Arrangements* that the board and senior management are responsible for ensuring the outsourcing policies are in place and procedures are followed. In addition, the documents prescribe certain policies and procedures that require involvement of the board and senior management.

### 5.5 The contract

*GPS 221 Outsourcing* will continue to require that material outsourcing arrangements be formalised in written, legally binding agreements. The outsourcing

Existing	Proposed
<i>GGN 220.5 Operational Risks (outsourcing component to be moved to GPS 221 and GGN 221.1)</i>	<i>GPS 221 Outsourcing (new)</i>
	<i>GGN 221.1 Managing Outsourcing Arrangements (new)</i>

agreement must, at a minimum, include clauses covering service levels and performance requirements, default arrangements and termination provisions, and pricing and fee structures. Although the issues required to be covered by the outsourcing agreement are more detailed than the existing requirements, APRA considers these to be fundamental to establishing a sound arrangement with a service provider.

### **5.6 Notification requirements**

*GPS 221 Outsourcing* will introduce the requirement that insurers notify APRA, in writing, of any agreements to outsource material business activities conducted in Australia within 20 business days of the execution of the agreement.

Insurers must also notify APRA within three months from the commencement of the new requirements of any material outsourcing arrangements existing at that time. This includes existing arrangements with providers both in Australia and offshore (refer also 5.7).

Where APRA has serious prudential concerns in relation to the outsourcing of material business activities offshore, APRA may require the insurer to make alternative arrangements.

### **5.7 Offshoring**

'Offshoring' is the practice of outsourcing business activities to a provider outside Australia. Offshoring may occur via a contract with a provider outside Australia, or an Australian outsourcing contract where material elements of the service are provided from abroad.

APRA does not wish to discourage or prohibit prudently structured offshoring arrangements of material business activities. However, offshoring will require APRA's prior written approval.

APRA, in assessing the application for approval, will consider amongst other factors, whether the Board has demonstrated sufficient consideration of the additional risks that may result from offshoring and what processes and controls will be introduced to mitigate these risks. This may involve the inclusion of specific clauses relating to choice of law, security and confidentiality of information and access to information.

Consistent with the requirements for domestic outsourcing arrangements, the insurer must ensure that it has adequate business continuity management arrangements in the event that the service provider is unable to fulfil its obligations. This may include the identification of an alternate service provider and/or measures in the eventuality that the outsourced activity needed to be brought back within the insurer.

### **5.8 Monitoring, reporting and audit arrangements**

*GPS 221 Outsourcing* and *GGN 221.1 Managing Outsourcing Arrangements* will require insurers to have sufficient resources to manage and monitor outsourcing relationships, although this will vary depending on the materiality of the contract. This should include regular contact with the service provider, regular monitoring or performance, and elevation of issues that arise from the arrangement. APRA should also be informed of any significant problems which may materially affect the arrangement. Where an insurer contemplates terminating an arrangement, APRA should be given notice, together with a report on the impact of the termination, including transition strategies.

A regular audit review and report of the outsourcing policy, and compliance with the policy must also be conducted. APRA may also request the insurer to obtain, at the cost of the insurer, a report from the external auditor or an appropriate external expert on the risk management processes.

# Appendix 1: Summary of proposals in 2003 discussion paper

## **Capital management (Item 1.1)**

APRA proposed that insurers should provide a CMP to APRA annually. This would set out their strategy for monitoring capital resources over time, and the processes and controls to monitor and ensure continual compliance with the MCR, including setting trigger ratios appropriate for each insurer. APRA suggested that the CMP be set for a minimum of three years.

## **Treatment of proportional reinsurance treaties (Item 1.7)**

APRA proposed that there be no change to the recognition of proportional reinsurance contracts for the purpose of liability valuation. APRA's preference was to assess the need for more detailed professional guidance for actuaries in this area (with the assistance of the IAAust).

## **Independence of Approved Actuaries – rotation of actuaries (Item 2.12(c))**

APRA proposed that there be rotation for Approved Auditors but not for Approved Actuaries. APRA, however, noted the possibility of removing the ability for insurers to use in-house actuaries in order to further strengthen independence.

