Mr Todd Campbell
Manager, General Insurance Statistics
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email: statistics@apra.gov.au

29 July 2016

Dear Mr Campbell

PROPOSED PUBLICATION OF GENERAL INSURANCE STATISTICS

The Insurance Council of Australia[1] (Insurance Council) welcomes the opportunity to comment on the Australian Prudential Regulation Authority's (APRA) Discussion Paper, '*Publication of general insurance statistics*' (the Discussion Paper). We are pleased that APRA is consulting on this matter, given the significant impact that some of its proposals may have on the public perception of the financial condition of Insurance Council members.

The Insurance Council recognises that disclosure plays an important part of the Australian prudential regime for general insurance. This targeted transparency is intended to promote a sound general insurance sector and give consumers utmost confidence that the general insurance policies they take out will be honoured.

Consequently, the Insurance Council supports prudential disclosure that is underpinned by a clear and careful consideration of the appropriate balance to be struck between an insurer's entitlement to the commercial confidentiality of its data and the wider public interest in the availability of information to evaluate the financial strength of the general insurance industry and individual insurers.

While we appreciate that the data subject to the current proposals have been publicly available upon specific request since APRA's December 2013 and June 2015 determinations, we consider the effect of these determinations to be distinct from the Discussion Paper's proposals to release these data in regular statistical publications that would be more readily accessible.

---

[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2016 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of $43.8 billion per annum and has total assets of $118.5 billion. The industry employs approximately 60,000 people and on average pays out about $124.2 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

This submission sets out the Insurance Council's views on the specific proposals in the Discussion Paper. Consistent with issues previously raised in Insurance Council submissions, we are particularly concerned with APRA's proposal to publish quarterly institutional-level statistics. The consequences are likely to be problematic given the practical interaction between the data to be released by APRA and the continuous disclosure obligations imposed by the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission (ASIC). This is particularly the case, given the quarterly data may be unaudited or not subject to the same level of corporate governance assurance reviews (for example Board consideration).

Should APRA continue to see merit in publishing quarterly institutional-level statistics, we strongly recommend that appropriate warnings be put in place to avoid legal liability for matters such as the use of unaudited data which may be subject to future correction.

We note from APRA's 23 June 2015 letter[2] to industry that APRA is unconvinced of the commercial harm that may be caused by the release of class of business data and that it will analyse this further and undertake additional consultation. Given the potential damage that could result from the unnecessary release of commercially sensitive class of business data, the Insurance Council welcomes APRA's commitment to consultation before taking further action.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely

Robert Whelan
Executive Director and CEO

[2] APRA's 23 June 2015 correspondence refers: http://www.apra.gov.au/GI/Publications/Documents/150623-GI-confidentiality-of-data-Letter-to-industry.pdf

INSURANCE COUNCIL OF AUSTRALIA

ATTACHMENT

DETAILED COMMENTS ON APRA'S PROPOSALS

Quarterly General Insurance Performance Statistics

General comments

The Insurance Council is generally supportive of the proposed changes to APRA's *Quarterly General Insurance Performance Statistics* (QGIPS) and we wish to raise the following comments and suggestions for APRA to consider:

- While we appreciate that the PDF and Excel versions of APRA's QGIPS are designed to serve different analytical purposes, we suggest that they be kept similar wherever possible to minimise the need for a user to move frequently between publications.
- We suggest that some footnotes could be included for the quarterly loss ratios for the long tail general insurance classes (tables 1J to 1M) to help explain that these ratios are often extremely volatile, and can be significantly impacted by interest rate movements and the timing of actuarial valuations. One potential way of addressing this volatility could be to publish rolling 4 quarter loss ratio averages.
- We suggest that it would be useful to define in the glossaries of the proposed publications the definition of '*Other distributions*' and '*Other investment income*'.

Segmentation of Industry-level Quarterly Statistics

General comments

The Insurance Council supports the intent of APRA's proposed segmentation to modernise and enhance general insurance industry analysis at a segmented level. However, we note that confidentiality issues may arise as a consequence of APRA's intended approach.

