



## Prudential Standard GPS 230

### Reinsurance Management

#### Objective and key requirements of this Prudential Standard

This Prudential Standard requires a general insurer and a Level 2 insurance group to maintain, as part of its overall risk management framework, a specific reinsurance management framework to manage the risks arising from its reinsurance arrangements.

The ultimate responsibility for the reinsurance management framework of a general insurer rests with its Board of directors. In the case of a Level 2 insurance group, it rests with the Board of directors of its parent entity. The Board must ensure that the reinsurance management framework manages the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements.

The key requirements of this Prudential Standard are that a general insurer and a Level 2 insurance group must:

- have in its reinsurance management framework a documented Reinsurance Management Strategy, sound reinsurance management policies and procedures, and clearly defined managerial responsibilities and controls;
- submit its Reinsurance Management Strategy to APRA when any material changes are made; and
- submit a Reinsurance Arrangements Statement detailing its reinsurance arrangements to APRA at least annually.

Additionally, a key requirement of this Prudential Standard for a general insurer is that it must:

- make an annual reinsurance declaration based on the 'inception date'~~two-month rule~~' and '~~six~~two-month rule' specified in this Prudential Standard, and submit the declaration to APRA at the same time as the Reinsurance Arrangements Statement.

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## Authority

1. This Prudential Standard is made under section 32 of the *Insurance Act 1973* (the Act).

## Application

2. This Prudential Standard applies to each:
  - (a) **general insurer** authorised under the Act (**insurer**); and
  - (b) **Level 2 insurance group** as defined in *Prudential Standard GPS 001 Definitions* (GPS 001).

Where a requirement applies to a Level 2 insurance group, the requirement is imposed on the **parent entity** of the Level 2 insurance group.

3. This Prudential Standard applies to insurers and Level 2 insurance groups (**regulated institutions**) from 1 ~~January 2014~~July 2023.

## Level 2 insurance groups

4. Certain adjustments to the reinsurance management requirements outlined in this Prudential Standard apply to Level 2 insurance groups. These adjustments are set out in Attachment B.

## Interpretation

5. Terms that are defined in GPS 001 appear in bold the first time they are used in this Prudential Standard.
6. Where this Prudential Standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing.
7. For the purposes of this Prudential Standard, a reference to the regulated institution's 'operations' is a reference to:
  - (a) its operations in Australia and overseas through a branch for an insurer; or
  - (b) its operations in Australia and overseas for a Level 2 insurance group.

## Compliance on an insurance group basis

8. Subject to paragraphs 9 and 10, an insurer that is part of an insurance group may meet certain requirements on a group basis, provided that the **Board** of the insurer is satisfied that the requirements of this Prudential Standard are met in respect of the insurer. These requirements are:
  - (a) a 'Reinsurance Management Strategy' (ReMS) in accordance with paragraphs 19 to 27; and
  - (b) a 'Reinsurance Arrangements Statement' (Reinsurance Statement) in accordance with paragraphs 28 to 31.

9. An insurer may only meet the requirement referred to in paragraph 8(b) on an insurance group basis where the ReMS covers the insurance group as a whole, in accordance with paragraph 8(a).
10. Where APRA is of the view that the fulfilment of a requirement referred to in paragraph 8 by an insurance group does not adequately address the requirement for an insurer within that insurance group, APRA may require that insurer to meet the requirement on a separate basis within a reasonable time specified by APRA.

