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Via email: Policy.Development@apra.gov.au

Consultation on draft Prudential Standard CPS 511 Remuneration.

Aon Advisory Australia Pty Ltd ('Aon') appreciates the opportunity to provide a submission in response to the revised draft Prudential Standard and Response Paper for CPS 511 Remuneration that were released for consultation on 12 November 2020 by the Australian Prudential Regulation Authority ('APRA').

Aon partners with a broad range of global and local organisations to help them make data-driven decisions to hire, retain and engage top talent. Our remuneration advice leverages the depth and breadth of our global data under our McLagan brand, and our local data covering numerous sectors of financial services. In Australia, this includes but is not limited to Banking, Superannuation, General Insurance, Life Insurance, Health Insurance and Reinsurance. This comprehensive data set that Aon has produced for over 25 years has placed us in a unique position to provide valuable insights and advisory services to locally regulated entities.

Based on our experience and knowledge from working with clients of all sizes (both for profit and member based) within the insurance, health insurance and registrable superannuation entities sectors, we have provided a limited number of observations of the proposed changes requiring further consideration and clarification.

We thank you for your consideration and request that you do not hesitate to contact us if you would like to discuss any aspect of our submission in more detail.

Yours sincerely



Corporate Governance & Private Market Practice Lead Australia

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon's human capital business provides leaders with a powerful mix of data, analytics and advice to help them make better workforce decisions. Our team, spanning 2,000 colleagues in more than 30 countries, includes the firm's rewards, talent assessment and performance & analytics practices. To learn more, visit humancapital.aon.com.

1. Proportionate approach

The revised draft outlines more comprehensive requirements for regulated entities classified as 'Significant Financial Institutions' ('SFI') and an earlier adoption date as part of a phased implementation timeline.

The definition criteria detailed for a SFI requires either quantitative or qualitative criteria to be met with APRA stating it will advise entities of their initial status by Q3 2021.

With substantial industry consolidation occurring across the insurance and superannuation sectors Aon suggests that APRA:

- a. provides further clarity in how it plans to assess whether an entity has 'complexity in its operations or remuneration practices' CPS 511 p18 (s)(ii) and whether it will provide further guidelines beyond those provided in the Response Paper (Section 8.2.2 'Complexity will cover characteristics such as presence in certain markets, or the provision of critical services'); and
- b. provides guidance on a transition timeframe post commencement of the standard for which an entity will be expected to comply if it is notified by APRA and/or expects its status to change from non-SFI to SFI.

2. Scope

The revised standard covers remuneration arrangements for all employees. Under the proportionate approach this requires SFIs to incorporate 'a material weight to non-financial measures where the remuneration is performance related' CPS 511 p37 (a) in each component of a person's variable remuneration.

Aon notes the following concerns raised by the private health insurance industry and suggests that APRA:

- a. provides guidance of whether it will consider the use of non-financial measures solely in the gateway determinant as 'material'; and
- b. considers how this will impact its ability to retain practitioners such as dentists that are on partnership-based remuneration financial arrangements typical of the profession in Australia, or whether such arrangements would be captured under third party provisions in the draft standard.

3. Deferral

- a. Aon acknowledges APRA's flexibility in approach regarding the definition of 'Deferral Period' to include the performance period for short term incentives and anticipates it will need to provide clarity on its definition for industry as this is a departure from the generally accepted interpretation.
- b. For entities that will now consider eliminating variable remuneration that was a non-significant component of their remuneration arrangements (typically member based), Aon suggests APRA provides guidance on what position it will take.

4. Overall remuneration design considerations

- a. Aon suggests APRA provides guidance to entities without variable remuneration as to their expectations on how they should achieve the desired policy objectives and meet the draft standard requirements.