



Notice varying conditions on Authorisation to carry on insurance business

Insurance Act 1973

TO: Australian Family Assurance Limited ACN 003 044 862 (the general insurer)
of 28-34 Roseberry Street, Balgowlah, New South Wales

SINCE

- A. APRA issued to the general insurer an Authorisation to carry on insurance business in Australia under subsection 12(1) of the *Insurance Act 1973* (the Act), on 24 June 2002 (the Authorisation); and
- B. the Authorisation is subject to conditions;

I, Tom Karp, a delegate of APRA, under paragraph 13(1)(b) of the Act, VARY those conditions imposed on the Authorisation in the manner set out in the Schedule attached to this Notice.

Dated 7 November 2006



Tom Karp
Executive General Manager
Supervisory Support Division

Interpretation

In this Notice

APRA means the Australian Prudential Regulation Authority.

insurance business has the meaning given in section 3 of the Act.

prudential standard has the meaning given in section 3 of the Act.

Note 1 Under subsection 13(1) of the Act, APRA may, at any time, by written notice to the general insurer impose conditions or additional conditions or vary or revoke conditions imposed on the insurer's authorisation under section 12 of the Act. The conditions must relate to prudential matters.

Note 2 Under subsection 13(2) of the Act, a condition may be expressed to have effect despite anything in the prudential standards.

Note 3 Under subsection 13(4) of the Act, if APRA varies conditions on a general insurer's authorisation, APRA must give written notice to the insurer and ensure that notice that the action has been taken is published in the *Gazette*.

Note 4 Under subsection 14(1) of the Act, a general insurer commits an offence if:

- (a) the insurer does an act or fails to do an act; and
- (b) doing the act or failing to do the act results in a contravention of a condition of the insurer's authorisation under section 12 of the Act; and
- (c) there is no determination in force under subsection 7(1) of the Act, that subsection 14(1) of the Act does not apply to the insurer.

The maximum penalty is 300 penalty units. Under subsection 14(1A) of the Act, where an individual commits an offence against subsection 14(1) of the Act, because of Part 2.4 of the *Criminal Code* or commits an offence under Part 2.4 of the *Criminal Code* in relation to an offence against subsection 14(1) of the Act, the individual is punishable, on conviction, by a fine not exceeding 60 penalty units. Under subsection 14(2) of the Act, an offence against section 14 of the Act, is an offence of strict liability.

Schedule - the conditions which are being varied

The existing condition(s) which are to be varied:

1. The Company is to carry on insurance business in Australia solely for the purpose of discharging liabilities under contracts of insurance it entered into as insurer prior to 1 July 2002.
2. Except as approved in writing by APRA, the Company is:
 - (a) To hold its assets in the form of cash deposits with locally incorporated ADI's;
 - (b) Not to dispose of or otherwise deal with any of its non-cash assets;
 - (c) Not to remove any of its assets from Australia;
 - (d) Not to appoint a custodian or investment manager.
3. The Company must not, except with the consent of APRA, enter into an arrangement or agreement for the sale or disposal or amalgamation or reconstruction of its business.
4. The Company must provide APRA with an actuarial report as at 31 December of each year within 3 months of that date estimating the Company's insurance liabilities in accordance with Prudential Standard GPS 210 "Liability Valuation for General Insurers".
5. The Company must maintain a separate account with an approved authorised deposit-taking institution with a \$50,000 deposit as a reserve for "loss of chance" liability claims that arise from lapsed cancer insurance policies. All withdrawals from this account must be approved in writing by APRA.
6. The Company is required to have a run-off plan in place at all times. Any changes to this run-off plan must be submitted to APRA within 14 days of the changes being approved by the Board of the Company. The run-off plan must be revised, re-approved by the Board and re-submitted to APRA should there be any material change to the operations of the insurer. The run-off plan should incorporate details of how the Company is managing the run-off of its insurance liabilities, including reinsurance, investment policy and administration.
7. The Company must comply with the run-off plan at all times.
8. The Company is required to provide to APRA monthly reports which consist of

the following information: Internal Management Reports; Cash Balance Reports; Balance Sheet – include detailed itemisation of assets and liabilities; Profit and Loss Statement; and Claims Outstanding and IBNR reports for personal accident and sickness cover.

