



Prudential Standard LPS 001

Definitions

Objectives and key requirements of this Prudential Standard

This Prudential Standard defines key terms referred to in other Prudential Standards applicable to life companies. All Prudential Standards applicable to life companies must be read in conjunction with this Prudential Standard.

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 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 paragraph 230A(1)(a) of the Act (collectively **LI Prudential Standards**) and to all prudential practice guides relating to life insurance made by APRA.

Interpretation

4. Certain terms referred to in the LI Prudential Standards are defined in the Act. By operation of subsection 13(1) of the *Legislative Instruments Act 2003*, terms not defined in the LI 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 LI Prudential Standards are defined as follows:

AASB means Australian Accounting Standards Board.

Acquisition expenses means the fixed and variable expenses of a life company to the extent they are, either directly or indirectly, referable to those activities of the company related to the acquiring of that new business expected to derive from the expenditure.

Acquisition expense recovery carrier means a financially measurable indicator of the element of a **related product group** designed or intended to recover acquisition expenses.

Acquisition expense recovery component means a uniform margin of an acquisition expense recovery carrier, determined in accordance with *Prudential Standard LPS 340 Valuation of Policy Liabilities (LPS 340)*.

Actuary means an actuary appointed under section 93 of the Act.

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

Adequacy threshold is the minimum value for **profit margins** of a related product group under LPS 340 - i.e. it is the level at which losses must be recognised.

ADI means a deposit-taking institution authorised by APRA under the *Banking Act 1959 (Banking Act)*. It includes foreign ADIs as defined in the Banking Act.

Adjusted policy liabilities means the liabilities to policy owners as defined for the purpose of determining the capital base of a statutory fund in LPS 112.

Appointed Actuary means an actuary appointed under section 93 of the Act.

Approved benefit funds refers to [friendly society benefit funds approved by APRA according to the provisions of Prudential Standard LPS 700 Friendly Society Benefit Funds \(LPS 700\)](#) and the Act.

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

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

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.

Best estimate assumptions means assumptions about future experience determined in accordance with ~~section 3 of the Valuation Standard~~ [LPS 340](#).

Best estimate bonus refers to the maximum level of **bonus** which (on best estimate assumptions and taking into account a life company's profit distribution philosophy, including shareholder entitlements) can be added to a **participating benefit** over its benefit life without supplementary income from other sources, including policy owner retained profits.

Best estimate discretionary addition means the level of **discretionary addition** which (on best estimate assumptions and taking into account a life company's crediting philosophy) can be added to a **non-participating benefit** over its benefit life without supplementary income from other sources, including policy owner retained profits.

Best estimate liability refers to the amount expected on best estimate assumptions to be required to the end of the benefit period to meet future benefits and expenses related to past transactions for the business in force. The calculation process will take into account all factors which are known to be material, including future investment earnings, taxation, any options under the policies and future premiums, where relevant to the calculation.

Best estimate shareholder profit refers to the maximum level of **shareholder profit** which (on best estimate assumptions and taking into account a life company's profit distribution philosophy, including policy owner entitlements) can be attributed to shareholders without supplementary income from other sources, including shareholders' retained profits.

Board includes, for an Eligible Foreign Life Insurance Company, the Compliance Committee as required under subsection 16ZF(4) of the Act.

Bonus means an amount of profit added at the discretion of a life company (including additions in respect of investment experience) to the benefits due under a participating benefit, but excluding any guaranteed rate of addition also applicable to the benefit.

[Business plan](#) refers to a written business plan as part of a life company's Risk Management Framework as required under Prudential Standard LPS 220 Risk Management (LPS 220).

Capital base is as defined in LPS 112.

Capital standards collectively refers to all prudential standards relating to the capital adequacy of life companies.

Commencement means the time from which a life company is at risk under a policy and is the point from which profit margins or acquisition expense recovery components are, or would be, first determined.

Common Equity Tier 1 capital is as defined in LPS 112.

