



Insurance Council
of Australia

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Mr Gideon Holland
General Manager, Policy
Policy and Advice Division
Australian Prudential Regulation Authority

By email: policydevelopment@apra.gov.au

Dear Mr Holland

Remuneration disclosure and reporting requirements

The Insurance Council of Australia (**Insurance Council**)¹ thanks APRA for the opportunity to provide comment on the *Discussion Paper: Remuneration disclosure and reporting requirements (Discussion Paper)* and the proposed draft amendments to *Prudential Standard CPS 511: CPS 511 (Draft CPS 511 Amendments)*.

The Insurance Council makes the following overview comments which, are supplemented with observations on the consultation questions at page 20 of the Discussion Paper at **Appendix One** and further detailed commentary at **Appendix Two**.

1. Excessive requirements and unnecessary regulatory compliance costs

The Insurance Council's assessment is that the proposed requirements will present a significant compliance burden for entities. Further, given this burden it may also distract entity Boards and management from addressing the broader pressures on the industry (e.g., climate change, increasing natural perils, claims inflation, insurance affordability). We recommend that APRA minimise the additional compliance burden on entities by:

- simplifying the disclosure and reporting requirements to focus on those requirements which specifically support APRA's intended purpose of enhancing transparency around the alignment of remuneration, performance and risk outcomes; and
- reducing duplication within the requirements.

In order to achieve this, we recommend APRA:

- remove the quantitative elements of the disclosure requirements, with the disclosures to be focused on the qualitative elements of an entity's remuneration framework. This would support:
 - APRA's intent with CPS 511 of ensuring remuneration frameworks are *designed* to support the right outcomes; and

¹The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$59.2 billion per annum and on average pays out \$148.7 million in claims each working day (\$38.8 billion per year).

- the publication of entity disclosures within four months of year-end, given these are not dependent on annual remuneration review outcomes.
- removing the qualitative elements of the reporting requirements, with the reporting focused on an entity's quantitative remuneration outcomes and allowing six months for entities to produce this reporting, given the dependency on annual remuneration review outcomes. This information could then be used by APRA to analyse and publish industry trends.

The Insurance Council also recommends simplifying the quantitative remuneration reporting requirements to minimise the compliance burden on both "significant financial institutions" (SFI) and non-SFI entities. For example, there seems to be limited value in requiring detailed reporting on:

- variable remuneration deferrals and vesting across years for specified role categories (per Table 4, Items 10-16 of CRS 511.0), where entities are already reporting and disclosing detailed information on variable remuneration design, including performance and deferral periods (per Table 2, Item 6 of CRS 511.0 and Table 1, Item 14 of CPS 511.0).

This burden can be reduced by APRA only including those columns which are relevant to consequence management, risk and performance. For example, demographic data such as hire date, reporting level, exit information, fixed remuneration information (per Table 3) *on its face* merely duplicates information entities already submitted to third party remuneration survey providers (for the commercial purpose of assisting with the recruitment of suitable senior executives). There is no apparent connection between this data and consequence management. APRA should only collect this data when it has clearly demonstrated how the collected data will be used in supervision. A targeted approach of only collecting data which is demonstrably necessary is now even more important post-Optus data breach. APRA has not, as yet, demonstrated a relevant reason to collate this information.

- adjustment outcomes, split by in-period, malus (both to deferred remuneration vesting in the current reporting period and future reporting periods) and clawback, (per Table 4, Items 17, 19 & 21 of CRS 511.0), where entities are already disclosing their processes and tools for adjusting variable remuneration, including criteria and triggers for each tool (per Table 1, Item 14 of CPS 511).

The application of adjustments will depend on the specific circumstances of the matter, as well as individual circumstances, such as the executive's tenure and whether or not they remain employed. In practice, this means adjustment outcomes for a matter could involve a combination of different adjustment mechanisms. As this information is only relevant at the individual level we recommend that APRA only ask for the information once as a part of Table 4.

