Australian Competition and Consumer Commission

Insurance Industry Market Pricing Review

March 2002

Table of Contents

Executive Summary

This synopsis highlights the main findings of the investigation into premium increases in the general insurance industry, full details of which are contained in the attached report. The report was prepared by the Australian Competition and Consumer Commission (the Commission) at the direction of the Hon. Joe Hockey MP, the Minister for Financial Services & Regulation at time of the request, to report on changes in the insurance market and specifically on the upward movement of insurance premiums. It was prepared with the assistance of Taylor Fry Consulting Actuaries.

Purpose

The purpose of this report is:

A. To examine the current state of the insurance market specifically with respect to:

- the influence of the international insurance market;
- the major lines of HIH's business and any links to the profitability of those lines;
- cost drivers for each class of business; and
- profitability of the industry class by class and overall.

B. Examine reasons for premium increases forwarded by insurers in response to the Commission's request for information.

C. Address issues brought to the Commission's attention by the general public.

Currently the Commission does not have general powers of price monitoring or control[1], nor does it have preconceptions of what prices might be 'too high' or 'too low' for insurance or products generally. Prices for products outside the regulated utilities generally are of concern mainly in relation to circumstances where they may indicate restrictive practices (the exercise of market power) for example price fixing, resale price maintenance or predatory pricing.

The Commission would be concerned if large increases in premiums beyond general inflation were instituted with reference to the collapse of HIH or the events of 11 September 2001, when there were in fact no cost implications to insurers from such situations. Such opportunistic pricing could not be sustained in a competitive market. As noted above, its concern would focus on circumstances where price movements may indicate the exercise of market power.

1 The *Prices Surveillance Act 1983* enables the Commission, where the Government declares products or services, to formally monitor prices with the objectives of promoting competitive pricing wherever possible and restraining price rises in markets where competition is less than effective.

Industry Analysis

The insurance industry has experienced low returns on equity over the last nine years. The average return has been little higher than could have been obtained by investing in cash although shareholders have borne a significant risk. The extent of the risk is highlighted by the liquidation of HIH Group where shareholders are expected to lose their total investment.

Most classes over the last decade (or in more recent times) have contributed to that Low return. Seven of the fifteen APRA classes (most notably Fire and Industrial Special Risks (ISR), Professional Indemnity, Product & Public Liability, Travel and Other) have had Very Low or Low return on capital. If insurers respond by increasing premiums, these classes are likely to be under the most pressure to do so.

Results of an examination of the return on capital on a class by class basis is contained in Table 1.

Table 1 – Performance and Outlook

Class of Business	Overall	Recent	Outlook
Fire and Industrial Special Risks	Moderate	Low	Low
Houseowners/Householders	Moderate	High	High
CTP Motor Vehicle	Low	High	Moderate
Commercial Motor Vehicle	Moderate	High	High
Domestic Motor Vehicle	Low	Low	Moderate/High
Marine and Aviation	Very High	High	High
Professional Indemnity	Low	Very Low	Very Low
Product and Public Liability	Low	Very Low	Very Low
Employers' Liability	Low	Low	Low
Mortgage	Very High	Very High	Very High
Consumer Credit	Very High	Very High	Very High
Travel	Low	Very Low	Very Low
Other Accident	High	High	Moderate
Other	High	Very Low	Low
Inward Treaty	High	Low	Unclear
Overall	Moderate	Low	Low

Descriptions of Low, Very Low, Moderate, High and Very High are contained in the report

Consistent with that analysis, insurers reported the *largest* premium increases during the last year have been for ISR, Professional Indemnity and Product & Public Liability. In addition, a wide *range* of increases was reported for Public & Product Liability and Domestic Motor Vehicle.

The increases suggested by the reported averages for ISR, Professional Indemnity and Public & Product Liability are supported by the alignment of several underlying drivers. The key driver for recent premium increases has been the shift by insurers from establishing targets for business growth as measured by premium volume to setting targets for return on equity and the realisation that recent Low returns on capital for many classes has occurred through a combination of:

- *Inadequate premium rates* (Domestic Motor, ISR, Professional indemnity, Public & Product Liability and Travel)
- *Catastrophes* such as Sydney hail storm and South East Queensland flood affecting the profitability of the retained business (Fire & ISR, Domestic and Commercial Motor, Householders/Homeowners)
- *Realisation of the extent of past losses* as liability provisions are increased to reflect emerging claims experience (Professional Indemnity and Product & Public Liability)
- *Low investment returns which* represent a significant and important component of insurance profit (Liability classes)
- *Increasing reinsurance premiums* resulting from continuing Low profitability of the international reinsurance market. While largely uninfluenced by domestic catastrophes increased reinsurance rates have occurred at a similar time as domestic catastrophes (Fire & ISR and Householders/Homeowners)
- *Liquidation of the HIH Group* potentially removing a barrier to price increases (Professional Indemnity)

Recent premium increases and re-rating of portfolios appears to have restored the profitability of Domestic and Commercial Motor. Therefore, it would be difficult for the industry to justify further increases.

The Low returns achieved on the Domestic Motor and Employers Liability classes are a testament to the competitive market for such business. These competitive pressures are expected to restrain further premium increases in these classes.

While many of the classes have exhibited Low returns on capital, insurers have also enjoyed High/Very High returns for Marine and Aviation, Consumer Credit, Mortgage, Commercial Motor and more recently CTP Motor.

It must be remembered that many consumers will receive substantially higher increases (and also lower) than the simple averages shown in the report. Significantly higher or lower increases may arise from either re-rating of the portfolio by the insurer, change of circumstance (eg loss of no claim discount, change of motor vehicle, change of address, etc) or change of insurer. Consumers forced to change insurers following the liquidation of the HIH Group are likely to experience the highest increases.

Recommendations

The Commission makes several recommendations to the general insurance industry intended to assist consumers assess whether premiums being offered are acceptable.

A. Increases to the previous policy's premium should be clearly explained when policies are offered for renewal. This could be achieved by a note summarising what premium was paid last year, whether coverage is extended or proscribed and what other factors, such as risk rating factors, have been reassessed so as to cause a change in premium;

B. The industry should provide consumers at large with general premium trend data for the various classes of insurance, and comprehensible explanations outlining the influence of the major cost drivers on premiums. The absence of publicly available premium information does not promote consumers general level of awareness or confidence in the general insurance industry; and

C. Insurers should improve their premium complaints and query handling systems to enable consumers to contest premium assessments and access detailed explanations for specific increases.

The Commission also makes several suggestions for consideration by the general insurance industry.

A. Insurance contracts in each class and policy area sought by consumers, small business and community organisations should contain on the front page of policies a standard checklist that would use generic terms for each type of insurance cover.

B. Increase where practicable the use of standard terms across policies.

C. Utilise large font, direct and plain English disclosure (supported by consumer testing of policy documents by companies) of the extent of any exclusions, with practical examples to highlight impacts (eg "if your house catches fire in X situation, or you are robbed by Y, we will seek not to cover your claim" etc).

Just as the Commission supports any attempts to promote transparency in the flow of information between insurer and insured, the Commission also believes that insureds should be provided with information in a timely manner. Although the notion of good faith is extremely broad, the Commission believes that it should include the assumption that insurance companies do not allow there to be any unreasonable delays in providing an insured with explanations.

1 Introduction

On 7 June 2001, the Australian Competition and Consumer Commission (the Commission) was requested by the Hon. Joe Hockey MP, the then Minister for Financial Services & Regulation to report on recent changes in the insurance market and specifically on the upward movement of insurance premiums.

At the time of the request the failure of the HIH Group of companies was expected to have a significant impact on the general insurance industry given that HIH was the second largest insurer in Australia.

In response to this request, the Commission, with the assistance of Taylor Fry Consulting Actuaries, reviewed the general insurance market and approached a number of general insurers for information on changes to pricing regimes and the reasons for these changes.

The information requested from general insurers and the analysis undertaken of the institutions responses was conducted to achieve a broad review of the market and pricing levels and as such this review does not concentrate on particular insurers or particular policies. The insurers that the Commission approached for information were selected on the basis they represented approximately seventy-five per cent of the Australian general insurance market. During the course of the review process the Commission received numerous complaints and queries from the public concerning premiums. The report also addresses these issues.

Part A of this review examines the current state of the insurance market specifically with respect to:

- the influence of the international insurance market;
- the major lines of HIH's business and any links to the profitability of those lines;
- cost drivers for each class of business; and
- profitability of the industry class by class and overall.

Part B is a review of the returns provided by insurers following a request to furnish information by the Commission. This review includes a summary of premium rate increases and comments made by insurers.

Part C of this review addresses issues brought to the Commission's attention by the general public.

Currently the Commission does not have general powers of price monitoring or control[2], nor does it have preconceptions of what prices might be 'too high' or 'too low' for insurance or products generally. Prices for products outside the regulated utilities generally are of concern mainly in relation to circumstances where they may indicate restrictive practices (the exercise of market power) for example price fixing, resale price maintenance or predatory pricing.

The Commission would be concerned if large increases in premiums beyond general inflation were instituted with reference to the collapse of HIH or the events of 11 September 2001, when there were in fact no cost implications to insurers from such situations. Such opportunistic pricing could not be sustained in a competitive market. As noted above, its concern would focus on circumstances where price movements may indicate the exercise of market power.

1.1 Limitations

This report has been prepared with information available to hand, typically up to 30 June 2001. Where possible updated information was used. Other material or analyses may be available that was not considered, which could lead to a different interpretation than expressed in this report.

The analysis is based on information provided from a range of sources, including, but not limited to, the Australian Prudential Regulatory Authority (APRA), its predecessor the Insurance and Superannuation Commission (ISC), sigma (a publication of Swiss Re) and publications of Ord Minett and JP Morgan Securities.

All sources are identified in the report. In particular, Taylor Fry has relied on statistics published by APRA in analysing the profitability of the insurance industry. The results and conclusions drawn from the analysis could be flawed if the information supplied by APRA (or to APRA by the insurers) is incorrect or incomplete.

1.2 Qualifications

Companies do not operate in a uniform manner: each company has its own profit targets, capital structure, distribution channels, policy terms and conditions, target markets and objectives. Apart from the fact that information is provided by companies at differing balance dates, aggregation of statistics can be misleading simply due to differing interpretations of the governing legislation and regulations.

The analysis and commentary is based on analyses of these aggregated statistics. However, other interpretations may have been possible if knowledge of specific company circumstances were available.

2 The *Prices Surveillance Act 1983* enables the Commission, where the Government declares products or services, to formally monitor prices with the objectives of promoting competitive pricing wherever possible and restraining price rises in markets where competition is less than effective.

PART A

Profitability of the Insurance Industry

2 Insurance Overview

This section of the report provides a brief overview of the industry, developments and major influences that have affected the industry in recent years.

2.1 Industry Background

Statistics used in this report have been derived from published APRA (available from 1996/97) and ISC (available from 1992/93) statistics. The analysis primarily relates to the period from 1992/93 to 2000/01. Other sources are referenced for periods prior to 1992/93 where required. APRA statistics relate only to the Private Sector – while some Public Sector insurers report information to APRA, the published statistics relate only to the Private Sector insurers.

The following provides a brief summary of the market.

2.1.1 Numbers of Insurers

The number of Private Sector companies authorised to conduct general insurance business increased by 5 to 156 in the year ended 30 June 2001 (151 in the year to 30 June 2000). This increase reverses the downward trend that had been apparent up to 30 June 2000 and suggests the rationalisation of the insurance market observed in recent years has either temporarily stalled or even ceased.

Table 2.1 – Number of Insurers by Type

Type of Insurer	31-Dec-97	31-Dec-98	30-Jun-99	30-Jun-00	30-Jun-01
Direct Underwriter	122	106	98	97	102
Mortgage Insurer	14	15	16	17	17
Captive	4	6	6	6	5
Reinsurer	27	29	29	27	28
s.37 Exempt insurers	4	4	4	4	4
Victorian Workcover		12			
Total Private Sector	171	172	162	151	156
Total Public Sector	16	15	15	14	15

1 Selected Statistics on the General Insurance Industry – APRA June 2001

The *Insurance Act (1974)* governs these companies. In addition, there are Public Sector insurers who are not subject to this Act but write general insurance business such as:

- workers compensation schemes at the federal level (Comcare) and in Victoria, New South Wales, South Australia and Queensland;
- transport accident schemes in Victoria, Tasmania and South Australia; and

- specialist insurers Victorian Managed Insurance Authority, Joint Coal Board, Export Finance and Insurance Corporation, etc.

Ninety seven percent of the $7 billion in premium revenue reported to APRA for 200/01 relates to the accident compensation schemes ($5.3 billion Employers Liability and $1.5 billion CTP Motor Vehicle). These specialist insurers are not included in the scope of this review.

2.1.2 Major Participants

Although APRA recorded 156 Private Sector insurers at 30 June 2001, the industry is dominated by less than 10. Table 2.2 lists the top 20 conglomerates (based on APRA's June 2001 report) by premium revenue and shows they wrote 83 percent of all business. The top 10 wrote 71 percent of premium revenue.

Table 2.2 – Major Private Sector Insurers

Group Name	Premium Revenue
	$'000
Insurance Australia Group Limited	3,563,011
Royal & Sun Alliance Insurance Australia	2,104,942
Suncorp General Insurance Ltd	1,894,281
CGU Insurance Limited	1,580,122
Allianz Australia Limited	814,484
Ing/Mercantile Mutual	579,901
QBE Insurance Limited	567,205
Zurich Australian Insurance Limited	563,613
Swiss Reinsurance Company	554,814
Munich Reinsurance Company	503,002
AMP General Insurance Limited	428,018
General & Cologne Reinsurance Australasia Ltd	286,296
Gerling Australia Insurance Limited	279,572
Lumley General Insurance Limited	277,839
AIG Group	250,285
Hannover Re	206,298
Wesfarmers Federation Insurance Limited	172,279
GE Capital Group	146,736
Commonwealth Insurance	118,218
Westpac	93,742
Top 20	14,984,658
Industry Total - Private Sector	17,972,331

Source: APRA Selected Statistics on the General insurance Industry Year Ended 30 June 2001 –Tables 1a and 14b

To illustrate the dynamic nature of the insurance industry, in the 12 months since APRA's June 2000 report was prepared:

- Allianz has moved to 100 percent ownership of MMI;
- the HIH Group has gone into liquidation;

- Allianz has 100 percent of a joint venture originally with HIH called Allianz Australia Alliance (AAA) which covers personal lines and some small commercial lines;
- NRMA acquired HIH's Workers Compensation portfolio;
- AMP General Insurance merged with GIO, which was subsequently transferred to Suncorp-Metway;
- Suncorp-Metway acquired RAA-GIO Insurance and RACQ Insurance; and
- CGU purchased Fortis Australia.

2.1.3 Capital Requirements

APRA introduced new capital requirements for general insurance companies that take effect from 1 July 2002. The effect of these changes is to increase the minimum level of capital supporting insurers with the objective of reducing the likelihood of insurers failing.

Typically, investors in insurance companies will seek a return on their equity that is commensurate with the risk. Additional capital raised to meet the new requirements will need to be serviced as investors are unlikely to subscribe more capital without an expectation of achieving a reasonable return.

2.1.4 Implication of Capital Requirements

In order to achieve the necessary returns on a higher capital base, insurers can be expected to increase profit either by:

i) achieving greater operating efficiencies (possibly through mergers)

ii) increase investment returns (possibly by assuming greater investment risk)

iii) increasing premiums

Alternatively, if they increase capital, but do not increase profit by any of the options detailed above, then the return on capital will decrease.

2.2 Major Market Influences

Over the past decade the insurance industry has been witness to considerable change. These changes are considered in three parts; firstly transfer of public sector insurers to the Private Sector, which had the effect of increasing the size of the Private Sector market; secondly, a partial reversal of that transfer with the creation of Managed Funds and; thirdly, Private Sector corporate restructures.

2.2.1 Privatisation of State Insurers

In the early to mid 1990's most of the State insurers were privatised. This activity is summarised in Table 2.3.

Table 2.3 – Transfers from Public Sector to Private Sector

	Year
Privatisation of the NSW CTP market	1989

GIO (NSW) privatisation	1992
SIO (Vic) sale to GIO	1992
SGIO (WA) privatisation	1994
SGIC (SA) sale to SGIO	1995
TGIO (Tas) workers compensation sold to Fortis	1994
Housing Loan Insurance Corporation (HLIC)	1997
Suncorp Metway (Qld) privatised	1997

2.2.2 Creation of Managed Funds

Following the privatisation of the various State insurers the Federal government and some State governments established 'captive' insurers or 'Managed Funds'. These Managed Funds were designed to directly underwrite risks or manage the insurance requirements of the public sector. This has had the effect of transferring a small volume of premium relating to government departments back to the public sector.

Table 2.4 – Managed Funds

	Year
TMF (NSW)	1989
QIC (Qld)	1991
SAICorp (SA)	1994
VMIA (Vic)	1995
RiskCover (WA)	1997
Comcover (Federal)	1997
ACTIA (ACT)	2001

1 Insurance risks in Tasmania are managed by TASCORP

2.2.3 Corporate Restructures

The latter half of the 1990's was dominated first by international merger and acquisition activity and more recently within the local market. Major changes are summarised in Table 2.5.

Table 2.5 – Major Private Sector Corporate Restructures

	Year
Fortis purchase of AMEV	1990
Restructure of Wintethur's CIC with HIH	1993
Fortis purchase of selected TGIO holdings	1994
SGIO purchase of SGIC	1995
Royal Insurance and Sun Alliance merger	1996
General Accident (NZI) and Commercial Union merger (CGU)	1997
Allianz 100% ownership of MMI	1998
NRMA purchase of SGIO	1998
Public listing of HIH (exit of Wintethur)	1998
AMP purchase of GIO	1999
HIH purchase of FAI	1999
Merger of NRMA and RACV insurance operations	1999
Opening of Qld CTP market to other insurers	2000
CGU's local purchase of Fortis Australia	2001

HIH liquidation	2001
Suncorp-Metway purchase of GIO	2001

2.3 Mergers and Acquisitions

As for any industry, mergers and acquisitions (M&A) need to be justified in a financial sense otherwise there is no reason to pay a premium above the market in making an acquisition.

Three reasons are generally cited that might lead to the acquisition of a general insurer for an amount in excess of current market value. These are the efficiency premium, synergy premium, and the acquisition premium.[3]

- The efficiency premium comes from the acquirer believing that the future profits of the company will be greater than the market currently thinks, thus greater value can be attributed to its share price.
- The synergy premium comes from the savings that will arise as a result of the savings and increased performance that eventuate as a result of the two businesses being integrated with each other.
- The acquisition premium comes from the increased value to the company as a result of the takeover.

2.3.1 International M&A

The following outlines some of the main influences on the Australian market. Many of these are a direct result of international M&A activity. The purpose of the detailed descriptions is to give an indication of the level of recent activity.

General Accident and Commercial Union

General Accident (NZI in Australia) merged with Commercial Union in 1997. The combined entity was rebadged as CGU worldwide (including Australia). In Australia CGU, by premium volume, is currently the fourth largest insurer (refer Table 2.2). The year prior to the merger, NZI was ranked tenth and Commercial Union third.

Premium revenue for CGU in 1997/98 was $1,408 million, compared with the combined premium revenue of $1,163 million for Commercial Union and NZI in 1996/97. While there was an increase in the premium revenue for CGU in 1997/98, an even greater increase in the premium revenue of Royal & SunAlliance resulted in CGU being relegated from third to the fourth largest insurer.

Royal Insurance and Sun Alliance

In 1992, Sun Alliance and Royal Insurance merged in Australia. The company was known as 'Sun Alliance and Royal Insurance'. In 1996, the worldwide merger of Sun Alliance and Royal Insurance created Royal & SunAlliance.

[3] Brigstock C, Johnston K and Watson B, (1999) *'What is a General Insurer Worth?'* Institute of Actuaries of Australia XIIth General Insurance Seminar.

A far wider level of M&A activity has taken place internationally, initially with reinsurers and later with direct underwriters. However, these have related to companies with either one dominant operation in Australia or companies with little or no presence in the local market. As a result the landscape of the Australian insurance market was not significantly affected.

2.3.2 Domestic M&A

The following discussion on HIH's takeover of FAI and Allianz's purchase of MMI is extracted from the paper titled 'What is a General Insurer Worth?'.

HIH Takeover of FAI

The HIH takeover effectively started when HIH bought a 15 percent share of FAI from the Adler family in September 1998. HIH then made what was described at the time as a 'friendly' takeover. The takeover offer provided two options for FAI shareholders:

- $2.25 cash plus one HIH share for every six FAI shares
- one HIH share for three FAI shares.

When the bid was made HIH's share price was $2.29, effectively valuing FAI at $0.76 per share.

This represented an increase of around 60 percent on the FAI share price of $0.47 one week before the announcement of the offer. The offer of $0.76 was also higher than the worth of the company according to analysts at the time who valued FAI at $0.56 to $0.60 per share.

HIH justified the offer price by claiming:

- there were 'substantial synergy benefits available'
- they had 'identified substantial savings that can be extracted in areas such as reinsurance and information technology'
- the 'strong FAI band name and market position will be a valuable part of the HIH group'.

HIH eventually concluded the takeover in January 1999 with the share price of HIH remaining fairly stable during the time of the takeover. More recently HIH went into liquidation and parts of the HIH Group business were sold - Personal Lines to Allianz and Workers Compensation to NRMA.

Allianz Purchase of MMI

Allianz was the largest shareholder of MMI holding 68.5 percent. On 29 October 1998 it announced its intention to make a selective reduction of capital of MMI shares by cancelling MMI shares not owned by Allianz. To achieve this Allianz offered $2.20 a share, which contrasted to the then current market price of $1.40. Allianz also announced that following the purchase of MMI, it would make a further capital injection of $35 million into the company.

This purchase differs from the HIH purchase of FAI in that an external assessment was sought to consider the offer. Grant Samuel was asked by MMI to provide an assessment of the offer. The report tabled by Grant Samuel valued MMI at between $1.55 and $2.27 per share, indicating that the offer price of $2.20 was close to the maximum in this range.

The report tabled by Grant Samuel indicated that the price being offered was lower than the value of other insurance takeovers due to some of the problems that MMI had at the time. These included projected losses for the financial years 1998/99 and 1999/00, as well as doubts about the profitability of MMI's key product (workers compensation).

