



21 November 2022

TO: ALL LIFE INSURERS

CONSULTATION - REMAKING OF FOUR LIFE INSURANCE PRUDENTIAL STANDARDS

APRA has today commenced a short consultation on remaking four life insurance prudential standards. These standards are due to sunset on 1 April 2023, in accordance with the *Legislation Act 2003*.

The four life insurance prudential standards are summarised in **Attachment A** and they are:

- *Prudential Standard LPS 100 Solvency Standard (LPS 100)*;
- *Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge (LPS 115)*;
- *Prudential Standard LPS 360 Termination values Minimum Surrender Values and Paid-up Values (LPS 360)*; and
- *Prudential Standard LPS 370 Cost of Investment Performance Guarantees (LPS 370)*.

APRA intends to remake these standards without any amendments prior to the sunset date of 1 April 2023. This is based on APRA's assessment that these standards continue to be broadly fit for purpose, and are a required part of the prudential framework. However, APRA welcomes feedback on the four prudential standards, including any issues, from the industry's perspective associated with these standards.

APRA intends to consider more broadly the existing structure of the insurance prudential framework, as part of the strategic initiative to *Modernise the Prudential Architecture* (MPA). Feedback received as part of this consultation will be helpful in informing that approach. This will be in addition to further industry engagement and consultation on the MPA programme.

Next steps

APRA invites feedback on the four prudential standards by 15 December 2022. Submissions should be sent to insurance.policy@apra.gov.au. Subject to this feedback, APRA expects to remake the standards prior to 1 April 2023.

Yours sincerely,

Renée Roberts
Executive Director, APRA

Attachment A – Summary of the four LI prudential standards

Prudential Standard summary
<p><i>Prudential Standard LPS 100 Solvency Standard (LPS 100)</i></p> <p>The <i>Life Insurance Act 1995</i> makes provision for prudential standards in relation to the solvency of statutory funds. LPS 100 is a prudential standard in relation to the solvency for the purposes of sections 3, 52, 62, 63 and 159 of the <i>Life Insurance Act 1995</i>. This prudential standard is satisfied in relation to a statutory fund if the capital base of the fund exceeds 90 per cent of the fund's prescribed capital amount.</p>
<p><i>Prudential Standard LPS 115 Capital Adequacy: Insurance Risk Charge (LPS 115)</i></p> <p>LPS 115 requires a life company to maintain adequate capital against the insurance risks associated with its activities. The Insurance Risk Charge is the minimum amount of capital required to be held against insurance risks. The Insurance Risk Charge relates to the risk of adverse impacts due to movements in future mortality, morbidity, longevity, servicing expenses and lapses.</p> <p>LPS 115 set out the method for calculating the Insurance Risk Charge. This charge is one of the components of the Standard Method for calculating the prescribed capital amount for life company statutory funds and general funds.</p>
<p><i>Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values (LPS 360)</i></p> <p>LPS 360 sets out the requirements for determining termination values, minimum surrender values and minimum paid-up values. Termination values are used in determining the capital base of a life company and its statutory funds. Section 207 of the <i>Life Insurance Act 1995</i> requires a life company to pay a surrender value to a policy owner in some circumstances. Section 209 of the <i>Life Insurance Act 1995</i> requires a life company to vary a policy in some circumstances if the policy owner requires that no further premiums be paid.</p>
<p><i>Prudential Standard LPS 370 Cost of Investment Performance Guarantees (LPS 370)</i></p> <p>LPS 370 outlines the requirements for calculating the cost of investment performance guarantees provided in association with investment-linked contracts for the purpose of section 42 of the <i>Life Insurance Act 1995</i>. A life company must be able to demonstrate that at all times the cost of any investment performance guarantees represents less than 5 per cent of the total policy liabilities of each statutory fund to which LPS 370 applies.</p>