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RAA Group



20 March 2020

Manager, Regulatory Reporting, Data Analytics
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Dear Manager, Regulatory Reporting, Data Analytics,

Re: APRA – Increased transparency of general insurance and life insurance data consultation

Thank you for the opportunity to provide feedback on the proposal dated 10 February 2020 to make all class of business and product group data items non-confidential.

We wish to raise concerns regarding the impact of the proposed changes for the State based Motoring Clubs in particular. The four State based Motoring Club Insurers, RAAI, RACQI, RACI & RACTI (The Clubs), oppose APRA’s proposal to make all information non-confidential. For the reasons outlined in this letter, The Clubs believe the detriment to commercial interests is greater than both the immediate and long-term public benefit.

While APRA indicated they are not proposing to publish or release additional entity level data from reporting forms beyond that already published, the concern is once information is classified as non-confidential it will be publicly available upon request and subsequently released in future APRA publications. The information provided in our submission demonstrates that there are sound reasons not to classify all data as non-confidential. In addition, we believe that if data has been previously masked based on APRA’s own guidelines on confidentiality, there is a sound reason to continue this. Its subsequent unmasking, because of APRA’s determination that it is non-confidential, is effectively releasing the information, and will lead to the results set out in our submission.

The Clubs, with more than 4.5 million insurance policies, are concerned with the potential for unintended consequences for member-owned mutual financial services organisations which have operated for decades providing trusted services and products. The four Australian Motoring Clubs have more than 8 million members across the country and are built on a tradition of trusted advice and service culture.



Our purpose is to offer quality services for all our members with a focus on giving back to our member communities and not to shareholders. The Clubs will often make different decisions to the large shareholder owned organisations with a better consumer outcome rather than a better shareholder outcome. Customer feedback (measured by Net Promoter Score) shows that the Clubs are all in the top 15 of trusted brands and services in Australia.

Being State based Insurers, The Clubs information is far more granular than National Insurers when the Insurer is named. As each State based insurer write the majority of its business in their respective state, any figures provided on the 300 series of forms will give insight to National Insurers as to the performance within each Club Insurers respective State and as a result could become a target. National Insurers will not suffer this disadvantage as their data will be aggregated across all States and thus blur the insights.

The Clubs have a greater sensitivity to the viability of individual classes of business due to the inability to subsidise classes and products through other States and/or Brands. The inability to write profitable business has the potential to result in loss of competition in the insurance sector and the potential closure of regional branches, agencies and call centres due to the loss of trusted motoring club brands in the long term.

As The Clubs are State based Insurers any availability of class of business segmented information has the potential to cause financial detriment and believe the information should be deemed commercially sensitive. The proposed non-confidential treatment of data will allow competitors to determine Loss Ratios, Combined Operating Ratios (COR) and average premiums which will in turn result in potential targeting of The Clubs and reduced competition for the consumer in the long term.

APRA Proposal & Mandate

APRA states the proposal to provide greater industry aggregate data will promote greater transparency and accountability within the general insurance industry. APRA believe this will enhance competition, enhance efficiency, boost innovation, boost productivity in the economy, facilitate greater consumer understanding and facilitate greater public discussion of insurance related issues by market participants, consultants, analysts and other users.

Section 8(2) of the APRA Act requires that: “In performing and exercising its functions and powers, APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia.” While the intent under APRA’s proposal is for all Australian licensed general insurers having access to the same level of information about each other’s operations, The Clubs are disadvantaged as the same level of disclosure regarding National Insurers will be unavailable as noted in our earlier comment.

Regarding Section 57 of the APRA Act, our view is that the proposal will not benefit the public and may harm it in the event that it has a destabilising or anti-competitive impact on the industry. As such, the proposal to classify all data as non-confidential would be inconsistent with APRA’s purpose contained in the APRA Act.

Club Implications

The Clubs are supportive of increased transparency and accountability where there is no commercial detriment, however due to the sensitivity of the information contained within class of business reporting we request this information remain confidential.

Outlined below are the direct impacts of APRA's non-confidential proposal. Appendix A summarises the Forms we believe should remain confidential and Appendix B includes our detailed position on each APRA Reporting Form outlined within the consultation letter.

Profitability & Competition

The release of confidential class of business data will adversely impact commercial interests for The Clubs. Classifying class of business revenue, claim and expense information as non-confidential allows competitors to identify average premium, pricing strategy information, claims information, expense allocation/subsidisation and combined operating ratios. This information, when taken collectively, would enable the calculation of insurer specific class of business profit margins.

