

4 June 2025

██████████
Senior Manager Cross-Industry Policy
Policy Development
Australian Prudential Regulation Authority
By email: PolicyDevelopment@apra.gov.au

Dear ██████████

APRA Governance Review – Discussion Paper March 2025

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission to the Australian Prudential Regulation Authority (APRA) ‘Governance Review – Discussion Paper’ regarding proposals to strengthen and streamline governance and fit and proper requirements (‘the Governance Review’).¹

The Insurance Council acknowledges the important role corporate governance plays in strengthening an organisation’s risk management practices and risk culture. We agree that companies will benefit from the right mix of skills and experience on their Boards, supported by robust succession planning and conflicts of interest management to help ensure a business’ continued strategic success.

Our submission offers targeted feedback on Proposals 4 (Independence) and 8 (Director Tenure and Renewal) in particular, identifying common challenges these proposals present for our members. We also highlight areas where further consideration by APRA could help ensure the revised governance requirements effectively achieve their intended objectives.

The Insurance Council supports APRA’s engagement during the consultation and proposal to introduce proportionate requirements. We encourage further proportionality in the proposals to better target areas of concern for APRA and solve the problem statements posed.

Background

Our members represent approximately 85 per cent of total premium income written by private sector general insurers, including insurers and reinsurers.² These general insurers may have smaller operations, operate as a foreign branch or may be a subsidiary of a mutual organisation, multinational group, or multi-industry group that have business interests that are not APRA-regulated.

The proposals made in the Governance Review will have varying levels of impact on our members depending on their existing governance arrangements adopted in accordance with their operating model and group structures.

Our members welcome the opportunity to uplift governance practices and note several of the proposals are in line with practices which are already in place in many of our members, commensurate with the size, nature and complexity of their businesses.

We have provided feedback on the challenges and costs of implementing Proposals 4 (Independence) and 8 (Director Tenure and Board Renewal) which will likely outweigh the benefits of appointing

¹ [APRA \(March 2025\), Governance Review - Discussion Paper.](#)

² [Insurance Council of Australia 2024 Annual Report.](#)

additional independent Board Directors to each Board within a Group and enforcing a 10-year tenure limit. In addition to the increased cost of appointing additional independent Board Directors, as many Insurance Council members have a Group of three or more prudentially regulated entities, the proposed changes will also be administratively burdensome to implement and maintain.

The cumulative impact of APRA's proposals and existing requirements will put upwards pressure on Director fees and strain the existing pool of Directors in Australia. We note 1,790 APRA-regulated entities will be required to appoint new independent Directors before the requirements come into effect.³ The proposals are likely to disadvantage entities that cannot absorb the increased compliance and administrative costs or are unable to offer a competitive fee to appoint well-qualified Directors within a limited pool. We note other unintended consequences could include:

- An increase in the appointment of overseas Directors to address potential shortages of local Directors. The increase in these appointments could raise concerns of a lack of experience on Boards from local appointees with experience within local jurisdictions;
- Challenges in satisfying Board composition and independence requirements whilst appointing Directors that have the right skills and capabilities that complement the Board.
- The appointment of additional Directors to each Board within a group may slow down decision-making processes and management decisions, which could impact good consumer outcomes; and
- Prescriptive requirements regarding skills and capabilities may hinder efforts to promote diversity of thought and experience on the Board.

Regulatory burden

Proposals 4 and 8 have the potential to reverse positive steps taken to achieve a one-Group approach to risk management and increases the risk of losing valuable corporate knowledge.⁴ The existence of common directorships across corporate groups can also help to manage contagion risk. The proposals could impact a regulated entity's risk oversight and ability to respond to challenges and execute on its forward-looking strategy.

We acknowledge the problem statement outlined by APRA regarding conflict management and agree that conflicts arising from Group Board participation must be appropriately managed. There are several existing measures and frameworks in place that help minimise the risk of Directors not acting in the best interests of all entities within a Group in the event of financial distress or significant operational disruption. These include the Director best-interest duty, Board-approved capital management frameworks, recovery plans, conflicts management framework and business continuity plans, which prescribes an entity's management action(s) when tolerance levels are exceeded.