From a qualitative data perspective, if APRA maintains this aspect of the reporting requirements, we recommend that APRA remove the duplication across the disclosure and reporting requirements (e.g., information relating to the number of Remuneration Committee meetings, Board oversight and interaction with risk, remuneration framework reviews and variable remuneration design, multiple APRA regulated entities within a group).

Additionally, listed organisations currently address the majority of APRA's requirements through their annual reports. APRA could use the disclosed annual report as the basis for APRA supervision. Under this alternate approach, APRA would only request additional information, as and when needed directly from the entity and through their business-as-usual supervision. This approach would appear to be less burdensome and expensive for Australian consumers than that currently proposed.

2. *Cohort reporting*

The Insurance Council considers that the reporting and publication of information on a cohort basis provides little to no value - if all cohorts are different, such that they can't be readily compared, then what use is the publication of cohort data? Additionally, average data will be impacted by "outliers", and therefore this is not a useful data point.

3. *Benchmarking*

The Discussion Paper mentions the desirability of facilitating benchmarking across regulated entities. However, it is unclear what is, or should be, being benchmarked through publication by APRA? Remuneration is already benchmarked through external salary survey providers. It is not within APRA's remit to benchmark remuneration.

APRA has previously stated in various speeches and previous discussion papers that it does not intend to regulate quantum. Therefore, it is unclear as to what is APRA's specific object to benchmark – is it the quantum of the adjustment? If so, then benchmarking does not provide any insights. The quantum of the adjustment should be proportionate to the risk event and that can be different between entities. If one looks at the proposed tables in the Discussion Paper, this suggests that APRA intent is to benchmark the quantum of remuneration. However, this does not align to the intent of prudential standard CPS 511.

4. *Privacy concerns*

The Insurance Council is concerned that the proposed requirements present a privacy risk for individuals subject to the disclosure and reporting requirements. For example, we are concerned by the proposal to publicly disclose individual risk adjustment data (even on a cohort basis, given the potentially small sample sizes). We consider the reporting of individual remuneration and other sensitive information (e.g., exit reason and date) to APRA presents an unnecessary privacy risk, and goes beyond the intent of the requirements.

5. *Impact of greater transparency around remuneration on industry remuneration levels*

The Insurance Council is concerned that the disclosure (and publication by APRA) of remuneration paid to senior roles within an organisation could have the unintended consequence of ratcheting up of salaries as entities compete for scarce talent. This will likely create further cost challenges for the industry, with salaries already under pressure from inflation and the tight labour market, which may ultimately be passed on to the consumer.

In this regard it is to be noted that the scale of Australia's financial services sector, its relative attractiveness as compared to other sectors of the economy etc. is not comparable to that of the City of London. Therefore, APRA should exercise caution when extrapolating from the UK experience (where the comparable reforms have, as yet, greatly impacted on talent mobility post-Brexit).

6. *Carve out for small branches*

The Discussion Paper suggests that APRA's proposed remuneration reporting and disclosure requirements complement, relevantly for insurers, existing *Corporations Act 2001 (Corporations Act)* disclosures. In the case of branches of offshore insurers there are no *Corporations Act* disclosures. In many instances these branches are small to one-person operations where that person acts as underwriter/GM/CEO etc. In this circumstance application of APRA's requirements would compel the branch to build a website to publish the proposed information. Preservation of confidentiality of information in small branches could also be a challenge and it be an inappropriate outcome if the branch CEO, or Head of HR if that role exists, had to manually lodge the data via APRA Connect in order to preserve that privacy. The ICA recommends a carve out for small branches.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Aparna Reddy, General Manager, Policy – Regulatory Affairs, on telephone: + 61 427 902 960 or email: areddy@insurancecouncil.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Kylie Macfarlane". The signature is written in a cursive style with a large, stylized loop at the end of the name.

Kylie Macfarlane
Acting CEO

Appendix One

APRA Consultation Questions

Disclosure Requirements

1. Do the proposed disclosures provide sufficient information to support greater transparency and market discipline on remuneration practices, and if not, how could they be improved?