Value was assessed by aggregating the 'fair market value' of each of MMI's businesses. Fair value is defined as the maximum price that could be realised in an open market over a reasonable period of time, assuming that potential buyers have full information and ignoring special value attributable to one buyer only.

CGU/Fortis

Fortis recently withdrew from Australia following a trade sale of its local operations to CGU. The following is an extract from Cover Note[4] commenting on the deal.

> ***Consolidation drives Fortis out***
>
> *Fortis Aust CEO Vyn Tozer has blamed "ongoing consolidation" in the Aust market as a key reason Fortis sold to CGU this month. Tozer said while Fortis was profitable and held a strong position in its segment, "it has a small overall market share". CGU will buy Fortis for $330m, and expects to close the deal by Sept. Fortis brands VACC Insurance, Accident Insurance Mutual and AMEV Life are included. "Ongoing consolidation in the Aust industry has made scale a vital determinant in achieving market leadership, and this scale advantage continues to increase," Tozer said. CGU claims the Fortis purchase will push it to number one in the car warranty and financial institution distribution channels. CGU MD Ian Balfe said the acquisition, which is subject to regulatory approval, would consolidate CGU's position in the Australian market. S&P affirmed CGU's AA- insurer financial strength rating after the purchase was announced. "In the current environment, Fortis is one of the last opportunities to acquire a significant general insurance operation in Aust," Balfe said. Fortis was the 10th-largest private insurer in Aust, with $285m in gross written premium for 2000. CGU, formed in 1998 (CN 1140) after the merger of Commercial Union and NZI (CN 1118, 1119), is now ranked third.*

[4] Cover Note Issue 1262, 29 June 2001

2.4 Industry Growth

Growth of a sector is a traditional measure used to examine trends within an industry. It is a poor measure of financial strength for individual insurance companies because it is relatively easy, in the short run, to increase premium volume by cutting rates without regard for profitability. However, at the industry level and over an extended period, it can provide a broad indictor as to the general health of the sector.

In this review growth has been measured at three levels. These are:

- *Gross written premium* is the most common measure used to indicate the overall size of the market;
- *Numbers of policies* were also examined to indicate if the observed growth in premiums is driven by the volume of policies or by changes to the types or nature of covers; and
- *Provision for outstanding claims liability* was examined for differences in growth patterns to highlight other fundamental changes that may have taken place.

Each measure is discussed following an examination of the extent of any change in the mix of business.

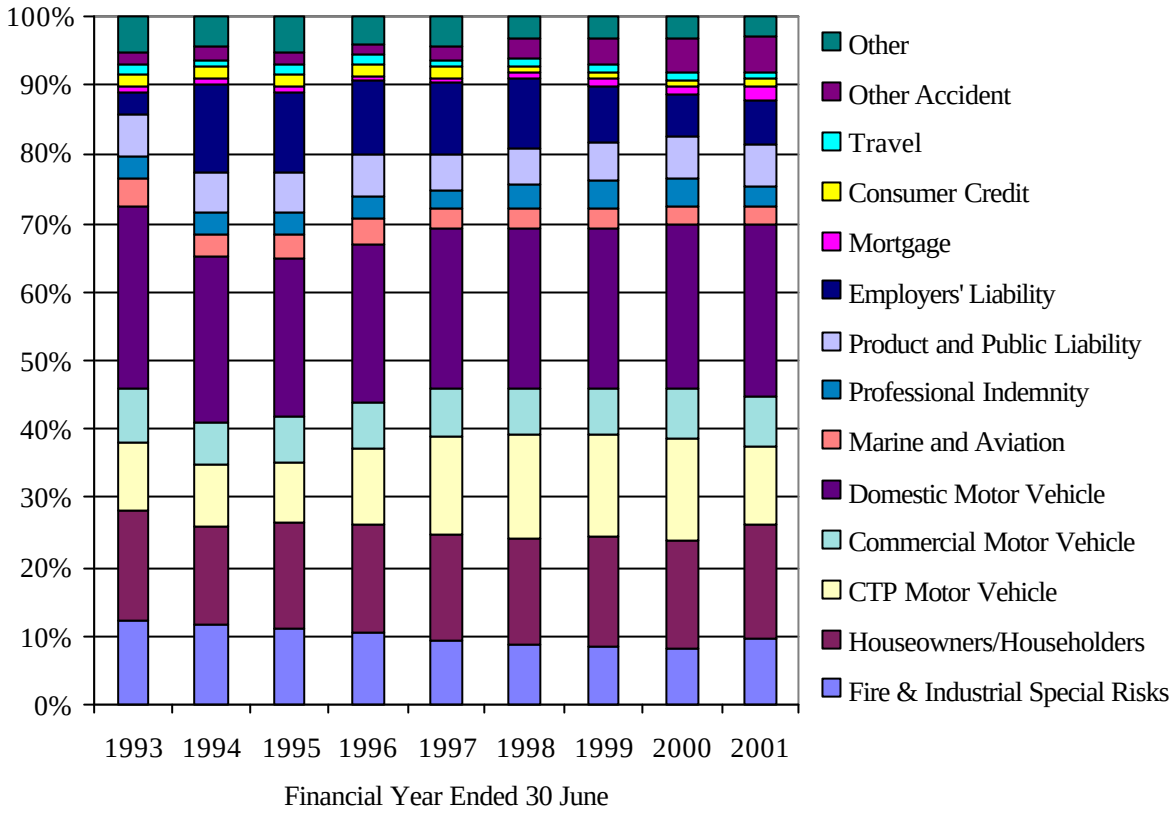
2.4.1 Changes in Business

Industry wide measures can be misleading, as they do not take account of fundamental changes in the industry. An example of a change that would affect the three statistics described above is the potential privatisation of Workers Compensation in NSW. That would significantly increase premiums reported to APRA and increase the proportion of Private Sector business written in that class.

Figure 2.1 illustrates the proportion of business written by Private Sector insurers in each class. It is designed to show if growth is uniform across classes or whether one particular class has contributed disproportionately to that growth.

Inwards Reinsurance is a relatively new class and has been removed from the chart as its large rate of growth distorts the relativities and makes comparison over the years difficult for the other classes.

Figure 2.1 – Business Mix – Gross Written Premium



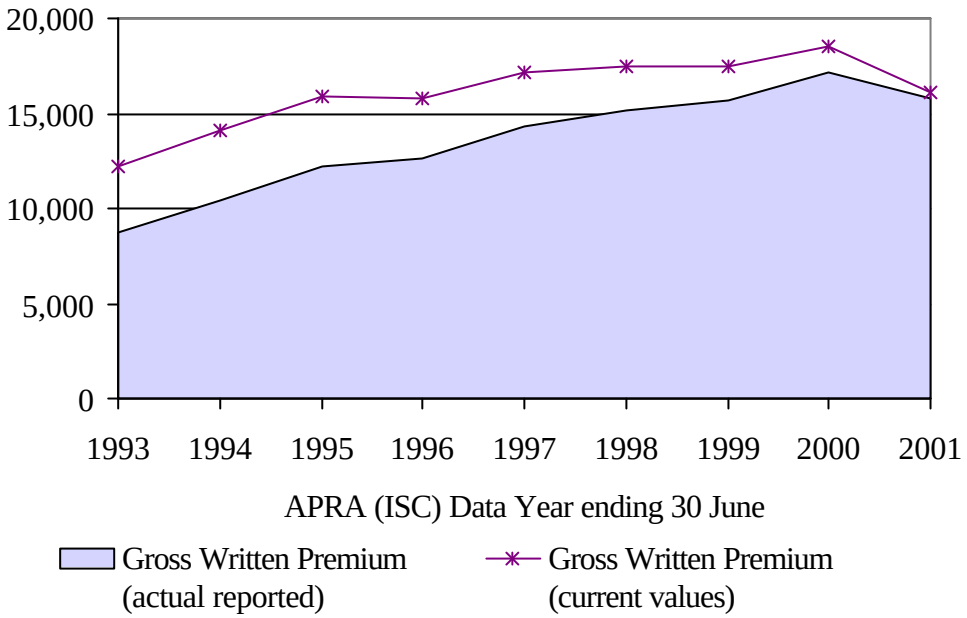
The main changes that can be elicited from Figure 2.1 are:

- The increase in CTP premium volume in 1996 was due to rate increases in NSW and in 1997 due to the inclusion of Suncorp-Metway, which had a significant proportion of the Queensland market when it was privatised;
- The transfer of Victoria's workers compensation business to Private Sector insurers in 1993/94 caused an increase in Employers Liability business. The reversal of that transfer occurred over 1997 and 1998. The transfers affected gross premium only as this business was 100 percent reinsured by the Victorian WorkCover Authority (VWA);
- Reducing proportion of Fire & ISR business throughout the 1990's and the reversal of this trend in 2001; and
- The liquidation of the HIH Group resulted in a reduction in premium reported to APRA at 30 June 2001. The main classes affected are CTP (where FAI had a considerable share of the Queensland market), Professional Indemnity and Public & Product Liability.

2.4.2 Premiums

The first measure of growth is gross written premium. For the year to 30 June 2001 gross Private Sector written premium in Australia by direct insurers totalled $15.7 billion (down from $17.2 billion due to the exit of the HIH Group).

Figure 2.2- Industry Premiums – Direct Insurers



From 1979 to 1989 gross written premiums increased by 9.5 percent p.a.[5]. Gross written premiums continued to increase at 10.2 percent p.a. from 1992/93 to 1999/00. The 9 percent decrease from 2000 to 2001 is due to the exclusion of the HIH Group in APRA's returns. It is expected that reported premiums for the 30 June 2002 returns will jump significantly as they will include normal renewals that will be placed with the remaining insurers and additional premiums paid on existing covers, which had been placed in the HIH Group.

The transfer of several State Government insurance offices to the Private Sector distorted growth rates in the 1990's. The years between 1993 and 1995 are most affected by this (SIO-Vic $238m, SGIO-WA $174m, SGIC-SA $75m, TGIO-Tas $20m[6]). Other significant transfers to the Private Sector were Suncorp in 1997, which added a further $645 million to the privately underwritten market and the HLIC in 1997 adding $66 million.

After removing the one-off fillips to premium volume created by the privatisation of the State insurers, the average annual growth rate from 1992/93 to 1999/00 for gross written premium was 9 percent p.a.. After allowing for general price inflation during this period the real rate of premium increase (ie growth in excess of CPI increases) was 5 percent p.a.

The real increase between 1996/97 to 1999/00 was only 2.6 percent p.a. after allowing for general price inflation. Although there were no transfers into the Private Sector there was a considerable amount of merger and takeover activity. This is discussed further in Section 2.3 above.

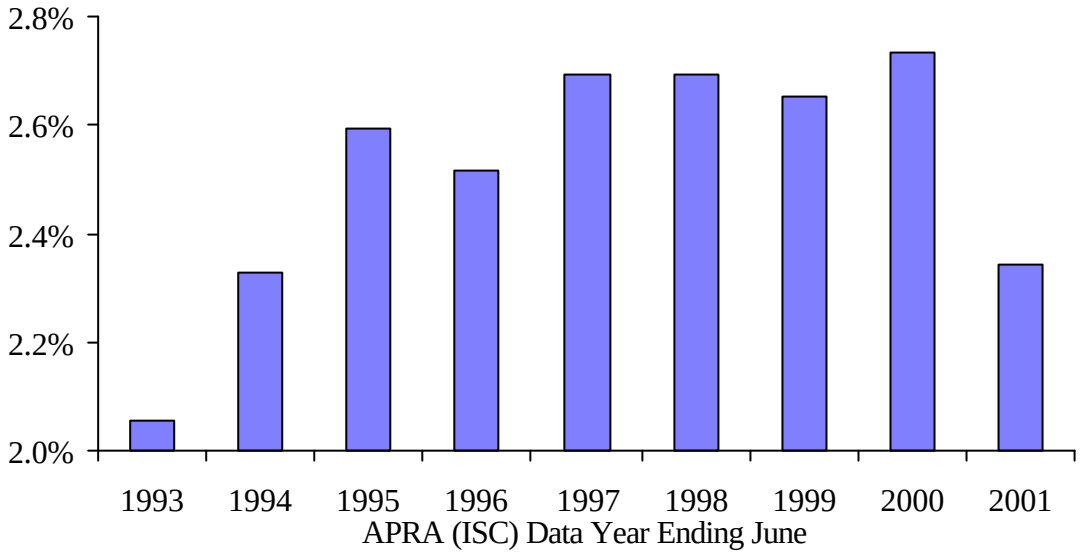
[5] McCarthy & Trahair *'Lack of Industry Profitability and Other Stories'* p.24
[6] These figures are estimates derived from annual reports at that time.

2.4.3 Economic Perspective

Figure 2.3 demonstrates the change in gross Private Sector written premium as a percentage of GDP. The percentage increased during the mid 1990's to 2.7 percent of GDP and has remained around that level since.

The increase in the percentage of GDP between 1992/93 and 1994/95 and again in 1996/97 can be attributed to the transfer of State government offices to the Private Sector listed in Table 2.2. The low figure for 2001 reflects the exclusion of the HIH Group in APRA's returns.

Figure 2.3 –Premiums as a Percentage of Gross Domestic Product



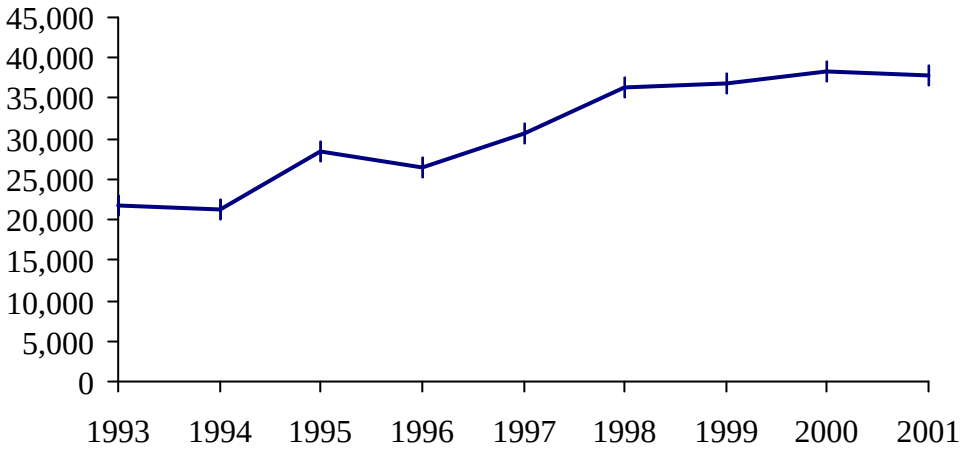
1 The reduction in 2000/01 is due to the exclusion of the HIH Group from the statistics. Actual premiums for the industry in 2000/01 will be considerably higher than that reported to APRA.

After 1996/97, when the last State insurer transferred to the Private Sector, premium volume (in real terms) declined marginally from 2.7 percent to 2.6 percent of GDP. The increase between 1998/99 and 1999/2000 back to 2.7 percent indicates real premium increases occurred in that year.

2.4.4 Numbers of Policies

The number of policies issued provides a measure of underlying growth in market penetration that can cause written premium to increase. Figure 2.3 illustrates the number of policies issued each year since 1992/93.

Figure 2.4 – Policies Issued



APRA (ISC) Data Year Ending 30 June

The growth rate from 1992/93 to 1999/00 of 8.4 percent p.a. is similar to that observed for gross written premiums. This provides little evidence that there has been a fundamental change in policy terms and conditions and suggests that increases in revenue have largely been driven by growth/greater penetration.

2.4.5 Outstanding Claims Liability

Examination of movement in provisions for outstanding claims liabilities (refer Figure 2.5) reveals that these provisions doubled between 1992/93 and 1999/00. This represents an annual growth rate of 10.7 percent p.a., similar to that observed for gross written premiums and the number of policies issued.

The reduction in aggregate provisions for the outstanding claims liability in 2000/01 is due to the exclusion of the HIH Group. The aggregate provision for the industry would be significantly higher if the HIH Group's provisions were included, however, the actual level of those provisions is still unclear. Figures provided to APRA for December 2000, which included the HIH Group, showed that provisions had just reached $15 billion. An additional $1 billion increase in provisions (the increase in HIH's provisions is reportedly higher than this) would increase the provisions to over $16 billion.

Figure 2.5 – Growth in Provisions

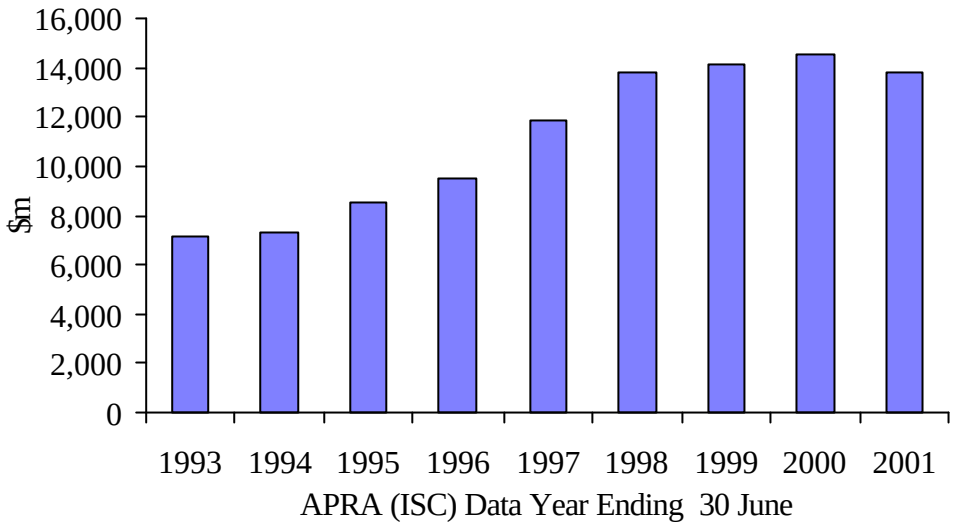


Figure 2.5 illustrates an obvious decrease in the rate of growth in provisions since 1997/98, which fell to a modest 3 percent increase in 1998/99 and 1999/00.

Higher provisions need to be established for long-tail classes such as CTP compared to those required for short-tail classes such as Fire and ISR. The modest increase in provisions is surprising given that CTP premiums increased more than Fire and ISR in this period. Effectively, the lower growth in outstanding claims than premiums means hat provisions suffered a relative decrease. This occurred in a period when investment returns decreased and underwriting losses increased.

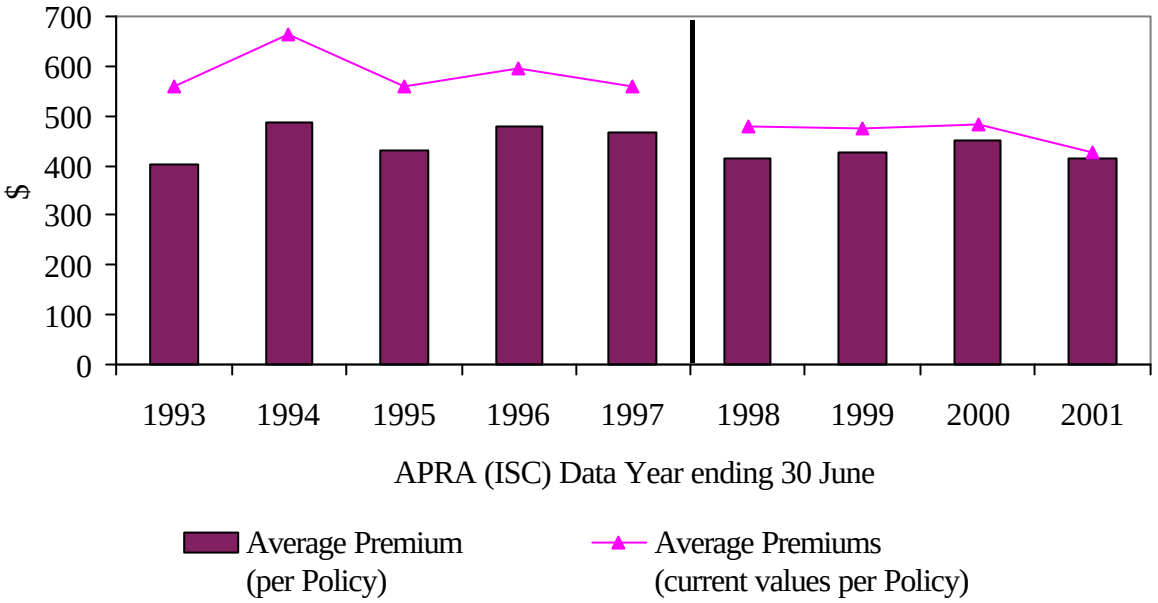
2.4.6 Average Premium

Average premiums have been calculated as premiums in current values (30 June 2001) divided by the number of policies issued. This crude average premium rate should be treated with caution, as it takes no account of product mix or changes in policy terms and conditions. In particular, the large decrease from 1996/97 to 1997/98 is largely due to a revised definition of policies introduced by APRA.

Figure 2.6 shows that the average premium rate decreased through to 1996/97 and has been relatively static since 1997/98. The average premium rate for the year to 30 June 2000 reveals a reversal of this trend and indicates that a general increase in premium rates has occurred.

While numbers of policies have reduced due to the exclusion of the HIH Group, reported premiums reduced to a larger degree. The resultant reduction in average premium for 2000/01 calculated on the APRA statistics is consistent with the HIH Group writing, generally, larger policies. This also highlights the difficulty of comparing average premiums across years and between companies.

Figure 2.6 – Average Premiums



2.5 Industry Performance

Standard measures of the overall performance of the insurance industry include gross written premium (absolute growth), underwriting profit (premiums earned in the year less expenses and the incurred cost of claims), and investment revenue. Gross written premium was considered in Section 2.4 above. Underwriting profit (Section 2.5) and investment revenue (Section 2.6) are considered in more detail below.

