

# MARKET BULLETIN

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| <b>From</b>          | Director Worldwide Markets (extn 6677)  |
| <b>Date</b>          | 4 October 2006  |
| <b>Reference</b>     | Y3883   |
| <b>Subject</b>       | <b>Australia - New Prudential Standard GPS 230; Reinsurance Management</b>  |
| <b>Subject areas</b> | It should be noted that the introduction of the Prudential Standard GPS 230 places documentation requirements on Australian reinsureds. |
| <b>Attachments</b>   | Appendix 1 - Prudential Standard GPS 230; Reinsurance Management  |
| <b>Action points</b> | <b>To take note</b>   |
| <b>Deadlines</b>     | <b>Implementation of Prudential Standard GPS 230 on 1 October 2006.</b>   |

The Australian Prudential Regulation Authority (APRA) recently released new prudential standards as part of its general insurance stage 2 reforms. These standards impact on Lloyd's underwriters not as insurers but as providers of reinsurance to Australian insurers.

Prudential Standard GPS 230 (GPS 230); Reinsurance Management, requires Australian insurers to provide to APRA within set time-frames proof of reinsurance arrangements. As a consequence, Australian reinsureds receiving reinsurance coverage from Lloyd's will be looking to receive the required documentation from Lloyd's underwriters.

GPS 230 stipulates that an Australian insurer must have processes in place to achieve legally binding reinsurance arrangements and, at a minimum, comply with the 'two month rule' and the 'six month rule' described below.

The 'two month rule' requires that within two months of the inception date of the Australian insurer's reinsurance arrangements:

- The insurer has a placing slip pertaining to these reinsurance arrangements, which has been signed and stamped by all participating reinsurers, and contains a slip wording, with no outstanding terms or conditions to be agreed; or
- The insurer has a placing slip(s) pertaining to the reinsurance arrangements, which has been signed and stamped by all participating reinsurers, with no outstanding terms or conditions to be agreed; or

- The insurer does not have a placing slip, but the insurer has a cover note issued by the participating reinsurer(s) (in the case of direct placements with reinsurers) and/or from its appointed reinsurance broker (in the case of intermediated reinsurance placements). The insurer must also have systems to verify that the content of the cover note is the same as the placing slip agreed between the insurer and the reinsurer(s).

The 'six month rule' requires that within six months of the inception date of the Australian insurers reinsurance arrangements:

- The insurer complies with point 1 of the two month rule; or
- The insurer has in its possession a full treaty contract wording (including any appending contract wordings and/or schedules) that has been signed and stamped by all contracting parties, namely the insurer and all participating reinsurers.

Appendix 1 provides full details of GPS 230.

If you have any queries relating to this bulletin please contact either of the following:

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Julian James  
Director  
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## **Prudential Standard GPS 230**

### **Reinsurance Management**

#### **Objective and key requirements of this Prudential Standard**

This Prudential Standard aims to ensure that a general insurer as part of their overall risk management framework has a specific reinsurance management framework to manage the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements used by a general insurer.

To meet the key requirements of this Prudential Standard a general insurer must:

- have in its reinsurance management framework a documented Reinsurance Management Strategy, sound reinsurance management policies and procedures and clearly defined managerial responsibilities and controls;
- submit its Reinsurance Management Strategy to APRA on an annual basis and re-submit the Reinsurance Management Strategy when any material changes are made;
- submit a Reinsurance Arrangements Statement detailing its reinsurance arrangements to APRA at least annually; and
- make an annual reinsurance declaration based on the 'two-month rule' and 'six-month rule' specified in this Prudential Standard and submit the declaration to APRA.

## Authority

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

## Application

2. This Prudential Standard applies to all general insurers (**insurers**) authorised under the Act.<sup>1</sup>
3. Subject to any specific transition rules set out in Attachment B, an insurer:
  - (a) must comply with this Prudential Standard from 1 October 2006 (**effective date**);
  - (b) must continue to comply with *Prudential Standard GPS 230 Reinsurance Arrangements for General Insurers* made on 7 February 2002 (**old Prudential Standard**) until the effective date.
4. Where specifically indicated in this Prudential Standard, certain requirements may be complied with on an insurance group basis (provided the relevant insurer has notified APRA of this prior to doing so, and APRA has agreed).
5. For the purposes of this Prudential Standard, an insurance group comprises:
  - (a) a company that is either:
    - (i) an insurer; or
    - (ii) an authorised non-operating holding company of an insurer; and
  - (b) one or more subsidiary companies of (a) that are insurers (but not any other subsidiary)

within a corporate group. A corporate group comprises two or more companies that are related bodies corporate within the meaning of section 50 of the *Corporations Act 2001*. There may be more than one insurance group within a corporate group.

