Victoria Power Networks Pty Ltd

INSURANCE CREDIT MANAGEMENT POLICY

Appendix C

November 2019

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Document no: TBA	Issue no: 2	Issue date: 10 November 2019 Page 1 of 6

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1. Objective of Insurance Credit Management Policy

The Insurance Credit Management Policy for VPN has been developed with the objective of:

- Managing insurance credit risk in a consistent and prudent manner.
- Minimising losses as a result of insurance credit exposures which occur through the placement of insurance to cover risk exposures associated with operating an electricity distribution business.
- Developing a consistent methodology for measuring and reporting insurance credit risk to senior management and the Board.
- Providing the basis for the continued development of procedures, controls and systems to effectively manage the insurance credit risk associated with risk management activities.

The approach to insurance credit risk management is set out within this Policy.

2. Definition of Insurance Credit Risk

Insurance Credit risk is defined as "the risk of loss caused by the failure or inability of an insurer to meet insurance policy cover limits or to possess financial strength to perform in the economic environment".

3. Risk Philosophy

The ultimate responsibility for the risks of the business rests with the Board of Directors. The Directors as representatives of the Shareholders have the responsibility to set a risk framework within which the various risks of the Business are to be managed.

4. Roles and Responsibilities

Through this Insurance Credit Management Policy, the Board of Directors delegate responsibility to management for the ongoing management of insurance credit risk.

4.1 Responsibility Structure

The following have varying degrees of responsibility in relation to insurance credit risk.

4.2 Board of Directors (“Board”)

Board responsibilities include:

- Approval of the Insurance Credit Management Policy.
- Approval of delegations of the Policy.
- Note all breaches of Policy.

4.3 Risk Management and Compliance Committee (“RMCC”)

The RMCC assists the Board with its responsibilities to oversee the risk profile of the Business and the policies, processes and procedures used to ensure the identification, reporting and managing of significant Business risks.

- Review and recommend the Insurance Credit Management Policy.
- Review of actual insurer financial strength ratings versus approved limits.
- Approve insurance credit limits within the scope of the Policy.
- Review in detail any issues considered relevant to prudent risk management activities.

4.4 Chief Executive Officer (“CEO”)

The CEO is to:

- Co-ordinate a Business wide approach to the management of insurance credit risk.
- Where an insurance credit limit breach occurs, approve remedial action for breaches of limits referred by the Chief Financial Officer.
- Be responsible for providing necessary approvals for proposals to go to the RMCC.

4.5 Chief Financial Officer (“CFO”)

The CFO has within delegated authorities, responsibility for the insurance risk management function.

- Review insurance credit risk reporting.
- Review strategy for action upon insurance credit limit breaches and approve where appropriate.

- Report breaches consistent with the reporting requirements.

4.6 Insurance Manager

- Periodically review the Insurance Credit Management Policy.
- Monitor insurance credit ratings versus approved limits on an ongoing basis.
- Co-ordinate insurance credit risk reporting.

5. Approved Insurers

All insurance is to be placed with Approved Insurers. All Approved Insurers must be rated by Standard & Poors (S&P) or equivalent.

Approved Insurers will be based on the list of approved insurers provided by the Insurance Broker to VPN. The RMCC has the discretion to remove or add insurers to the list of Approved Insurers.

The Insurance Broker maintained list of Approved Insurers only includes insurers that typically have an S&P credit rating of A- or equivalent. If an insurer has a credit rating below A-, the insurer will either be removed from the Approved Listing or placed on a "watching brief". VPN is immediately notified by the Insurance Broker if an insurer's credit rating has been downgraded below A-.

Refer to Section 6 Reporting for action required in the event an insurer is removed from the Insurance Broker's Approved Insurers listing.

If an insurer is removed from the Insurance Broker Approved Insurer list resulting in a breach of this policy, the RMCC has the discretion to approve continued use of the insurer and maintenance of the insurer on the Approved Insurer list. The decision to move away from the Insurance Broker Approved List is to be supported by financial analysis including:

- Size of paid-up capital and shareholder funds
- Amount of gross reinsurance and the quality of reinsurers
- Underwriting result, investment income and pre-tax result
- Size of technical reserves
- Solvency margin (shareholder funds/net premium)
- Level of technical reserves to net premium

- Level of insurance debts to shareholder funds
- Change of net premium and shareholder funds
- Level of investment income to pre-tax profit
- Non financial factors such as shareholders, management, underwriting expertise, claims payment record and general market information.

Recommendations for the addition and variations of a rated insurer must be submitted in writing by the CS to the RMCC and include:

- Reasons for the proposed change
- That the new insurer meets the limits outlined in this Policy

6. Reporting

Reporting is to be co-ordinated by the Insurance Manager. In the event an insurer is removed from the Insurance Broker Approved Insurer list, the Insurance Manager is to promptly provide a report to the CFO.

Any breaches of Policy will be reported to the CEO by the CFO and a remedial strategy prepared. All breaches with reasons for the breach are to be reported to the RMCC at the next scheduled RMCC meeting.