As stand alone measures, underwriting profit and investment revenue provide limited information as to the overall health of the insurance sector or company performance. Instead, it is important to consider indicators of financial performance such as:

- Loss Ratios to measure the adequacy of premiums (Section 2.5.2)
- Expense Ratios as a measure of operating efficiency (Section 2.5.3)
- Return of Equity as a measure of efficiency in use of capital (Section 2.6.3)

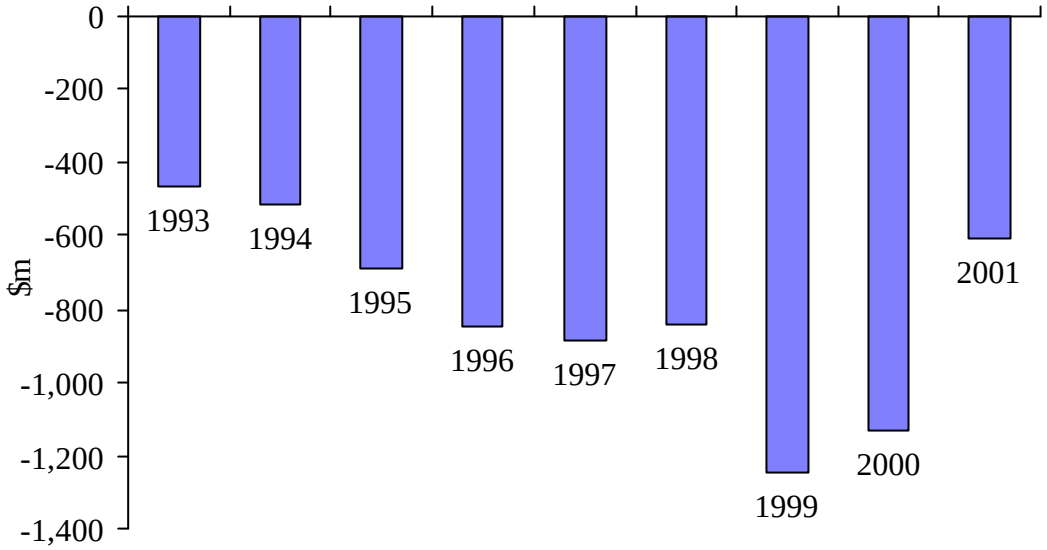
Other performance indicators also provide valuable information (such as solvency), however, this report focuses on the listed measures to illustrate recent experience and trends that may impact the pricing decision.

2.5.1 Underwriting Profit

Underwriting profit measures the excess of premium revenue over claims expense and underwriting expense. Typically, it is a loss, as it does not take into account the substantial investment earnings expected on the 'technical' reserves (provisions for outstanding claims liability and unearned premiums).

Figure 2.7 shows the underwriting result for the nine years ended 30 June 2001.

Figure 2.7 – Underwriting Profit (Loss)



APRA (ISC) Data Year ending 30 June

There has been a noticeable decline in the underwriting result for Private Sector direct insurers since 1992/93. The last three years have seen the underwriting losses exceed $1 billion. The large increase in 1998/99 is due in part to the Sydney hailstorm of April 1999. This hailstorm has also had an effect upon the underwriting result for 1999/00 as payments continued and losses were fully realised throughout that period.

The actual underwriting loss for 2000/01 is significantly higher than that illustrated as it excludes the recent losses in respect of the HIH Group. No definitive view is available on the extent of those losses. However, it is expected that the industry loss for 2000/01 is the worst recorded; far greater than that illustrated for 1998/99.

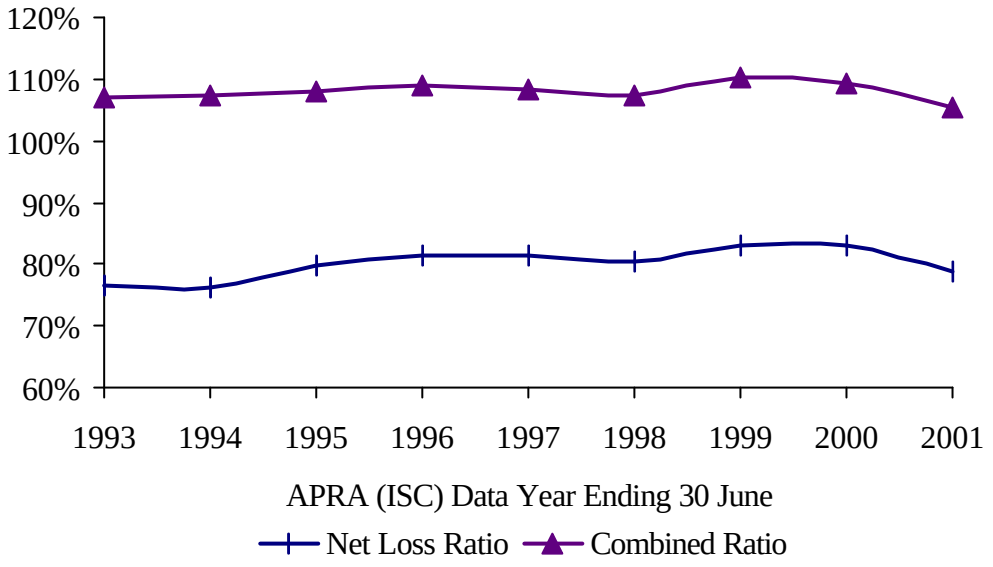
2.5.2 Loss Ratio

Net loss ratios are calculated as the claims expense for the year divided by net earned premium. This figure represents that proportion of premiums allocated to meet the cost of claims. Target loss ratios vary according to the class of business but are generally expected to range from 50 percent to 80 percent.

Loss ratios (refer Figure 2.8 which also shows combined ratio, described below in Section 2.5.4) have increased steadily up to 1998/99 and remained at that peak in 1999/00 before reducing to 79 percent in 2000/01. Loss ratios for the total industry were 83 percent for 1998/99 and 1999/00, a rise of 7 percent from the loss ratios of 76 percent in 1992/93 and 1993/94. A typical industry target loss ratio would be 75 percent or less.

These recent loss ratios indicate that the industry can still be expected to achieve low returns although, in the absence of results for the HIH Group, remaining insurers appear to have a brighter outlook than the industry had 12 months ago.

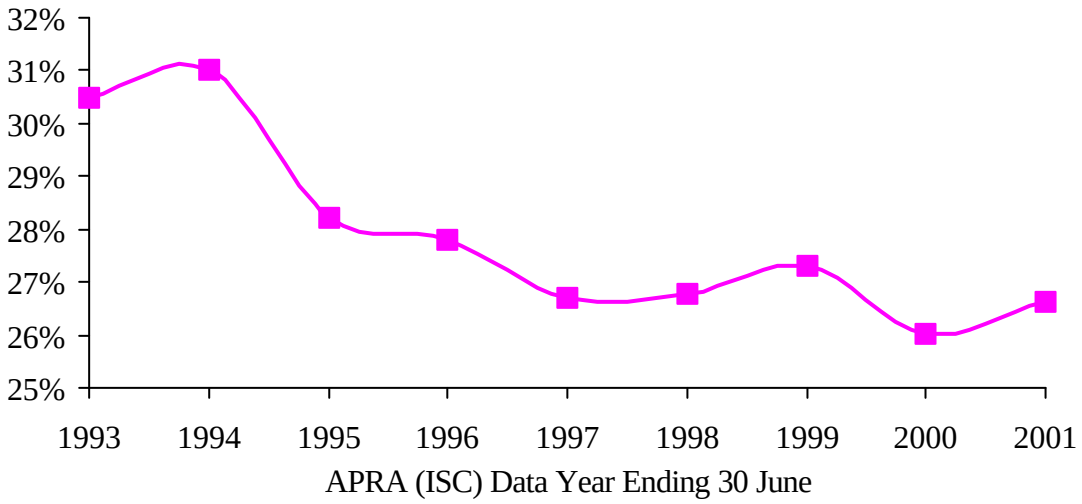
Figure 2.8 – Loss and Combined Ratios



2.5.3 Expense Ratio

The other key component of profitability is measured by the expense ratio. This is calculated as operating costs for the year divided by net earned premium. Like loss ratios, expense ratios also differ by class of business. Expense ratios are expected to range from 20 percent to 30 percent across the industry. Expense ratios over the past nine years are illustrated in Figure 2.9.

Figure 2.9 –Expense Ratio



Expense ratios peaked at 31 percent in 1993/94, and have been steadily declining since. The expense ratio in 2000/01 of 27 percent represents a slight increase over the lowest recorded of 26 percent in the previous year. The current levels reflect the increased premium volume for the privately underwritten sector resulting from the transfer of State insurers to the Private Sector and the subsequent rationalisation of the market.

2.5.4 Combined Ratio

The absolute level of the combined ratio (loss ratio plus expense ratio) is an indicator of the overall profitability of each class of business. The combined ratio for the industry is shown in Figure 2.8 above.

It is not uncommon for combined ratios to exceed 100 percent for some classes. These may still be profitable after investment income is taken into account.

Recent increases in loss ratios have offset the decrease in expense ratios resulting in a slight increase in the combined ratio. The industry combined ratio for 2000/01 was 105 percent, compared to an average of 108 percent over the period illustrated. The recent reduction in the combined ration is driven by more favourable claims experience in the larger classes (Fire & ISR, Houseowners/Householders and CTP).

Combined ratios in excess of 100 percent indicate that the industry relies on investment income on the technical reserves to generate profits.

2.5.5 Adequacy/Strength of Provisions

The level of provisions established by insurers largely determines how industry profit emerges. However, sufficient detail is not available in the published APRA statistics to properly assess the adequacy of these provisions.

In the 12 months from 1998/99 to 1999/00, provisions for accident years up to 1998/99 for specified liability classes had increased by 25 percent or $840 million. This is considerably higher than would be expected on the basis of one year's movement and indicates recognition of a need for significantly higher reserves. However, recognition of this past under-reserving does not guarantee that current reserves are necessarily adequate. Therefore, there is still potential for further increases in provisions and hence reported losses. This is clearly demonstrated by the liquidation of the HIH Group, which is expected to result in significant upward revisions in the provisions in 2001.

Under estimation of reserves can lead to the under estimation of projected costs and hence under charging for assumed risks. This is particularly the case for long-tail classes such as Professional Indemnity and Public & Product Liability.

2.6 Financial Performance

Financial performance is measured by the return on equity (shareholders funds). This consists of underwriting profit and investment revenue.

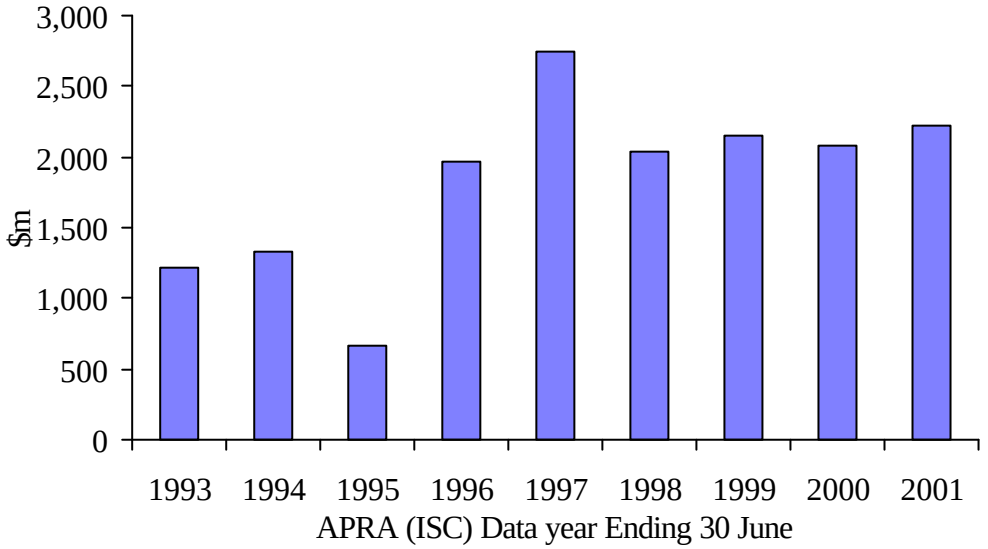
2.6.1 Underwriting Profit

There has been a noticeable decline in the underwriting result for Private Sector direct insurers since 1992/93 (refer Section 2.5.1). Losses have exceeded $1,000 million dollars each year for the years ended 30 June 1999, 30 June 2000 and 30 June 2001. The highest recorded underwriting loss of $1,244 million was recorded in the year ended 30 June 1999, however, this may be exceeded by 30 June 2001 when the full impact of the liquidation of the HIH Group is included.

2.6.2 Investment Revenue

Investment revenue generated by insurers is largely dependant on the performance of the stock market both in Australia and overseas. Investment income for the industry peaked in 1997 at $2,746 million, which was primarily due to the record return on the stock market that year. Figure 2.10 illustrates the investment revenue earned by Private Sector insurers over the last nine years.

Figure 2.10 – Investment Returns

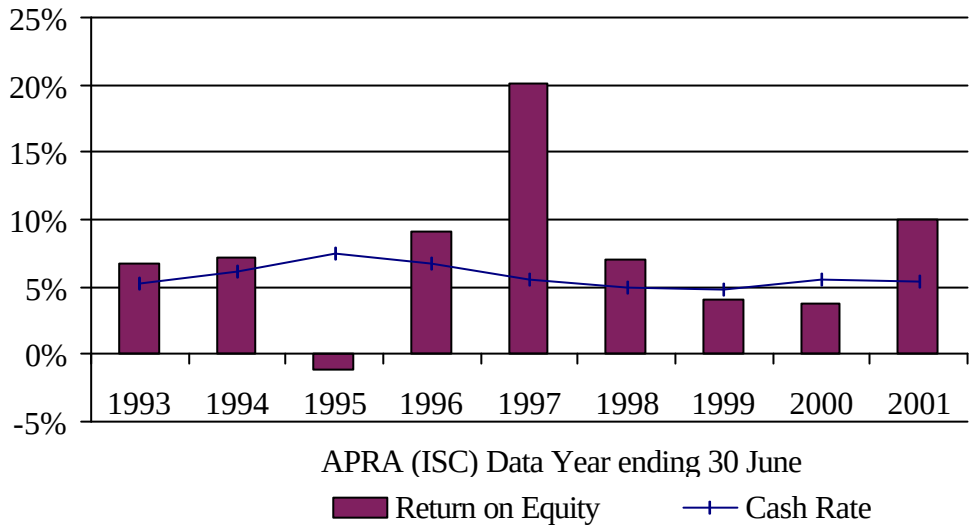


Investment revenue forms a critical component of insurance profit and the overall return on equity (refer Section 2.6.3 below). In order to determine the profitability of each class and the contribution to overall industry profitability a notional allocation of investment income has been made to each class. The basis of allocating investment income has been described in Appendix B.

2.6.3 Return on Equity

Figure 2.11 illustrates the average return on equity for the industry. Return on equity (insurance profit illustrated in Figure 2.12 divided by shareholder capital) for the insurance industry has averaged about 7 percent in the period shown. The return was less than 5 percent p.a. in 1998/99 and 1999/00. This is considerably lower than the 13 percent p.a. return achieved by the Australian Equity market over the same period. [7]

Figure 2.11 – Return on Equity

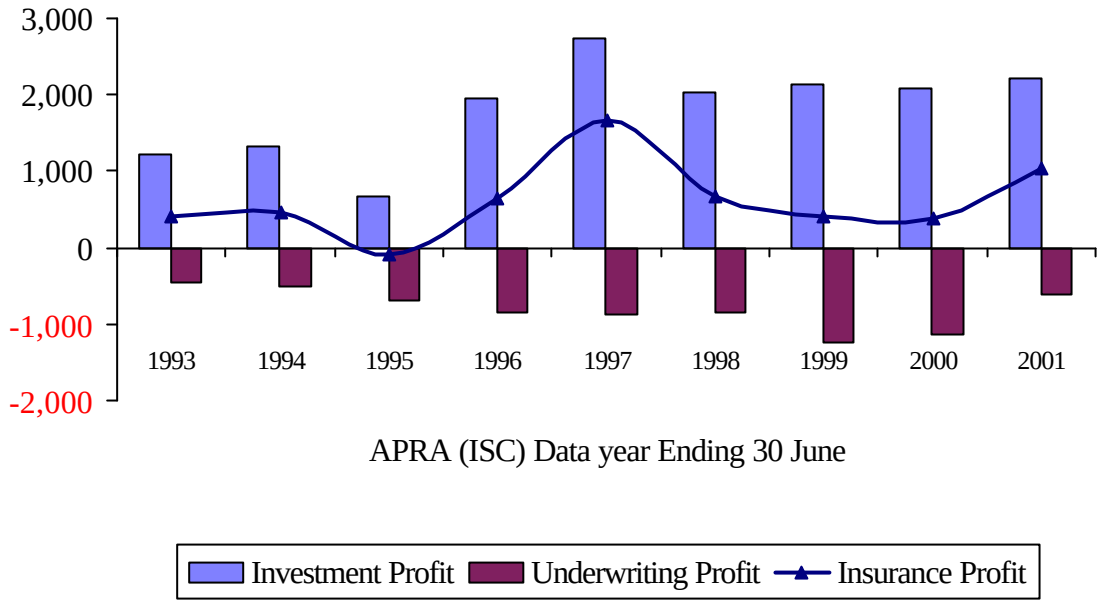


It is generally accepted that shareholders require higher returns to compensate for the risks involved in insurance underwriting. However, the returns illustrated in Figure 2.11 are similar to the returns had the funds been invested in 'risk free' government bonds. In 1998/99 and 1999/00 the returns were lower than cash rates. The return of almost 10 percent for 2000/01 appears more reasonable for remaining insurers, however, if the HIH Group losses are included then the insurance profit reported to APRA of $1 billion could easily be wiped out producing a nil or possibly negative return on equity.

Figure 2.12 combines the underwriting losses from Section 2.5.1 with the investment revenue above to calculate Private Sector insurance profit for the last nine years. It clearly demonstrates how insurance profit is derived from underwriting losses plus investment revenue.

[7] McCarthy & Trahair *'Lack of Industry Profitability and Other Stories'*

Figure 2.12 – Components of Profit



3 Catastrophes and Reinsurance

This section considers catastrophic major events (from an insurance point of view) that have had an effect on the profitability of the insurance industry. Following the discussion on catastrophic events the effect that such events have on reinsurance and the impact on direct underwriters is examined.

3.1 World-Wide Catastrophes

Within the context of insurance, catastrophes are usually separated into natural catastrophes and man-made disasters.

According to *sigma* (a research publication produced by Swiss Re), natural catastrophes include:

- Flood
- Storms (includes hurricanes, tornados)
- Earthquake (including seaquake and tsunami)
- Drought / bush fires
- Cold / frost
- Other (including hail and avalanche).

Man-made disasters include:

- Major fire and explosions
- Aviation and space disasters
- Shipping disasters
- Road / rail disasters
- Mining accidents
- Collapse of buildings / bridges
- Miscellaneous (including terrorism).

While the extent of injuries, loss of life and numbers of persons displaced are relevant measures of the social significance of catastrophes, the general insurance and reinsurance industry measure the impact of catastrophe activity in terms of insured losses and total economic losses caused by these events. Note that catastrophes often cause substantial property damage to uninsured property, particularly to government owned infrastructure. These losses are a major source of the difference between the total economic losses and the amount of insured claims.

The *sigma* report includes events that exceed either a monetary threshold (for example for the year 2000, property losses exceeding US$34 million) or a threshold based on the number of casualties (for example, more than 20 people killed or more than 50 injured).

Table 3.1 summarises the number of catastrophes tabulated in the *sigma* reports for 1998, 1999 and 2000, and shows the estimated total insured losses from those events separately for Australia and World-wide:

Table 3.1 - Catastrophes: 1998, 1999 and 2000

	Worldwide		Australia	
Year	**Number of events**	**Insured losses**	**Number of events**	**Insured losses**
	#	US$m	#	US$m
1998	342	17,512	4	5,998
1999	326	28,590	2	4,206
2000	351	10,597	na	na

Source: Swiss Re: sigma numbers 1/1999; 2/2000 and 2/2001

While the number of events is relatively stable year to year on a worldwide basis, the amount of insured losses arising from those events varies significantly. The largest individual catastrophe in each year was US$3.5 billion, US$4.5 billion and US$1 billion in 1998, 1999 and 2000 respectively.

More recently, the terrorist attacks in the United States of America are expected to be significantly larger than any previous catastrophe with estimates ranging fromUS$40 to US$200 billion[8]. The previous largest catastrophe was Hurricane Andrew with losses of US$15 billion (over US$20 billion in current values). As a result it is expected that many (re)insurers will no longer be viable. Copenhagen Re has already advised the market that it has ceased underwriting new risks.

To put the catastrophes that occur in Australia into perspective, Table 3.2 lists the ten most expensive catastrophes (in terms of insured losses values in year 2000 US dollars) and compares them with the most expensive catastrophe in Australia to date (the Sydney hailstorm).

[8] Milliman UK *'A Catastophe Too Far?'*

Table 3.2 - Most Expensive Catastrophes Worldwide Since 1970 and Australia's Most Expensive

Rank	Catastrophe: what, where	Date	Insured losses	Number killed
#			2000 US$m	#
1	Hurricane Andrew, USA	23-Aug-92	19,649	38
2	Northridge Earthquake, USA	17-Jan-94	16,277	60
3	Typhoon Mireille, Japan	27-Sep-91	7,142	51
4	Winterstorm Daria, Fr, GB, B	25-Jan-90	6,053	95
5	Winterstorm Lothar, Fr, CH	25-Dec-99	5,998	80
6	Hurricane Hugo, Puerto Rico, US	15-Sep-89	5,829	61
7	Storm & floods, Europe	15-Oct-87	4,550	22
8	Winterstorm Vivian, W Europe	25-Feb-90	4,206	64
9	Typhoon Bart, Japan	22-Sep-99	4,178	26
10	Hurricane Georges, Caribbean	20-Sep-98	3,731	600
> 40	Hailstorm, Sydney, NSW	14-Apr-99	982	1

Source: Swiss Re: sigma number 2/2001

One of the most striking features of Table 3.2 is that while it tabulates the most expensive events since 1970, the earliest event on the list occurred in October 1987. Insurers and reinsurers are starting to believe that the relatively low catastrophe activity of the 1970's and 1980's is not representative of what can be expected in the medium term future. The relatively higher catastrophe activity of the 1990's is being taken as a better indicator of what might be to come and as a consequence it could reasonably be expected that reinsurance premiums will increase.

3.2 Catastrophe Events in Australia

Table 3.3 lists the individual Australian catastrophes (costs greater than US$10 million in 2000 values) that are shown in the *sigma* reports. Although the report covering catastrophes in the year 2000 does not list the individual events, the total insured cost of any catastrophes in the year 2000 in Australia would be very low compared with the losses in the previous two years.