### **Reinsurance management**

11. Regulated institutions must at all times have a reinsurance management framework to manage the risks arising from its reinsurance arrangements.
12. A regulated institution's reinsurance management framework must provide a reasonable assurance that the regulated institution's reinsurance arrangements are being prudently and soundly managed, having regard to such factors as the size, business classes, complexity of the regulated institution's operations and its risk appetite.
13. For the purposes of this Prudential Standard, the reinsurance management framework must deal with both the reinsurance and, where relevant to the regulated institution, the retrocession arrangements<sup>1</sup> of the regulated institution.
14. A regulated institution's reinsurance management framework must, at a minimum, include:
  - (a) a written ReMS that complies with this Prudential Standard, is approved by the Board and in regard to which the Board is satisfied that:
    - (i) it describes the key elements of the reinsurance management framework, including all policies, procedures, management responsibilities and controls of the kind referred to in paragraphs 14(b) and (c), and any other matters that this Prudential Standard requires to be included in a ReMS;
    - (ii) the reinsurance management framework described in the ReMS is appropriate and provides reasonable assurance that the regulated institution's reinsurance arrangements are being prudently and soundly managed having regard to such factors as the size, business classes, complexity of the regulated institution's operations and the risk appetite of the regulated institution; and
    - (iii) it describes the review referred to in paragraph 17;
  - (b) reinsurance management policies and procedures to manage the selection, implementation, monitoring, review, amendment (where appropriate) and documentation of reinsurance arrangements of the regulated institution and

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<sup>1</sup> References to 'reinsurance' throughout this Prudential Standard include 'retrocession'.

mechanisms to ensure that the reinsurance management framework remains effective; and

- (c) clearly defined managerial responsibilities and controls.
15. A regulated institution's reinsurance management framework must be consistent with the regulated institution's **Business Plan** and **Internal Capital Adequacy Assessment Process**.
16. There must be a clear link between the regulated institution's reinsurance management framework (including the regulated institution's ReMS) and the regulated institution's **risk management framework**.
17. A regulated institution must ensure that its reinsurance management framework is subject to effective and comprehensive review, as part of the risk management framework review, by operationally independent, appropriately trained and competent staff, and that the frequency and scope of this review is appropriate having regard to such factors as the size, business classes, complexity of the regulated institution's operations and the extent of any change to its business profile or its risk appetite. The review must include:
- (a) a review of the ReMS; and
- (b) a review of the internal control system.
18. A Limited Risk Transfer Arrangement may only be considered reinsurance for the purpose of calculating a regulated institution's net exposure and its **Insurance Concentration Risk Charge (ICRC)** where it has been approved by APRA as a reinsurance arrangement. The requirements of this Prudential Standard in relation to the ReMS and the Reinsurance Statement apply to any Limited Risk Transfer Arrangement approved as a reinsurance arrangement. Refer to paragraphs 45 to 49 and Attachment A for further requirements relating to the treatment of Limited Risk Transfer Arrangements.

### **Reinsurance Management Strategy**

19. The ReMS is a high level, strategic document intended to describe the key elements of the reinsurance management framework as set out in paragraph 14(a).
20. A regulated institution must review its ReMS at least annually (or as close to annually as is practicable) to ensure that it accurately documents the regulated institution's reinsurance management framework.
21. Where there are material changes to the operations of a regulated institution, the regulated institution must review and amend its reinsurance management framework and its ReMS to take into account the changes. This ReMS must be approved by the Board and submitted to APRA within 10 **business days** of Board Approval.
22. A regulated institution must not intentionally deviate in a material way from its ReMS except where this deviation has been approved by the Board and notified to APRA prior to the deviation occurring.

23. A regulated institution must inform APRA immediately if it anticipates that a problem is likely to arise out of its reinsurance arrangements that may materially and adversely affect its current or future capacity to meet its obligations. The regulated institution must put in place plans to redress any such problem and advise APRA accordingly.
24. A regulated institution's ReMS must:
- (a) define and document the regulated institution's objectives and strategy for reinsurance management and control, reflecting the regulated institution's appetite for risk<sup>2</sup>;
  - (b) identify the key elements of the regulated institution's policies and procedures, processes and controls that comprise the regulated institution's reinsurance management framework;
  - (c) document the process and methodologies for setting and monitoring its ICRC<sup>3</sup> covering at least:
    - (i) the regulated institution's willingness to take on risks associated with insurance concentration in their activities;
    - (ii) how the regulated institution's financial resources cover its ICRC;
    - (iii) justification for any adjustments or assumptions made by the regulated institution when setting and monitoring its ICRC, such as all allowances made for aggregate reinsurance cover and adjustments to the other accumulations vertical requirement;
    - (iv) the review of policies and procedures in light of the regulated institution's business activities, as well as current market conditions (for example, the availability of adequate catastrophe reinsurance cover and aggregate reinsurance cover) and the frequency of that review;
    - (v) the review of reinsurance management policies approved by the Board and the frequency of that review; and
    - (vi) the independent review of compliance with reinsurance management policies and procedures, and the frequency of that review;
  - (d) provide a summary of the processes for selecting, implementing, monitoring and reviewing reinsurance arrangements<sup>4</sup>, including:

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<sup>2</sup> Regulated institutions must satisfy this requirement even where their strategy is to not purchase a particular type of reinsurance.

