



# Guidelines

## Guidelines on Authorisation of General Insurers

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## Objectives

1. These guidelines apply to applicants seeking an authority to carry on insurance business in Australia under the Insurance Act. They outline APRA's authorisation process for general insurers including the minimum criteria to be addressed by applicants and the necessary information and documents to be submitted with an application.
2. Where a non-operating holding company (NOHC) of the applicant is also applying to be authorised as a NOHC under the Insurance Act, reference should also be made to the "Guidelines on Authorisation of Non-Operating Holding Companies of General Insurers" on [www.apra.gov.au](http://www.apra.gov.au).
3. APRA's authorisation process, as with its approach to supervision, is consultative and each applicant is assigned a responsible supervisor who is the main contact for the entity on all APRA-related matters.
4. Where an applicant does not have an existing operation in Australia, it is expected to build its resources and establish its core operations during the authorisation process, so that it is ready to commence writing business when it is granted authorisation.
5. The application process involves the following steps:
  - (a) preliminary consultation between APRA and the prospective applicant to discuss the applicant's plans to carry on insurance business in Australia. This discussion will assist in agreeing on the format and content required in an application and also in identifying any matters which might adversely affect the proposal;
  - (b) submission of a draft application and relevant information, as detailed in these authorisation guidelines, along with the applicable fee; and
  - (c) APRA's review of the application. This will normally include meetings with senior officers and other responsible persons, as well as on-site prudential reviews.
6. Generally, the overall licensing process could take from three to 12 months. This may depend on the complexity of the proposed arrangements, and the extent to which the applicant can base its operations on an existing, well-established and sound business model (e.g. drawn from existing arrangements in another part of a corporate group).
7. Some common factors that can delay the authorisation process include:
  - (a) an initial application which contains incomplete or inadequate documentation;
  - (b) an entity being unable or unwilling to comply with APRA's requirements (for example, being unable to raise the required level of capital); and
  - (c) delays in responding to APRA's requirements and requests.
8. APRA encourages all prospective applicants to contact it as early as possible during their planning process to discuss their intent (or likely intent) to apply for an authorisation.

## Background

9. These guidelines apply to an applicant seeking an authority to carry on insurance business in Australia under the *Insurance Act 1973* (the Act).<sup>1</sup> They set down the minimum criteria to be addressed by an applicant and necessary information and documents to be submitted with an application. An extract from the Act relating to authorisation is at Attachment A.

<sup>1</sup> Applicants should also note that legislation to amend the Act was assented to on 24 September 2007. Related changes to the prudential framework are proposed in APRA's Discussion Paper "Refinement to the General Insurance Prudential Framework" released 31 July 2007. A response paper following this consultation, and draft revised prudential standards are being released concurrently with these guidelines. These are available at [www.apra.gov.au](http://www.apra.gov.au). These guidelines are consistent with the proposed revised standards.

10. "Insurance business" consists of the business of undertaking liability, by way of insurance (including reinsurance), in respect of any loss or damage.<sup>2</sup> Companies granted an authority to carry on insurance business in Australia are referred to as "general insurers".
11. The Act allows only bodies corporate (or a Lloyd's underwriter) to carry on insurance business in Australia. Therefore, the Australian Prudential Regulation Authority (APRA) cannot consider applications from partnerships or unincorporated entities. Prospective applicants may refer to the Australian Securities & Investments Commission (ASIC) web site ([www.asic.gov.au](http://www.asic.gov.au)) for information on the requirements and procedures for registration of a body corporate in Australia.
12. A foreign-incorporated applicant may seek to establish a locally incorporated subsidiary to carry on insurance business in Australia (foreign-owned subsidiary). Alternatively, a foreign-incorporated insurer may seek an authority to operate in Australia through a branch (foreign insurer). There are no restrictions on the number, size or mix of operations of foreign-owned subsidiaries or foreign insurers operating in the Australian market. A foreign-incorporated insurer may apply to operate through an authorised foreign-owned subsidiary and/or as a foreign insurer.
13. Foreign-owned subsidiaries and foreign insurers are subject to similar legislative and prudential requirements to Australian-owned and incorporated insurers. The prime responsibility for oversight of the Australian operations of a foreign insurer rests with its local management and head office. While a foreign insurer's home regulators will play a role in supervising the insurer, to protect the interests of Australian policyholders, a foreign insurer is required to have its local operations subject to APRA's prudential supervision.
14. A body corporate seeking an authority to carry on insurance business in Australia should apply in writing to APRA in accordance with the Act.<sup>3</sup> An application should be signed by two directors of the applicant.
15. Where an applicant will be a subsidiary of a non-operating holding company (NOHC) that does not hold a NOHC authority under the Act, APRA expects that the NOHC will apply to be authorised. APRA also expects that the application for a NOHC authority will be submitted concurrently with the application for authority to carry on insurance business.

## Authorisation criteria for general insurers

16. Unless otherwise indicated, the authorisation criteria set out below are applicable to all applicants, including mutually owned applicants and foreign-incorporated applicants intending to establish branches or subsidiaries in Australia. These criteria represent the minimum requirements that an applicant will need to meet for authorisation under the Act and are not intended to represent an exhaustive list. APRA may refuse an application on other prudential grounds not covered in these guidelines or impose additional requirements taking into account the circumstances of the particular application.
17. For the protection of policyholder interests, APRA will authorise only those applicants which have the capacity and commitment to conduct insurance business on a continuing basis, with integrity, prudence and professional skill.

<sup>2</sup> For details, refer section 3 of the Act. Note that this was amended by the legislation referred to in footnote 1.

