AUSTRALIA

Prudential Standard GPS 001

Definitions

Objective and key requirements of this Prudential Standard

This Prudential Standard defines key terms referred to in other Prudential Standards applicable to general insurers and Level 2 insurance groups. All Prudential Standards applicable to general insurers and Level 2 insurance groups must be read in conjunction with this Prudential Standard.

Authority

1. This Prudential Standard is made under section 32 of the *Insurance Act 1973* (**the Act**).

Application

2. This Prudential Standard takes effect from 1 January 2013 (**effective date**).

3. Unless the contrary intention appears, definitions in this Prudential Standard apply to this Prudential Standard and all other Prudential Standards made under section 32 of the Act (collectively **GI Prudential Standards**) and to all prudential practice guides relating to general insurance made by APRA.

Interpretation

4. Certain terms referred to in the GI Prudential Standards are defined in the Act. By operation of subsection 13(1) of the *Legislative Instruments Act 2003*, terms not defined in the GI Prudential Standards but which are defined in the Act have the same meaning as in the Act.

Definitions

5. Key terms referred to in the GI Prudential Standards are defined as follows:

AASB means Australian Accounting Standards Board.

Accounts of a **Level 2 insurance group**, for the purposes of the prudential ~~standards~~ requirements applicable to Level 2 insurance groups, refers to accounts constituting reporting documents required to be prepared by the parent entity of the group in compliance with reporting standards made under the *Financial Sector (Collection of Data) Act 2001* (**Collection of Data Act**) and includes both annual accounts and half-yearly accounts ~~required under such reporting standards.~~in respect of a group's financial year.

Additional Tier 1 Capital is as defined in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (**GPS 112**).

Agent in Australia has the same meaning as in the Act.

~~**Annual accounts**, in relation to a Level 2 insurance group, means the reporting documents that are required by reporting standards made under the Collection of Data Act to be lodged with APRA in respect of a financial year of a Level 2 insurance group.~~

Appointed Actuary means an actuary appointed under paragraph 39(1)(b) of the Act.

Appointed Auditor means an auditor appointed under paragraph 39(1)(a) of the Act.

APRA-authorised reinsurer means an **insurer** carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Act is an APRA-authorised reinsurer if it carries on reinsurance business.

Asset Concentration Risk Charge means the risk charge determined under *Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge.*

Asset Risk Charge means the risk charge determined under *Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge*.

Auditing and Assurance Standards is a reference to the Auditing and Assurance Standards issued by the Auditing and Assurance Standards Board (**AUASB**) as may be amended from time to time.

Australian Accounting Standards is a reference to the Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**) as may be amended from time to time.

Australian business of a Level 2 insurance group, for the purposes of the prudential ~~standards~~ requirements applicable to Level 2 insurance groups, means insurance business carried on (whether in Australia or elsewhere) by any **Level 1 insurer** within the group.

Authorised deposit-taking institution **(ADI)** has the same meaning as in the *Banking Act 1959* (**Banking Act**). It includes foreign ADIs as defined in the Banking Act.

Authorised NOHC has the same meaning as in the Act.

Board means the Board of Directors or, where relevant, the **senior officer outside Australia**.

Business day has the same meaning as in the Act.

Business plan refers to a written business plan as part of an insurer's risk management framework as required under *Prudential Standard GPS 220 Risk Management* (**GPS 220**).

Capital base is as defined in GPS 112.

Capital standards refers collectively to all GI Prudential Standards relating to capital adequacy.

Categories of insurer are as defined in Attachment A of this Prudential Standard.

Classes of business including **direct classes of business** and **reinsurance classes of business** are as defined in Attachment B of this Prudential Standard.

Common Equity Tier 1 Capital is as defined in GPS 112.

Controlled entity of a **non-operating holding company** or insurer, for the purposes of the prudential ~~standards~~ requirements applicable to Level 2 insurance groups, means a subsidiary as defined in Australian Accounting Standards for the purposes of determining the entities included in consolidated general purpose financial statements.

Corporate agent has the same meaning as in the Act.

Corporate group is a group of companies comprising two or more companies that are related bodies corporate within the meaning of section 50 of the *Corporations Act 2001* (**Corporations Act**).

Counterparty grade refers to the classification applied to an investment or exposure as per the requirements of Attachment C of this Prudential Standard.

