



Prudential Standard GPS 510

Governance

Objectives and key requirements of this Prudential Standard

This Prudential Standard sets out the minimum governance requirements that general insurers (**insurers**) must adhere to as part of their overall governance arrangements.

The objectives are to ensure that an insurer is well managed, has access to appropriate independent expertise, and gives due consideration to the impact of its decisions on policyholders.

The prime responsibility for the sound and prudent management of an insurer rests with the Board of directors (**the Board**) and senior management of the insurer. The Board and senior management must institute effective governance arrangements within the insurer.

The key requirements of this Prudential Standard include:

- insurers must have regard to minimum key principles in establishing governance arrangements;
- the Board of an insurer must comply with specific composition requirements with respect to board size, independence of directors, and shareholder representation;
- the chairperson of the Board must be an independent non-executive director;
- insurers must establish a Board Audit Committee and Board Risk Committee;
- insurers must have a dedicated internal audit function;
- certain provisions, consistent with those in the *Corporations Act 2001* (**Corporations Act**), dealing with independence requirements for auditors will apply to all insurers;
- Boards must put in place a policy on Board renewal;

- certain information must be provided to APRA with respect to directors;
- insurers must not constrain persons from providing information to APRA; and
- specific requirements also apply to foreign general insurers (**foreign insurers**).

Authority

1. This Prudential Standard is made under s32 of the *Insurance Act 1973* (**the Act**) and applies to all general insurers (**insurers**) authorised under the Act.

Application

2. All insurers (except foreign general insurers¹), have to comply with this Prudential Standard in its entirety.
3. Foreign general insurers (**foreign insurers**) have to comply with only those provisions of this Prudential Standard which specifically indicate that they apply to foreign insurers. None of the obligations imposed by this Prudential Standard, on or in relation to foreign insurers, apply in relation to insurance business carried on outside Australia by the foreign insurer.

Principles

4. This Prudential Standard is predicated on eight key principles that insurers (including foreign insurers) should have regard to when developing and implementing governance arrangements. The principles are:
 - (a) Responsibility - the Board of directors (**the Board**) and senior management are ultimately responsible for the decisions made, and actions taken, by an insurer, and the outcomes of all such decisions and actions. This includes ensuring that decisions and actions do not pose an unacceptable prudential risk to the institution;
 - (b) Independence - in order for a director to be classified as independent, they must be independent in both thought and actions. The Board collectively must perform its review and oversight role effectively and independently of the interests of dominant shareholders, management, and competing and conflicting business interests;
 - (c) Renewal - insurers must have a policy of renewal that regularly provides for fresh insight and general reinvigoration of the Board while also ensuring on-going understanding of the business of the insurer;
 - (d) Expertise – the Board should collectively have, or have ready access to, all necessary expertise that is relevant for the purposes of the Board fulfilling its role and functions;
 - (e) Diligence – the Board and management of an insurer should, at all times, discharge their duties and responsibilities diligently;
 - (f) Prudence – the Board and management of an insurer should, at all times, discharge their duties and responsibilities with a focus on the prudent management of the insurer;

¹ For the definition of “foreign general insurer” refer to section 3 of the Act.

- (g) Transparency – the Board and management must be open and honest in all their dealings on behalf of the insurer; and
 - (h) Oversight - the Board should be satisfied that its oversight is adequate so as to ensure that the management and operation of the insurer is in accordance with the strategy, direction and policies of the Board.
5. This Prudential Standard sets out the minimum requirements that insurers (including foreign insurers, where relevant) must meet to ensure adequate adherence to these principles. In addition, insurers should review the ASX Corporate Governance Council’s *Principles of Good Corporate Governance and Best Practice Recommendations* for further guidance on what is deemed to constitute good practice.

