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**General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority (“APRA”)**

25 Jul 2025

Dear General Manager,

REF: Response to APRA’s consultation on capital settings for longevity products

General comments

We support all changes aimed at improving outcomes for Australian retirees and we believe this objective can be supported by removing barriers for reinsurance. We are pleased that APRA has recognised the need to adjust the capital settings to encourage the development of innovative and competitively priced longevity products. The proposed adjustments to the LAGIC framework and risk controls represent a positive step toward developing a sustainable longevity market in Australia.

In this context, we have actively engaged with the submission provided by the Council of Australian Life Insurers (CALI) and wish to reaffirm our support for the key recommendations outlined in their response to the consultation. These include:

- Moving away from a prescribed illiquidity premium framework to a more risk-sensitive principles based illiquidity premium framework including:
 - Broadening the reference portfolio and introducing the application of a risk adjustment, i.e. the illiquidity premium should be derived from observed market spreads less a prudent risk adjustment for expected defaults.
 - A longer duration benchmark curve should be adopted given the long-term nature of longevity liabilities, as this better reflects the asset-liability matching horizon and improves the alignment between capital requirements and the economic risks faced by insurers.
- Emphasis on robust risk controls such as requiring cashflow matching and prudent asset selection such that insurers can earn the illiquidity premium under normal and stressed conditions.
- APRA’s proposed regulatory reform may attract more participants to the longevity market which will improve market dynamics in this critical sector as Australia deals with the challenges of an ageing population and should improve pricing for retirees.

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We believe CALI's above recommendations provide a practical and industry-aligned perspective on how the capital and risk frameworks can be further refined to support sustainable growth in the Australian longevity market.

Response to Consultation Paper Question 9

While directionally sound, Pacific Life Re believes, and it has been noted in the CALI submission, that the proposed changes do not go far enough to materially shift the economics of offering longevity products. While it is acknowledged that the key barrier to the expansion of guaranteed longevity products in this market continues to be low customer demand, we are concerned that the capital requirements, even under the revised framework, may still be too onerous to significantly incentivise insurers to expand their offerings in this space. We encourage APRA to consider more ambitious reforms that better align with international best practices (e.g. the matching adjustment under the UK PRA's Solvency II).

Since current regulations are more restrictive relative to many other international markets, it is difficult to bring global reinsurance diversification to the Australian longevity market. We believe that the Australian longevity market would benefit from access to global reinsurers and global asset managers. Reinsurers can bring innovation, additional capital, asset sourcing, diversification and in some cases collateral, that can all add security and improved returns for retirees. We would like to explore with APRA some considered changes to the permitted reinsurance structures and risk mitigant credit given to collateral under LPS 117. For example, adjusting risk mitigant credit levels based on the strength of the counterparty, drawing on principles similar to those considered by the UK PRA under the Solvency II regime.

We note that our proposals are specific to longevity products and are not intended to apply more broadly to other insurance lines. This distinction reflects the different maturity levels of the markets and the structural differences in product design. For example, the large single premium typically seen under longevity products would result in current offshore reinsurer concentration limits being breached much faster relative to other insurance lines. Furthermore, there is already sufficient onshore reinsurance capacity for other insurance lines such that these proposals should not disrupt well-functioning segments of the market.

We appreciate APRA's ongoing engagement with the industry and welcome the opportunity to discuss this submission in further detail. Please contact [REDACTED]

[REDACTED] if you have any questions or require additional information.

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Yours sincerely,



SVP, APAC and Global Strategy Executive

Pacific Life Re Australia



EVP, Savings & Retirement

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