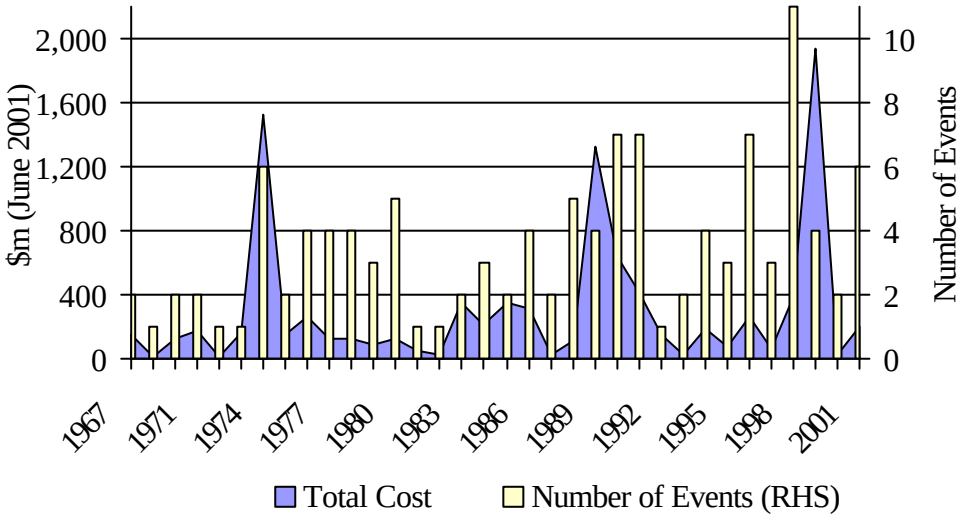
Table 3.3 – Catastrophes in Australia

Catastrophe: Type, Location	Date	Insured losses	Number killed	Number injured
		US$m	#	#
Floods, Townsville QLD	11-Jan-98	43	2	
Floods, Katherine NT	26-Jan-98	43	2	
Floods, Wollongong, NSW	21-Jul-98	123		
Explosion, Longford, VIC	25-Sep-98	613	2	8
1998	4 events	822		
Hailstorm, Sydney NSW	14-Apr-99	982	1	100
Rail crash, Glenbrook,	2-Dec-99	na	12	51
1999	2 events	982		
2000 detail not available	na	na	na	na

Source: sigma reports

Figure 3.1 and Table 3.4 summarise the frequency and cost of catastrophe events in Australia since 1967.

Figure 3.1 – Cost and Frequency of Insured Events



1 Events with a cost in excess of A$10m in 30 June 2001 values

The 1990's and particularly the latter half have experienced a considerable increase in insured losses.

Table 3.4 – Cost of Catastrophes in Australia > A$10m (1967-2001)

	Bushfire	Cyclone	Earthquake	Flood	Hail	Storm	Total
Total Original Dollars $m	404	561	841	567	2,817	738	5,927
Total Claims in June 2001 $	778	2,261	1,303	1,057	3,660	1,112	10,169
Number of events #	12	23	4	27	23	29	118

3.2.1 General

Figure 3.1 indicates that more catastrophes have been occurring in Australia in recent years. Looking at the number of events that occurred in each decade reveals that 29 events occurred in the 1970's, 29 events occurred in the 1980's, and 49 events occurred in the 1990's.

There has been growing interest and concern recently with the effects on the world's climate of the warming of the Earth and the repercussions for changing/worsening weather patterns. The question that arises from the apparent increase in catastrophic events for insurers is whether or not premiums need to increase to allow for the increased likelihood of catastrophic events.

3.2.2 Hailstorm

Table 3.4 shows that there have been 23 occurrences of hailstorm incurring damages greater than US$10 million since 1967. The largest of these was the hailstorm, which took place in Sydney in April 1999 and incurred a cost of $1,700 million ($1,844 million in June 2001 values). Total insured losses of the 23 hailstorms are $3,660 million in June 2001 values.

3.2.3 Floods

There have been 27 occurrences of floods incurring damages greater than US$10 million since 1967. The largest of these was the flood that took place in New South Wales in November 1984 and incurred a cost of $80 million ($145 million in 2001 values). Total insured loss of the 27 floods is $1,057 million in 2001 values. It is worth noting that there are a substantial number of events listed as either cyclones or hailstorms which include a component of flooding.

3.2.4 Bushfires

There have been 12 occurrences of bushfires incurring damages greater than US$10 million since 1967. The largest of these were the 'Ash Wednesday' bushfires, which took place in Victoria in February 1983 and incurred a cost of $138 million ($280 million in 2001 values). Total insured losses of the 12 bushfires are $778 million in 2001 values.

The above analysis is based on data to June 2001. As of mid January 2002, the Insurance Council of Australia (ICA) estimated that the extensive bushfires that affected NSW in December 2001 / January 2002 would result in around 3,000 insurance claims totalling approximately $70 million. The ICA also noted that this figure understated, possibly significantly, the true losses as many properties and their contents were either totally uninsured or materially underinsured.

3.2.5 Cyclones

There have been 23 occurrences of cyclones incurring damages greater than US$10 million since 1967. The largest of these was 'Cyclone Tracy' which took place in Darwin in December 1974 and incurred a cost of $200 million ($918 million in 2001 values). The total cost of the 23 cyclones is $2,261 million in 2001 values. Only three of these cyclones have occurred since 1990. Since 1990, insured damage has resulted from flooding rather than strong wind gusts.

3.2.6 Storms

There have been 29 occurrences of storms incurring damages greater than US$10 million since 1967. The largest of these struck Sydney in January 1991 and incurred a cost of $226 million ($284 million in 2001 values). Insured losses of the 29 storms totalled $1,112 million in 2001 values.

3.2.7 Earthquakes

There have been four occurrences of earthquakes incurring damages greater than US$10 million since 1967. The largest of these struck Newcastle in 1989 and incurred a cost of $800 million ($1,233 million in June 2001 values). Total insured losses of the four earthquakes are $1,303 million in 2001 values.

3.3 Conclusion on Catastrophes

Catastrophes are, and will continue to be, a significant feature of the Australian insurance landscape.

Concentrations of insured property in a limited number of cities and close to the coast presents insurers with a problem in managing the aggregate exposure they accumulate that could be significantly affected by a single catastrophe event. This is highlighted by the Sydney hailstorms where the storm was localised but the damage was extensive due to the high concentration of vehicles and housing.

Catastrophe reinsurance can be used to spread the cost of catastrophe events both geographically (by placing part of the catastrophe losses in the international reinsurance market) and in time (through the reinsurance premium that provides a relatively even annual cost in place of the dramatically volatile losses that are incurred when a catastrophe event occurs). However, catastrophe reinsurance comes at a price that must be passed on to the customers of the insurance companies.

3.4 Purposes for Which Reinsurance Is Used

Reinsurance refers to the 'insurance' purchased by insurers to manage the risks inherent in their portfolios. It is usually undertaken to deal with one or more of the following aspects of an insurers' book of business:-

- To achieve an acceptable spread of risk so that the insurer does not have an unacceptably high proportion of its 'eggs in one basket'. This is often achieved through the placement of **proportional reinsurance**, wherein a pre-determined portion of each claim is ceded to the reinsurer in return for a portion of the premium;
- To limit the amount the insurer could lose from a large, individual insured, for example, from a single large chemical plant or manufacturing facility. This is usually achieved through the placement of **per risk excess of loss reinsurance** by which a 'slice' of each potential claim is ceded to the reinsurer. For example, the insurer may cede claims in the layer '$1 million in excess of $1 million' in respect of a particular insured risk. If a claim of less than $1 million occurs, the insurer pays the whole claim. If a claim between $1 million and $2 million occurs, the insurer pays the first $1 million and the reinsurer pays the excess over $1 million. If the claim exceeds $2 million, the insurer will pay the first $1 million and the excess over $2 million and the reinsurer will pay $1 million; and
- To limit the aggregate amount the insurer could lose from a single event - this is referred to as managing 'aggregate catastrophe exposure', where the catastrophes are natural catastrophes including hail storms, cyclones, floods and earthquake. This is usually achieved through the purchase of **catastrophe or aggregate excess of loss reinsurance**, wherein the reinsurer agrees to meet the excess of the aggregate claims against the insurer arising from a catastrophic event (for example, a cyclone or an earthquake) in excess of a predetermined amount up to a given limit. For example, an insurer with a reasonable sized portfolio of household insurance may purchase cover to protect it for $100 million in excess of $50 million.

In each of the above cases, the principal focus of reinsurance is to help the insurer manage its underwriting risk, that is, the amount of claims that it may be required to pay. The types of reinsurance described above can be grouped under the banner of 'traditional reinsurance'. A separate type of reinsurance, financial reinsurance, is used by some insurers to help manage the insurer's timing risk (that is, when claims are recognised) and the financial reporting of claims.

- To manage the timing and / or the financial reporting of a given portfolio of business. **Financial reinsurance** can be used, for example, to transfer the outstanding claims liability for a class of business that is no longer being written to a third party (the reinsurer). In this way, the insurer is able to remove the liability from its balance sheet and can transfer the management responsibility for the run-off of the liability to someone else at an agreed price. Financial reinsurance has also been used to smooth the reporting of claim costs over time, although this is contrary to current accounting standards.

Financial reinsurance is generally more concerned with the financial management of the insurer in respect of business already written whereas traditional reinsurance is intended to help manage the primary 'underwriting' and insurance functions of the insurer on a prospective basis.

The remainder of this section on reinsurance focuses on traditional reinsurance as it is a key element in determining what risks a given insurer can underwrite and at what price.

3.4.1 The Reinsurance Market

The reinsurance market is, by its very nature, essentially an international market. Developments within the insurance market of any one particular region at any one time are unlikely to influence the reinsurance market to any significant degree, particularly a national insurance market the size of Australia's.

While insurance markets generally exhibit some degree of an underwriting cycle over time (this is discussed further in Section 4.1), the reinsurance markets have traditionally been considered to be subject to a much more pronounced cycle. The accepted causes for this cycle are: following a period of favourable results due to profitable reinsurance premium rates and/or lower than expected claims, new capital is attracted to the reinsurance markets, thereby increasing capacity. As the expanded capacity chases a relatively fixed pool of reinsurance risk, the premium rates decline and the profitability is eroded, usually until rates are significantly inadequate and substantial losses are incurred by the reinsurance industry.

There is a general consensus that the industry is emerging from such a period; reinsurance rates having been falling since 1994, probably reaching their lowest point in 1999 or 2000. The previous such trough was in 1990.

A common factor is that, on both these occasions, the losses stemming from inadequate premium rates were exacerbated by a series of catastrophic events that added substantially to the poor results of the reinsurance industry. During these periods, rates can increase by 100 percent over the lowest rates. The recent terrorist attacks on the World Trade Centre in the United States is already increasing pressure on reinsurance rates as the industry attempts to recover from what is being reported as the largest insured losses ever.

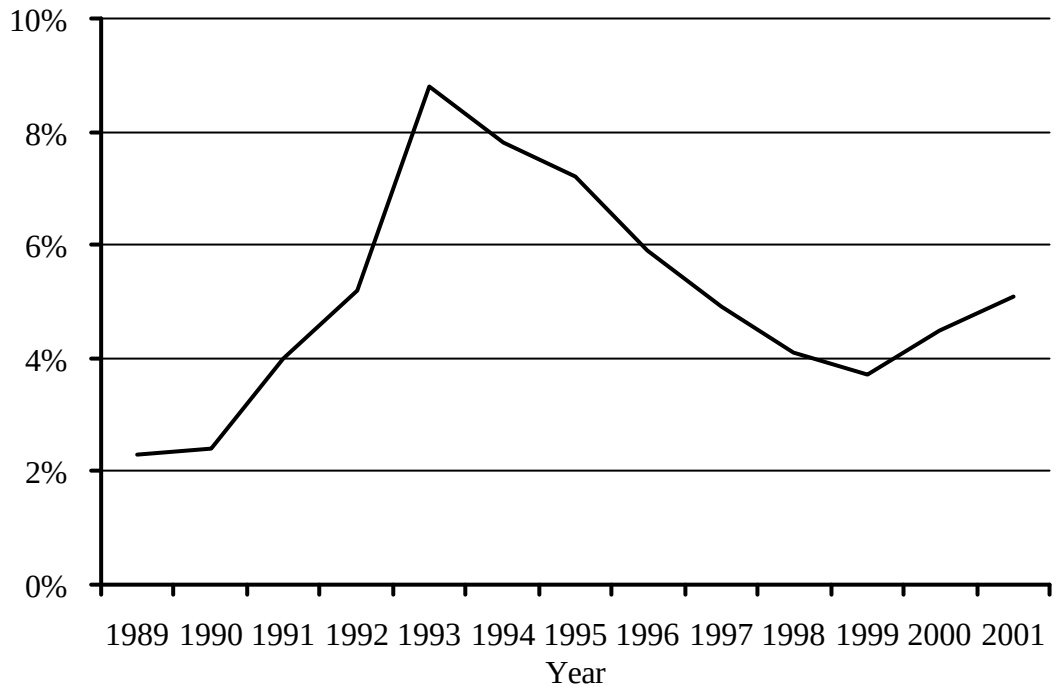
3.4.2 Rate-On-Line

Figure 3.3 below is based on a report by Guy Carpenter (a large international reinsurance broker) titled 'The World Catastrophe Reinsurance Market 2001' that is available on their web-site 'www.guycarp.com'. This report was compiled shortly before 11 September 2001.

The graph shows the average rate-on-line for catastrophe reinsurance in Australia over the 13 years to 2001. The rate-on-line is the ratio of the premium to the amount of cover provided - for example, a rate-on-line of 5 percent indicates that the premium is $5 per $100 of cover provided. Hence a higher rate-on-line indicates higher reinsurance premium rates.

While there are technical reasons that suggest that the rate-on-line analysis may be distorted (for example, due to changes in other terms and conditions in the reinsurance contracts), it does give a reasonable indication of changes in the market over time. Rate changes in the catastrophe market tend to be rather more extreme than the general reinsurance market. This is evidenced by the depth of the trough that occurred in 1989 and 1990.

Figure 3.3 – Average Rate-On-Line (% of Sum Reinsured)



The value for 2001 was determined before 11 September and reflects the change in rates as observed in the 2001 renewals, principally at 1 January and 1 July 2001. The impact of anticipated accelerated rate increases following the events of 11 September 2001 will be reflected in the figures for 2002.

3.4.3 Capacity

The low rates in 1989 and 1990 were considered extreme - the resulting losses (compounded by a series of catastrophes through the late 1980's and early 1990's) almost caused the demise of Lloyds of London and resulted in the failure of many smaller reinsurers. This led to a significant reduction in reinsurance capacity around the world that contributed to the very rapid increase in reinsurance premium rates over the three years to 1993.

Before the events of 11 September 2001 in the USA, market commentary suggested that the current market turn-around was not being driven by a lack of capacity and that there was a historically high amount of capital available within reinsurers around the world to provide capacity. Brokers suggested that these rate increases were the result of a collective realisation by reinsurers that current premium rates were inadequate to provide the required return on capital, and that no-one could afford a repeat of the extreme losses witnessed in the early 1990s.

The insured losses arising from the terrorist attacks in the USA on 11 September 2001 are expected to reduce materially the amount of capital available within the insurance and reinsurance markets around the world. This will only serve to accelerate the process of reinsurance rate increases that was already under way.

It would also be fair to say that as a result of global warming and / or other climate change phenomenon that more catastrophic events are expected/anticipated by some insurers and reinsurers.

3.4.4 The Domestic Reinsurance Market

Overseas reinsurers, many with locally based operating subsidiaries, dominate the Australian reinsurance industry. Only one Australian reinsurer, Sydney Re (a subsidiary of QBE Insurance), is among the ten largest reinsurers in the Australian market. Some reinsurance from Australia is placed directly into the major overseas markets, particularly with Lloyds and the London Market.

During the 1990's, there were three internationally recognised reinsurers based in Australia: GIO Re (a subsidiary of GIO), New Cap Re and ReAC. All three have ceased to underwrite reinsurance, the last to cease being ReAC which went into run-off in February 2000.

The demise of all three can be traced to substantial losses incurred from writing relatively large volumes of international reinsurance, that turned out to be significantly under-priced, together with further losses arising from a string of small to medium sized catastrophes that occurred in the second half of 1998 and in 1999.

It should be noted that the vast majority of premiums written by these Sydney-based reinsurers was sourced outside of Australia. Their demise has had relatively little impact on the availability or cost of reinsurance for Australian insurers. However, it should be noted that the rate increases discussed in Sections 3.4.2 and 3.4.3 coincide with the demise of access to capital provided to the international market through GIO Re, New Cap Re and ReAC.

3.5 The Extent of Reinsurance by Class Of Business

Table 3.5 is taken from a publication by APRA that compiles the data of all Private insurers operating in Australia in respect of their financial years ending in the twelve months to 30 June 2001. The source document is reproduced in Appendix B.2.9.

Table 3.5 –Premium Revenue Ceded as Reinsurance by Class of Business in Australia

Class	Premium Revenue		
	Gross	Reinsurance	% ceded
	$m	$m	% gross
Fire & ISR	1,213	492	41%
Householders	2,201	654	30%
CTP motor vehicle	1,635	178	11%
Commerical motor vehicle	959	147	15%
Domestic motor vehicle	3,276	1,412	43%
Marine & aviation	330	77	23%
Professional indemnity	363	141	39%
Public & product liabilty	761	295	39%
Empoloyers' liability	760	51	7%
Mortgage	169	46	27%
Consumer credit	134	3	2%
Travel	103	30	29%
Other accident	679	158	23%
Other	363	189	52%
Inwards treaty	2,240	116	5%
Total	**15,187**	**3,989**	**26%**

Source: APRA: Selected Statistics: Year to 30 June 2001.

The equivalent figures in APRA's 30 June 2000 report indicate that, on a similar premium volume, reinsurance has increased significantly for Householders (was 22 percent), Domestic Motor (was 29 percent), Public Liability (was 19 percent) and Other Accident (was 34 percent). The cause of these increases is likely to be a mixture of greater protection of portfolios sought after poor underwriting experience (Householders and Domestic Motor) and increased reinsurance rates (Public Liability).

Although the above figures probably include an element of financial reinsurance, a large majority of the premiums ceded to reinsurance will be in respect of traditional reinsurance. It should be remembered that the net cost of reinsurance is much less than the amount of premium ceded to reinsurance as recoveries are paid to insurers.

Table 3.5 suggests that for most classes of business, 20 percent to 40 percent of gross premiums are ceded to reinsurance with an average across all classes of approximately 26 percent. Therefore, if reinsurance premium rates increase by say 60 percent to 80 percent from the bottom of the underwriting cycle to the top, these variations in the cost of reinsurance would represent between 16 percent and 21 percent of insurers' premiums. While insurers may be able to smooth this variation in cost to some extent over time, it still represents a significant source of pressure for changes in insurance premium rates.

3.6 Profitability of Reinsurance in Australia

Table 3.6 summarises the reported results of reinsurers operating in Australia over the period for financial years ending in the 12 months to June 1996 through 2001 in respect of Australian reinsurance business. The results exclude the business written outside Australia by Australia-based reinsurers and also exclude the results on reinsurance of Australian risks placed with reinsurers outside Australia.

Table 3.6 - Profitability of Australian-Sourced Reinsurance

Year	1996	1997	1998	1999	2000	2001
Loss Ratio (%)	64	73	78	91	135	95
Expense Ratio (%)	28	31	27	29	22	25
Combined Ratio (%)	92	104	105	120	157	120

1 Source: APRA Selected Statistics 1997 through to 2001

Due to delays in fully recognising the amount of claims from some catastrophe events, and the fact that the data in the above table combines the results for the individual companies based on their financial year-end falling in the 12 months to 30 June of the relevant year, part of the 2000 year loss in the above table will relate to the catastrophes that occurred in Australia in the first half of 1999, including the major hail storm in Sydney in April and the floods in South-East Queensland in May.

The impact of the reinsurance premium rate increases that started to emerge at the beginning of 2000 are beginning to be reflected in the 2001 financial results of reinsurers. This indicates that the increases have already significantly improved the profitability of reinsurers although further increases can be expected.

3.6.1 Reinsurance Rates

Since the beginning of calendar year 2000, reinsurance premium rates have hardened in Australia in line with rate hardening in the international reinsurance markets in general. Whilst premiums have increased in the reinsurance market, they have not increased by as much as premiums in the direct insurance market. One factor limiting the increase in reinsurance rates has been the fact that multi-year reinsurance contracts were entered into during the late 1990's in order to avoid renegotiating contracts during the end of the millennium - this was largely due to concerns surrounding potential claims from the 'Y2K computer bug'. These multi-year reinsurance contracts are now expiring, and on renewal, insurers are expected to face material rate increases.

It is a characteristic of reinsurance markets that a large proportion of reinsurance contracts are renewed effective 1 January or 1 July each year to coincide with the cedant's financial year.

3.6.2 Catastrophes

As has been noted in the section on catastrophes above, the Australian continent is subject to a wide range of natural catastrophes, including earthquake, cyclone, hail storm, flooding and bushfires.

While the occurrence of catastrophes alone rarely leads to a hardening market, they can crystallise the resolve of the reinsurance market to implement overdue rate increases. The events of the 11 September 2001 in the USA are a case in point.

3.7 Reinsurance Conclusion

The availability of reinsurance is vital if insurance markets are to be effective in providing insurance to as broad a market as possible at reasonable cost.

In a small market, particularly one subject to catastrophe exposures, the cost of reinsurance will be a material component of an insurer's premiums.

The reinsurance market is essentially an international market - the underwriting cycle that characterises reinsurance premium rates over time has relatively little to do with what happens within the Australian insurance market.

While insurers can smooth the effect that the variation in reinsurance costs has on insurance premiums, they cannot afford to absorb it totally.

Reinsurance costs averaged 26 percent of premiums during 2001. A change of 60 percent to 80 percent in reinsurance costs would lead to a change of 16 percent to 21 percent in insurers' premiums.

4 Industry Profitability

This section considers factors influencing the overall profitability of the general insurance industry. A discussion on the merit of the oft-quoted 'cyclical' nature of the insurance cycle is followed by consideration of the contribution to profit of each major class.