## **Independence of Approved Actuaries – peer review (Item 2.12(d))**

Since APRA did not propose the rotation of Approved Actuaries at this stage, it proposed to require peer review of actuarial reporting to assist in maintaining and, if appropriate or required, improving the quality and consistency of reports and work undertaken by Approved Actuaries.

## **Role of Approved Actuary – FCR (Item 2.13)**

APRA proposed to expand the role of the Approved Actuary by requiring the Approved Actuary to prepare an FCR. An FCR is intended to

be an objective assessment of the overall financial condition of the insurer and is not intended to be a Financial Control Report.

## **Board Declaration (Item 2.15)**

APRA proposed to extend the Board Declaration to cover the financial information submitted to APRA and the Approved Auditor and Approved Actuary. It was proposed that this declaration be provided on both a quarterly and annual basis and attest to whether the financial information lodged with APRA has been prepared in accordance with legislative requirements, and prudential, reporting and accounting standards.

## **Risk Management Strategy (Item 2.16)**

APRA proposed that insurers submit a RMS to APRA, not only if material changes are made, but on an annual basis (as with the requirements for submission of the REMS). APRA also proposed additional guidance on the content of a RMS, including responsibilities for the risk management framework, review provisions, global and group risk management strategy and processes for identifying and assessing risks, including a risk matrix.

## **Outsourcing (2.17)**

APRA proposed to strengthen the requirements in relation to outsourcing. The model for these requirements would be ADI Prudential Standard *APS 231 Outsourcing*. These requirements would apply to arrangements with insurance intermediaries as well as other service providers.

## **Reinsurance Management Strategy (Item 2.19) and reinsurance arrangements (Item 2.20)**

APRA proposed to require insurers to review and lodge their REMS with APRA for approval on an annual basis, as well as when amended. APRA also

proposed that the REMS should include a description of the methodologies in place for determining all aspects of a reinsurance program, for example the MER calculation. In addition, the REMS should include information on the actual reinsurance arrangements in an attachment.

### **Confirmation that reinsurance arrangements are in place (Item 2.21)**

APRA proposed to strengthen the documentation and certification requirements relating to reinsurance arrangements. Specifically, it proposed to require insurers to advise APRA within two months of their reinsurance arrangements taking effect that these arrangements have been fully documented. In addition, APRA proposed that reinsurance recoveries could not be taken into account in calculating an insurer's minimum capital requirements unless the reinsurance contract had been fully documented.

### **Non-risk transfer products (Item 2.22)**

APRA proposed that insurers seek APRA's approval prior to entering into a non-risk transfer arrangement (such as financial reinsurance and other contracts). Any such arrangements would be required to be disclosed in detail in an insurer's REMS and be supported by full documentation of the contracts. APRA also proposed to require that the Approved Actuary (via the proposed FCR) and Approved Auditor (via the annual audit requirements) consider the impact of these contracts on the insurer.

### **Business Plan (Item 4.17)**

APRA proposed to expand on the details in respect of an insurer's business plan to mirror the guidance already provided in the Authorisation Guidance Note.

## Appendix 2: Mapping of 2003 discussion paper proposals to new draft prudential standards

Item	Description	Location	Expected release date of final standard
1.1	Capital management	GPS 220 Risk Management	January 2006
1.2	Treatment of capitalised expenses	GPS 110 Capital Adequacy	Deferred for the present
1.3	Insurance risk charge: reinsurance recoveries	GPS 110 Capital Adequacy/GGN 110.3 Insurance Risk Capital Charge GPS 230 Reinsurance Management	mid 2006 January 2006
1.4	Capital risk charges for intra-group exposures	GPS 110 Capital Adequacy/ GGN 110.3 Insurance Risk Capital Charge/GGN 110.4 Investment risk Concentration Charge	mid 2006
1.5	Investment risk capital charge: surety bonds and contingent liabilities	GGN 110.4 Investment Risk Concentration Charge	mid 2006
1.6	Securitisation	GPS 110 Capital Adequacy	mid 2006
1.7	Treatment of proportional reinsurance treaties	GPS 110 Capital Adequacy/GPS 310 Audit and Actuarial Reporting and Valuation/GGN 310.2 Liability Valuation	mid 2006/ January 2006
2.1	New prudential standards	Refer throughout	
2.2	Independence of directors	GPS 510 Governance	January 2006
2.3	Application of board composition requirements to captive insurers	Refer captives proposal (released 23 February 2005)	late 2005
2.4	Chairperson of the board	GPS 510 Governance	January 2006
2.5	Board composition	GPS 510 Governance	January 2006
2.6	Board member resignations	GPS 510 Governance	January 2006
2.7	Board Audit Committee	GPS 510 Governance	January 2006
2.8	Board Risk Committee	GPS 510 Governance	January 2006
2.9	Board and senior management performance	GPS 510 Governance	January 2006
2.10	Length of service of directors	GPS 510 Governance	January 2006
2.11	Approval of auditors and actuaries	GPS 520 Fit and Proper	February 2006

