

Mr Ian Beckett
General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836

Sydney NSW 2001

6 June 2025

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

Dear Mr Beckett,

Response to discussion paper on the Governance Review

The Council of Australian Life Insurers (CALI) is the trusted voice of life insurance in Australia. Our membership comprises 20 life insurers and reinsurers. We support Australians to make informed choices about their future and help them live in a healthy, confident, and secure way. This includes advocating for national policy settings that expand their access to the life insurance protection that suits them when they need it most over their lifetime. Our mission is to ensure Australians view life insurance and the industry as accessible, understandable, and trusted. We do this by supporting our members to deliver the protection and certainty Australians need on their best and worst days.

We support the overarching objective to strengthen governance practices and enhance confidence in the financial system. Feedback from our recent roundtable with APRA and our life insurance members highlighted opportunities to refine elements of the proposals to ensure they are practical, proportionate, and support effective implementation. We believe the industry needs a regulatory approach that upholds strong prudential outcomes while also enabling flexibility and responsiveness to different business structures and operating models.

CALI's detailed comments on the eight proposals set out in APRA's Discussion Paper are included in the attachment titled *Detailed Submission*, including recommendations and requests for additional clarity.

CALI's position

To support the successful implementation of APRA's proposed governance reforms, CALI recommends:

- **Clarifying application of INED requirements:** Confirm that INED requirements apply only to APRA-regulated entities and their regulated subsidiaries, not to unregulated service companies or unrelated subsidiaries, and clarify who the tenure limits apply to (e.g. INEDs and all non-executive directors).
- **Adopting a targeted risk-based approach to Proposal 4(a):** Apply Proposal 4(a) only where there are genuine independence risks, or where APRA has identified concerns with conflict management. Avoid a blanket requirement and allow for proportional application based on the structure and risk profile of the entity.
- **Providing flexibility on board tenure:** Adopt a 10 plus 2-year tenure guideline aligned with ASX Listing Rules, supported by an APRA extension mechanism to extend to 14 years, and allow staggered implementation to accommodate existing contractual terms.

- **Permitting group-level independence arrangements:** Allow independence thresholds to be met at a consolidated group level where shared boards exist across NOHCs, life companies, and support entities, unless arrangements create genuine independence risks, or where APRA has identified concerns with conflict management.
- **Allowing concurrent board meetings:** Explicitly permit concurrent meetings of shared boards across a group, with clear provisions for handling conflicts through separate discussions and reserved matters in Board Charters.
- **Ensuring proportional application of fit and proper notifications:** The standards should require that only *material* concerns, particularly those likely to impact fitness and propriety, require notification to APRA, with guidance on what constitutes a material concern.
- **Streamlining and aligning regulatory requirements:** Identify opportunities to reduce duplication and align expectations across CPS 510, CPS 520, FAR and CPS 511 to support more efficient implementation and consistent governance standards across the industry.

CALI welcomes APRA's reform efforts and appreciates the opportunity to contribute to this consultation. We value the collaborative approach to policy development and look forward to ongoing engagement with APRA to ensure the governance framework is fit for purpose and effectively implemented across the life insurance sector.

Kind regards,



Christine Cupitt
Chief Executive Officer
Council of Australian Life Insurers

Detailed submission

Proposal 1: Director skills and capabilities

CALI supports the principle that boards must possess the right mix of skills and experience to govern effectively. Life insurers already use detailed skills matrices and succession planning processes aligned with their strategic and risk profiles. We understand APRA's intent is not to prescribe a template but to encourage entities to take a critical view of how their current frameworks identify and compare the skills of potential and existing directors.

We appreciate that the proposed reform is aimed at prompting a more robust review process, rather than introducing new documentation requirements. In this context clarity from APRA that the expectation is to enhance, not duplicate, existing practices will help support proportionate implementation.

Proposal 2: Fit and proper requirements

CALI supports the intent to strengthen fit and proper practices, and we recognise the importance of ensuring Responsible Person and Accountable Person appointments are underpinned by robust internal processes. We understand APRA's objective is to shift from a purely compliance-based approach to one that embeds fit and proper practices within the organisation through a policy that is outcome-focused and actively applied, rather than simply meeting minimum standards.