4.1 Insurance Cycle

The insurance cycle refers to the swing in the underlying rates charged for insurance and the profit that eventually emerges from those rate changes. Indeed, terms associated with the insurance cycle include:

- 'hard' and 'soft' markets, which related to higher and lower rates respectively both in the direct market and the reinsurance market,
- 'firming' and 'easing' of rates are synonyms for 'hard' and 'soft' markets
- 'market correction' following an obvious loss year resulting in insurers seeking to recover some of those losses through higher premiums.

Brokers are currently reporting on the 'firming of the market'. The following quotes are contained in the latest reports from the largest brokers in the market both internationally and domestically.

> *"Increase in insurance rates accelerated over the course of the year as insurers redirected their focus from maintaining market share to improving underwriting results."*[9]

> *"The worldwide market continues to tighten."* [10]

> *"In the mid 1990's, midway through the 13-year "soft" insurance market that ended last year…."*[11]

> *"Back in 1998 the market was considered soft.*[12] *Prices are soft, reflecting in part the abundant capital and high degree of competition in business."*

4.1.1 Evidence of a Cycle

Although market participants generally accept the insurance cycle, limited research is available to verify its existence or nature. Dr Greg Taylor authored one of the more considered papers that address the nature of underwriting cycles[13]. In that paper he examined various models that have been postulated.

[9] Marsh "2001 Insurance Market Forecast" p3
[10] Marsh "2001 Insurance Market Forecast" p6
[11] AON "Insurance Market Overview 2001" p5
[12] Guy Carpenter "Global Reinsurance Analysis 1998
[13] Dr Greg Taylor "Underwriting Cycles"

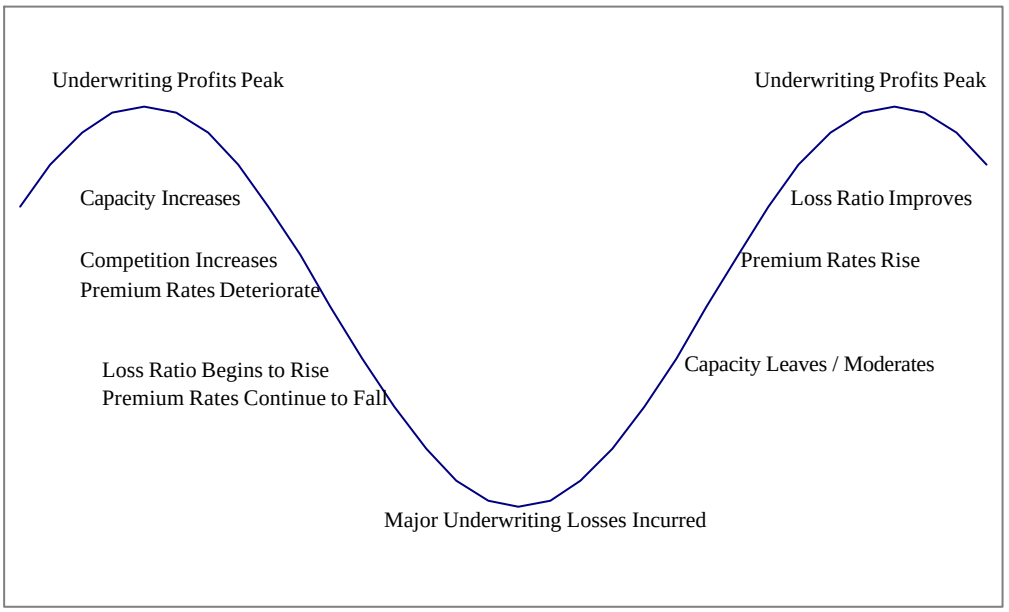
Two broad types of models were examined; they considered the effect on the market of external influences where participants merely react to the situation and internal factors such as 'naïve forecasting' and intentional risk taking. These approaches explain market behaviour, to some degree, but fall short of verifying the cyclical nature of insurance pricing.

The paper is interesting in that it draws the distinction between 'cycles' and 'shocks' and the difficulty in distinguishing between the effects of one off events from genuine 'cycles'.

4.1.2 Behavioural Response to Market Shocks

Figure 4.1 is reproduced from a recent Ord Minnett survey[14]. Rather than being considered a 'cycle' it is reasonable to view it as a behavioural response by the market to shocks; shocks from different and unpredictable causes that result in the same ultimate outcome (the raising or lowering of prices).

Figure 4.1 – Market Response to Shocks



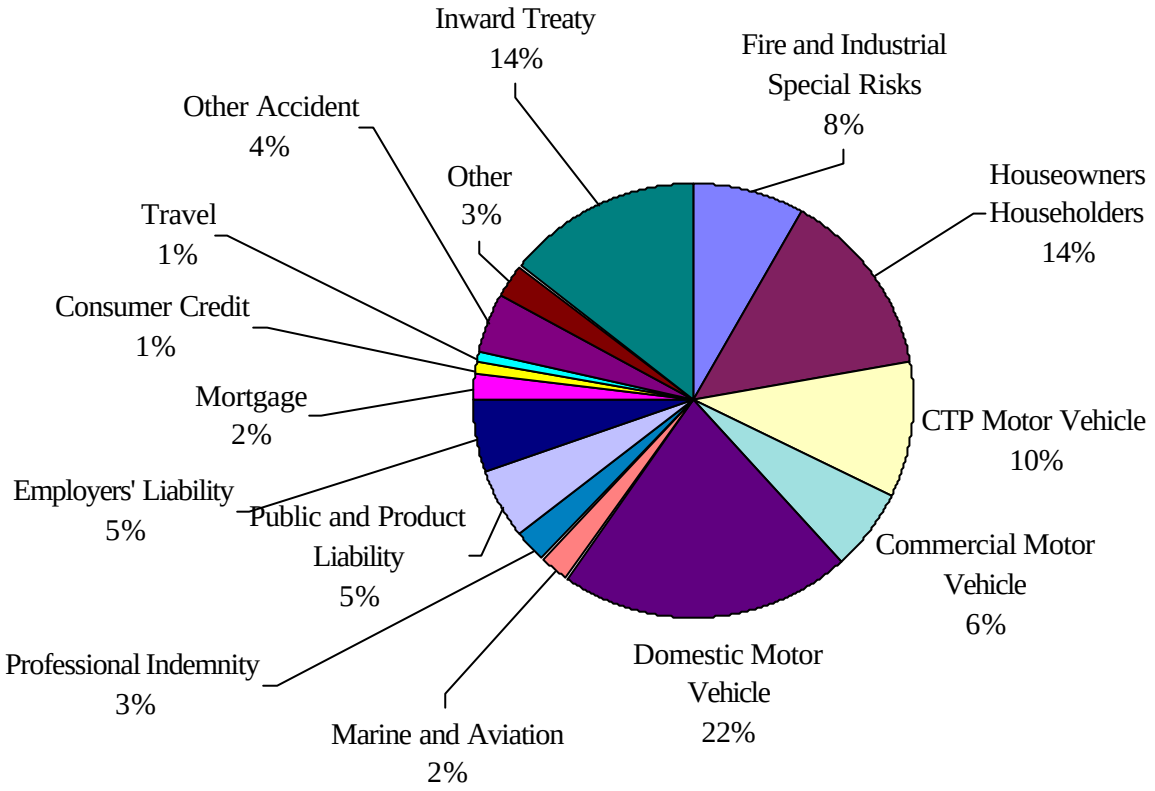
It is highly likely that the industry will continue to experience significant variation in premiums over time. The cause of events or 'shocks' that result in sudden swings in premium rates is unpredictable and can also be expected to continue to occur from time to time. Insurers' approaches to prices are discussed later in Section 5.5.

[14] Ord Minnett "2000 General Insurance Industry Survey"

4.2 Classes in Perspective

The comparative size of each class is generally measured by gross written premium. Figure 4.2 shows the dominance of Domestic Motor, which had a gross written premium of $3.4 billion or 22 percent of that reported to APRA in 2000/01 of $15.7 billion. It is noted that Domestic Motor attracts the most competition, as measured by number of insurers active in the class, and that until 2001 has consistently contributed a low profit to the industry.

Figure 4.2 – Total Premium Revenue by Major Classes of Business



Source: APRA 2001 - Total Premiums

Inward Treaty now represents 14 percent of the market followed by Houseowners/Householders (14 percent), CTP Motor (10 percent), Fire & ISR (8 percent), Commercial Motor (6 percent) with all other dasses individually representing 5 percent or less of the market.

By number of policies issued, the dominant classes are Domestic Motor (22 percent), Houseowners/Housholders (24 percent), and CTP Motor (14 percent), which account for 60 percent of all policies written.

4.3 Profitability of Individual Classes

The results of the investigation of the overall profitability of the insurance industry are contained in Section 2. The following examines the drivers of that performance by considering the profitability of each major class of business.

Average premiums per policy were examined for trends. There appears to have been a change in definition that leads to a significant increase in the number of policies reported for 1996/97 compared to prior years. As a result, average premiums for most classes decreased in that year allowing meaningful comment to be made only in respect of trends apparent before or since that time.

Throughout this section profitability as measured by return on capital are classified as Very Low (less than –5 percent), Low (-5 percent to 10 percent), Moderate (10 percent to 20 percent), High (20 percent to 50 percent) and Very High (over 50 percent). These definitions are somewhat arbitrary but have been designed to illustrate rates of return that shareholders may expect.

4.3.1 Profit Signature

Release of profit depends on the level of provisioning. Typically, initial high reserves create an immediate loss that, assuming experience is consistent with that adopted when setting prices, is recovered as profits emerge during runoff. Conversely, low reserves can initially result in profits but eventually result in losses as the extent of actual losses are realised.

The 'new business strain' produced by sound reserving is financed by shareholder capital; capital that shareholders expect will be rewarded at a level commensurate with the level of risk associated with that business. Capital is also required to support the business in the event that the reserves ultimately prove inadequate.

For the purpose of this analysis capital has been allocated against each line in accordance with the 'prescribed method' contained in new regulations for general insurance companies that were recently issued by APRA. The allocation of capital only affects the calculated return on capital. The calculated return on capital decreases as more capital is allocated to a class. This allocation is described further in Appendix B.5.

An investment return of 6 percent p.a. has been assumed when calculating returns on capital. This rate reflects yields available on government bonds for the latter half of the 1990's (higher rates existed at the beginning of the decade and lower rates more recently). This static rate has been adopted, rather than the actual industry earning rate, to remove extremes experienced in the investment markets (particularly the high yields in 1997) in order to better reflect the contribution of *underwriting* to overall performance.

The loss ratio (refer Section 2.5.2), the combined ratio (refer Section 2.5.4) and return of capital (refer Section 2.6.3) are illustrated in the sections below for each class.

4.3.2 Fire and ISR

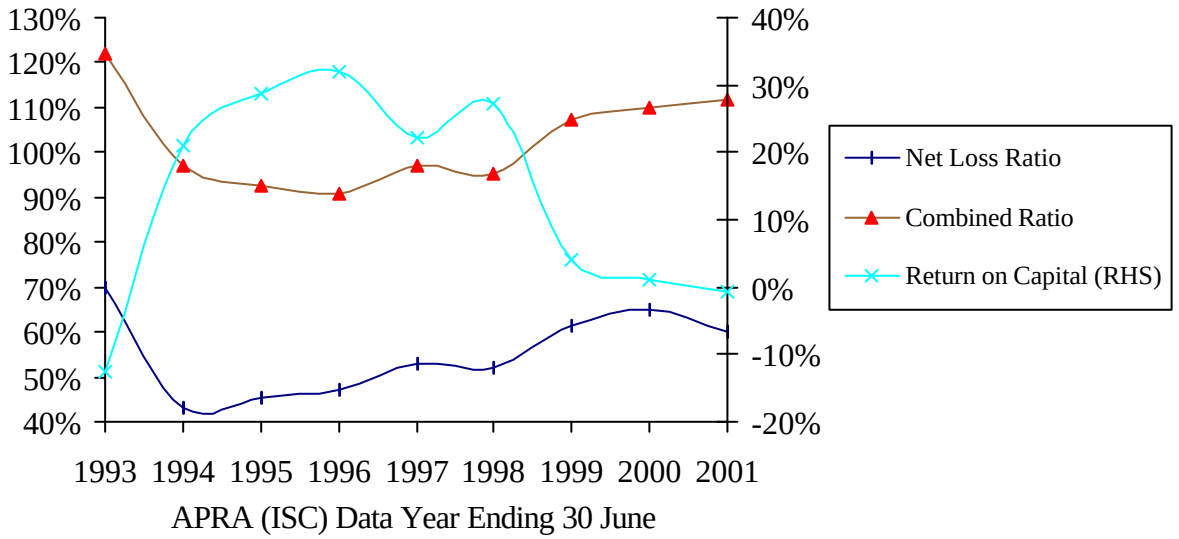
The Fire and Industrial Special Risks (ISR) class is relatively large representing 8 percent of total gross written premium and 6 percent of policies written. Figure 4.3 shows Fire and ISR has been profitable through to 1997/98 with a relatively low loss ratio and a combined ratio under 100 percent until that time. Return on capital shows this class had quite High returns before experiencing negative returns from 1998/99 to 2000/01.

Gross written premium has declined by over 10 percent since it peaked at $1.3 billion back in 1994/95. This reduction has resulted in the increasing trend in the loss ratio over that time.

A significant drop in profitability in 1998/99 was experienced with a substantial increase in the loss ratio at the same time investment revenue dropped. As a result the actual return on capital is lower than that shown in Figure 4.3 for 1998/99 and 1999/00 as Figure 4.3 assumes investment returns of 6 percent p.a.

This reduction in profitability is partially attributed to the Sydney hailstorm, floods in Qld and NSW, and the explosion at the Esso/Longford plant, which should be reflected in 1998/99 and 1999/00 results. Figures for 2001 suggest that loss ratios may have peaked for Fire and ISR and shows that this class continues to produce Low returns.

Figure 4.3 - Profitability of Fire and ISR



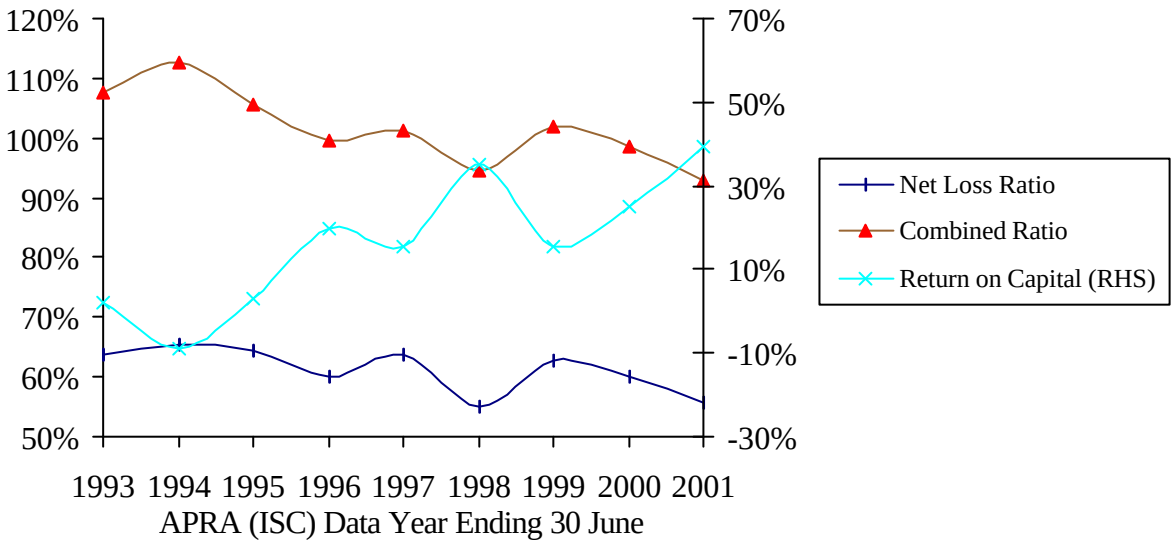
As discussed in Section 2.1.4, insurers may respond by increasing premium rates to increase profitability to this sector. The likelihood of increases in this class is further increased due to the market expectation that reinsurance rates will also increase and 40 percent of premium is ceded to reinsurers for this class. As a result premium increases of 10 percent may be expected to restore this class to profitability while a further 20 percent or more might be expected as reinsurance premiums increase.

4.3.3 Houseowners/Householders

The Houseowners/Householders class is one of the largest representing 14 percent of total gross written premium and 24 percent of policies written. Figure 4.4 shows the net loss ratio (and combined ratio) for Householders decreased over the last eight years. The loss ratio for 1998/99 of 63 percent marked a sharp rise from the previous years 55 percent, and was largely a result of the Sydney hailstorm of April 1999.

Analysis indicates that average premiums increased in 1998/99. This was responsible for the decrease in loss and combined ratios, which have averaged less than 100 percent for the last five years. Profitability of this class is has been Moderate. However, recent returns have been High. A consequent expectation is that increases in premium would be roughly in line with inflation.

Figure 4.4 - Profitability of Houseowners/Householders



One possible influence on the current profitability for the Houseowners/Householders class is from expected increases in reinsurance rates. In 2000/01, reinsurance represented 30 percent of gross premium so a 50 percent increase in the cost of reinsurance would require a 15 percent increase in gross premium. However, it is more likely that rate increases for reinsurance would occur over several years leading to smaller increases for insurers. At the current level, however, insurers are well placed to absorb increases in reinsurance premiums.

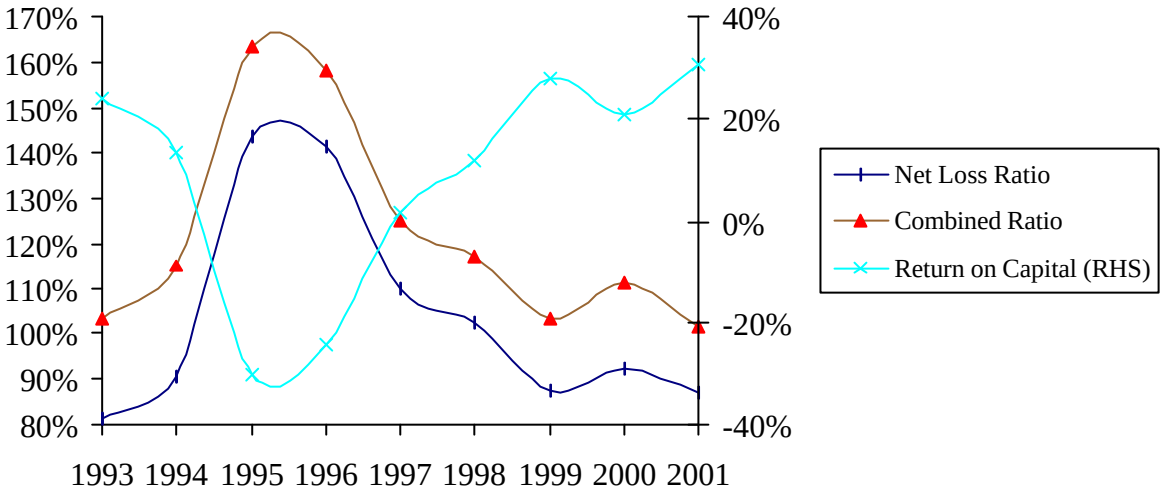
4.3.4 Compulsory Third Party

Compulsory Third Party is another of the large classes representing 10 percent of total gross written premium and 14 percent of policies written. Figure 4.5 shows a marked increase in the profitability from 1996/97 following the realisation of the extent of actual losses in the NSW market in 1995 and 1996.

Subsequent increases in premium rates and changes to scheme legislation lead to the sharp downward trend in both loss ratios and combined ratios. Average rates have remained relatively flat since that time. The improvement in profitability coincides with reduction in the number of insurers underwriting this business and the more extensive than anticipated curtailment of claims cost from legislative amendments.

Figure 4.5 illustrates the considerable variation in performance experienced by this class. The underlying return on capital for 2000/01 is over 30 percent, suggesting that little pressure *currently* exists to increase premium rates in the short term over and above normal levels of inflation.

Figure 4.5 - Profitability of Compulsory Third Party



APRA (ISC) Data Year Ending 30 June

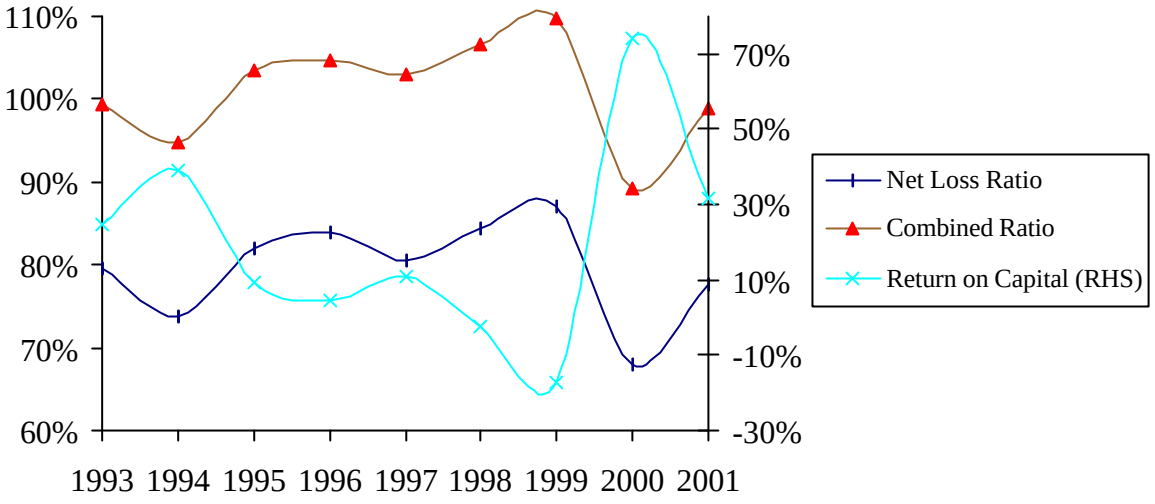
Other than NSW (including ACT), Queensland has the only other privately underwritten CTP scheme. In Queensland, premium rates are tightly regulated with limited scope for insurers to differentially price this risk.

