



9 February 2024

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**Retirement, Advice and Investment Division
The Treasury**

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**Submission on Retirement Phase of Superannuation discussion
paper**

RGA Reinsurance Company of Australia Limited (RGAA) is pleased to provide this response to Treasury's discussion paper titled "Retirement Phase of Superannuation" (the Discussion Paper).

RGAA is the Australian reinsurance subsidiary of Reinsurance Group of America, Inc. (RGA Group). The RGA Group (RGA) is a major reinsurer of longevity risk and annuity products in various markets around the globe, spanning USA/Canada, Europe and parts of Asia.

The services RGA provides to its clients in relation to the retirement phase of superannuation include reinsuring longevity-only risk and reinsuring combined longevity/investment risk (e.g. lifetime annuities and defined benefit pension liabilities). In certain markets, RGA also offers reinsurance of longevity risk on enhanced/underwritten terms, reflecting various health and/or socio-economic characteristics of retirees.

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The Discussion Paper covers a wide range of matters relevant to the retirement phase. This submission focuses on a sub-set of those matters which relate more particularly to the reinsurance of longevity risk.

- a) Reinsurance of longevity risk and the Discussion Paper's question regarding market failure.

The Discussion Paper poses a question as to whether the Commonwealth could/should provide direct Government reinsurance of longevity risk if there is considered to be a significant market failure of longevity supply by the private sector.

As described above, the RGA Group is a major reinsurer of longevity risk in other markets. Further, the RGA Group has been reinsuring longevity risk on enhanced/underwritten terms in the UK for more than 15 years.

Thus, RGA considers that any suggestion of a market failure of longevity supply in Australia is misplaced. The Australian Reinsurance Pool Corporation and the reasons underlying its creation are therefore not appropriate points of comparison for longevity risk.

RGA has been actively marketing its global longevity reinsurance solutions to funds and insurers in the Australian market for over 5 years. RGA has balance sheet appetite for both longevity risk and investment risk, and RGA remains eager to utilise its balance sheet to supply longevity-risk and lifetime income solutions to the Australian market. RGA also understands that a number of other insurers and reinsurers have similar appetite to (re)insure longevity risk in this market.

- b) Ensuring longevity risk (re)insurance is available to Australians "at a reasonable price".

The Discussion Paper also conveys a sentiment that the Government would be better able to provide longevity reinsurance "at a reasonable price" than would the private sector. RGA rejects this sentiment.

In RGA's experience (drawn from our active participation in other key longevity markets), reinsurance companies compete strongly for longevity risk. In various other markets, longevity-risk reinsurance mandates from funds/insurers are commonly heavily contested, both on longevity pricing terms and capabilities.

RGA also notes that there have already been a number of relevant competitive tenders for longevity risk transfer and defined-benefit pension liability risk transfer in the Australian market. RGA has been an active participant in most (if not all) of the material tenders. The fact that a number of these tenders have led

to a transaction being completed between fund, insurer and (where applicable) reinsurer provides clear evidence of vibrant competition and an active market for longevity risk.

We are not aware of any evidence from comparable markets overseas where government has been able to provide longevity reinsurance on more competitive terms than the private sector.

RGA also notes that life insurers/reinsurers that underwrite longevity risk generally have large existing mortality exposures which act as a partial diversifier of longevity risk business. By contrast, Government provision of longevity reinsurance would compound, rather than diversify, the Commonwealth's already large exposure to longevity risk associated with, for example, the Age Pension, Commonwealth defined-benefit pension liabilities and Commonwealth aged-care costs.

The only area where Government may have a natural advantage in pricing longevity risk is in avoiding the prudential capital requirements imposed on (re)insurers by APRA, and hence avoiding the need to recover the cost of that capital within its reinsurance pricing. However, by this same logic, the taxpayer (as represented by the Government) should presumably become the direct insurer of all insurance risks in the Australian market, and the private insurance sector should be disbanded. In RGA's view, where there is no demonstrated market failure:

- any Government participation in the market should be on competitively-neutral terms versus the private sector; and
 - the Government should not engage in using the taxpayers' balance sheet to crowd-out the private sector purely on cost-of-prudential-capital grounds.
- c) Provision of longevity (re)insurance on more differentiated terms (e.g. reflecting different socio-economic and/or life expectancy characteristics).

The reinsurance market has already innovated to provide enhanced/underwritten terms for longevity reinsurance where market conditions are conducive to doing so, most notably in the UK market. This has been a feature of the UK reinsurance market for many years.

It is therefore difficult to envisage how the Government could claim to be better able to provide enhanced/underwritten reinsurance terms for longevity risk than the established reinsurance sector.

- d) Government role in facilitating greater demand “pull” for lifetime income solutions.

In RGA’s view, Government efforts toward market intervention should concentrate on encouraging/facilitating greater demand from retirees for lifetime income solutions, as a complement to account-based pensions.

The Discussion Paper canvasses many elements relevant to encouraging/facilitating demand “pull”, to which other market participants will presumably respond.

In the absence of compulsion, RGA notes the critical importance of strong trustee nudges and/or opt-out defaults if Australia is to achieve material take-up of lifetime income solutions. If the primary framework remains one of “individual opt-in”, there is a potentially high likelihood that Treasury’s ambition for the lifetime income market will remain unfulfilled.

If lifetime income streams are to remain on a purely “individual opt-in” basis, a related question might be whether the Government could/should do more to encourage a materially higher rate of individual opt-in, either by increasing the incentives for doing so or by introducing disincentives for not doing so.

We are happy to discuss this submission further should you have any queries regarding the above.

Yours sincerely,

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