



General Manager, Policy
Australian Prudential Regulation Authority
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Sydney, NSW 2001
By Email: PolicyDevelopment@apra.gov.au

Confidential

11 February 2025

Re: Consultation on targeted adjustments to general insurance reinsurance settings

Dear General Manager,

Youi welcomes the opportunity to provide feedback on APRA's proposed targeted adjustments to the general insurance reinsurance framework.

Summary

Youi acknowledges the context of the adjustments to the general insurance reinsurance framework and APRA's recognition to improve accessibility of reinsurance for insurers. By removing some of the regulatory burdens, this will help to reduce the challenges faced by insurers in accessing reinsurance, particularly in the context of a hardening global reinsurance market and increasing natural catastrophe risks. Our feedback focuses on areas where APRA's adjustments could improve insurers' access to reinsurance while maintaining financial resilience and alignment with international standards.

The increasing frequency and severity of climate-related natural perils, coupled with rising global catastrophe losses, have contributed to a hardening reinsurance market. This has resulted in higher retentions and increased reinsurance premiums, impacting the affordability of insurance for customers. The Australian reinsurance market operates as part of a global system, and fostering greater competition among reinsurers is essential to ensuring sustainable and cost-effective reinsurance solutions for insurers and policyholders alike.

Youi endorses an approach to reinsurance that could involve buying Catastrophe (Cat) programme better suited to its own risk profile; having the flexibility to buy less reinsurance where deemed not required for capital adequacy purposes; having access to a larger number of potential reinsurers and benefit from increased reinsurance competition; easing regulatory burden and achieve efficiencies; and be able to pass back savings to customers. Youi

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has responded to each of APRA's questions regarding the consultation in a broad approach below and welcome any further discussions around our submission.

About Youi and why the Reinsurance Prudential Standards updates are important to us

Youi is a smaller participant in the Australian general insurance market however Youi, along with smaller insurers and new entrants to the insurance market, plays a vital role in promoting competition in a general insurance landscape dominated by larger insurers. Youi strongly advocates for ensuring the regulatory framework continues in a way that makes it financially feasible for smaller participants to enter and operate within the general insurance market, to promote stronger competition and better outcomes for consumers.

Youi launched in Australia (car insurance) in 2008. From Youi's beginnings as a start-up in Australia 15 years ago, Youi is now an established and trusted insurer in the Australian market and is proud to employ more than 2,700 staff, predominantly based in Australia. Youi is headquartered on the Sunshine Coast in Queensland and has offices in Sydney, Melbourne, Perth, and Brisbane. Youi underwrites and distributes general insurance (car, home, motorcycle, leisure), a small business insurance portfolio, and Compulsory Third-Party Insurance in NSW and SA. Youi's market share in car is approximately 5% and home is approximately 3% as of December 2024. Youi's purpose since inception has been providing customers with a better insurance alternative. To measure Youi's success in providing a better insurance alternative, Youi focusses on three crucial aspects: price, service, and trust - to provide consumers with genuine choice.

At its core, Youi is a human-centric business; Youi values each interaction with a consumer as an opportunity to provide Awesome Service. It is our opinion that advice is best delivered human to human, so that customer questions can be answered. This can also assist in facilitating better pricing outcomes for consumers. Even in the general advice model Youi operates within currently, we would estimate around 20% of every sales call is spent discussing customer enquiries and not directly spent filling out specific insurance quote questions (please note this estimate is indicative only and has not been through a validation process).

Price

Since entering the market, Youi's experience as a challenger brand has been to operate a pricing model that aims to thoroughly understand consumer risk profile and price accordingly. Youi's model is to take the time to gain an understanding of consumer needs, habits, and experiences to ensure product design and pricing offered to our customers is as competitive as possible. For example, since Youi's entry as a participant in the NSW CTP market, CTP premiums for Class 1 vehicles in metro areas have dropped from an average of \$439 in January 2020 to \$430 in

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October 2023, bringing savings of over \$50 million to approximately 5.7 million motorists. Much of this must be attributable to the additional competition brought to the market by Youi as a new entrant.

Service

Youi's overall customer claims satisfaction rating is 85.94% measured from our Customer Service Index (CSI) from the 2024 financial year across all general insurance products. The CSI is based off a survey of customers capturing reported satisfaction with the different points in the customer claims journey (lodgement, assessment, and service).

Trust

Youi's AFCA complaint ratio is 4.87%. Youi has long since advocated for increased transparency at insurer level on claims and dispute outcomes in the Australian general insurance market to better inform consumer decision making when selecting an insurer. Youi considers that transparency on such matters has the potential to directly influence competition, raise industry service standards and promote better outcomes for consumers. To validate this point, Youi looks to the NSW and South Australia CTP claimant rating disclosure practices.

