APPENDIX 3: CURRENT CAPITAL ADEQUACY REQUIREMENTS FOR NON-BANK RETAIL FINANCIAL SERVICES PRODUCTS

Institution	Products	Capital Requirements
Life Insurance Companies		LIFE INSURANCE ACT 1995 Initial capital requirements $10 million plus, • solvency reserves; and • capital adequacy reserves together ("Minimum Reserves"). The solvency standard is designed so that at any time from the assets of a statutory fund the fund can meet all policy and other liabilities referable to it at that time as they become due. The capital standard is so that there are sufficient assets in each statutory fund to provide adequate capital to conduct the business of the fund.
	• Risk products, including life insurance, disability insurance, trauma insurance (*Comment: Asset and liability risk*).	• In general, for risk products, the Minimum Reserve Ratios are not material in relation to the companies' liabilities as a whole.
	• Investment products (super and non-super), including insurance bonds, both single and regular premium. May be: • capital guaranteed (*Comment: Asset risk*).	• For capital guaranteed investment account policies, the Minimum Reserve Ratio is likely to be high, a likely range being 10% to 15%.

Institution	Products	Capital Requirements
	• not capital guaranteed (*Comment: No risk*). May be: • participating • non-participating	• For non-capital guaranteed/non participating investment linked policies (both super and investment only), the Minimum reserve Ratio is likely to be between 1% and 2%
	Annuities, which may be: • allocated, *(Comment: No risk)* • fixed term *(Comment: Asset risk)* • life *(Comment: Asset and liability risk*)	• For annuities in payment, the Minimum Reserve Ratio could be significant at between 10% and 20%.
General Insurance Companies	Risk Insurance including: • property • sickness • accident and unemployment • mortgage insurance (*Comment: Asset and liability risk*)	INSURANCE ACT 1973 Minimum solvency insurance of the greatest of: • $2 million • 15% of net outstanding claim provisions, and • 20% of net premium income per annum. Note: In practice, insurers operate, and indeed the ISC expects, capital holdings which are significantly higher, possibly up to 35%.
Building Societies	Deposits (*Comment: Asset risk)*	PRUDENTIAL STANDARDS ISSUED BY THE AUSTRALIAN FINANCIAL INSTITUTIONS COMMISSION Minimum of 8% of “risk loaded assets”. Each type or class of assets is given a risk weighting, from which a total risk weighting is calculated.

Institution	Products	Capital Requirements
Credit Unions	Deposits *(Comment: Asset risk)*	PRUDENTIAL STANDARDS ISSUED BY THE AUSTRALIAN FINANCIAL INSTITUTIONS COMMISSION Minimum of 8% of "risk loaded assets". Each type or class of assets is given a risk weighting, from which a total risk weighting is calculated.
Superannuation Trustees	Super investment products Can be invested: • through life company statutory funds (see above) or • directly. (*Comment: No risk*)	SUPERANNUATION (INDUSTRY) SUPERVISION ACT 1994 • $5 million NTA or • benefit of guarantee of $5 million, or • custodian with NTA $5 million.
Public Unit Trust Managers	• Non-super trust schemes • Invest directly in assets. • Liability risk from buy back covenant. (*Comment: No product risk*)	CORPORATIONS LAW • No initial capital requirements • Dealers licence may impose minimal liquidity security requirements [Note: Generally does not relate to funds under management.]
Listed Investment Companies	• Investment of subscribed capital in a portfolio of generally listed investments. (*Comment: No risk)*	CORPORATIONS LAW AND ASX LISTING RULES • Generally no capital requirements imposed under Corporations Law • A minimum capitalisation of $2 million is required under ASX Listing Rules.
Trustee Companies	• Common funds (*Comment: No risk*)	TRUSTEES COMPANIES ACT (VIC) • Requirements set down by the Attorney General at time of authorisation.

Institution	Products	Capital Requirements
Friendly Societies	• Insurance bond products (*Comment: No risk unless guaranteed, then asset risk)* • Health, funeral and other benefits *(Comment: Liabilities and asset risk)*	STATE FRIENDLY SOCIETY LEGISLATION • No capital requirements but benefit funds required to hold solvency reserves (requirement to hold not less than 15% of assets in liquid funds in each of its funds).

Note: Asset risk = The risk that assets will not perform to meet liabilities

Liability risk = The risk that liabilities exceed assets.

Does not include business risk, fraud etc.