Insurance facts and figures

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Contents

A year in review

Welcome to PwC's Insurance Facts and Figures. The insurance industry is as competitive as ever with all elements grappling with the effects of various drivers of change, including changes in social behaviour, developments in technology, long term low economic growth prospects, volatile weather patterns and events, and a continually evolving political and regulatory environment.

We summarise briefly below how these drivers have impacted the general insurance, life insurance, private health insurance and insurance intermediaries sectors in calendar year 2015. This commentary is supplemented by a summary of financial statistics for the larger players in each sector.

[1] APRA Statistics Quarterly General Insurance Performance Statistics December 2015 (issued 18 February 2016)

General insurance

Financial performance

Overall, according to APRA[1] statistics for the period ending 31 December 2015 net earned premium for the Australian general insurance industry has declined slightly from $31.7bn in 2014 to $31.3bn.

Premiums for retail classes has seen moderate growth this year despite the increased competition from "challenger" insurers such as Auto & General and Youi. In the accompanying general insurance table, these businesses have grown to be ranked 10th and 11th respectively after 15 and 10 years of business in Australia. The focus by businesses like these on innovation in product design, distribution and customer experience; by leveraging evolving customer expectations and digital technology, has been key to differentiating in a market where insurance is now more bought than sold.

Conversely, commercial insurance has seen significant pressure on pricing in 2015. In a low growth economic environment with strong capital availability and active intermediaries, commercial insurers have had to reduce prices across a number of classes to retain or attract new business. Mergers and acquisitions, such as the ACE/Chubb, XL/Catlin and IAG/Wesfarmers deals are not surprising in a highly competitive local and global market. More deals can well be expected.

Equally challenging for all insurers has been the greater frequency of natural catastrophes during 2015. The range of catastrophes has been broad in terms of nature, magnitude and cost, leading to insurers bearing the cost of multiple retentions before reinsurance and having their reinsurance programs put to the test. This has specifically impacted short tail property classes of business which is reflected in the increase in the industry's net loss ratio to 75% as at 31 December 2015 from 64% in 2014 according to APRA[1].

Historically low interest rates and fluctuations in equity markets have contributed to continued low investment returns. Some insurers have explored non- traditional investment options in a bid to improve return on investment. According to APRA[1], investment income for the industry has declined from $4.2bn in 2014 to $2.2bn as at 31 December 2015.

To maintain profitability the insurers have continued to focus on cost management initiatives through the simplification/streamlining of key processes, exploring off-shoring and outsourcing arrangements, and undertaking larger scale transformation programmes.

Regulation and tax developments

On the regulatory front, the revised prudential standards, CPS 220 (Risk Management) and CPS 510 (Governance), came into effect on 1 January 2015. The standards seek to harmonise risk management and governance requirements across Authorised Deposit- taking Institutions (ADI) and Insurers (both Life and General). The current APRA focus is more on monitoring the application of existing standards rather than the release of new requirements.

For some time now, the Australian Taxation Office (ATO) has raised concerns over the methodology used by general insurers to calculate the value of their Outstanding Claims Liability (OCL). Specifically, the ATO has been questioning whether the Probability of Adequacy (POA) adopted by insurers is acceptable for taxation purposes and is concerned that in some instances, insurers may be considering extraneous factors and reserving at a higher level than what they consider appropriate for tax purposes.

As an administrative measure, the ATO has proposed that a declaration be completed by a general insurer when lodging its tax return such that a representative of the Board declare that the POA used for the closing value of the OCL has been determined based on the underwriting experience of the company and has not been influenced by certain extraneous factors.

Life insurance

Financial performance

According to APRA[2], as at the 31 December 2015 total revenues for the life insurance industry in Australia has declined dramatically from $42bn in 2014 to $33.5bn. The decline is driven by lower investment yields, reflecting the volatility in equity markets and continued low interest rates. This deterioration has been partially offset by some growth in life risk premium income.

Life risk net earned premium has increased through the combination of growing volumes and price rises. The MySuper reforms that were introduced in 2013 have helped to contribute to increased volume in the group life insurance market.

Individual lump sum risk products continued to be profitable for life companies in 2015 while individual disability income saw a worsening experience for some insurers during the year. After price strengthening and product and process improvements, 2015 saw a return to profitability for Group life lump sum business.

