



5 April 2013

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Dear Todd,

## Confidentiality of general insurance data and changes to general insurance statistical publications

Thank you for the opportunity to provide feedback on the above discussion paper issued on 22 February 2013. In this letter we outline:

- How we use statistical information published by APRA
- The value of such information in our work
- Our feedback on the specific proposals for revised general insurance statistical publications
- The availability of information in the longer term

### How we use statistical information published by APRA

As a firm of consulting actuaries, working primarily with general insurers and accident compensation schemes, Taylor Fry regularly makes use of APRA's statistical publications to provide benchmarking information when providing actuarial advice to our clients.

In particular, many of our actuaries act as Appointed Actuaries to APRA regulated insurers and branches. In this role we provide regular Insurance Liability Valuation Reports, Financial Condition Reports and Run-Off Plan Reviews in accordance with APRA's prudential standard GPS 320. We are also periodically asked to provide input to pricing, capital management, reinsurance strategy and mergers and acquisitions. In providing actuarial advice, we often make reference to APRA's statistical publications, particularly when we require industry benchmarks for:

- Claims loss ratios
- Claims handling and administration expense ratios
- Risk margins

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- Reinsurance levels
- Capital adequacy levels

Primarily we make use of information available at a class of business level aggregated across the industry. This information is of particular use when dealing with smaller insurers, or government agencies such as accident compensation schemes or self-insurers.

#### The value of statistical information published by APRA

The statistical information provided by APRA is of great value to us because it improves the soundness of our liability valuations, financial condition analyses and other strategic work we routinely perform for insurers as outlined earlier in this letter. We believe that accurate liability valuations are of particular importance as insurers rely on these in gauging their solvency and profitability.

More generally, we support APRA's general aims to promote:

- Understanding and assist research and public discussion on policy issues, and well-informed decision-making by policy-makers, other regulators, market analysts, researchers and senior management of financial institutions; and
- Transparency and accountability of the financial institutions it regulates.

We believe that greater disclosure and availability of class of business level industry-wide data and individual entity-level data will support APRA's aims. In addition, this information will allow actuaries to select relevant and current benchmarks in their analyses of insurance companies.

We appreciate that individual insurers may have concerns regarding the availability of detailed statistical information, and the potential use of such information by competitors. However, our view is that the statistical information that APRA is seeking to publish would be useful to competitors, but would not be sufficient on its own to erode any competitive advantage an insurer has. In particular, where a class of business is profitable enough to attract other insurers, those insurers will need to consider a complete pricing basis for their policies, and not just the overall profitability. Indeed, as pricing generally becomes much more sophisticated for insurers, the ability for an insurer to target profitable segments of the market is becoming much more important than the average profitability of the market. Consequently, our view is that the public good of making such information available – in terms of increased security for policyholders – exceeds any potential disadvantages to individual insurers.

#### Specific proposals for revised statistical publications

Given our view of the value of the statistical information, we naturally support APRA's specific proposals contained in the discussion paper on the contents of future statistical publications.

We further recommend that the *Quarterly General Insurance Performance Statistics* be extended to include the following information within the database:

- Subdivisions for large, medium and small insurers. This could be done by publishing industry aggregates by class of business for each quartile of insurers in terms of market share for that class of business. This would assist in allowing actuaries to select the more relevant benchmark information for the particular insurer they are reviewing.

- A split of net premium liabilities between central estimates and risk margin (currently this is only proposed for outstanding claims).
- Risk margin amounts to be on a stand-alone basis rather than a diversified basis.
- Claims development table information including, gross claims paid, gross case estimates and gross central estimates of outstanding claims.

We recommend that the *General Insurance Institution Level Statistics* be extended to include the following information in the database for company level and insurance group level tables:

- Net incurred claims expense to be split between current period and non-recurring amounts
- Net outstanding claims to be split between central estimates, stand-alone risk margins at 75% Probability of Adequacy (PoA), diversification benefits at 75% PoA, and amounts in excess of 75% PoA.
- Reinsurance and other recoveries on paid and outstanding claims
- Deferred reinsurance expenses

This additional information would enhance the assessment of the transparency and accountability of financial institutions by showing:


- The impact of reserve releases on prior years on the institution's financial performance;
- The size of the risk margin and any diversification benefits; and
- The dependency of the institution's financial position on reinsurance.

#### The availability of information in the longer term

We note APRA's proposal to make all data submitted by general insurers under the *Financial Sector (Collection of Data) Act 2001* non-confidential. In the longer term, we would support moves by APRA to make all collected information publicly accessible. We note that in the US and UK, comparable information on each insurer has been publicly available for many years, and that both countries have a stable and successful insurance market. We believe that this level of transparency would also be appropriate for Australia, and will result in significant benefits to the public in terms of improving the transparency and accountability of insurers, and improve the quality of the work done by actuaries within the Australian prudential regime.

We would be pleased to answer any questions you may have or provide additional information if this will assist you.

Yours sincerely,



Kevin Gomes  
Actuary



Sharanjit Paddam  
Actuary

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