~~**Contractual minimum value** means the lowest termination value the company is obliged to pay in accordance with the policy documentation and promotional material.~~

Counterparty grade means the counterparty grade of an investment set out under the first column of Table 1 and Table 2 in Attachment A of this Prudential Standard, which maps these grades to the equivalent Standard and Poor's, Moody's, AM Best and Fitch rating grades.

Current termination value refers to the **termination value** of a policy at the reporting date.

~~**Date of commencement** is the date used in the determination of minimum surrender values in the Surrender Value Standard. Refer to paragraph 4.2.4 of that standard.~~

[Defined benefit fund](#) is as defined in LPS 700.

[Defined contribution fund](#) is as defined in LPS 700.

Discretionary addition means an amount added to a non-participating benefit, at the discretion of a life company, to reflect the investment experience of the assets backing the benefit, but excluding any guaranteed rate of addition also applicable to the benefit. For this definition an amount added to a benefit is defined to mean any change to the previously applying contractual conditions that is beneficial to the policy owner.

Discretionary participation feature means a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- (a) that are likely to be a significant portion of the total contractual benefits;

- (b) whose amount or timing is contractually at the discretion of the issuer; and
- (c) that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract;
 - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - (iii) the profit or loss of the company, fund or other entity that issues the contract.

[A policy with a discretionary participation feature can provide benefits that are either participating benefits or non-participating benefits.](#)

Education bond business means a form of **unbundled investment business** where the policies provide for the payment of a ~~defined~~-benefit [that is not investment-linked and is](#) for the specific purpose of contributing towards the expenses of, and incidental to, the education of the beneficiary.

Eligible Foreign Life Insurance Company has the meaning given in section 16ZD of the Act.

Establishment fee is a fee received at the commencement of a policy which is intended to, at least partially, cover acquisition expenses. It does not include contingent entitlement to exit fees or surrender penalties.

Expense category refers to a grouping of expenses directly or indirectly referable to life business. For the purposes of prudential standards, three categories of expense are defined: acquisition expenses, **maintenance expenses** and **investment management expenses**.

Expense driver means a quantifiable measure in relation to which the relevant expenses of a life company are expected to vary.

Experience profit means the profit arising in a period from the difference between actual experience during that period and expected experience on the basis of best estimate assumptions at the beginning of the period.

[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 means a report on the financial condition of a life company by its Appointed Actuary to meet the requirements of Prudential Standard LPS 320 Actuarial and Related Matters \(LPS 320\).](#)

Financial risk refers to the risk of a possible future change in one or more specified economic variables - a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit

rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Financial instrument element means the activities and associated cash flows of a **life investment contract** that relate directly to the establishment of a financial asset or financial liability.

Fixed term/rate business means policies which provide for guaranteed investment returns at a disclosed rate for a specified period. The guaranteed returns may be paid in the form of income or as capital at maturity. The specified period of the guarantee may be the full term of the policy, or may be to an interim point at which the option exists to 'roll' the policy for a further specified period at a new guaranteed return.

Friendly society has the meaning given in section 16C of the Act.

Funeral bond business means policies providing continuous insurance against the contingency of death on terms and conditions agreed at the commencement of the policy, where:

- (a) the primary purpose of the benefit is to meet the expenses of and incidental to the funeral of the policy owner, their spouse or children; and
- (b) the amount of the benefit (excluding any entitlement to bonus) is no greater than \$15,000.

~~Funeral bond business includes any business written prior to 30 June 2002 which is classified as traditional friendly society sickness and funeral business and where no surrender value is payable on withdrawal.~~

General fund means the management fund for a friendly society or the shareholders' fund for a life company other than a friendly society.

Illiquidity premium is as defined in LPS 112.

Immediate life annuity is an annuity that is not unbundled investment business and is not a variable annuity, where the next annuity payment is due within 12 months and payments continue until the death of the life insured. This includes deferred annuities that have commenced payment.

Insurance contract means a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to pay compensate the policyholder if a specified amount upon the occurrence of a specified uncertain future event (the insured event) ~~where the event is adversely~~ affects ~~to the interests of~~ the policyholder.