<sup>3</sup> Refer section 12 of the Act (attached).

18. APRA expects all applicants to be able to comply with all of its prudential requirements, as set out in the Act and prudential standards, from the commencement of insurance business in Australia and continuously thereafter. Prospective applicants should familiarise themselves with these requirements and be able to demonstrate to APRA adequate compliance processes and systems. A brief summary of the current prudential framework applying to general insurers is included at Attachment B. Applicants should note that more prudent or stringent prudential requirements may be set on a case-by-case basis, e.g. for newly authorised insurers in their formative years, or those specialising in particular business lines.
19. As examples, additional requirements of the kind referred to in the above paragraphs may include conditions which limit the range of business the insurer may conduct; adjusting the insurer's capital adequacy, risk management or governance requirements; or requiring a foreign insurer to operate through a locally incorporated company, rather than a branch.
20. Where relevant and current documentation has otherwise been provided to APRA (e.g. as part of a concurrent application by a NOHC to be authorised), the application may refer to this material.
23. The substantial shareholders of an applicant are required to demonstrate to APRA that they are well-established and financially sound entities or individuals of standing and substance. APRA may seek comparable information in relation to substantial indirect shareholders, where this appears relevant. APRA requires substantial shareholders to be able to demonstrate that their involvement in the insurer will be a long-term commitment and that they will be able and willing to contribute additional capital if required. Where there are a number of substantial shareholders, the applicant should discuss with APRA how these requirements might be met.

## Governance

24. An applicant must satisfy the requirements set out in *Prudential Standard GPS 510 Governance* (where applicable) with regard to the composition and functioning of its Board. The directors and senior management must also satisfy APRA that they are fit and proper, in accordance with *Prudential Standard GPS 520 Fit and Proper*.
25. APRA may consult other regulators (domestic and overseas) regarding the suitability of personnel for the proposed insurer. Where required by any relevant regulators, applicants will be expected to provide APRA with the authority to seek details in this regard.
26. An applicant must also appoint an auditor and actuary in accordance with the requirements of the Act, unless the criteria for exemption are met.<sup>4</sup> These experts must comply with the reporting requirements set out in *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation*.

## Ownership

21. Ownership of insurers is governed by the *Financial Sector (Shareholdings) Act 1998 (FSSA)*. This generally limits the interests of an individual shareholder or group of associated shareholders in an insurer to 15 per cent of the insurer's voting shares. A higher percentage limit may be approved by the Treasurer on national interest grounds.
22. An applicant must obtain approval under the FSSA where the 15 per cent limit will be exceeded. A NOHC of a proposed insurer must also have a wide spread of ownership unless approval is granted under the FSSA.

<sup>4</sup> Refer Part IV of the Act, and *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation*.

27. Foreign insurers should also be aware that they are required under the Act to appoint an agent in Australia.<sup>5</sup> Arrangements with the agent in Australia should be formalised by way of a contract and other documentation that clearly sets out the agent's responsibilities for the insurer's operations in Australia. Currently, the agent must be an individual resident in Australia. However, following recent amendments to the Act, the agent may also be a body corporate incorporated in Australia. This amendment is effective from 1 July 2008.
30. An authorised insurer must also meet the requirement to hold assets in Australia (excluding goodwill and any other amount excluded by the prudential standards for this purpose) of a value that is equal to or greater than the total amount of its liabilities in Australia, as set out in section 28 of the Act and *Prudential Standard GPS 120 Assets in Australia*. Under *Prudential Standard GPS 110 Capital Adequacy*, foreign insurers are required to maintain assets in Australia that exceed their liabilities in Australia by an amount that is greater than their minimum capital requirement.

## Capital and Assets in Australia

28. Authorised insurers are required to have in place sufficient capital to meet the minimum capital requirements under *Prudential Standard GPS 110 Capital Adequacy*, at all times.
29. APRA will assess the adequacy of start-up capital for an applicant on a case-by-case basis having regard to the size, business mix, complexity and risk profile of the first three years' business operations proposed in the business plan. However, APRA will not consider applications where the start-up capital is less than the minimum required in *Prudential Standard GPS 110 Capital Adequacy* or is likely to fall below this level in the future. For most insurers this is subject to a minimum of \$5 million. For certain captive insurers a minimum of \$2 million applies. APRA expects insurers to maintain a reasonable buffer above these minima. The appropriate scale of this buffer will be discussed with the applicant. *Prudential Practice Guide GPG 110 Capital Adequacy: Capital Management* provides guidance.

## Risk management framework

31. An applicant must satisfy APRA that its proposed (or existing) risk management and control framework is adequate and appropriate to monitor and limit risk exposures in relation to the domestic and, where relevant, offshore operations of the insurer from the commencement of operations (refer *Prudential Standard GPS 220 Risk Management*). This includes, in particular, the development, implementation and maintenance of policies and procedures to effectively monitor, manage and report on:
- (a) balance sheet and market risk;
  - (b) credit risk;
  - (c) operational risk (requirements for outsourcing and business continuity management are set out in *Prudential Standard GPS 231 Outsourcing* and *Prudential Standard GPS 222 Business Continuity Management*);
  - (d) insurance risk (refer also to *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation*);
  - (e) risks arising out of reinsurance arrangements (refer also to *Prudential Standard GPS 230 Reinsurance Management*);

<sup>5</sup> Refer section 118 of the Act and *Prudential Standard GPS 520 Fit and Proper*.

