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Sent via: Insurance.Policy@apra.gov.au

To Whom It May Concern

Aon welcomes the opportunity to provide comments on APRA's response paper on integrating AASB 17 into the capital and reporting frameworks for insurers and updates to the LAGIC framework. Our response is focused on the procedural requirements for contracts (Section 4.8.3). Aon agrees to our submission being made public.

As a leading reinsurance broker, Aon is in a unique position to provide APRA with comments related to the commercial practice regarding documentation of reinsurance arrangements. Whilst we are not an APRA-authorized insurer or reinsurer, we are a key stakeholder in the industry and see a large majority of transactions and documentation relating to reinsurance placement. The views presented here are based on both our experience in placing reinsurance arrangements for APRA-authorized insurers and insights gleaned from our global operations in the (re)insurance industry. We believe it is critical to finalising the intent of the changes and the wording of GPS 230 that Aon meet with APRA to ensure APRA's intent and commercial practice are aligned.

Proposed requirements

As noted in our March 2021 submission, Aon agrees with APRA that great improvement has been made in the insurance / reinsurance industry since the introduction of the two and six month rules. However, this does not mean that there is significant flex in the process to bring that process forward to having terms and coverage finalised by inception and wordings to be finalised, stamped and signed. In fact, Aon remains strongly opposed to the removal of the two / six month rules and replacing them with inception date / two month rule requirements.

This viewpoint is driven by the commercial realities of reinsurance placement: every reinsurance transaction that Aon completes on behalf of APRA-authorized insurers is placed on the basis of "contract at inception" rather than the old practice of a Placing Slip followed by a Contract Wording at a point after inception. "Contract at inception" entails an insurer agreeing with us their required contract wording and reinsurers will agree key details, including premium, share of placement, limits, deductibles etc and appropriately execute a reinsurer signing page attaching to the proposed contract. This process enables clarity for each reinsurer participating as well as the insurer of the coverage in the event of a loss. There is limited prudential or legal risk to an insurer if an event occurs between the inception date and full execution of contract wordings.

Aon notes that there may be outstanding terms or conditions (eg sanctions clauses, privacy etc) that are being individually negotiated and updated after inception, and these need to be formally completed prior to the full treaty wording being executed by all parties (being reinsurers and the insurer). For the abundance of clarity, these outstanding terms or conditions do not impact the quantum or likely recovery should an event occur early in the treaty year. This process of individually negotiating terms and conditions needs to be completed for each reinsurer on each

reinsurance contract, which can add to a large total for some insurers. After all terms and conditions are agreed, the appropriate person within the insurer signs all contracts. Requiring all of these contracts to have all terms and coverage finalised by inception is effectively bringing forward negotiations that occur on the key components of the transaction so that full wordings can then be agreed with individual reinsurers prior to the start of the treaty year. This is not an ideal negotiation position for insurers and may result in adverse outcomes for insurers and ultimately policyholders.

GPS 230 Marked Up Changes

In relation to the proposed changes to GPS 230, Aon recommends that APRA re-consider the wording of each of paragraphs 41 and 42, rather than only changing the phrases to the new proposed terms. If APRA was to go ahead with the proposed changes to the procedural requirements, then the language in paragraphs 41 and 42 should align with that of the response paper, being “terms and coverage” and “wordings” such that insurers are exactly clear on what must be completed by inception and what can be completed as part of the new two month rule. Aon would welcome the opportunity to work with APRA to update this wording. We could provide a generic Catastrophe Excess of Loss Treaty to APRA so that clarity can be provided in a footnote or other APRA guidance on what is “terms and coverage” and what may fall outside of these criteria into the wording (eg sanction clauses). We are of the view that insurers would also welcome this clarity and would ensure that no insurer is unfairly penalised by inconsistent interpretation of APRA’s intent.

As mentioned above, we believe it is critical to meet with APRA to discuss the intent of the changes, separation into inception and two month rules, and the drafting of GPS 230.

Kind regards

[signed]

Robert De Souza

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Reinsurance Solutions, Aon

[signed]

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