

Parliamentary Joint Committee on Corporations and Financial Services

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Corporate Insolvency in Australia

Wednesday, 14 December 2022

Division/Agency: Australian Prudential Regulation Authority

Question No: APRA02QW

Topic: **HIH Insurance**

Reference: Written - 23 December 2022

Senator: Deborah O'Neill

Question:

What changes were made to APRA's powers and responsibilities to reduce the risk of general insurers becoming insolvent following the collapse of HIH Insurance in 2001?

Answer:

The *Insurance Act 1973* was amended (primarily by the *General Insurance Reform Act 2001*) to expand APRA's powers in relation to general insurers. In particular:

- APRA acquired the power to make prudential standards in relation to prudential matters including the setting of risk based capital requirements (superseded a minimum \$2m net asset requirement);
- Where a general insurer failed to comply with the requirements of the prudential standards, APRA was empowered, if need be, to use its directions, conditions, investigations and revocation powers;
- Insurers were required to be reauthorised under section 12 of the Act including complying with the increased risk based capital requirements (those unable to do so were placed in run-off);
- Transfers of business were made subject to Federal Court scrutiny and the requirements aligned with those for life companies (with a greater focus on pre and post transfer capital position of the transferee and the transferor and the interests of affected policyholders);
- A power was given to APRA to require a non-operating holding company to be authorised as a condition of a general insurer being authorised (supporting enhanced group supervision);
- General insurers were required to have an approved auditor and actuary (increasing scrutiny of companies' accounts and true financial position); and
- The grounds for giving directions to and investigating general insurers were expanded (including where a threat arose to the security of an insurer's assets or a sudden deterioration occurred in its financial position).

The above changes allowed APRA to be in a better position to fulfil its mandate and functions, including APRA's function as a resolution authority.

In addition, a number of significant changes were made to the *Australian Prudential Regulation Authority Act 1998* (to introduce executive board members in place of its former board and to impose an obligation on APRA to advise the Minister should a regulated body corporate get into financial difficulty).