- (f) concentration risk, including risk type, counterparty, geographical and industry concentration risks which may arise as a result of any of the above-listed risk categories;
  - (g) strategic and tactical risks that arise out of the insurer's business plan; and
  - (h) capital management risks (refer also to *Prudential Standard GPS 110 Capital Adequacy*).
32. These arrangements must comply with *Prudential Standard GPS 220 Risk Management*, and include a documented risk management strategy that describes the key elements of the risk management framework, supporting policies and procedures and clearly defined managerial responsibilities and controls. GPS 220 sets out the approach APRA will use to assess the appropriateness, adequacy and effectiveness of an applicant's policies and procedures proposed for identifying, managing and monitoring risk.
33. An applicant is required to satisfy APRA on the adequacy of its internal audit arrangements.

## Compliance

34. An applicant must satisfy APRA that its processes and systems will ensure compliance with:
- (a) APRA's prudential standards;
  - (b) other Australian regulatory and legal requirements; and
  - (c) foreign regulatory requirements where applicable.
- This includes (but is not limited to) ensuring that systems are in place to satisfactorily fulfil the Risk Management Declaration requirements in *Prudential Standard GPS 220 Risk Management*.
35. In assessing whether the compliance processes and systems are appropriate to the applicant's operations, APRA will have regard to the size, nature and complexity of those operations.

## Reinsurance management

36. Insurers are required to have in place a reinsurance management framework in accordance with *Prudential Standard GPS 230 Reinsurance Management*. The framework must include a reinsurance management strategy (REMS) that describes the key elements of the reinsurance management framework, supporting policies and procedures and clearly defined managerial responsibilities and controls. GPS 230 sets out the approach APRA will use to assess the adequacy and appropriateness of an applicant's policies and procedures proposed for identifying, managing and monitoring reinsurance arrangements.
37. Insurers are also required to submit to APRA, generally on an annual basis, a Reinsurance Arrangements Statement that details its reinsurance arrangements.

## Information and accounting systems

38. Insurers are required to submit data to APRA in accordance with the reporting standards under the *Financial Sector (Collection of Data) Act 1998*, including for the National Claims and Policies Database.
39. An applicant must satisfy APRA that its information and accounting systems are adequate for maintaining up-to-date records of all business undertaken, so as to keep management continuously and accurately informed of the insurer's condition and the risks to which it is exposed. This includes demonstrating to APRA that its systems will be capable of producing all required statutory and prudential information in an accurate and timely manner from the commencement of operations, including information needed by the Actuary appointed under section 39 of the Act to perform required functions. This includes (but is not limited to) ensuring that systems are in place to satisfactorily fulfil the Financial Information Declaration requirements in *Prudential Standard GPS 220 Risk Management*.

40. Most statistical data from insurers is required to be submitted to APRA using D2A. D2A is an electronic data submission system that allows organisations to download APRA forms, complete them and submit them to APRA electronically and securely. Further detailed information on D2A is available from the [APRA website](#). Applicants should liaise with APRA's Statistics staff at an early stage regarding their reporting obligations.
41. In assessing the overall adequacy of the information and accounting systems, APRA will have regard to the integrity and security of the systems and arrangements for business continuity management (refer *Prudential Standard GPS 222 Business Continuity Management*). Outsourcing of material data processing must satisfy the outsourcing requirements set out in *Prudential Standard GPS 231 Outsourcing*.

## Supervision by home supervisor

42. A foreign insurer applicant must be an authorised insurer in its home country and have received any necessary consent from its home supervisor for the establishment of the proposed insurance operation in Australia. The home supervisor will also need to confirm that the insurer is of good financial standing.
43. In assessing applications to establish a foreign-owned subsidiary or a foreign insurer, APRA will consider the level and scope of prudential supervision of the foreign owner or insurer in its home country. In doing so, APRA will have regard to the Insurance Core Principles and Methodology promulgated by the International Association of Insurance Supervisors.

## Intra-group transactions and arrangements

44. Where a corporate group has multiple businesses, it should have policies addressing how intra-group transactions are to be conducted. Generally, APRA expects that any transactions between an authorised insurer and related parties will be at arm's length.
45. Related insurers will be permitted to share the same premises. In addition, joint functional support services, such as personnel and financial control between the authorised entities, will be permitted, although clear arrangements for accountability and oversight must exist. *Prudential Standard GPS 231 Outsourcing* sets out the minimum prudential requirements in relation to outsourcing, including to related parties.

## Application procedures

### Preliminary consultation

46. Prospective applicants for an authority to carry on an insurance business in Australia are encouraged to contact APRA to discuss their plans and indicative timing prior to submitting an application. This assists APRA in identifying any matters which might affect the proposal and to advise on the format and content required of an application. APRA will review and comment on well-developed drafts of an application. Submission of drafts in electronic format is encouraged.

47. APRA is funded by levies payable by authorised institutions and applies charges for certain functions, including applications for general insurance authorisation. The application fee must be paid when the draft application is first lodged with APRA. The fee is not refundable unless a special circumstance applies. The applicable fees and levies can be found on the [APRA website](#).

### Information required to be submitted on application

48. A list of information and supporting documents required to be submitted by an applicant on application for an authority to carry on an insurance business in Australia, either to operate as a locally incorporated insurer or as a foreign insurer, is set out in Attachments C and D. If there is any material change to the information and documents provided before the applicant has been notified of a decision on the application, the applicant should notify APRA in writing as soon as practicable.
49. APRA may seek additional information from an applicant as it considers necessary to assess the application. This will include discussions with relevant responsible persons and may also include on-site prudential reviews.

### Submission of application

50. Two copies of the final application, with at least one signed by two directors of the applicant, including all the required information and supporting documents, should be submitted to APRA. Submission of the second copy in electronic format is encouraged.