The Board and senior management

6. The ultimate responsibility for the sound and prudent management of an insurer rests with the Board. Accordingly, the Board should have responsibility for approving and reviewing business strategies and significant policies of the insurer. The Board must identify and understand the major risks faced by the insurer. The Board must ensure that an appropriate, adequate, and effective system of risk management and internal control is established and maintained, and must ensure that senior management monitors the effectiveness of the risk management framework. Senior management have responsibility for day to day management of the insurer. When setting policies and making decisions in respect of the insurer, the Board must have regard to the interests of policyholders at all times. Effective governance arrangements are a key element in the prudent management of an insurer. This includes the structures, processes, information, and oversight arrangements used in managing the insurer.²
7. This Prudential Standard sets out the minimum requirements that insurers must implement in this regard. However, adherence to them is not in itself sufficient; they must be considered in the context of the risk profile of the insurer. The Board of an insurer must be able to demonstrate that it provides pro-active knowledgeable guidance to, and oversight of, the business of the insurer, in conjunction with senior management.
8. The Board of an insurer must have a formal charter that sets out the roles and responsibilities of the Board.
9. The Board in fulfilling its functions may delegate authority to management to act on behalf of the Board with respect to certain matters as decided by the Board. This delegation of authority should be clearly set out and documented. The Board cannot delegate its responsibility.
10. It is the responsibility of the Board to ensure that directors, and the senior management of the insurer, collectively, have the full range of skills needed for

² For further detail on risk management requirements refer *Prudential Standard GPS 220 Risk Management* (released 3 May for comment).

the effective and prudent operation of the insurer, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes. This includes the requirement for directors, collectively, to have the necessary skills, knowledge and experience to understand the risks of the insurer, including its legal and prudential obligations, and to ensure that the insurer is managed in an appropriate way taking into account these risks. This could include (but is not limited to) actuarial, accounting, financial and legal expertise, and expertise in the industry in which the institution operates.

11. Senior management of the insurer (including a foreign insurer), responsible for the business in Australia, must ordinarily be resident in Australia.
12. Members of the Board and senior management (including senior management of a foreign insurer) must be available to meet with APRA on request.
13. The Board must provide the Approved Auditor³ and the Approved Actuary⁴ of the insurer (including a foreign insurer) with the opportunity to raise matters directly with the Board.⁵ This includes instances where matters have already been raised with senior management or the Board Audit Committee, but have not been dealt with to the satisfaction of the Approved Auditor and Approved Actuary.

Definition of independence

14. For the purposes of this Prudential Standard, a director will be considered to be independent if they are assessed as independent using the criteria set out in the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*.
15. If the Board is in doubt regarding a director's independence, the insurer must refer the matter to APRA.
16. Directors of insurers must avoid conflicts of interest, or perceived conflicts of interest, between their role as a director of the insurer and their other activities and commitments. Where an actual or potential conflict of interest arises, the director must inform the Board and remove themselves from any discussions or decision-making with respect to matters where there is such a conflict or potential conflict.

Definition of non-executive director

17. A non-executive director is a director who is not employed or retained by the insurer or any related bodies corporate,⁶ either directly or indirectly, whether by normal employment means, by contractual arrangement, or otherwise, and has

³ The Approved Auditor is one approved under section 40 of the Insurance Act.

⁴ The Approved Actuary is one approved under section 40 of the Insurance Act.

⁵ For a foreign insurer, this function may be carried out by the senior officer outside Australia with delegated authority from the board.

⁶ References to related bodies corporate have the meaning given in section 50 of the *Corporations Act 2001* (Corporations Act).

not been so at any time during the previous three years. (Note the limited exception in paragraph 33.)

Senior officer outside Australia with delegated authority from the Board (foreign insurers)

18. As in the case of locally-incorporated insurers, the ultimate responsibility for the safety and soundness of a foreign insurer resides with its Board. Foreign insurers must nominate a senior officer (whether a director or senior executive) outside Australia with delegated authority from the Board who will be responsible for overseeing the Australian branch operation.

