

Insurance facts and figures

Australia | 2017



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A year in review

Welcome to PwC's Insurance Facts and Figures for 2017. The Australian insurance industry is a mature, full service industry providing valuable protection for Australian lives, assets and health. It is also facing unprecedented levels of change.

This change is largely being driven by:

- the evolving ways in which customers seek, acquire and use financial services;
- the exponential rise in computing processing power and the resulting technology enabled innovation along the insurance value chain; and
- heightened public and regulatory scrutiny of financial services in general.

The latter has culminated in the Australian Government announcing on 30 November 2017 a Royal Commission into misconduct in the Banking, Superannuation and Financial Services industry as a means of restoring public trust in the conduct of financial services providers. The Royal Commission is scheduled to issue a draft report of findings by September 2018.

In this context of change, we highlight some of the key trends and developments in the general insurance, life insurance, private health insurance and insurance intermediary sectors over 2016 and 2017 and summarise some financial statistics for the larger players in each sector.

General Insurance

Net earned premium (NEP) for the Australian general insurance industry grew 5% from \$30.2bn in 2016 to \$31.8bn for the year ended 30 June 2017, according to APRA¹ statistics. Rate increases in both personal and commercial lines have contributed to this positive movement.

Newer insurers (e.g. Youi and Auto & General) have seen their growth rates fall into line with other insurers, as their offerings become less differentiated from the broader market. The adoption of technology to help innovate product design, distribution, process efficiency and customer experience is becoming a strategic imperative for many insurers. The establishment in 2017 of InsurTech Australia, a not for profit organisation to support the development of tech driven start-ups, shows the increased interest in this space.

There has been a relatively low level of corporate transactional activity during 2016/2017 in the general insurance sector. The completion of the ACE/Chubb deal in 2016 allowed the newly merged entity to rise in the NEP rankings from 15th to 11th. Another significant transaction worth noting during 2016/17 has been Insurance Australia Group's quota share arrangements with Berkshire Hathaway in 2016 (20% quota share), followed by a further 12.5% quota share arrangement in 2017 with three other international reinsurers. These quota share transactions aim to reduce earnings volatility and increase capital efficiency for the Group.

The availability of capital continued to contribute to soft commercial pricing conditions in 2016, although commercial rates appear to have hardened in 2017 with rate increases being reported across a number of classes.

The frequency of natural catastrophes was lower in 2016 compared to 2017. On a global level 2017 saw a series of catastrophic hurricanes in the United States of America and earthquakes in Mexico. Locally, the one significant event in 2017 was Cyclone Debbie, estimated by the Insurance Council of Australia (ICA) to have an industry loss of \$1.6bn.

Investment income for the industry has declined from \$3.0bn in 2016 to \$2.4bn for the period ended 30 June 2017. The low interest rate environment and equity market movements, contributed to the limited returns for the industry. Some insurers are exploring non-traditional investment options in a bid to improve return on investment, although the typical asset mix for insurers remains conservative.

To maintain profitability insurers have continued to focus on cost management initiatives through the automation and simplification of key processes, exploring off-shoring and outsourcing arrangements, and undertaking large scale transformation programmes. These initiatives are demanding greater change management capability to manage evolving operational risk profiles. For example, the outsourcing of claims handling, has been identified by the Financial Ombudsman Service (FOS) as contributing to a 25% increase of general insurance disputes received by them for the year ended 30 June 2017.

¹ APRA Statistics Quarterly General Insurance Performance Statistics June 2017 (released 17 August 2017)

The Insurance Council of Australia has identified cyber insurance as the fastest growing commercial segment in the Australian market with coverage increasingly incorporated into business insurance packages or sold as an individual product. The Senate's passage of the *Privacy Amendment Bill 2016* in February 2017 mandating cyber reporting coupled with high profile ransomware headlines, are providing fertile ground for the development of innovative insurance solutions. At the same time, insurers themselves are just as at risk as their clients of a cyber-attack and strengthening cyber resilience in the face of increasing attacks has been a key priority for insurers in 2016/17.

