

25 June 2021

General Manager, Policy Development
Policy and Advice Division
Australia Prudential Regulation Authority
Level 12, 1 Martin Place
Sydney, NSW, 2001

Dear Sir / Madam,

RE: Aon submission to APRA Response Paper – Revisions to Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge (8 April 2021)

This submission sets out Aon's response to the consultation package released by Australia Prudential Regulation Authority ("APRA ") on 8 April 2021.

- Response Paper – Revisions to Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge dated 8th April 2021 ("the Response Paper"); and
- Draft Prudential Standard LPS 117 Capital Adequacy: Asset Concentration Risk Charge dated April 2021 ("Draft LPS117").

Please note that our submission can be made public.

Aon is in a unique position as we are neither an insurer nor reinsurer, however, we are a key stakeholder in the life reinsurance industry. The views we present here are based on our experience and interactions with the many stakeholders in the industry - in particular, insurers, reinsurers (both local and offshore), and superannuation trustees. Our primary business is to provide risk and capital management consulting, reinsurance strategy and reinsurance placement services to both the life and general insurance industry in Australia. We have specifically been involved in many transactions where offshore reinsurance capacity is sought by the local insurers and reinsurers such that they can continue to support the Australian insurance and superannuation industry during these challenging times.

Aon's Position

Aon's overall position remains materially unchanged and as stated in our letter to APRA dated 10 May 2019.

With the continued emergence of the so-called mega-funds and the significant risk and capital requirements these funds generate for the insurance industry, it is essential that the Australian life insurance industry continues to have open and sustainable access to the global capital markets. The Australian life insurance industry needs to remain sufficiently attractive to all reinsurers - both local reinsurers (all with global parents) and offshore reinsurers - such to nourish a deep and vibrant market necessary for sustainability, and to achieve best member and policy holder outcome. In particular:



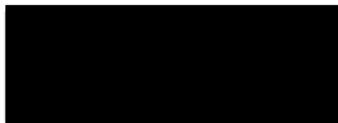
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- Global markets provide direct access and insight to global insurance trends, technology development and product innovation. Having access to a broader range of global thought leaders will ensure best member outcome in terms of both proposition and sustainability of price.
- As witnessed during 2013, local reinsurer risk appetite and capacity can quickly change at any time for large group risk schemes. It is imperative any changes to the draft standard do not increase the threat of such a repeatable event. Without direct and appropriate access to global capital and reinsurance markets, the financial security of the Australian group risk market would be weakened, resulting in an increased risk of market failure.
- With the continuing impact of the global pandemic, there is greater focus on tail risk and volatility management. This is a very specialised area of reinsurance, even on the global stage, and we observe that onshore reinsurers tend to have very limited appetite for such risk.

In the coming years, as each fund and group risk policy substantially increase in size and risk exposure (through the merging of funds), local insurers will need to look to multiple reinsurance markets and risk transfer structures to effectively manage these unique risks. We wish APRA to ensure that the revised LPS 117, considers these emerging trends and risks, and strikes the right balance in credit risk, competition, and financial security for the life insurance industry. We believe the draft released by APRA has indeed achieved this outcome, and we support the key components of the current draft remaining without material change of intent in the final version.

Overall, Aon welcomes the proposed revisions to LPS117 to improve the effective operation of the standard and the system, and believe it strikes the right balance to meeting APRA's core objectives of improved financial safety and financial system stability.

Kind regards



Head of Life Reinsurance
Reinsurance Solutions
Aon