Board composition

19. The Board of an insurer must have a minimum of five directors at all times.
20. The Board must have a majority of independent non-executive directors at all times. For insurers that are subsidiaries⁷ of other APRA-regulated institutions, authorised non-operating holding companies (NOHCs) and overseas equivalents⁸ exceptions may apply as set out at paragraphs 32 to 35. For insurers that are subsidiaries of a parent company that is not prudentially regulated exceptions may apply as set out at paragraph 36.
21. The chairperson of the Board must be an independent non-executive director of the insurer.
22. A majority of directors present and eligible to vote at all Board meetings must be non-executives.
23. The chairperson of the Board cannot have been the CEO of the insurer at any time during the previous three years. If the position of the CEO is unexpectedly vacated, the chairperson may serve as an interim CEO. After a period of 90 days approval must be sought from APRA to allow this arrangement to continue.
24. For foreign-owned locally incorporated insurers, the chairperson must be available to meet with APRA, in Australia, if so required by APRA.
25. There must be at least one independent non-executive director on the Board who has financial expertise (i.e. the person is a qualified accountant or other finance professional with experience of financial and accounting matters).⁹
26. For locally-owned and incorporated insurers a majority of directors must be Australian residents.

⁷ “Subsidiary” means a subsidiary within the meaning of the Corporations Act.

⁸ An overseas equivalent is one which is not authorised in Australia but is authorised and subject to prudential regulation in a foreign country.

⁹ The definition of “financial expertise” is taken from the ASX Corporate Governance Council’s *Principles of Good Corporate Governance and Best Practice Recommendations (March 2003)*.

27. For foreign-owned locally incorporated insurers at least two of the directors of the insurer must be Australian residents, at least one of whom must also be independent.
28. For foreign insurers, in addition to the requirement to have a senior officer outside Australia with delegated authority from the Board who is responsible for overseeing the Australian branch operation, there must be a senior manager¹⁰ in Australia responsible for the local operation who is an Australian resident.
29. Given the Board's role, and the nature of its responsibilities, it is important that no single individual or shareholder group is able to exercise undue or disproportionate control or influence over the Board, its policies, or the operations of the insurer.
30. Board representation must be consistent with an insurer's shareholding. Where a shareholding constitutes not more than 15% of an insurer's voting shares there should not be more than one Board member who is an associate of the shareholder where the Board has up to six directors, and not more than two Board members who are associates of the shareholder where the Board has seven or more directors. A director is taken to be an associate of a shareholder for the purposes of this clause, if the director is an "associate" of the shareholder, or the shareholder is an "associate" of the director, according to the definition of "associate" in clause 4 of Schedule 1 of the *Financial Sector (Shareholdings) Act 1998*. That definition is to be applied for the purposes of this clause as if subparagraph (1)(l) of that definition were omitted.
31. Where an individual shareholding is greater than 15%, as approved under the *Financial Sector (Shareholdings) Act 1998*, the Board representation of that shareholding can be proportional to the actual shareholding, but should not be greater than its proportionate shareholding.

Insurers that are subsidiaries of other APRA-regulated institutions or authorised non-operating holding companies (NOHCs) and overseas equivalents

32. For an insurer that is a subsidiary of another APRA-regulated institution, authorised NOHC, or their overseas equivalents the Board of the insurer must have a majority of non-executive directors, but these non-executive directors need not all be independent.
33. Where an insurer is a subsidiary of another APRA-regulated institution, authorised NOHC, or their overseas equivalents the non-executive directors of that insurer, for the purposes of this Prudential Standard, can include Board members or senior management of the parent company or its subsidiaries, but not executives of the insurer or its subsidiaries.
34. An insurer that is a subsidiary of another APRA-regulated institution, authorised NOHC, or their overseas equivalents will be required to have, at a minimum,

¹⁰ "Senior manager" is defined in the forthcoming *Prudential Standard GPS 520 Fit and Proper*.

two independent directors, in addition to an independent non-executive chairperson, where the Board has up to seven members. Where the Board has more than seven members the insurer will be required to have at least three independent directors, in addition to an independent non-executive chairperson.

35. For an insurer that is a subsidiary of another APRA-regulated institution, authorised NOHC, or their overseas equivalents the independent directors on the Board of the parent company or its subsidiaries can also sit as independent directors on the Board of the insurer.

Subsidiaries with a parent that is not prudentially regulated

36. For an insurer that is a subsidiary of another entity, not covered by the arrangements in paragraphs 32-35 inclusive of this Prudential Standard, the Board must have a majority of independent non-executive directors. However, independent directors on the Board of the parent company or its other subsidiaries can also sit as independent directors on the Board of the insurer.