Insurance risk refers to risk, other than financial risk, transferred from the holder of a contract to the issuer.

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

Internal Capital Adequacy Assessment Process is as described in *Prudential Standard LPS 110 Capital Adequacy (LPS 110)*

[Investment account benefit has the meaning given in the Dictionary to the Act.](#)

[Investment account contract has the meaning given in the Dictionary to the Act.](#)

Investment management expenses means the fixed and variable expenses of a life company to the extent they are, either directly or indirectly, referable to managing the company's investment portfolio.

Investment fluctuation reserve means a reserve used for smoothing discretionary additions for non-participating benefits. For the purpose of the capital standards the investment fluctuation reserve is defined to be the difference between the value of the assets administered for the purpose of a subcategory and the aggregate value of the accounts under the policies belonging to that subcategory.

Investment performance guarantee means an investment performance guarantee in accordance with section 42 of the Act.

[Investment-linked benefit has the meaning given in the Dictionary to the Act.](#)

[Investment-linked contract has the meaning given in the Dictionary to the Act.](#)

Life business has the meaning given in the Dictionary to the Act.

Life company has the meaning given in the Dictionary to the Act.

Life insurance contract means an insurance contract or a financial instrument with a discretionary participation feature which is regulated under the Act.

Life investment contract means a contract other than a life insurance contract which is regulated under the Act.

[Life investment contract liability is as defined in LPS 340.](#)

Long term risk business refers to policies providing continuous insurance against the contingency of death, other than solely by accident, on terms and conditions agreed at the commencement of the policy, where:

- (a) a level premium is paid through the term of the policy; and
- (b) the term of the policy is:
 - (i) greater than or equal to 15 years; and
 - (ii) such that the ~~policy owner~~life insured is aged greater than 70 at the expiry of that term; and

(c) the amount of insurance (excluding any entitlement to bonus) is greater than \$15,000.

Maintenance expenses means the fixed and variable expenses of a life company to the extent they are, either directly or indirectly, associated with:

- (a) the company's administration of policies subsequent to their sale, including policies subject to claim; and
- (b) the general operations, including maintenance of the overall health, of the company.

Maintenance expenses include all operating costs and expenses other than acquisition expenses and investment management expenses.

Management services element means all activities and cashflows arising from the full range of management services provided under a life investment contract, including investment management, financial planning and advice. This will equal all the activities and cashflows of the life investment contract excluding those in respect of the financial instrument element.

Minimum surrender value ~~means the surrender value determined~~ is as defined in Prudential Standard LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values (LPS 360) ~~in accordance with the Surrender Value Standard.~~

Minimum termination value is as defined in LPS 360 ~~the greater of, at the reporting date:~~

~~the contractual minimum value; and~~

~~the amount calculated in accordance with the Surrender Value Standard.~~

Minimum paid-up value is as defined in LPS 360 ~~means the paid-up value determined in accordance with the Surrender Value Standard.~~

Net policy liability means the **policy liability** calculated after allowing for outward reinsurance premiums as an expense and reinsurance recoveries as income.

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

Non-participating benefit has the meaning given in section 15 of the Act.

~~**Normal investment earnings** means a component of the determination of minimum surrender values in the Surrender Value Standard. (Refer to section 4.4 of that standard for more detail).~~

~~Normal ongoing charges means a component of the determination of minimum surrender values in the Surrender Value Standard. (Refer to section 4.3 of that standard for more detail).~~

Operating profit has the same meaning as in section 58 of the Act.

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

Other liability refers to a liability according to general accounting concepts, other than a policy liability or a liability in respect of an instrument that is eligible to be included in the capital base.

Participating benefit has the same meaning as in section 15 of the Act.

Participating policy liability is [as](#) defined in LPS 112.

Policy liability refers to a liability calculated in accordance with ~~the Valuation Standard~~[LPS 340](#).

Policy owner profit share means the entitlement of the policy owner to share in the profits emerging from the benefits.