In June 2017, the Australian Accounting Standards Board adopted the *IFRS 17 Insurance Contracts* standard that was released in May 2017 by the International Accounting Standards Board (IASB). The standard will be effective for annual periods beginning on or after 1 January 2021. While the

current Australian general insurance accounting standard, AASB 1023, shares many similarities with IFRS 17, the impact of the standard is not to be underestimated, as the new standard will in many cases require a more granular portfolio analysis to support the accounting, impacting business processes and the way results are conveyed to readers of financial statements.

Life Insurance

In contrast to the general insurance sector, 2016/17 has seen some of the greatest amount of upheaval in the Australian life insurance industry's history. A low growth environment, persistent low returns on capital and the impacts of extensive political and regulatory scrutiny have resulted in an unprecedented amount of change in life company ownership in Australia.

This shift in ownership is largely from local banks to foreign specialist life insurance groups. In 2016 and 2017, the following life insurers have moved or have agreed to move to foreign ownership: MLC Life (from National Australia Bank to Nippon Life), Macquarie Life (portfolio transfer from Macquarie Bank to Zurich Australia), Colonial Mutual Life (from Commonwealth Bank to AIA), and OnePath Life (from ANZ Bank to Zurich). In addition, Sony Life acquired a minority stake in ClearView, MS&AD acquired a minority stake in Challenger, and AMP entered into a reinsurance deal with Munich Re to quota share 50% of \$750m annual premium income. The shift to ownership by global life insurance specialists is likely to contribute to greater investment and innovation in the industry, and could also bring lower return on capital thresholds which will fuel further competition in the market.

Individual Disability Income insurance (IDI) recorded a loss before tax of \$588m as at the end of June 2017, mainly driven by higher claim costs, and mental health related claims. With an increasing focus on improving customer outcomes, the rising cost of claims is driving significant effort to improve the effectiveness of claims management and quantity of return to work outcomes.

In October 2016, following ASIC's "*Report 498 Life insurance claims: An industry review*", ASIC and APRA announced the need for more consistent and transparent data with regard to life insurance claims. ASIC's study during 2016 had found that approximately 90% of claims are paid in the first instance and did not find evidence of cross-industry misconduct. However, ASIC did note concerns in relation to higher claim denial rates and claims handling procedures associated with particular policy types, as well as higher claims denial rates in relation to insurance policies sold direct to consumers with no financial advice.



To respond to the concerns, in May 2017, APRA and ASIC began the pilot phase of a joint initiative to improve public reporting of life insurance claims performance across the industry. The project is intended to instill trust in the industry by providing the public with meaningful insight into claims handling timeframes, dispute levels and by offering more consistent and transparent data regarding life insurance claims handling by different insurers. In November 2017, the initial industry aggregated results from the pilot data collection were published, which identified that, among other things, 92% of claims in 2016 were admitted and 8% were declined.

Other public concerns regarding the risks of consumer churn by advisors and high upfront commissions on the sale of life policies have been addressed by the February 2017 passing of the *Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2017 (Act)* by Parliament. The Act resulted from a series of reviews including the Government's Financial System Inquiry, ASIC's 2014 review of retail life insurance advice and the industry-led Trowbridge review. These reviews identified cases related to the provision of poor life insurance advice to consumers where advisors received up-front commissions of up to 130% of the first year premium.

The Act goes into effect 1 January 2018 and includes significant changes which will phase down upfront commissions to advisors to a maximum of 60% from 1 January 2020, while also introducing a maximum rate of 20% for renewal commissions. A two year clawback period is also being introduced, which will clawback 100% of upfront commission in year one and 60% of upfront commission in year two when policies lapse in these timeframes.

