



Prudential Standard LPS 230

Reinsurance

Objective and key requirements of this Prudential Standard

This Prudential Standard is designed to ensure that reinsurance arrangements of life companies are subject to minimum standards of independent oversight. It addresses the regular reporting of reinsurance arrangements to APRA, and APRA's oversight of financial reinsurance contracts.

The requirements are applicable to all life companies, including friendly societies, registered under the *Life Insurance Act 1995*.

The key requirements of this Prudential Standard are:

- a life company must report on its reinsurance arrangements annually; and
- a life company must not enter into reinsurance arrangements of a certain type unless approval has been granted by APRA.

Authority

1. This Prudential Standard is made under subsection 230A(1) of the *Life Insurance Act 1995* (**the Act**).

Application

2. This Prudential Standard applies to all life companies, including friendly societies, registered under the Act.

Reinsurance reporting

3. A life company must give APRA a reinsurance report relating to the financial year of the company within 3 months after each financial year.
4. The reinsurance report must set out the particulars of each reinsurance contact or group of reinsurance contacts in force between the company and a reinsurer during the financial year. The particulars are outlined under Attachment A.

Reinsurance contracts requiring approval

5. Attachment B declares a specified class of contracts to be reinsurance contracts to which the following applies:
 - (a) a life company must not enter into such a contract, except with the approval of APRA; and
 - (b) an application for approval must be made in accordance with Attachment B; and
 - (c) if APRA approves the application, it must give the approval to the company in writing; and
 - (d) if a life company enters into a contract in accordance with an approval, the company must give APRA a copy of the document or documents containing the terms of the contract within 14 days after entering into the contract.

Attachment A

Particulars of reinsurance arrangements to be set out in reinsurance report

The particulars are:

- (a) the name of the reinsurer and, if it was not a life company registered under the Act, the following details about it:
 - (i) its Australian Company Number or Australian Registered Body Number (if any);
 - (ii) if it was a foreign entity, any number under which it was registered in its place of origin;
 - (iii) the address of its registered office or, if it had no registered office, the address of its principal place of business;
 - (iv) any business name it used in Australia; and
 - (v) the name of any life company registered under the Act to which it was related (within the meaning of section 16 of the Act);
- (b) the type of reinsurance provided for by the reinsurance contract or group of reinsurance contracts (for example, treaty reinsurance or facultative reinsurance);
- (c) the main features of the reinsurance contract or group of reinsurance contracts;
- (d) the classes of life insurance business that were reinsured;
- (e) the categories of life insurance business within each of those classes that were reinsured;
- (f) the kinds of policies written by the company within those categories that were reinsured;
- (g) the extent of the reinsurance cover provided (including the company's retention parameters);
- (h) in the case of a reinsurance contract that does not solely provide facultative reinsurance - how any commission payable by the reinsurer was determined (including selection discount terms);
- (i) in the case of a reinsurance contract that does not solely provide facultative reinsurance - the date on which the contract was entered into;
- (j) in the case of a reinsurance contract that was still in force at the end of the financial year - the circumstances in which the contract may be terminated; and
- (k) in the case of a reinsurance contract that was not in force at the end of the financial year - the date on which the contract ceased to be in force.

A reinsurance report must also set out the opinion of the company's appointed actuary about:

- (a) whether the company's reinsurance arrangements during the financial year and the way in which it administered those arrangements were adequate and effective; and
- (b) whether the company's reinsurance arrangements during the financial year have been accounted for in accordance with the prudential standards in force under section 230A of the Act.

Attachment B

Reinsurance contracts for which approval is required

Definition of a reinsurance contract requiring approval

1. A contract (**the reinsurance contract**) between a life company (**the insurer**) and another entity¹ (**the reinsurer**):
 - (a) under which the reinsurer agrees to provide reinsurance to the insurer in relation to the whole or any part of the life insurance business of the insurer; and
 - (b) which (either alone or together with a separate contract, arrangement or understanding which relates to the reinsurance contract) provides for:
 - (i) the provision of a financial benefit² by the reinsurer to the insurer or to any other entity (whether in any event or only in certain contingencies); and
 - (ii) the provision of a financial benefit by the insurer to the reinsurer or to any other entity (whether in any event or only in certain contingencies);

is a reinsurance contract to which paragraph 5 of this Prudential Standard applies.