Item	Description	Location	Expected release date of final standard
2.12	Independence of Approved Auditors and Approved Actuaries		
	(a) rotation of auditors	(a) GPS 510 Governance	January 2006
	(b) services by auditors	(b) GPS 510 Governance	January 2006
	(c) rotation of actuaries	(c) None	
	(d) peer review	(d) GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
	(e) increased scrutiny (independence)	(e) GPS 510 Governance	January 2006
	(f) separation of audit and actuarial firms	(f) GPS 510 Governance	January 2006
2.13	Role of Approved Actuary (FCR)	GPS 310 Audit and Actuarial Reporting and Valuation/GGN 310.1 Financial Condition Report	January 2006
2.14	Senior officer from outside Australia	GPS 510 Governance	January 2006
2.15	Board declaration	GPS 220 Risk Management	January 2006
2.16	Risk Management Strategy (RMS)	GPS 220 Risk Management	January 2006
2.17	Outsourcing	GPS 221 Outsourcing	January 2006
2.18	Business continuity planning	GPS 222 Business Continuity Management	Released
2.19	Reinsurance Management Strategy (REMS)	GPS 230 Reinsurance Management	January 2006
2.20	Reinsurance arrangements	GPS 230 Reinsurance Management	January 2006
2.21	Confirmation that reinsurance arrangements are in place	GPS 230 Reinsurance Management	January 2006
2.22	Non-risk transfer products	GPS 230 Reinsurance Management	January 2006
3.1	LMI – requirement to be mono-line	Refer LMI proposals	October 2005
3.2	General insurers in run-off	GPS 110 (repatriation of capital)	mid 2006
3.3	Transfers and amalgamations of insurance business: actuary's report	GPS 410 Transfers and Amalgamations of Business	2006
3.4	Transfers and amalgamations of insurance business: 'affected policyholders'	GPS 410 Transfers and Amalgamations of Business	2006
4.1	Measurement of capital base	GPS 110 Capital Adequacy	mid 2006
4.2	Tier 1 capital: technical provisions in excess of those required by GPS 210	GPS 110 Capital Adequacy	mid 2006

<b>Item</b>	<b>Description</b>	<b>Location</b>	<b>Expected release date of final standard</b>
4.3	Reductions in capital	GPS 110 Capital Adequacy	mid 2006
4.4	Investment concentration charge: application to 'group' exposures	GPS 110 Capital Adequacy	mid 2006
4.5	Off-balance sheet transactions	GPS 110 Capital Adequacy	mid 2006
4.6	Counterparty grades: use of rating agencies	GPS 110 Capital Adequacy	mid 2006
4.7	PML and MER calculations	GPS 110 Capital Adequacy	mid 2006
4.8	Assets not included as assets in Australia	GPS 120 Assets in Australia	mid 2006
4.9	Treatment of assets held by sub-custodians	GPS 120 Assets in Australia	mid 2006
4.10	Investments in subsidiaries	GPS 120 Assets in Australia	mid 2006
4.11	Approved Actuary report	GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
4.12	Application of GPS 210	GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
4.13	Valuation of insurance liabilities at 75 per cent level of sufficiency	GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
4.14	Definition of premiums liabilities	GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
4.15	Additional guidance in GPS 210	GPS 310 Audit and Actuarial Reporting and Valuation	January 2006
4.16	Definition of senior managers	GPS 520 Fit and Proper	February 2006
4.17	Business plans	GPS 220 Risk Management	January 2006
4.18	Approval of auditors and actuaries	GPS 520 Fit and Proper	February 2006
4.19	Disclosure of pecuniary interests of auditors and actuaries	GPS 520 Fit and Proper	February 2006
4.20	Internal audit	GPS 220 Risk Management GPS 510 Governance	January 2006
4.21	Custodian requirements	GPS 910 Custodian Requirements	mid 2006
6	Disclosure by APRA	Statistical publications	
7	Disclosure by insurers	–	