The Life Insurance Code of Practice became applicable to all life insurance business outside superannuation from 1 July 2017. The purpose of the Code is to aid trust in the industry by promoting high standards of service, improving consistency within the industry (e.g. medical definitions) and establishing a framework of professional behaviour and responsibilities. Most life insurers have signed up to the Code. In addition, in 2017 the Insurance in Superannuation Working Group also released a Code of Practice, effective 1 July 2018, for superannuation trustees. The overarching objective of the Code is to provide greater transparency and protection for superannuation members in relation to life insurance in super.

In addition to adopting the Life Codes, a number of life insurers are investing in ways to improve consumer trust in their offerings, through initiatives such as advertising, simplification of product definitions and design, and improving engagement with customers through associations with health or rewards initiatives.

IFRS 17 will be applicable to life insurers from 1 January 2021 and while the change from the current Margin of Services method of accounting will be less than in other countries, the devil will be in the detail of the transition. By now most life insurers have gap analysis and implementation planning underway.





Private Health Insurance

The Australian private health insurance industry has experienced 5.7% growth in total revenue across the 2016-2017 period according to APRA². Growth was primarily driven by membership increases, coupled with average rate increase of 4.84% effective from April 2017.

The long-term tenability of the current community centric Private Health model is an area of focus. Over the last 8 years (including 2017) premiums have increased on average by 5.6%, well above Australia's inflation and average wage growth rates. Younger generations appear less likely to acquire private health insurance, with concerns around affordability and a lack of perceived value in the products that are being offered. At the same time, more Australians are living longer and advancement in treatments are contributing to ever increasing health care costs.

In response to this, the Government announced on the 13 October 2017, a wide ranging package of reforms to make private health insurance simpler and more affordable for Australians. The legislation is expected to be passed in June 2018. Some of the key reforms include:

- discount premiums of up to 10% for 18–29 year olds;
- the introduction of industry standard product categorisation and definitions to simplify and increase transparency;
- price reduction of prostheses and medical devices; and
- boosting the Private Health Insurance Ombudsman's powers.

To enhance operating returns some private health insurers are modifying their strategic focus. Some, like Medibank Private and Bupa are growing allied health services to members while others are diversifying their distribution strategy.

²Operations of Private Health Insurers Annual Report 2016-2017 June 2017 (released 8 November 2017) & Private Health Insurance Operations Report 2015-2016 June 2016 (released 9 November 2016)

For example, in September 2017 NIB Holdings expanded its channel diversification by acquiring the corporate health insurance provider GU Health for \$155.5m from Australian Unity.

The main regulatory development is the application of *CPS 220 Risk Management* (from 1 April 2018) to Private Health Insurers. The standard will introduce a principle based requirement for risk management and bring private health insurers into line with general and life insurers on this topic.

Private health insurers will continue to comply with the capital management standards as set out in HPS 110 until APRA performs its broader PHI capital standards review in 2018/19.

Insurance Intermediaries

Revenue for insurance intermediaries continues to grow despite the highly competitive environment. This is largely driven by higher retail premiums and the flow through to commissions, as well as a shift in focus by many intermediaries to diversify their range of services to include risk consulting, advisory and insurance support services.

Many insurers are investing in order to engage more with their customers and this investment in technology, namely online sales platforms and direct distribution channels, is a risk for the intermediary industry. Even so, nearly half of all insurance policies bought in Australia are written through an intermediary. The rise in direct and online channels has not affected the benefit of impartiality that brokers bring to the table. However, the more self-sufficient consumers become, the more intermediaries need to find ways to add value to customers.

A focus on cost reduction also remains at the forefront of the typical intermediary's agenda; in order to maintain and improve profit margins. Centralised functionality, particularly off-shore and/or outsourcing certain back office functions represent common areas of opportunity.

It seems likely that the market will continue to consolidate over the next five years to realise greater operational efficiencies and diversification in service offerings in a bid to boost profit margins. Steadfast, Austbrokers and Arthur J. Gallagher have been particularly active in acquiring brokerage businesses in recent years to increase scale, geographic reach and service diversity.