### Processing and notification

51. All applications will be processed within a reasonable time, having regard to the particular circumstances of each application, including the accuracy and completeness of information and documents submitted to APRA by the applicant.
52. Approval of the application may be contingent on other relevant approvals being granted. For example, this may include approvals under the FSSA, the *Foreign Acquisitions and Takeovers Act 1975*, or for grant of an Australian Financial Services Licence under the *Corporations Act 2001*.
53. An authority may be granted to take effect when signed or from some nominated date. APRA may also grant an authority which is subject to conditions, and may impose, vary or revoke conditions on an authority thereafter.
54. Applicants granted an authority to carry on an insurance business in Australia will be notified in writing. A notice will also be published in the Gazette. APRA may also publish these details by other means. All applicants granted an authority to carry on insurance business will be listed on APRA's website in the list of authorised general insurers. Any conditions placed on an authority will be similarly published on APRA's website.

## Attachment A – Extract from the Insurance Act 1973 on Authorisation

### Division 2 – Authorisation to carry on insurance business

#### 12 Obtaining an authorisation

- (1) A body corporate may apply in writing to APRA for an authorisation to carry on insurance business in Australia.

Note: The body corporate may also need to consider the implications of the *Foreign Acquisitions and Takeovers Act 1975*, the *Financial Sector (Shareholdings) Act 1998* and the *Insurance Acquisitions and Takeovers Act 1991*.

- (1A) APRA may require the body corporate to provide a statutory declaration in relation to information or documents provided in relation to the application.
- (2) APRA may authorise an applicant to carry on insurance business in Australia. The authorisation must be in writing.
- (3) Without limiting the circumstances in which APRA may refuse an application, APRA may refuse an application if the applicant is a subsidiary of a NOHC that is not an authorised NOHC.
- (3A) Without limiting the circumstances in which APRA may refuse an application, APRA must refuse an application if:
- (a) an arrangement under which medical indemnity cover is provided for a health care professional was entered into before 1 July 2003; and
  - (b) the arrangement was not effected by means of a contract of insurance; and

- (c) the applicant may pay, or may have to pay, an amount under the arrangement at some time after the time when the application is made.

Expressions used in paragraph (a) have the same meaning as they have in the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*.

Note 1: This means that an applicant that is an MDO (medical defence organisation) that entered into discretionary medical indemnity arrangements before 1 July 2003 cannot be granted an authorisation under this section while amounts remain potentially payable by the applicant under those arrangements.

Note 2: All medical indemnity arrangements (arrangements under which medical indemnity cover is provided for health care professionals) that are entered into, come into effect or are renewed on or after 1 July 2003 must be by way of contracts of insurance (see section 10 of the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003*).

- (4) If APRA authorises an applicant, APRA must:
- (a) give written notice to the applicant; and
  - (b) ensure that notice of the authorisation is published in the *Gazette*.
- (5) The taking of an action is not invalid merely because of a failure to comply with subsection (4).
- (6) Part VI applies to a refusal of APRA to authorise an applicant under this section.

### 13 Conditions on an authorisation

- (1) APRA may, at any time, by giving written notice to a general insurer:
  - (a) impose conditions, or additional conditions, on the insurer's authorisation under section 12; or
  - (b) vary or revoke conditions imposed on the insurer's authorisation under section 12.

The conditions must relate to prudential matters.

- (2) A condition may be expressed to have effect despite anything in the prudential standards.
- (3) Without limiting the conditions that APRA may impose on an authorisation, APRA may make the authorisation conditional on a body corporate, of which the general insurer is a subsidiary, being an authorised NOHC.
- (4) If APRA imposes, varies or revokes the conditions on a general insurer's authorisation, APRA must:
  - (a) give written notice to the insurer; and
  - (b) ensure that notice that the action has been taken is published in the *Gazette*.
- (5) The taking of an action is not invalid merely because of a failure to comply with subsection (4).

### 14 Breach of authorisation conditions

- (1) 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; and

- (c) there is no determination in force under subsection 7(1) that this subsection does not apply to the insurer.

Maximum penalty: 300 penalty units.

(1A) If an individual:

- (a) commits an offence against subsection (1) because of Part 2.4 of the *Criminal Code*; or
- (b) commits an offence under Part 2.4 of the *Criminal Code* in relation to an offence against subsection (1);  
he or she is punishable, on conviction, by a fine not exceeding 60 penalty units.

- (2) An offence against this section is an offence of strict liability.

Note 1: For *strict liability*, see section 6.1 of the *Criminal Code*.

Note 2: Chapter 2 of the *Criminal Code* sets out the general principles of criminal responsibility.

*Note that provisions relating to the revocation of an authority are in sections 15-17 of the Act.*

## Attachment B – Summary of APRA’s general insurance prudential framework

1. APRA’s prudential framework comprises the Act, general insurance prudential standards, prudential practice guides, authorisation guidelines and reporting standards. The framework applies to all insurers but in practice APRA exercises judgement in its application. The following provides a high level summary of the prudential framework. For further details, applicants should refer to the general insurance prudential and reporting standards on the APRA website ([www.apra.gov.au](http://www.apra.gov.au)).

### Definitions (GPS 001)

2. Definition of categories of insurers and other key terms referred to in other general insurance prudential standards are defined in this standard.