4.3.5 Commercial Motor

The Commercial Motor category is a moderate sized class representing 6 percent of total gross written premium but only 3 percent of policies written. Figure 4.6 shows that the net loss ratio increased from 79 percent in 1993 to 87 percent in 1999 before falling to the current level of 78 percent. The average net loss ratio has been 80 percent over that time.

The net loss ratio for 1999/00 of 68 percent is inconsistent with the previous trend and with the 2000/01 loss ratio. An unusually high level of premium reported in that year has caused the low loss and combined ratios for 1999/00.

Figure 4.6 - Profitability of Commercial Motor



APRA (ISC) Data Year Ending 30 June

Analysis indicates that the average premium rate for this class declined significantly up to 1996/97 resulting in low returns on capital through to 1998/99. The results for 1999/00 are considered misleading due to the unusually high level of premium revenue; almost 20 percent higher than reported in either 1998/99 or 2000/01.

The figures for 1999/00 and 2000/01 indicate that the profitability of this class has recently increased. This was achieved through a reduction in gross claims incurred and underwriting expenses. Some doubt exists as to whether or not this can be maintained. Although the cost of claims has reduced the number of policies written has increased without a corresponding increase in premium revenue. This suggests that these policies are more keenly priced and a downturn in claims experience could easily return this class to making underwriting losses.

4.3.6 Domestic Motor

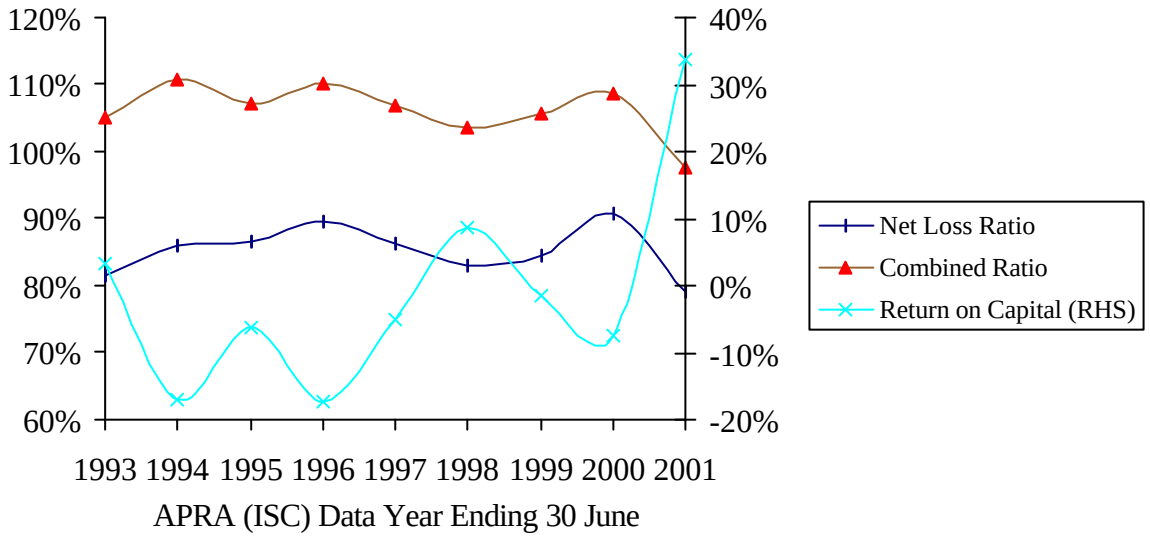
The Domestic Motor class is the largest of the APRA classes representing 21 percent of total gross written premium and 22 percent of policies written. Figure 4.7 shows that the return on capital for Domestic Motor Vehicle is highly geared to the loss ratio (rather than investment income). This is typical of 'short-tail' classes, which hold a significantly lower level of provisions for the outstanding claims liability than 'long-tail' classes and hence have reduced opportunity to derive a significant level of profit from investments.

This class has been profitable for two years (1997/98 and 2000/01) in the last nine years. This was mainly due to lower net claims expenses achieved through lower actual gross losses and increased recoveries in those years. The loss ratio of 79 percent for 2000/01 was the lowest in the period reviewed.

The apparent profitability for 1998/99 was wiped out by poor investment returns in that year. The return on capital for that year, illustrated at -2 percent in Figure 4.7, is calculated assuming a benchmark investment return of 6 percent p.a., however, actual returns on investments were only 1 percent.

The return to profitability for Domestic Motor in 2000/01 follows a general increase in premium rates and re-rating of the business (refer Section 7.2.8). It also coincides with a significant increase in the level of business ceded to reinsurers. In 2000/01 43 percent of premium revenue was paid as reinsurance compared to 29 percent in 1999/00 and 12 percent in 1998/99. The proportion of the gross claims expense recovered for these years also increased (53 percent, 40 percent and 30 percent respectively).

Figure 4.7 - Profitability of Domestic Motor



Expense ratios have declined over the last nine years; the average expense ratio has been 21 percent. Interestingly, the expense ratio actually reduced (consistent with consolidation of the industry) to 18 percent in 1999/00 when some pressure on expenses could reasonably have been expected to handle the increased level of claims from the Sydney hailstorm. This class is considered a competitive market with margins decreasing as more sophisticated pricing techniques are used.

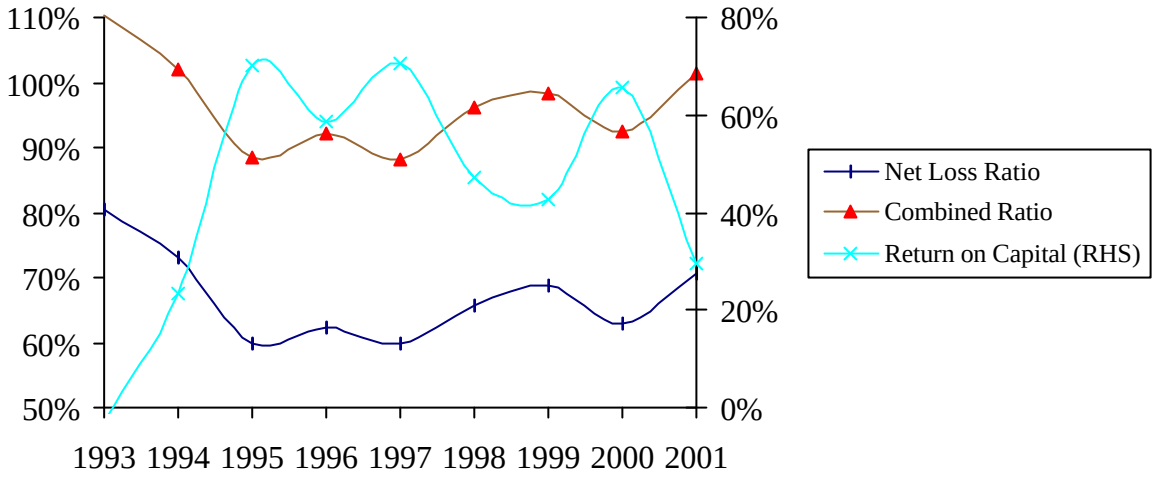
Poor claims experience in 1998/99 and 1999/00 (Sydney hailstorms) resulted in Low/Very Low returns. A return to more moderate losses coupled with increased recoveries and lower underwriting expenses has improved the outlook for this class. The downside is that reinsurers may increase premiums, if the increased levels of reinsurance are not profitable for reinsurers, leading to further pressure to increase direct premiums.

The increase in business ceded to reinsurers follows a period of poor claims experience but now coincides with a period of low claims cost and profitable business. Consequently, the retained profit for direct underwriters will be lower than that had the previous levels of reinsurance been maintained.

4.3.7 Marine and Aviation

The Marine and Aviation class is relatively small representing 2 percent of total gross written premium and 1 percent of policies written. Figure 4.8 illustrates that Marine and Aviation has achieved Very High/High returns on capital.

Figure 4.8 - Profitability of Marine and Aviation



APRA (ISC) Data Year Ending 30 June

Premium revenue rose to a peak of $453 million in 1998/99 but in 2000/01 has fallen back to $343 million; a level similar to that in 1992/93. During this same period the number of policies has increased from 208,000 in 1992/93 to 431,000 in 2000/01. The combined effect of a reduction in gross written premium and increase in the number of policies has been to reduce the average premium per policy. However, the class is considered profitable with little immediate pressure for insurers to increase premium rates. Some action may need to be taken should the upward trend in loss ratios and declining profitability continue.

4.3.8 Professional Indemnity

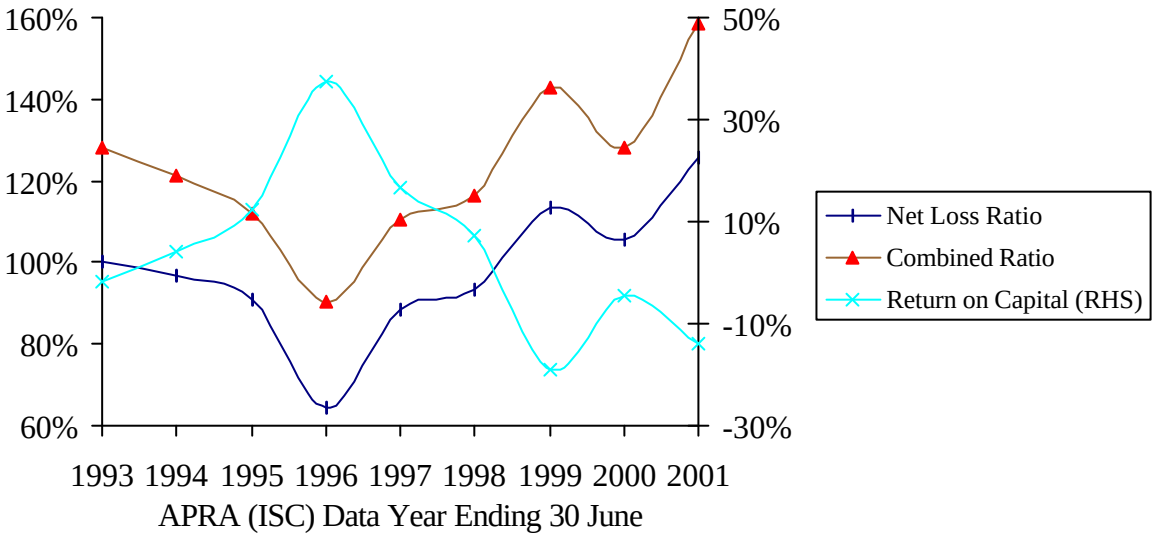
Professional Indemnity is one of the smaller classes representing 3 percent of total gross written premium and less than 1 percent of policies written. However, in 2000/01 it accounted for 8 percent of the outstanding claims liability. Considerable uncertainty exists in estimating this liability and, therefore, in pricing.

Figure 4.9 illustrates the apparent profitability of Professional Indemnity through to 1997/98. A Very Low return on capital has been achieved since that time. Loss ratios can be misleading as they reflect the recognition of losses by insurers, which can take several years to be fully realised (indicating the need for sound reserving procedures).

Reported provisions for the private sector's outstanding claims liability fell by $215 million in 2000/01. However, this excludes figures for the HIH Group, which are now believed to be considerably higher than previously reported. Premium revenue also reduced by $217 million or 38 percent in 2000/01 again probably due to the exclusion of the HIH Group in the APRA returns. A considerable 'correction' can be expected in the 30 June 2002 returns as additional premiums were paid to provide cover in the wake of the liquidation of the HIH Group.

APRA statistics reveal that gross written premium has increased significantly in recent years (except for 2000/01 as noted above), however, the number of policies issued has risen even faster, resulting in a decrease in the average premium per policy.

Figure 4.9 - Profitability of Professional Indemnity



The continuing upward trend in 2000/01 (after an apparent reduction in loss ratio in 1999/00) is possibly due to increased recognition of losses in the outstanding claims liability of some insurers.

If insurers increase premiums in response to very low profitability and rising losses, then these increases may exceed 20% for this class.

4.3.9 Public & Product Liability

The Public & Product Liability class represents 5 percent of total gross written premium and 7 percent of policies written. Although premium revenue has decreased since 1999/00 the number of policies has more than doubled from 1.1 million to 2.5 million.

This class is similar to Professional Indemnity in that considerable uncertainty exists in estimating liability, which accounts for 16 percent of the outstanding claims liability, and pricing due to the time lag of about 3 years before sufficient detail of each claim is known.

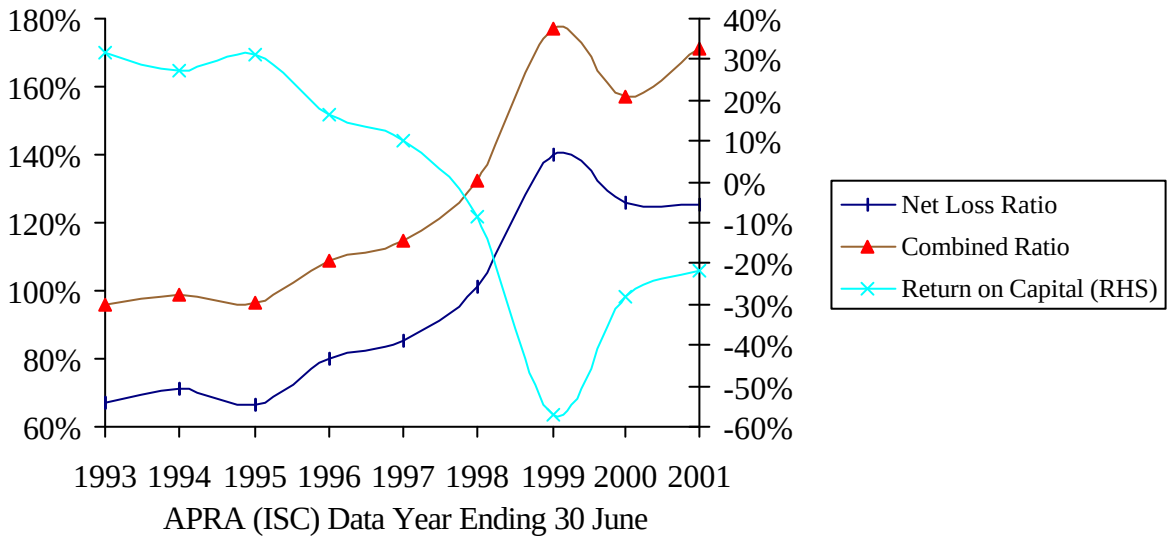
Like Professional Indemnity, Public and Product Liability apparently provided Moderate returns from 1992/93 to 1996/97, which lead to declining premiums as insurers competed for business on the assumption it was profitable.

Premium increases in 1999/00 acted temporarily to reduce the loss ratio and increase the return on capital, which was still Very Low. Premium revenue reduced by $50 million or 6 percent in 2000/01 probably due to the exclusion of the HIH Group in the APRA returns.

Reported provisions for the outstanding claims liability fell by $203 million between 1999/00 and 2000/01, again due to the exclusion of figures for the HIH Group.

A fuller recognition of losses in 2000/01 for remaining insurers has significantly increased loss ratios to a level such that even greater drawings are being made on the capital supporting this business.

Figure 4.10 - Profitability of Public & Product Liability



Insurers may respond to this Very Low profitability by increasing premiums. The nature of the business, as evidenced by the collapse of the HIH Group and recent increase in liability provisions, makes it difficult to predict the adequacy of the current provisions for this class and, therefore, the level of premium increases that may be required to achieve even a Low or Modest return on capital.

4.3.10 Employers Liability

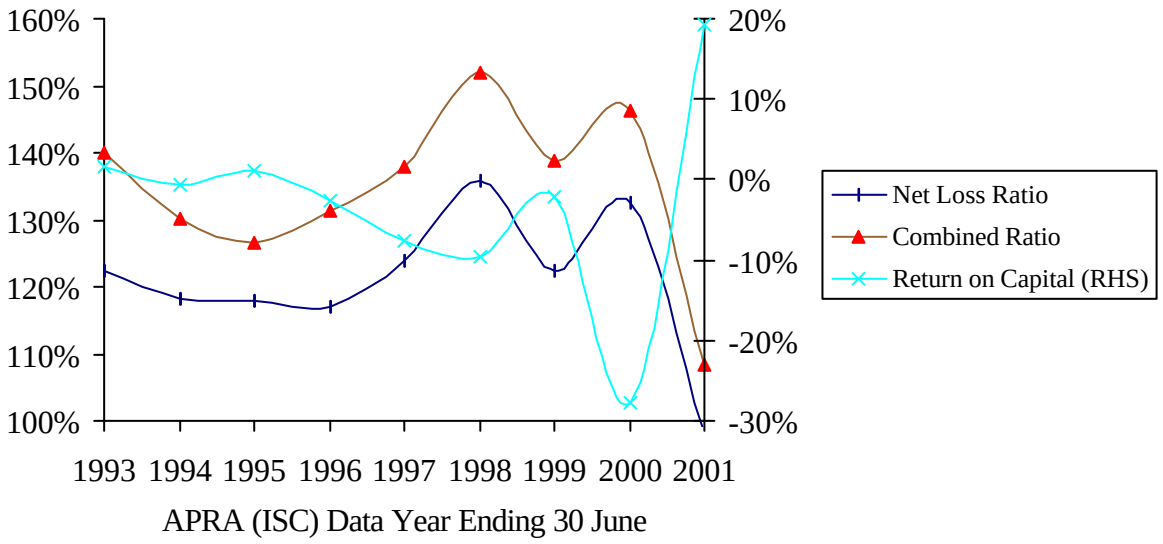
The Employers Liability class is also relatively small representing 5 percent of total gross written premium and less than 1 percent of policies written. It is dominated by workers compensation business that is directly underwritten by insurers in ACT, WA, Tas, and NT. Although workers compensation premiums are sizeable for the larger States (SA, Qld, Vic, and NSW) they are not included in the APRA returns as, in those States, insurers typically act as agents and assume no direct risk.

Returns on capital were Low up to 1995/96 followed by a period of Very Low returns. This reflects the highly competitive nature of workers compensation business. Although a compulsory form of insurance, companies can only effectively compete on price (differentiation on service is difficult when it is regarded by customers as statutory 'compliance') as the benefits provided are regulated within each jurisdiction.

During the period illustrated in Figure 4.11, the profitability of this class of business has been strongly influenced by the adversarial system that over time tends to increase access to compensation and the quantum of settlements. The resultant increase in claims cost has generally led to legislative reform.

The recent decrease in loss ratio and increase in return on capital to a Moderate level is the result of a significant reduction in claims expense to its lowest level since 1992/93. The recent volatility in experience may be a 'timing' issue and should be viewed with caution. Averaging the results for 1999/00 and 2000/01 would indicate that the return on capital may continue to be negative given the difficulty in correctly pricing 'long-tail' insurance of regulated benefits in a competitive market.

Figure 4.11 - Profitability of Employers' Liability

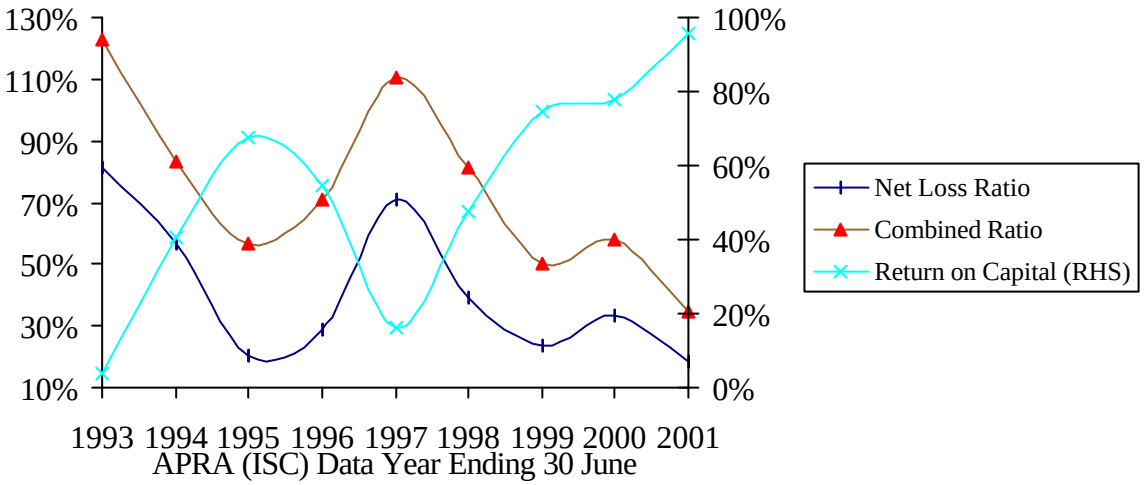


4.3.11 Mortgage

Mortgage is a small specialist class representing 2 percent of total gross written premium and 3 percent of policies written. Figure 4.12 illustrates recent loss ratios and return on capital.

A main driver of profit in this class is economic activity. Difficulty arises in this class when the economy turns down and the ability of clients to meet mortgage repayments becomes strained.

Figure 4.12 - Profitability of Mortgage



Experience for this class shows Very High and sustained profitability. However, it should be noted that the period illustrated does not fully include the recession of the early 1990's during which time loss ratios were considerably higher.

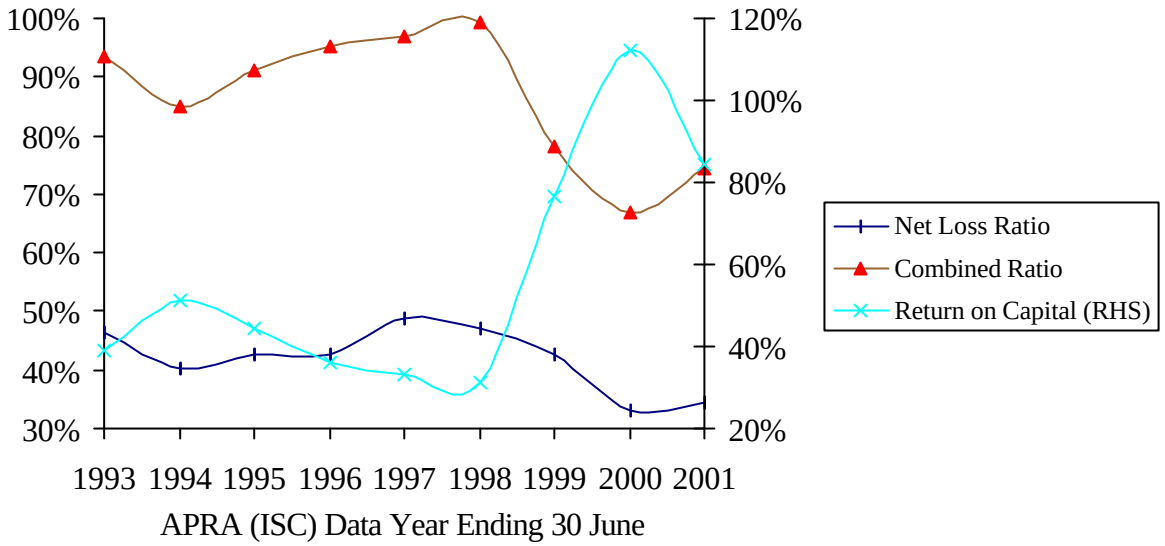
Gross written premiums have increased threefold since 1996/97 and with an even larger increase in the number of policies written. As a result the average premium is significantly lower than in the early 1990's. The increase in premium is consistent with increases in property values in this period and coincides with the privatisation of the Housing Loan Insurance Corporation (HLIC) in 1997.