Further, regulated entities undertake internal reviews and assurance activities and work with APRA on an ongoing basis to assess the robustness and effectiveness of these measures and frameworks. Insurance Council members have in place detailed appointment and renewal processes which assess the appropriateness of Directors, with some supported by experienced external firms. This is further supported by annual Board performance reviews and assessments.

The Insurance Council recommends APRA:

- Review Proposals 4 and 8 as outlined further within Appendix A to this submission.
- Incorporate further proportionality for insurance groups and entities that are in run-off, are not operating or have smaller operations with respect to Proposal 4.

³ Please see: [APRA website](#).

⁴ See APRA Prudential Practice Guide (April 2018) [CPG 220 Risk Management](#).

- Continue to share learnings and better risk practice to enable industry to continually strengthen risk management and governance; and
- Clarify APRA's intention to apply the requirement to regulated entities only, given the current wording of the proposal states that non-regulated entities within a Group, such as service companies, are in-scope.

Appropriate transition

A combination of a staged implementation and transitional arrangements for Proposals 4 and 8 will be beneficial as many steps will need to be undertaken prior to the appointment of new Directors to help achieve the desired outcome.

For example, regulated entities will likely undertake a holistic Board performance review to identify any areas of improvement that can feed into Board renewal, succession planning, Board skills matrix, Fitness and Proper assessments and conflicts management frameworks.

APRA regulated entities will also require appropriate time to fully consider and implement the final Prudential Standards and Practice Guidance, associated with Proposal 1 (Skills and capabilities), Proposal 2 (Fitness and propriety) and Proposal 6 (Role clarity). We understand from APRA's media release that the intention is for the framework to commence 12 months after publishing.

The Insurance Council recommends that the deadline be deferred for implementation of Proposal 4 and 8, as currently drafted, by at least 24 months after the Prudential Standards come into effect. This is required to provide sufficient time for regulated entities to assess, appoint Directors and make appropriate arrangements for the departure of any Board directors that are approaching or have exceeded the tenure limit. This will help to minimise unintended losses of corporate knowledge. APRA may wish to consider a longer transition period to avoid all regulated entities undertaking the transition at the same time.

Conclusion

We support APRA reviewing the appropriateness of the governance settings and encourage APRA to incorporate further proportionality and transition periods.

The general insurance industry is navigating complex challenges including the impacts of climate change, increasing regulatory reform, and inflationary pressures on claims costs. The cumulative effect of the Governance Review's proposals will further increase compliance and administrative costs. In a general insurance context, the impact may unintentionally exacerbate concerns around the affordability of insurance for Australian consumers.

We would appreciate APRA's further consideration of the impact and cost of the proposals and alternative solutions outlined in the Appendix A to support the development of a fit for purpose prudential framework.

We thank APRA for their valuable engagement with the Insurance Council and our members during the consultation period.

If you have any questions or comments in relation to our submission, please contact [REDACTED], Director Regulatory and Consumer Policy, at [REDACTED].

Yours sincerely,

[REDACTED]
[REDACTED]
General Manager, Regulatory and Consumer Policy

Appendix A

Feedback on Proposals 4 and 8

Proposal 4 – Independence

APRA proposes to require that at least two independent Directors are not members of any other board within the entity's Group. Whilst APRA identified that the compliance costs associated with adopting strengthened governance requirements are likely to fall on entities that have the weakest governance practices, Proposal 4 would present the greatest challenge for Groups that have multiple entities, which is common within the general insurance industry.

The majority of Insurance Council members have nested or mirrored Boards and centralised organisational functions. The Board meetings are undertaken concurrently for intra-group entities due to the aligned commercial interests and shared Group strategy, where there are multiple regulated entities within a Group. The proposal is expected to significantly impact existing governance arrangements including the need to rearrange each entity's Board structure, composition and membership of Board subcommittees within each Group. As a result, Proposal 4 may disproportionately impact the general insurance industry, compared to other industries.