9. The Company must appoint an accounting firm approved by APRA to:
 - (a) Audit and verify, on a six monthly basis, the cash balance of the deposit account maintained as a reserve for “loss of chance” liability claims that arise from lapsed cancer insurance policies;
 - (b) Audit and verify, on a six monthly basis, the cash balance of the company and confirm whether the cash assets of the Company were held directly by the Company;
 - (c) Confirm to APRA the accuracy of the monthly cash balance information submitted by the Company in compliance with Condition 8 above.
10. The Company must, within four months after the end of each financial year of the Company, prepare and give to APRA, such accounts and statements as would be required within Chapter 2M of the Corporations Act. The Company must also give to APRA a certificate by the auditor of the Company relating to those accounts and statements.
11. The Company must provide APRA with a Board Declaration, at the same time it lodges its yearly statutory accounts, declaring that, for the last financial year:
 - (a) The Company has systems in place to ensure compliance with the *Insurance Act 1973*, Prudential Standards, authorisation conditions and directions;
 - (b) The Board and senior management have planned for running off the insurance liabilities of the insurer, identified the key risks facing the insurer and have a strategy for selecting and monitoring reinsurance programs and that these matters are incorporated in the Company’s run-off plan;
 - (c) The Company has substantially complied with its run-off plan and that the plan is operating effectively in practice, having regard to the risks they are designed to control; and
 - (d) A copy of the Company’s run-off plan provided to APRA is accurate and current.
12. The Company must always act to ensure that the interests of the insureds are properly protected in the continuing run-off of the Company’s insurance business.
13. In this instrument the following definitions apply.

- (a) "Approved Authorised Deposit-Taking Institution" means a body corporate that is an ADI for the purposes of the *Banking Act 1959*.
- (b) "Cash Assets" means currency maintained in call or term deposits or short dated fixed interest instruments.
- (c) "Non Cash Assets" means assets other than cash.
- (d) "Custodian" means a person who, under a contract with the Company or an investment manager of the Company, performs custodial functions in relation to any assets of the Company.
- (e) "Investment Manager" means a person appointed by the Company to invest on behalf of the Company.

The condition(s) as varied are:

1. The Company is to carry on insurance business in Australia solely for the purpose of discharging liabilities under contracts of insurance it entered into as insurer prior to 1 July 2002.
2. Except as approved in writing by APRA, the Company is:
 - (a) To hold its assets in the form of cash deposits with locally incorporated ADI's;
 - (b) Not to dispose of or otherwise deal with any of its non-cash assets;
 - (c) Not to remove any of its assets from Australia;
 - (d) Not to appoint a custodian or investment manager
3. The Company must not, except with the consent of APRA, enter into an arrangement or agreement for the sale or disposal or amalgamation or reconstruction of its business.
4. The Company must provide APRA with an actuarial report as at 31 December of each year within 3 months of that date estimating the Company's insurance liabilities in accordance with Prudential Standard GPS 310 "Audit and Actuarial Reporting and Valuation".
5. The Company must maintain a separate account with an approved authorised deposit-taking institution with a \$50,000 deposit as a reserve for "loss of chance" liability claims that arise from lapsed cancer insurance policies. All withdrawals from this account must be approved in writing by APRA.
6. The Company is required to have a run-off plan in place at all times. Any

changes to this run-off plan must be submitted to APRA within 14 days of the changes being approved by the Board of the Company. The run-off plan must be revised, re-approved by the Board and re-submitted to APRA should there be any material change to the operations of the insurer. The run-off plan should incorporate details of how the Company is managing the run-off of its insurance liabilities, including reinsurance, investment policy and administration.

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 - (a) The Company has systems in place to ensure compliance with the *Insurance Act 1973*, Prudential Standards, authorisation conditions and directions;
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- the plan is operating effectively in practice, having regard to the risks they are designed to control; and
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- (d) "Custodian" means a person who, under a contract with the Company or an investment manager of the Company, performs custodial functions in relation to any assets of the Company.
- (e) "Investment Manager" means a person appointed by the Company to invest on behalf of the Company.