



## **Prudential Standard CPS 190**

### **Financial Contingency Planning**

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

The objective of this Prudential Standard is to ensure that all APRA-regulated entities are adequately prepared for scenarios that may impact the financial viability of their business, including, in the case of an RSE licensee, their ability to act in the best financial interests of beneficiaries on an ongoing basis.

This Prudential Standard requires APRA-regulated entities to develop and maintain a financial contingency plan and capabilities to be able to anticipate, manage and respond to periods of stress. The plan must be appropriate to the size, business mix and complexity of the entity, and be approved by the Board.

The key requirements of this Prudential Standard are that an APRA-regulated entity must:

- monitor indicators of potential stress and be ready to activate contingency actions if needed;
- maintain credible plans to restore the financial resilience of the entity during or following stress; and
- be able to effect an orderly exit from the industry, if recovery actions are not effective.

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## Authority

1. This Prudential Standard is made under:
  - (a) section 11AF of the *Banking Act 1959* (**Banking Act**);
  - (b) section 32 of the *Insurance Act 1973* (Insurance Act);
  - (c) section 230A of the *Life Insurance Act 1995* (Life Insurance Act);
  - (d) section 92 of the *Private Health Insurance (Prudential Supervision) Act 2015* (PHIPS Act); and
  - (e) section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

## Application and definitions

2. Subject to paragraphs 3 and 4, this Prudential Standard applies to all APRA-regulated entities, defined as:
  - (a) **authorised deposit-taking institutions (ADIs)**, including **foreign ADIs** and **non-operating holding companies** authorised under the Banking Act (authorised banking NOHCs);
  - (b) **general insurers**, including **Category C insurers**, non-operating holding companies authorised under the Insurance Act (authorised insurance NOHCs) and **parent entities** of **Level 2 insurance groups**;
  - (c) **life companies**, including **friendly societies** and **eligible foreign life insurance companies** (EFLICs), and non-operating holding companies registered under the Life Insurance Act (registered life NOHCs);
  - (d) **private health insurers**; and
  - (e) RSE licensees under the SIS Act in respect of their business operations.<sup>1</sup>
3. The obligations imposed by this Prudential Standard on, or in relation to, a foreign ADI, a Category C insurer or an EFLIC apply only in relation to the Australian branch operations of that entity.
4. For the purposes of this Prudential Standard, an APRA-regulated entity is either a significant financial institution (SFI) or a non-significant financial institution (non-SFI). This Prudential Standard applies to these two classes of APRA-regulated entities as follows:
  - (a) paragraphs 1 to 32 apply to any SFI; and

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<sup>1</sup> For the purposes of this Prudential Standard, an RSE licensee has the meaning given in subsection 10(1) of the SIS Act. An RSE licensee's business operations includes all activities of an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

- (b) paragraphs 1 to 12 and 33 to 46 apply to any non-SFI.
5. For the purposes of this Prudential Standard, an SFI is an APRA-regulated entity that is either:
- (a) not a foreign ADI, a Category C insurer or an EFLIC, and has total assets in excess of:
- (i) AUD \$20 billion in the case of an ADI;
- (ii) AUD \$10 billion in the case of a general insurer or life company;
- (iii) AUD \$3 billion in the case of a private health insurer; or
- (iv) AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or
- (b) determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.<sup>2</sup>
6. Where an APRA-regulated entity is the Head of a group<sup>3, 4</sup> it must comply with an applicable requirement of this Prudential Standard:
- (a) in its capacity as an APRA-regulated entity;
- (b) by ensuring that the requirement is applied appropriately throughout the group,<sup>5</sup> including in relation to entities that are not APRA-regulated; and
- (c) on a group basis.
7. In applying the requirements of this Prudential Standard on a group basis, references to an ‘APRA-regulated entity’ must be read as ‘Head of a group’ and references to ‘entity’ must be read as ‘group’.

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<sup>2</sup> A non-SFI is an APRA-regulated entity that is not a significant financial institution.

