



26 February 2019

TO: ALL PRIVATE HEALTH INSURERS

IMPLEMENTATION OF THE GOVERNANCE, FIT AND PROPER AND AUDIT PRUDENTIAL STANDARDS

This letter updates private health insurers (PHIs) on APRA's proposed approach to assessing applications for transitional arrangements relating to particular requirements in three new prudential standards, due to commence on 1 July 2019.

The Standards

On 1 July 2019, Phase 2 of the PHI Policy Roadmap will be implemented with the commencement of:

- Prudential Standard CPS 510 [Governance](#) (CPS 510);
- Prudential Standard CPS 520 [Fit and Proper](#) (CPS 520); and
- Prudential Standard HPS 310 [Audit and Related Matters](#) (HPS 310).

By now, APRA expects that PHIs have:

- A current Board Renewal and Assessment policy;
- Separated their Board Audit and Risk Committees;
- Established a Remuneration Committee and Policy;
- Communicated the Board approved Fit and Proper Policy to all responsible persons;
- Commenced preparation for the new fit and proper assessment and notification requirements;
- Confirmed their intended auditor meets all of the independence and eligibility requirements in CPS 510 and CPS 520; and
- Confirmed their Appointed Actuary meets all of the independence and eligibility requirements in CPS 520.

PHIs were advised in September 2018¹ that the need for transitional arrangements would be limited given the extensive consultation undertaken. APRA does, however, recognise that in some instances PHIs may be working towards compliance, but may not have been able to fully comply with the requirements in CPS 510, CPS 520 and HPS 310 for valid reasons. In such instances, APRA will consider applications for transitional arrangements on a case by case basis to determine if a requested variation or transitional arrangement is necessary and appropriate.

Process for Transition Applications

Where a PHI wishes to apply to APRA for variation of, or extension to the transition period for compliance with, a requirement in CPS 510, CPS 520 and/or HPS 310, the following process will apply:

¹ <https://www.apra.gov.au/governance-fit-and-proper-and-audit-prudential-standards-private-health-insurance-industry>

1. The application must be made by the insurer in writing to APRA;
2. There is no prescribed form for the application but it should be submitted via the insurer's responsible supervisor;
3. For an application for additional time for compliance, the application must address the relevant provision/s of CPS 510, CPS 520, or HPS 310, the reasons why the insurer is unable to comply with the relevant requirement(s), and the proposed new date for compliance sought by the insurer. The application should also detail the steps already taken to comply with the requirement/s.
4. For an application for an adjustment or exclusion from a prudential requirement on an ongoing basis, the application must outline the material constraints or circumstances particular to the institution that may warrant such a decision. APRA also requires information setting out how the board of the insurer has satisfied itself that the proposed alternative arrangement can achieve the principles of the prudential standard. For example, how the arrangement will drive sound governance practices, or increase focus on the competence and propriety of responsible persons and/ or strengthen the external audit function. For applications relating to auditors and/or Appointed Actuaries, paragraphs 33 and 37 (respectively) of CPS 520 should be consulted.

APRA will consider each application and notify the insurer in writing of its decision. To assist PHIs to fully assess their obligations under the standards, APRA has extended the time for bringing transition applications from 28 February 2019 to 31 March 2019.

Please contact your responsible supervisor if you wish to discuss any of the matters raised in this letter.

Yours faithfully



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