

## APPENDIX 3.2: SUMMARY OF PRUDENTIAL, ACTUARIAL AND OPERATING STANDARDS

Requirement	Authorised Deposit-taking Institutions (ADIs) <sup>1</sup>	Life insurance companies <sup>2</sup>	General insurance companies <sup>3</sup>	Superannuation trustees
Capital adequacy and solvency	Standards relate to: <ul style="list-style-type: none"> <li>• minimum capital adequacy requirements;</li> <li>• the measurement of capital base;</li> <li>• capital requirements for credit risk; and</li> <li>• capital requirements for market risk.</li> </ul>	Statutory Fund standards relate to: <ul style="list-style-type: none"> <li>• solvency in a run-off situation; and</li> <li>• ongoing capital adequacy requirements.</li> </ul>	Standards relate to: <ul style="list-style-type: none"> <li>• minimum capital requirements;</li> <li>• measurement of capital base; and</li> <li>• measurement of risk: <ul style="list-style-type: none"> <li>– insurance risk;</li> <li>– investment risk; and</li> <li>– concentration risk.</li> </ul> </li> </ul>	Part 2 of the <i>Superannuation Industry (Supervision) Act 1993</i> provides for approved trustees (of public offer entities) to meet prescribed capital requirements.
Liquidity	Standards relate to: <ul style="list-style-type: none"> <li>• liquidity management requirements;</li> <li>• scenario analysis; and</li> <li>• minimum requirements.</li> </ul>			
Other	Standards include: <ul style="list-style-type: none"> <li>• conglomerate structures;</li> <li>• association with related entities;</li> <li>• risks from non-deposit taking activity;</li> <li>• large exposures;</li> <li>• credit quality;</li> <li>• credit card activities;</li> <li>• securitisation and funds management; and</li> <li>• operational risk (outsourcing).</li> </ul>	Standards include: <ul style="list-style-type: none"> <li>• capital adequacy of the management fund;</li> <li>• valuation of policy liabilities;</li> <li>• calculating surrender values and paid-up values; and</li> <li>• cost of investment performance guarantees.</li> </ul>	Standards include: <ul style="list-style-type: none"> <li>• asset valuation;</li> <li>• liability valuation;</li> <li>• other risk management practices;</li> <li>• reinsurance arrangements; and</li> <li>• transfer and amalgamation of insurance businesses.</li> </ul>	

## Study of Financial System Guarantees

### Notes

#### 1 Authorised Deposit-taking Institutions (ADIs)

- The *Banking Act 1959* (Section 13A) requires ADIs to inform Australia Prudential Regulation Authority (APRA) of distress and hold assets in Australia in excess of deposit liabilities in Australia.
- APRA has standing to determine a compulsory Transfer of Business.
- Only APRA has standing to act as a Statutory Manager or appoint an Administrator. APRA may direct an Administrator. Other parties may seek appointment of receivers should APRA not choose to act.
- If a Statutory Manager has been appointed, only APRA has standing to seek winding-up of an ADI which occurs under the *Corporations Act 2001*.

#### 2 Life Insurance

- The *Life Insurance Act 1995* requires life insurance companies (LICs) to maintain statutory funds, to maintain solvency, capital adequacy and management capital and restricts encumbrance of fund assets.
- APRA has standing to determine a compulsory Transfer of Business.
- APRA or the LIC (having provided notice to APRA) may seek Court appointment of a Judicial Manager. The Court may direct a Judicial Manager, and APRA may apply to Court for direction. The Court decides upon its orders upon the recommendation of the Judicial Manager.
- APRA (after investigation) and the Judicial Manager have standing to seek winding-up of a LIC which occurs under the *Corporations Act*.

#### 3 General Insurance

- The *Insurance Act 1973* requires insurance companies to hold assets in excess of liabilities.
- APRA must pre-approve a scheme for a voluntary Transfer of Business before Federal Court consideration. Other parties may seek appointment of receivers should APRA not choose to act.
- APRA may not seek appointment of an Official Manager, but may appoint an inspector and direct an insurance company.
- Section 562A of the *Corporations Act 2001* provides that the proceeds of reinsurance assets is available to policyholders above other priority claims.
- APRA has joint standing to seek winding-up of an insurance company under the *Corporations Act* (Section 462(3)) — on the grounds that an Inspector has been appointed or liabilities exceed assets.