## Reinsurance management

6. An insurer must at all times have a reinsurance management framework to manage the risks arising from its reinsurance arrangements.
7. The insurer's reinsurance management framework must provide a reasonable assurance that the insurer's reinsurance arrangements are being prudently and soundly managed, having regard to such factors as the size, business classes, complexity of the insurer's operations and its risk appetite.
8. For the purposes of this Prudential Standard:

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<sup>1</sup> Refer sections 32 and 35 of the Act.

- (a) the reinsurance management framework must deal with both the reinsurance and, where relevant to the insurer, the retrocession arrangements<sup>2</sup> of the insurer; and
  - (b) a reference to the insurer's operations is a reference to its operations in Australia and overseas through a branch.
9. An insurer's reinsurance management framework must, at a minimum, include:
- (a) a written Reinsurance Management Strategy (**REMS**) that complies with this Prudential Standard, is approved by the Board<sup>3</sup> and in regard to which the Board is satisfied that:
    - (i) it describes the key elements of the reinsurance management framework, including all policies, procedures, management responsibilities and controls of the kind referred to in subparagraphs (b) and (c), and any other matters that this Prudential Standard requires to be included in a REMS;
    - (ii) the reinsurance management framework described in the REMS is appropriate and provides reasonable assurance that the insurer's reinsurance arrangements are being prudently and soundly managed having regard to such factors as the size, business classes, complexity of the insurer's operations and the risk appetite of the insurer; and
    - (iii) it describes the review referred to in paragraph 12.
  - (b) reinsurance management policies and procedures to manage the selection, implementation, monitoring, review, amendment (where appropriate) and documentation of reinsurance arrangements of the insurer and mechanisms to ensure that the reinsurance management framework remains effective; and
  - (c) clearly defined managerial responsibilities and controls.
10. An insurer's reinsurance management framework must be consistent with the Business Plan<sup>4</sup> of the insurer.
11. There must be a clear link between the insurer's reinsurance management framework (including the insurer's REMS) and the insurer's risk management framework.<sup>5</sup>
12. The insurer must ensure that its reinsurance management framework is subject to effective and comprehensive review, as part of the risk management

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2 References to 'reinsurance' throughout this Prudential Standard include 'retrocession'.

3 In the case of a foreign general insurer (**foreign insurer**), a reference to the "Board" in this Prudential Standard shall be taken to include a reference to the senior officer outside Australia to whom authority has been delegated in accordance with *Prudential Standard GPS 510 Governance*.

4 Refer *Prudential Standard GPS 220 Risk Management (GPS 220)*.

5 Refer GPS 220.

framework review, by operationally independent, appropriately trained and competent staff and that the frequency and scope of this review is appropriate having regard to such factors as the size, business mix, complexity of the insurer's operations and the extent of any change to its business profile or its risk appetite. The review must include:

- (a) a review of the REMS; and
  - (b) a review of the internal control system.
13. Only APRA-approved Limited Risk Transfer Arrangements can be considered as reinsurance for the purpose of calculating an insurer's net exposure and its Maximum Event Retention (**MER**). The requirements of this Prudential Standard in relation to the REMS and the Reinsurance Arrangements Statement apply to all APRA-approved Limited Risk Transfer Arrangements. Refer paragraphs 42 to 47 and Attachment A for further requirements relating to the treatment of Limited Risk Transfer Arrangements.