To support this objective, further guidance would help ensure practical and proportionate implementation. For example, clarity is needed on what constitutes a change in personal circumstances that should trigger reassessment, particularly in the context of internal promotions or role changes. We recommend the inclusion of a materiality threshold to guide entities on when a re-assessment is warranted as part of the fit and proper process. For instance, routine or lateral role changes (e.g. where the individual remains within the same risk and accountability context) should not automatically require a new assessment. High-level guiderails, rather than a prescriptive list, could assist with consistent interpretation while allowing entities to exercise informed judgment.

We would also welcome clarity on the timing and process for notifying APRA when a concern has been raised about a person's fitness and propriety. While CALI supports the intent of this proposal and recognises the obligations under the Financial Accountability Regime (FAR), we are concerned about the potential implications of notifying APRA about a Responsible Person's fitness and propriety before an internal investigation or reassessment has been completed. Premature notification may lead to unwarranted perceptions or judgments about an individual before the entity has reached a view based on evidence.

To support consistent and proportionate implementation, we recommend APRA provide further clarity on what constitutes a material "concern" that would trigger notification, particularly in cases where the issue may reasonably be expected to affect fitness and propriety but has not yet been substantiated. We seek confirmation that a notification is required only where there is a material concern and would welcome guidance on the types of matters APRA considers "material". This would help ensure a shared understanding across regulated entities and support measured and appropriate engagement.

We also believe, to provide certainty to regulated entities, it would be good practice for APRA to commit to a defined service standard in respect to fit and proper determinations. For example, APRA providing a response within five business days of receiving all relevant information, to give entities certainty during appointment processes. This would be particularly valuable where internal resourcing or business continuity is at stake. Such a framework could include:

- Acknowledgement of notification within one business day;
- A standard decision-making window (e.g. five business days);
- Flexibility to extend where further information is needed, with transparent communication;

- Informal channels for pre-notification engagement where material concerns may arise.

This type of process would balance the need for oversight with the commercial realities of timely onboarding and allow APRA to tailor engagement to the complexity or risk profile of the appointment.

Proposal 3: Conflict management

CALI supports APRA's objective to strengthen and standardise conflict management practices across the financial services sector. We acknowledge APRA's intention to ensure a level playing field across all regulated entities by applying a consistent framework that has worked effectively in other sectors.

Life insurers already maintain well-established conflict management frameworks, including registers of duties and interests and board recusal protocols. We suggest that public disclosure be limited to relevant duties and interests that may materially impact a director's decision-making within the regulated entity. A principles-based approach that focuses on disclosure of material and relevant conflicts, rather than broad or immaterial interests, would support sound governance and minimise unnecessary reputational risk. This would strike a balance between transparency and the protection of privacy, while preserving confidence in governance processes.

Clarity is sought on whether this proposal extends to service providers that fall outside board oversight or may not be directly visible to directors. We acknowledge that, under CPS 230, boards will be expected to have visibility of material service providers (MSPs) from 1 July 2025. However, we seek guidance on how directors should manage potential conflicts where decision-making authority sits with external service providers (e.g. outsourced IT or cyber security vendors) or in parts of the group outside the regulated entity's direct control. In such scenarios, clear principles around board oversight responsibilities would assist directors in discharging their duties effectively without requiring impractical levels of knowledge or visibility.

Proposal 4: Board independence

CALI supports APRA's focus on conflict management and board independence and acknowledges the important role that INEDs can play in providing objective oversight and challenge.

Members value the contribution of independent voices to governance. However, many life insurers report significant challenges in sourcing appropriately skilled and independent directors with relevant life insurance expertise. This proposed requirement needs to balance maintaining the highest standards for conflicts management, against the requirements to have suitably qualified directors. This issue is particularly acute within a relatively small talent pool and may be exacerbated by the proposed requirement for two INEDs per entity. In practice, this could necessitate widespread board restructuring, particularly for groups with NOHC structures and multiple regulated entities, potentially diluting overall board capability and increasing compliance complexity.