Debt obligations for the purposes of the Asset Risk Charge and Asset Concentration Risk Charge refers to all loans, deposits, placements, interest rate securities and other receivables.

Deferred reinsurance expense (**DRE**) represents the amount of reinsurance expense which is capitalised as an asset over the life of the reinsurance contract in accordance with *Prudential Standard GPS 320 Actuarial and Related Matters* (**GPS 320**).

Direct classes of business are as defined in Attachment B of this Prudential Standard.

Director has the same meaning as in the Act.

Expected reinsurance recoveries means any amounts due to an insurer, or to an entity that carries on international business within a Level 2 insurance group, from a reinsurer that arise from the recognition of Premiums Liabilities referred to in the GI Prudential Standards including GPS 320. This is distinguished from reinsurance recoverables.

Fair value has the same meaning as it does in the Australian Accounting Standards and refers to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Condition Report (FCR) is as defined in GPS 320.

Financial year, in relation to a Level 2 insurance group, means the financial year (within the meaning of the *Corporations Act 2001*) of the parent entity of the Level 2 insurance group.

General insurer has the same meaning as in the Act.

GI Prudential Standards are all Prudential Standards made under section 32 of the Act.

Group Actuary is as defined in GPS 320.

Group Auditor is as defined in *Prudential Standard GPS 310 Audit and Related Matters.*

Insurance business has the same meaning as in the Act.

Insurance group means a group of companies comprising:

(a) a company that is either:

(i) an insurer; or

(ii) an authorised non-operating holding company of an insurer; and

(b) one or more controlled entities, including but not limited to subsidiary companies and trusts, or parent companies of the company referred to in subparagraph (a)

within a corporate group. There may be more than one insurance group within a corporate group. An insurance group includes but is not necessarily limited to a Level 2 insurance group as defined in this Prudential Standard.

Insurance Concentration Risk Charge means the risk charge determined under *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge.*

Insurance Liability Valuation Report (ILVR) is as defined in GPS 320.

Insurance Risk Charge means the risk charge determined under *Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge*.

Insurer means a general insurer as defined in the Act.

Internal Capital Adequacy Assessment Process (ICAAP) is as described in *Prudential Standard GPS 110 Capital Adequacy* (**GPS 110**).

Internal Model-Based Method is the method by which an insurer determines its **prescribed capital amount** based on its own economic capital model.

International business of a Level 2 insurance group means, for the purposes of the prudential ~~standards~~ requirements applicable to Level 2 insurance groups, insurance business carried on by any entity within the group that is not authorised under the Act.

Lenders mortgage insurance has its ordinary commercial meaning and includes insurance under a policy which protects a lender from losses in the event of borrower default on a loan secured by a mortgage over residential or other property.

Lenders mortgage insurer means an insurer that has written or reinsured, or proposes to write or reinsure, policies of lenders mortgage insurance.

Level 1 insurer, for the purposes of the prudential ~~standards~~ requirements applicable to Level 2 insurance groups, means an individual insurer that is authorised under the Act and is part of a Level 2 insurance group.

Level 2 insurance group is as defined in Attachment D of this Prudential Standard.

Limited assurance is as defined according to *Framework for Assurance Engagements* issued by the AUASB as may be amended from time to time.

~~**Material net written premium** is net written premium for material business that incepts in the next reporting period and net written premium under inwards proportional reinsurance contracts where the treaty extends beyond the end of the current reporting period but the revenue has not yet been recognised.~~

Non-APRA-authorised reinsurer means any reinsurer that is not an APRA-authorised reinsurer.

Non-operating holding company (**NOHC**) has the same meaning as in the Act.

Non-reinsurance recoveries are recoveries determined under GPS 320 which do not relate to exposures with a reinsurer.

Operational Risk Charge means the risk charge determined under *Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge*.

Parent entity is as defined in Attachment D of this Prudential Standard.

Prescribed capital amount is as defined in GPS 110.

Prudential Capital Requirement (PCR) means the minimum amount of capital that an insurer or Level 2 insurance group must hold as defined in GPS 110.

Prudential matters has the same meaning as in the Act.

Prudential requirements includes requirements imposed by the Act, prudential standards, the Collection of Data Act, reporting standards, conditions on the insurer's authorisation and any other requirements imposed by APRA in writing.

Regulated institutions refers collectively to both insurers and Level 2 insurance groups.

