

23 July 2021

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Via email: [REDACTED]

Consultation on draft Prudential Practice Guide CPG 511 Remuneration.

Aon Advisory Australia Pty Ltd ('Aon') appreciates the opportunity to provide a submission in response to the Prudential Practice Guide CPG 511 Remuneration (CPG 511) that was released for consultation on 30 April 2021 by the Australian Prudential Regulation Authority ('APRA').

Aon partners with a broad range of global and local organisations to help them make data-driven decisions to hire, retain and engage top talent. Our remuneration advice leverages the depth and breadth of our global data under our McLagan brand, and our local data covering numerous sectors of financial services. In Australia, this includes but is not limited to Banking, Superannuation, General Insurance, Life Insurance, Health Insurance and Reinsurance. This comprehensive data set that Aon has produced for over 25 years has placed us in a unique position to provide valuable insights and advisory services to locally regulated entities.

Based on our experience and knowledge from working with clients of all sizes (both for profit and member based) within the insurance, health insurance and registrable superannuation entities sectors, we have provided a limited number of observations of the Practice Guide (the Guide) requiring further consideration and clarification.

We thank you for your consideration and request that you do not hesitate to contact us if you would like to discuss any aspect of our submission in more detail.

Yours sincerely

[REDACTED]

[REDACTED]

Corporate Governance & Private Market Practice Lead Australia

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon's human capital business provides leaders with a powerful mix of data, analytics and advice to help them make better workforce decisions. Our team, spanning 2,000 colleagues in more than 30 countries, includes the firm's rewards, talent assessment and performance & analytics practices. To learn more, visit [humancapital.aon.com](https://www.aon.com/humancapital).

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1. Proportionate approach

With substantial industry consolidation occurring across the insurance and superannuation sectors Aon suggests that APRA provides guidance on a transition timeframe post commencement of the standard for which an entity will be expected to comply if it is notified by APRA and/or expects its status to change from non-SFI to SFI.

2. Role of the Board in determining 'material weight' of non-financial measures

Aon welcomes APRA's more pronounced 'principles based' approach in determining 'material weight' of non-financial measures (paragraph 5).

Under a principles based approach, Boards are expected to define materiality in their business context, in addition to ensuring that financial performance measures are not the only or predominate driver of remuneration outcomes (paragraph 43).

Aon expects the industry to have varying interpretations of materiality and what is deemed an appropriate balance between financial and non-financial measures. We are concerned that the Guide does not provide sufficient clarity on the factors the Board needs to address to determine appropriate 'material weight'. Additional guidance may lessen ambiguity and risk of misinterpretation that is misaligned with policy intent.

3. Non-financial metrics and remuneration design

APRA has provided a list of common non-financial measures and described good design principles when incorporating non-financial metrics. Aon notes that Table 3 is for illustrative purposes only, however we are concerned it may lead some organisations to simply place these metrics in an incentive scorecard in the belief it satisfies the requirements of the standard.

Aon suggests APRA provides illustrative examples of good design principles, specifically showing the application of non-financial measures to various incentive design elements and their interaction with financial measures.