



28 April 2022

**TO: ALL GENERAL INSURERS**

## **RECOGNITION OF AUSTRALIAN REINSURANCE POOL CORPORATION (ARPC) AS HIGH-GRADE APRA-AUTHORISED REINSURANCE.**

To support the operation of the Government's recently legislated cyclone and cyclone related flood damage reinsurance pool, APRA is proposing to clarify the treatment of reinsurance recoverables from the ARPC. The proposed changes ensure reinsurance recoverables are not subject to a capital charge in recognition of the Australian Government guarantee of the ARPC and seek to reduce burden where appropriate.

### **APRA proposal**

APRA proposes to clarify that reinsurance contracts purchased by insurers from the ARPC are to be treated as an exposure guaranteed by the Australian Government. The detail of APRA's proposed amendments is set out in Attachment A.

In May 2021, the Australian Government announced its intention to establish a reinsurance pool covering the risk of property damage caused by cyclone and cyclone related-flood damage. The pool, which is backed by a \$10 billion per annum guarantee and a mechanism to increase the cap to ensure all obligations are met, seeks to improve the accessibility of insurance for households and small businesses in areas exposed to cyclone risk. It is intended to commence on 1 July 2022 and will be administered by the ARPC.

There are capital implications of the reinsurance pool that require APRA to make minor amendments to the prudential framework. As the prudential regulator, APRA is primarily focused on the capital treatment of funds payable from the pool to insurers, and the reinsurance pool's capitalisation plans. As the legislation includes a requirement for the pool to meet all obligations, APRA intends to allow insurers to fully recognise the risk transfer provided by the reinsurance pool.

The proposed amendments focus on clarifying the capital treatment of reinsurance within the reinsurance pool, namely that it is not treated differently to a highly rated APRA authorised reinsurer. In summary, they consist of:

- amending the definition of an APRA authorised reinsurer in *GPS 001 Definitions* (GPS 001) to include the ARPC;
- adding clarification that a reinstatement is not required in *GPS 116 Capital Adequacy Insurance Concentration Risk Charge*;
- removal of footnotes which were added in 2017 to recognise the ARPC terrorism insurance scheme and references to the *Terrorism Insurance Act* (which will be superseded) in *GPS 114 Capital Adequacy Asset Risk Charge* and *GPS 117 Capital Adequacy Asset Concentration Risk Charge*. These will be redundant due to the proposed amendment to GPS 001.

## **Next steps**

Subject to feedback received from this consultation, APRA proposes to revise the current prudential standards:

- *GPS 001 Definitions*
- *GPS 114 Capital Adequacy Asset Risk Charge*
- *GPS 116 Capital Adequacy Insurance Concentration Risk Charge*
- *GPS 117 Capital Adequacy Asset Concentration Charge*

Please refer to the draft prudential standards released together with this letter which includes the proposed changes discussed in this letter. Written submissions on the proposal should be sent to [insurance.policy@apra.gov.au](mailto:insurance.policy@apra.gov.au) by 1 June 2022.

APRA expects to finalise its changes to the framework, subject to feedback received in the consultation, in advance of the commencement of the reinsurance pool on 1 July 2022.

Yours sincerely,

Helen Rowell  
Deputy Chair

## Attachment A – Detail of proposed amendments

Standards to be amended	Amendment required
<i>GPS 001 Definitions</i>	<p>Paragraph 4 (APRA-authorized reinsurer definition):</p> <p><b>Insert</b> for the purposes of the definition that the Australian Reinsurance Pool Corporation is an APRA authorised reinsurer.</p>
<i>GPS 114 Capital Adequacy Asset Risk Charge</i>	<p>Paragraph 73:</p> <p><b>Remove</b> footnote 7 as this will be redundant due to the change in the GPS 001 definition of APRA-authorized reinsurer.</p>
<i>GPS 116 Capital Adequacy Insurance Concentration Risk Charge</i>	<p>Paragraph 16 and Attachment B paragraph 11:</p> <p><b>Add</b> a footnote that reinsurance cover provided by the ARPC will be treated as if it has a contractually agreed reinstatement.</p>
<i>GPS 117 Capital Adequacy Asset Concentration Charge</i>	<p>Paragraph 26:</p> <p><b>Remove</b> footnote 1 as this will be redundant due to the change in the GPS 001 definition of APRA-authorized reinsurer.</p>