<sup>3</sup> Head of a group means a Level 2 Head or a **Level 3 Head** as relevant. Level 2 Head means: where an ADI that is a member of a Level 2 group is not a **subsidiary** of an authorised banking NOHC or another ADI, that ADI; where an ADI that is a member of a Level 2 group is a subsidiary of an authorised banking NOHC, that authorised banking NOHC; or the parent entity of a **Level 2 insurance group**. For life companies, Head of a group includes: where a relevant group of bodies corporate is headed by a life company that is not a subsidiary of a registered life NOHC, that life company; or where a relevant group of bodies corporate is headed by a registered life NOHC, that registered life NOHC.

<sup>4</sup> Where a Level 2 group operates within a Level 3 group, a requirement expressed as applying to a Head of a group is to be read as applying to the Level 3 Head. For the avoidance of doubt, the reference to Head of a group does not apply to an RSE licensee or a private health insurer.

<sup>5</sup> Group means a Level 2 group, **Level 3 group** or a group comprising the RSE licensee and all connected entities (as defined in subsection 10(1) of the SIS Act) and all related bodies corporate (with the meaning given in section 50 of the *Corporations Act 2001*) of the RSE licensee, as relevant. Level 2 group means the entities that comprise **Level 2** (for ADIs) or Level 2 insurance groups (for general insurers). For the avoidance of doubt, group includes a group as defined in APS 001 and, for an RSE licensee, where the RSE licensee is part of a corporate group.

8. This Prudential Standard applies:
  - (a) to an RSE licensee on 1 January 2025; and
  - (b) to any other APRA-regulated entity, on 1 January 2024.

### **Interpretation**

9. Terms that are defined in *Prudential Standard 3PS 001 Definitions* (3PS 001), *Prudential Standard APS 001 Definitions* (APS 001), *Prudential Standard GPS 001 Definitions* (GPS 001), *Prudential Standard LPS 001 Definitions* (LPS 001) or *Prudential Standard HPS 001 Definitions* (HPS 001) appear in bold the first time they are used in this Prudential Standard.
10. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulations or Prudential Standard is a reference to the Act, Regulations or Prudential Standard as in force from time to time.
11. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

### **Adjustments and exclusions**

12. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to an APRA-regulated entity.

## A. Requirements for SFIs

### Contingency planning

13. An APRA-regulated entity must develop and maintain a financial contingency plan (contingency plan) that sets out how it would respond to a stress that threatens its viability. The contingency plan must demonstrate how the APRA-regulated entity could:
  - (a) take actions to recover its financial resilience; and
  - (b) enable its orderly and solvent exit from regulated activity, if actions to recover financial resilience are not effective.
14. The contingency plan must be appropriate to the size, business mix and complexity of the APRA-regulated entity and, for an RSE licensee, the RSE licensee's business operations. Where an APRA-regulated entity is the Head of a group, it must include all material regulated activities of the group in its contingency plan.
15. The contingency plan must be integrated into:
  - (a) the APRA-regulated entity's risk management framework;<sup>6</sup> and
  - (b) for an ADI or an insurer, capital management and liquidity management frameworks, as relevant; or
  - (c) for an RSE licensee, the business plan and business performance review.<sup>7</sup>
16. An APRA-regulated entity must not assume extraordinary public sector support or the use of APRA's powers in its contingency planning.

### Role of the Board

17. The Board of an APRA-regulated entity is ultimately responsible for the oversight of contingency planning. The Board must ensure that there are clear roles and responsibilities at a senior executive level for the preparation, maintenance and execution of the contingency plan.
18. The Board must:
  - (a) approve the contingency plan;
  - (b) oversee reviews of the contingency plan and ensure any findings are addressed by management; and

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<sup>6</sup> Refer to *Prudential Standard CPS 220 Risk Management* (CPS 220) or, in the case of an RSE licensee, *Prudential Standard SPS 220 Risk Management* (SPS 220).

