



## **Prudential Standard GPS 221**

### **Risk Management: Level 2 Insurance Groups**

#### **Objective and key requirements of this Prudential Standard**

This Prudential Standard aims to ensure that a Level 2 insurance group has systems for identifying, assessing, mitigating and monitoring the risks that may affect the ability of Level 1 insurers within the group to meet their obligations to policyholders.

Level 2 insurance groups must maintain a group-wide risk control framework that includes risk management (including capital management), reinsurance management, business continuity management and outsourcing for Level 2 insurance groups.

To meet this Prudential Standard's requirements, a Level 2 insurance group must:

- have a risk management framework which includes a documented Risk Management Strategy, sound risk management policies and procedures, clearly defined managerial responsibilities and controls, a dedicated risk management function and a documented Business Plan;
- annually review its Risk Management Strategy, and submit to APRA when any material changes are made;
- submit a Risk Management Declaration to APRA on an annual basis;
- submit a Financial Information Declaration to APRA on an annual basis;
- have a Reinsurance Management Framework, which includes a documented Reinsurance Management Strategy, sound reinsurance management policies and procedures, clearly defined managerial responsibilities and controls;
- annually review its Reinsurance Management Strategy, and submit to APRA, when any material changes are made;
- submit a Reinsurance Arrangements Statement to APRA;

- submit to APRA details of the effects of limited risk transfer arrangements entered into by foreign entities within the group;
- implement a whole-of-business approach to Business Continuity Management appropriate to the nature and scale of its operations;
- develop, implement and maintain a Business Continuity Plan that documents procedure and information which enable the group to respond to disruptions and recover critical business functions. The Business Continuity Plan must be reviewed at least annual by responsible senior management and periodically reviewed through the group's internal audit function or an external expert; and
- ensure that any outsourcing arrangements involving material business activities entered into are subject to appropriate due diligence, approval and on-going monitoring.

This Prudential Standard is to be read in conjunction with *Prudential Standard GPS 220 Risk Management*, *Prudential Standard GPS 230 Reinsurance Management*, *Prudential Standard GPS 231 Outsourcing* and *Prudential Standard GPS 222 Business Continuity Management*. This Prudential Standard refers to those relevant standards where necessary. Where Level 2 insurance groups are subject to additional or alternative prudential requirements, these are specified in this Prudential Standard.

## Authority

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

## Application

2. This Prudential Standard applies to:
  - (a) **general insurers (insurers)**<sup>1</sup>; or
  - (b) **authorised NOHCs**<sup>2</sup>.
3. Insurers and authorised NOHCs must comply with this Prudential Standard from 1 January 2009 (**effective date**).
4. Unless otherwise specified in this Prudential Standard, the following prudential standards apply to a **Level 2 insurance group** as if references to “insurer” in those prudential standards were references to “Level 2 insurance group”:
  - (a) *Prudential Standard GPS 220 Risk Management (GPS 220)*;
  - (b) *Prudential Standard GPS 230 Reinsurance Management (GPS 230)*;
  - (c) *Prudential Standard GPS 231 Outsourcing (GPS 231)*; and
  - (d) *Prudential Standard GPS 222 Business Continuity Management (GPS 222)*.
5. In general, Level 2 insurance groups are subject to the same risk management requirements as **Level 1 insurers**. Where Level 2 insurance groups are subject to additional or alternative prudential requirements, these are specified in this Prudential Standard.
6. Where any requirement is imposed on a Level 2 insurance group in this Prudential Standard, the parent entity of the group must ensure that the group meets the requirement. Subject to paragraph 7, the **parent entity** is:
  - (a) where the Level 2 insurance group is headed by an authorised NOHC, the authorised NOHC; and
  - (b) where the Level 2 insurance group is headed by an insurer, the insurer.

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

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<sup>1</sup> Refer to sections 32 and 35 of the Act.

<sup>2</sup> Refer to sections 32 and 35 of the Act.

7. APRA may determine that a different entity (whether that entity be an insurer, authorised NOHC or a subsidiary of the insurer or the authorised NOHC) is the parent entity for the purposes of paragraph 6.
8. GPS 220 and GPS 230 allow an insurer which is part of an insurance group to meet certain requirements of GPS 220 and GPS 230 on a group basis. Where:
  - (a) a requirement of GPS 220 or GPS 230 is met on a group basis; and
  - (b) APRA has not required one or more Level 1 insurers within the Level 2 insurance group to comply with the requirement on an individual basis; and
  - (c) APRA has not required the Level 1 insurer to comply with the requirement in respect of a different insurance group within the wider corporate group

the Level 2 insurance group is not required to comply with the corresponding requirement of this Prudential Standard separately.<sup>3</sup>
9. For the purposes of applying the prudential standards referred to in paragraph 4 to a Level 2 insurance group, references to an **Appointed Auditor** in those prudential standards shall be taken to be references to a Group Auditor<sup>4</sup> of the group.
10. For the purposes of applying the prudential standards referred to in paragraph 4 to a Level 2 insurance group, references to an **Appointed Actuary** in those prudential standards shall be taken to be references to a Group Actuary<sup>5</sup> in the context of the group.

### Interpretation

11. Unless otherwise defined in this Prudential Standards, expressions in bold are defined in *Prudential Standards GPS 001 Definitions*.
12. For the purposes of this Prudential Standard:
  - (a) **Australian business** of a Level 2 insurance group means insurance business carried on (whether in Australia or elsewhere) by any Level 1 insurer within the group;

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<sup>3</sup> In cases where APRA is of the view that compliance on a group basis is inadequate for proper prudential supervision of any individual insurer within the group, APRA has power under GPS 220 and GPS 230 to require separate compliance by that insurer.