In October 2015, National Australia Bank (NAB) sold 80% of its life insurance business to Nippon Life, a new entrant into the Australian life market. Before the sale, 4 of the top 9 life businesses were owned by the major banks. NAB's disposal raises questions around whether banks continue to see strategic value in the bancassurance model in Australia.

As with general insurance, life insurance customers are becoming more self-directed through the use of social and digital resources and, as a consequence, a number of life companies have continued to develop and implement strategies to support life sales through multiple channels. This focus on innovation in the development of tailorable life products for the mass market that can be bought or sold through various channels will continue in earnest in 2016.

[2] APRA Statistics Quarterly Life Insurance Performance December 2015 (issued 16 February 2016)

Regulatory

In November 2015, the Federal Government released its life insurance remuneration bill that is the culmination of reviews by ASIC, John Trowbridge, and industry into the structure of commission payments for life insurance sales and concerns over its influence on sales behaviour.

The key parts of the changes relate to:

- the capping from July 2016 of the amount of upfront and trail commissions that can be earned on the sale of a life policy. The capping commences from 1 July 2016 at 80% and 20% of premiums for upfront and trail commission respectively, transitioning to 60% and 20% respectively from 1 July 2018;
- a two year commission claw back if the policy is surrendered within its first two years; and
- a ban on volume based payments from 1 July 2016 with grandfathering arrangements.

The bill remains before the senate and with the federal election to be held on 2 July 2016, appears unlikely to be passed until towards the end of 2016. This will mean potential changes to its scope as well as effective dates.

Regulatory scrutiny of the life insurance industry has increased beyond financial advice due to recently reported instances of poor claims conduct in the industry. On the 2 February 2016, the senate standing committee extended the scope of its Scrutiny of Financial Advice inquiry to assess the need for additional oversight and/or reform of the life insurance industry with respect to its conduct in dealing with customers.

ASIC has also been charged with assessing the extent of industry issues relating to claims acceptance practices.

Health insurance

Financial performance

Premium income has grown due to increased membership combined with an average rate increase of 6.18% approved by the Federal Government and effective for the year from 1 April 2015. This was partially offset by lapses and downgrades in cover as policyholders seek to reduce the cost of their health insurance.

Increasing health costs and the ageing Australian population are contributing to a rise in benefits paid. For some private health insurers, these increased costs are mitigated to some degree by the risk equalisation trust fund structure.

To support growth and customer retention, a number of health insurers are expanding their product offerings to policyholders. Following the privatisation of Medibank Private, the Federal Government is considering the potential for reform of the private health insurance model, including the community rating principle. On 28 October 2015, the Minister for Health announced consultations focused on the value of private health insurance for consumers and its long term sustainability. The main finding of the consultations was the cost of health insurance; its affordability and lack of value for money were the main issues of concern. On 5 February 2016, an industry working group was established to examine ways to improve the pricing and accessibility of the private health insurance sector.

Regulatory change

From 1 July 2015, the responsibility for the prudential supervision of Private Health Insurers (PHI) transferred from Private Health Insurance Administration Council (PHIAC) to the Australian Prudential Regulation Authority (APRA). The intention is for APRA to leverage on existing prudential requirements and reporting standards administered by PHIAC with minimal change in the near future. In particular, no changes were proposed to the capital adequacy and solvency standards before 1 July 2016.

Insurance intermediaries

Insurance intermediaries are operating in a very challenging environment where the maintenance of market share and profitability is no longer assumed. Across the industry revenue has grown, for some through acquisition and others through the provision of services that traditionally sat outside of standard insurance intermediation.

Financial performance

Downward pressure on insurance premiums, particularly in the commercial general insurance sector, has meant that intermediaries have received less commission income than last year for the same book of business. At the same time, as insurers look to use data and social technology to secure relationships with customers, possibilities for disintermediation are emerging, further contributing to the rising competitiveness of the intermediary market. In response to such pressures, intermediaries have progressively looked to grow through acquisition and the offering new services. With the growing self-sufficiency of customers, intermediaries are now expected to bring greater value than has traditionally been the case. As such, often through acquisition of related companies, intermediaries are providing risk consulting, advisory and insurance support services.

Arthur J. Gallagher, Steadfast and Austbrokers have been particularly active in growth through acquisition in the Australian market, although 2015 has seen fewer deals than in the last couple of years.

