



Insurance Council
of Australia

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General Manager
Policy Development
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear APRA,

Targeted adjustments to general insurance reinsurance framework

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to comment on behalf of our members on Australian Prudential Regulation Authority's (APRA) consultation on '*Targeted adjustments to the general insurance reinsurance framework*'.¹

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 85 per cent of private sector general insurers. Our submission outlines the expected impacts of the proposed changes and highlights areas for further consideration to future-proof regulatory requirements.

Current operating environment

In 2024, the global reinsurance market faced significant pressure due to growing geopolitical uncertainty, the effects of climate change, and rising claims costs driven by more frequent and severe natural perils. These factors increased the costs for traditional reinsurance, prompting exploration of alternative reinsurance options by general insurers.

In July 2025, APRA and other regulators received a letter from the Treasurer and Minister for Finance requesting specific, measurable actions to reduce compliance costs. In response, APRA outlined nine initiatives aimed at minimizing regulatory burden.² By the end of 2025, APRA had consulted publicly on five of these initiatives, many of which APRA note are incremental.

APRA's initiatives to improve access to alternative reinsurance solutions are a welcome and positive step forward to enhance affordability and accessibility of reinsurance across the general insurance industry. We are grateful for APRA's consultation and engagement on the proposals.

However, many insurers remain reliant on traditional reinsurance arrangements due to factors such as complexity, capital treatment advantages, and group-level requirements. These constraints risk limiting the practical benefits of the proposed changes.

While the measures outlined provide incremental relief, they do not deliver the level of certainty and capital efficiency required for multi-year strategic planning. As such, members have indicated that the proposals offer only limited benefit. Without broader measures, insurers will continue to face uncertainty and restricted flexibility in managing reinsurance strategies.

¹ [APRA, Targeted adjustments to the general insurance reinsurance framework](#).

² [APRA Letter to Treasurer Chalmers and Minister Gallagher dated 31 July 2025](#).

Proposals

Our submission addresses the draft revisions to APRA's prudential and reporting standards, and the consultation questions in **Appendix A**.

1. All perils requirement

The Insurance Council notes APRA's proposal to improve access to single-person reinsurance arrangements by repurposing the whole-of-portfolio approach. The revised APRA proposal is expected to have limited impact compared to the original concept, which had the potential to reduce reinsurance costs for some insurers.

Isolating individual natural perils in mixed portfolios may however exacerbate operational complexity. Grouping reinsurance arrangements into Categories A, B or C, based on risk, may also create confusion.

To assist industry implementation and reduce uncertainty, we recommend APRA publish worked examples demonstrating:

- How reinsurance arrangements should be categorized under GPS 116 requirements.
- How to identify the largest peril and treat combined perils, particularly where one peril dominates.
- How to apply rules consistently across portfolios.

Further, APRA could consider allowing insurers to calculate the 1-in-200-year loss for the largest group of perils (e.g., bushfires and earthquakes) and purchase reinsurance to that level. We note that for many insurers, the 1-in-200-year loss is driven by earthquake risk, so this approach may achieve similar benefits to single-peril arrangements while addressing the complexity of isolating weather-related risks.

2. Reinstatement requirement

The Insurance Council notes the removal of reinstatement requirements where reinstatement is unavailable (like catastrophe bonds). Our members expect the revised proposal to deliver only limited benefit.

We assume the proposal will not materially increase residual accumulation or basis risk under the Insurance Concentration Risk Charge (ICRC). However, if reinstatement rules are applied differently to traditional versus alternative reinsurance structures, this could create an uneven playing field. To avoid this, APRA could consider reinstating the original proposal to apply consistent rules across all reinsurers and provide additional guidance on minimum placement or return period expectations.

To assist industry implementation and reduce uncertainty, we recommend APRA provide clear guidance on:

- When insurers should report Natural Perils Vertical Requirements (NPVR) adjustments. This new field applies to reporting reinsurance recoverables under Group B RI contracts but excludes whole-of-portfolio calculations. Worked examples would help clarify its use.
- Whether Paragraph 28 of GPS 116, referring to NP Reinstatement Cost in the NPVR assessment, excludes arrangements where reinstatement is not available.

- How removing the return period requirement should be interpreted, including whether it allows catastrophe bonds to be placed lower in the Cat tower without increasing exposure to short return period losses.

We recommend a transitional implementation approach be undertaken that is aligned with insurers' renewal windows rather than a fixed date, to ease operational impacts.

*3. **Reinstatement premium requirement***

The Insurance Council supports APRA's decision to retain the reinstatement premium requirement, noting that industry feedback agrees this will have limited impact.

However, we assume this does not increase concentration risk within ICRC verticals and note the importance of consistent application across all forms of reinsurance.