The analysis of Entity Level non-confidential data is summarised in Appendix C & D. It demonstrates analysis that would be possible including Loss Ratios, Combined Operating Ratios (COR) and average premiums by Institution.

By obtaining this information, National Insurers could operate at lower margins or losses while State based Insurers do not have the ability to cross subsidise. State based policy disclosure would allow National Insurers, backed by subsidised product lines across States, to attack profitable niche insurers. National Insurers could use unsustainable pricing strategies to ensure the State based Insurers remain unprofitable in the local market.

While in the short term this may be beneficial for a consumer from a price perspective, the unprofitable pricing over an extended period would force out smaller and State based insurers in the long term, resulting in less competition. Long term the lack of competition will result in increased premiums to the consumer through the removal of market participants.

New business policy acquisition costs are higher than renewal policies in a mature insurance market environment. The higher costs through the targeting of new business by Industry participants will lead to increased premiums or reduced margins. If lower margins are not sustainable and forces competitors out of the market, these costs will inevitably need to be passed on to the consumer through higher premiums. In addition, removal of competition would result in standardisation of products and potentially a lack of new product development, so a balance is required and disclosing sensitive competitor information is not the best approach.

The inability to write profitable business could cause the loss of the trusted Motor Club Insurance brands, having a negative impact on employment markets (loss of employment opportunities directly linked to local Claims, Branch network and Policy call centres), the repairer industry (freedom of choice and independent) and the regional country areas which are serviced by a unique agency

distribution network. This then has further impacts to the State based Motoring Clubs in providing other products and services to consumers. The indirect impact to country/rural customers and the flow on effect to increased claim repair costs through reduced competition of the above will place pressure on the long terms affordability of insurance products. This has the potential to lead to either under or non-insurance.

APRA was subject to the Australian Prudential Regulation Authority Capability Review June 2019 (Samuels Capability Review). The Capability Review made a number of observations as to how APRA addresses competition issues in performing its prudential duties. In particular, it recommended that APRA “should create a competition champion” so as to “ensure there is sufficient internal debate and analysis of competition.” This recommendation was accepted by APRA and the Government. We would respectfully ask if APRA has now considered this and how it has reconciled this proposal with the Samuels Capability Review outcome.

Pricing & Strategy

The data could be used to determine an Insurer's underlying business strategy. The data would reveal which classes of business the Insurer has taken an aggressive or conservative approach on pricing. Moreover, it could indicate whether an insurer is lowering prices due to performance in a product class or in order to increase market share. The information could enable the competitor to take action which may be adverse to the public interest.

Majority of Insurers cross subsidise some classes of business. An analysis of the information in these forms would enable competitors to identify those classes where low combined operating ratios are being achieved and could lead to Insurers being pressurised to reduce rates on more profitable classes. This could have an adverse effect on other classes resulting in affordability issues for customers. The same argument could be applied across different states.

The competitor behaviours referred to above would create pressure on the underlying financial stability of the industry, with price pressure reducing profitability and reducing the size of the capital buffer in place to reduce the impact of catastrophe events.

Potential to mislead the public or create confusion

In our view the increase in available data will not necessarily result in greater consumer understanding. While increased data has the potential to facilitate public discussion of insurance related issues by market participants, consultants, analysts and other users, it has equal potential to facilitate ill-informed debate or a lack of understanding of how insurance works. This could result in inaccurate or unfair analysis especially when comparing class of business pricing and profitability. Without an understanding of the underlying data and strategic context, additional information could be used by analysts and market participants to help pursue their own agenda. This in turn could lead to a reduction in consumer sentiment.

Class of business information could contain subsidisation and expense allocations which are subjective to individual company environments or catastrophe experience and this may not be

consistent across all insurers. If all data is made non-confidential there is no control over the dissemination or rules around the data use and interpretation. In addition, the proposal to publish explanations for movements or revisions are all currently free text and across all industry the collation and completion will vary.

We also believe that the proposal by APRA to publish the free text of revisions could cause confusion and leave the information open to interpretation by the end user. We question how the availability of this information meets APRA's aim to support informed decision-making.

Impact to commercially sensitive reinsurance programs

While not specifically discussed in the proposal, we have concern that by making all information non-confidential that Form GRF 116_0 *Insurance Concentration Risk Charge*, Form GRF_460_0 *Reinsurance Assets by Counterparty* and Form GRF_460_1 *Exposure Analysis by Reinsurance Counterparty* would also be classified as non-confidential in the future.