In particular, the segmentation may create issues for smaller general insurers given that the proposal divides these insurers into 3 further segments ('*Personal lines insurers*', '*Commercial lines insurers*' and '*Other direct insurers*'), while larger general insurers would remain aggregated in the "*Insurers in large groups*' segment.

Using the proposed '*Other direct insurers*' segment as an example, analysis from our members suggests that very few general insurers would be classified into this segment. If this segment is represented by too few general insurers, the usefulness of this segment may diminish and data confidentiality issues may arise.

We expect that APRA would apply any necessary protection measures to safeguard any data item that is unable to be released to maintain confidentiality.

As a further suggestion that may help enhance the usefulness of segmented statistics, we suggest that they exclude general insurers in run-off, or that an option be incorporated (in the Database or Excel publications) to filter out general insurers in run-off.

Institution-level Statistics

General comments

As emphasised earlier, the Insurance Council is concerned with APRA's proposal to publish quarterly general insurance institutional-level statistics. Given the short time frame between when APRA receives data and when it would be published, it is highly probable that these data would be published before being considered by a general insurer's auditor or Board. This may create serious implications for a listed general insurer's continuous disclosure obligations and may therefore result in unnecessary compliance burden.

As APRA would be aware, the primary continuous disclosure obligation is contained in the ASX Listing Rule 3.1, which states that:

> "*Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information*."

The continuous disclosure obligations are a particular concern for data for the quarters ending March and September (most listed insurers have either June or December year ends).

A significant practical problem is that data which is submitted quarterly (as compared to data submitted annually or half yearly) is not required to be audited. As APRA would appreciate, these data can be subject to significant future corrections, even with when it has been prepared with care and diligence. The likelihood of data revision reflects to some extent the timeframe that general insurers have to prepare and submit their quarterly returns to APRA.

Additionally, these quarterly data can fluctuate significantly, largely due to the seasonality of some classes of insurance business, but also because comprehensive actuarial valuations are usually only conducted on an annual basis.

There is expected to be a significant administrative and compliance burden arising from insurers receiving queries from investors and third parties (such as financial market brokers or reporters) about fluctuations and/or corrections to quarterly data; these costs are likely to outweigh the benefits of releasing quarterly results.

Accordingly, the Insurance Council considers it would be more appropriate that APRA publish this information on a half-yearly basis rather than quarterly to avoid the noted legal liability issues. This would help promote a better understanding of the insurance industry by only using audited information where context has been explained by the institution.

Alternatively, in order to avoid legal liability for the use of data later subject to correction, we strongly recommend that potential users of these data – particularly general insurance market analysts – are appropriately warned by APRA that these data may reflect unaudited figures and may be significantly revised.

Reinsurance recoverables (QGIILS Table 1b and GIILS tables 1b and 2b)

The Insurance Council is concerned with APRA's proposal to publish '*Reinsurance recoverables*' split by '*APRA authorised reinsurers*' and '*non-APRA authorised reinsurers*'.

Our concern is that this may create a perception that APRA authorised reinsurers are superior to non-APRA authorised, irrespective of critical factors such as credit ratings, supporting letters of credit or trust arrangements.

In this regard, the publication of those statistics could result in inaccurate and misleading conclusions being drawn by users of those statistics. This may have serious implications for both reinsurers and the insurers that do business with them.

We note that only a small proportion of the world's reinsurance capacity is available in Australia. Therefore, it is inevitable that some Australian insurers would need to seek capacity from outside Australia. In addition, certain overseas jurisdictions mandate the use of locally incorporated reinsurers, making the use of APRA authorised reinsurers impossible.

Additionally, the proposed split between APRA authorised and non-APRA authorised does not seem to adequately represent arrangements that general insurers may have in place with global reinsurers domiciled outside Australia versus arrangements placed with local branches or subsidiaries of that same global reinsurance group.

