

30 January 2026

General Manager, Policy and Frameworks
Policy Development
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear APRA,

Targeted consultation on CPS 230 for non-traditional service providers

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback on behalf of our members to the Australian Prudential Regulation Authority's (APRA) targeted consultation on *Prudential Standard CPS 230 Operational Risk Management* (CPS 230) for non-traditional service providers (NTSPs).¹

The Insurance Council represents the general insurance industry, accounting for approximately 85 per cent of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people and on average pays out \$147 million claims each working day (\$36.5 billion per year).

Current proposals

The Insurance Council welcomes APRA's proposed amendments to CPS 230 and its recognition of the compliance challenges general insurers face when engaging with certain Material Service Providers (MSPs), particularly the newly proposed Non-Traditional Service Providers (NTSPs).

General insurers can have limited bargaining power with NTSPs, and arrangements with these companies frequently involve standardised contracts or, in some cases, no formal agreement, making compliance with contractual and service level obligations difficult.

We welcome APRA's proposals to exempt certain material arrangements with NTSPs from the contractual and service level obligations outlined in paragraphs 54, 55, 56(d), 57, 58(a) and 58(c) of CPS 230.

The Insurance Council supports removing obligations that insurers cannot fulfil, reducing unnecessary regulatory burden and non-compliance risk.

We note the proposed exemption will apply only where the arrangement:

1. Is with an MSP included in the new Attachment to CPS 230; and
2. Operates under a standardised contract or is not subject to a formal agreement.

While we welcome the clarity of the proposed exemption test, these proposals can be enhanced by addressing the following:

- **Rigidity of proposed Paragraph 58 and the 'standardised contract' definition:** NTSP contracts typically operate under a fixed legal framework with only limited scope to negotiate

¹ [APRA \(December 2025\) Consultation on targeted amendments to CPS 230 Operational Risk Management.](#)

commercial pricing such as service levels, volumes or implementation. Under the proposed 'standardised contract' definition, even minor commercial negotiations may cause the arrangement to be treated as non-standard, despite the core legal and risk provisions remain unchanged. This may not accurately reflect the true risk profile and can lead to inconsistent treatment of similar NTSP contracts.

- **Scope of the proposed NTSP list:** The preliminary list and providers listed may create uncertainty and exacerbate compliance challenges. The NTSP list may be interpreted as exhaustive, creating uncertainty about whether all listed vendors must be treated as MSPs. It is likely that more suppliers will be treated as MSPs over time.
- **NTSPs by type:** APRA may wish to consider describing NTSPs by reference to their functional type in the list, rather than naming specific providers. This would help avoid inadvertently influencing entities' supplier choices, which could give rise to competition concerns.

We provide further detail and respond to the consultation questions in **Appendix A** below.

Recommendations

To help ensure consistent compliance with CPS 230, the Insurance Council recommend APRA adopt the following measures:

1. Expand the categories of NTSPs eligible for CPS 230 exemptions to include:
 - ADIs and correspondent banks (domestic and foreign): Insurers report that they rely on ADIs for critical functions and use standard product terms with limited ability to negotiate. Disruptions to these service providers poses significant operational risk and adverse consumer impacts.
 - Government departments: These agencies frequently operate using standardised terms that cannot be negotiated.
2. Adopt a flexible classification approach:
 - Refer to NTSPs by type rather than naming specific providers.
 - Clearly state that the NTSP list is non-exhaustive and indicative only; and
 - Allow for sector-specific adjustments to accommodate emerging providers and evolving operational needs.
3. Implement a periodic review of the NTSP list to ensure it remains relevant and reflects market developments.
4. Clarify that a contract may be treated as a 'standardised contract' for the purposes of CPS 230 where the legal structure, risk allocation and regulatory-relevant rights and obligations are pre-determined by the NTSP and not subject to negotiation, even if limited commercial terms may be negotiated.

Conclusion

Thank you for the opportunity to provide feedback. We look forward to APRA's final approach to reduce unnecessary regulatory burden while supporting the overarching objectives of stability and resilience in CPS 230.

