



4 May 2022

General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority  
Level 12, 1 Martin Place  
**SYDNEY NSW 2000**

By email: [policydevelopment@apra.gov.au](mailto:policydevelopment@apra.gov.au)

Dear Sir or Madam,

### **Proposal to centralise and amend the definition of significant financial institution**

The Insurance Council of Australia (**Insurance Council**)<sup>i</sup> welcomes the opportunity to provide comment on APRA's 4 April 2022 letter to Regulated Entities in which APRA propose to centralise the definition the significant financial institution (**SFI**) and amend the qualitative criteria (**APRA Letter**).

The Insurance Council acknowledges APRA's stated intent is to consolidate the definition of SFI and make minor amendments to the qualitative criteria. The APRA Letter asserts that the amendments are only minor and states that it does not expect the changes to "materially alter" application of the SFI regime. Further "the main impact" is said to relate to "foreign-owned ADIs". Other impacts are not elaborated on in the APRA Letter.

The Insurance Council does not have any concerns with the stated intent of the consultation, but does have some reservations as to the manner in which consultation has been conducted. In particular:

- the consultation period was for a nominal four-week period which overlay the two-week Easter school period, during which relevant staff in many Regulated Entities took leave. As a result, the effective consultation period was two weeks; and
- the APRA Letter does not contain an explanation of the matters APRA will take into account when determining if an insurer's operations are sufficiently "complex", or what about its "group membership" are relevant such that APRA will determine an insurer to be a SFI; and
- the APRA Letter does not outline what other matters APRA may take into account when determining an insurer to be a SFI. Complexity and group membership are expressed to be only indicative matters and not a comprehensive list of matters.

The absence of meaningful information in the APRA Letter and an effective two-week consultation period, in effect, deprives the industry of the opportunity to form its own view as to whether there are any "minor impacts" from the change to the qualitative criteria.

As additional matters, we note that:

- APRA seems to be complicating the prudential framework with the use of an increasing number of different terminology and criteria. Examples include:

1. a single entity might be an authorised Non-Operating Holding Company; Internationally Active Insurance Group; SFI; Head of a group; Level 2 insurance group; APRA-regulated entity etc; and
  2. it is unclear whether an entity's SFI status is, or should be, reflected in its tiering under APRA's Supervision Risk and Intensity Model;
- proposing this definitional change to SFI at a time when insurers are:
    1. implementing CPS 511 (Remuneration); and
    2. at the same time as the CPS 190 (Financial Contingency Planning) and CPS 900 (Resolution Planning) consultation is in progress

is inefficient and duplicates work for insurers seeking to engage with this change and consultation in good faith;

- there is also a lack of clarity of how the 'critical function' concept in CPS 900 interacts with the definition of an SFI. For example, does it have the effect of bringing a non-SFI regulated entity into the scope of CPS 900 without changing its status as a non-SFI? Or does it mean the regulated entity is an SFI for some purposes but not for others?; and
- the inclusion of a SFI definition in GPS 001 (Definitions) and the broadening of its application, will have unintended consequences on other standards within APRA's prudential framework, which may not be apparent now but may have far reaching consequences. The compliance impacts may also be significant, particularly for entities that APRA has yet to determine to be an SFI. We recommend APRA engage early with individual general insurers that may be determined to be SFIs in order to understand where there may be unintended consequences.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Aparna Reddy, General Manager, Policy – Regulatory Affairs, on telephone: 0427 902 960 or email: [areddy@insurancecouncil.com.au](mailto:areddy@insurancecouncil.com.au).

Yours sincerely



**Andrew Hall**  
Executive Director and CEO

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<sup>i</sup> The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 95% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$59.2 billion per annum and on average pays out \$148.7 million in claims each working day (\$38.8 billion per year).