## Appendix 3: Mapping of current general insurance prudential standards to new draft prudential standards

Prudential Standard GPS 210 Liability Valuation		
Paragraph	Description	New location
2	All insurers to value insurance liabilities in accordance with principles of standard	GPS 310 Audit and Actuarial Reporting and Valuation
3	Role of the Approved Actuary	GPS 310 Audit and Actuarial Reporting and Valuation
4-11	Valuation of insurance liabilities	GPS 310 Audit and Actuarial Reporting and Valuation
12-16	Determination by class of business	GGN 310.2 Liability Valuation
17-21	The central estimate	GGN 310.2 Liability Valuation
22-28	Risk margins	GGN 310.2 Liability Valuation
29-31	Discount rate	GGN 310.2 Liability Valuation
32-36	Methodologies for valuation	GGN 310.2 Liability Valuation
37-41	Estimation of reinsurance recoveries	GGN 310.2 Liability Valuation
42	Claims escalation	GGN 310.2 Liability Valuation
43	Non-reinsurance recoveries	GGN 310.2 Liability Valuation
44-45	Materiality	GGN 310.2 Liability Valuation
46	Reporting requirements	GPS 310 Audit and Actuarial Reporting and Valuation

Prudential Standard GPS 220 Risk Management		
Paragraph	Description	New location
2-7	Fit and proper criteria	GPS 520 Fit and Proper
8-14	Eligibility criteria for auditors and actuaries	GPS 520 Fit and Proper
5-18	Role of boards	GPS 510 Governance
19	Details of directors to APRA	GPS 520 Fit and Proper
20	Board committees	GPS 510 Governance
21-22	Definition of senior manager	GPS 520 Fit and Proper
23	Role of senior officer outside Australia (branches)	GPS 510 Governance
24	Details of senior officer outside Australia to APRA	GPS 520 Fit and Proper

Paragraph	Description	New location
25-29	Role of Approved Auditor	GPS 310 Audit and Actuarial Reporting and Valuation
30-32	Role of Approved Actuary	GPS 310 Audit and Actuarial Reporting and Valuation
33	Non-routine reporting by auditor and actuary	GPS 310 Audit and Actuarial Reporting and Valuation
34	Meetings with auditor and actuary	GPS 310 Audit and Actuarial Reporting and Valuation
35-53	Risk management	GPS 220 Risk Management
54-55	Board declaration	GPS 220 Risk Management
56-57	Business plan	GPS 220 Risk Management
58	Other reporting	GPS 220 Risk Management

Guidance Note GGN 220.1 Governance		
Paragraph	Description	New location
1	General description of board	GPS 520 Fit and Proper
2	General description of board, committees and experts	GPS 510 Governance
3-5	Fit and proper	GPS 520 Fit and Proper
6-9	Role of board	GPS 510 Governance
10-14	Role of Board Audit Committee	GPS 510 Governance
15	Interaction of Board Audit Committee and approved auditor and actuary	GPS 510 Governance
16-18	Requirements for insurer to appoint auditor and actuary	GPS 520 Fit and Proper
19-21	Exemption from requirement to appoint an actuary	GPS 310 Audit and Actuarial Reporting and Valuation
22-23	Approval process for auditors and actuaries	GPS 520 Fit and Proper
24	Reporting of approved auditor	GPS 310 Audit and Actuarial Reporting and Valuation
25-34	Reporting of approved actuary	GPS 310 Audit and Actuarial Reporting and Valuation
35-42	Other reporting and duties of auditors and actuaries	GPS 310 Audit and Actuarial Reporting and Valuation



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