<sup>7</sup> Refer to *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515). Where an RSE licensee determines that changes to its business operations would likely improve outcomes for beneficiaries or the sound and prudent management of its business, the RSE licensee must reflect those changes in its business plan. This would include changes to its business operations arising from contingency planning as required by this Prudential Standard.

- (c) oversee the execution of any contingency actions.

### Contingency plan

19. An APRA-regulated entity's contingency plan must include:
  - (a) a concise summary that provides a standalone guide to use the contingency plan;
  - (b) a trigger framework for the early identification and monitoring of stress. The trigger framework must be relevant to the operating environment and risk profile of the APRA-regulated entity, and include a range of early warning indicators to support the effective activation and implementation of the contingency plan;<sup>8</sup>
  - (c) governance arrangements for the monitoring of triggers and timely activation of the contingency plan or specific actions within it;
  - (d) credible recovery actions that could be taken to stabilise and restore financial resilience;
  - (e) credible exit actions that could be taken to effect an orderly and solvent exit from regulated activity;
  - (f) scenario analysis that assesses the effectiveness of the trigger framework, shows how contingency actions would be implemented, and measures the impact and effectiveness of those actions. This analysis must include at least two scenarios that are severe enough to threaten the APRA-regulated entity's viability, including a systemic and an idiosyncratic stress;
  - (g) an assessment of recovery capacity, which is the aggregate impact of plausible recovery actions under each scenario. Recovery capacity must be measured in quantitative terms by calculating the amount of capital and liquidity that can be rebuilt during or following stress; and
  - (h) a communication strategy to support the execution of contingency actions.
20. For each recovery and exit action in the contingency plan, an APRA-regulated entity must include:
  - (a) a timeline for the implementation of the action;
  - (b) analysis of any barriers to implementation, execution risks and key dependencies;
  - (c) a summary of the preparatory measures needed to support the timely and effective execution of the action; and

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<sup>8</sup> For an RSE licensee, the triggers must be relevant to the RSE licensee's business operations, and may be informed by the key performance indicators used by the RSE licensee to monitor performance against the business plan (refer to SPS 515).

- (d) where relevant, an estimate of the impact of the action on the capital and liquidity position of the APRA-regulated entity, based on credible assumptions.<sup>9</sup>
21. The Board must form a view on the sufficiency of recovery capacity to restore financial resilience and where this is insufficient, consider other actions the APRA-regulated entity may add to the contingency plan or other actions to improve recovery capacity.
  22. APRA may require:
    - (a) the inclusion or exclusion of a particular recovery or exit action within the contingency plan;
    - (b) the inclusion of an APRA-determined scenario in the contingency plan; or
    - (c) the use of particular assumptions when assessing recovery capacity.
  23. For an APRA-regulated entity that is not an RSE licensee, APRA may adjust prudential requirements for capital and liquidity where it assesses there to be material weaknesses in the contingency plan.

### **Capabilities, monitoring and execution**

24. An APRA-regulated entity must maintain the capabilities required to execute the contingency plan.<sup>10</sup>
25. An APRA-regulated entity must regularly monitor the indicators of stress that would be used to trigger activation of the contingency plan or the specific actions within it.
26. An APRA-regulated entity must take reasonable preparatory steps to support the timely and effective implementation of the contingency plan, in advance of recovery or exit actions being required. This must take into consideration potential legal, financial, operational and structural requirements for executing recovery or exit actions.
27. An APRA-regulated entity must maintain access to sufficient financial resources to support the implementation of recovery and exit actions contained in the contingency plan.

### **Testing and review**

28. An APRA-regulated entity must review and update its contingency plan on an annual basis, or as otherwise determined by APRA. The contingency plan must

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<sup>9</sup> In the case of RSE licensees, for the avoidance of doubt, the reference to liquidity position does not refer to the liquidity and cash flow management requirements in *Prudential Standard SPS 530 Investment Governance*.

<sup>10</sup> These capabilities may be maintained within the APRA-regulated entity or via an appropriate agreement with an external party.

be updated to reflect any changes in legal or organisational structure, business mix, strategy or risk profile.