Insurers that are part of a corporate group

37. Where an insurer is part of a corporate group¹¹ (**group**), the Board of the insurer must have regard to the potential impact of the operations of entities in the group on the insurer. If the insurer is at the head of the group then it must have regard to the impact of the operations of member entities of the group on APRA-regulated institutions within the group. The Board must ensure that the insurer does not engage in activities that support other group members to the detriment of the insurer.
38. More generally, the Board of an insurer must not act in the interests of another group member if the Board knows, or has reasonable grounds to believe, that doing so:
- (a) is inconsistent with the prudent management of the insurer; or
 - (b) will adversely affect the solvency of the insurer; or
 - (c) will adversely affect the ability of the insurer to meet its obligations to policyholders.

To avoid doubt, this paragraph applies even if the insurer's constitution expressly authorises the Board or individual directors to act in the interests of another group member.

39. The Board of an insurer must exercise oversight of subsidiary entities as well as any dealings between the insurer and group entities.

¹¹ A "corporate group" comprises more than one company that are related bodies corporate within the meaning of section 50 of the Corporations Act.

40. Where group policies or functions are utilised by the insurer, the Board of the insurer must ensure that these policies and functions give appropriate regard to the insurer's business and its specific requirements.

Joint ventures

41. For the purposes of this Prudential Standard, an insurer that operates as a joint venture can be considered as part of the group of each parent entity. Independent directors of a parent can sit as independent directors on the Board of the joint venture entity.

Board committees

42. The Board of an insurer must establish Board committees for the purpose of overseeing critical functions. For the purposes of this Prudential Standard critical functions are Audit and Risk Management.
43. While some duties of directors may be delegated to Board committees, as appropriate, the Board retains ultimate responsibility for ensuring that those duties are performed.
44. The Board should establish other committees where it deems it relevant and necessary to do so. In establishing committees the Board should have regard to the risk profile of the insurer, the complexity of the insurer's business, the Board's composition, and the experience and expertise of the insurer's directors. The Board retains ultimate responsibility for all decisions made by a committee of the Board.
45. Board committees must be established with clearly defined charters that set out their role and objectives, responsibilities, authorities and tenure. The charters of these committees should be maintained and updated regularly. The Board must ensure that committees are adequately resourced and supported by the insurer.
46. Board committees should report regularly to the Board.
47. A director who sits on a Board committee is not constrained from sitting on other Board committees provided there is no material conflict of interest as a result of their participation on these committees.
48. Where an insurer is part of a group, the insurer may apply to APRA to use group Board Committees for the Board Audit Committee and Board Risk Committee.¹² It must be demonstrated to APRA's satisfaction, and on an on-going basis, that the group Board Committee adequately addresses the requirements of the insurer, including all requirements as set out under this Prudential Standard. The Board of the insurer must retain the authority to commission the group Board Committee to undertake work for the insurer. The Board of the insurer must be free to arrange meetings with the group Board Committee in order to determine matters that are particular to the business of

¹² For the purposes of this Prudential Standard, a "group Board Committee" is a committee of the Board of the parent company of the group.

the insurer. If these conditions are met APRA will consider allowing the insurer to use a group Board Committee conditional upon these requirements continuing to be met, including the specific requirements applying to each committee as set out in this Prudential Standard.

Board Audit Committee

49. An insurer must have a Board Audit Committee.
50. Board Audit Committees play an important role in establishing, maintaining and developing the control systems and compliance culture within an insurer. The Board Audit Committee should generally assist the Board in providing an objective non-executive review of the effectiveness of the insurer's financial reporting and risk management framework.
51. The insurer must give the Board Audit Committee sufficient powers to enable it to obtain all information necessary for the performance of its functions.
52. The Board Audit Committee must have at least three members. All members of the committee must be non-executive directors of the insurer. A majority of the members of the committee must be independent.
53. The chairperson of the Board Audit Committee must be an independent non-executive director of the insurer.
54. The chairperson of the Board can sit on the Board Audit Committee, but cannot chair the committee.
55. All members of the Board Audit Committee must be financially literate, and at least one member must have financial expertise.¹³ Some members of the Board Audit Committee should also have expertise in the industry.
56. The Board Audit Committee charter must include a reference to the fact that the committee is responsible for the oversight of APRA statutory reporting requirements, as well as other reporting requirements, professional accounting requirements, internal and external audit, and the appointment of the insurer's auditor.
57. The Board Audit Committee must review the Approved Auditor's engagement, at least annually, including making an assessment of whether the Approved Auditor meets the Audit Independence tests set out in Professional Statement F1 *Professional Independence*,¹⁴ as well as the additional auditor independence requirements set out in this Prudential Standard. For a foreign insurer it will be the responsibility of the senior officer outside Australia with delegated authority from the Board to undertake this assessment.
58. The Board Audit Committee must regularly review the internal and external audit programmes, ensuring that they cover all risks and financial reporting

