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[By email: policydevelopment@apra.gov.au]

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FAO: General Manager,

Response to discussion paper on the Governance Review

Munich Re is one of the top providers of reinsurance, primary insurance, and insurance-related risk solutions in the world and has operated in Australia for 70 years.

Munich Re provides reinsurance to the Australian General Insurance market through an APRA regulated foreign general insurer (Category C) and provides reinsurance to the Australian Life Insurance market through an APRA regulated Australian company. Additionally Munich Re maintains an Australian service company which supports these business units.

Munich Re's position

Munich Re has reviewed the APRA discussion paper and in particular would like to raise concerns around the proposed requirement on regulated entities *that at least two of their independent directors (including the chair) are not members of any other board within the entity's group* outlined in *Proposal 4 – Independence*.

We acknowledge that APRA has seen *"instances where directors considered to be independent under the current prudential standard have shown a lack of independent judgment"* but we are unclear why it is necessary to change the existing standard to address these instances. As detailed later in the discussion paper APRA already has sanctioning powers, *"APRA has imposed capital overlays to encourage these governance concerns to be addressed"*.

We are therefore concerned that the proposed new requirement will punish all regulated entities for the bad behaviors of the 1% minority. The proposed new requirement will result in board restructuring, the need for additional independent directors and additional cost which will ultimately be paid for by policyholders.

From our perspective the proposed requirement is unnecessary.

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Notwithstanding above, Munich Re is committed to maintaining good governance within our operations, however we believe that the proposed requirement *that at least two of their independent directors (including the chair) are not members of any other board within the entity's group* outlined in *Proposal 4 – Independence* will likely result in poorer oversight and a reduction in good governance practices.

Munich Re (like many market participants) utilizes a service company model where all staff, systems and equipment are supplied to our APRA regulated entities by a local Munich Re service company. In order to provide efficient and effective governance we utilize the same independent non-executive directors on the boards of both our service company and our APRA regulated life company.

We believe this arrangement is optimal as the interests of the service company and the regulated entity are aligned while providing enhanced independent governance & oversight of the operational risks which reside within the service company. The unintended consequence of Proposal 4 is that groups are encouraged to remove independent oversight of service entities.

From our perspective the status quo offers better governance outcomes.

We therefore believe that if the proposal *that at least two of their independent directors (including the chair) are not members of any other board within the entity's group* is to be retained within the new standards, then it needs to be amended. Sensible amendments would include:

1. Limiting the independent directors so *they are not members of any other regulated entity board within the entity's group*; or
2. Providing an exemption mechanism where boards can self-assess their independence.

Yours sincerely

