ENSTAR Australia Limited

11 February 2025

General Manager, Policy
Policy and Advice
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear Sir/Madam

Consultation: Targeted adjustments to general insurance reinsurance settings

Thank you for the opportunity to respond to the proposals set out in APRA's consultation on *Targeted adjustments to general insurance reinsurance settings*.

Background

The Enstar Group Limited (**Enstar**), a Bermuda-domiciled, publicly traded company (NASDAQ: ESGR) specialises in the acquisition and management of global insurance run-off policies and legacy risk. Enstar has undertaken in excess of 120 run-off transactions since its formation, to become the industry's largest stand-alone run-off consolidator globally.

In Australia, Enstar operates through Enstar Australia Ltd (**Enstar Australia**) a service company which manages, amongst others, Gordian RunOff Limited (**Gordian**), a wholly owned subsidiary of Enstar. Gordian is authorised as a general insurer by the Australian Prudential Regulation Authority (**APRA**) to conduct run-off business in Australia. Enstar has operated in Australia since its acquisition of Gordian in 2008, at the time Gordian was and remains to this day, Australia's largest solvent run-off general insurer.

Enstar has continued to run-off Gordian's policy obligations in addition to utilising Gordian as a vehicle for executing its acquisition strategy in Australia. Since 2008, Gordian has acquired 16 general insurance portfolios in run-off from other Australian regulated general insurers by way of scheme pursuant to the Insurance Act, Part III, Division 3A. As a result, 11 general insurance licence revocations were possible. Enstar Australia has manged these acquisitions on Gordian's behalf.

More recently Enstar through one of its overseas subsidiaries, namely Cavello Bay Reinsurance Ltd (**Cavello Bay**), has provided Australian insurers with reinsurance products such as Loss Portfolio Transfers (**LPT**) and Adverse Development Covers (**ADC**).

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Cavello Bay is a reinsurer domiciled in Bermuda, with an S&P Insurer Financial Strength rating of 'A' and total assets of US$16.5bn as at 30 September 2024. Where relevant, Enstar Australia assists with Enstar's management of the aforementioned reinsurances.

Consultation

Enstar Australia commends APRA for seeking opportunities to prompt general insurers' access to reinsurance.

Reinsurance is an essential risk transfer and capital management tool which has evolved in recent years. Enstar plays a leading role in the retrospective risk arena to assist market participants in prudent volatility and capital management and it is with this lens that we respond to this submission.

As a number of APRA's highlighted concerns impact the access of prospective reinsurance, we have limited our comments to the issue: *APRA approval of capital benefit of reinsurance arrangements.*

The consultation considers revising the requirement for APRA to approve capital adjustments for certain types of reinsurance such as ADCs, by updating the prudential framework to allow the Appointed Actuary (**AA**) to determine the appropriate capital outcome, thereby eliminating the need for approval submissions to APRA.

Enstar supports this proposal. With appropriate guidance in the prudential framework, an insurer's AA is well placed to opine on the appropriate capital treatment and relief from a reinsurance arrangement.

Enstar has provided a number of retrospective reinsurance arrangements to Australian insurers, a process which involves robust due diligence typically carried out over several months, and extensive contract negotiations. These transactions then pause while the cedant seeks approval for regulatory capital relief.

Inevitably any delay in a transaction leads to additional uncertainty, complexity and cost for both parties. Given APRA's responsibilities to a whole industry, the cedants' AA would conceivably arrive at a conclusion, which would credibly mirror that of APRA, given the AA's role generally, in a reduced time frame. This would assist cedants in achieving their objectives of a more efficient placement in support of their business plans.

We look forward to APRA's further consideration of this as part of its wider consultation in this area and we remain available for discussion or further consultation.

Yours faithfully

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Chief Executive Officer