Information contained in these forms would help enable third parties to reconstruct The Clubs catastrophe programs. This information could have the potential to highlight the varying dependency of reinsurance on the financial position of The Clubs, while bigger National Insurers can use their size and diversification to their advantage.

Insurers could bear higher reinsurance costs due to less bargaining power in commercial negotiations with reinsurers. By obtaining horizontal loss data, information on lower return periods which is not currently available to the public could create placement issues or higher costs associated with placement. These costs would ultimately be borne by the consumer.

In addition, reinsurance contracts are bound by confidentiality terms and any disclosure of program information may weaken contract certainty. Any price pressure applied to Insurers could impact the size of capital in place to reduce the effects of catastrophes, leaving consumers exposed.

In Summary

The Clubs do not support the proposal to make all data non-confidential. By making non-confidential information available for public use National Insurers can obtain commercially sensitive information and target segments or States through cross subsidisation resulting in the potential removal of State based Insurer participants over time. The costs associated with acquisition of new business due to competition will be passed on to the consumer through higher premiums.

In addition, if forced from the market, the loss of The Clubs will have flow on effects to industry including employment (local company, local call centres, distribution network), impact to repairer industry and suppliers, and further neglect of country and regional areas. This has the capacity to reduce consumer sentiment and spend and will have a negative impact on productivity in the economy.

We appreciate the feedback provided to The Clubs during recent visits and the offer to reach out directly to Tony Jarick. We welcome the opportunity to meet further to discuss and clarify our concerns directly with APRA representatives.

Yours sincerely



David Russell
Chief Executive, Insurance
RAA Group



Tracy Green
Acting Chief Executive Officer
RACQ Insurance



Andrew O'Hara
Chief Executive Officer
RAC Insurance



Trent Sayers
Chief Executive Officer, Insurance
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Appendix A

Due to the sensitivity of the information contained in APRA class of business reporting we request the following class of business disclosure within these forms remain confidential.

- GRF 115_1: Premiums Liabilities – Insurance Risk Charge
- GRF 310_1_L: Premium Revenue & Reinsurance Expense (L)
- GRF 310_2_L: Claim Expense & Reinsurance Recoveries
- GRF 310_3_L: Details of Income and Expenses
- GRF 410_0_L: Movement in Outstanding Claims Liabilities
- GRF 440_0_L: Claim Development Table (L)
- GRF_115_1A_G: Premiums Liabilities – Insurance Risk Charge – Australia by Class of Business (G)

We note that the current APRA consultation classifying data as non-confidential does not include the following forms. We support APRA's current position that the data in these forms remain confidential.

- GRF 116_0: Insurance Concentration Risk Charge
- GRF 460_0: Reinsurance Assets by Counterparty
- GRF 460_1: Exposure Analysis by Reinsurance Counterparty



APPENDIX B

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_115_0: Outstanding Claims Liabilities	1 & 2	All	NA	<p>>All Motoring Clubs position is that this form is non confidential. Pricing and underlying business strategy hard to determine.</p> <p>>The only metric this could reveal is an approximate non-reinsurance recovery rate by class of business which is unlikely to be commercially detrimental on its own.</p>
GRF_115_1: Premium Liabilities Risk Charge	1 & 2	<p>Total Lines Section 3A: GPS 320 Total.</p> <p>Total Lines Section 3B: AASB 1023 Total. Section 3C: Total premiums liabilities surplus/deficit</p>	<p>Section 1A Individual class of business PL.</p> <p>Section 1B by class of business UE, DAC, DRE and 1023 Net premium liability by class of business.</p> <p>In addition, Section 1C, 2A, 2B, 2C if completed</p>	<p>>Class of business Premium liabilities along with form captured AASB1023 liabilities including DAC and DRE has the potential to give away sensitive information on reinsurance expenses and acquisition costs. This can also be used as a basis for expense allocations. DAC and DRE provide expense allocation mix which can be used for cross subsidisation by national competitors and pressure on rates in more profitable areas of State based insurers.</p> <p>>It is possible to derive profit margin at line of business.</p> <p>>The margin is a forward-looking estimate for unexpired risk so potentially more detrimental than the historical margins.</p>



Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_310_1_L: Premium Revenue & Reinsurance	1	Section 3 Total. Combined as Total direct or reinsurance business	Section 1 Direct Business. Section 2A Reinsurance business. Individual class of business premium revenue and RI expense	<p>>Provides information on pricing strategy for State based insurers (premium \$ and volumes to derive an average)</p> <p>>Allows for larger insurers backed by subsidised product lines across States and brands to target profitable niche insurers.</p> <p>>Allow competitors to calculate market share by product which could also be used in informing where they target.</p> <p>>If published with claims related data at class of business level would allow the calculation of loss ratio & combined operating ratio by class of business (& state).</p> <p>>commercial detriment high - as a very minimum would need a time lapse period (one/two years) after which the class of business data items may be regarded as no longer being confidential. We do note any longer time period doesn't achieve APRA's objective.</p>