### Capital adequacy (GPS 110 – GPS 116)

3. An insurer’s capital base must be greater than its minimum capital requirement (MCR) as specified in this Standard.
4. For insurers incorporated in Australia (including foreign-owned subsidiaries), the capital base is generally equivalent to the net assets of the insurer, together with any excess technical provisions above the minimum 75 per cent probability of sufficiency level of net insurance liabilities and any other eligible capital instruments, adjusted for any deductions specified by APRA.<sup>6</sup>
5. Foreign insurers are required to maintain assets in Australia that exceed their liabilities in Australia (less excess technical provisions above the minimum 75 per cent probability of sufficiency level of net insurance liabilities) by an amount that is greater than their MCR.

6. The MCR consists of the:
  - (a) insurance risk capital charge – determined by applying specified percentages, which differ by class of insurance business, to the value of insurance liabilities for each class of business; plus
  - (b) investment risk capital charge – determined by applying specified percentages, which differ by class of assets, to the value of the assets of the insurer in each class; plus
  - (c) concentration risk capital charge – equal to the maximum event retention of the insurer based on a 1-in-250 year event and the cost of one reinstatement of catastrophe cover.
7. There is a floor of \$5m applied to the MCR (\$2m for certain captive insurers).
8. If APRA approves and the Treasurer agrees, an insurer may use an internal model to determine its MCR.

### Assets in Australia (GPS 120)

9. Under the Act, all insurers are required to maintain assets in Australia at least equal to their liabilities in Australia. APRA can determine whether certain assets or asset classes are to be excluded from assets in Australia. This Standard specifies these excluded assets.

### Governance (GPS 510)

10. The board of an insurer bears ultimate responsibility for the sound and prudent management of the insurer. This Standard imposes requirements relating to the composition of the board, the role of the board audit committee, the internal audit function, external auditor independence and the appointed actuary’s and appointed auditor’s access to the board.

<sup>6</sup> GPS 110 specifies treatment of different capital instruments and capital deductions that may apply.

11. A foreign insurer is not required to maintain a board in Australia but there is a requirement for a senior officer outside Australia to have responsibility for the branch. In addition, the Insurance Act requires a foreign insurer to have an agent in Australia.

### **Fit and Proper (GPS 520)**

12. This Standard requires the board of an insurer to have a policy to ensure the fitness and propriety of individuals who hold positions of responsibility with the insurer. This includes directors, senior officers, the appointed auditor, the appointed actuary and the agent in Australia (for foreign insurers).

### **Risk management (GPS 220)**

13. An insurer is required to have a risk management framework and a dedicated risk management function. This risk management framework is to be described in a high-level risk management strategy. Insurers that are part of groups may comply with some requirements on a group basis, if APRA agrees.

### **Business continuity management (GPS 222)**

14. An insurer is required to implement a whole-of-business approach to business continuity management appropriate to the nature and scale of its operations.

### **Reinsurance management (GPS 230)**

15. An insurer is required to maintain a reinsurance management framework documented in a reinsurance management strategy. Reinsurance arrangements must be legally binding and formally agreed to by all parties within a timely period. A statement detailing the insurer's reinsurance arrangements must also be submitted to APRA at least annually.

### **Outsourcing (GPS 231)**

16. All outsourcing arrangements of material business activities must be documented in the form of written contracts except for some intra-group arrangements. An insurer must consult with APRA prior to entering into offshoring arrangements. Insurers are also required to maintain a policy relating to outsourcing which ensures there is sufficient monitoring of the outsourced activities.

### **Actuarial reporting and valuation (GPS 310)**

17. All insurers, except for small insurers, must appoint an actuary. Small insurers are insurers with less than \$20 million of gross insurance liabilities and no material long-tail insurance liabilities.
18. All insurers that are required to have an appointed actuary must obtain an annual insurance liability valuation report (ILVR) and financial condition report from the appointed actuary and have the ILVR peer reviewed by another actuary. Insurance liabilities are to be determined as central estimates on a discounted basis plus a risk margin assessed at a 75 per cent level of sufficiency.

### **External audit (GPS 310)**

19. All insurers must have an appointed auditor. The appointed auditor must prepare a certificate in relation to the insurer's annual APRA reporting requirements and prepare a report annually about the systems, procedures and controls within the insurer.

## Transfer and amalgamation of insurance business (GPS 410)

20. The Act generally requires that a transfer or amalgamation of insurance business must occur under a scheme confirmed by the Federal Court. Such transfers are subject to procedural requirements designed to ensure that affected policyholders and other interested members of the public are accurately and adequately informed about the transfer or amalgamation. Transfers and amalgamations are also subject to the provisions of the *Insurance Acquisitions and Takeovers Act 1991*.

## Reporting framework

21. APRA requires insurers to submit quarterly returns and annual audited returns. APRA's prudential reporting requirements are different from financial reporting required under accounting standards issued by the Australian Accounting Standards Board (AASB). Insurance contract transactions are accounted for on a "prospective accounting basis" which results in all premium revenue, acquisition costs and reinsurance expenses being recorded directly into profit and loss. There is no deferral and matching of premium revenue, claims expense and reinsurance expense, as required under the AASB standards.
22. Insurers that underwrite public and product liability insurance or professional indemnity insurance business, where the underlying risks are Australian-based, are also required to submit data on individual claim and policy information relating to such business. This information is collected by returns for the national claims and policies database (NCPD).

## Attachment C – Supporting information required for an application to conduct insurance business

### Locally incorporated general insurer

Some of the information requested below may have already been provided to APRA as part of the authorisation application for another regulated entity within the same corporate group. Where this information is the same, the application may simply refer to that other information.