¹³ Refer paragraph 25.

¹⁴ Professional Statement F1 was jointly issued by CPA Australia and The Institute of Chartered Accountants in Australia in May 2002 and revised in December 2004.

requirements of the insurer. It must regularly review the findings of audits and ensure that issues are being managed and rectified in an appropriate and timely manner.

59. The Board Audit Committee must ensure the adequacy and independence of both the internal and external audit functions.
60. The members of the Board Audit Committee must have free and unfettered access to senior management, the internal auditor, the heads of all risk management functions, the insurer's Approved Auditor, and the Approved Actuary at all times.
61. The Board Audit Committee should establish and maintain policies and procedures for employees of the insurer to submit, confidentially, information about accounting, internal control, compliance, audit, and other matters about which the employee has concerns. The committee should also have a process for ensuring employees are aware of these policies and for dealing with matters raised by employees under these policies.
62. Members of the Board Audit Committee must be available to meet with APRA on request.
63. The Board Audit Committee must invite the insurer's Approved Auditor and Approved Actuary to meetings of the committee. The Approved Auditor and Approved Actuary must be given unfettered access to the committee to ensure that they can freely raise matters with the committee without reference to other directors or senior managers of the insurer.
64. The internal auditor must have a reporting line and unfettered access to the Board Audit Committee. For foreign insurers, the auditor of the local operation must have direct access to the Head Office audit function.

Board Risk Committee

65. An insurer must establish a Board Risk Committee.
66. The Board Risk Committee should be responsible for formulating the risk strategy of the insurer, for determining policies that ensure the strategy is adhered to, and for monitoring adherence to those policies.
67. The Board Risk Committee should have at least three members, all of whom should be non-executive directors of the insurer.
68. If the Board Risk Committee does not have any decision-making capacity with respect to particular transactions of the insurer, or its group, then it may, with APRA's approval, be combined with the Board Audit Committee.
69. Members of the Board Risk Committee must be available to meet with APRA on request.

Internal audit¹⁵

70. The objectives of the internal audit function must include evaluation of the adequacy and effectiveness of the financial and risk management framework of the insurer (including a foreign insurer). To fulfil its functions, the internal auditor must have unfettered access to all the insurer's business lines and support functions.
71. An insurer (including a foreign insurer) must have an independent and adequately resourced internal audit function. If an insurer does not believe it is necessary to have a dedicated and adequately resourced internal audit function then it will need to apply to APRA for an exemption from this requirement, and set out reasons why it should be exempted from the requirement. APRA may approve alternative arrangements for an insurer where APRA is satisfied that they will achieve the same objectives.

Auditor independence

72. The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* introduced a number of new requirements into the *Corporations Act 2001* (**Corporations Act**) in relation to auditor independence. The auditor independence requirements in this Prudential Standard are consistent with those requirements, and are intended to help ensure the independence of an auditor engaged to perform work of a prudential nature in relation to the Insurance Act, the Prudential Standards and the Reporting Standards.¹⁶
73. It is the responsibility of the Board (and the senior officer outside Australia with delegated authority from the Board in the case of a foreign insurer) to ensure that the auditor, who undertakes work for the insurer (or foreign insurer) in relation to the Insurance Act, the Prudential Standards, or the Reporting Standards, is independent of the insurer (or foreign insurer),¹⁷ and that there is no conflict of interest situation that could compromise or be seen to compromise the independence of the auditor.
74. As part of the process of ascertaining the independence of the auditor, an insurer (including a foreign insurer) must obtain a declaration from the auditor to the effect that the auditor is independent, both in appearance and in fact, and has no conflict of interest situation, and that there is nothing to the auditor's knowledge (either in relation to the individual auditor or any audit firm or audit company of which the auditor is a member or director) that could compromise that independence. A copy of these declarations must be provided to APRA by the insurer within three months of the annual balance date of the insurer,¹⁸ in relation to all work undertaken for the insurer (or foreign insurer) in relation to

¹⁵ Refer *Prudential Standard GPS 220 Risk Management* for further requirements concerning the internal audit function. Note that this prudential standard is currently open for consultation.