### **Reinsurance Management Strategy**

14. The REMS is a high level, strategic document intended to describe the key elements of the reinsurance management framework as set out in subparagraph 9(a).
15. The insurer must review its REMS at least annually (or as close to annually as is practicable) to ensure that it accurately documents the insurer's reinsurance management framework.
16. Where there are material changes to the operations of an insurer, the insurer must review and amend its reinsurance management framework and its REMS to take into account the changes. This REMS must be approved by the Board and submitted to APRA within 10 business days.
17. An insurance group may have a REMS in respect of the insurance group where reinsurance management is undertaken on a group basis or it is practical to produce a single over-arching REMS covering that insurance group. An insurance group REMS must consider and deal with the reinsurance management framework of each insurer within that insurance group as required by this Prudential Standard.
18. Where APRA is of the view that the insurance group REMS does not adequately address the reinsurance management framework of each insurer, or that a different form of REMS is desirable to ensure that the requirements of this Prudential Standard are met, APRA may, in writing, do either or both of the following:
- (a) require one or more insurers within the insurance group to prepare and submit to APRA a separate REMS;
  - (b) require the preparation and submission to APRA of a REMS for a different insurance group within the corporate group

within a reasonable time specified by APRA.

19. An insurer must not intentionally deviate in a material way from its REMS except where this deviation has been approved by the Board and notified to APRA prior to the deviation occurring.
20. An insurer must inform APRA immediately if it anticipates that a problem is likely to arise out of its reinsurance arrangements that may materially and adversely affect its current or future capacity to meet its obligations. The insurer must put in place plans to redress any such problem and advise APRA accordingly.
21. An insurer's REMS must:
  - (a) define and document the insurer's objectives and strategy for reinsurance management and control, reflecting the insurer's appetite for risk;
  - (b) identify the key elements of the insurer's policies and procedures, processes and controls that comprise the insurer's reinsurance management framework;
  - (c) summarise its process for setting and monitoring its MER<sup>6</sup> covering at least:
    - (i) the insurer's willingness to take on catastrophic risks;
    - (ii) how the insurer's financial resources cover its MER;
    - (iii) the review of policies and procedures in the light of the insurer's business activities, as well as current market conditions (for example, the availability of adequate catastrophe reinsurance cover) and the frequency of that review;
    - (iv) the review of reinsurance management policies approved by the Board and the frequency of that review; and
    - (v) the independent review of compliance with reinsurance management policies and procedures and the frequency of that review.
  - (d) provide a summary of the processes for selecting, implementing, monitoring and reviewing reinsurance arrangements, including:
    - (i) identification and management of aggregations of risk;
    - (ii) methodologies for identification and management of upper bounds of programs;

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<sup>6</sup> *Prudential Standard GPS 110 Capital Adequacy (GPS 110)* sets out the required minimum level of capital for regulatory purposes. GPS 110 also sets out specific issues that an insurer must consider in calculating its Maximum Event Retention (MER). Lender's mortgage insurers should also refer to GPS 110 in determining their MER.

- (iii) methodologies for the selection of reinsurance participants, including the consideration of diversification and the reinsurers' creditworthiness;
  - (iv) a description of the processing of reinsurance premiums and the collection of reinsurance recoveries arising under these arrangements; and
  - (v) systems and control mechanisms for monitoring reinsurance placements and recoveries, including independent review responsibilities and procedures;
- (e) provide a summary of the process for ensuring accurate and complete reinsurance documentation is put in place;
  - (f) describe the processes for setting and monitoring retentions so that the insurer's MER is not exceeded;
  - (g) identify those persons or groups of persons with managerial responsibility for the reinsurance management framework (including those persons responsible for reinsurance purchasing, collecting reinsurance recoveries and audit of the systems) and set out their roles and responsibilities in relation to that framework; and
  - (h) cover both the Australian operations and the risks arising from the overseas operations of the insurer that could impact on the Australian operations of the insurer.
22. If the insurer is part of an Australian or global corporate group or operates as a foreign general insurer (**foreign insurer**), the REMS must:
- (a) include, if applicable, a summary of the group policy objectives and strategies relating to reinsurance;
  - (b) summarise the linkages between the local and group reinsurance arrangements;
  - (c) where any element of an insurer's reinsurance management framework is controlled by another entity in the corporate group, or by head office, include details of all such arrangements, including claims settlement procedures where the parent entity or head office purchases reinsurance on a global group basis; and
  - (d) detail any arrangements relating to the existence of, and accessibility to, intra-group reinsurance arrangements.

