

# CPS 234 Compliance Framework

Technical Brief: Data Sovereignty for AI in Insurance

**Essential Reading for:**

Chief Risk Officers • Executive General Manager Risk & Compliance  
Head of Operational Risk • APRA Reporting Managers  
Chief Information Security Officers

BackPro AI  
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[www.backpro.ai](http://www.backpro.ai)

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## 1 Executive Summary

Australian insurance companies face a technology dilemma: AI-powered claims automation offers substantial operational efficiencies (60% processing time reduction), but cloud-based AI services create immediate APRA CPS 234 compliance violations by sending customer claims data offshore.

BackPro AI solves this through complete on-premise deployment within your controlled Australian infrastructure. All customer data, claims documents, and policy information stay in your environment with zero external API calls.

### Key takeaways:

- On-premise deployment avoids CPS 234 data sovereignty violations
- Software licence model eliminates material outsourcing registration
- Complete audit trails support APRA prudential reviews
- Fits within existing CPS 230 operational risk framework
- Board-ready governance framework aligns with CPS 220

## 2 APRA CPS 234 Requirements for Insurance

### 2.1 Information Security Controls

APRA Prudential Standard CPS 234 (Management of Information Security) requires APRA-regulated general and life insurers to:

1. **Maintain information security:** Implement controls to protect information assets, including policyholder data, claims documents, medical records, and financial information from unauthorized access.
2. **Control third-party access:** Where service providers require access to information assets, insurers must maintain adequate contractual protections and oversight mechanisms.
3. **Data sovereignty:** Customer data and claims information must be stored and processed within Australia, or with explicit APRA notification if overseas processing occurs.
4. **Incident response:** Documented procedures for identifying, managing, and reporting information security incidents to APRA within required timeframes (72 hours for material incidents).

### 2.2 The Cloud AI Problem for Claims Processing

Standard cloud AI services create CPS 234 violations when processing claims:

### CPS 234 Violation Examples

**ChatGPT/Claude for claims analysis:**

- Sends customer medical records and claim forms to US-based servers
- Customer data stored outside Australian jurisdiction
- Material information security incident under CPS 234

**Google Gemini for policy interpretation:**

- Policy documents containing customer details processed in Google Cloud
- No control over data retention or secondary use
- Offshore data processing without APRA notification

**Third-party AI APIs:**

- Claims documents uploaded to vendor infrastructure
- Unclear data residency and sovereignty controls
- Potential material outsourcing classification

## 2.3 CPS 234 Compliance Requirements

**Information Asset Classification:**

- Claims documents: *Highly Confidential* (contain medical, financial, personal information)
- Policy documents: *Confidential* (contain coverage details and customer identifiers)
- Assessment notes: *Confidential* (contain decision logic and customer interactions)

**Required Controls:**

- Access controls aligned with least privilege principle
- Encryption at rest and in transit (minimum AES-256)
- Comprehensive audit logging of all data access
- Data residency within Australian jurisdiction
- Regular penetration testing and vulnerability assessments

## 3 BackPro AI Architecture: On-Premise Deployment

### 3.1 Complete Data Sovereignty

BackPro AI deploys entirely within your controlled Australian infrastructure:

### On-Premise Architecture

#### Deployment Options:

- **Azure Australia:** Deploy within your existing Azure subscription (Australia East or Australia Southeast regions)
- **AWS Sydney:** Deploy within your AWS environment (ap-southeast-2 region)
- **GCP Sydney:** Deploy within your GCP project (australia-southeast1 region)
- **On-Premise Data Center:** Deploy on your physical infrastructure (requires Kubernetes)

#### Data Flow:

1. Claims assessor requests claim analysis in your claims system (Guidewire, Duck Creek, etc.)
2. Claims system API calls BackPro AI within your infrastructure
3. BackPro AI accesses claims documents from your document management system
4. All processing occurs within your controlled environment
5. Results returned to claims system—zero external API calls

### 3.2 Zero External API Calls

Unlike cloud AI services, BackPro AI:

- Does not send data to external vendors
- Does not require internet connectivity for AI processing
- Does not store data outside your infrastructure
- Does not create copies of claims documents
- Does not require offshore data processing

All AI models, processing logic, and temporary data remain within your controlled environment.

## 4 Material Outsourcing Classification

### 4.1 Software Licence vs Material Service Provider

APRA distinguishes between software licences and material outsourcing arrangements:

### BackPro AI: Software Licence Model

#### Why BackPro AI avoids material outsourcing:

- **Operational control:** You maintain complete control of claims processing. BackPro is a tool, not a service provider making claims decisions.
- **Data custody:** All customer data remains in your custody. BackPro software processes data within your infrastructure.
- **No service provision:** BackPro provides software functionality, not claims assessment services.
- **Your infrastructure:** Deployed on your servers, using your access controls, within your security perimeter.