IFRS/AASB 15 Revenue from Contracts with Customers will be effective as of 1 January 2018, potentially altering long standing revenue recognition practices. The standard offers a more principle-based approach. Intermediaries will need to exercise judgement when considering the terms of contracts with customers, especially in the separation of revenue to distinct performance obligations, and the capitalisation and recognition of costs to obtain contracts.

General insurance

Entity	Year end	Ranking measure					Performance						Financial position							
		Net earned premium					Underwriting result		Investment income		Net profit/(loss after tax)		Net outstanding claims		Investment		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 \$m	Prior \$m	Current \$m	Prior \$m
QBE Insurance Group Limited	12/16	14,886	1	16,412	1	-9%	898	838	848	922	1,136	924	17,791	19,611	33,936	35,855	1.76	1.73	57,936	57,903
Insurance Australia Group Limited	06/17	8,464	2	7,528	3	12%	1,017	710	503	575	1,031	671	6,394	8,674	12,169	12,997	1.72	1.70	29,596	30,030
Suncorp Insurance Holdings Limited	06/17	8,172	3	7,938	2	3%	746	528	339	369	659	550	7,380	7,280	12,818	13,053	1.67	1.83	26,113	24,744
Allianz Australia Limited	12/16	3,687	4	3,455	4	7%	177	79	200	185	324	263	4,786	4,728	7,634	7,279	1.48	1.35	12,794	12,243
Munich Reinsurance Australia	12/16	925	5	935	5	-1%	(70)	(91)	75	84	(67)	(72)	1,953	1,753	3,421	3,443	1.39	1.52	5,380	5,407
Swiss Re Australia	12/16	703	6	342	14	106%	40	45	32	35	17	24	875	620	1,477	1,113	1.67	1.59	3,303	2,630
Commonwealth Insurance Limited	06/17	692	7	640	8	8%	80	64	14	16	62	53	198	232	526	485	2.08	1.71	1,054	1,011
Zurich Australian Insurance Limited	12/16	677	8	846	6	-20%	(75)	(132)	80	68	10	(50)	1,243	1,334	1,878	2,018	1.61	1.43	4,658	4,633
RACQ Group	06/17	676	9	643	7	5%	17	(1)	25	40	23	15	690	643	1,344	1,229	2.12	2.18	2,025	1,875
Youi Holdings Pty Ltd	06/17	623	10	583	9	7%	188	146	13	13	59	35	114	103	442	493	2.72	2.12	877	854
Chubb Holdings Australia Pty Ltd ¹	12/16	532	11	270	15	97%	16	3	73	26	82	11	746	209	1,804	686	2.08	1.50	3,193	1,763
Auto & General Insurance Company Limited	06/17	494	12	427	12	16%	18	39	6	10	15	28	79	54	247	260	1.46	1.41	601	525
Westpac Insurance	09/16	477	13	472	10	1%	125	89	17	16	103	75	154	146	623	556	1.42	1.59	1,508	1,111
Genworth Mortgage Insurance Australia Limited	12/16	453	14	470	11	-4%	178	234	126	108	203	228	321	248	3,462	3,846	1.57	1.59	3,833	4,232
RAC Insurance Pty Limited	06/17	391	15	358	13	9%	74	64	5	9	25	21	53	52	238	224	2.03	2.05	625	586

Source:

Extracted from General Insurance Institution-level Statistics database from APRA June 2017 (issued 8 November 2017).