2. Neither:
 - (a) payment of claims under the reinsurance contract (after they have become payable); nor
 - (b) payment of reinsurance commission or group life profit share; nor
 - (c) other experience payments or profit share arrangements provided the following requirements are met:
 - (i) payments are intended only to be made by the reinsurer to the insurer;
 - (ii) payments are not subject to repayment except to adjust for an error in calculation;

¹ “entity” includes a natural person, an association and a body corporate

² **the provision of a financial benefit** includes a reference to:

- (a) the payment of money; or
- (b) the making of a loan; or
- (c) the provision of credit; or
- (d) the giving of a guarantee; or
- (e) the provision of security; or
- (f) the waiver, release or setting off of a debt or obligation, or its variation in a way that is favourable to the debtor or the person owing the obligation;

whether for consideration or otherwise.

- (iii) where a negative experience payment or profit share arises in a period it can be required to be earned back in future periods before any further payments are made; and
- (iv) there is no requirement for the insurer to make good, eg via a repayment, transfer of value or similar means, any deficit in the experience/profit share account in any circumstances;

is taken to be the provision of a financial benefit by the reinsurer to the insurer or to another entity for the purposes of paragraph 1(b)(i) of this Attachment.

3. Neither:

- (a) payment of premium which is calculated without taking any account of the provision of financial benefit mentioned in paragraph 1(b)(i); nor
- (b) repayment of reinsurance commission or overpaid group life profit share; nor
- (c) repayment of experience payment or profit share where there has been an error in calculation;

is taken to be the provision of a financial benefit by the insurer to the reinsurer or to another entity for the purposes of paragraph 1(b)(ii) of this Attachment.

Application for approval

4. An application for approval must:

- (a) be given to APRA at least one month before the day on which the contract to which the application relates is proposed to be entered into; and
- (b) include the information specified in paragraph 5 of this Attachment; and
- (c) be signed by:
 - (i) the principal executive officer of the life company making the application; or
 - (ii) an officer of that company who has been authorised for that purpose by the principal executive officer, if the principal executive officer has notified APRA in writing of the authorisation.

5. The information is:

- (a) the name of the reinsurer with whom the contract is proposed to be entered into and, if it is not a life company registered under the Act, the following details:
 - (i) Australian Company Number or Australian Registered Body Number (if any);

- (ii) for a foreign entity, any number under which the reinsurer is registered in its place of origin;
 - (iii) address of registered office or, if the reinsurer has no registered office, the address of its principal place of business;
 - (iv) any business name used by the reinsurer in Australia; and
 - (v) the name of any life company registered under the Act to which the reinsurer is related (within the meaning of section 16 of the Act); and
- (b) the following details about the proposed contract and any separate contract, arrangement or understanding of the kind mentioned in the paragraph 1(b) of this Attachment (**separate arrangement**):
- (i) the reason why the company wishes to enter into the proposed contract and the separate arrangement;
 - (ii) the type of reinsurance provided for by the proposed contract (for example, treaty reinsurance or facultative reinsurance);
 - (iii) the main features of the proposed contract and the separate arrangement;
 - (iv) the classes of life insurance business that are to be reinsured;
 - (v) the categories of life insurance business within each of those classes that are to be reinsured;
 - (vi) the kinds of policies written by the company within those categories that are to be reinsured;
 - (vii) the extent of the reinsurance cover (including the company's retention parameters);
 - (viii) how any commission payable by the proposed reinsurer will be determined (including selection discount terms);
 - (ix) the circumstances in which the proposed contract may be terminated;
 - (x) the circumstances in which a financial benefit will, or may, be provided as mentioned in paragraphs 1(b)(i) and (ii) of this Attachment (if it will, or may, be provided to an entity other than the company or the proposed reinsurer, the name of that entity must be disclosed);
 - (xi) the amount or value of such financial benefit (or, if it is not known, then how it will be determined);

- (xii) the security given, or to be given, by the company to the proposed reinsurer or to another entity to secure the provision of financial benefit mentioned in paragraph 1(b)(i) of this Attachment;
 - (xiii) the interest or other consideration payable to the proposed reinsurer or to another entity in respect of the provision of financial benefit mentioned in paragraph 1(b)(i) of this Attachment;
 - (xiv) the ranking of the claim of the proposed reinsurer or of another entity to the provision of financial benefit mentioned in paragraph 1(b)(ii) of this Attachment in relation to the claims of the company's policy owners and creditors in the event of the winding up of the company.
6. The application must be accompanied by a copy of:
- (a) the advice of the company's appointed actuary that relates to the proposed contract (including the separate arrangement, if any); and
 - (b) the proposed contract (including the separate arrangement, if any).