<sup>3</sup> *Prudential Standard GPS 110 Capital Adequacy* (GPS 110) sets out the required minimum level of capital for regulatory purposes. GPS 110 and *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116) set out specific issues that a regulated institution must consider in calculating its ICRC. A lenders mortgage insurer must also refer to GPS 110 and GPS 116 in determining its ICRC.

<sup>4</sup> The ReMS must include any individual facultative arrangements.

- (i) identification and management of aggregations of risk;
  - (ii) methodologies for identification and management of upper bounds of arrangements;
  - (iii) methodologies for the selection of reinsurance participants, including the consideration of diversification and the reinsurers' creditworthiness;
  - (iv) comment on the expected cession ratios for reinsurance arrangements;
  - (v) a description of the processing of reinsurance premiums and the collection of **reinsurance assets** arising under these arrangements, including how the recoverability of reinsurance assets is assessed; and
  - (vi) systems and control mechanisms for monitoring reinsurance placements and reinsurance assets, including independent review responsibilities and procedures;
- (e) provide a summary of the process for ensuring accurate and complete reinsurance documentation is put in place;
  - (f) describe the processes for setting and monitoring retentions so that the regulated institution's ICRC is not exceeded;
  - (g) describe the processes for reviewing and ensuring the adequacy of reinstatements of all or parts of the regulated institution's catastrophe reinsurance arrangements (including the financial and operational implications of not having a sufficient number of contractually agreed reinstatements during the period of cover);
  - (h) identify those persons or groups of persons with managerial responsibility for the reinsurance management framework (including those persons responsible for reinsurance purchasing, collecting reinsurance assets and audit of the systems) and set out their roles and responsibilities in relation to that framework; and
  - (i) cover both the Australian operations and the risks arising from the overseas operations of the regulated institution that could impact on the Australian operations of the regulated institution.
25. In addition to the requirements of paragraph 24, a regulated institution that writes **lenders mortgage insurance** (LMI) business must outline in its ReMS how it manages the exposures and mitigants in place for the risk in relation to future placement of reinsurance arrangements.
26. The methodology for adjusting the Probable Maximum Loss<sup>5</sup> (PML) of an LMI in a run-off situation must be documented in the LMI's ReMS.

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<sup>5</sup> Refer to GPS 116 for further details on the PML of an LMI.

27. If the regulated institution is part of an Australian or global **corporate group** or operates as a **Category C insurer**, the ReMS must:
- (a) include, if applicable, a summary of the group policy objectives and strategies relating to reinsurance;
  - (b) summarise the linkages between the local and group reinsurance arrangements;
  - (c) where any element of a regulated institution's reinsurance management framework is controlled by another entity in the corporate group, or by head office, include details of all such arrangements, including claims settlement procedures where the parent entity or head office purchases reinsurance on a global group basis; and
  - (d) specify any arrangements relating to the existence of, and accessibility to, intra-group reinsurance arrangements.

### **Reinsurance Arrangements Statement**

28. Where a regulated institution's reinsurance arrangements incept on a common date, the regulated institution must submit to APRA, on an annual basis, a Reinsurance Statement that details the regulated institution's reinsurance arrangements.<sup>6</sup> The annual submission must occur within two months of the inception of the regulated institution's reinsurance arrangements.
29. Where a regulated institution has multiple inception dates for its reinsurance arrangements, the regulated institution must submit to APRA a Reinsurance Statement every six months.
30. Where a regulated institution enters into reinsurance arrangements for a period in excess of 12 months, the Reinsurance Statement must confirm the continuation of these arrangements for each year of the duration of the arrangements.
31. A Reinsurance Statement must provide substantiation of the implementation of the reinsurance management strategy of the regulated institution detailed in the regulated institution's ReMS. The Reinsurance Statement must contain:
- (a) schematics of the regulated institution's reinsurance arrangements which depict the effect of occurrence and aggregate deductibles and any other arrangement that potentially limits the reinsurers' liability (including number of reinstatements, loss participation clauses and event limit clauses);
  - (b) details of each individual reinsurer and, where applicable, the reinsurance group, that participates in each layer of the regulated institution's reinsurance arrangements;

