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To Whom It May Concern

Aon is pleased to provide feedback on the draft prudential standards and prudential guidance as part of APRA's consultation on the general insurance reinsurance framework. Aon agrees to our submission being made public.

As a leading reinsurance broker, Aon is in a strong position to provide APRA with feedback on the proposed adjustments. Whilst we are not an APRA-authorized insurer or reinsurer, we are actively involved in a large majority of the reinsurance transactions emanating from Australia and provide APRA-regulated insurers with advice and input to interpretation of the framework as well as informing their reinsurance strategy and placement decisions.

Aon supports APRA's objectives to facilitate better access to cost-effective reinsurance, to reduce regulatory burden and to improve transparency and consistency across the general insurance industry. We are available to meet with APRA to aid with ensuring APRA's objectives.

The views presented here are based on our experience in placing reinsurance arrangements for APRA-authorized insurers combined with insights gleaned from our global operations in the (re)insurance industry.

Aon sets out our feedback in line with the five questions set forth by APRA.

**APRA Question 1: APRA proposes that these changes, including the accompanying reporting changes, come into effect on 1 January 2027, allowing approximately 6 months for implementation. Is this timeline appropriate?**

Aon considers the proposed timeline above to be appropriate.

**APRA Question 2: Do the proposals strike the right balance between improving access to alternative forms of reinsurance and maintaining financial safety?**

Reinstatement requirements:

Aon agrees in theory that access to alternative forms of reinsurance may be improved by removing reinstatement requirements for arrangements that "... typically do not have reinstatements available". We think that any/all initiatives that increase the interest for insurers in considering alternative reinsurance solutions are worth exploring.

Notwithstanding the above support, Aon believes that, in practice, reinsurance purchasing decisions will remain relatively unchanged due to the following considerations.

1. While in theory the removal of the reinstatement requirement will encourage greater consideration of (and potentially access to) catastrophe bonds or other alternative reinsurance arrangements, we believe that in practice most insurance boards will choose to err on the side of conservatism when structuring their reinsurance programmes and therefore may favour the simplicity of traditional arrangements. The Christchurch Earthquake Sequence in 2010/11, coupled with the significant Australian Hail events in early 2011, remain fresh in the minds of many Insurance Executives and highlight the not improbable chance of multiple events in a treaty period.
2. For some of the larger insurers, there may also be a need to conform to overarching global Group directives around traditional reinsurance purchase.
3. The additional limit that a traditional reinsurance structure with reinstatement can provide allows for more security than a catastrophe bond without reinstatement. Where an insurance company does elect to purchase a catastrophe bond without a reinstatement in place, and that bond is triggered, we question the feasibility of renewing cover in a timely manner and at an acceptable price. Less limit is available at the outset, and financial security may be compromised in the event of a large catastrophe. The uncertainty of this scenario may not be desirable to insurance boards.
4. Further, Aon does not believe there is material financial gain (i.e., in the form of reduced reinsurance premiums) to insurers from using catastrophe bonds at higher layers of reinsurance programmes compared to traditional reinsurance.

Finally, we would suggest that APRA provide clear guidance on what 'typically' means in practice:

“...reinsurance arrangements that typically do not have a reinstatement available, such as catastrophe bonds.”<sup>1</sup>

Certainly, this is understood in relation to catastrophe bonds but there are many other alternative reinsurance protections (e.g., Collateralised Reinsurance, Insurance Loss Warranties, etc.) as well as high rate on line frequency protections that might also be considered as “typically” not having a reinstatement.

Use of the net whole-of-portfolio approach:

Aon acknowledges the operational implication for insurers who must transition to the net whole-of-portfolio approach where reinsurance coverage is incomplete.

Minimising APRA approval requirements:

Aon agrees with and supports the increased role of the Appointed Actuary in determining the capital treatments of some reinsurance arrangements. We acknowledge that APRA must still approve an insurer’s proposed capital treatment in certain instances.

In line with our comment above, we also suggest that APRA provide guidance regarding the Appointed Actuary’s role in determining whether the ‘typically unavailable’ definition of reinstatement is met.

Technical refinements and reporting updates:

Aon supports the technical refinements and reporting updates as set out by APRA. We note that the requirement for additional catastrophe modelling details within the Reinsurance Arrangements Statement improves transparency.

Aon seeks clarification on the explicit allowance for non-modelled risks in the natural perils Probable Maximum Loss (NP PML). Currently the draft GPS 116 standard stipulates that the allowance for non-modelled risks must include:

“...issues that might increase the quantum of catastrophe loss including but not limited to the impact of demand surge, additional living expenses, removal of debris and policy coverages that might increase the quantum of a catastrophe loss.”<sup>2</sup>

The current wording is relatively prescriptive without being exhaustive. Additionally, it is not clear to us whether APRA’s intention is for insurers to separately quantify and disclose each of the listed components. We believe the current wording could be more clearly expressed to avoid differing interpretations in practice.

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<sup>1</sup> Prudential Standard GPS 116 (Cth) 19. (a.) [Draft Prudential Standards - GPS 116 Capital Adequacy Insurance Concentration Risk Charge - marked up.pdf](#)

<sup>2</sup> Prudential Standard GPS 116 (Cth) 24. (c.)

**APRA Question 3: How will these revisions impact the speed at which the capital treatment of reinsurance arrangements under GPS 115 and GPS 116 is determined?**

Aon does not expect any change to the speed in which capital treatment under GPS 115 and 116 is determined.

**APRA Question 4: Are there any other barriers to accessing alternative reinsurance arrangements in APRA's prudential framework? If so, how can they be reduced?**

Aon does not expect there to be any other barriers accessing alternative forms of reinsurance.

**APRA Question 5: Are there material costs associated with these proposals (one-off or ongoing compliance costs)? If so, what are they?**

Aon does not anticipate any material costs associated with these proposals.

As mentioned, we are available to meet with APRA to discuss any of the above topics. Please contact [REDACTED] should you have any questions in relation to our feedback.



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