



9 March 2023

TO: ALL LIFE INSURERS AND FRIENDLY SOCIETIES

RESPONSE TO SUBMISSIONS - REMAKING OF FOUR LIFE INSURANCE PRUDENTIAL STANDARDS

On 21 November 2022, APRA commenced a short consultation on a proposal to remake four life insurance prudential standards.¹ APRA noted its intention to remake these standards without any amendments prior to their sunseting date of 1 April 2023. This was based on APRA's assessment that these standards continue to be broadly fit for purpose and are a required part of the prudential framework.

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

- *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)*.

Submissions received

APRA received two submissions during the consultation. The respondents agreed with APRA's assessment that the four standards remained broadly fit for purpose. A small number of suggestions were made in relation to one standard, LPS 360, with proposed technical modifications that would impact specific entities. APRA has decided to not incorporate these suggestions at this stage but will consider these further when reviewing the insurance prudential framework as part of its strategic initiative to Modernise the Prudential Architecture (MPA). APRA will continue to engage and consult with Industry on the MPA programme.

Next steps

APRA will now remake these standards without amendment prior to the sunseting date of 1 April 2023.

Yours sincerely,

Clare Gibney
Executive Director, APRA

¹ [Consultation - Remaking of four life insurance prudential standards.](#)

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> |