We believe conflicts (actual, potential and perceived) are appropriately managed and addressed by:

- the new independence criteria in proposal 4(b),
- proposal 4(c) of having a majority of INEDs on APRA-regulated life companies and NOHC boards,
- the strengthened conflicts management proposals,
- a life insurer's general obligations under section 912A(1)(aa) of the Corporations Act 2001; and
- FAR obligations for Accountable Entities and Accountable Persons.

We therefore feel that proposal 4(a) should not be applied for structures where there is a lower risk of conflicts of interest. We believe the intent of the reforms can be met without the requirement set out in proposal 4(a). For example, we believe it would be appropriate to have common boards where there is a single NOHC and two life companies within a group already comprising a majority of INEDs. We do not feel that in this example structure,

requiring additional conflict management arrangements such as two INEDs for every APRA-regulated entity is necessary nor is it proportionate.

Given the reforms are aimed at strengthening conflict management, we recommend a risk-based application of proposal 4(a), rather than a one-size-fits-all blanket requirement. In our view, 4(a) should apply only where:

- APRA has identified concerns with conflict management practices or heightened risks; or
- APRA has identified specific material risks to independence within a group or entity that has multiple lines of business.

Where a unique INED is required, due to APRA identifying that a greater separation is warranted, we propose a model that allows for one unique INED per APRA-regulated entity within a consolidated group, with flexibility to hold concurrent board meetings. For clarity, the reference to 'concurrent meetings' refers to board meetings of each regulated entity within the Group, held at the same time and permitting board members to be present in the meeting together. Any residual conflicts can be managed through established protocols such as separate entity specific sessions, reserved matters in Board Charters, and directors' obligations under section 48 of the Life Insurance Act. This approach reflects the practical constraints of a specialised sector like life insurance, where the pool of qualified INEDs is limited.

Finally, for any requirement APRA imposes regarding independent directors, we seek a carve-out for NOHCs that operate solely to support an APRA-regulated entity, allowing independent directors to serve on both boards where appropriate. This is because many life insurers in Australia are foreign-owned and operate under a NOHC structure. These often have shared boards across the APRA-regulated NOHC, the life company, other regulated or non-regulated companies. Non-APRA-regulated service entities often exist solely to support the group (e.g. through employment, infrastructure, or systems). Given this alignment, requiring entirely separate independent directors for each entity may not materially enhance governance and could instead dilute expertise, fragment oversight, and reduce cohesion across the group.

We also welcome the clarification that the proposed requirements under 4(a) and 4(c) apply only to APRA-regulated entities and registered NOHCs and not to non-regulated group entities. This should be explicit in APRA's final standard to ensure clarity and avoid misinterpretation. This includes explicitly confirming that the INED requirement does not extend to unregulated subsidiaries of APRA-regulated entities.

In summary, we recommend APRA:

- Applies Proposal 4(a) using a risk-based basis approach, where conflict management concerns or risk have been identified by APRA, rather than as a blanket requirement.
- Enables a flexible model requiring INEDs where APRA identifies conflict concerns.
- Permits concurrent board meetings across APRA-regulated entities within a group for common matters, with any company specific matter or matters of conflicts managed through existing protocols.
- Provides transitional relief or case-by-case exemptions where there are recruitment constraints or unique structural considerations.
- Allows independent directors to serve on both APRA-regulated entities and aligned NOHCs that operate solely to support those entities, where appropriate, to avoid unnecessary duplication and governance fragmentation.
- Confirms that in relation to 4(a) and 4(c), the requirements apply only to APRA-regulated entities and registered NOHCs, not to unregulated subsidiaries.

Proposal 5: Board performance reviews

CALI supports the proposal to enhance the effectiveness of board performance reviews. We understand APRA's clear expectation is that boards own the review process, scope it with intent, and engage meaningfully to ensure

it delivers real governance value. The emphasis is not on mandating a particular method, but on ensuring the process is taken seriously and aligned with the board's context and responsibilities.

Life insurers have used a variety of approaches (e.g. case studies, board observation, interviews, and documentation review) and we support maintaining this flexibility. We understand the emphasis is on ensuring the process is thoughtfully scoped, evidence-based, and yields insight that can drive continuous improvement in governance.