### **Reinsurance Arrangements Statement**

23. Where an insurer's reinsurance arrangements incept on a common date, the insurer must submit to APRA, on an annual basis, a Reinsurance Arrangements Statement (**Reinsurance Statement**) that details the insurer's reinsurance



arrangements.<sup>7</sup> The annual submission must occur within two months of the inception of the insurer's reinsurance arrangements.

24. Where an insurer has multiple inception dates for its reinsurance arrangements, the insurer must submit to APRA a Reinsurance Statement every six months.
25. Where the REMS covers the insurance group as a whole and APRA has not made a determination under paragraph 18, an insurance group may submit to APRA:
  - (a) a Reinsurance Statement in respect of the insurance group where the reinsurance arrangements cover the insurance group as a whole and it is practical to provide a single over-arching Reinsurance Statement; or
  - (b) a Reinsurance Statement for each insurer in the insurance group.
26. Where APRA is of the view that the insurance group Reinsurance Statement does not adequately deal with the reinsurance arrangements of each insurer, or that a different form of Reinsurance Statement is desirable to ensure that the requirements of this Prudential Standard are met, APRA may, in writing, do either or both of the following:
  - (a) require one or more insurers within the insurance group to prepare and submit to APRA a separate Reinsurance Statement; or
  - (b) require the preparation and submission to APRA of a Reinsurance Statement for a different insurance group within the corporate groupwithin a reasonable time specified by APRA.
27. Where an insurer enters into reinsurance arrangements for a period in excess of 12 months, the Reinsurance Statement must confirm the continuation of these arrangements for each year of the duration of the arrangements.
28. A Reinsurance Statement must provide substantiation of the implementation of the reinsurance management strategy of the insurer detailed in the insurer's REMS document. The Reinsurance Statement should contain:
  - (a) schematics of the insurer's reinsurance arrangements which depict the effect of occurrence and aggregate deductibles and any other arrangement that potentially limits the reinsurers' liability (including number of reinstatements, loss participation clauses and event limit clauses);
  - (b) details of individual parameters by class of business which indicate the highest per risk gross loss and multi-class catastrophic gross event limit to which the class of business portfolio is exposed;
  - (c) details of how the reinsurance program will reduce the overall gross exposures detailed in (b) above to result in the net retained per risk, by

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<sup>7</sup> The Reinsurance Statement does not need to provide a detailed listing of individual facultative arrangements because these, and the processes surrounding their use, will be described in the REMS.

class of business, and catastrophic event retention levels of the insurer (material classes only to be included);

- (d) details of the MER calculation (where not detailed in the insurer's REMS) including details of modeling for catastrophe hazards, Probable Maximum Loss calculations and aggregate exposures (where applicable); and
- (e) details of any Limited Risk Transfer Arrangements, including those which have not been approved by APRA.<sup>8</sup>

### **Documentation of reinsurance arrangements**

- 29. As part of its reinsurance management framework, an insurer must have processes to achieve legally binding reinsurance arrangements.
- 30. At a minimum, the insurer must comply with the 'two month rule' detailed in paragraph 38 and the 'six month rule' detailed in paragraph 39.
- 31. Where an insurer has in place reinsurance arrangements that pre-date this Prudential Standard and that it will not practically be able to document appropriately, it must apply to APRA to have these reinsurance arrangements treated as complying with paragraph 30.
- 32. Failure to comply with paragraph 30 or 31 may result in a deduction of relevant reinsurance recoveries from Tier 1 capital in accordance with *Prudential Standard GPS 110 Capital Adequacy (GPS 110)*.

### **The reinsurance declaration**

- 33. An insurer must make a reinsurance declaration annually. The reinsurance declaration is a declaration that the insurer has placed its reinsurance arrangements and that those reinsurance arrangements are legally binding. The reinsurance declaration must be based on the 'two month rule' and the 'six month rule' detailed below under paragraphs 38 and 39, respectively. This declaration is not required to deal with the documentation of facultative arrangements undertaken.
- 34. The reinsurance declaration must be signed by both the chief executive officer (by whatever name called)<sup>9</sup> and the chief reinsurance officer (by whatever name called).
- 35. The reinsurance declaration must be submitted to APRA either on, or before, the day that the insurer's yearly statutory accounts are required to be submitted to APRA under the *Financial Sector (Collection of Data) Act 2001 (Collection of Data Act)*.