Note:

1. Chubb and ACE combined business under Chubb Holdings Australia Pty Ltd in April 2016.

Life insurance

Entity	Year end	Ranking measure					Performance				Financial position							
		Net policy revenue					Investment revenue		Net profit/ (loss after tax)		Net policy liabilities		Capital adequacy multiple		Investment securities		Net 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	12/16	2,090	1	2,161	1	-3%	6,206	5,879	169	807	96,254	93,632	2.55	2.34	104,097	100,946	4,459	4,847
TAL Life Limited	03/17	1,815	2	1,716	2	6%	230	(13)	224	183	2,220	2,160	1.72	1.84	2,693	2,747	1,889	1,717
Challenger Life Company Limited	06/17	1,625	3	598	11	172%	1,100	1,315	445	338	10,322	9,559	1.57	1.57	16,230	14,519	3,337	2,710
MLC Limited ¹	09/16	1,570	4	1,509	4	4%	3,238	4,535	265	398	3,332	76,136	3.21	2.17	4,278	70,391	1,973	2,187
The Colonial Mutual Life Assurance Society Limited ³	06/17	1,512	5	1,554	3	-3%	694	619	129	203	10,311	10,817	1.58	1.44	11,733	11,888	1,681	1,642
OnePath Life Limited ²	09/16	1,350	6	1,378	5	-2%	2,421	1,925	323	455	35,990	35,152	1.73	1.69	35,399	33,983	2,593	2,478
AIA Australia Limited ³	11/16	1,301	7	1,095	6	19%	105	90	87	72	1,643	1,386	1.90	1.60	2,427	2,170	761	688
Swiss Re Life & Health Australia Limited	12/16	1,100	8	992	7	11%	83	71	162	62	2,518	2,473	2.10	1.87	3,431	3,142	1,350	1,185
Westpac Life	09/16	773	9	705	9	10%	417	469	226	253	6,782	6,764	1.63	2.10	6,779	6,797	1,556	1,426
RGA Reinsurance Company of Australia Limited	12/16	593	10	709	8	-16%	42	35	(10)	(24)	602	611	1.28	1.35	1,322	1,150	513	461
MetLife Insurance Limited	12/16	554	11	629	10	-12%	28	23	(13)	66	590	543	2.64	3.44	921	852	389	469
Suncorp Life & Superannuation Limited	06/17	547	12	575	12	-5%	161	135	64	107	2,328	2,414	2.37	2.50	3,840	3,517	1,345	1,346
Munich Reinsurance Company of Australasia Limited	12/16	534	13	505	14	6%	87	74	152	(17)	660	1,103	1.79	1.33	2,400	2,405	1,136	578
Hannover Life Re of Australasia Ltd	12/16	488	14	514	13	-5%	59	46	2	3	1,636	1,488	1.45	1.32	1,858	1,747	481	476
Zurich Australia Limited ²	12/16	334	15	271	15	23%	124	107	43	52	1,321	1,370	3.66	2.78	2,200	2,036	1,219	750

Source:

Extracted from Life Insurance Institution-level Statistics database from APRA June 2017 (issued 13 December 2017) except Net policy liabilities.

Net policy liabilities – extracted from financial statements filed with ASIC.

Notes:

1. National Australia Bank completed the sale of 80% of its MLC life risk insurance business to Nippon Life Insurance Company (Nippon Life) on 3 Oct 2016.
2. Zurich Australia Limited to acquire OnePath Life Limited's life risk business, forecast to be completed by November 2018
3. AIA to acquire The Colonial Mutual Life Assurance Society Limited life insurance business, forecast to be completed by June 2018.