In order to maintain and improve profit margins, intermediaries are continuously seeking out areas to drive efficiencies, optimise processes and reduce costs. A common area where cost reduction has been achieved is outsourcing and/or off-shoring of certain back office functions.

General insurance

Entity	Year end	Ranking measure					Performance						Financial position							
		Net earned premium					Underwriting profit/(loss)		Net investment income		Profit after tax		Net outstanding claims		Investment securities		Capital adequacy multiple		Total assets	
		Current $m	Current rank	Prior $m	Prior rank	% change	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current	Prior	Current $m	Prior $m
QBE Insurance Group	12/15	16,496	1	15,666	1	5%	843	608	891	905	928	833	21,050	20,663	35,631	33,792	1.72	1.67	57,728	54,865
Insurance Australia Group	06/15	10,329	2	8,644	2	19%	541	1,140	793	839	830	1,330	8,974	8,758	15,535	15,377	1.70	1.72	31,402	29,748
Suncorp	06/15	7,865	3	7,726	3	2%	495	710	578	756	756	1,010	7,453	7,115	5,706	6,005	1.40	1.96	24,759	25,166
Allianz Australia	12/15	3,455	4	3,209	4	8%	61	(27)	184	452	232	359	4,794	4,437	5,632	5,031	1.35	1.45	11,836	10,943
Munich Reinsurance Australia	12/15	934	5	1,073	5	(13%)	(91)	(141)	83	174	(72)	(163)	1,753	1,524	3,443	3,279	1.55	1.29	5,407	5,386
Zurich Australian Insurance	12/15	848	6	962	6	(12%)	(142)	(118)	63	116	(51)	8	1,350	1,334	1,876	1,966	1.41	1.50	3,975	4,115
RACQ Insurance	06/15	627	7	617	7	2%	38	80	58	56	51	93	643	623	1,464	1,475	2.18	2.13	2,478	2,355
Commonwealth Insurance	06/15	616	8	561	8	10%	(18)	104	16	14	(4)	77	232	113	470	419	1.71	2.19	970	871
Westpac Insurance	09/15	472	9	446	10	6%	89	158	16	23	75	127	146	122	556	537	1.63	1.56	1,098	973
Genworth Financial Mortgage Insurance	12/15	470	10	446	9	5%	235	243	105	226	226	323	276	230	3,612	3,795	1.46	1.44	4,013	4,176
Youi Holdings	06/15	460	11	321	13	43%	(26)	21	12	8	(12)	23	103	51	373	285	2.12	2.96	740	529
Auto & General Insurance Company	06/15	378	12	312	15	21%	44	60	8	7	11	18	52	41	140	150	1.30	1.80	433	362
Chubb Insurance	12/15	350	13	340	12	3%	(24)	(21)	35	116	7	66	543	567	1,188	1,218	2.40	2.50	1,566	1,598
Swiss Re	12/15	342	14	370	11	(8%)	45	92	35	55	24	98	647	698	1,113	1,147	1.60	2.12	2,630	2,665
RACI	06/15	336	15	320	14	5%	58	66	9	10	13	24	53	45	223	228	2.05	2.85	512	532
Lloyd's[1]	12/15	1,688	NR	1,913	NR	(12%)	n/a	n/a	n/a	n/a	n/a	n/a	1,545	1,479	2,396	2,431	n/a	n/a	2,425	2,440

Source: Published annual financial statements or APRA annual returns that were available at 30 April 2016.

Notes:

1. Lloyd's Underwriters are authorised in Australia under special provisions contained in the Insurance Act 1973. Because of the unique structure of the Lloyd's market, Lloyd's reports to APRA on a different basis from Australian general insurers. Lloyd's is required to maintain onshore assets in trust funds and as at 31 December 2015 its Australian assets comprised of $2.4bn in trust funds and a statutory deposit of $1m.
2. World wide premium is included for those companies/groups based in Australia, while only premium under the control of the Australian operations are included for those with overseas parents.
3. Where a group has significant non-general insurance operations, only performance and position information relating to general insurance is shown, subject to availability. Where explicit data is not available an estimate has been derived using the information in the annual financial statements. In some instances this also involves estimating a notional tax charge for the profit after tax. Outstanding claims are net of all reinsurance recoveries.
4. Where applicable, comparatives have been updated to be in line with updated comparatives in current year financial reports.
5. Financial information denominated in a foreign currency has been translated using the closing and average rate for the applicable financial year.
6. For insurance groups with multiple capital adequacy ratios, an average mean has been calculated. Adjustments have been made to the mean if it is skewed by outliers.

