

Mr Neil Grummitt
General Manager, Policy Development
Policy, Research and Statistics
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

4 July 2013

Dear Neil

Submission Regarding APRA's Proposal on Harmonising Cross-Industry Risk Management Requirements

We refer to APRA's Discussion Paper "Harmonising cross-industry risk management requirements" issued 9 May 2013.

Amongst other things, the proposals require creation of the following separate roles:

- Chief Executive Officer;
- Chief Financial Officer;
- Appointed Actuary;
- Head of Internal Audit;
- Chief Risk Officer (independent from business lines); and
- a compliance function with a reporting line independent from business lines.

Hannover Life Re of Australasia Ltd (Hannover) is a smaller institution within the overall financial services market in Australia. In addition, Hannover has a broad understanding of the specific issues facing smaller institutions because it provides reinsurance and other services to a wide variety of financial institutions, ranging from small "start-ups" through to large well established companies.

Smaller institutions, including start-ups, make an important contribution to financial markets by encouraging appropriate competitive pressure. Further, through the diversity that they add to the overall financial services landscape, smaller institutions contribute to reducing the systemic risk inherent in highly concentrated financial markets. For these reasons it is important that regulations regarded as being appropriate for larger institutions are not unnecessarily applied to smaller institutions.

Managers within a smaller institution are able to develop a more intimate and detailed understanding of the risks being undertaken by the business, and are also able to more easily monitor and control these risks. As such, APRA's proposals, by forcing all institutions to have a number of separate people covering the various defined roles, will impose an unnecessary burden on smaller institutions.

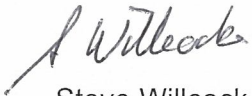
It seems that APRA already recognises that this is the case because in the discussion paper (page 6) it is stated that APRA will consider exemptions for smaller institutions.

An approach whereby the regulator issues prudential standards knowing that it intends to offer exemptions to an important class of institutions is inappropriate as it will lead to significant uncertainty and divergence of requirements across the industry. It will also place too high a burden of proof on the affected institutions because of the understandable reluctance of APRA to issue exemptions. Instead, prudential standards should be framed in a manner appropriate to all, or at least the vast majority, of institutions to ensure clarity of requirements.

Hence, we recommend that APRA change its proposal by restricting the matters addressed in the prudential standard to the principles underlying the objectives APRA is seeking to achieve, and therefore remove the requirement in the prudential standard for no "dual-hatting", and instead address the issue in the associated practice guide. This would allow APRA to clarify those circumstances in which dual-hatting is, and is not, regarded as appropriate.

Thank you for the opportunity to make a submission in response to APRA's proposal.

Yours sincerely

A handwritten signature in black ink that reads "Steve Willcock". The signature is written in a cursive style with a long, sweeping underline.

Steve Willcock
Managing Director