Health insurance

Entity Name	Ranking measure					Performance								Financial position						Ratios			
	Contributions					Benefits paid		Membership		Other Revenue (Incl. Investment Revenue)		Profit after tax/ (loss after tax)		Outstanding claims		Investments		Net Assets		Benefits		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 %
BUPA Australia Pty Limited	6,398	1	6,119	1	5%	5,437	5,234	1.78	1.76	109	104	398	353	502	511	1,550	1,443	614	554	85%	86%	7%	7%
Medibank Private Limited	6,107	2	6,038	2	1%	5,102	5,064	1.78	1.80	195	108	450	433	553	562	2,083	1,997	1,523	1,468	84%	84%	8%	8%
Hospitals Contribution Fund of Australia Limited	2,488	3	2,427	3	3%	2,189	2,116	0.68	0.68	141	59	182	174	231	249	1,522	1,387	1,484	1,294	88%	87%	3%	5%
The NIB Health Funds Limited	1,669	4	1,568	4	6%	1,401	1,334	0.55	0.53	51	29	108	85	107	97	534	484	295	274	84%	85%	6%	6%
HBF Health Limited	1,615	5	1,507	5	7%	1,475	1,355	0.53	0.52	87	39	59	36	134	121	1,449	1,346	1,280	1,221	91%	90%	-2%	0%
Australian Unity Health Limited	680	6	654	6	4%	560	540	0.20	0.20	14	12	39	36	80	79	248	228	139	130	82%	83%	7%	6%
Teachers Federation Health Limited	597	7	544	7	10%	533	495	0.15	0.14	14	10	38	23	50	44	343	320	322	281	89%	91%	4%	2%
GMHBA Limited	472	8	415	8	14%	410	356	0.15	0.14	7	3	20	19	43	34	204	206	224	203	87%	86%	3%	4%
Defence Health Limited	468	9	414	9	13%	455	391	0.13	0.12	19	15	3	10	55	45	354	328	269	266	97%	95%	-3%	-1%
CBHS Health Fund Limited	392	10	361	10	9%	357	331	0.10	0.09	15	4	22	8	42	38	238	190	196	175	91%	92%	2%	1%
Westfund Limited	172	11	167	11	2%	143	137	0.04	0.05	4	4	10	15	17	17	139	141	139	129	83%	82%	4%	7%
Queensland Teachers' Union Health Fund Limited	171	12	149	14	15%	154	137	0.04	0.04	7	(0)	8	(2)	14	12	15	24	95	83	90%	92%	1%	-1%
Grand United Corporate Health Limited	164	13	152	13	8%	132	122	0.03	0.03	4	3	9	6	20	18	70	57	60	55	80%	80%	6%	4%
Health Insurance Fund of Australia Limited	164	14	153	12	7%	154	145	0.06	0.06	7	7	(2)	(5)	19	20	87	77	67	68	94%	95%	-6%	-8%
Latrobe Health Services Limited	159	15	149	15	7%	143	129	0.04	0.04	4	5	6	11	12	11	177	168	165	160	90%	87%	1%	4%

Source:

2017 – extracted from Operations of Private Health Insurers Annual Report 2016-17 (June 2017) – released 8 Nov 2017 from APRA.

2016 – extracted from Private Health Insurance Operations Report 2015-16 (June 2016) – released 9 Nov 2016 from APRA.

Insurance intermediaries

Entity	Year end	Ranking measure				Performance			Financial position					
		Consolidated revenue (Incl. interest and other income)				Total comprehensive income/ (loss)			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
Marsh Mercer Holdings (Australia) Pty Ltd	12/16	736	1	734	0%	107	120	-11%	1.27	1.35	783	801	1,746	1,827
Steadfast Group	06/17	415	2	397	5%	78	81	-4%	1.17	1.16	913	898	1,800	1,712
Jardine Lloyd Thompson Australia Pty Limited	12/16	254	3	254	0%	45	43	5%	1.11	1.09	111	94	421	413
AUB Group (formerly Austbrokers Holdings)	06/17	240	4	211	14%	43	49	-12%	1.18	1.24	372	351	754	721
Willis Australia Holdings	12/16	105	5	99	6%	(4)	1	-500%	1.08	1.09	53	56	569	607
Aon Corporation Australia ¹	12/16	N/A	NR	721	N/A	N/A	106	N/A	N/A	1.01	N/A	434	N/A	2,141
Arthur J. Gallagher & Co (Aus) Limited ¹	12/16	N/A	NR	137	N/A	N/A	11	N/A	N/A	0.97	N/A	209	N/A	583

Source:

Published annual financial statements that were available at 30 November 2017.

Notes:

1. Financial statements unavailable for FY16.



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