#### 1. Ownership, board and management

- (a) Name of the applicant and date and place of incorporation.
- (b) The address of the registered office and operational office.
- (c) A brief history of the applicant and an outline of existing operations (where relevant).
- (d) Names of substantial shareholders (direct and ultimate) and their respective shareholdings and details of any related entities in Australia.
- (e) Board and committee structure, including names of directors, their principal business associations, curricula vitae, statements regarding the fitness and propriety of the directors, and charters of the board and relevant committees (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*.)

- (f) An outline of the proposed organisational framework, including the names, responsibilities and curricula vitae of senior management, and statements regarding their fitness and propriety (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*.)
- (g) Proposed initial capital (including amount and composition) and capital ratios (refer to *Prudential Standard GPS 110 Capital Adequacy*).
- (h) Information necessary to demonstrate the standing and substance of any substantial shareholders. This should include information about their history, operations, shareholders and directors, balance sheet, profit and loss, and off-balance sheet business data (see also section 7 below).
- (i) A written undertaking by substantial shareholders (including any foreign parents) to provide additional capital, if required, and to confirm that their investment in the insurer represents a long-term commitment.

#### 2. Auditors and actuaries

- (a) Details of the auditor proposed to be appointed under section 39 of the Act – the appointed auditor<sup>7</sup> (also refer *Prudential Standard GPS 520 Fit and Proper* and *Prudential Standard GPS 510 Governance*).
- (b) Details of the actuary proposed to be appointed under section 39 of the Act, where relevant – the appointed actuary<sup>8</sup> (also refer *Prudential Standard GPS 520 Fit and Proper* and *Prudential Standard GPS 510 Governance*).
- (c) Details of the reviewing actuary where relevant (refer *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation* and *Prudential Standard GPS 520 Fit and Proper*).

<sup>7</sup> Until 1 January 2008, this person also must be approved by APRA.

<sup>8</sup> Until 1 January 2008, this person also must be approved by APRA

### 3. Three-year business plan

The business plan submitted should incorporate the goals of the first three years of operations of the applicant on a stand alone basis, and also of the applicant and its corporate group. This should include both subsidiaries that are or will be APRA regulated, and other businesses. As per the requirements of *Prudential Standard GPS 220 Risk Management* the business plan must include a description of the insurer's approach to capital management. This would include levels of target capital and the actions that would be taken if capital falls below these levels. A clear description of how the insurer would access additional capital or modify its growth plans to deal with such a situation is required.

The business plan should include:

Structure of the business

- (a) an outline of the proposed activities and scale of operations, including details of the proposed classes of insurance business to be written, relevant expertise, and any plans to outsource operations. This should also include the proposed operations of any related businesses in Australia, and any intended business relationships with the applicant;
- (b) the location of head office and an outline of the branch network envisaged and the timeframe over which the network will be established;
- (c) other intended means of product distribution;
- (d) an estimate of total staff complement;
- (e) the proposed date for commencement of operations; and

Financial projections

- (f) projections (including sensitivity analysis<sup>9</sup>) of the following:
  - (i) detailed balance sheet (showing both tangible and intangible components), off-balance sheet business, cash flow and earnings (including assumptions);
  - (ii) key financial and prudential ratios (e.g. capital ratios as calculated in accordance with *Prudential Standard GPS 110 Capital Adequacy*) for the applicant; and
  - (iii) key financial and prudential ratios for the applicant and its subsidiaries on a consolidated basis.

APRA would normally expect the insurer's proposed appointed actuary to be involved in development of these business plans.

### 4. Risk and information management

- (a) A reinsurance management strategy (in accordance with *Prudential Standard GPS 230 Reinsurance Management*) that describes the key elements of the reinsurance management framework including policies, procedures, management responsibilities and controls.
- (b) An outline of proposed reinsurance arrangements (including any proposed limited risk transfer arrangements), per risk and per event retentions, and evidence that reinsurers are willing to provide the proposed cover should also be included.

<sup>9</sup> The expected assumptions would be those that the applicant sees as appropriate for the business. Other projections should be on the basis of an adverse move in one of the material assumptions and an adverse move in two of the material assumptions. APRA would also expect to see that up side and down side scenarios have been analysed for each significant major assumption.

- (c) A risk management strategy (in accordance with *Prudential Standard GPS 220 Risk Management*) that describes the key elements of the risk management framework including risk appetite, policies, procedures, management responsibilities and controls. This should cover both domestic and offshore operations of the applicant and its subsidiaries.
- (d) Details of information and accounting systems (including any outsourcing of data processing and other back office functions).
- (e) Evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory accounts and reporting forms in an accurate and timely manner, including information required by the appointed actuary. This will normally require verification by the proposed appointed actuary and appointed auditor.
- (f) Details of outsourcing policy and arrangements (refer *Prudential Standard GPS 231 Outsourcing*).
- (g) Arrangements for business continuity management (refer *Prudential Standard GPS 222 Business Continuity Management*).
- (h) Internal audit arrangements (refer *Prudential Standard GPS 510 Governance*).
- (i) Policies setting out fit and proper requirements and other selection policies (e.g. independence, board renewal) for responsible persons (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*.)

## 5. Subsidiaries and associates

- (a) Details of existing or proposed subsidiaries and associates, including details of their board and senior management (and their associations with the proposed general insurer), the nature and scale of their business, financial ratings, and their proposed business relationship with the proposed general insurer. This can be illustrated with a structure chart.
- (b) Details of the involvement of other regulatory agencies. This should include an outline of regulatory requirements and details of any material legal or regulatory actions outstanding or pending (at the time of application) involving the subsidiary or associate.
- (c) Details of any plans to transfer assets from subsidiaries and associates to the proposed general insurer.
- (d) Details of investments, finance and other support provided by the proposed general insurer and between subsidiaries to identify levels of exposure within the group. This should include details of off-balance sheet activities.