The Insurance Council considers that APRA's proposed disclosure regime is excessive to the point where it may inhibit, rather than enhance, the utility of information disclosed to users. Listed companies, which are the preponderance of Insurance Council members, already provide remuneration reports which can exceed 20 pages. It is difficult to see how extending the length of these already long reports to include the additional disclosure requirements, as currently drafted, will lead to improved market outcomes. An analogy can be drawn to the experience of product disclosure statements (**PDS**) where it has been found that ever increasing the length of PDSs does not lead to improved customer outcomes.

We consider that a more useful and practical approach would be for APRA to focus disclosure requirements on remuneration design, rather than remuneration outcomes, and that this approach is consistent with APRA's intent with CPS 511 of ensuring remuneration frameworks are *designed* to support the right outcomes. Limiting the disclosure requirements to qualitative remuneration design elements may also allow for listed entities to include the disclosures within the remuneration report, where it is considered more efficient to do so, rather than create a separate disclosure that will duplicate information contained in the remuneration report.

Absent this, we recommend that APRA focus on simplifying its proposed disclosure requirements and removing requirements that are duplicative or add limited value.

2. Are there any further items that should be disclosed, or items that should not be disclosed?

Where quantitative disclosures are maintained, the Insurance Council considers that remuneration outcomes on a cohort basis for Material Risk Takers (**MRTs**) and Senior Risk and Financial Control Personnel (**RFCP**) should not be disclosed. Aggregated data, particularly as it relates to variable remuneration outcomes, will provide very little insight on cohorts and limited additional value to the market, in part due to the significant volume of information.

For example, it is difficult to see how cohort disclosure will strengthen "market discipline" when there is no standard definition and cohort size can vary. This absence of uniformity hinders the making of meaningful comparisons across entities. Also, average data will be impacted by "outliers", and therefore is not a useful data point.

3. What are the implementation challenges of APRA's disclosure proposals?

The Insurance Council considers it important that APRA allow entities a reasonable amount of time to prepare and validate the disclosures and reporting following year end. Members are concerned about the four-month timeframe to complete the disclosure and reporting requirements in their current form. This is primarily due to the following considerations:

- the level of resources required due to the granular level of information sought, the time it will take to pull the information together, and to perform internal checks prior to disclosure;
- it coincides with a particularly busy time for remuneration teams, who will be primarily responsible for collating the additional information (i.e., the annual remuneration review); and
- given the time required to collate the underlying data, and the timing of the release of the annual financial statements, the remuneration decisions that form the basis of the proposed disclosures will often be made two months or more after the end of the financial year.

As set out in our response to Question 1 above, the Insurance Council recommends:

- the quantitative elements of the disclosure requirements are removed, allowing the four-month timeframe to be maintained for disclosures; and
 - the qualitative elements of the reporting requirements are removed, and the reporting timeframe is extended to six-months, which members consider is a more achievable and realistic timeframe for the preparation of quantitative information.
- 4. How would RSE licensees seek to address the disclosure proposals in CPS 511 in a manner consistent with existing SIS Act obligations, particularly in relation to CEO disclosures?**

Not Applicable.

5. What is the appropriate level of assurance over disclosed information?

The Insurance Council recommends that entities be allowed to determine the process by which they will review and provide assurance over their disclosures, rather than this being prescribed by APRA.

6. What are the compliance costs of APRA's proposed disclosure requirements in CPS 511 and how could APRA reduce compliance costs and impacts?

The Insurance Council reiterates that APRA should simplify the disclosure and reporting requirements by removing those requirements that are duplicative or add limited value so as to reduce unnecessary compliance costs which are ultimately borne by consumers.

In addition, it is difficult to quantify the costs to the industry arising from the likely increasing difficulty in retaining talented people in senior roles who can readily transfer to non-APRA regulated industries that are not subject to deferral and the privacy issues raised by APRA's proposed disclosure regime.

