



Insurance Council
of Australia

7 February 2025

General Manager, Policy
Policy Development
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear Sir/Madam,

Consultation on targeted adjustments to general insurance reinsurance settings

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide a submission to the Australian Prudential Regulation Authority (APRA) consultation on targeted adjustments to general insurance reinsurance settings (the consultation).¹

Our members represent approximately 90 per cent of total premium income written by private sector general insurers, including insurers and reinsurers. The proposals in the consultation will have varying levels of impact to the reinsurance requirements for our members due to their different business and operating models. Our submission outlines the expected impacts of the changes and highlights areas that would benefit from further consideration to help future-proof regulatory requirements.

Current environment

The global reinsurance market has been challenged by a range of factors including the impacts of climate change, increased claims costs arising from increased frequency and severity of natural perils and rising geopolitical instability. The rising cost of traditional reinsurance solutions in recent years has encouraged some insurers to consider alternative reinsurance solutions.

We note that many insurers continue to utilise traditional reinsurance solutions. This can be due to the complexities of alternative reinsurance solutions or the capital relief that can be obtained by purchasing reinsurance that meets APRA's criteria. Some insurers may have the benefit of leveraging group-wide reinsurance programs and must comply with group-level reinsurance requirements.

These factors may impact an insurer's decision to utilise alternative reinsurance solutions or limit the benefits from APRA's proposed adjustments to reinsurance requirements.

Consultation proposals

The Insurance Council welcomes APRA's positive steps towards reducing the regulatory burden and improving the accessibility of alternative reinsurance solutions. We support changes that will allow insurers to more readily access alternatives to reinsurance in order to help address the affordability and accessibility of general insurance.

We note and support the following proposals:

- **All perils requirement:** to allow insurers to calculate the 1-in-200-year loss for the largest single peril and buy all perils reinsurance to that level.
- **Reinstatement requirement:** to lower the return period for which reinstatement is required.

¹ [Australian Prudential Regulation Authority \(APRA.\) \(7 November 2024\), 'Consultation on targeted adjustments to general insurance reinsurance settings'.](#)

- **Reinstatement premium requirement:** to remove the requirement for reinstatement premium to be held in the natural perils vertical requirement and other accumulations vertical requirement of the Insurance Concentration Risk Charge (ICRC).
- **Other requirements and technical issues:** to streamline existing approval processes and reduce the volume of entity referrals to APRA.

Insurers have different reinsurance and capital management strategies in accordance with their risk appetite, as well as supporting processes and controls that will respond differently to the proposed changes. For example:

- the move from 'whole of portfolio' to 'largest single peril' loss regarding APRA's all perils requirement may result in more significant changes and potential benefits for some insurers than others, depending on an insurer's risk exposure. An insurer that is predominantly exposed to a single peril, e.g. due to having a high concentration in a particular geographical region, may have comparable 'whole of portfolio' and 'largest single peril' loss calculations.
- there may be challenges in isolating perils to calculate the 1-in-200-year loss for the 'largest single peril'. However, many insurers' 1-in-200-year-loss calculations are driven by earthquake risk, which may produce a comparable outcome to loss calculations for the largest single peril;
- changes to the all-perils requirement and other technical refinements may cause some operational disruption in the context of reinsurance renewal and capital management. This would benefit from further guidance to enhance understanding and consistent application; and
- the projected cost savings associated with the reduced return period for reinstatement may be minimal.

Further considerations

To ensure that the adjusted reinsurance requirements effectively encourage growth and diversification of the reinsurance market in Australia, we recommend APRA consider:

- the proportionality of reporting to reduce administrative burden for smaller or less complex insurers;
- the capital treatment of the use of offshore reinsurance, as insurers may be required to hold additional capital that may be disproportionate to the counterparty and liquidity risk;
- the appetite for and capital treatment of single peril reinsurance coverage and parametric cover; and
- providing further clarity on the application of the inception date and two-month rule (the rules), which can impact the ability of some insurers to negotiate treaty terms with offshore reinsurance markets.² We note the rules are a departure from previous requirements (i.e. two-month and six-month rule) under APRA's *Prudential Standard GPS 230 Reinsurance Management* and practices that may be observed in reinsurance markets in the United Kingdom, Europe and United States.

² [GPS 230 Reinsurance Management | Prudential Handbook](#), paragraph 41 and 42.

We recommend that guidance is provided on the implementation of the proposed changes. For example:

- guidance for Appointed Actuaries, regarding the capital treatment of certain reinsurance arrangements and definition of 'aggregate reinsurance', to support consistent application across the industry;
- further consultation and guidance regarding the breadth of 'non-modelled risks' to be considered as part of an entity's catastrophe modelling process; and
- guidance to support insurers' implementation of the adjusted all perils requirement, such as its application to trans-Tasman risks and treatment of secondary perils and combined risks.

If you have any questions or comments in relation to our submission, please contact [REDACTED], Advisor, Regulatory Policy at [REDACTED].

Yours sincerely,

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[REDACTED]

General Manager, Regulatory and Consumer Policy