



Prudential Standard LPS 370

Cost of Investment Performance Guarantees

Objective and key requirements of this Prudential Standard

This Prudential Standard sets out 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 *Life Insurance Act 1995*.

The ultimate responsibility for the calculation and compliance with the requirements of the Act in relation to investment performance guarantees lies with the Board of the life company.

The key requirements of this Prudential Standard are that a life company must:

- calculate the cost of any investment performance guarantees associated with its investment-linked business in accordance with this Prudential Standard; and
- 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 this Prudential Standard applies.

Authority

1. This Prudential Standard is made under paragraph 230A(1)(a) of the *Life Insurance Act 1995* (the Act).

Application

2. This Prudential Standard applies to all life companies including **friendly societies** (together referred to as **life companies**) registered under the Act¹, except where expressly noted otherwise.
3. A life company must apply this Prudential Standard separately to each **statutory fund** where:
 - (a) the business of the fund consists of the provision of **investment-linked benefits**; and
 - (b) any of the policies referable to the fund includes an **investment performance guarantee**.
4. This Prudential Standard only applies to the business of an **Eligible Foreign Life Insurance Company** which is carried on through its Australian statutory funds but not otherwise.²
5. This Prudential Standard applies to life companies from 1 January 2013.

Interpretation

6. Terms that are defined in *Prudential Standard LPS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.

Limit on investment performance guarantees

7. A life company must, at all times, ensure that the 'investment performance guarantee factor' of a statutory fund to which this Prudential Standard applies does not exceed 5 per cent.³
8. The investment performance guarantee factor of a statutory fund at a particular time is the proportion of the amount of the current policy liabilities of the fund at that time that represents the total cost, as at that time, of providing the investment performance guarantees included in policies referable to the fund.
9. For the purpose of paragraph 8, policy liabilities must be determined gross of reinsurance.

¹ Refer to subsection 21(1) of the Act.

² Refer to section 16ZD of the Act.

³ Refer to section 42 of the Act.

The cost of investment performance guarantees

10. The cost of investment performance guarantees must be determined as the increase in the fair value of the **financial instrument element** that is attributable to the presence of the investment performance guarantees. For this purpose the fair value of the financial instrument element (both with and without the investment performance guarantees) must be assessed in accordance with the relevant accounting standards.

Adjustments and exclusions

11. APRA may, by notice in writing to a life company, adjust or exclude a specific requirement in this Prudential Standard in relation to that life company.

Determinations made under previous prudential standards

12. 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 LPS 5.02 Cost of Investment Performance Guarantees* may be regarded as a previous version of this Prudential Standard.