~~Prescribed account value refers to a component of the determination of minimum surrender values in the Surrender Value Standard. (Refer to section 4.2 of that standard for more detail).~~

Prescribed capital amount is [as](#) defined in LPS 110.

Profit carrier means a financially measurable indicator of the provision of a service or related income.

Profit margin means a percentage of a profit carrier, determined in accordance with the ~~Valuation Standard~~[LPS 340](#).

Prudential Capital Requirement is as defined in LPS 110.

Regular premium business means business under life policies where:

- (a) there exists a contractual obligation on the policy owner to make subsequent premium payments after the first premium payment; or
- (b) the scale or level of charges levied against the policy distinguishes between first and subsequent premiums.

Reinsurance refers to all arrangements where some part of individual or aggregate insurance risks are ceded to another company or companies and include cessions of direct writing companies to reinsurance companies or other direct writing life companies and parent companies as well as retrocessions of **reinsurers** to their parent companies or other reinsurers.

Reinsured best estimate liability means the component of the **reinsured policy liability**, being the best estimate liability in respect of outwards reinsurance business.

Reinsured policy liability means the policy liability calculated by considering as premiums only reinsurance premiums and considering as benefits only reinsurance recoveries.

Reinsurer means any company providing reinsurance, whether a parent life company, direct writing company or reinsurance company.

Related entity means an entity which is a 'related party' within the meaning of the relevant Australian Accounting Standards.

Related product group refers to a grouping of products where the products are considered by the Actuary to exhibit benefit characteristics and pricing structures sufficiently similar as to justify their grouping for the purposes of profit margin calculation, loss recognition or reporting. A related product group must not extend over subcategories, where a subcategory is defined in the Act.

Retail business means life business which is not **wholesale business**.

Risk business refers to policies that only provide for benefits to be paid to policy owners on the death or disability of the life insured, or if the life insured is found to have a specific disease or injury. The policies must not provide participating benefits or discretionary additions to benefits and must not have terms that continue for the entire lifetimes of the lives insured ~~be for the whole term of life.~~

Risk management declaration is as defined in LPS 220.

Risk management framework is as defined in LPS 220.

Risk Management Strategy is as defined in LPS 220.

Risk-free best estimate liability is as defined in LPS 112.

~~**Risk free discount rate** (Valuation Standard) means the rate (or rates) based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.~~

Risk-free discount rate (~~capital standards~~) for liabilities denominated in Australian currency means the rate (or rates) based on the yields of Commonwealth Government Securities that relate to the term of the future liability cash flows. If the term of the liability cash flows exceeds the maximum available term of Commonwealth Government Securities, APRA expects other instruments with longer terms to be used as a reference point for the purpose of extrapolation unless the insurer can demonstrate there are no other suitable instruments. Adjustments must be made to remove any allowances for credit risk and illiquidity that are implicit in the yields on these instruments. For foreign liabilities, the rate (or rates) must be based on the yields of highly liquid sovereign risk securities in the currency of the policy liabilities and with

counterparty grade 1. If there are no securities satisfying these requirements, other instruments may be used as a reference point. Adjustments must be made to remove any allowances for credit risk and illiquidity that are implicit in the yields on these instruments.

Seed capital means an amount transferred, with the approval of APRA, from the management fund of a friendly society to one of its approved benefits funds for the purpose of meeting the capital standards for the benefit fund.

Servicing expenses refers to the combination of maintenance expenses and Investment Management Expenses.

Shareholder profit share means the entitlement of the shareholder to share in the profit emerging from the benefits.

Shareholder profit is the amount of profit attributable to the shareholders.

[Shareholders' retained profits \(Australian participating\) has the meaning given in the Dictionary to the Act.](#)

[Shareholders' retained profits \(overseas and non-participating\) has the meaning given in the Dictionary to the Act.](#)

Single premium business is life business which is not regular premium business.

[Special purpose review is a review relating to a life company's operations, risk management or financial affairs and is conducted by an Appointed Actuary when requested to do so in writing by APRA, under LPS 320.](#)

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.