Proposal 6: Clarity of responsibilities

CALI is supportive of APRA's aim to enhance the clarity of board and committee responsibilities, which can strengthen governance focus and accountability. Many entities have already implemented robust delegation frameworks, and practical guidance from APRA would support further consistency and maturity.

We understand APRA is seeking input from the life insurance industry on which matters boards would consider appropriate to delegate to committees. In our view, areas such as internal audit plans and reporting, material risk reporting, approval of business continuity and recovery and resolution plans, oversight of internal capital adequacy assessment process summary and annual review, review of annual fit and proper assessments and monitoring of risk culture measures are commonly and effectively managed at the committee level, provided there is clear reporting back to the full board. Delegation in these areas allows boards to remain strategically focused while ensuring robust oversight at the appropriate level.

We would welcome APRA's clarification on whether a single board committee within a consolidated group could be delegated authority to consider certain matters on a group basis. This would support practical and efficient governance where responsibilities and decision-making are already centralised across entities, while maintaining appropriate oversight and escalation to regulated entity boards where required.

Proposal 7: Board committees

CALI supports APRA's objective to strengthen board committee structures where they support clearer delineation of responsibilities and enhance oversight. We understand that no additional committee mandates are currently proposed, and that the focus is on clarifying existing expectations. We also support the proposal to remove the requirement for non-SFIs to have separate risk and audit committees

Proposal 8: Board tenure and renewal

CALI acknowledges APRA's intent to strike a balance between the benefits of board renewal and the value of director longevity. We support the principle of regular refreshment but note that a strict 10-year cap may present challenges in certain circumstances, particularly during periods of integration or transformation where maintaining continuity and institutional knowledge is important. We recommend APRA include additional flexibility to enable firms to manage board tenure in certain circumstances while maintaining the underlying objective of board renewal.

We also note that the proposed limit does not align with the governance cycle used by ASX-listed entities, which generally require directors to stand for re-election every three years in accordance with ASX Listing Rule 14.4. A tenure framework aligned with multiples of three years would be more consistent with common practice and more practical to implement.

To address these issues, we would recommend a model that A possible option, which we would welcome APRA considering, is to adopt a 10-year tenure guideline supported by a two-stage extension mechanism. Under this model, entities could extend a director's tenure by up to two additional years, with notification to APRA. Any

further extension beyond that initial period (up to a maximum of 14 years) would require explicit approval from APRA.

Transitional arrangements will also be required to manage the impact on existing directors and potential implications of many licensees renewing their boards in short succession in response to the new standards. To aid transitional arrangements, APRA could apply the tenure limit to all new or reappointed directors following the commencement of the revised standards, and require entities to review and, where appropriate, reappoint existing directors within a defined period (e.g. three years). This approach would support consistency while allowing sufficient time to transition legacy appointments and manage operational continuity.

Alternative approaches such as these would uphold the principle of regular renewal while accommodating the practical needs of entities, particularly those with three- or four-year board terms, where fixed caps can misalign with staggered appointment cycles. It would also provide greater flexibility during periods of organisational change, ensuring critical skills and continuity are not lost prematurely.

We also note that under CPS 510, non-executive directors may include senior managers of the parent company. In these cases, we consider it important that the proposed tenure limits apply specifically to independent non-executive directors (INEDs), given the distinct role that parent company executives play in governance. Applying the tenure cap to senior managers may not align with the intent of promoting independent oversight and could risk constraining valuable executive input into the regulated entity.

In summary, we recommend APRA:

- Provide greater flexibility in the application of tenure limits to reflect the diverse structures and governance needs across the industry.
- Consider adopting a 10 plus 2-year tenure guideline aligned to common three-year board terms under ASX Listing Rules and allows extensions of up to two additional years via APRA approval to retain continuity where needed.
- Apply tenure limits specifically to independent non-executive directors (INEDs), not parent company executives who serve as non-executive directors.
- Explicitly confirm whether the proposed limits apply only to INEDs or to all non-executive directors to avoid misinterpretation.
- Include transitional arrangements that:
 - Apply tenure limits only to new or reappointed directors after commencement of the revised standards.
 - Require reappointment or review of existing directors within a defined window (e.g. three years).
- Enable flexibility during integration or transformation periods where continuity and institutional knowledge are critical.