29. An APRA-regulated entity must undertake a comprehensive review at least every three years of the effectiveness of the contingency plan and its readiness and capabilities to execute it. The comprehensive review must be conducted by operationally independent, appropriately experienced and competent persons.
30. As part of the comprehensive review, an APRA-regulated entity must conduct operational testing to simulate the use of the contingency plan. This must involve a test of the governance arrangements, communication plan, operational elements of key actions, and internal reporting.

### **Notification**

31. An APRA-regulated entity must provide a copy of the contingency plan to APRA on an annual basis, within three months of the contingency plan being approved by the Board.
32. An APRA-regulated entity must notify APRA if it has activated its contingency plan.

## B. Requirements for Non-SFIs

### Contingency planning

33. An APRA-regulated entity must develop and maintain a financial contingency plan (contingency plan) that sets out how it would respond to a stress that threatens its viability. The contingency plan must demonstrate how the APRA-regulated entity could:
  - (a) take actions to recover its financial resilience; and
  - (b) enable its orderly and solvent exit from regulated activity, if actions to recover financial resilience are not effective.
34. The contingency plan must be appropriate to the size, business mix and complexity of the APRA-regulated entity and, for an RSE licensee, the RSE licensee's business operations. Where an APRA-regulated entity is the Head of a group, it must include all material regulated activities of the group in its contingency plan.
35. The contingency plan must be integrated into other relevant frameworks of the APRA-regulated entity.<sup>11</sup>
36. An APRA-regulated entity must not assume extraordinary public sector support or the use of APRA's powers in its contingency planning.

### Role of the Board

37. The Board of an APRA-regulated entity is ultimately responsible for the oversight of contingency planning. The Board must ensure that there are clear roles and responsibilities at a senior executive level for the preparation, maintenance and execution of the contingency plan.
38. The Board must:
  - (a) approve the contingency plan;
  - (b) oversee reviews of the contingency plan and ensure any findings are addressed by management; and
  - (c) oversee the execution of any contingency actions.

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<sup>11</sup> Refer to CPS 220 or, in the case of an RSE licensee, SPS 220. Where an RSE licensee determines that changes to its business operations would likely improve the outcomes for beneficiaries or the sound and prudent management of its business, the RSE licensee must reflect those changes in its business plan. This would include changes to its business operations arising from contingency planning as set out in this Prudential Standard. Refer to SPS 515.

## Contingency Plan

39. An APRA-regulated entity's contingency plan must include:
- (a) a trigger framework for the early identification and monitoring of stress;
  - (b) governance arrangements for the monitoring of triggers and timely activation of the contingency plan or specific actions within it;
  - (c) credible recovery actions that could be taken to stabilise and restore financial resilience;
  - (d) credible exit actions that could be taken to effect an orderly and solvent exit from regulated activity; and
  - (e) a communication strategy to support the execution of contingency actions.
40. For an APRA-regulated entity that is not an RSE licensee, APRA may adjust prudential requirements for capital and liquidity where it assesses there to be material weaknesses in the contingency plan.

## Capabilities, monitoring and execution

41. An APRA-regulated entity must maintain the capabilities required to execute the contingency plan.<sup>12</sup>
42. An APRA-regulated entity must regularly monitor the indicators of stress that would be used to trigger activation of the contingency plan or specific actions within it.
43. An APRA-regulated entity must take reasonable preparatory steps to support the timely and effective implementation of the contingency plan, in advance of recovery or exit actions being required. This must take into consideration potential legal, financial, operational and structural requirements for executing recovery or exit actions.
44. An APRA-regulated entity must maintain access to sufficient financial resources to support the implementation of recovery and exit actions contained in the contingency plan.

## Review

45. An APRA-regulated entity must review and update its contingency plan every three years. The contingency plan must be updated to reflect any changes in legal or organisational structure, business mix, strategy or risk profile.

## Notification

46. An APRA-regulated entity must notify APRA if it has activated its contingency plan.

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<sup>12</sup> These capabilities may be maintained within the APRA-regulated entity or via an appropriate agreement with an external party.