#### Comparison to material outsourcing:

*Material outsourcing (APRA notification required):* Third-party vendor operates claims processing service on their infrastructure with access to your customer data.

*Software licence (no APRA notification):* Software tool deployed on your infrastructure for your staff to use in claims processing.

## 4.2 Operational Due Diligence

Even as a software licence, CROs conduct operational due diligence:

#### Control Questions:

1. *Where does customer data reside?* Within your Australian infrastructure only.
2. *Who has access to claims documents?* Your staff via your existing access controls.
3. *Can BackPro access customer data?* No—deployed entirely within your environment.
4. *What happens if contract terminates?* Software continues operating; you retain all data.
5. *How are updates deployed?* Via your controlled deployment process with testing.

## 5 CPS 230 Operational Risk Integration

### 5.1 Operational Risk Management Framework

CPS 230 (Operational Risk Management) requires insurers to maintain effective operational risk controls. BackPro AI integrates with existing frameworks:

**CPS 230 Control Effectiveness****Risk Identification:**

- AI claims assessment classified as operational process enhancement
- Risks documented: model accuracy, escalation procedures, quality monitoring
- Fits within claims processing operational risk category

**Control Environment:**

- **First line:** Claims assessors review AI recommendations with human oversight
- **Second line:** Risk & Compliance monitor AI assessment quality metrics
- **Third line:** Internal Audit includes AI controls in claims audit scope

**Monitoring & Reporting:**

- Real-time dashboards track AI assessment accuracy and escalation rates
- Monthly reporting to Executive Risk Committee on AI control effectiveness
- Quarterly Board Risk Committee reporting on operational risk metrics

## 6 Audit Trail Requirements

### 6.1 APRA Prudential Review Preparation

When APRA conducts prudential reviews, insurers must demonstrate:

1. **Claims Decision Logic:** How claims decisions were reached, including policy clauses applied and assessment reasoning.
2. **Control Effectiveness:** Evidence that AI assessment controls operate effectively and human oversight functions properly.
3. **Data Security:** Comprehensive audit trails of data access, processing, and storage locations.

### 6.2 BackPro AI Audit Capabilities

Complete audit trails for regulatory examination:

### Audit Trail Features

#### Every AI Assessment Includes:

- Claim ID and assessment timestamp
- Policy clauses applied with exact policy wording
- Documents analysed (claim form, photos, quotes, medical reports)
- Decision logic with source attribution
- Confidence score and escalation triggers
- Claims assessor review notes (if escalated)
- Final decision and approval chain

#### Export Formats:

- CSV for data analysis
- PDF for individual claim examination
- JSON for system integration
- Formatted reports for APRA submission

## 7 Board Risk Committee Governance

### 7.1 AI Governance Framework

Pre-built governance framework for Board presentation:

#### Governance Structure:

- **Board Risk Committee:** Quarterly reporting on AI control effectiveness and operational risk
- **Executive Risk Committee:** Monthly review of AI assessment quality and escalation trends
- **AI Steering Committee:** Operational oversight of AI deployment, testing, and continuous improvement
- **Claims Operations:** Day-to-day monitoring and quality assurance

#### Risk Appetite Statement:

*“The insurer will leverage AI to improve claims processing efficiency and consistency while maintaining complete human oversight of complex claims requiring judgment. AI assessment accuracy must exceed 95% for automated claim types, with mandatory escalation of ambiguous cases to experienced claims assessors.”*

## 8 Implementation Roadmap

### 8.1 Deployment Timeline

**Week 1-2: Technical Deployment**

- Deploy BackPro AI within your Australian infrastructure (4-hour deployment)
- Configure integration with claims management system (Guidewire/Duck Creek)
- Connect to document management system for claims document access
- Configure access controls and audit logging

#### **Week 3-4: Testing & Validation**

- Parallel run with existing claims processes (motor vehicle claims pilot)
- Validate AI assessment accuracy against claims assessor decisions
- Refine escalation thresholds and policy interpretation rules
- User acceptance testing with claims assessors

#### **Week 5-6: Governance & Go-Live**

- Board Risk Committee presentation and approval
- Executive Risk Committee operational oversight procedures
- Claims assessor training and change management
- Production go-live for motor vehicle claims

#### **Week 7-8: Expansion**

- Expand to home & contents claims
- Add life insurance and income protection claim types
- Refine AI models based on assessor corrections

## **9 Conclusion**

BackPro AI enables insurance companies to implement claims automation while maintaining complete APRA CPS 234 compliance through on-premise deployment architecture.

#### **CRO Approval Checklist:**

Data sovereignty maintained (on-premise deployment)

Material outsourcing avoided (software licence model)

Audit trails meet APRA prudential review requirements

CPS 230 operational risk controls documented

Board Risk Committee governance framework ready

Claims Operations achieves operational efficiency goals

For technical due diligence or deployment planning, contact BackPro AI at [www.backpro.ai](http://www.backpro.ai).