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<sup>6</sup> The Reinsurance Statement does not need to provide a detailed listing of individual facultative arrangements because these, and the processes surrounding their use, will be described in the ReMS.

- (c) details of individual parameters by class of business which indicate the highest per risk gross loss and multi-class catastrophic gross event limit to which the class of business portfolio is exposed;
- (d) details of how the reinsurance arrangements will reduce the overall gross exposures detailed in (c) above to result in the net retention per risk, by class of business, and catastrophic event retention levels of the regulated institution (material classes only to be included);
- (e) details of the ICRC calculation (where not detailed in the regulated institution's ReMS), including details of modelling for catastrophe hazards, PML calculations and aggregate exposures (where applicable); and
- (f) details of any Limited Risk Transfer Arrangements, including those which have not been approved by APRA.<sup>7</sup>

### Documentation of reinsurance arrangements

- 32. As part of its reinsurance management framework, a regulated institution must have processes to achieve legally binding reinsurance arrangements.
- 33. At a minimum, the regulated institution must comply with the '~~two~~-inception ~~datemonth~~ rule' detailed in paragraph 41 and the '~~six~~-two month rule' specified in paragraph 42.
- 34. For any reinsurance contract entered into by a regulated institution incepting on or after 31 December 2008, the regulated institution must ensure that the reinsurance contract provides that<sup>8</sup>:
  - (a) the governing law of the reinsurance contract is Australian law; and
  - (b) any disputes that fall to be determined by a court are to be heard in an Australian court.

This paragraph does not apply to a **Category E insurer**.

- 35. Failure to comply with paragraph 33 or 34 results in a deduction of relevant reinsurance assets from **Common Equity Tier 1 Capital** in accordance with *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112).

### The reinsurance declaration

- 36. An insurer must make a reinsurance declaration annually. The reinsurance declaration is a declaration that the insurer has placed the reinsurance arrangements in accordance with the Reinsurance Statement and that the

<sup>7</sup> Refer to Attachment A for the definition of Limited Risk Transfer Arrangements.

<sup>8</sup> By operation of subsection 116A(1) of the Act, for the purposes of determining the amount of assets in Australia under section 28 of the Act, an amount expected to be recovered from a reinsurer is an asset in Australia if it satisfies all the criteria specified in subsection 116A(1), including the criterion that, under the terms of the reinsurance contract, payments by way of reinsurance are to be made in Australia.

reinsurance arrangements in the current and previous Reinsurance Statements provided to APRA are legally binding. The reinsurance declaration must be based on the '~~two inception date~~ month rule' and the '~~six two~~ month rule' detailed below under paragraphs 41 and 42, respectively. This declaration is not required to deal with the documentation of individual facultative arrangements undertaken.

37. The reinsurance declaration must be signed by both:
- (a) the chief executive officer (by whatever name called)<sup>9</sup>; and
  - (b) the chief reinsurance officer (by whatever name called).

Where the chief executive officer and the chief reinsurance officer are the same person, the reinsurance declaration must be signed by that person and another person to be agreed upon with APRA.

