



19 March 2019

TO: ALL GENERAL INSURERS, LIFE INSURERS AND PRIVATE HEALTH INSURERS

PROPOSED MINOR CHANGES TO THE PRUDENTIAL FRAMEWORK TO IMPLEMENT THE CROSS INDUSTRY APPOINTED ACTUARY STANDARD

APRA is making amendments to thirteen prudential standards to reflect consequential changes arising from the introduction of the new *Prudential Standard CPS 320 Actuarial and Related Matters* (CPS 320) and *Prudential Standard GPS 340 Insurance Liability Valuation* (GPS 340).

As part of this process, APRA has taken the opportunity to make other practical updates to the prudential framework.

Consequential and other minor changes

When CPS 320 and GPS 340 were released on 6 June 2018, insurers were advised that further consequential amendments would be made.¹ The changes primarily:

- replace references to revoked standards;
- update references from Insurance Liability Valuation Report (ILVR) to Actuarial Valuation Report (AVR);
- streamline clauses regarding exercises of discretion by APRA under previous prudential standards;
- delete outdated transitional provisions; and
- correct typographical errors.

For general insurers, three minor changes to *Prudential Standard GPS 116 Capital Adequacy Insurance Concentration Risk Charge* (GPS 116) will also be made to reflect current definitions and APRA's expectations. The revised GPS 116:

- removes reinsurance premium protection and capital market structures from the definition of alternative capital and risk mitigants in paragraphs 54 and Attachment B, paragraph 13, as these types of arrangements are more aligned with traditional reinsurance;
- clarifies APRA's expectation that the Appointed Actuary include both details of the determination of the net premium liability provision which relates to catastrophic losses (the PL offset) for the reporting year and the estimated PL offset to be utilised in the upcoming year in the AVR; and

¹ APRA, *Letter: Release of prudential standards to improve the effectiveness of the appointed actuary and actuarial advice within insurers* (Letter to Industry, June 2018) available at: <https://www.apra.gov.au/role-appointed-actuary>

- continues the existing requirement that the Group Actuary provide the board of a Level 2 insurance group with an opinion on the Insurance Concentration Risk Charge whenever substantial changes are made or at least annually (at Attachment B, paragraph 18).²

The package of standards highlighting the proposed changes is available on APRA's website at: <https://www.apra.gov.au/role-appointed-actuary>.

Next Steps

APRA intends to finalise the revised standards in April 2019. The standards will commence on 1 July 2019. If you have any questions, please contact Ann Dobinson (ann.dobinson@apra.gov.au or 02 9210 3468) or your responsible supervisor.

Yours sincerely,



Pat Brennan
Executive General Manager, Policy and Advice Division

² Under GPS 320, the Group Actuary uses the ILVR to provide the board with an opinion on the adequacy of the ICRC given the business undertaken and the reinsurance arrangements. CPS 320 no longer requires a Group Actuary to present the AVR to the board of a Level 2 Insurance Group.