Life insurance

Entity	Year end	Ranking measure					Performance				Financial position							
		Net insurance premium revenue					Net investment revenue		Total comprehensive income/(loss)		Net policy liabilities		Capital adequacy multiple		Investment securities		Total assets	
		Current $m	Current rank	Prior $m	Prior rank	% change	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current	Prior	Current $m	Prior $m	Current $m	Prior $m
AMP Life	12/15	2,161	1	2,149	1	1%	5,619	9,342	805	920	93,632	91,280	2.30	2.16	97,819	95,746	103,646	101,622
MLC (NAB)	09/15	1,660	2	1,570	2	6%	4,539	6,162	398	189	76,136	71,485	2.20	1.34	76,441	72,377	79,908	75,804
The Colonial Mutual Life Assurance Society	06/15	1,483	3	1,395	3	6%	995	1,282	315	283	11,153	11,454	2.67	2.71	12,764	13,020	13,526	13,753
TAL Life	03/15	1,466	4	1,171	4	25%	313	263	185	134	2,127	1,881	1.36	1.37	3,039	2,821	5,318	4,715
OnePath Life	09/15	1,263	5	1,035	7	22%	1,853	2,736	437	272	35,152	34,290	1.70	1.78	35,008	33,604	39,068	37,856
AIA Australia	11/15	1,137	6	1,045	6	9%	88	135	72	59	1,386	1,287	1.60	1.52	2,160	1,910	3,974	3,494
Swiss Re Life & Health Australia	12/15	992	7	1,062	5	(7%)	65	119	62	38	2,472	2,309	1.87	1.77	3,109	3,103	3,851	3,865
RGA Reinsurance Company of Australia	12/15	709	8	636	9	11%	32	71	(26)	4	611	492	1.35	1.39	1,136	991	2,427	2,194
Westpac Life	09/15	704	9	613	11	15%	469	565	253	239	6,763	6,816	2.81	2.75	8,247	8,106	8,740	8,508
MetLife Insurance	12/14	542	10	342	14	58%	42	24	(11)	(51)	466	310	2.05	1.95	671	526	1,228	372
Suncorp Life & Superannuation	06/15	534	11	707	8	(24%)	506	716	95	(95)	5,379	5,513	2.10	1.80	6,408	6,425	7,553	7,548
Hannover Life Re of Australasia	12/15	514	12	466	13	10%	75	68	(2)	27	1,488	1,289	1.32	1.37	1,747	1,537	2,327	2,162
Munich Reinsurance Company of Australasia	12/15	505	13	568	12	(11%)	72	161	(17)	(378)	1,103	1,066	1.33	1.44	2,382	2,094	3,594	3,715
Challenger Life Company	06/15	491	14	621	10	(21%)	1,306	1,330	326	368	8,693	7,824	1.60	1.70	11,532	10,291	18,218	16,929
Zurich Australia	12/15	271	15	241	15	12%	102	221	54	78	1,370	1,712	2.78	3.62	1,998	2,259	2,406	2,706

Source:

Published annual financial statements or APRA annual returns for Australian life insurance operations that were available at 30 April 2016.

Where applicable, comparatives have been updated to be in line with updated comparatives in current year financials reports.

Notes:

For insurance groups with multiple capital adequacy ratios, an average mean has been calculated.

Adjustments have been made to the mean if it is skewed by outliers.