## 6. Other

- (a) A certificate of incorporation of the applicant.
- (b) A copy of the constitution, certified to be current.
- (c) An auditor's certificate (from the proposed appointed auditor) verifying the level of capital and capital ratios of the applicant.
- (d) An actuary's report (from the proposed appointed actuary) in accordance with the *Prudential Standard 310 Audit and Actuarial Reporting and Valuation* (where applicable).

## **7. Insurers which are part of a corporate group or joint venture**

Where the applicant is a subsidiary of another corporation or is a joint venture, the parent(s) should provide:

- (a) a brief history and an outline of their operations, substantial shareholders (direct and ultimate) and directors (including principal business associations);
- (b) balance sheet, profit and loss and off-balance sheet business data for the last three years (plus any available current year data);
- (c) an outline of the reporting lines proposed from the applicant to its parents;
- (d) an undertaking to co-operate in the supervision of the applicant, including the provision of information required by APRA to supervise the applicant;
- (e) an undertaking to keep APRA informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to APRA copies of its published financial accounts and any significant media releases (with translations where appropriate);
- (f) if a parent is foreign, an outline of any prudential supervision arrangements to which it is subject in its home country; and
- (g) a statement from any foreign parent's home supervisor that:
  - (i) the foreign parent is of good financial standing and has the supervisor's consent to apply for an authority to operate a foreign-owned subsidiary in Australia; and
  - (ii) the supervisor is willing to co-operate with APRA where necessary in the supervision of the applicant.

## **8. Prudential supervision by APRA**

- (a) A written undertaking by the applicant to:
  - (i) adhere to APRA's prudential requirements at all times;
  - (ii) consult and be guided by APRA on prudential matters, including in respect of new business initiatives; and
  - (iii) provide APRA with any information which may be required for prudential supervision of itself (and its consolidated group).
- (b) For a foreign insurer-owned applicant, an acknowledgement by the applicant that APRA may discuss the applicant's conduct and status with its parent and its parent's home supervisor(s).
- (c) A written undertaking by the applicant to consult with APRA prior to the establishment or acquisition of additional businesses, either domestically or overseas.
- (d) Evidence that arrangements have been established for the applicant's proposed appointed auditor and appointed actuary (where applicable) to carry out their duties in accordance with the Act and prudential standards.

## Attachment D – Supporting information required for an application to conduct insurance business

### Foreign insurer

Some of the information requested below may have already been provided to APRA as part of the authorisation application for another regulated entity within the same corporate group. Where this information is the same, the application may simply refer to that other information.

#### 1. Ownership, board and management

- (a) Name of the applicant and date and place of incorporation.
- (b) The address of the head office, the address of the main office in Australia and an address for service in Australia.
- (c) A brief history of the applicant and an outline of its operations.
- (d) Names of substantial shareholders (direct and ultimate) and their respective shareholdings and details of any related entities in Australia.
- (e) Board structure, including names of directors, their principal business associations and curricula vitae, and details of relevant senior management.
- (f) Details of the senior officer from outside Australia who has responsibility for overseeing the Australian branch operation and has delegated authority from the board for this purpose, including the individual's name, responsibilities and curricula vitae, and a statement regarding the person's fitness and propriety (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*).

- (g) An outline of the proposed organisational framework, including the names, responsibilities and curricula vitae of senior management of the Australian operations, and statements regarding their fitness and propriety (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*).

- (h) Information on the proposed agent in Australia.

If the proposed agent is an individual this should include a statement regarding the person's residency and fitness and propriety (refer *Prudential Standard GPS 520 Fit and Proper*).

From 1 July 2008, the agent may also be a body corporate incorporated in Australia. If the proposed agent is a body corporate, it should include confirmation that the agent is incorporated in Australia and that it is not disqualified under section 25 (1) (c) of the Act, along with details of its board and senior management, and statements as to their fitness and propriety.

Details of contractual and power-of-attorney arrangements proposed to be entered into between the foreign insurer and the agent in Australia should also be provided, along with details of arrangements to cover periods where the agent is absent from Australia or for any reason is unable to perform the duties of the agent.

- (i) An outline of the proposed reporting lines from the Australian operations to head office.
- (j) Proposed initial capital and capital ratios (refer to *Prudential Standard GPS 110 Capital Adequacy*).

- (k) Other information necessary to demonstrate the standing and substance of the applicant and its substantial shareholders. This should include balance sheet, profit and loss and off-balance sheet business data for the foreign insurer itself, and where applicable for its holding company or other substantial shareholders, for the last three years (plus any available current year data) and information on capital ratios.

## 2. Auditors and actuaries

- (a) Details of the auditor proposed to be appointed under section 39 of the Act – the appointed auditor<sup>10</sup> (refer Act and *Prudential Standard GPS 520 Fit and Proper* and *Prudential Standard GPS 510 Governance*).
- (b) Details of the actuary proposed to be appointed under section 39 of the Act, where relevant – the appointed actuary<sup>11</sup> (refer Act and *Prudential Standard GPS 520 Fit and Proper* and *Prudential Standard GPS 510 Governance*).
- (c) Details of the reviewing actuary where relevant (refer *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation* and *Prudential Standard 520 Fit and Proper*).

## 3. Three-year business plan

The business plan submitted should incorporate the goals of the first three years of operations of the applicant. As per the requirements of *Prudential Standard GPS 220 Risk Management* the business plan must include a description of the insurer's approach to capital management. This would include levels of target capital and the actions that the insurer would take if capital falls below these levels. A clear description of how the insurer would access additional capital or modify its growth plans to deal with such a situation is required.

