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General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
1 Martin Place
SYDNEY NSW 2001
Via email: policydevelopment@apra.gov.au

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Capital settings for longevity products

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to APRA's consultation on capital settings for longevity products.

About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers, including life insurance companies and providers of longevity products. We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

We unite the superannuation community, supporting our members with research, advocacy, education and collaboration to help Australians enjoy a dignified retirement. We promote effective practice and advocate for efficiency, sustainability and trust in our world-class retirement income system.

Introductory Comments

ASFA supports APRA's proposals to address the issue of relatively high capital requirements for longevity products compared to some other jurisdictions, making annuities more expensive than they might otherwise be. ASFA also supports proposal to make the framework more risk sensitive, thereby reducing the need for life insurers to liquidate assets during a market downturn, through a redesigned illiquidity premium in conjunction with additional risk controls on the governance, reporting and assets supporting an annuity and/or longevity product portfolio.

More attractively priced longevity products will assist in the both the marketing and takeup by superannuation fund members of longevity income products in retirement. This applies to both annuities and innovative longevity income products. At least some innovative longevity income products are supported by life insurance company involvement. The proposed changes will benefit insurers through a higher illiquidity premium that will reduce capital requirements and allow liabilities to be better matched to underlying assets. This benefit will flow through to more attractively priced longevity products offered to consumers.

ASFA supports or supports-in-principle the proposals put forward. We also wish to specifically acknowledge APRA's willingness to work constructively on these issues.

ASFA notes the responses to the questions raised in the submissions by the Council of Australian Life Insurers and by the Institute of Actuaries. ASFA endorses the approaches suggested by those organisations.

More specifically:

- ASFA supports a principles-based approach which will allow for differentiated action based on experience and sophistication of the life insurer.
- ASFA supports the role of the Life Insurance Appointed Actuary in enabling insurers to determine the illiquidity premium assumptions and stress scenarios that are appropriate and tailored to the insurer's specific annuity liabilities and assets supporting these liabilities.
- A more prescribed approach could be used for life insurers with less robust risk management processes.
- The assessment of the illiquidity premium not be restricted to Australian assets only.

Should you have any questions, please feel free to contact ASFA Head of Research, Ross Clare, at rclare@superannuation.asn.au on 0417 680 908.

James Koval

Chief Policy and Advocacy Officer