Consultation Feedback

1. Support for Adjustments to Reinsurance Eligibility Criteria

Youi supports APRA's proposed refinements to reinsurance eligibility criteria, particularly the following:

- **All Perils Requirement:**
 - Youi welcomes APRA's consideration of allowing insurers to calculate their 1-in-200-year loss for the largest single peril rather than on a whole-of-portfolio all-perils basis to set the upper limit of the Cat programme for the 1st event. This change would better reflect the structure of Cat programmes placed in many overseas markets.
 - The impact of this change to the level of the upper limit for the 1st event is estimated to be very low due to the upper limit already being largely driven by a whole of portfolio 1-in-200 year earthquake, given cyclone is no longer a contributing peril to the upper limit, due to the Cyclone Reinsurance Pool (CRP) inuring to the benefit of our Cat Excess of Loss (XL) programme, and secondary perils having a very low contribution to our upper limit.
 - Youi acknowledges that this change could introduce new reinsurance markets, including Insurance Linked Securities (ILS). However, Youi is unlikely to use ILS at the top of the Cat programme, as there is already sufficient competition from traditional players at minimum rates on line (ROL). Additionally,

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based on advice from some reinsurance brokers, ILS pricing is not expected to be cheaper higher up the programme.

- Youi notes that some other overseas jurisdictions do not prescribe a whole-of-portfolio basis to determine the upper limit, allowing firms to model based on their peak zone and peril if they choose, e.g. in Youi's case might be a Sydney or Melbourne earthquake. Lloyds uses realistic disaster scenarios like these to help the Lloyds market sense check the adequacy of reinsurance programmes. This lack of prescription to the whole-of-portfolio basis can work well for some insurers by allowing more flexibility in how the entire Cat programme is structured, as long as there is the requirement of overall capital adequacy with a 1-in-200 year confidence level to ensure resilience. Removing the whole-of-portfolio requirement at the 1-in-200 year level to set the upper limit and focussing more on overall capital adequacy of the insurer has the potential to offer savings, and will very much depend on the insurer's portfolio.

- **Reinstatement Requirement:**

- Reducing the reinstatement requirement from 1-in-200 years to a lower return period (e.g. 1-in-100 years) would provide greater flexibility in structuring catastrophe reinsurance programs and better align APRA's approach with other regulatory standards across the globe. This adjustment acknowledges that the probability of multiple extreme events in a short period is low while ensuring adequate capital protection.
- If the definition is whole-of-portfolio single peril, the cost savings associated with the reduction to 1-in-100 years are estimated to be minimal, based on modelling carried out by one of our reinsurance brokers, all else being equal, given the low probability of a second 1-in-200 year event, meaning the technical additional cost of the prepaid reinstatement is likely to be very low in reinsurers' pricing models. The modelling carried out estimates the likelihood of requiring the second limit protection excess of a 1-in-100-year return period is 1-in-27,777 years, meaning the reinstatement cover at this level and beyond could be interpreted to be essentially free. If the return period were lowered to e.g. 1-in-50 years, the cost savings could be higher.
- However if the definition were not prescribed based on the whole-of-portfolio single perils at a particular return period, and rather the entire Cat programme were structured around capital adequacy with a 1-in-200 year confidence level, the cost savings are potentially higher.

- **Reinstatement Premium Requirement:**

- Removing the requirement to hold reinstatement premium within the natural perils vertical requirement of the Insurance Concentration Risk Charge (ICRC), which drives Youi's ICRC calculation, will improve cost-effectiveness and facilitate broader access to alternative reinsurance solutions.

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Moving to a paid reinstatement is estimated to theoretically generate savings of ~\$7m in FY26, based on some modelling carried out by one of our reinsurance brokers, which is estimated to be larger in FY27 and beyond due to Youi's portfolio growth. The ~\$7m theoretical saving in reinsurance spend in isolation would lead to minimal savings for a Youi customer, circa 2.5% for a Youi home insurance policy in Townsville.

The above structural changes could offer several second-order benefits which are not factored in the aforementioned modelling work carried out. By lowering the required upper limits for the first and second event, there is the potential to increase competition at the lower layers of reinsurance programmes. More reinsurers may have the appetite to participate at these lower limits compared to the top of the programme, where capacity is more constrained. Additionally, the changes around reinstatement premiums could encourage greater appetite for paid reinstatements, further enhancing market participation.

These adjustments could also create an opportunity to attract new entrants to the Australian reinsurance market, not only through ILS but also by encouraging participation from traditional reinsurers who have historically not been active in the region.

Ultimately, these changes could help optimise reinsurance spend and improve affordability for end customers. However, the benefits are partly contingent on incumbent reinsurers passing on any theoretical savings from expected reinsurance recoveries. Additionally, the timing of these regulatory changes is critical—if introduced during the wrong point of the reinsurance market cycle or if there are other regulatory or structural changes occurring at a similar time, the immediate benefits may be muted.

2. Role of the Appointed Actuary in Reinsurance Arrangements

Youi supports APRA's proposal to expand the role of the Appointed Actuary (AA) to assess the capital treatment of traditional and alternative reinsurance arrangements. Allowing the AA to review aggregate covers and other structured solutions instead of requiring direct APRA approval would reduce regulatory burden and streamline capital treatment processes while ensuring appropriate risk assessment. This streamlining of processes could carry some efficiencies amongst the teams with involvement in this space, which could lower costs, and ultimately benefit customers.

