



29 May 2009

To all CEOs (or equivalent) of general insurers or life insurers and Appointed Actuaries.

Life and General Insurance Capital Project

APRA recently began a project to review the capital standards for both life insurance and general insurance. The purpose of this letter is to provide an outline of this project to industry stakeholders.

APRA has well-established prudential standards relating to the capital requirements of life insurance and general insurance. Amendments were made to the general insurance capital standards in 2008, with the expectation of further review at a future date. The Life Insurance Actuarial Standards Board (LIASB) had begun to review certain aspects of the life insurance capital standards. This work was passed to APRA at the beginning of 2008.

In conducting this review APRA is working not from the position that current levels of capital are too high or too low but rather that it is timely to re-assess some of the details of the existing standards.

The objectives of APRA's project are to:

- improve the risk sensitivity and appropriateness of the standards;
- improve the alignment of the standards between industries; and
- consider the standards in light of international developments.

APRA does not intend to 'rebuild' its prudential standards from first principles but rather intends to adjust the current standards as necessary. Nonetheless, this is a significant project. The areas identified for review are listed in Attachment A. Further topics may be added as the project progresses. Please note that a review of a topic does not necessarily mean that changes will be made in that area.

The project will involve extensive formal consultation as part of the usual APRA industry consultation process. APRA expects to release a public discussion paper towards the end of 2009 or early in 2010.

Should you believe that there are other areas of the capital standards that would benefit from review, or have analysis that could contribute to the areas already identified, please respond to APRA by 10 July 2009. APRA will consider these contributions as part of the overall project.

Please forward any response or questions to Allan Watts (allan.watts@apra.gov.au) or Bruce Lambert (bruce.lambert@apra.gov.au).

David Rush
General Manager, Policy Development

Attachment A**Areas Identified for Review**

Life Insurance	General Insurance
Asset Concentration	Asset Concentration
Diversification	Diversification
Investments in Subsidiaries	Investments in Subsidiaries
Liquidity Risk	Liquidity Risk
Operational Risk	Operational Risk
Quality of Capital (Tier 1 / Tier 2 etc)	Quality of Capital (Tier 1 / Tier 2 etc)
Risk Free Rates	Risk Free Rates
Life Catastrophe Risk	MER Requirements
Resilience Reserve	Asset / Liability Mismatch Risk
Internal Models	Insurance Risk Charges
Risk Products Capital Requirements	Market and Credit Risk
Surrender Values	Risk Margins