



## **WAYNE BYRES**

APRA Chairman

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### **TO: ALL INSURERS**

### **CAPITAL MANAGEMENT**

In April 2020, APRA provided guidance to all insurers on capital management. This included an expectation that Boards would seriously consider deferring decisions on dividends given the uncertainty in the economic outlook, and would offset any distributions to the extent possible through other capital actions.

As the industry moves beyond the initial phase of the COVID-19 response, APRA is today providing updated guidance on capital management. The aim of this guidance is to assist longer-term capital planning and to ensure insurers remain able to fulfil their role in providing insurance coverage and supporting their customers through a difficult period.

#### **Industry guidance**

In the current environment, there is a need for continued vigilance and careful planning of capital management, to navigate through a period of uncertainty both domestically and internationally.

In this context, APRA expects that stress testing will be conducted regularly to guide decision-making. Insurers should use stress testing to inform decisions on dividends and other capital actions, as well as to assess their capacity to continue to write business under a range of different scenarios. Insurers should not rely on a single scenario and recognise the potentially significant margin for error in such exercises.

APRA also expects insurers to maintain caution in planning capital distributions, including dividend payments. Insurers should continue to take a measured approach to dividends, taking into account the ongoing uncertainty in the outlook. For 2020, APRA expects insurers will moderate dividend payout ratios, including using dividend reinvestment plans (DRPs) and/or other capital management initiatives to at least partially offset the diminution in capital from distributions.

#### **Next steps**

APRA expects that all insurers will embed the guidance above in their capital management for the period ahead. This should include regular review of capital buffers and targets, prudent decisions on dividends and ongoing stress testing to forecast and plan capital levels.

If you have any questions on the above guidance, please contact your responsible supervisor.

Yours sincerely,

Wayne Byres  
Chair