If you have any questions or comments in relation to our submission, please contact Leisha Watson, Director Regulatory and Consumer Policy, at lwatson@insurancecouncil.com.au.

Yours sincerely,



Alexandra Hordern

General Manager, Regulatory and Consumer Policy

Appendix A

Consultation Questions

- 1. Do the draft amendments adequately address the challenges regulated entities face when applying the CPS 230 contractual and service level obligations to material arrangements with NTSPs?**

Limitations of proposed Paragraph 58

As stated above, we welcome APRA's work to address the challenges faced by general insurers when dealing with NTSPs.

While the draft amendments, including the proposed exemption in Paragraph 58, are a positive step to recognise the compliance challenges, we note that they do not fully address the challenges regulated entities encounter.

The proposed Paragraph 58 limits the exemption to arrangements that use 'standardised contracts' (contracts prepared by the NTSP and offered on a non-negotiable basis). Under this provision, certain CPS 230 contractual and service-level requirements do not apply where an NTSP arrangement uses a standardised contract or is not subject to a formal agreement.

From our interpretation, in practice, APRA regulated entities may still be unable to rely on the exemption if they have negotiated even minor commercial terms. This would result in inconsistent treatment across entities, where an arrangement may qualify as exemption for one entity that accepts the contract 'as is', but not for another that negotiates minor commercial details.

Although NTSPs are typically standard form, entities often have limited ability to negotiate only the commercial elements, while having no capacity to change the legal terms, including those required for CPS 230 compliance. This may disadvantage entities as the exemption may become unavailable, despite the legal framework remaining fixed and non-negotiable.

Proposed definition of standardised contract

The proposed definition of 'standardised contract' contributes to this rigidity. While intended to capture arrangements where entities have minimal influence over contractual terms, many NTSP arrangements operate under the model where the core legal, governance and risk framework is standardised and applied uniformly across their customers, yet limited negotiation of commercial terms, such as pricing, service levels, volumes or implementation details, is still permitted.

On the basis of the currently proposed wording, we interpret that any degree of negotiation may cause the arrangement to be categorised as non-standard, even where key legal and risk-related provisions remain unchanged. This does not reflect the true risk profile of the arrangement and may lead to inconsistent classification of similar NTSP contracts across different APRA-regulated entities.

- 2. What additional NTSP types or providers should be included in the new CPS 230 Attachment? For each additional type and provider, your submission should explain:**
 - a. why your entity considers the provider to be material. Is it relied upon for the delivery of a critical operation, or does it expose the entity to material operational risk?**
 - b. for material arrangements with this provider, what is the nature of each arrangement, and why is it not possible to maintain a formal agreement that**

meets the contractual and service level obligations contained in paragraphs 54, 55, 56(d), 57, 58(a) and 58(c) of CPS 230?

ADIs and correspondent banks (domestic and foreign)

Our members have identified domestic and foreign ADIs and correspondent banks as MSPs that offer standardised contracts. They typically use standard product terms which are aligned with banking regulations, rather than negotiated agreements. These arrangements are generally based on customer access agreements with limited scope for negotiation.

We recommend domestic and foreign ADI's and correspondence banks are included in the NTSP list because:

- Banks that manage claims payments meet the criteria for CPS 230 MSP under the reliance of a critical operation test.
- Any disruption to services poses a significant operational risk and negatively impacts customers.
- Entities have no ability to negotiate key CPS 230 Paragraph 54 obligations, including risk management, compliance and audit rights, and cannot practically switch providers due to system integration and file format complexities.
- Domestic entities are already subject to strict oversight, are APRA-regulated and therefore must be CPS 230 compliant.

Government departments

We recommend Government departments should be included as NTSPs where they perform critical functions that general insurers rely upon because:

- Engaging with government departments and regulators frequently involves standardised terms that are set with little capacity to negotiate CPS 230 contractual provisions.
- If their critical operations were disrupted, would cause significant operational and consumer detriment.