Health insurance

Entity	Ranking measure					Performance						Financial position								Ratios			
	Contributions					Membership		Other revenue		Profit after tax		Outstanding claims		Investment securities		Net assets		Total assets		Benefits paid/ contributions		Net margin	
	Current $m	Current rank	Prior $m	Prior rank	% change	Current m	Prior m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current $m	Prior $m	Current	Prior	Current %	Prior %
Medibank Private	5,795	1	5,500	1	5%	1.85	1.83	144	150	318	266	569	357	1,969	1,899	1,356	1,315	2,964	2,805	0.86	0.87	5.4%	4.4%
BUPA Australia Health	5,760	2	5,351	2	8%	1.73	1.68	91	89	329	341	434	506	1,116	1,292	511	564	1,741	1,805	0.85	0.85	6.5%	7.4%
The Hospitals Contribution Fund of Australia	2,347	3	2,213	3	6%	0.68	0.68	88	92	153	72	159	153	1,204	992	1,116	962	1,685	1,535	0.90	0.94	2.8%	(0.8%)
NIB Holdings	1,430	4	1,314	4	9%	0.51	0.49	36	36	75	64	88	84	370	318	231	206	587	507	0.87	0.88	5.1%	4.2%
HBF Health	1,288	5	1,229	5	5%	0.47	0.47	63	83	73	112	107	100	1,379	1,183	1,176	992	1,586	1,354	0.88	0.87	0.8%	2.5%
Australian Unity Health	632	6	600	6	5%	0.20	0.20	14	12	34	26	59	56	192	181	125	113	345	323	0.84	0.85	5.7%	4.5%
Teachers Federation Health	486	7	434	7	12%	0.13	0.12	14	17	27	19	37	38	275	246	258	235	369	338	0.90	0.93	2.8%	0.4%
GMHBA	376	8	341	8	10%	0.13	0.12	10	11	23	20	30	28	186	210	184	161	286	255	0.87	0.87	3.5%	2.6%
Defence Health	368	9	331	9	11%	0.11	0.11	26	18	21	20	41	36	317	126	255	234	349	316	0.95	0.94	(1.3%)	0.7%
CBHS Health Fund	324	10	293	10	11%	0.09	0.08	12	16	17	17	32	29	208	108	167	150	238	218	0.92	0.93	1.6%	0.5%
Westfund	155	11	142	11	9%	0.05	0.05	3	5	4	6	16	17	123	115	115	111	163	154	0.87	0.86	0.6%	0.8%
Grand United Corporate Health	140	12	127	13	10%	0.03	0.03	5	(3)	6	3	15	15	47	51	50	44	87	82	0.82	0.83	2.8%	6.4%
Latrobe Health Services	137	13	129	12	7%	0.04	0.04	5	6	7	11	11	9	156	149	146	139	187	174	0.90	0.86	0.9%	4.4%
Queensland Teachers' Union Health Fund	128	14	115	15	12%	0.03	0.03	2	5	(4)	5	8	8	28	26	85	89	119	115	0.95	0.91	(4.7%)	0.6%
Health Partners	128	15	122	14	5%	0.04	0.04	6	8	3	8	7	6	48	49	107	100	130	122	0.93	0.90	(2.5%)	0.2%

Source:

The statistics are in respect of registered health benefit organisations as reported in the APRA annual statistics as at 30 June 2015 and PHIAC annual statistics 30 June 2014.

Notes:

Membership is based on the number of policies in force. Other revenue comprises mainly of investment income. Benefits ratio is calculated as benefits paid as a proportion of contributions. Where there are more than one entity within the group a weighted average based on contributions is used to estimate overall net margin.

Insurance intermediaries

Entity	Year end	Ranking measure				Performance			Financial position					
		Consolidated revenue (Incl. interest and other income)				Consolidated total comprehensive income/(loss) for the period			Consolidated current ratio		Consolidated net assets		Consolidated total assets	
		Current $m	Current rank	Prior $m	% change	Current $m	Prior $m	% change	Current	Prior	Current $m	Prior $m	Current $m	Prior $m
Aon Corporation Australia	12/15	721	1	697	3%	106	98	8%	1.01	1.04	434	495	2,141	2,420
Marsh Mercer Holdings (Australia)	12/14	717	2	700	2%	109	100	9%	1.47	1.26	778	669	1,508	1,552
Steadfast Group	06/15	280	3	172	63%	47	28	68%	1.13	1.12	842	525	1,616	822
Jardine Lloyd Thompson Australia	12/15	254	4	217	17%	43	38	13%	1.09	0.96	94	78	413	348
Austbrokers Holdings	06/15	197	5	178	11%	43	42	1%	1.16	1.15	311	270	675	626
Willis Australia Holdings	12/15	97	6	92	5%	1	3	(67%)	1.08	1.08	56	54	614	478
Arthur J. Gallagher & Co (Aus)	12/14	54	7	133	(59%)	(4)	14	(130%)	1.06	1.17	118	66	439	447

Source:

Published annual financial statements that were available at 30 April 2016.

Notes:

Consolidated current ratio has been calculated by dividng current asset for the entity by its current liability.

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