¹⁶ Reporting Standards are those standards made under the *Financial Sector (Collection of Data) Act 2001*.

¹⁷ "Independent of the insurer (or foreign insurer)" means that the auditor has been assessed as independent in terms of paragraph 57 of this Prudential Standard.

¹⁸ Four months for non-disclosing entities.

the Insurance Act, the Prudential Standards or the Reporting Standards in relation to the preceding year.

75. For the purposes of this Prudential Standard, a conflict of interest situation exists in relation to an insurer (or foreign insurer) at a particular time, if because of circumstances that exist at that time:
- (a) the auditor is not capable of exercising objective and impartial judgement in relation to the conduct of the work that is undertaken for the insurer (or foreign insurer) in relation to the Insurance Act, the Prudential Standards or the Reporting Standards; or
 - (b) a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor is not capable of exercising objective and impartial judgement in relation to undertaking the work for the insurer (or foreign insurer) for the purposes of the Insurance Act, the Prudential Standards, or the Reporting Standards.¹⁹
76. The Board of an insurer (or the senior officer outside Australia with delegated authority from the Board in the case of a foreign insurer) must provide a declaration to APRA within three months of the annual balance date of the insurer,²⁰ that includes the following information for both the insurer, as well as any corporate group of which the insurer is a part:
- (a) all fees paid to the auditor, including fees paid to the audit firm or audit company for which the auditor is a member or director. The disclosure must include a breakdown of costs between audit services and non-audit services. The Board must also provide details of the nature of non-audit services provided by, or on behalf of the auditor, or the relevant firm or audit company; and
 - (b) a statement as to whether the Board is satisfied that the provision of non-audit services provided by the auditor (including the audit firm or audit company) during the financial year is compatible with the standard of independence at paragraph 73 of this Prudential Standard, and if so why the Board is satisfied in this respect.
77. A person, who was a member of an audit firm or a director of an audit company, and who served in a professional capacity in the audit of an insurer (including a foreign insurer) in relation to the Insurance Act, the Prudential Standards or the Reporting Standards, cannot assume the role of director or senior manager of that insurer for a period of at least two years after cessation of their employment with the audit firm or audit company who was the auditor of the insurer.

¹⁹ This definition is based on that used in the Corporations Act to describe the circumstances under which a conflict of interest situation is considered to exist, and is intended to be interpreted in a similar manner. Without limiting the situations that may cause a conflict to arise for the purposes of this Prudential Standard, it is expected that any circumstances of the type that would lead to a breach of the Corporations Act requirements for audit independence, whether or not these provisions actually apply in relation to the audit of the insurer (including a foreign insurer), will also result in a breach of the provisions of this Prudential Standard.

²⁰ Four months for non-disclosing entities.

78. A person, who was an employee of an audit company, other than a director of that company, and who acted as the lead auditor²¹ or review auditor²² in the audit of an insurer (including a foreign insurer) in relation to the Insurance Act, the Prudential Standards or the Reporting Standards, cannot assume the role of director or senior manager of that insurer for a period of at least two years after cessation of their employment with the audit company who was the auditor of the insurer.
79. A person cannot act as a director or senior manager of an insurer (or a senior manager in the case of a foreign insurer) if:
- (a) the audit company or audit firm is responsible for the audit of the insurer in relation to the Insurance Act, the Prudential Standards or the Reporting Standards; and
 - (b) the person was or is a director of the audit company or a member of the audit firm; and
 - (c) there is already another person employed as a director or senior manager of the insurer who was a director of the audit company or a member of the audit firm at a time when the audit company or audit firm undertook an audit of the insurer.
80. An individual who plays a significant role²³ in the audit of an insurer (including a foreign insurer) in relation to the Insurance Act, the Prudential Standards or the Reporting Standards, for five successive years cannot continue to play a key role in the audit until at least a further two years have passed, except with the approval of APRA. APRA may grant an exemption from this requirement if the individual provides specialist services that are otherwise not readily available or there are no other registered company auditors available to provide satisfactory services for the insurer.
81. For the purposes of maintaining their independence and objectivity, the Approved Auditor and Approved Actuary of an insurer (including a foreign insurer), cannot both be employed by the same body corporate or related bodies corporate, or by the same firm or related firms.²⁴