The business plan should include:

### Structure of the business

- (a) an outline of the proposed activities and scale of operations in Australia, including details of the proposed classes of insurance business to be written, relevant expertise, and of any plans to outsource operations. This should also include the proposed operations of any related businesses in Australia, and any intended business relationships with the applicant;
- (b) the location of head office in Australia and an outline of the branch network envisaged and the timeframe over which the network will be established;
- (c) other intended means of product distribution;
- (d) an estimate of total staff complement in Australia;
- (e) the proposed date for commencement of operations in Australia; and

### Financial projections

- (f) projections for the Australian business (including sensitivity analysis<sup>12</sup>) of the following:
- (i) detailed balance sheet, cash flow and earnings (including assumptions); and
- (ii) key financial and prudential ratios (e.g. capital ratios as calculated in accordance with *Prudential Standard GPS 110 Capital Adequacy*).

APRA would normally expect the insurer's proposed Appointed Actuary to be involved in development of these business plans.

<sup>10</sup> Until 1 January 2008, this person must be approved by APRA.

<sup>11</sup> Until 1 January 2008, this person must be approved by APRA.

<sup>12</sup> The expected assumptions would be those that the applicant sees as appropriate for the business. Other projections should be on the basis of an adverse move in one of the material assumptions and an adverse move in two of the material assumptions. APRA would also expect to see that up side and down side scenarios have been analysed for each significant major assumption.

#### 4. Risk and information management

- (a) A reinsurance management strategy (in accordance with *Prudential Standard GPS 230 Reinsurance Management*) that describes the key elements of the reinsurance management framework including policies, procedures, management responsibilities and controls.
- (b) An outline of proposed reinsurance arrangements (including any proposed limited risk transfer arrangements), per risk and per event retentions, and evidence that reinsurers are willing to provide the proposed cover should also be included.
- (c) A risk management strategy (in accordance with *Prudential Standard GPS 220 Risk Management*) that describes the key elements of the risk management framework including risk appetite, policies, procedures, management responsibilities and controls in relation to the operations of the applicant.
- (d) Details of information and accounting systems (including any outsourcing of data processing and other back office functions).
- (e) Evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory accounts and reporting forms in an accurate and timely manner, including information required by the appointed actuary. This will normally require verification by the proposed appointed actuary and appointed auditor.
- (f) Details of outsourcing policy and arrangements (refer *Prudential Standard GPS 231 Outsourcing*).
- (g) Arrangements for business continuity management (refer *Prudential Standard GPS 222 Business Continuity Management*).
- (h) Internal audit arrangements (refer *Prudential Standard GPS 510 Governance*).

- (i) Policies setting out fit and proper requirements and other selection policies for responsible persons (refer *Prudential Standard GPS 510 Governance* and *Prudential Standard GPS 520 Fit and Proper*.)

#### 5. Associates

- (a) Details of existing or proposed subsidiaries and associates, including details of their board and senior management (and their associations with the proposed general insurer), the nature and scale of their business, financial ratings, and their proposed business relationship with the proposed general insurer. This can be illustrated with a structure chart.
- (b) Details of the involvement of other regulatory agencies. This should include an outline of regulatory requirements and details of any material legal or regulatory actions outstanding or pending (at the time of application) involving the subsidiary or associate.
- (c) Details of any plans to transfer any business or assets from subsidiaries and associates in Australia to the applicant.
- (d) Details of investments, finance and other support provided by the proposed general insurer and between subsidiaries to identify levels of exposure within the group. This should include details of off-balance sheet activities.
- (e) An undertaking by the applicant to keep APRA apprised of developments in its subsidiaries in Australia.

## 6. Other

- (a) A certificate of incorporation of the applicant and its authorisation to carry on an insurance business in its home country and evidence of registration with the Australian Securities and Investments Commission as a foreign company (including its ARBN).
- (b) A copy of the constitution or equivalent document, certified to be current.
- (c) An outline of the supervisory arrangements to which the applicant is subject to in its home country.
- (d) A statement from the applicant's home supervisor:
  - (i) consenting to the application to establish a branch in Australia;
  - (ii) confirming the applicant is of good financial standing; and
  - (iii) agreeing to co-operate with APRA where necessary in the supervision of the applicant.
- (e) Details on where the head office carries on insurance business outside Australia and whether it is complying with the law of that place relating to the carrying on of insurance business and has complied during the preceding 5 years.
- (f) An undertaking by the applicant to keep APRA informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to APRA copies of its published financial accounts and any significant media releases (with translations where appropriate).
- (g) An auditor's certificate (from the proposed appointed auditor) verifying the level of capital and capital ratios of the applicant.
- (h) An actuary's report (from the proposed appointed actuary) in accordance with the *Prudential Standard 310 Audit and Actuarial Reporting and Valuation* (where applicable).

## 7. Prudential supervision by APRA

- (a) A written undertaking by the applicant to:
  - (i) adhere to APRA's prudential requirements at all times;
  - (ii) consult and be guided by APRA on prudential matters, including in respect of new business initiatives; and
  - (iii) provide APRA with any information which may be required for the prudential supervision of the applicant.
- (b) An acknowledgement by the applicant that APRA may discuss the conduct of the Australian operations with its head office and its home supervisor(s).
- (c) Evidence that arrangements have been established for the applicant's proposed appointed auditor and appointed actuary (where applicable) to carry out their duties under the Act and prudential standards.



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