38. The reinsurance declaration must be submitted to APRA at the same time as the Reinsurance Statement required under this Prudential Standard. This means that for an insurer whose reinsurance arrangements incept on a common date, the declaration must be provided within two months of the inception of the reinsurance arrangements. For an insurer with multiple inception dates, the declaration must be provided with one of the two Reinsurance Statements provided on an annual basis.
39. Should the reinsurance arrangements from the current and previous Reinsurance Statement not be fully placed, the details of any gaps or potential gaps must be detailed in the reinsurance declaration together with their impact on the insurance liabilities and ICRC of the insurer. The insurer must provide details of actions taken, or being taken, to eliminate any gaps in reinsurance coverage.
40. Where an insurer complies with the '~~six two~~ month rule' in accordance with paragraph 42, the reinsurance declaration must confirm that there are:
- (a) no outstanding clauses, terms and conditions or other provisions yet to be agreed (that is, that no alterations or amendments to the contract are outstanding); and
  - (b) no differences in content or intention between the full treaty contract wording and the placing slip.

Where such differences exist, these must be detailed in the reinsurance declaration. The insurer must set out the corrective action(s) being undertaken to seek to eliminate these differences.

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<sup>9</sup> For the purposes of this Prudential Standard, in the case of a Category C insurer, any reference to 'chief executive officer' may be taken to be a reference to the **agent in Australia** (by whatever name called), and any reference to 'chief reinsurance officer' may be taken to be a reference to the senior officer (by whatever name called) who holds the equivalent of that position locally.

**The ‘~~two-inception date~~ month rule’**

41. The ‘~~two-inception date~~ month rule’ is that ~~by the inception~~ ~~within two months~~ ~~after the inception~~ date(s) of the regulated institution’s reinsurance arrangements:
- (a) the regulated institution has a placing slip(s) pertaining to these reinsurance arrangements, which:
    - (i) has been signed and stamped by all participating reinsurers; and
    - (ii) contains slip wording or full treaty wording agreed to by the regulated institution, with no outstanding terms or conditions to be agreed<sup>10</sup>; or
  - (b) the regulated institution has a placing slip(s) pertaining to the reinsurance arrangements, which has been signed and stamped by all participating reinsurers, with no outstanding terms or conditions to be agreed<sup>11</sup>; or
  - (c) the regulated institution does not have a placing slip(s), but the regulated institution has a cover note(s) issued by the participating reinsurer(s) (in the case of direct placements with reinsurers) and/or from its appointed reinsurance broker (in the case of intermediated reinsurance placements). The regulated institution also must have systems to verify that the content of the cover note(s) is the same as the placing slip(s) agreed between the regulated institution and the reinsurer(s).<sup>12</sup>

**The ‘~~six-two~~ month rule’**

42. The ‘~~six-two~~ month rule’ is that within ~~six-two~~ months after the inception date(s) of the regulated institution’s reinsurance arrangements:
- (a) the regulated institution complies with paragraph 41(a); or
  - (b) the regulated institution has in its possession a full treaty contract wording (including any appending contract wordings and/or schedules) that has been signed and stamped by all contracting parties, namely the regulated institution and all participating reinsurers.<sup>13</sup>

<sup>10</sup> For this purpose, ‘slip wording’ means standard contractual wording that has been agreed upon in advance by the contracting parties and is used as the sole contractual document between the contracting parties. A slip wording may be issued by a reinsurance broker, or by a reinsurer(s).

<sup>11</sup> For this purpose, ‘placing slip’ means a summary of the reinsurance contract terms and conditions used either by an insurer for directly placed reinsurance or by a reinsurance broker, for intermediated placements, when offering a risk or risks to a reinsurer in advance of the preparation of the full reinsurance contract documentation.

<sup>12</sup> For this purpose, a ‘cover note’ means written confirmation issued by the reinsurer(s) or the appointed reinsurance broker to the regulated institution detailing the contract terms and conditions and details of the percentage of risk placed with each reinsurer.

<sup>13</sup> For this purpose, full treaty contract wording (including any appending contract wordings and/or schedules) is defined as a legally binding document on all parties that provides a complete, accurate and definitive record of all the terms and conditions and other provisions of the contract of reinsurance between the contracting parties.