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Reducing the need for discussions with APRA on new reinsurance arrangements during what is already a busy reinsurance renewal process, will not only reduce the regulatory burden and save time but could also encourage innovation in reinsurance structuring. By streamlining the approval process, insurers may have greater flexibility to explore and execute alternative and bespoke reinsurance solutions that better fit their risk profiles.

This shift could also help reinvigorate the reinsurance marketplace by increasing the volume and variety of transactions, fostering greater competition among reinsurers. In particular, the ability to transact more efficiently and with clearer expectations may attract new entrants to the Australian market, further broadening available capacity and improving overall market dynamics.

A further consideration here could be to allow the AA to assess the capital benefits generated by the entire catastrophe programme, to ensure overall capital adequacy at a 1-in-200 year level. By adopting a more principles-based approach to reinsurance and capital, this would leave it up to insurers to decide based on their own risk profile what is an earnings versus a capital event, and buy the optimal cover for their own portfolio.

Youi seeks APRA's confirmation that this extension would apply to Aggregate reinsurance arrangements, not just Adverse Development Cover and Stop Loss protections.

3. Catastrophe Modelling and Refinement of Reinsurance Definitions

Youi acknowledges APRA's proposal to require insurers to include catastrophe modelling details in the Reinsurance Arrangements Statement. To ensure consistency and practicality, Youi requests further clarity on the specific details required, including:

- The level of granularity needed for catastrophe modelling inputs and outputs?
- Whether APRA expects regular catastrophe model updates or annual reporting suffices?

Additionally, we support the refinement of definitions in the prudential framework to reduce unnecessary referrals to APRA. Streamlining the definition of aggregate reinsurance and clarifying the treatment of non-traditional reinsurance structures will facilitate better industry alignment.

4. Alternative Reinsurance Arrangements and the 2023 APRA Letter on ILS

We appreciate APRA's continued engagement on alternative reinsurance solutions, including catastrophe bonds and other forms of ILS, as highlighted in its August 2023 letter. The proposed adjustments better align with global market practices and will help insurers better diversify their reinsurance strategies. We encourage APRA to further consider

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how regulatory frameworks in jurisdictions such as the UK, Canada, and New Zealand facilitate access to alternative reinsurance and whether additional adjustments may be needed to maintain global competitiveness.

5. Technical Refinements to the Reinsurance Framework

We welcome the proposed technical refinements, including:

- Updating the Reinsurance Arrangements Statement to require catastrophe modelling details.
- Clarifying the treatment of non-modelled risks in catastrophe modelling.
- Adjusting the 'two-month rule' to reflect legally binding contract execution rather than requiring physical signatures and stamps.
- Updating GPS 230 to specify that reinsurance arbitration and claims payments should occur in Australia.
- Refining guidance in Prudential Practice Guides (PPGs) to ensure alignment with capital requirements.

We seek clarification around the two-month rule, in particular whether confirmation emails are viewed by APRA as legally binding, or whether digital signatures by all parties are required within two months.

6. Other Potential Considerations

APRA's collateralisation requirements for non-APRA-authorised reinsurers are often more stringent than in other markets. Some offshore reinsurers find the collateral requirements uneconomical, which reduces competition in the Australian reinsurance market. Furthermore, with reinsurance programmes having many reinsurers, as many as 50, on the Cat XL programme, and many non-APRA authorised, there can be an administrative burden for insurers in seeking collateral from each reinsurer after the second balance date.

Notwithstanding the earlier suggestions on capital adequacy to be looked at more holistically rather than prescribing each event limit of the Cat programme and given the proposed shift in APRA's approach to the first and second event limits, it may be appropriate to revisit the H3 and H4 requirements of the ICRC. The 3rd and 4th event covers that are currently purchased by insurers as a result of H3 and H4 are not necessarily needed for some insurers as much as others, as these scenarios may not be deemed capital events, but more earnings events. Either way, these are the Cat treaties where there is less appetite and competition among reinsurers, and therefore where there is a need in the market to increase competition. Making changes here could have a more profound impact to what insurers purchase, and this could feed back to the original policyholder.

7. Timeline and Implementation Considerations

Given the potential impact of these changes on capital planning and reinsurance structuring, we encourage APRA to provide sufficient transition time for insurers to adjust their programs. We appreciate the indication that new

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prudential standards would not commence before June 2026 and support industry engagement through workshops before finalising specific changes.

Conclusion

Youi supports APRA's efforts to enhance insurers' access to reinsurance while maintaining financial resilience. The proposed changes represent a positive step toward balancing regulatory prudence with market realities. Youi welcomes ongoing engagement with APRA as these reforms advance and consents to the provided information being publicly posted on APRA's website.

If you require any further information or would like to discuss any aspects of our submission, please contact myself or Reg Affairs.

Yours sincerely,

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