²¹ Lead auditor means the registered company auditor who is primarily responsible to the audit firm or the audit company for the conduct of audit work conducted in relation to the Insurance Act, the Prudential Standards or the Reporting Standards.

²² Review auditor means the registered company auditor (if any) who is primarily responsible to the individual auditor, the audit firm or the audit company for reviewing audit work conducted in relation to the Insurance Act, the Prudential Standards or the Reporting Standards.

²³ For the purpose of this paragraph “an individual who plays a significant role” means an individual auditor who acts as the auditor in respect of any of the requirements of the Insurance Act, the Prudential Standards or the Reporting Standards, or the lead or review auditor where such audit work is performed by an audit company or audit firm.

²⁴ For the purposes of this Prudential Standard, related firms means either two or more firms, or a firm and a body corporate, that have common ownership or management, or where one has a substantial shareholding in the other.

Risk management

82. It is the responsibility of the Board to ensure that the insurer has in place an adequate and effective risk management framework. The insurer should refer to *Prudential Standard GPS 220 Risk Management*,²⁵ and associated guidance, for prudential requirements in this regard.

Board and senior management performance

83. The Board of an insurer must have in place procedures for assessing the Board's performance relative to its objectives. It must also have in place a procedure for assessing the performance of individual directors and senior managers. The insurer must be able to demonstrate to APRA application of this policy, including making assessments available to APRA if requested to do so.
84. For foreign insurers there must be procedures in place for assessing the performance of senior managers of the operation in Australia. The foreign insurer must be able to demonstrate to APRA application of this policy, including making assessments available to APRA if requested to do so.

Board renewal

85. The Board of an insurer must have in place a formal policy on Board renewal. This policy must provide details of how the Board intends to renew itself in order to ensure it remains open to new ideas and independent thinking, while retaining adequate expertise. The insurer must be able to demonstrate to APRA application of this policy, and must provide details of the policy to APRA if requested to do so.

Information to be provided to APRA with respect to directors

86. *Prudential Standard GPS 520 Fit and Proper Requirements* sets out the information insurers must provide to APRA with respect to their responsible persons,²⁶ in addition to the requirements set out in this Prudential Standard.
87. The insurer must also provide details of the attendance record of directors at Board meetings and relevant committee meetings for the year. This information is to be provided to APRA at the same time as the declarations required in *Prudential Standard GPS 220 Risk Management*.²⁷

Persons not to be constrained from providing information to APRA

88. No prospective, current, or former officer,²⁸ employee, or contractor (including professional service provider) of an insurer (including a foreign insurer), may be

²⁵ This refers to the draft prudential standard currently open for consultation. It does not refer to the existing *Prudential Standard GPS 220 Risk Management*.

²⁶ Responsible person is defined in the forthcoming *Prudential Standard GPS 520 Fit and Proper Requirements*.

²⁷ As required in *Prudential Standard GPS 220 Risk Management* currently open for consultation.

²⁸ "Officer" is defined in section 9 of the Corporations Act.

constrained or impeded, whether by confidentiality clauses or other means, from disclosing information to APRA, from discussing issues with APRA of relevance to the management and prudential supervision of the insurer, or from providing documents under their control to APRA, that may be relevant in the context of the management or prudential supervision of the insurer. Such persons are not to be constrained from providing information to auditors, the Approved Actuary, and others, who have statutory responsibilities in relation to the insurer.

89. Insurers (including foreign insurers) must ensure that their internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors or other parties from communicating with APRA.