



9 March 2018

**TO: ALL LIFE INSURERS**

**FINAL RELEASE OF REVISED PRUDENTIAL STANDARD LPS 230 REINSURANCE**

APRA has released a final revised *Prudential Standard LPS 230 Reinsurance* (LPS 230) following consultation.

The current LPS 230 requires reinsurance contracts that are potentially financial reinsurance arrangements, or that include non-standard features or clauses that may impact on the extent of risk transfer, to be submitted to APRA for approval.

In a letter to all life insurers dated 3 November 2017, APRA proposed amendments to LPS 230 to refine the regulatory approach to such arrangements. The letter proposed to replace the current approach with a more principles-based approach to assessing whether arrangements between a life company and a reinsurer require APRA approval. It was not APRA's intention to significantly widen the range of arrangements that must be submitted to APRA for approval. Rather, APRA would only expect to be consulted on arrangements that, when viewed as a whole, may give rise to potentially adverse prudential or policy owner outcomes.

APRA received three submissions in response to the consultation, two of which were non-confidential. The non-confidential submissions have been released on the APRA website.

APRA has made a number of amendments to its proposals in response to submissions. These are incorporated in the final version of LPS 230 and some key changes to the draft version of LPS 230 are listed in Attachment A to this letter.

APRA expects that insurers will consider any individual arrangement as a whole when deciding whether it is necessary to apply for approval, rather than focusing on specific features in isolation. To assist insurers in understanding APRA's approach, APRA's June 2017 letter continues to provide guidance on some specific matters regarding initial commissions and recapture provisions.

APRA notes feedback that it would be appropriate to support the principles-based approach in LPS 230 with some additional guidance on interpretation. As a result, APRA will release responses to frequently asked questions (FAQs) raised in submissions, including the topics listed in Attachment B. The guidance provided in APRA's June 2017 letter to industry will be updated and incorporated into the FAQs as appropriate.<sup>1</sup> APRA welcomes feedback on further topics that could be added to the FAQs.

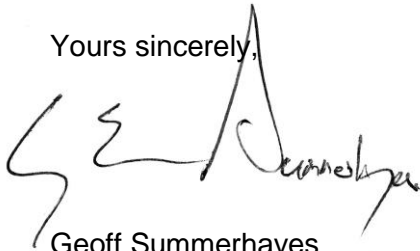
The revised LPS 230 will come into effect from 1 April 2018.

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<sup>1</sup> <http://apra.gov.au/lifs/Documents/LPS%20230%20guidance%20letter.pdf>

If you have any questions regarding this letter, including suggested topics for FAQs, please contact Peter Kohlhagen ([peter.kohlhagen@apra.gov.au](mailto:peter.kohlhagen@apra.gov.au) or 02 9210 3363) or your responsible supervisor.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Geoff Summerhayes'. The signature is stylized with a large initial 'G' and a prominent 'A'.

Geoff Summerhayes  
Member  
Australian Prudential Regulation Authority

## ATTACHMENT A

### KEY CHANGES TO LPS 230 IN RESPONSE TO SUBMISSIONS

In response to submissions, APRA has made several amendments to the consultation draft released in November 2017. APRA has:

- clarified that the reinsurance report can be submitted to APRA as part of another report required to be provided to APRA (including the Financial Condition Report or other reports such as the proposed Actuarial Valuation Report under proposed *Prudential Standard CPS 320 Actuarial and Related Matters*) or as a standalone report;
- amended the reference to 'acquisition costs' to 'acquisition expenses' to link to the definition of acquisition expenses in *Prudential Standard LPS 001 Definitions*;
- changed the term 'Limited Risk Transfer Arrangements' to 'Referable Reinsurance Arrangements' to avoid confusion;
- amended paragraph 11 of LPS 230 and paragraph 1 of Attachment B, to delete references to 'the life of the book of business being reinsured' and 'the life of the arrangement' as other parts of the standard address this issue more precisely;
- removed the requirement for audit signoff as a matter of course in all cases, noting that APRA may request further information from the insurer, including audit signoff, as part of its assessment of whether to approve an application; and
- clarified the wording regarding policy owner interests to better align with the requirements of the *Life Insurance Act 1995*.

## ATTACHMENT B

### POTENTIAL TOPICS FOR APRA GUIDANCE (FREQUENTLY ASKED QUESTIONS)

- What are some characteristics that APRA considers would typically indicate the existence of a Referable Reinsurance Arrangement?
- What are some characteristics that APRA considers would typically not of themselves be indicative of the existence of a Referable Reinsurance Arrangement?
- What factors will influence how long APRA's approval will ordinarily take?
- How do re-pricing rights on the part of the insurer influence whether an arrangement is likely to be viewed as a Referable Reinsurance Arrangement?
- If acquisition expenses incurred by an insurer reduce over coming years due to commission reforms, will this result in reconsideration of the need for approval in the absence of other changes?
- Do changes to contracts that increase, or are neutral regarding, the extent of risk transfer count as material changes under paragraph 8?
- What does 'significant financing element' mean? How are features such as initial reinsurance commissions and repricing rights taken into account? In what circumstances is a financing arrangement likely to be approved?
- What does significant adverse impact on the life company's balance sheet and capital position mean? Are certain common terms (such as repricing or termination rights that don't result in a predetermined financial outcome captured)?
- How does the LPS 230 concept of Referable Reinsurance Arrangement sit alongside the accounting standard concepts of significant risk transfer?
- How does APRA approach the issue of lapse risk transfer?