



**Actuaries
Institute.**

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General Manager, Policy.
Australian Prudential Regulatory Authority
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SYDNEY NSW 2001

Email: PolicyDevelopment@apra.gov.au

Dear General Manager

Targeted adjustments to the general insurance reinsurance framework

The Actuaries Institute ('the Institute') welcomes the opportunity to make a submission on APRA's consultation *Targeted adjustments to the general insurance reinsurance framework*.

The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, enterprise risk management, data analytics and AI, climate change and sustainability, and government services. The Institute has a longstanding commitment to contribute to public policy discussions where our members have relevant expertise. The comments made in this submission are guided by the Institute's 'Public Policy Principles' that any policy measures or changes should promote public wellbeing, consider potential impacts on equity, be evidenced-based and support effectively regulated systems.

Our response is structured under 'General feedback' and 'Specific questions' as set out in section 2 of APRA's consultation.

General feedback

The Institute is pleased to note that APRA has incorporated several key recommendations from our [February 2025 submission](#) into these revised proposals. We have responded to several items in APRA's consultation below.

Reinstatement requirement

We support APRA's decision to retain the reinstatement premium requirement within the Insurance Concentration Risk Charge (ICRC).

We note APRA's proposal to remove the requirement for a contractually agreed reinstatement where one is typically not available (for example, in the case of catastrophe bonds). While the updated proposal is both pragmatic and encourages access to alternative forms of capital support, it may lead to regulatory arbitrage where an insurer purchases a catastrophe bond over traditional reinsurance (even where traditional reinsurance is available) simply to avoid the requirement for a reinstatement.

This opportunity for regulatory arbitrage would be mitigated where an estimate of the cost of a reinstatement (or repurchase of equivalent cover following an event) is still required. On one reading of the draft GPS 116 paragraph 28 (the natural perils (NP) reinstatement cost) an estimate of the cost of reinstating or repurchasing cover is still required. We recommend that APRA clarifies paragraph 28 to make it clear that an estimate of the cost of reinstating or repurchasing cover is still required to be included in the natural perils vertical requirement, even for arrangements (such as catastrophe bonds) that do not typically have reinstatements available.

Use of net whole-of-portfolio approach

We support APRA's proposal. Making use of the net whole-of-portfolio approach is consistent with our feedback to the initial consultation from November 2024 where we recommended that APRA retain the existing level of protection to 1 in 200 years on an all perils basis but allow more flexibility in how an insurer structures the protection.

The updated proposal results in the level of capital adequacy being retained while enabling insurers access to alternative single peril (or region) reinsurance and/or capital to suit their risk profile.

Expanded Appointed Actuary (AA) role

We support APRA's proposal. Allowing insurers to seek advice from the AA regarding the capital treatment under GPS 115 (Insurance risk) and GPS 116 (Insurance concentration risk) for 'Group B' reinsurance arrangements will streamline the use of these types of reinsurance. Approval for the capital treatment for 'Group C' reinsurance arrangements remains with APRA.

We recommend APRA monitor this and consider the definition of 'Group B' and 'Group C' arrangements, and whether 'Group B' should be expanded to include additional types of reinsurance. We believe that the AA role could eventually be expanded further to determine the capital treatment for all reinsurance arrangements. We recommend APRA give this further consideration over time, as APRA, AAs, and the Actuaries Institute develop experience, maturity, and confidence in the revised prudential requirements.

Feedback on revised prudential standards and practice guides

Our review of the marked-up drafts of the Prudential Standards and Prudential Practice Guides finds the proposed changes are generally clear and appropriate, although in some cases in GPS 230, the amended reporting requirements appear to be quite prescriptive (for example, requiring a copy of the return period table for Reinsurance Arrangements Statement (ReAS)).

Under the proposed CPS 320 paragraph 25(i)(i), the AA must comment, in the Financial Condition Report, on an insurer's capital adequacy including assessing any adjustments to the insurance concentration risk charge and insurance risk charge that were *based on the Appointed Actuary's advice*. We recommend this commentary should be broader and include any adjustments, regardless of whether they were determined by APRA, or based on the AA's advice.

Specific feedback

1. APRA proposes that these changes, including the accompanying reporting changes, come into effect on 1 January 2027, allowing approximately 6 months for implementation. Is this timeline appropriate?

Our view is that the proposed timeline is generally appropriate. The Actuaries Institute can liaise with APRA and AAs to determine what professional practice documentation (such as Professional Standards or Guidance) would assist AAs, as well as training materials or education sessions.

2. Do the proposals strike the right balance between improving access to alternative forms of reinsurance and maintaining financial safety?

The updated proposals improve access to alternative forms of reinsurance, while maintaining financial safety. As noted above, we believe the proposals could be modified to further improve on these objectives through:

- Clarifying that an estimate of the cost of reinstatement (or repurchase of appropriate cover) for arrangements such as catastrophe bonds is still required under paragraph 28 of the revised GPS 116. This would mitigate the arbitrage potential and risk of insufficient capital adequacy post-event resulting from differing reinstatement requirements under different types of arrangements;
- Consideration should be given to further expanding the AA role.

3. How will these revisions impact the speed at which the capital treatment of reinsurance arrangements under GPS 115 and GPS 116 is determined?

We believe the updated proposals will improve the speed of capital treatment determination for most reinsurance arrangements.

4. Are there any other barriers to accessing alternative reinsurance arrangements in APRA's prudential framework? If so, how can they be reduced?

We believe the proposed changes address the primary barriers.

5. Are there material costs associated with these proposals (one-off or ongoing compliance costs)? If so, what are they?

The Institute does not have a view on this question.

Conclusion

The Institute supports APRA's revised proposals for targeted adjustments to the general insurance reinsurance framework. The proposals demonstrate APRA's responsiveness to stakeholder feedback and represent a more practical and targeted approach to facilitating access to alternative reinsurance arrangements while maintaining prudential soundness.

The Institute is committed to working collaboratively with APRA and with AAs to ensure successful implementation. From a practical implementation point of view, the Institute will:

1. Assess the need for, and develop, Professional Standards or Practice Guidelines that will be applicable to AAs
2. Facilitate upskilling and professional development among our members
3. Provide feedback on practical implementation challenges as they emerge
4. Participate in any working groups or consultations APRA may establish.

We appreciate the opportunity to provide input on these important reforms and would be pleased to discuss any aspect of this submission with APRA. If you would like to, please contact the Institute via (02) 9239 6100 or public_policy@actuaries.asn.au.

Yours sincerely,

[Signed]
Elayne Grace
CEO