February 2025
To: General Manager, Policy
Australian Prudential Regulatory Authority
Mailto: PolicyDevelopment@apra.gov.au

Consultation on targeted adjustments to general insurance reinsurance settings
Pacific International Insurance – Response to Consultation

Dear General Manager,

We write on behalf of Pacific International Insurance (“Pacific”) with reference to the above-mentioned consultation on the general insurance reinsurance settings. We provide feedback as outlined in the consultation letter and respective attachments. This letter has been prepared by Pacific’s accountable person for Reinsurance, in conjunction with its Chief Risk Officer.

1. <u>How could APRA adjust its reinsurance settings, or its process for approving the capital benefit of reinsurance arrangements, to improve access to all forms of reinsurance for general insurers</u>

Pacific acknowledges that the consultation focuses on three capital requirements, rather than the entirety of the settings. We thus address each adjustment:

- *Allow insurers to calculate the 1-in-200 year loss for the largest single peril and buy all perils reinsurance to that level*
  Pacific does not believe this adjustment would be consistent with global practice to manage insurance concentration risk. It could lead to protecting only the perceived "peak peril" up to the 1-in-200 loss, but ignore other significant perils which contribute to insurance concentration exposure and leave Insurers under-capitalised. This is particularly notable in recent years where "secondary perils" have impacted the operating results and capital position of insurers.
  Therefore, Pacific's view is to leave the 1-in-200 year calculation as an "All Perils" requirement.

- *Given that the probability of two 1-in-200 year losses occurring in a 12-month period is statistically very low, the return period for which reinstatement is required could be lowered (for example to 1-in-100 year loss).*
  Pacific agrees that the probability of two 1-in-200 year losses occurring in a 12-month period is low, however takes the view that "secondary uncertainty" exists and cannot be well-predicted. For example, some modelling experts believe that in a year where such an extreme event occurs, it could be very likely that the conditions leading to such an event persist through the year. This is why globally, it is prudent to have a reinstatement provision for all potential events up to 1-in-200 year loss. However, the lower probability still prevails.
  Therefore, Pacific's view is aligned with APRA's proposal to reduce the reinstatement required to a 1-in-100 year loss.

- *Remove the requirement for reinstatement premium to be held in the natural perils vertical requirement and other accumulations vertical requirement of the ICRC.*
  Pacific does not agree with this proposal and believes that the reinstatement is a cost that is obligatory upon such an extreme event, and therefore should be factored into all calculations of vertical requirement of the ICRC.

2. What are the likely impacts (including costs and benefits) of APRA adjusting requirements outlined in Attachment B?

Aspect	**Proposed Solution**	**Pacific View**
Reinsurance Arrangements Statement	Update the ReAS to require insurers to include detail on catastrophe modelling	We agree that high level details should be provided, however should not be obligatory to detail the full modelling results. For example, insurers could be required to state the models used for each peril modelled.
Definition of aggregate reinsurance	Amend the definition of aggregate reinsurance to reduce the volume of entity referrals to APRA	We agree with this proposal
APRA approval of capital benefit of reinsurance arrangements	Update the prudential framework with principles for considering reinsurance so that for certain arrangements, the AA can determine the appropriate capital outcome. This reduces the need for those arrangements to be submitted to APRA for approval.	We agree with this proposal
Non-modelled risks	Clarify that non-modelled risks must be considered as part of an entity's catastrophe modelling process.	We partially agree with this proposal as detailed. While non-modelled risks must be considered, the Standard / Guide should detail the acceptable methods of considering non-modelled perils e.g. historical analysis or RDS testing of such perils
Reinsurance Contract	Update GPS 230 reinsurance contract requirements to include the need for arbitration and claim payment to be in Australia.	We do not agree with this proposal. There are many circumstances where the reinsurer imposes the seat of arbitration, and therefore this

		adjustment could conflict with a reinsurer's own internal or legislative requirements.
Two-month rule requirement	Amend the 'two month rule' to refer to contract terms being legally binding and remove the requirement for contracts to be 'signed and stamped'.	We agree with this proposal
Reinsurance Guidance	Update reinsurance PPGs to accurately reflect the latest APRA requirements and expectations, alongside streamlining reinsurance guidance	We agree with this proposal

<u>3. Are there any further technical refinements to the GI reinsurance framework that APRA should consider</u>

Pacific has considered the various elements of GPS 230 and GPG 245 and provides the following proposed adjustments:

a) Reinsurance Arrangements Statement submission frequency (paragraph 29 of GPS 230) – Pacific views this requirement to be onerous and does not capture the fluid nature of reinsurance renewals and endorsements. It also misaligns with the frequency of the FCR and annual ICAAP upon which key outputs of the ReAS are based, leaving the accuracy of such submissions dubious. We would propose to have the frequency of ReAS submissions fixed at annual, rather than every 6 months (regardless of when renewals take place).

b) Inception date rule and 2-month rule – given the proposal of Attachment B regarding the 2-month rule, it appears to duplicate the core requirement of having written evidence that the reinsurer is bound by the terms and conditions. Therefore, we would propose to merge these into a single requirement.

c) Reinsurance Declaration – Pacific views this requirement as being misaligned with the global standards and expectations of insurers. It does not consider multiple renewal periods in a year, and appears to duplicate an expectation around reinsurance that is implicit in a board-approved Reinsurance Management Framework and Strategy.

d) Section 4(a) and Section 5 of GPG 245 – Pacific believes section 5 should be reviewed in detail to reflect a more risk-based approach and a more definitive position from APRA on the cession ratio. The 60% guideline appears to be a crude / arbitrary measure with no basis of the calculation provided. Furthermore, we request APRA provides definitive guidance on whether this should be calculated per portfolio / product, or at a "whole of GWP" level. We also request APRA provides definitive industry guidance on the use of 100% QS reinsurance and separating this from the practice of "fronting". To be specific, there are scenarios where certain products require 100% QS reinsurance in order to ensure capital adequacy and appropriate risk management, while still delivering an insurance solution to Australian insureds. However, these scenarios are different from a traditional practice of fronting where the Insurer has no expertise in the class of business and passes all operational and intellectual property burden to a reinsurance.