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<sup>8</sup> Refer Attachment A for a definition of Limited Risk Transfer Arrangements.

<sup>9</sup> For the purposes of this Prudential Standard, in the case of a foreign insurer, any reference to "chief executive officer" can be taken to be a reference to the Agent in Australia appointed pursuant to section 118 of the Act (by whatever name called), and any reference to "chief reinsurance officer" can be taken to be a reference to the senior officer (by whatever name called) who holds the equivalent of that position locally.

36. Should the reinsurance arrangements not be fully placed, the details of any gaps or potential gaps must be detailed in the reinsurance declaration together with their impact on the net position of the insurer. The insurer must provide details of actions taken or being taken to eliminate any gaps in reinsurance coverage.
37. Where an insurer complies with the 'six month rule' in accordance with paragraph 39, the reinsurance declaration must confirm:
- (a) there are no outstanding clauses, terms and conditions or other provisions yet to be agreed (that is, that no alterations or amendments to the contract are outstanding); and
  - (b) there are no differences in content or intention between the full treaty contract wording and the placing slip.

Where such differences exist, these must be detailed in the reinsurance declaration. The insurer must set out the corrective action(s) being undertaken to seek to eliminate these differences.

### The 'two month rule'

38. The 'two month rule' is that within two months after the inception date(s) of the insurer's reinsurance arrangements:
- (a) the insurer has a placing slip(s) pertaining to these reinsurance arrangements, which has been signed and stamped by all participating reinsurers, and contains a slip wording, with no outstanding terms or conditions to be agreed;<sup>10</sup> or
  - (b) the insurer has a placing slip(s) pertaining to the reinsurance arrangements, which has been signed and stamped by all participating reinsurers, with no outstanding terms or conditions to be agreed;<sup>11</sup> or
  - (c) the insurer does not have a placing slip(s), but the insurer has a cover note(s) issued by the participating reinsurer(s) (in the case of direct placements with reinsurers) and/or from its appointed reinsurance broker (in the case of intermediated reinsurance placements). The insurer also must have systems to verify that the content of the cover note(s) is the same as the placing slip(s) agreed between the insurer and the reinsurer(s).<sup>12</sup>

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10 For this purpose, **slip wording** means standard contractual wording that has been agreed in advance by the contracting parties and is used as the sole contractual document between the contracting parties. A slip wording may be issued by a reinsurance broker, or by a reinsurer(s).

11 For this purpose, **placing slip** means a summary of the reinsurance contract terms and conditions used either by an insurer for directly placed reinsurance or by a reinsurance broker, for intermediated placements, when offering a risk or risks to a reinsurer in advance of the preparation of the full reinsurance contract documentation.

12 For this purpose, a **cover note** means written confirmation issued by the reinsurer(s) or the appointed reinsurance broker to the insurer detailing the contract terms and conditions and details of the percentage of risk placed with each reinsurer.

### **The 'six month rule'**

39. The 'six month rule' is that within six months after the inception date(s) of the insurer's reinsurance arrangements:
- (a) the insurer complies with subparagraph 38(a); or
  - (b) the insurer has in its possession a full treaty contract wording (including any appending contract wordings and/or schedules) that has been signed and stamped by all contracting parties, namely the insurer and all participating reinsurers.<sup>13</sup>

### **Reinsurance declaration qualification**

40. Where the insurer is unable to state in its reinsurance declaration that it has complied with the 'two month rule' or the 'six month rule', the declaration must set out what alternate documentation is in place or, if there is no documentation, the reasons for this and what action the insurer is taking to seek to put this documentation in place.
41. Where the reinsurance arrangements attested to in the reinsurance declaration differ from those included in the insurer's Reinsurance Statement submitted to APRA in accordance with paragraphs 23 to 26, the insurer or insurance group, as the case may be, must submit to APRA a revised Reinsurance Statement which reflects details of the amended arrangements that are in place. If the amended Reinsurance Statement also warrants a change in the insurer's or insurance group's REMS, the REMS must be reviewed and amended in accordance with paragraph 15.

