Australian Prudential Regulation Authority

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APRA

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To: All general insurers, life insurers and Level 2 insurance groups

Life and general insurance capital review - reductions in capital

Under the revised capital framework for insurers effective from 1 January 2013, a general insurer, life insurer or Level 2 insurance group is required to obtain APRA's written approval prior to making any planned reduction in capital. A planned reduction in capital includes payment of dividends or interest on paid-up ordinary shares and non-common equity capital instruments that exceed after-tax earnings, after taking into account any payments on more senior capital instruments.

This is a policy position APRA applies consistently across insurers and authorised deposit-taking institutions.

After considering submissions on the above points in relation to the impending Basel III reforms, APRA remains of the view that requiring prior approval for planned capital reductions arising from ordinary share dividends is a valuable supervisory tool. For preference equity and subordinated debt, however, APRA now considers that the costs associated with this requirement likely outweigh the supervisory benefits.

Accordingly, APRA intends to remove the requirement for APRA approval of payments in relation to Additional Tier 1 and Tier 2 instruments, for both future and currently outstanding issues. This change will apply in all of the banking, general insurance and life insurance industries.

The requirement in relation to ordinary shares will remain.

Further details will be provided in APRA's next response to submissions, which is expected to be released in October, and will be reflected in the final prudential standards to be released at that time.

Any questions in relation to this letter should be directed to Neil Grummitt, General Manager, Policy Development (neil.grummitt@apra.gov.au, 02 9210 3560).

Yours sincerely

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