Reinsurance includes retrocession and reinsurer includes retrocessionaire.

Reinsurance Arrangements Statement is as defined in *Prudential Standard GPS 230 Reinsurance Management* (**GPS 230**).

Reinsurance assets in relation to an insurer or an entity that carries on international business within a Level 2 insurance group comprises:

(a) reinsurance recoverables; and

(b) deferred reinsurance expense.

Reinsurance classes of business are as defined in Attachment B of this Prudential Standard.

Reinsurance Management Strategy is as defined in GPS 230.

Reinsurance recoverables means any amounts due to an insurer, or to an entity that carries on international business within a Level 2 insurance group, from a reinsurer that arise from the recognition of Outstanding Claims Liabilities referred to in the capital standards and GPS 320. This is distinguished from expected reinsurance recoveries and forms part of reinsurance assets.

Related body corporate, or **related company**, has the same meaning as in section 50 of the Corporations Act.

Related firms, in the context of Appointed Auditors, Appointed Actuaries and Reviewing Actuaries, means either two or more firms, or a firm and a body corporate, that have common ownership or management, or where one has a substantial shareholding in the other.

Reporting period is the period that the insurer or Level 2 insurance group is required to report under the relevant reporting standards made under the Collection of Data Act.

Reporting date is the last day of the reporting period of the insurer or Level 2 insurance group.

Responsible auditor is as defined in *Prudential Standard CPS 520 Fit and Proper*.

Reviewing Actuary means an actuary appointed by an insurer for the purpose of reviewing the Insurance Liability Valuation Report under GPS 320.

Risk Management Declaration is as defined in GPS 220.

Risk management framework is as defined in GPS 220.

Risk Management Strategy is as defined in GPS 220.

Run-off insurer means an insurer that is closed to new business and has not written renewal business for a period of at least 12 months.

Senior manager has the same meaning as in the Act.

Senior officer outside Australia is as defined in *Prudential Standard CPS 510 Governance*.

Small insurer means an insurer that satisfies the following criteria:

(a) the gross insurance liabilities of the insurer are less than $20 million when valued in accordance with GPS 320; and

(b) the gross insurance liabilities of the insurer do not include a material amount in respect of long-tail business (comprising classes of business where the claims are typically settled more than one year after the date of occurrence of the event that gives rise to the claim).

Special Purpose Vehicle refers to an entity that is not a related entity and whose activities are restricted to the acquisition and financing of specific assets.

Standard Method is as defined under GPS 110.

Statutory accounts ~~has the same meaning as in the Act.~~means the reporting documents that an insurer is required to lodge with APRA under section 13 of the Collection of Data Act.

Subsidiary means a subsidiary as defined under the Corporations Act.

Supervisory adjustment is as defined under GPS 110.

Tier 1 Capital is as defined in GPS 112.

Tier 2 Capital is as defined in GPS 112.

Yearly statutory accounts has the same meaning as in the Act.

Determinations made under previous prudential standards

~~5.~~6. 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. For the purposes of this paragraph, 'a previous version of this Prudential Standard' includes:

(a) *Prudential Standard GPS 001 Definitions* (**GPS 001**) made on 23 September 2011;

(b) GPS 001 made on 18 June 2010;

(c) GPS 001 made on 15 December 2009;

(d) GPS 001 made on 17 December 2008; and

(e) GPS 001 made on 23 June 2008.

Attachment A

Category of Insurer

1. The **category of insurer** referred to in prudential standards are as follows:

   (a) **Category A insurer** means an insurer incorporated in Australia. This category excludes all insurers falling within any of the other categories. For the purposes of clarification, wholly owned subsidiaries of corporate groups that are not insurance groups fall into this category where they do not already fall into another category of insurer under this Prudential Standard. Category A insurers could be mutual companies or shareholder companies.

   (b) **Category B insurer** means an insurer that is:

      (i) incorporated in Australia; and

      (ii) a subsidiary of a local or a foreign insurance group.

   Category B insurers are part of a local or foreign insurance group. They could be subsidiaries of mutual or shareholder companies. An insurance group captive is not a Category B insurer.

   (c) **Category C insurer** means a 'foreign general insurer' defined under subsection 3(1) of the Act. A Category C insurer is a foreign insurer operating as a foreign branch in Australia and could be a branch of a foreign mutual or shareholder company.