<sup>4</sup> As defined in *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation for Level 2 Insurance Groups*.

<sup>5</sup> As defined in *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation for Level 2 Insurance Groups*.

- (b) **international business** of a Level 2 insurance group means insurance business carried on by any entity within the group that is not authorised under the Act;
- (c) **insurance business** has the same meaning as in the Act;
- (d) **Level 1 insurer** means an individual insurer in a Level 2 insurance group that is authorised under the Act.

### **The role of the Board and senior management**

- 13. The Board of directors (**Board**) of the parent entity of the Level 2 insurance group is responsible for meeting all of the requirements specified in this Prudential Standard for the Level 2 insurance group.
- 14. The Board must take a whole-of-business approach in ensuring compliance with this Prudential Standard, including taking into account the Australian business and international business of the group.
- 15. For the avoidance of doubt, compliance by a Level 2 insurance group with the requirements of this Prudential Standard does not relieve the board of a Level 1 insurer within the group from the need to comply with any **prudential requirements** that are specific to the Level 1 insurer.

### **Risk management framework and risk management strategy (RMS)**

- 16. In addition to the requirements relating to the risk management framework and RMS applicable to a Level 2 insurance group under GPS 220 read with this Prudential Standard, a Level 2 insurance group must ensure that its risk management framework and RMS cover its international business.

### **Risk management function**

- 17. Where a Level 2 insurance group complies with the requirement to have a risk management function (or role) within the group under GPS 220 read with this Prudential Standard, a Level 1 insurer within the group does not need to have their own risk management function unless otherwise required to by APRA.

### **Business Plan**

- 18. Where:
  - (a) a Level 2 insurance group complies with the requirement to maintain a Business Plan under GPS 220 read with this Prudential Standard; and
  - (b) the Business Plan includes adequate detail about Level 1 insurers within the group

the Level 1 insurers within the group are not required to maintain separate Business Plans under GPS 220.

**Risk management declaration and financial management declaration**

19. In addition to the requirements relating to the risk management declaration and financial information declaration applicable to a Level 2 insurance group under GPS 220 read with this Prudential Standard, a Level 2 insurance group must:
- (a) ensure that its risk management declaration and financial information declaration cover its international business; and
  - (b) make an attestation, in its risk management declaration, as to the compliance of any entity in the group carrying on insurance business in a foreign jurisdiction with the applicable minimum capital requirements, if any, in that jurisdiction.

**Reinsurance Management Strategy**

20. In addition to the requirements relating to REMS applicable to a Level 2 insurance group under GPS 230 read with this Prudential Standard, a Level 2 insurance group must ensure that its REMS covers its international business.

**Reinsurance Declaration**

21. A Level 2 insurance group does not need to complete a reinsurance declaration.

**Limited Risk Transfer Arrangements**

22. Under GPS 230, all insurers within a Level 2 insurance group must submit to APRA details of all proposed Limited Risk Transfer Arrangements for approval prior to entering into such arrangements. A Level 2 insurance group is not required to submit to APRA, for approval, any Limited Risk Transfer Arrangement proposed to be entered into by any entity in the group that is not an insurer. However, a Level 2 insurance group must inform APRA of the effect of any Limited Risk Transfer Arrangements entered into by any foreign entities within the group carrying on insurance business. Details of these Limited Risk Transfer Arrangements need not be submitted to APRA.

**Business Continuity Management (BCM)**

23. In addition to the requirements applicable to Level 2 insurance groups under GPS 222 read with this Prudential Standard, a Level 2 insurance group must:
- (a) implement a whole-of-business approach to BCM appropriate to the nature and scale of its operations;
  - (b) consistently apply BCM on a group-wide basis, across countries and regions;
  - (c) apply BCM to risk assessments and risk processes at a functional level in the group, where appropriate;

- (d) ensure that the Business Continuity Plan (**BCP**) required under GPS 222 read with this Prudential Standard is reviewed at least annually by responsible senior management of the parent entity of the group; and
  - (e) ensure that the BCP is periodically reviewed by the group internal audit function or an external expert.
24. The Board may delegate operational responsibility for the BCM to a responsible committee and/or senior management of the parent entity of the group. The operational responsibility must be clearly expressed in the charter of the committee and/or in the performance objective of the responsible senior management.

### **Outsourcing**

25. In addition to the requirements on outsourcing under GPS 231 read with this Prudential Standard, a Level 2 insurance group must develop an outsourcing policy that includes a group approach to outsourcing of material business activities for both Australian and international business.
26. For the purposes of GPS 231 read with this Prudential Standard, the international business of a level 2 insurance group does not constitute offshoring as defined in GPS 231. The requirements relating to offshoring under GPS 231 read with this Prudential Standard do not apply to the international business of a Level 2 insurance group. However, a Level 2 insurance group must comply with any requirement relating to offshoring in respect of any other activity falling within the meaning of offshoring under GPS 231 read with this Prudential Standard.

### **Other notification requirements**

27. Where a Level 2 insurance group carries on insurance business outside Australia, it must notify APRA, in writing, if it becomes aware that:
- (a) its right to conduct business in any foreign jurisdiction has ceased; or
  - (b) its right to conduct insurance business has been limited by a law of the jurisdiction in which the business is being conducted; or
  - (c) its right to conduct insurance business has been otherwise materially affected under a law of the jurisdiction in which the business is being conducted; or
  - (d) its right to conduct insurance business has otherwise been withdrawn.

The group must provide written notification to APRA within 10 **business days** of the event occurring.