*4. **Appointed Actuary (AA)***

The Insurance Council supports the expansion of the AA's role in determining capital treatments of reinsurance arrangements. This removes the need for APRA approval under GRS 115 and GPS 116 in circumstances where the standard approach would materially mis-state the ICRC.

Further clarity and guidance to understand the boundaries between APRA and AA's role in determining capital treatment would be beneficial and establishing explicit materiality and complexity thresholds will ensure consistency across the industry.

We recommend that APRA develop a simple decision framework and sample impact assessment template support AA determinations. This would particularly benefit smaller insurers by setting out clear expectations.

*5. **Definition of aggregate reinsurance***

The Insurance Council supports APRA defining aggregate reinsurance. This definition is important to ensure clarity on when APRA approval is required, only if an insurer's proposed capital treatment under GPS 115 materially affects the capital treatment under GPS 116 (e.g. NP stop loss). For arrangements where the standard would materially misstate the ICRC (e.g. ADC), we support the AA determining the capital treatment.

However, APRA's current proposal remains unclear on:

- Whether APRA intends to reinstate the definition of aggregate reinsurance under Paragraph 5a of the GPS, given its reference in OA VR assessments.
- Whether aggregate reinsurance falls under Category B or Category C, which would trigger APRA approval.
- Whether this categorization is the intended outcome and how it should be applied consistently.

To assist industry implementation and reduce uncertainty, we recommend APRA provide explicit guidance on these issues, supported by worked examples showing how aggregate arrangements should be classified and treated under GPS 115 and GPS 116.

*6. **Non-modelled risks***

The Insurance Council recommends further consultation to clarify APRA's definition of non-modelled risks and ensure consistent interpretation across the industry. We propose that GPS 116 explicitly outline the scope of what constitutes non-modelled risks to avoid ambiguity.

While we agree that requiring explicit allowances for non-modelled risks is prudent, guidance is essential to prevent overly conservative add-ons that could erode the commercial benefits of alternative risk transfer. To assist implementation, we recommend APRA provide:

- Examples of non-modelled risks commonly encountered in general insurance portfolios.
- Calibration guidance for determining appropriate allowances, ensuring proportionality and avoiding excessive conservatism.
- Worked examples illustrating how these allowances should be applied under GPS 116.

Clear guidance will help insurers meet prudential expectations while maintaining flexibility and cost-effectiveness in reinsurance strategies.

Further considerations

To ensure reinsurance requirements effectively encourage growth and diversification of the reinsurance market in Australia, we continue to recommend APRA consider:

- The proportionality of reporting to reduce administrative burden for smaller or less complex insurers.
- The capital treatment of the use of offshore reinsurance, as insurers may be required to hold additional capital that may be disproportionate to the counterparty and liquidity risk.
- The seat of arbitration for disputes and payments by way of reinsurance are made in Australia, to ensure enforceability and timely domestic access to recoveries through arbitration and payment location and ensure legal expectations for reinsurance contracts are modernised; and
- Providing further clarity on the application of the inception date and two-month rule (the rules), which can impact the ability of some insurers to negotiate treaty terms with offshore reinsurance markets.

If you have any questions or comments in relation to our submission, please contact Leisha Watson, Director Regulatory and Consumer Policy, at lwatson@insurancecouncil.com.au.

Yours sincerely,



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of Australia

Appendix A

DRAFT UPDATED VERSIONS OF PRUDENTIAL STANDARDS, PRACTICE GUIDES AND REPORTING STANDARDS	INDUSTRY POSITION
Prudential standards: GPS 115, GPS 116, <i>Prudential Standard GPS 230 Reinsurance Management</i> (GPS 230) and CPS 320.	See above.
Prudential practice guides: GPG 116 and <i>Prudential Practice Guide GPG 245 Reinsurance Management Strategy</i> (GPG 245)	See above.
Reporting standards: GRS 115.0, GRS 115.0.G, GRS 115.1, GRS 115.1.G, GRS 116.0 and GRS 116.0.G.	See above.
CONSULTATION QUESTIONS	INDUSTRY POSITION
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?	We recommend a transitional implementation approach be undertaken that is aligned with insurers' renewal windows rather than a fixed date, to ease operational impacts.
2. Do the proposals strike the right balance between improving access to alternative forms of reinsurance and maintaining financial safety?	While the measures outlined provide incremental relief, they do not deliver the level of certainty and capital efficiency required for multi-year strategic planning. Members have indicated that the proposals offer only limited benefit. Without broader measures, insurers will continue to face uncertainty and restricted flexibility in managing reinsurance strategies.
3. How will these revisions impact the speed at which the capital treatment of reinsurance arrangements under GPS 115 and GPS 116 is determined?	We anticipate an initial adjustment period as stakeholders adapt to the new requirements for all-perils coverage and net whole-of-portfolio calculations. However, once this transition is complete, we do not expect any material impact on the speed of capital treatment determinations.