   (d) **Category D insurer** means an insurer incorporated in Australia that:

      (i) is owned by an industry or a professional association, or by the members of the industry or professional association or a combination of both; and

      (ii) only underwrites business risks of the members of the association or those who are eligible, under the articles of association or constitution of the association, to become members of the association; but

      (iii) is not a medical indemnity insurer as defined under the *Medical Indemnity Act 2002*.

   Category D insurers are often referred to as 'association captives' and could be mutual companies or shareholder companies.

(e) **Category E insurer** means an insurer incorporated in Australia that is a:

(i) corporate captive as defined in paragraphs 2 and 3 of this Attachment; or

(ii) partnership captive as defined in paragraph 4 of this Attachment.

Category E insurers, often referred to as 'sole parent captives', will generally be shareholder companies.

2. **Corporate captive** means an insurer that:

(a) is owned by a single company or a group of related bodies corporate; and

(b) exists for the purpose of underwriting risks of the parent company or members of a group of related entities~~companies~~, which may include the risks of joint venture partners and contractors of members of the group of companies.

Corporate captives include insurance group captives.

3. **Insurance group captive** is an insurer that:

(a) is a subsidiary of an insurer or an authorised NOHC; and

(b) exists for the purpose of reinsuring the risks of the insurer or members of the insurance group, which may include the risks of joint venture partners of the members of the insurance group.

4. **Partnership captive** means an insurer that:

(a) is owned by a partnership; and

(b) exists for the purpose of underwriting the business risks of the partners and/or the partnership.

Attachment B

Class of Business

1. **Direct classes of business** referred to in GI Prudential Standards are defined as follows:

(a) **Houseowners/Householders (H & H)**

This class covers the common H & H policies including the following classes/risks~~sive of~~:

- Contents;
- Personal property;
- Arson; and
- Burglary.

Public liability normally attaching to these products is to be separated and included in the Public and Product Liability class of business – item (m). Similarly, domestic workers' compensation attaching to these products is to be separated and included in the Employers' Liability (EL) class of business – item (o).

(b) **Commercial Motor Vehicle**

Motor vehicle insurance (including third party property damage) other than insurance covering vehicles defined below under Domestic Motor Vehicle. It includes long and medium haul trucks, cranes and special vehicles and policies covering fleets.

(c) **Domestic Motor Vehicle**

Motor vehicle insurance (including third party property damage) covering private use motor vehicles including utilities and lorries, motor cycles, private caravans, box and boat trailers, and other vehicles not normally covered by business or commercial policies.

(d) **Travel**

Insurance against losses associated with travel including loss of baggage and personal effects, losses on flight cancellations and overseas medical costs.

(e) **Fire and Industrial Special Risks (ISR)**

Fire

Includes all policies normally classified as 'Fire' and includes:

- sprinkler leakage;

- subsidence;
- windstorm;
- hailstone;
- crop;
- arson; and
- loss of profits and any extraneous risk normally covered under fire policies, e.g. flood.

ISR

Standard policy wordings exist for this type of policy. All policies which contain such standard wordings or where the wording is substantially similar are to be classified as ISR.

(f) **Marine**

Includes Marine Hull and Marine Liability (including pleasure craft), and Marine Cargo (including sea and inland transit insurance).

(g) **Aviation**

Aviation (including aircraft hull and aircraft liability).

(h) **Mortgage**

Insurance against losses to a lender in the event of borrower default on a loan secured by a mortgage over residential or other property.

(i) **Consumer Credit (CCI)**

Insurance to protect a consumer's ability to meet the loan repayments on personal loans and credit card finance in the event of death or loss of income due to injury, illness or unemployment.

(j) **Other Accident**

Includes the following types of insurance:

- Miscellaneous accident (involving cash in transit, theft, loss of money);
- All risks (baggage, sporting equipment, guns);
- Engineering when not part of ISR or Fire policy;
- Plate glass when not part of packaged policy (e.g. houseowners /householders);

- Livestock;
- Pluvius; and
- Sickness and Accident which by the terms of the policy provides benefits for no more than 3 years.

(k) **Other**

All other insurance business not specifically mentioned elsewhere. It includes~~, for example~~:

- Trade Credit;
- Extended Warranty (includes insurance by a third party for a period in excess of the manufacturer's or seller's normal warranty);
- Kidnap and Ransom; and
- Contingency.