The changes will be administratively burdensome and costly at the outset to maintain, before the intended benefits are realised. For example:

- Separating Board compositions will likely result in the duplication of discussion topics at multiple Board meetings, duplication of meeting packs and papers, differences in views and suggested actions by different Boards, which may impact timely and effective decision-making; and
- For the majority of our members, which comprise of three or more companies, this could require the appointment of around six additional independent Board Directors and a significant cost increase, based on our interpretation of the proposal. For example, two additional Non-Executive Director appointments could range to an additional \$400-\$500K, including ongoing additional administrative expenses. This sum does not account for expected increases to Director fees due to the increased demand for Directors and additional time commitment to attend Board meetings due to the separation of Boards; and
- In the case of mutual companies, they may require votes by members to pass the resolution to change its constitution, in line with corporation law. There is a risk of breaching requirements pursuant to *Prudential Standard CPS 510 Governance (CPS 510)*, if the resolution is not passed.

We recognise that APRA seeks to resolve potential conflicts that may exist where Directors may be sitting on multiple Boards within a Group, which could inhibit a Director's ability to act in the best interest of individual regulated entity(s) that are experiencing a crisis.

For example, the proposal may be effective in improving governance practices and risk management for Groups that have cross-industry business interests. However, not allowing the Chair of the regulated entity to be on the Board of the holding company or parent's Board (or vice versa) can diminish the influence of the Chair of the regulated entity and may not serve in the best interest of policyholders. The proposal could also risk the creation of shadow directorships.

APRA will note that regulated entities are required to have a Board-approved robust capital management framework and recovery plan in place that triggers appropriate management actions, once certain capital thresholds are exceeded, to respond to financial distress. In extreme scenarios, where several entities within a Group are under financial distress, there are powers within APRA's regulatory toolkit to ensure a regulated entity is taking appropriate steps to minimise consumer detriment, if their Resolution and Exit Plan has not worked as intended.

The Insurance Council propose the following alternative solutions, which alongside the supporting measures outlined above and Proposal 3 (Conflicts management), address perceived conflicts that may affect a Board's ability to act in the best interest of all entities within a Group:

- A risk-based approach where enhanced independence requirements are only applied to entities where APRA has identified specific governance or conflict concerns; and
- Relief or transitional flexibility for groups with unified governance structures that have no conflicting interests between regulated entities.

Proposal 8 – Director tenure and renewal

We appreciate that APRA has considered providing flexibility for regulated entities by allowing them to apply for a two-year tenure extension under limited and exceptional circumstances. However, this process would add to regulatory burden and increase the volume of applications made to APRA significantly.

The Insurance Council recommends APRA consider a performance-based Board renewal process to enable regulated entities to extend a Director's tenure beyond 10 years, on a case-by-case basis, if the Board performance review findings suggest that the Board remains effective and is in the best interests of the entity and Group. This may not be limited to Significant Financial Institutions (SFIs) considering many non-SFIs already undertake periodic Board performance reviews or may take the opportunity to strengthen governance practices by adopting requirements of Proposal 5 (Board performance review) even if it is only required of SFIs in the revised *Prudential Standard CPS 510 Governance*.

There are several circumstances where extension or transitional arrangements will be beneficial to regulated entities, including but not limited to:

- Boards with two or more Directors that have served the same tenure. A default tenure limit will require regulated entities to replace these Directors at the same time resulting in significant loss of knowledge, particularly if other Directors are still in their first Director term.
- Significant events such as a financial crisis, pandemic, merger and acquisition or an unexpected loss of a Director (for example, due to illness or death). We note companies have benefited from retaining Directors that have significant corporate knowledge to respond to these challenges; and
- Board Chair replacements, noting that Directors typically serve a significant portion of their Director tenure before their Chair position.

As such, flexibility via a 12-year tenure limit, tenure extension and/or transitional arrangements will be beneficial to minimise disruptions to Boards. We welcome clarification from APRA that, if a tenure limit is put in place, that this will apply to independent directors only.

We view that a 12-year tenure limit would provide more flexibility than the existing proposal and would better accommodate for the varying term durations across the industry. That is, 3-, 4- or 5-year Board Director terms.

We suggest that APRA consider the impact of the proposals for the availability of appropriate Directors. In the insurance context, specific knowledge of general insurance, technology and financial services is beneficial which can be challenging to find domestically.