A sudden downturn in the economy could quickly reverse the profitability of this class. However, based on recent trends there is no justification for insurers to increase premiums from the current level.

4.3.12 Consumer Credit

Consumer Credit is a specialist class representing 1 percent of total gross written premium but a considerably larger 7 percent of policies written. Prior to 1997 the Trade Credit, Consumer Credit, and Extended Warranty classes have been aggregated for consistency with the realigned APRA classes. Figure 4.13 illustrates recent loss ratios and return on capital.

Figure 4.13 - Profitability of Consumer Credit



Similar to the Mortgage class, the main driver of profit in this class is economic activity. Difficulty arises in this class when the economy turns down and the ability of clients to meet repayments becomes strained.

The class is characterised by low loss ratios during periods of economic prosperity, increasing significantly during a recession. In 1997/98, APRA conducted a review of the marketing and distribution of Consumer Credit class. Following the announcement of that review, premium volume and the expense ratio reduced significantly; both have increased steadily since.

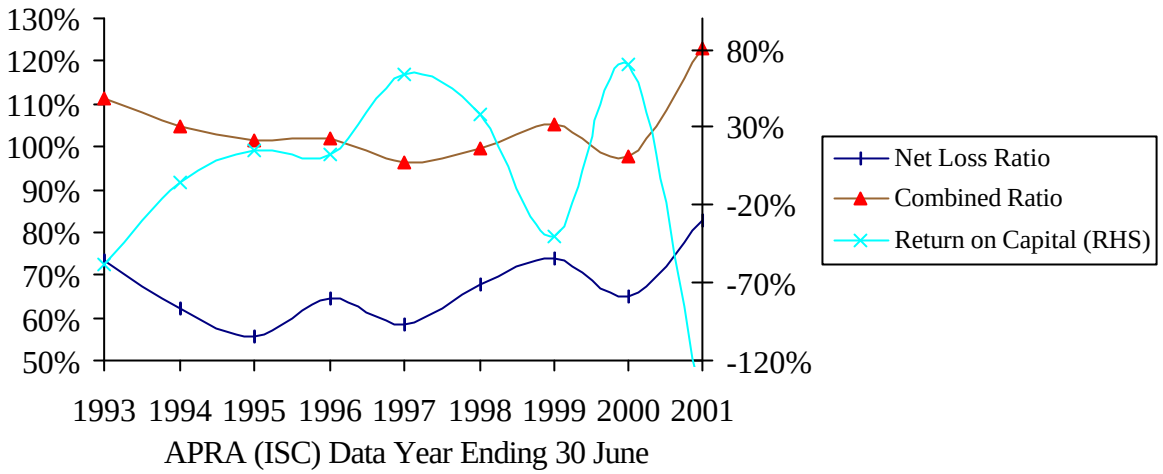
Given the current loss ratios and return on capital, no pressure exists that could justify an increase in premiums. These comments are made in the absence of a more detailed examination of the long-term outlook for this class and the need to set adequate prices throughout the full range of economic activity.

4.3.13 Travel

The Travel class is a specialist form of insurance representing 1 percent of total gross written premium and 1 percent of policies written.

Figure 4.14 illustrates how the return on capital responds immediately to the loss ratio experienced in that year. Travel, by its nature, is reported quickly and losses quantified quite early. Like Domestic Motor, relatively small reserves are established and so investment income has little effect on the performance of this class.

Figure 4.14 - Profitability of Travel



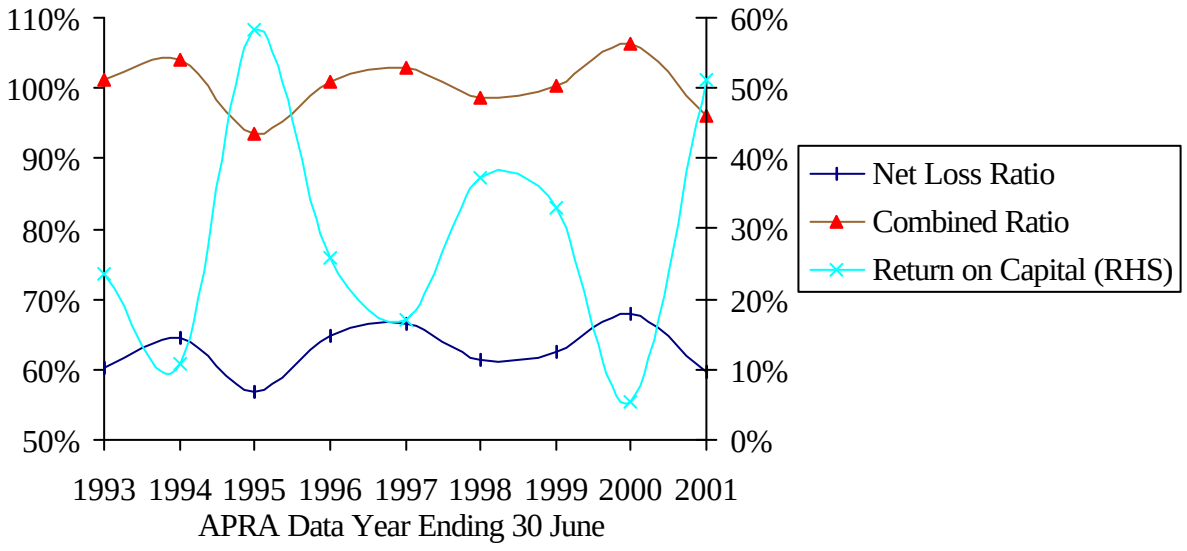
Total premiums (and average premiums) have remained relatively flat in real terms since 1994/95. Pressure to increase premiums is anticipated given the recent increase in the loss ratio.

The effect of the September 11 terrorist attacks can also be anticipated to impact this class. The widespread disruption to air traffic following those incidents is likely to lead to a considerable increase in claims expense for the 2001/02 year. This increase in costs will result in significantly higher loss ratios and lower – probably negative – returns on capital.

4.3.14 Other Accident

Other Accident represents 4 percent of general insurance business by gross written premium and 6 percent of policies written. Policies in this class tend to exhibit similar characteristics of other 'long-tail' classes.

Figure 4.15 - Profitability of Other Accident



This class has experienced a significant increase in gross written premium from 1996/97 to 1999/00 with the average premium exhibiting a similar rate of increase. Premiums for 2000/01 reduced slightly from that reported for 1999/00 while numbers of policies increased from 1.4 million to 2.2 million.

The increase in premium is inconsistent with Figure 4.15 in that such a change in premium volume would typically be accompanied by a significant change in the loss ratio.

The return on capital decreased significantly in 1995/96. The increase in loss ratio at that time was apparently caused by a reassessment of the outstanding claims liability and hence a reappraisal of the profitability of this class.

In the past 12 months the profitability of this class has increased from Low to Very High following a significant reduction in claims expense. The outlook for this class is unlikely to be as optimistic as this suggests. The outstanding claims provision is at an historically low level when compared to premium revenue so an upward revision in provision could reduce the return on capital to a Low level. Insurers may respond by increasing premiums in targeted areas of the portfolio that are generating losses.

4.3.15 Other

Other represents 3 percent of general insurance business both by gross written premium and policies written. Without knowing the nature of the policies included in this class it is difficult to comment on the cause of recent trends.

Figure 4.16 - Profitability of Other

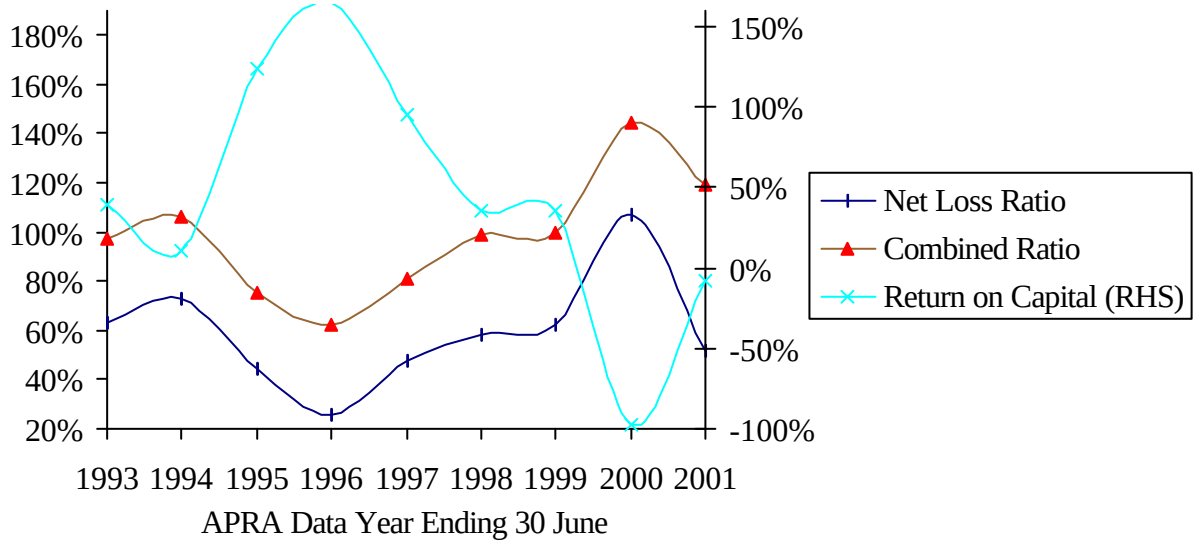


Figure 4.16 shows that the net loss ratio for Other increased from 1995/96 reducing back to 52 percent in 2000/01. Gross written premium has reduced each year since 1996/97. Changes of this nature are not unexpected in a classification of 'Other'; such a classification will include unusual portfolios that may be allocated to different APRA classes from time to time.

The cause of the increase in loss ratio in 1999/00 is probably the result of a reappraisal of the outstanding claims liability for the miscellaneous polices; provisions increased by 24 percent although premium volume reduced 19 percent. One possible contributor is Home Warranty insurance, which was privatised in Victoria and NSW in the mid-1990s. Some evidence suggests that this business was under-priced, which would lead to a significant increase in the liability assessment for this class. Investigation of individual company returns would be required to ascertain the source of these apparent losses.

It is anticipated that significant increases in premiums for selected policies if profitability is to be restored to this class by means of premium increases.

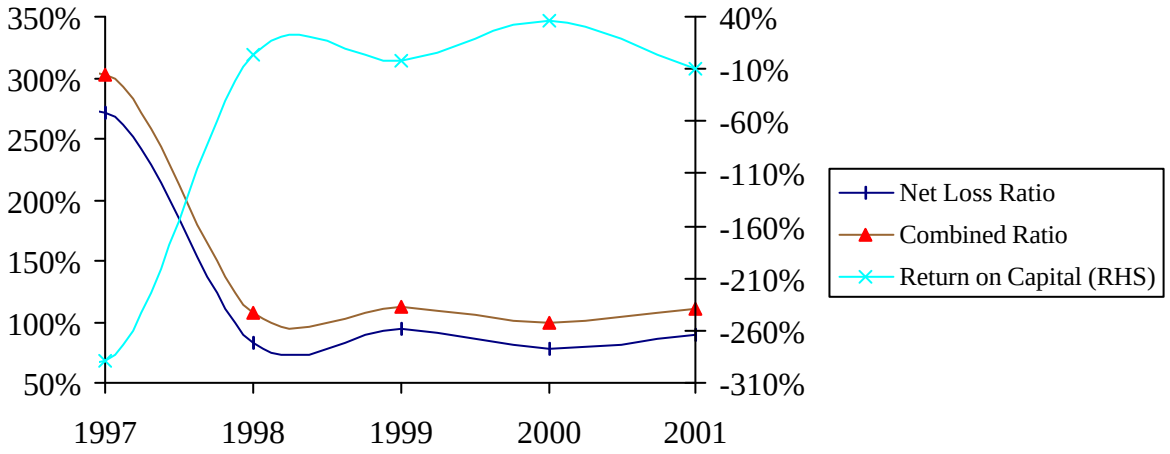
4.3.16 Inward Treaty

The Inward Treaty class has grown to 14 percent of gross written premium and 9 percent of policies written since in 1997/98. Limited information is available on the source of this business or its nature.

Outstanding claims liabilities for this class represents a modest 8 percent of the total for 1999/00 suggesting that this business is reserved in a similar manner to 'short-tail' business. It is expected that, by its nature, reinsurance will introduce a delay in reporting that requires a higher level of provisions than would otherwise be needed if the same business was directly underwritten.

Provisions for the outstanding claims liability only increased by 9 percent from 1999/00 to 2000/01 while premiums increased by 33 percent. Provisions do not appear to be established on a consistent basis to prior years. Further comment is not possible without details of the contracts included in this class.

Figure 4.17 - Profitability of Inward Treaty



APRA Data Year Ending 30 June

Figure 4.17 suggests that loss ratios are within a manageable band for insurers and Moderate returns on capital are being achieved. Based on this limited information, further increases would not be expected, unless estimates of the ultimate liability prove inadequate.

4.4 Summary

As indicated in Section 2.6.3 the insurance industry experienced low profitability during the 1990's as measured by the return on equity. Although increasing underwriting losses were recorded in each year up to 1998/99, investment revenue offset those losses in all years except 1994/95, which recorded a small loss.

Examination of each major class of business reinforces the view that the general insurance industry has experienced low profitability in the major classes throughout the 1990's, with little or no increase in profitability in recent years. The outlook is for this to continue without either improvement in operating efficiency, increased investment revenue or increased premiums.

A summary of the performance and outlook for each class of business is contained in Table 4.1.

Table 4.1 – Performance and Outlook

Class of Business	Overall	Recent	Outlook
Fire and Industrial Special Risks	Moderate	Low	Low
Houseowners/Householders	Moderate	High	High
CTP Motor Vehicle	Low	High	Moderate
Commercial Motor Vehicle	Moderate	High	High
Domestic Motor Vehicle	Low	Low	Moderate/High
Marine and Aviation	Very High	High	High
Professional Indemnity	Low	Very Low	Very Low
Product and Public Liability	Low	Very Low	Very Low
Employers' Liability	Low	Low	Low
Mortgage	Very High	Very High	Very High
Consumer Credit	Very High	Very High	Very High
Travel	Low	Very Low	Very Low
Other Accident	High	High	Moderate
Other	High	Very Low	Low
Inward Treaty	High	Low	Unclear
Overall	Moderate	Low	Low

Very Low indicates that the return on capital invested may be at an unsustainable level suggesting intervention to either increase premiums (perhaps selectively) or exit from the market.

Low indicates that returns on capital are in the range of –5 percent to +10 percent. As discussed in Section 9, these returns generally do not provide a margin above returns on risk free investments to compensate for the risk involved in insurance.

Moderate indicates returns on capital are being achieved in the range of 10 percent to 20 percent. This is significantly higher than the industry has achieved overall over the last eight years.

High and Very High refers to returns on capital of 20 percent to 50 percent and in excess of 50 percent respectively. It should be noted that Mortgage and Consumer Credit have achieved a Very High rating during a period of solid economic growth. These classes should generally perform well in such times but are expected to incur significant losses during periods of economic downturn. Other classes of business achieved a High rating overall, however, it is not possible to comment on the source of the recent drop in performance due to the indeterminate mix of policies in this class.

4.4.1 Highest and Lowest Returns

The classes with the highest returns over the period examined have been Houseowners/Householders, Commercial Motor, Marine and Aviation, Mortgage (driven mostly by the economic environment), and Consumer Credit (also mostly driven by the economic environment). More recently, returns on CTP Motor have increased and are now considered to be High after initially being considered Low.

The classes with the lowest returns have been Fire and ISR (more recently), Domestic Motor (consistently - although it showed significant improvement in 2000/01), most liability classes - Employer's Liability, Public and Product Liability, and Professional Indemnity – as well as Travel and Other. The average returns from these classes have been negative in recent years.

4.4.2 Consequences of Assessed Profitability for Pricing

If businesses seek to increase profits by choosing option (iii) in Section 2.1.4 (ie. to increase premiums), then the preceding analysis indicates that the pressure to increase premiums will be greatest in the following classes.

- Fire & ISR (if returns continue at recent Low levels and reinsurance rates increase);
- Professional Indemnity;
- Public and Products Liability;
- Travel (on the expectation that losses following September 11 will be large); and
- Other (for under performing policy types).

The pressure to increase will be moderate for:

- Houseowners/Householders (returns appear Moderate but recent poor investment performance and increasing reinsurance rates may result in short term Low returns);
- Domestic Motor (although action taken in 2000/01 appears to have returned this class to profitable levels);
- Employers Liability (but unlikely unless better pricing techniques are employed); and
- Other Accident (continuation of the upward trend in premiums is expected reflecting realisation of losses being incurred).

There is little pressure to increase premiums for:

- Commercial Motor;
- CTP Motor;
- Marine and Aviation;
- Mortgage (while the economy remains buoyant); and
- Consumer Credit (while the economy remains buoyant).

Insufficient information exists in relation to Inward Treaty to predict insurer responses for that class.

5 Pricing

This section outlines the issues insurers address when setting prices and the factors that influence final premiums. It is not intended to provide a detailed description of the process for pricing as each insurer will have developed their own systems that may include other factors not addressed below.

Insurance products are unlike normal manufactured products where the cost of inputs are largely known or relatively easily determined. Instead insurance pricing requires estimates to be made of the frequency and quantum of incidents yet to occur. As a result many issues unique to insurance need to be considered when setting insurance premiums, given the considerable uncertainty involved. These issues are listed below and are followed by a brief discussion of each.

5.1 Corporate objectives (return on capital)

5.2 Legislative environment (cover, contractual, price, etc)

5.3 Reinsurance/Capital (cost of capital)

5.4 Competition (market rates, profitable segments)

5.5 Approach to pricing

5.6 Cost drivers of classes of business.

5.1 Corporate Objectives

The insurer's corporate objectives largely dictate how insurers conduct their underwriting. In the past, the industry had emphasised growth but that has now largely been replaced by target returns on capital. This change of emphasis towards profit appears to have been driven by the large international mergers.

Global insurers control the worldwide allocation of the group's capital to their Australian operations and set target returns expected on that capital. The level of control exercised by head office depends on the model adopted and differs between insurers. Regardless of the model adopted the outcome of setting corporate targets is the same; that is the discipline of capital allocation and target returns on capital is transferred to each major business line in each country of operation as they compete for the limited capital needed to support their operations.

Domestic insurers are also adopting these financial objectives, as shareholders demand an appropriate return on equity. Mutuals have the same need to utilize capital efficiently as do publicly listed insurers.

5.2 Legislative environment

The legislative framework effectively shapes the market. Heavily regulated classes include Employers Liability and Compulsory Third Party (CTP) Motor, which are characterised by defined access, type and level of compensation, and appeal processes. Privately underwritten CTP insurance also has a substantial degree of regulation in pricing where premiums are set using a 'file and write' system. Insurers are left to compete in these markets on price (where possible) and on service.

Less regulated classes include the liability classes (Professional Indemnity and Public and Product Liability) as well as Fire, Industrial Special Risk and other classes. In these classes insurers are relatively free (relative to Employers Liability and CTP) to compete on terms and conditions of covers as well as on price and service.

The *Insurance Contracts Act 1984* legislates the behaviour of insurers while the *Insurance* (*Agents and Brokers) Act 1984* legislates the expected behaviour and relationship of agents and brokers with insurers and policyholders.

5.2.1 Taxation

All general insurance companies are subject to taxation under the *Income Tax Assessment Act 1936*. All income is assessable, including investment income and premiums. The expenses that are incurred as a result of earning the assessable income are allowable deductions. The taxable income is subject to taxation at the Company tax rate of 30 percent for 2001/02 (34 percent in 2000/01).

The Commonwealth does not require State government-owned insurers (eg the managed funds described in Section 2.2.2) to pay tax to the Commonwealth. However, these enterprises normally pay tax equivalents to their State Government, calculated on the same basis as for Federal taxpayers.

General insurance companies are also subject to a set of taxation rules that apply specifically to general insurance companies. These are set out in income tax ruling (IT 2663), which focuses on the treatment of unearned premium provisions and the provisions for outstanding claims liability (in particular the extent to which provisions for future claims management expenses are an allowable deduction).

5.2.2 The New Tax System

The New Tax System (TNTS) was introduced with effect from 1 July 2000. From that date insurers are required to remit GST paid on premiums to the Australian Tax Office.

In introducing the GST, the Federal Government legislated to ensure that it was not levied on the stamp duty payable on policies of insurance. However, a similar exclusion does not exist in respect of the Fire Services Levy (FSL); as a result, the GST calculated is by reference to the product of the base premium and the Fire Service Levy.

The decision to retain the Stamp Duty charge as a charge in addition to the GST inclusive premium was taken by the States and Territories.

It is the aim of this review to present the average premium rates net of the impact of the TNTS. This has only required an adjustment to be made to the data provided by one insurer. As such TNTS related increases are not included in the scope of this review.

5.2.3 State Taxes and Duties

The main State taxes and charges are levies to fund fire brigades (FSL) and Stamp Duty. The average premium rates presented in this report are net of Stamp Duty and FSL.

Fire Brigade Charges

Insurers in several States contribute a major part of the equipment and maintenance costs of fire brigades. There are no insurance premium fire services levy funding systems in place in Queensland (which phased it out in 1985/86), nor in South Australia (abandoned the system effective 1 July 1999), the Australian Capital Territory (prior to the removal of this tax on 1 July 2001 the levy on Fire policies stood at 39 percent and 21 percent for Home policies) or the Northern Territory which never adopted the system.