(l) **Compulsory Third Party Motor Vehicle (CTP)**

This class consists only of CTP business.

(m) **Public and Product Liability**

- Public Liability covers legal liability to the public in respect of bodily injury or property damage arising out of the operation of the insured's business. Product Liability includes policies that provide for compensation for loss and/or injury caused by, or as a result of, the use of goods and environmental clean-up caused by pollution spills where not covered by Fire and ISR policies.
- Includes builders warranty insurance.
- Includes public liability attaching to H & H policies.

(n) **Professional Indemnity (PI)**

- PI covers professionals against liability incurred as a result of errors and omissions in performing professional services which has resulted in economic losses suffered by third parties.
- Includes Directors' and Officers' Liability insurance plus legal expense insurance. Cover for legal expenses is generally included in this type of policy.

(o) **Employers' Liability (EL)**

Includes:

- Workers' compensation;
- Seamen's compensation; and
- Domestic workers' compensation.

2. **Reinsurance classes of business** referred to in GI Prudential Standards are defined in accordance with both the direct classes of business defined in paragraph 1 above and by the following types of reinsurance classification:

(a) **Proportional r~~R~~einsurance**

This refers to either~~traditional forms of reinsurance where the reinsurer shares, in proportion, the premium and losses of the reinsured under~~:

traditional forms of ~~This refers to all forms of quota share and surplus reinsurance written either:~~

(i) quota share and/or surplus reinsurance placed on a treaty reinsurance ~~arrangement~~ basis~~ where the reinsurer is bound to accept all business ceded by the reinsured subject to the terms and conditions of the pre-agreed treaty wording~~; or

(ii) reinsurance written on an individual offer and acceptance basis; ~~and~~

where the reinsurer and reinsured share~~s~~, in ~~the same~~ proportion, ~~of~~ the premium and losses of the reinsured.

(b) **Non-proportional reinsurance**

This refers to either:

~~(iii)~~ t~~T~~raditional forms of excess of loss reinsurance arrangements written on a treaty reinsurance arrangement basis~~This refers to all reinsurance arrangements where either:~~

~~(iv)~~(i) ~~the reinsurer is bound to accept all business ceded by the reinsured~~; or

~~(v)~~(ii) ~~traditional forms of~~ reinsurance written ~~each reinsurance contract is~~ on an individual offer and acceptance basis; ~~and~~

where the reinsurer pays losses only above an agreed ~~predetermined limit~~ ~~(~~retention/deductible~~)~~ up to an agreed maximum ~~amount~~limit.

Attachment C

Counterparty grades

1. Assets subject to credit risk must be assigned a counterparty grade using one of the following methods:

   (a) For publicly rated assets refer to paragraphs 2 and 3;

   (b) For non-publicly rated secured or mortgaged assets refer to paragraphs 8 to 12. A secured or mortgaged asset comprises an investment held by way of a registered lien, charge or mortgage over residential property ~~or an asset of a like kind~~. The ~~valuation date of the property or other asset must be no more than 3 years old and the~~ valuation must have been performed by a qualified valuer. The property cannot be a speculative construction or a property development;

   (c) Non-publicly rated assets that are not secured or mortgaged may be rated using private external ratings or a regulated institution's own ratings, but only with the prior approval of APRA; or

   (d) Unsecured assets that do not have public ratings and have not been rated using other methods approved by APRA must be assigned a counterparty grade of 6.

2. Publicly rated assets are assigned a counterparty grade based on the following tables. The short-term ratings in Table 2 are typically used for assets with original term to maturity of not more than 13 months. For other assets the long-term ratings in Table 1 apply. The credit ratings in Table 1 and Table 2 include structured finance ratings with the (sf) indicator.