Reporting Requirements

7. Are there any systems or implementation challenges with reporting remuneration data?

The Insurance Council makes the following specific observations:

- The multiple CPS 511 specified role populations will add complexity to the reporting – there are four different buckets under CPS 511 (CEO, Senior Manager, MRT, RFCP), and subsets of these populations with different requirements (HPMRT and RFCP personnel that report to senior managers). In addition, there are the role categorisations under the Financial Accountability Regime, APRA CPS 520 Fit and Proper and Key Management Personnel under the Corporations Act, which create an additional layer of complexity as the populations overlap with CPS 511 specified role categories.
 - HR systems are not the same as payroll systems, they need data feeding in around actual payouts, for example, sign on or retention payments. Therefore, extracting the data required for disclosure is more difficult as it often requires significant lead time to set up differing fields or reports. Submitting in the APRA required format will involve yet further additional work.
 - The reporting of some of the elements (e.g., vesting of variable remuneration across years, per Table 4, Items 10-16 of CRS 511.0) will be time consuming to produce, given this will require a manual calculation process. The inclusion of leavers also adds complexity.
 - Entities which report in a currency other than Australian Dollars (AUD), for example United States Dollars (USD), will be in the situation where the quantitative disclosures in their annual reports are different to the quantitative disclosures published by APRA. This has the potential to cause confusion when external stakeholders compare the two publicly available documents.
- 8. What are views of interested parties on declaring CRS 511.0 to be non-confidential?**

There is little detail provided in the Discussion Paper on how APRA will safeguard, manage and use the data reported by entities. If the effect of treating CRS 511.0 as “non-confidential” is to allow APRA to publish the data in any way it chooses, we recommend against this.

We are also concerned about risks to maintaining the privacy of individuals in senior roles, as a result of the requirement to submit data on an individual basis. These individuals, due to their seniority, may be identifiable by their role title, and data includes sensitive information such as remuneration outcomes, conduct ratings, and exit data.

The example of the recent Optus data breach and subsequent release of confidential information with its concomitant negative impact on individuals lives, only heightens industry’s concern as to APRA’s proposed over-collection of individual data without a clearly articulated and demonstrated link to supervision.

9. What is the appropriate level of external assurance over remuneration data reported to APRA?

The Insurance Council recommends that entities be allowed to determine the process by which they will review and provide assurance over their reporting, noting that remuneration report is already subject to significant assurance work. Requiring external assurance over the remuneration data provided to APRA will add unnecessary compliance cost, given entities will already have robust internal processes in place to ensure annual remuneration outcomes are in line with intended design and meet data quality standards.

Similarly, if APRA remains of the view that external consultants are required to review the remuneration data, this external assurance should only be required where it will form part of work which was already required to take place and is not an additional, or separate level of assurance, and is limited to the process of collating, or producing, the data (as opposed to the data itself). For example:

- the triennial comprehensive review – entities will already often engage operationally independent persons, so alignment with this work wouldn’t add another unnecessary burden on entities; and
- the Limited Assurance Review Report – annually prepared by external auditors, as required by *GPS 310 Audit and Related Matters*. However, this approach would move the deadline forward to three months (as opposed to four months) from entities’ year end.

10. What are the compliance costs associated with the proposed CRS 511.0? Do the reporting proposals meet APRA’s objectives in an efficient and least-cost manner for industry?

The Insurance Council considers that the proposed reporting requirements go beyond the information required to support APRA’s intent and that the requirements should be simplified to remove requirements that are duplicative or add limited value.

An example of the excessive compliance costs can be seen from a comparison of the existing effort and resources required to prepare the current remuneration report of a large insurer, for say 10 roles. This work presently takes months. Given the significantly more granular information and the much larger population captured by the proposed reporting, the additional compliance costs will be significant. This is in addition to the significant costs of conducting the triennial review, which will most likely be performed by an external consultant.

We also note that there is currently minimal difference in terms of “proportionality” with regards to reporting requirements between SFIs and non-SFIs. For those non-SFIs who are listed the additional APRA reporting requirements, as compared to existing Corporations Act obligations, will be particularly onerous relative to their size.

APRA Publication

11. Is the proposed publication sufficient to provide comparability of remuneration outcomes across entities?

The Insurance Council considers there is little value in APRA publishing information on cohorts across the insurance, or financial sector, more broadly. We are strongly opposed to APRA publishing data intended to assist with benchmarking, without APRA first clearly articulating and demonstrating how publication supports consequence management.