Further feedback on proposals 2, 3 and 6

Proposal 2 – Fitness and Propriety (Reducing overlap)

APRA will note that regulated financial institutions are required to meet governance requirements including those set out in the Financial Accountability Regime (FAR), CPS 510, *Prudential Standard 520 Fit and Proper* (CPS 520) and *RG 105 AFS licensing: Organisational competence*. ASX-listed companies are highly encouraged to follow the Corporate Governance Principles and Recommendations. We welcome streamlining or centralisation of the ASIC, APRA and FAR governance requirements where possible to reduce duplication.

We suggest there are opportunities to streamline CPS 520, CPS 510 and FAR reporting as follows:

- Aligning the notification timeframes between FAR and CPS 520 to 30 calendar days, which will help to avoid confusion, simplify compliance requirements and tracking of compliance timeframes for notifications.
- Enabling notifications made for FAR purposes in APRA Connect to meet the equivalent requirements under CPS 520. For example, enabling the registration of a new Accountable Person (AP) or change in an AP's title flow through to the equivalent Fit and Proper reporting. This will significantly reduce the administration burden for entities, particularly those with multiple regulated entities.
- Expanding the FAR 'materiality' concept to CPS 520. Currently, a change that may be non-material under FAR such as a change to an AP's title but no change to the AP's responsibilities is not required to be reported. However, a change to a Responsible Person's title is reportable pursuant to CPS 520.
- Allowing for interim appointments to be made under CPS 520 for up to 90 days, without a notification requirement. This would be similar to the 90-day grace period applied to temporary appointments under the FAR; and
- The consideration by APRA and ASIC to develop a shared and centralised platform for entities to manage key personnel, such as company office holders and Responsible Persons.

Proposal 3 – Conflicts management

APRA proposes a single cross-industry set of requirements for conflict management, including the public disclosure of registers of duties and interests.

While we support robust conflict management frameworks, we question the practical value of publicly disclosing these registers. It is unclear how such disclosure would provide meaningful benefit in the context of general insurance. If this is applied to all responsible persons, it could prove unnecessarily burdensome for both individuals and businesses. For Registrable Superannuation Entities (RSE) licensees, this disclosure tool serves a clearer purpose for enhanced transparency and accountability.⁵

Proposal 6 – Role Clarity (Board delegation)

APRA enables the Board to delegate authority to management to act on behalf of the Board with respect to certain matters, as decided by the Board.⁶ APRA indicated that this has not been widely adopted across APRA-regulated entities.

The Board of Directors play an important role in risk oversight and shaping the business strategy and should continue to focus on and approve the business' Risk Appetite and Strategic Plans. With the

⁵ The register of all registrable superannuation entities (RSEs) and RSE licensees regulated by APRA in accordance with the *Superannuation Industry (Supervision) Act 1993*.

⁶ Paragraph 18 of *Prudential Standard CPS 510 Governance*.

increasing regulatory expectations of businesses to manage risks effectively, the Board would benefit from APRA's explicit support to delegate consideration of the following matters to sub-Committees:

- Actuarial framework to the Board Audit Committee.
- Business Continuity Plan to the Board Risk Committee.
- Recovery Plans to Board Audit Committee; and
- Risk Appetite Statement and Risk Management Strategy to Board Risk Committee.

Further considerations

The Insurance Council encourages APRA to provide:

- Further clarification on the intended treatment or changes to governance requirements for category C insurers that have a Senior Office outside Australia (SOOA) in lieu of a local Board. For example, how would Proposal 4 be applied.
- Guidance regarding 'perceived conflicts' (including which perceived conflicts meet the threshold for inclusion in the conflicts of interest registers) to support consistent application of the requirement; and
- Guidance on expectations of foreign owned locally incorporated insurers regarding Fitness and Propriety requirements, given the parent or major shareholder tends to appoint a shareholder representative to the Board. For example, these Directors may not have sufficient local jurisdictional knowledge or language skills or have undertaken similar Director professional development. However, these Directors can contribute through insights and learnings from the parent company and overseas executive experience.