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_310_2_L: Claims Expense and Reinsurance Recoveries (L)	1	Section 3 Total. Combined as Total direct or reinsurance business	<p>Section 1 Direct Business. Individual class of business OCL, Claim payments, RI and non-RI recoveries. Net Claims Expense by Class.</p> <p>Section 2 Reinsurance business. Individual class of business OCL, Claim payments, RI and non-RI recoveries. Net Claims Expense by Class.</p>	<p>>If published with premium and policy related data at class of business level it would allow the calculation of loss ratio & combined operating ratio by class of business (& state) for State based insurers.</p> <p>>This would allow opportunistic price wars in territories to force out competition. This would not however be on a level playing field for single state insurers as national insurers would not report by class and by state which would occur (by default) for State based insurers.</p> <p>>provides visibility of gross non reinsurance recovery rates by class of business placing pressure on future settlement processes and increasing loss ratios due to extended recovery processes and higher costs</p> <p>>national companies could run at lower margins or no margins while state based insurers do not have the ability to cross subsidise across states and products</p> <p>>Having access to loss ratios by state and product could expose the State based insurers to periods of price competition. This has the potential to lead to adverse selection and compromise of the prudential safety and ultimate competition and contestability.</p>
GRF_310_3_L: Details of Income and Expenses	1	4. UW expense and Acquisition costs by class of business Section 3 Total. Combined as Total direct or reinsurance business	<p>4. UW expense and Acquisition costs by class of business in Section 1: Direct Business</p> <p>4. UW expense and Acquisition costs by class of business Section 2: Reinsurance business</p>	<p>>Class of business UW and acquisition allows a total combined ratio and loss ratio by insurer to be calculated.</p> <p>>Expense management by class of business including DAC and UW expenses identify opportunity for non-sustainable competition and cost subsidisation by national players through price competition.</p>

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_410_0_L: Movement In Outstanding Claims Liabilities	1	Section 3 Total. Combined as Total direct or reinsurance business	Section 1 Direct Business. Section 2 Reinsurance. Individual class of business movements in OCL	>Reveals claims expenses by class (& state) when combined with GRF_115_0 & 440_0 >Gives an indication of class of business drivers for the current year claims performance (supported by prior year releases or strained by strengthening) particularly in regard to long tail business
GRF_420_0_L: Premium Revenue by State and Territory of Australia (L)	1	All	NA	>On its own insufficient information to cause commercial detriment (just gross earned; no reinsurance cost to derive NEP, no risk volumes to derive average written premiums). Would only allow a gross loss ratio to be calculated by class by state in conjunction with form 430_0 & would allow calculation of loss ratio & combined operating ratio by class of business (& state) when published with GRF_115_0, 310_2, 310_3, 430_0 >Ability to determine average premiums and historical trends and determine future pricing if provided with other forms and identifies profitable segments for state based insurers for unsustainable price competition. Analysis using split of class premium could also be used for allocation of claims, expenses etc on GRF_310_0. >National players (with multiple brands) can mask same level of granularity when compared to single state insurers with one brand which doesn't provide level playing fields and analysis.

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_430_0_L: Claims Expense by State and Territory of Australia (L)	1	All	NA	<p>>insufficient information to cause commercial detriment (just gross claim cost; no reinsurance or non-reinsurance recoveries to derive a meaningful net incurred cost by class of business) on its own. Allows calculation of loss ratio & combined operating ratio by class of business (& state) if published with GRF_115_0, 310_2, 310_3, 420_0 . Analysis using split of class GCE could also be used as proxy for allocation of claims, expenses etc on GRF_310_0</p> <p>>Assist competitors in determining an insurers underlying business strategy - growth phase or sustainable retention</p> <p>>National players (with multiple brands) are able to mask same level of granularity when compared to single state insurers with one brand which doesn't provide level playing fields and analysis.</p>
GRF_440_0_L: Claims Development Table (L)	1	Section 3 Total. Combined as Total direct or reinsurance business	<p>Section 1 Direct Business as class of business and Accident year reported.</p> <p>Section 2 Reinsurance Business</p>	<p>>The total historical ultimate costs and premiums show pricing strategy by class of business (& state).</p> <p>>Explicit accident years show the pricing strategy across a timeline.</p> <p>>This would be detrimental if class was also published to enable competitors to target any classes that are being subsidised. This has the unintended consequence of increasing premiums to policy holders of a particular class where it has been priced to ensure affordability to policyholders.</p> <p>> Net average claim size, frequency (when used in conjunction with volumes on form 310_1), net loss ratio can be computed by accident year (ultimately allowing a</p>