A more useful approach would be for APRA to disclose the nature of the adjustments made and the reasons given, as this more clearly highlights the nature of the cultural issues which the Hayne Royal Commission was seeking to address.

12. What other remuneration data should APRA publish for all entities?

APRA should only publish data relevant to consequence management. The Insurance Council considers it sufficient for APRA to publish adjustment information at an organisation level, aggregated across all specified roles (including the CEO). Publication may include the:

- the number of adjustments;
- the total adjustment quantum; and
- the nature of the event(s) that triggered the adjustments.

We consider that this information would provide sufficient transparency regarding the application of adjustments, while addressing potential privacy concerns. This is particularly so, given the number of adjustments within each specified role category may be small (less than 5).

13. Is the masking of small cohort sizes sufficient to address the risk that remuneration outcomes of individuals are discernible from published data

The Insurance Council is of the view that there is little to no value in APRA publishing information on cohorts across the insurance, or financial sector more broadly. While masking of small cohort sizes may, depending how it is done, be efficient in managing the privacy risk, it will further diminish the little to no value of publishing the information by further reducing comparability.

Appendix Two

Additional detailed Commentary

Overall Requirements

1. Risk & Financial Control Personnel (*Discussion Paper, Chapter 1, Section 1.1 “Quantitative disclosures for SFIs”*)

Given the disclosure and reporting requirements focus on those RFCP reporting directly to senior managers, it seems logical that the Board should also be focused on reviewing and approving annual variable remuneration outcomes for those more senior roles.

The Insurance Council recommends that APRA revises CPS 511 to align with this approach, requiring Board review and approval of remuneration outcomes for only those RFCP reporting to senior managers. Given the potentially large size of this cohort, limiting the reporting of outcomes to those senior roles that have a greater impact on organisational outcomes will enhance the usefulness of the Board reporting.

The Board would continue to have oversight of the design of variable remuneration arrangements for all risk and financial control personnel, including variable remuneration design requirements to align with Para 51 of CPS 511.

2. CPS 511 Practice Guide (*CPS 511, Para 61*)

The Insurance Council considers that additional guidance may be helpful within the CPS 511 Practice Guide to support entity compliance with the disclosure requirements. For example:

- guidance on how entities can meet the ‘consistent and comparable’ criteria for the qualitative disclosures in the Standard (per para 61); and
- clarity on certain methodological aspects to support consistency across the industry in quantitative disclosures (e.g., how should entities deal with specified role employees who have terminated part way through the year?).

Disclosure Requirements

3. Remuneration outcome disclosure sample sizes and publication (*CPS 511, Para 69, Table 3*)

The Insurance Council considers that remuneration outcome disclosure requirements should be limited to instances where the number of data points is greater than 5 (rather than the size of the cohort), given there may not be alignment in sample sizes. For example, in disclosing ‘special payments’ (e.g., sign on awards), there may be more than 5 individuals in the cohort, but less than 5 instances of payments made during the year. Disclosure in such cases may present a privacy risk.

Further, if APRA proceeds with the publication of remuneration outcomes for specified roles on a cohort basis, we suggest this is limited to where there are more than 5 data points to protect privacy.

Reporting Requirements

4. Privacy risk (*CRS 511.0 Table 3*)

The Insurance Council is concerned that while the individual remuneration data requested for specified roles is ‘de-identified’, the individuals may be identified via their role titles, given these are in most cases unique roles. If the requirement to report individual data is maintained, the Insurance Council recommends that role titles are excluded from the reporting to protect privacy. We also recommend that the requirement to report exit data (Table 3, #12) be removed, given it adds limited value but can be highly sensitive

5. **Duplication in the reporting requirements** (*CRS 511.0 Tables 3, 4, 4.1 and 5*)

The Insurance Council recommends removing the duplication in the information requested in the reporting requirements, so as to help streamline the reporting and reduce the compliance burden. For example:

- requesting the industry category for each specified role (Table 3, #6) is unnecessary given this would be consistent for each specified role of an entity;
- the type of variable remuneration compensation (**VRC**) adjustment tool used is duplicated across tables 4 (#17, #19, #21) and 4.1 (#3);
- the amount of VRC adjusted is duplicated across Tables 4 (#17, #19, #21) and 5 (#8); and
- the amount of outstanding deferred variable remuneration is duplicated across Tables 4 (#20) and 5 (#6).