## Reinsurance declaration qualification

43. Where the insurer is unable to state in its reinsurance declaration that it has complied with the '~~two-inception date~~month rule' or the '~~six-two~~ month rule', the declaration must set out what alternate documentation is in place or, if there is no documentation, the reasons for this and what action the insurer is taking to seek to put this documentation in place.
44. Where the reinsurance arrangements attested to in the reinsurance declaration differ from those included in the insurer's Reinsurance Statement submitted to APRA in accordance with paragraphs 28 to 31, the insurer or insurance group, as the case may be, must submit to APRA a revised Reinsurance Statement which reflects details of the amended arrangements that are in place. If the amended Reinsurance Statement also warrants a change in the insurer's or insurance group's ReMS, the ReMS must be reviewed and amended in accordance with paragraph 21.

## Limited Risk Transfer Arrangements

45. An insurer must submit to APRA details of all proposed 'Limited Risk Transfer Arrangements'<sup>14</sup> for approval prior to entering into such arrangements. Attachment A details the requirements for a submission for approval, as well as the criteria APRA will apply.
46. APRA may approve a Limited Risk Transfer Arrangement as either a reinsurance arrangement or a financing arrangement.
47. APRA will generally consider a Limited Risk Transfer Arrangement to be a reinsurance arrangement where the purpose and effect of the arrangement is to genuinely transfer significant insurance risk from the insurer to another (re)insurer.
48. A Limited Risk Transfer Arrangement that is approved by APRA as a reinsurance arrangement must be treated accordingly by the insurer for prudential purposes.<sup>15</sup>
49. A Limited Risk Transfer Arrangement that is approved by APRA as a financing arrangement must be accounted for by the insurer so that:
  - (a) the arrangement has a legitimate purpose and effect; and
  - (b) the arrangement will not misrepresent, or is not designed to disguise, a material risk to the insurer's current or continuing profitability, solvency or capital adequacy from any party.

The terms and conditions of the financing arrangement will determine the appropriate accounting treatment for prudential purposes.

Where APRA determines that a Limited Risk Transfer Arrangement is to be treated as a financing arrangement, the insurer must not treat the arrangement as

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<sup>14</sup> As defined in Attachment A.

<sup>15</sup> Refer to the **capital standards** and reporting standards made under the *Financial Sector (Collection of Data) Act 2001*.

reinsurance for the purpose of determining its **prescribed capital amount** under the **capital standards** or as reinsurance for any other purpose.

### Adjustments and exclusions

50. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to a regulated institution.

### Determinations made under previous prudential standards

51. ~~An exercise of APRA's discretion (such as an approval, waiver or direction) under a previous version of a reinsurance prudential standard continues to have effect as though exercised pursuant to a corresponding power (if any) exercisable by APRA under this Prudential Standard. For the purposes of this paragraph, 'a previous version of a reinsurance prudential standard' includes: An exercise of APRA's discretion (such as an approval, waiver or direction) under a previous version of this Prudential Standard continues to have effect as though exercised pursuant to a corresponding power (if any) exercisable by APRA under this Prudential Standard.~~

~~— Prudential Standard GPS 230 Reinsurance Management (GPS 230) made on 13 December 2013;~~

~~(a) Prudential Standard GPS 230 Reinsurance Management (GPS 230) made on 30 November 2012;~~

~~(b) GPS 230 made on 23 June 2008;~~

~~(c) GPS 230 made on 9 February 2006;~~

~~(d) Prudential Standard GPS 221 Risk Management: Level 2 Insurance Groups (GPS 221) made on 9 September 2011; and~~

~~(e) GPS 221 made on 17 December 2008.~~

## Attachment A

### Limited Risk Transfer Arrangements

#### Definition of Limited Risk Transfer Arrangements

1. Limited Risk Transfer Arrangements typically do not involve significant transfer of insurance risk over the life of the arrangement between the insurer and the reinsurer. An arrangement may involve one contract, or a combination of two or more individual contracts and/or side letters.
2. Such arrangements are often characterised by requirements placed on the insurer to mitigate any loss experienced by the reinsurer to this arrangement over a future period of time.
3. While the main purpose of such arrangements is usually financing, Limited Risk Transfer Arrangements can be used to affect the presentation of financial results. This can lead to a misrepresentation of the true financial position of the insurer that may ultimately pose risks to policyholders.