Specialist reinsurer refers to a statutory fund of a registered life company where all policies referable to the fund are reinsurance policies and none of the policies is owned by a related entity of the life company.

Statutory accounts means the reporting documents that a life company is required to lodge with APRA under section 13 of the *Financial Sector (Collection of Data) Act 2001*.

[Statutory fund means ~~the~~ a statutory fund of a life company other than a friendly society, or an approved benefit fund of a friendly society.](#)

Superannuation business is as defined in the Act.

~~**Surrender Value Standard** means *Prudential Standard LPS 4.02 Minimum Surrender Values and Paid-up Values.*~~

[Term certain annuity is an annuity that is not unbundled investment business and is not a variable annuity, where the next annuity payment is due within 12](#)

months and payments continue for a fixed term that is not dependent on the survival of the life insured.

Termination value is as defined in LPS 360.

Tier 1 capital is as defined in LPS 112.

Tier 2 capital is as defined in LPS 112.

Traditional business is life business that is not risk business, but excluding unbundled investment business, fixed term/rate business and ~~annuity income stream~~ business. Traditional business includes whole of life and endowment policies. ~~Long term risk business and funeral bond business is, for the purposes of the Surrender Value Standard, traditional business.~~

Unbundled investment business refers to life business that is not risk business, where the costs of the investment and the other ~~components of~~ services provided under the policy ~~are~~ is unbundled (separately disclosed to policy owners and ~~costed~~). Unbundled investment business includes investment account business, and investment-linked business ~~but excludes as well as variable annuities; (including allocated annuities and deferred annuities during the period of deferment) and education bond business.~~

Value of supporting assets means the value of assets determined in accordance with LPS 340 as being available to support benefits entitled to bonuses or discretionary additions.

~~**Valuation Standard** means *Prudential Standard LPS 1.04 Valuation of Policy Liabilities Standard.*~~

Variable annuity means an ~~investment-linked~~ policy ~~with~~ here benefits ~~payable according to the policy calculated by reference to the~~ may exceed the value of ~~the~~ the units allocated to the policy, but the benefits may exceed the value of those units in specified circumstances.

Wholesale business means superannuation business where the effective purchasing decision is made by a trustee or company except that where the number of members has always been less than five it is retail business.

Attachment A

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 paragraph 2;
 - (b) For non-publicly rated secured or mortgaged assets refer to paragraph 7. 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 life company's own ratings, but only with the prior approval of APRA;
 - (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. ~~For publicly rated assets use 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. A life company must, in general, use the same rating agency for determining all counterparty grades. A life company 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 life company do not issue a solicited credit rating for a particular debt obligation and only one other rating agency issues a solicited credit rating for that debt obligation, a life company may use that solicited credit rating; or
 - (b) where the rating agencies usually monitored by the insurer 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 5 of this Attachment must be 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 5 of this Attachment may also be applied where a life company monitors multiple rating agencies that provide different solicited credit ratings for a particular debt obligation.
5. For the purposes of paragraph 4 the following rule applies: where a counterparty or debt obligation has solicited credit ratings from multiple rating agencies, the following guidelines ~~will~~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 grade, 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.
6. APRA's written approval must be sought if a life company wishes to use the rating determined by a rating agency not included in the table above.
7. The Counterparty Grade for secured or mortgaged assets (as defined in paragraph 1(b)) that are not publicly rated is determined from the following table.

Table 3: Secured and mortgaged assets

| Counterparty Grade | Standard residential mortgages | | Other <u>residential mortgages</u> secured asset | |
|------------------------------|--------------------------------|----------|---|----------|
| | No LMI | >40% LMI | No LMI | >40% LMI |
| Loan to value ratio ≤ 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 |

8. 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.
9. A standard residential mortgage is defined as a mortgage on an existing residential property where the life company 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 life company 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 life company 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.

- 10. Loans that are secured by residential properties but fail to meet the criteria detailed in paragraph 9 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 life company continuously over the previous 36 months.
- 11. 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.