

17 December 2025

██████████  
General Manager, Policy  
Australian Prudential Regulation Authority  
Level 12, 1 Martin Place  
SYDNEY NSW 2000

By email: PolicyDevelopment@apra.gov.au

Dear ██████████

## CALI response – APRA adjustments to the capital settings for longevity products

The Council of Australian Life Insurers (**CALI**) welcomes the opportunity to provide further feedback to APRA's proposed adjustments to the capital settings for longevity products.

### Recommendations

1. We recommend that APRA reconsiders its proposed risk allowance floor of 45% of the LTAS reference portfolio and adopts a floor of 35% to align with Solvency II.
2. We recommend that the misestimation allowance in the credit stress spread charge in LPS 114 be removed because risks and sensitivities are already factored into the illiquidity premium.

The need to support high quality retirement outcomes is a national priority. Over 5 million superannuation accounts are currently above the preservation age of 60, 250,000 Australians are retiring every year, and 3.9 million are expected to enter retirement over the next decade.<sup>1</sup>

Consistent with the recommendations of our prior submission on 25 July 2025, we welcome APRA's proposal for a more principles-based approach to the illiquidity premium and accompanying risk controls.

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<sup>1</sup> [APRA Corporate Plan 2025-2026](#)

While weak demand remains a constraint in the short-term, we consider that a principles-based approach supported by the broadening of permitted assets backing longevity products and scope of products eligible for the illiquidity premium will support market growth and innovation.

This is a critical step forward in the development of an accessible, vibrant and diverse market for the longevity and lifetime income products that our members provide.

Our submission is focused on the proposed changes to the calculation of the illiquidity premium and we make two recommendations for APRA's consideration.

## 1. Risk allowance floor

We recommend that APRA considers a lower risk allowance floor than the proposed 45% of the Long Term Average Spread (**LTAS**) for the reference portfolio which would improve alignment with peer jurisdictions.

APRA has raised concerns for the potential of misestimation risk and basis risk arising from the mismatch between actual assets and the reference portfolio as the basis for the proposed 45% risk allowance floor.

CALI notes that Solvency II adopts a floor of 35% of LTAS for the fundamental spread (**FS**) used when calculating policy liabilities under the "matching adjustment" approach.

The Solvency II floor itself, moreover, appears conservative when compared against potential reference indices such as the Bloomberg US Corporate Investment Grade Bond Index<sup>2</sup> where analysis suggests a risk allowance of 20% of LTAS is prudent or Australian corporate bond indices where historical default rates have been even lower.

In this context, we consider that the Solvency II floor already includes a material margin for risk, and any further increase to the floor beyond 35% would act against APRA's aim of improving alignment with peer jurisdictions.

We recommend that APRA reconsiders its proposed risk allowance floor of 45% of the LTAS reference portfolio and adopts a floor of 35% to align with Solvency II.

## 2. Stressed illiquidity premium

APRA has proposed reduction factors which limit the offset provided from the illiquidity premium in calculating the credit spread stress charge in Prudential Standard LPS 114 *Capital Adequacy: Asset Risk Charge*.

APRA notes this approach is "to allow for misestimation of the illiquidity premium, including potential higher defaults in a stressed scenario". APRA also notes that "the introduction of this

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<sup>2</sup> Bloomberg code: LUACSTAT

*adjustment is in line with peer jurisdictions". We consider this misestimation allowance" to be overly cautious.*

The Insurance Capital Standard by the International Association of Insurance Supervisors sets out that in the calculation of the non-default spread risk (**NDSR**) "*all liabilities sensitive to changes in spreads are taken into account in the calculation of the NDSR charge*", and "*the determination of the stressed insurance liabilities, the same stresses (as for the assets) are applied to the input values (for  $t > 0$ ) used to derive the spread adjustments to the relevant base yield curve*".

This, in effect, allows the entire change in spread to be considered in the calculation of stressed liability values. It is not a necessary precaution to allow a portion of the increase in the illiquidity premium to flow through to the credit spread stress charge to account for a misestimation of the illiquidity given risks and sensitivities are already factored into the illiquidity premium. For this reason, we recommend that the misestimation allowance in the context of the calculation of the stressed liability values be removed.

## More information and next steps

If you wish to discuss any of the matters raised in this letter, please do not hesitate to contact [REDACTED], [REDACTED] at [REDACTED]

This submission is made on a non-confidential basis.

Yours sincerely

[REDACTED]

[REDACTED]

[REDACTED]

Council of Australian Life Insurers

## About CALI

CALI is the leading voice of life insurance in Australia. We support Australians to make informed choices about their future and help them live in a healthy, confident and secure way over their lifetime.

Our members' products and services give people peace of mind when making important decisions and provide a financial safety net during life's biggest challenges.

We advocate for national policy settings that expand Australians' access to the life insurance protection that suits them when they need it most.

CALI represents all life insurers and reinsurers in Australia. The Australian life insurance industry is today a \$26.4 billion industry, employing thousands of Australians and paying billions of dollars of benefits each year.

For more information, visit [www.cali.org.au](http://www.cali.org.au)