### **Limited Risk Transfer Arrangements**

42. An insurer must submit to APRA details of all proposed Limited Risk Transfer Arrangements<sup>14</sup> for approval prior to entering into such arrangements. Attachment A details the requirements for a submission for approval as well as the criteria APRA will apply.
43. APRA may approve a Limited Risk Transfer Arrangement as either a reinsurance arrangement or a financing arrangement.
44. APRA will generally consider a Limited Risk Transfer Arrangement to be a reinsurance arrangement where the purpose and effect of the arrangement is to genuinely transfer significant insurance risk from the insurer to another (re)insurer.

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13 For this purpose, full treaty contract wording (including any appending contract wordings and/or schedules) is defined as a legally certain and binding document on all parties that provides a complete, accurate and definitive record of all the terms and conditions and other provisions of the contract of reinsurance between the contracting parties.

14 As defined in Attachment A.

45. A Limited Risk Transfer Arrangement that is approved by APRA as a reinsurance arrangement must be treated accordingly by the insurer for prudential purposes.<sup>15</sup>
46. A Limited Risk Transfer Arrangement that is approved by APRA as a financing arrangement must be accounted for by the insurer so that:
  - (a) the arrangement has a legitimate purpose and effect; and
  - (b) the arrangement will not misrepresent, or is not designed to disguise, a material risk to the insurer's current or continuing profitability, solvency or capital adequacy from any party.

The terms and conditions of the financing arrangement will determine the appropriate accounting treatment for prudential purposes.

47. Where APRA determines that a Limited Risk Transfer Arrangement is to be treated as a financing arrangement, the insurer must not treat the arrangement as reinsurance for the purpose of determining its minimum capital requirement under GPS 110 or as reinsurance for any other purpose.

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15 Refer GPS 110 and reporting standards made under the *Financial Sector (Collection of Data) Act 2001*.

## Attachment A

### Definition of Limited Risk Transfer Arrangements

1. Limited Risk Transfer Arrangements typically do not involve significant transfer of insurance risk over the life of the arrangement between the insurer and the reinsurer. An arrangement may involve one contract, or a combination of two or more individual contracts and/or side letters.
2. Such arrangements are often characterised by requirements placed on the insurer to mitigate any loss experienced by the reinsurer to this arrangement over a future period of time.
3. While the main purpose of such arrangements is usually financing, Limited Risk Transfer Arrangements can be used to affect the presentation of financial results. This can lead to a misrepresentation of the true prudential position of the insurer that may ultimately pose risks to policyholders.

### Approval of Limited Risk Transfer Arrangements

4. At a minimum, the submission for approval must include:
  - (a) a draft contract wording or other draft proposed agreement and collateral or 'side' agreements, and any other documentation or information relevant to the transaction (including a written description of any verbal understandings and/or undertakings that are material to the operation of the arrangement); and
  - (b) details of the proposed accounting treatment and the effect of the proposed arrangement on the prudential statement of financial position and capital adequacy of the insurer for each reporting period and over the full period of the arrangement, certified by the Approved Auditor.<sup>16</sup>
5. Where (a) is not available, the insurer must submit to APRA a comprehensive description of the proposed arrangement including details of any risk transfer and financing elements.
6. When seeking approval, the insurer must demonstrate to APRA that it has formal written policies and procedures addressing the purpose, nature and use of Limited Risk Transfer Arrangements. Specifically, the insurer must, at a minimum, demonstrate that:
  - (a) the purpose and effect of any Limited Risk Transfer Arrangement is fully understood;
  - (b) the associated risks have been identified and addressed;
  - (c) appropriate internal approvals have been identified and implemented;

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<sup>16</sup> Refer *Prudential Standard GPS 310 Audit and Actuarial Reporting and Valuation* for the meaning of and the roles and responsibilities of Approved Auditors and Approved Actuaries.