On a related matter, there appears to be no clear benefit from APRA's proposal to publish reinsurance recoverables '*related to events within the insurer's current and previous financial year*' versus reinsurance recoverables '*related to event's prior to the insurer's previous financial year*'. This appears to be particularly the case at the consolidated group level (Table 1b), as the additional requirements for recoverables relating to losses occurring more than two years prior do not apply to business underwritten outside Australia.

Asset risk charge components (QGIILS Table 1e and GIILS Table 1d)

The Insurance Council does not consider there to be a clear benefit from APRA publishing the '*Asset risk charge components'*:

> '*real interest rate upwards*'; '*real interest rate downwards*'; '*expected inflation upwards*'; '*expected inflation downwards*'; '*foreign exchange upwards*'; '*foreign exchange downwards*'; '*equity stress*'; '*property stress*'; '*credit spread stress*'; '*default stress*'; '*impact of diversification*'; '*tax benefits deduction*'; and '*adjustments to assets risk charge approved by APRA*'.

Publication of these statistics may have implications for a listed insurer's continuous disclosure obligations. The asset risk charge components are highly technical; they may be misinterpreted and are generally not disclosed within an insurer's financial statements. For example, inexperienced users may misinterpret these data as suggesting that the disclosed stress situations, such as for expected inflation movements, are likely to happen in the near future, which may unnecessarily create market uncertainty.

Furthermore, we emphasise that many of the assumed variables used in general insurance stress tests – such as inflation rates, interest rates and property yields – may vary significantly between different general insurers.

Indeed, the differences between stress tests can also extend to calculation methodologies. For example, APRA has determined, for some general insurers, specific methodologies for the preparation of foreign exchange stress tests that would materially differ from general insurers using standardised methodologies.

On this basis, it may not be appropriate for users to compare asset risk charge components between different insurers, as this could result in users (for example market analysts) misinterpreting the statistics and therefore drawing/reporting misguided conclusions about general insurers.

INSURANCE COUNCIL OF AUSTRALIA

Regional statistics, Level 2 insurance groups (GIILS tables 2a and 2b)
The Insurance Council does not see a clear benefit from APRA publishing Level 2 insurance groups' financial performance and financial position by geographical region.

We note that many general insurers currently publish extensive global regional exposure information in publicly released reports and financial accounts in accordance with Australian Accounting Standards Board (AASB). We submit that these publications provide users with appropriate information to understand general insurer's international business exposures in a clear and contextualised manner.

Other comments
The Insurance Council notes that there may be potential issues associated with APRA's proposal to publish the breakdown of general insurer's '*Underwriting expenses*' (at '*General insurers' financial performance*').

As some general insurers may outsource certain underwriting functions to other companies, they would legitimately be able to treat the cost as other operating expenses. Therefore, this may dilute the usefulness of published underwriting expenses and associated financial ratios.

We also suggest that APRA's proposal to publish '*Borrowings and loan capital*' (at '*General insurer's financial position*') should include further clarification of what is classified as Tier 1, Tier 2, and other non-eligible (from a capital perspective) debt.

General Insurance Claims Development Statistics

General comments
It is not clear from the proposed *General Insurance Claims Development Statistics* (GICDS) publication whether the proposed reserves statistics are based on central estimates, a 75 per cent probability of sufficiency (PoS), or at the PoS nominated by the insurer. We suggest that users would benefit from a clarification in the proposed publication.

Furthermore, we also suggest that APRA could provide some explanation around its proposed publication of the '*Number of Risks in Force by Class of Business*' (a data item within the proposed GICDS database). As it appears that this data item may be APRA derived (i.e. general insurers do not report '*Number of Risks in Force*'), it would be beneficial for APRA to clarify how it would be derived.

We note that insurers currently report '*Number of Risks Written*' as part of APRA GRS 310.1 *Premium Revenue and Reinsurance Expense*. We would welcome clarification from APRA on whether it proposes to publish the number of risks written or in force.