Table 1: Long-term ratings

Grade	Standard & Poor's	Moody's	AM Best	Fitch
1	AAA	Aaa	aaa	AAA
2	AA+ AA AA-	Aa1 Aa2 Aa3	aa+ aa aa-	AA+ AA AA-
3	A+ A A-	A1 A2 A3	a+ a a-	A+ A A-
4	BBB+ BBB BBB-	Baa1 Baa2 Baa3	bbb+ bbb bbb-	BBB+ BBB BBB-
5	BB+ BB BB-	Ba1 Ba2 Ba3	bb+ bb bb-	BB+ BB BB-
6	B+ B B-	B1 B2 B3	b+ b b-	B+ B B-

7	CCC or below	Caa or below	Below b	CCC or below

Table 2: Short-term ratings

Grade	Standard & Poor's	Moody's	AM Best	Fitch
1	A1+		AMB-1+	F1+
2	A1	P1	AMB-1	F1
3	A2	P2	AMB-2	F2
4	A3	P3	AMB-3	F3
5				
6	B	NP Vulnerable	AMB-4	B
7	C	NP Currently Vulnerable		C

3. Where investments are held via a trust which has itself been separately rated by a recognised rating agency, that rating may be applied to all the investments in the trust in lieu of the ratings of the individual trust assets, provided that the trust is treated as a single investment for asset concentration purposes and is not subject to 'look-through'. When a 'look-through' approach is adopted the underlying assets need to be individually rated. If the trust is separately rated, that overall trust rating cannot be applied to the individual underlying assets.

4. For Level 2 insurance groups, APRA may~~, at the request of the parent entity,~~ determine the counterparty grade of a non-APRA-authorised reinsurer which:

   (a) has no external credit rating; and

   (b) is a member of the Level 2 insurance group.

5. A regulated institution must, in general, use the same rating agency for determining all counterparty grades. A regulated institution may depart from this general rule where there are good reasons for doing so, such as under the following circumstances:

   (a) where the rating agencies usually monitored by a regulated institution do not issue a solicited credit rating[1] for a particular debt obligation and only one other rating agency issues a solicited credit rating for that debt obligation, a regulated institution may use that solicited credit rating; or

   (b) where the rating agencies usually monitored by the regulated institution do not issue a solicited credit rating for a particular debt obligation, the credit ratings issued by all other rating agencies listed in the table above must be reviewed and the rule in paragraph 6 of this Attachment must be

[1] A solicited credit rating is a rating that has been initiated and paid for by the issuer or rated counterparty or a commercial associate of the issuer or rated counterparty.

used to determine which rating agency will be used to determine the counterparty grade and therefore the credit spreads or default factors to be applied; or

(c) the rule in paragraph 6 of this Attachment may also be applied where a regulated institution monitors multiple rating agencies that provide different solicited credit ratings for a particular debt obligation.

6. For the purposes of paragraph 5 the following rule applies: where a counterparty or debt obligation has solicited credit ratings from multiple rating agencies, the following guidelines ~~will be~~must be followed in determining the ~~rating to be used for determining the~~ counterparty grade:

(a) if there are two solicited ratings which correspond to different counterparty grades, the ~~worse~~ lower counterparty grade must be used for the debt obligation; or

(b) if there are three or more solicited ratings that correspond to different counterparty grades, the ratings corresponding to the second-best of those counterparty grades must be used for the debt obligation.

7. APRA's written approval must be sought if a regulated institution wishes to use the rating determined by a rating agency not included in the table above.

8. The counterparty grade for secured or mortgaged assets (as defined in paragraph 1(b)) is determined from the following table.

Table 3: Secured and mortgaged assets

Counterparty grade	**Standard residential mortgages**		**Other ~~secured~~ residential mortgages~~asset~~**	
Loan to value ratio	No LMI	>40% LMI	No LMI	>40% LMI
≤ 60%	2	2	3	2
> 60% but ≤ 80%	2	2	4	3
> 80% but ≤ 90%	3	2	5	4
> 90% but ≤ 100%	4	3	5	4
> 100%	5	4	5	5

9. Loan to value ratio is the ratio of the value of the asset (i.e. loan) to the market value of the collateral. The market value of the collateral is the value at inception or, where a substantive valuation has subsequently been carried out, this subsequent valuation.

10. A standard residential mortgage is defined as a mortgage on an existing residential property where the regulated institution has:

(a) prior to loan approval and as part of the loan origination and approval process, documented, assessed and verified the ability of the borrowers to meet their repayment obligation;

(b) valued any residential property offered as security;

(c) established that any property offered as security for the loan is readily marketable; and

(d) the regulated institution has at all times unequivocal enforcement rights over the mortgaged property (including a power of sale and a right to possession) in the event of default by the borrower.

The regulated institution must also revalue any property offered as security for such loans when it becomes aware of a material change in the market value of property in an area or region.