6. **Performance period** (*CRS 511.0 Table 2, Item 6*)

The Insurance Council notes that some entities may meet the CPS 511 deferral requirements through a combination of performance periods and holding locks. As a result, if APRA only requests entities to report information regarding the length of performance periods (per Table 2, Item 6 of CRS 511.0), it may appear as though some entities are not complying with the CPS 511 deferral requirements.

The Insurance Council suggests that APRA amends Table 2, Item 6 of CRS 511.0 to request the “VRC deferral period” instead of the “VRC performance period”.

7. **Alignment of rating scales** (*CRS 511.0 Table 3*)

The Insurance Council observes that rating scales and approaches for performance and risk & conduct outcomes (as requested in Table 3, #13 and 14) will differ between entities (e.g., some may have a 3-point rating scale, others a 9-point scale). We suggest that APRA remove this requirement entirely, or at a minimum provide guidance on how entities should map their approach to the 5-point scale provided in order to promote consistency.

8. **Annual compliance review** (*CPG 511 Para 86*)

CPS 511 requires SFIs to complete annual compliance reviews of the remuneration framework, considering both design and outcomes (per Para 86 of the Practice Guide). In practice, this would involve providing assurance to the Remuneration Committee, via annual reporting post the year-end review, that:

- the design of the remuneration framework continues to comply with CPS 511 requirements; and
- annual outcomes under the framework are in line with the intended design.

Based on the proposed requirements, a SFI entity could use the same process to complete both the reporting requirements and the annual compliance review (noting the reporting requirements, as currently drafted, likely go beyond the level of detail entities would include as part of the annual compliance review). The Insurance Council suggests that APRA acknowledge this in the reporting standard to highlight that there is no requirement that entities duplicate these processes.

We also note that APRA’s guidance (per Para 86 of CPG 511) that annual compliance reviews be conducted by staff “that were not involved in, or reporting to those involved in, the design of the entity’s remuneration framework” will often be unrealistic. This will be the case if entities are using the same process, and teams, to complete the reporting requirements and annual compliance review. The reporting requirements, as currently drafted, require a deep level of technical remuneration expertise that wouldn’t necessarily be present outside of an entity’s remuneration team.

APRA Publication

9. Publication of adjustment outcomes for CEOs on an individual basis (*Discussion Paper, Table 5*)

The Insurance Council is concerned by the proposed publication of downward adjustments for the CEO on an individual basis, given the adjustment outcomes will not be accompanied by contextual information regarding the matter and the individual's involvement.

The potential publication of adjustment outcomes may also have unintended adverse outcomes, such as an increased risk of litigation, creating additional cost and distraction for Boards and management. This may arise as a result of:

- CEOs challenging the application of an adjustment; or
- defamation cases brought by impacted CEOs (e.g., where the publication may hamper the CEO's future job prospects).

10. Publication of year-on-year movements in remuneration (*Discussion Paper, Chapter 3, Table 4, Item 8*)

The Insurance Council suggests that APRA remove the publication of 'Average percentage increase [in total / variable remuneration] on previous financial year'. This is because the publication of year-on-year movements in variable remuneration could be misleading in the absence of accompanying performance information, and also given APRA intends to publish industry-wide trend information over a longer timeframe, which will be more meaningful than year-on-year entity level comparisons. APRA is not a remuneration advisory service.

We also note that APRA assumes that publication of this line item assumes that variable remuneration only ever increases, whereas in practice it may decrease as compared to the prior year depending on company/individual outcomes. Exchange rate fluctuations from one year to the next will impact this percentage significantly and will make comparisons across companies even less meaningful.