- (d) the Approved Actuary and Approved Auditor have indicated whether the arrangement, in their view, meets the description of a Limited Risk Transfer Arrangement as outlined above; and
  - (e) all documentation has been scrutinised by suitably qualified and experienced staff of the insurer.
7. APRA will only approve a Limited Risk Transfer Arrangement where the following criteria are met:
- (a) the arrangement has a legitimate purpose and effect;
  - (b) the arrangement will not disguise, or is not designed to disguise, a material risk to the insurer's current or continuing profitability, solvency or capital adequacy from any party;
  - (c) the financial costs and benefits of the arrangement, and the nature and potential quantum of any potential risks to policyholders, are reflected in the application for approval and the proposed accounting and disclosure arrangements;
  - (d) there will be no adverse effect on the insurer's balance sheet and capital position in any one period or over the entire term of the arrangement;
  - (e) the insurer has reviewed the effect of the arrangement within the context of its overall risk management and control systems; and
  - (f) the arrangement will not adversely affect the interests of policyholders.
8. For applications which are approved, APRA will consider the nature and purpose of the arrangement and deem the arrangement to be either reinsurance or financing (as appropriate) for the purposes of:
- (a) the calculation of the insurer's minimum capital requirement; and
  - (b) reporting under reporting standards made under the Collection of Data Act.

APRA approvals of Limited Risk Transfer Arrangements will always be made in writing.

## **Attachment B**

### **Transition Rules**

#### **Expiry date of this Attachment**

This Attachment will no longer have effect after 31 December 2009.

#### **Specific transition rules**

As at 1 October 2006 (**effective date**), the insurer (or group) must have in place a REMS, which has been approved by the Board and submitted to APRA within 10 business days of Board approval where required under paragraph 16.

An insurer must submit its first Reinsurance Arrangements Statement (as required under paragraph 23 or 24, as the case may be) following the first renewal of reinsurance arrangements after the effective date.

An insurer must submit a reinsurance declaration as required under paragraph 35 by the first day occurring after the effective date that the insurer's yearly statutory accounts are required to be submitted to APRA under the Collection of Data Act.

In relation to paragraph 42, where the insurer has entered into a Limited Risk Transfer Arrangement prior to the effective date, it will not need to seek retrospective approval from APRA. Within 20 business days after the effective date, it must notify APRA of any existing Limited Risk Transfer Arrangements. Any Limited Risk Transfer Arrangements proposed to be entered into on, or after, the effective date must be submitted to APRA for prior approval. Submission of such arrangements to APRA may occur prior to the effective date.

In relation only to the insurer's reinsurance arrangements that result in the recognition of reinsurance recoveries for the purposes of prudential reporting, the insurer will comply with paragraph 30 from the effective date to 31 December 2009 if no deduction from Tier 1 capital relating to reinsurance recoveries is assessed under *Prudential Standard GPS 110 Capital Adequacy*.

#### **Application for a later date to comply with particular requirements**

APRA has the ability to determine a later date to comply with particular requirements of this Prudential Standard (**compliance date**), provided that APRA shall not determine a compliance date later than 31 December 2007. APRA cannot exercise this discretion where the failure of the insurer to be able to comply by the effective date is due to the inaction of the board and management in making adequate preparations to comply with this Prudential Standard.

In relation to an application for a compliance date later than the effective date, the criteria that APRA will consider in assessing the application are:

- (a) the insurer has submitted the application to APRA 20 business days before the effective date;



- (b) the insurer can demonstrate that since the determination date of this Prudential Standard, it has been taking reasonable actions to ensure that it will be in a position to comply with this Prudential Standard by the effective date; and
- (c) the insurer can demonstrate that since the determination date of this Prudential Standard, one of the following issues has given rise to the inability of the insurer to comply with this Prudential Standard by the effective date:
  - (i) an event has occurred, outside the insurer's control that has led to it being in a position where it cannot comply with this Prudential Standard (e.g. loss of a key person);
  - (ii) the insurer has not been able to retain human resources of sufficient skill and experience after a genuine market search within a period that would enable the insurer to put in place the necessary policies, systems and procedures to ensure compliance with this Prudential Standard by the effective date; or
  - (iii) for a foreign insurer, it cannot comply with this Prudential Standard by the effective date due to delays caused by home country regulatory issues relating to a significant demonstrable inconsistency between this Prudential Standard and legal requirements imposed by its home country regulator.