#### Approval of Limited Risk Transfer Arrangements

4. At a minimum, the submission for approval must include:
  - (a) a draft contract wording or other draft proposed agreement and collateral or 'side' agreements, and any other documentation or information relevant to the transaction (including a written description of any verbal understandings and/or undertakings that are material to the operation of the arrangement); and
  - (b) details of the proposed accounting treatment and the effect of the proposed arrangement on the statement of financial position<sup>16</sup> and capital adequacy of the insurer for each **reporting period** and over the full period of the arrangement, certified by the **Appointed Auditor**.
5. Where (a) is not available, the insurer must submit to APRA a comprehensive description of the proposed arrangement including details of any risk transfer and financing elements.
6. When seeking approval, the insurer must demonstrate to APRA that it has formal written policies and procedures addressing the purpose, nature and use of Limited Risk Transfer Arrangements. Specifically, the insurer must, at a minimum, demonstrate that:
  - (a) the purpose and effect of any Limited Risk Transfer Arrangement is fully understood;
  - (b) the associated risks have been identified and addressed;

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<sup>16</sup> Prepared with regard to reporting standards made under the *Financial Sector (Collection of Data) Act 2011*.

- (c) appropriate internal approvals have been identified and implemented;
  - (d) the **Appointed Actuary** and Appointed Auditor have indicated whether the arrangement, in their view, meets the description of a Limited Risk Transfer Arrangement as outlined above; and
  - (e) all documentation has been scrutinised by suitably qualified and experienced staff of the insurer.
7. APRA will only approve a Limited Risk Transfer Arrangement where the following criteria are met:
- (a) the arrangement has a legitimate purpose and effect;
  - (b) the arrangement will not disguise, or is not designed to disguise, a material risk to the insurer's current or continuing profitability, solvency or capital adequacy from any party;
  - (c) the financial costs and benefits of the arrangement, and the nature and potential quantum of any potential risks to policyholders, are reflected in the application for approval and the proposed accounting and disclosure arrangements;
  - (d) there will be no adverse effect on the insurer's balance sheet and capital position in any one period or over the entire term of the arrangement;
  - (e) the insurer has reviewed the effect of the arrangement within the context of its overall risk management and control systems; and
  - (f) the arrangement will not adversely affect the interests of policyholders.
8. For applications which are approved, APRA will consider the nature and purpose of the arrangement and deem the arrangement to be either reinsurance or financing (as appropriate) for the purposes of:
- (a) the calculation of the insurer's prescribed capital amount; and
  - (b) reporting under reporting standards made under the *Financial Sector (Collection of Data) Act 2011*.

APRA approvals of Limited Risk Transfer Arrangements will always be made in writing.

## **Attachment B**

### **Level 2 insurance groups**

1. This Attachment applies adjustments to the requirements outlined in this Prudential Standard for Level 2 insurance groups.

### **Reinsurance Management Strategy**

2. A Level 2 insurance group must ensure that its ReMS covers its **international business**.

### **Reinsurance Arrangements Statement**

3. APRA may vary the requirements of paragraph 31 of this Prudential Standard in relation to a Level 2 insurance group Reinsurance Statement. A Level 2 insurance group's application for this variation must be made by the parent entity and set out how the proposed content of the Reinsurance Statement (as varied) will provide substantiation of the Level 2 insurance group's ReMS. In deciding whether to vary the requirements of paragraph 31, APRA must have regard to the matters stated in the application and any other relevant considerations.

### **Documentation of Reinsurance Arrangements**

4. The requirement for documentation of reinsurance arrangements in paragraphs 32 to 35 of this Prudential Standard does not apply to the international business of a Level 2 insurance group.

### **Reinsurance declaration**

5. The requirement to undertake a reinsurance declaration, as set out in paragraphs 36 to 40 of this Prudential Standard, does not apply to Level 2 insurance groups.

### **Limited Risk Transfer Arrangements**

6. A Level 2 insurance group is not required to submit to APRA, for approval, any Limited Risk Transfer Arrangement proposed to be entered into by any entity in the Level 2 insurance group that is not an insurer. However, a Level 2 insurance group must provide details to APRA of the effect of any Limited Risk Transfer Arrangement entered into by any entities that are not insurers.