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
				<p>time series trend) by class (and for The Clubs state) which could be commercially sensitive.</p> <p>>Historical accident date basis information has no direct benefit to a consumer and could lead to ill-informed debate and inaccurate analysis. Interpretation of the tables is difficult for anyone from a non-actuarial background.</p>

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_116_0: Insurance Concentration Risk Charge	1	NA	All	<p>>Allows third parties to construct motoring clubs Reinsurance catastrophe programs.</p> <p>>Insurers could bear higher costs due to less bargaining power in commercial negotiations with reinsurers - This cost would ultimately be passed to consumers. This is due to the reinsurers being able to determine the construct of the insurers catastrophe programs, the rate paid and the capital benefit received.</p> <p>>The reporting of the horizontal loss data could release information on lower return period losses that is not currently available which could potentially cause placement problems.</p> <p>>The loss detail of insurer models and information derived may differ to reinsurer modelling when pricing reinsurance programs. Having to explain a potentially larger number for a low and or high return period relative to model outputs from proprietary models such as RMS is something we should avoid.</p> <p>>competitor behaviours could result in insurers changing exposure to events to maintain profitability placing capital at risk</p> <p>>from the letter provided by APRA on 10/2/2020, it does not appear that this form is impacted (refer Appendix 1 of that letter).</p>

Form	Groups	Non-Confidential	Confidential	Public Interest Commercial Detriment Argument - Motoring Clubs
GRF_460_0: Reinsurance Assets by Counterparty	1 & 2	NA	All	<p>>Provides information on exposures to individual reinsurers.</p> <p>>Allows third parties to construct motoring clubs Reinsurance catastrophe programs.</p> <p>>Insurers could bear higher costs due to less bargaining power in commercial negotiations with reinsurers - This cost would ultimately be passed to consumers.</p> <p>>from the letter provided by APRA on 10/2/2020, it does not appear that this form is impacted (refer Appendix 1 of that letter)</p>
GRF_460_1: Exposure Analysis by Reinsurance Counterparty	1 & 2	NA	All	<p>>Insurers could bear higher costs due to less bargaining power in commercial negotiations with reinsurers - This cost would ultimately be passed to consumers.</p> <p>>from the letter provided by APRA on 10/2/2020, it does not appear that this form is impacted (refer Appendix 1 of that letter)</p>



APPENDIX C – Example Institution Level Data. While not published, deemed non-confidential and available on request.

Institute Level Insurer Example Data	FORM	Total (\$'000)	House (\$'000)	Motor (\$'000)	Boat (\$'000)
Risk written (#)	310.1	340,000	150,000	180,000	10,000
Gross Earned Premium	310.1	300,000	150,000	145,000	5,000
Outwards Reinsurance Expense	310.1	30,000	25,000	5,000	-
Net Earned Premium	310.1	270,000	125,000	140,000	5,000
Gross Incurred Claims (Net of Non-RI Recoveries)	310.2	270,000	146,000	120,000	4,000
RI Recoveries	310.2	30,000	26,000	4,000	-
Net Claims Expense	310.0	240,000	120,000	116,000	4,000
Acquisition Costs	310.3	16,000	7,000	8,900	100
Commission Expense	310.3	15,000	7,500	7,400	100
Other Underwriting Expense	310.3	1,000	500	500	-
Underwriting Result		- 2,000	- 10,000	7,200	800
Investment income	310.3	5,000	2,500	2,500	-
Other Operating Expense	310.3	2,000	500	1,500	-
Net Profit/Loss after tax		700	- 5,600	5,740	560

APPENDIX D – Example Institution Level Data. While not published, deemed non-confidential and available on request.

Derived Ratios and Calculations	Total	House	Motor	Boat
Average Premium	\$ 882	\$ 1,000	\$ 806	\$ 500
Reinsurance Expense Ratio	10.0%	16.7%	3.4%	0.0%
Expense Ratio	11.3%	10.3%	12.6%	4.0%
Gross Loss Ratio	90.0%	97.3%	82.8%	80.0%
Net Loss Ratio	88.9%	96.0%	82.9%	80.0%
Net Underwriting Combined Ratio	100.7%	108.0%	94.9%	84.0%