11. Loans that are secured by residential properties but fail to meet the criteria detailed in paragraph 10 of this Attachment must be classified as other ~~secured assets~~residential mortgages. Such loans may be reclassified as standard residential mortgages where the borrowers have met their contractual loan repayments to the regulated institution continuously over the previous 36 months.

12. LMI refers to lenders mortgage insurance. ">40% LMI" refers to mortgages where insurance cover has been obtained for all realised losses up to at least 40 per cent of the higher of the original loan amount and outstanding loan amount (if higher than the original loan amount). Such insurance must be with a lenders mortgage insurer that is regulated by APRA.

Attachment D

Level 2 Insurance Group

1. A **Level 2 insurance group** is:

   (a) where there is no authorised NOHC and an insurer has controlled entities, the consolidation of the insurer and its controlled entities, subject to paragraphs 2 to 4 (inclusive); or

   (b) where there is an authorised NOHC, the consolidation of the authorised NOHC and its controlled entities, subject to paragraphs 2 to 4 (inclusive); or

   (c) where there is no authorised NOHC and an insurer does not have controlled entities, the consolidation of the insurer and any entity that meets the following criteria:

      (i) the entity is subject to control by an entity or group of related entities that are the same or very similar to the entity or group of related entities that control the insurer; and

      (ii) the entity conducts insurance business or business related to insurance business[2]; and

      (iii) APRA determines, in writing, that the entity is to be consolidated.

   However, APRA may, in writing, determine that a group that meets subparagraph (a) or (b) is not to be treated as a Level 2 insurance group.

2. For the purposes of the prudential supervision of insurance groups at Level 2, all entities conducting insurance business (subject to paragraphs 3 and 4), both regulated and unregulated, within the insurance group must be consolidated. Consolidation at Level 2 must be in accordance with the requirements of the Australian Accounting Standards for the production of consolidated financial statements except where APRA determines under paragraph 3 that an additional entity is to be consolidated or where an entity is to be treated as a non-consolidated subsidiary under paragraph 4.

3. APRA may, in writing, determine that an entity is to be consolidated, despite that entity not being a controlled entity of the insurer or authorised NOHC, if:

   (a) the entity is subject to control by an entity or group of related entities that are the same or very similar to the entity or group of related entities that control other members of the Level 2 insurance group; and

[2] This includes controlled entities which provide a financing role to the insurance business, insurance intermediaries and service companies.

(b) it conducts insurance business or business related to insurance business.[3]

4. The following types of controlled entities are to be treated as **non-consolidated subsidiaries**[4] (unless APRA, in writing, determines otherwise):

   (a) prudentially regulated entities that are neither insurers nor entities carrying on **international business**;

   (b) entities acting as manager, responsible entity, approved trustee, trustee or similar role in relation to funds management (including superannuation or pension fund business);

   (c) entities involved in non-financial (commercial) operations;

   (d) securitisation special purpose vehicles to which assets and/or liabilities have been transferred in accordance with any Prudential Standard made under section 32 of the Act; and

   (e) an entity which APRA has determined, in writing, is to be deconsolidated because APRA is satisfied that its principal business is not related to any insurance business of the group or is immaterial to the group's total business.

5. Subject to paragraph 6, the **parent entity** of a Level 2 insurance group is:

   (a) where the Level 2 insurance group is headed by an authorised NOHC, the authorised NOHC; and

   (b) where the Level 2 insurance group is headed by an insurer, the insurer.

   Note: 'authorised NOHC' does not refer to the holding company of a wider corporate group which includes the Level 2 insurance group where the holding company has not been authorised under the Act as a NOHC.

6. APRA may, in writing, determine that a different entity within a Level 2 insurance group (which must be an insurer, authorised NOHC or a subsidiary of an insurer or authorised NOHC) is the parent entity of that group.

7. APRA may apply transition arrangements to a Level 2 insurance group in respect of entities which would otherwise be consolidated within the group. APRA may agree, in writing, upon these arrangements with such Level 2 insurance groups on a case-by-case basis to allow a transition period before these entities are required to be consolidated within a Level 2 insurance group.

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3 This includes controlled entities which provide a financing role to the insurance business, insurance intermediaries and service companies.

4 However, any entity specified in subparagraphs (a), (b), (c) and (d) which is not material may be consolidated.