New South Wales, Victoria, Tasmania and Western Australia are the States that have retained this system of funding. It is understood that the Western Australian Fire Services Levy funding system is expected to be changed from 1 July 2002.

Where the fire brigade charges apply, the fire boards in those States prepare a budget for the next financial year and insurers contribute between 70 percent and 80 percent of the budget. Each individual insurer is allocated a portion of the fire brigade charge in proportion to their assessable premium. Assessable premium is calculated as a percentage of the gross premium including the levy written in the previous year to 31 December.

The fire brigade charges are paid in instalments throughout the budget year and insurers finance this charge by adding a fire services levy to all the premiums that are written during the year. The insurers are guided by the Insurance Council of Australia (ICA), which sets out a recommended fire services levy. The recommended fire services levy is calculated by projecting the gross written premiums for the budget year for all insurers.

Stamp Duty

Insurers in all states and mainland territories (ACT & NT) add the cost of Stamp Duty to premiums charged to customers. Stamp Duty is based on either premiums or the sums insured; the actual rate of Stamp Duty varies between the States and is dependant upon the class of business.

Several States have altered their Stamp Duties and FSL from previous years. In most cases the changes are relatively small (2 percent or less). Insurers do not consider these costs as part of the pricing process with all such charges automatically added to the base premium at the prevailing rates.

The following is a summary of the State and Territory tax regimes in place as at 30 June 2001.

AUSTRALIAN CAPITAL TERRITORY

The standard rate of Stamp Duty is 10 percent on premiums. Stamp Duty is calculated on the GST-inclusive premium.

Exemptions from Stamp Duty within the ACT are generally limited to the insurance of freight against loss or damage in the course of, or incidental to, international transport of the freight, and the insurance of an aircraft or ship against loss or damage during a particular period where it was or intended for use wholly or principally for the international transport of freight.

There is no Fire Service Levy on insurance policies in the ACT. The 1998/99 ACT Budget announced a levy on general insurers, with insurance companies being liable to contribute from 1 July 1998. The 2000/01 ACT Budget announced that the insurance levy system of funding ceased to apply from 30 June 2001, i.e. 1 July 2001.

NEW SOUTH WALES

For the purpose of levying Stamp Duty, insurance policies are categorized into three classes within New South Wales. The majority of insurance policies, including Home Building and Contents, Industrial Special Risk and Fire are in Class 1 and attract a 10 percent Stamp Duty. The rate of Stamp Duty for Class 1 policies was reduced from 11.5 percent to 10 percent from 1 October 2000.

The rate of Stamp Duty for Class 2 policies, which includes Aviation, Third Party Property Liability and Consumer Credit Insurance, is 5 percent. Class 3 policies such as Livestock and Crop insurance are rated at 2.5 percent.

Stamp Duty is calculated on base premiums plus the Fire Service Levy where applicable and the GST component.

An exemption from Stamp Duty within New South Wales applies to a number of insurance products. These include:

(a) insurance covering only property of the Crown;

(b) insurance effected by a separate policy in a distinct sum against loss by fire on the tools, implements of work or labour used by any working mechanic, artificer, handcrafter or labourer;

(c) insurance taken out by or on behalf of a non-profit organisation, having as one of its objectives a charitable, benevolent, philanthropic or patriotic purpose;

(d) insurance taken out by or on behalf of a society or institution for the time being approved for the purposes of this paragraph by the Chief Commissioner whose resources are, in accordance with its rules or objects, used wholly or predominantly for:

(i) The relief of poverty; or

(ii) The promotion of education; or

(iii) Any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval, military or air forces of the Commonwealth or their dependants or any other patriotic object; or

(iv) Such other purpose as, in the opinion of the Chief Commissioner, warrants the society or institution being taken to be a charitable society or institution;

(e) medical benefits insurance, being insurance effected by a contract of insurance that is issued by an organisation registered under Part VI of the Commonwealth National Health Act 1953 and that provides hospital benefits or medical benefits (or both), whether or not other benefits are also provided;

(f) insurance effected under the Workers Compensation Act 1987; and

(g) insurance effected under the Motor Accidents Act 1988.

As at 30 June 2001, Fire Service Levies were charged on the base premiums of four groups of insurance products in New South Wales at the following rates. Fire, ISR and Consequential Loss classes of insurance at 36 percent, the Contractors All Risks (Excluding Public Liability) class of insurance at 36 percent, Householders and House Owners classes of insurance at 19 percent and Motor at 1 percent.

NORTHERN TERRITORY

The standard rate of Stamp Duty is 10 percent on the premium. This was increased from 8 percent from 1 July 2000. Stamp Duty is calculated on the GST-inclusive premium.

The Stamp Duty Act in the Northern Territory imposes Duty on certain classes of Instruments including policies of insurance and life assurance. Certain policies, however, are exempt, notably any policy of insurance taken out in pursuance of a requirement under the Work Health Act. Exemptions apply to international freight and policies for the insurance of the hull of a floating vessels used primarily for commercial purposes are also exempt.

There are no Fire Services Levies on policies contracted in the Northern Territory.

QUEENSLAND

The standard rate of Stamp Duty is 8.5 percent on the premium. A rate of five percent applies to certain classes of insurance including, both Comprehensive and Third Party Property Damage for motor vehicles, and Professional Indemnity insurance. Stamp Duty is calculated on the GST-inclusive premium.

Charitable Education and Religious Institutions may apply to the Office of State Revenue for approval as an exempt qualifying institution for exemption from Stamp Duty in respect of policies of insurance. Exemptions similar to those previously described for international cargo and ships that transport the cargo are also in place.

There are no Fire Services Levies on policies contracted in Queensland. The Queensland State Government legislated to change the method of fire brigade funding to a property-based scheme in two stages from 1 July 1984.

Prior to this, fire brigade funding was by an insurance-based levy with the insurance industry providing 75 percent of the funding by a levy on the insured value (sum insured). Local and State Governments each provided a 12.5 percent contribution.

Stage 1 of the new scheme introduced a property-based residential levy which was first applied between 1984 and 1985. Stage 2 of the new scheme introduced a Commercial and Industrial based property levy from 1 July 1985.

SOUTH AUSTRALIA

The standard rate of Stamp Duty is 11 percent on the premium. Stamp Duty is calculated on the GST-inclusive premium.

An exemption from Stamp Duty is provided for any premium or portion of a premium received or charged on or after 1 November 1986 in respect of the insurance of the hull of a marine craft used primarily for commercial purposes or in respect of the insurance of goods carried by railway, road, air or sea or of the freight on such goods.

There are no Fire Services Levies on policies contracted in South Australia. Insurer contributions to fire brigade funding ceased from 1 July 1999 when a Community Emergency Services Fund introduced a broadly based system with funds raised through all property, registered motor vehicles and boat owners.

TASMANIA

The standard rate of Stamp Duty is 8 percent on the premium. Stamp Duty is calculated on base premiums plus the Fire Service Levy where applicable and the GST component.

In Tasmania an exemption from Stamp Duty is provided to insurance contracts for the international transport of freight and the insurance of those aircraft or ships involved, similar to provisions found in other State and Territories. In addition Workers Compensation contracts do not attract Stamp Duty.

At 30 June 2001, three rates of Fire Service Levies were charged on various insurances classes. The levy on Boiler Explosion Insurance, Consequential Loss, Contractors Risk Insurance, Fire Insurance and any other Class of Commercial and Industrial Insurance having a fire insurance content other than an exempted Class of General Insurance was 28 percent. The levy on Aviation Hull Insurance was 14 percent and the levy on all types of Marine Cargo Insurance was 2 percent. The exempted classes of general insurance are as follows:

(a) Motor Vehicle Comprehensive Insurance
(b) Compulsory Third Party Insurance
(c) Motor Vehicle Third Party Property Damage Insurance
(d) House Owners' and Householders' Insurance
(e) Crop Insurance
(f) Livestock Insurance
(g) Burglary Insurance
(h) Plate Glass Insurance
(i) Guarantee Insurance
(j) Personal Accident Insurance
(k) Employees Liability Insurance
(l) Public Liability Insurance
(m) Product Liability Insurance
(n) Professional Indemnity Insurance
(o) Loan Mortgage and Lease Insurance
(p) Marine Hull
(q) All Risks/Baggage
(r) Engineering and Machinery Breakdown
(s) Engineering Loss of Profits
(t) Pluvius
(u) Any Fire Insurance Cover of a Dwelling

VICTORIA

The standard rate of Stamp Duty is 10 percent on the premium. Stamp Duty is calculated on base premiums plus the Fire Service Levy where applicable and on the GST component. A policy insuring cereal crops against Hail Damage on its own is free of Stamp Duty, but when combined with Fire Damage under one policy, the resulting premium is dutiable at an agreed rate of 1.0 percent.

In Victoria an exemption from Stamp Duty is provided to insurance contracts for the Hull of a floating vessel used primarily for commercial purposes. An exemption also applies to all export/import Cargo and goods in transit within Australia by all modes of transport. In addition Workers Compensation policies do not attract Stamp Duty.

A Fire Service Levy is applied to different insurance contracts at different rates depending on the location of the insured within Victoria. Table 5.1 summarises the different rates.

Table 5.1 – Victorian Fire Services Levy

Class of Insurance	Location	Rate
Contractors (ex-Public Liability Cover)	Metropolitan Fire District	41%
	Country Fire Authority Area	53%
Fire and Consequential Loss	Metropolitan Fire District	41%
Fire (Other than Combined Hail and Fire) and Consequential Loss	Country Fire Authority Area	52%
Industrial Special Risk	Metropolitan Fire District	41%
	Country Fire Authority Area	52%
Houseowners and Householders	Metropolitan Fire District	17%
	Country Fire Authority Area	20%

WESTERN AUSTRALIA

The standard rate of Stamp Duty is 8 percent on the premium. Stamp Duty is calculated on base premiums plus the Fire Service Levy where applicable and on the GST component. Stamp Duty payable on Workers Compensation insurance contracts is 3 percent of the premium for small businesses with an annual payroll of $675,000 and 5 percent for larger businesses.

In Western Australia no rebates of Stamp Duty are allowable except under policies such as Workers' Compensation, Public Risk, Stock Declaration and Consequential Loss policies where the premium is adjusted on an annual basis or where the policy or renewal is cancelled in full and the cancelled policy or renewal certificate produced. An exemption from Stamp Duty is provided for policies of reinsurance, any policy of insurance in respect of goods in the course of being transported, whether by rail, road, air or sea, and whether within the State or elsewhere, and any policy of insurance in respect of a Marine Hull used primarily for commercial purposes.

The Fire Service Levy only applies to risks in Fire Brigade Districts served by permanent Fire Brigades, these are the metropolitan areas of Perth and Fremantle, the City of Bunbury and the towns of Geraldton/Greenough, Kalgoorlie/Boulder, Albany, Northam and Armadale. The percentage levy on the policies is dependent on the particular class of insurance. Table 5.2 sets out the different rates.

Table 5.2 – Western Australian Fire Services Levy

Class of Insurance	Location	Rate
Contractors' (ex-Public Liability Cover)	Risks in Districts with permanent Fire Brigades	26%

Fire and Consequential Loss	Risks in Districts with permanent Fire Brigades	28%
Industrial Special Risks	Risks in Districts with permanent Fire Brigades	26%
Houseowners and Householders	Risks in Districts with permanent Fire Brigades	19%
Motor	Risks in Districts with permanent Fire Brigades	1%

5.2.4 Summary of Government Taxes

The impact of the Government taxes on business (Fire) insurance premiums throughout Australia's Metropolitan (M) and Country (C) areas as at August 2001 are set out in Table 5.3.

Table 5.3 – Summary Taxes and Charges by Jurisdiction - Fire

Jurisdiction	VIC		NSW		SA		WA		QLD		TAS		ACT		NT	
Area	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
FSL (%)	41	58	36	36	0	0	28	28	0	0	28	28	0	0	0	0
GST (%)	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
SD (%)	10	10	10	10	11	11	8	8	8.5	8.5	8	8	10	10	10	10
Combined (%)	70	91	64	64	22	22	52	52	19	19	52	52	21	21	21	21

The impact of Government taxes on home insurance premiums throughout Australia's Metropolitan (M) and Country (C) areas as at August 2001 is set out in Table 5.4

Table 5.4 – Summary Taxes and Charges by Jurisdiction - Householders

Jurisdiction	VIC		NSW		SA		WA		QLD		TAS		ACT		NT	
Area	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
FSL (%)	17	25	19	19	0	0	19	19	0	0	0	0	0	0	0	0
GST (%)	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
SD (%)	10	10	10	10	11	11	8	8	8.5	8.5	8	8	10	10	10	10
Combined (%)	41	51	43	43	22	22	41	41	19	19	18	18	21	21	21	21

Deloitte Touche Tohmatsu has recently ranked the level of taxation on insurance policies in Australia. The Commission reproduces a copy of their table in part below without independent verification.

Table 5.5 - International League Table
Insurance Taxes as a Percentage of Base Premium

State / Country	Commercial Property (Fire) %	State / Country	Household %
Victoria – Country	91	Victoria – Country	51
Victoria – Melbourne	70	NSW	43
NSW	64	Victoria – Melbourne	41
TAS	52	WA	41
WA	52	SA	22

France	30	ACT	21
SA	22	NT	21
ACT	21	QLD	19
NT	21	TAS	18
QLD	19	South Africa	14
South Africa	14	Germany	14
Germany	10	France	9.0
UK	5.0	UK	5.5
Canada (Ontario)	3.5	Canada (Ontario)	3.5
USA (California)	2.4	USA (California)	2.4
Ireland	2.0	Ireland	2.0
Singapore	2.0	Singapore	2.0
Hong Kong	0.0	Hong Kong	0.0
Japan	0.0	Japan	0.0

2 Reproduced in part with the permission of Deloitte Touche Tohmatsu

5.3 Reinsurance/Capital

Reinsurance is another form of capital that companies can access in order to manage risks. The cost of shareholder capital is measured by the target return on capital while reinsurance is measured by premium. Reinsurance cannot completely replace capital, as APRA requires a dollar minimum level of capital for insurers.

The cost of these items is incorporated in technical pricing. Reinsurance is explicitly included through estimation of the projected cost of the proposed reinsurance programme. The cost of capital is typically allowed for in the target profit margin.

5.3.1 Reinsurance Profit

Overseas reinsurers dominate the Australian reinsurance industry. Only one Australian reinsurer, Sydney Re, is in the ten largest reinsurers in Australia. Reinsurance premium rates have increased in recent times (refer Table 5.6) in the wake of some large losses in the Australian as well as international markets.

Table 5.6 – Reinsurance Profit

Year	1996	1997	1998	1999	2000	2001
Loss Ratio (%)	64	73	78	91	135	95
Expense Ratio (%)	28	31	27	29	22	25
Combined Ratio (%)	92	104	105	120	157	120

Whilst premiums have increased in the reinsurance market, they have not increased by as much as premiums in the direct insurance market. Reinsurance contracts were entered into during the financial year ending in June 1999 in order to avoid renegotiating contracts during the end of the millennium. These contracts are now being renewed with the expectation of significant increases in rates (refer Section 3). Signs of improving results are already emerging in 2000/01.

5.3.2 APRA Reforms

The 2001 APRA reforms increased the minimum level of capital that will need to be serviced. The strategy adopted by insurers (greater operating efficiency, higher investment risk, and/or increased premiums) will result in a certain level of capital that will need to be considered when determining the 'technical' premium required.

5.4 Competition

The level of competition depends on the product and the various segments within the market for that product. Underwriters need to consider competitors and understand the prices being charged (and hence implied profit) before a reasoned decision can be made on whether to enter/remain in the market.

It is evident that insurers are becoming more sophisticated in making such assessments and now act decisively if market segments are viewed as unprofitable. A clear example of this includes the NSW CTP market, which saw the exit of several insurers once the level of losses being sustained in the early 1990's became apparent. More recently some insurers have withdrawn from segments of the Public and Product Liability market.

5.5 Approach to Pricing

Insurers tend to be either price setters or price takers. Insurers who have a significant share of a particular class have the power to set the price while insurers with a smaller share tend to either follow pricing structures established by major insurers or operate in niche markets. Examples of niche insurers are the Guild, which focuses on covering most risks for pharmacies around Australia and Catholic Churches Insurances, which underwrites many of that church's risks.

5.5.1 Pricing Methods

The various pricing methods and issues considered by insurers considered price setters are discussed below. These descriptions are extracted from an actuarial text book[15].

Method 1 - "market rate" or "going rate" pricing;

[15] Hart , D, G., Buchanan, R, A and Howe, B, A, *The Actuarial Practice of General Insurance*, 5th edition (1996), published by the Institute of Actuaries Australia, Sydney, NSW, 2000.

Method 2 - “target pricing” to obtain a desired level of profit;

Method 3 - “cost plus” or “mark up” pricing;

Method 4 - “demand-adjusted” or “perceived value” pricing.

These methods do not necessarily produce different results.

Method 1 (market rate pricing) is market share oriented. It is based on observing the prices that competitors (the market) charge and then deciding on a price that conforms to the market, without specific regard to how profitable this market rate is. It should be noted that market rate pricing is not the same as using market rates to estimate the future claim experience as a step in sound rating. Market rate pricing has no regard to profit objectives; sound rating does.

Method 2 (target pricing) is cost oriented. It is based on a decision to charge rates which are expected to make a chosen level of profit. An important special case of target pricing is sound rating where the desired level of profit is chosen to produce an appropriate return on the capital required to support the business. Note that shareholders’ funds may be more or less than the required capital. Sound rates are based on what return is needed to support adequate capital rather than what capital is held.

Method 3 (cost plus pricing) is also cost-oriented. The approach is to determine the expected cost of claims and add a percentage to cover administrative expenses and a profit margin. This method is similar to Method 2 but does not necessarily involve a specific profit target. Under competitive pressure the percentage mark-up can be reduced below what is required to give an adequate profit.

Method 4 (demand adjusted pricing) is demand-orientated and is consistent with maximising profits. The price charged is what customers will pay for the product according to what they perceive to be its value, regardless of the costs of claims and administration of the insurer’s need for profit. Under this method, prices will be low if demand is low relative to supply and will be high if demand is high. The philosophy behind this pricing method is that the right price to charge is the price that balances supply and demand. If that price is too low for an insurer to make a profit it should cease to offer that product. This will cause supply to contract and the price to rise.

A further method which may be used for very large policies and in classes where the insurer relies heavily on the technical support of a reinsurer, can be characterised as “reinsurance driven” pricing. The price charged under this method is based on the prices charged by the reinsurer, adjusted for the insurer’s expenses. This is appropriate when the premium retained by the insurer is a small fraction of the total, usually on a proportional reinsurance basis.

Target pricing (Method 2) is an important tool for underwriters and management for achieving their objectives. As indicated by the other methods, actual premiums may be charged at considerably different levels to that suggested by the technical analysis, however, the difference between the premiums charged and those calculated using target pricing indicates the extent of cross subsidies or extra profit.

5.5.2 Other Pricing Methods

Other pricing techniques that are used in practice but are considered 'unsound' from an actuarial viewpoint are 'cash-flow underwriting' and 'discounting'.

'Cash flow' underwriting is where underwriters have the objective of setting premiums at a level that will collect sufficient premium, which together with investment income, will meet current claim payments and expenses. This strategy can survive while growth in premiums outstrips the growth in claim payments. However, once growth rates reduce or growth ceases, the premiums may be insufficient to meet payments and expenses. It is certainly unsustainable in the medium and longer terms, unfortunately if used in liability classes (particularly for Product and Public Liability) the realisation of losses may not occur for many years, by which time the losses can be substantial.

Setting prices at a 'discount' to the market is a strategy that can lead to financial ruin unless it is designed to satisfy short term commercial objectives and the capital cost is closely monitored. Companies experiencing cash flow difficulties sometime use this technique in order to boost premium revenue. However, like cash flow underwriting, if it continues in the medium to longer term, it requires an even larger capital injection to remain solvent.

5.6 Cost Drivers of Classes of Business

Each class of business have various cost drivers that are specific to the class and nature of risks underwritten. The following identifies the main cost drivers for each class.

5.6.1 Fire and ISR

The main cost drivers of Fire and ISR are the economic cycle and catastrophe. An increase in turnover and asset values will increase the insured's premium without the insurer's premium rates changing. These classes are also affected by the cost of reinsurance due to the relatively large volume of premiums ceded.

5.6.2 Houseowners/ Householders

The main cost drivers of Houseowners/Householders are the economic cycle and catastrophe, and long-term weather patterns. The economic cycle has an affect on the crime rate, which impacts on claims as a result of burglary. Reinsurance has a similar impact as for Fire and ISR.

5.6.3 CTP Motor Vehicle

The main cost driver of CTP Motor Vehicle is the economic cycle. Catastrophe has a limited impact upon CTP Motor Vehicle claims. Some seasonality exists with weather affecting driving conditions. Legal precedents/new legislation can also have an impact along with the level of plaintiff legal activity.

5.6.4 Domestic and Commercial Motor Vehicle

The main cost drivers of Domestic and Commercial Motor Vehicle are the economic cycle as greater activity increases vehicle concentration and use. Catastrophe can also impact these classes such as severe hailstorm causing damage to vehicles. Weather also affects driving conditions and the level of damage to vehicles. The cost of imported parts also will be affected by changes in exchange rates, as has been seen recently as the AUD dollar depreciated in 2000.

5.6.5 Marine & Aviation

The main cost drivers of Marine & Aviation are the economic cycle and long-term weather patterns.

5.6.6 Professional Indemnity

Professional Indemnity is affected by the economic cycle with increased litigation in periods of economic downturn and as professional advice causing loss is challenged. Increasing litigation and court precedents tend to increase settlement costs. Premiums will increase in a buoyant economy without a change in premium rates as turnover and professional fees increase in volume.

5.6.7 Public & Product Liability

The main cost driver of Public & Product Liability is the level of litigation, the awareness of the general community to making a claim and precedent-setting court cases; e.g. a large claim setting a precedent for future claims.

5.6.8 Employer's Liability

The main cost driver of Employer's Liability is the level of litigation, the awareness of the general community to making a claim and precedent-setting court cases; e.g. a large claim setting a precedent for future claims.

5.6.9 Mortgage and Consumer Credit

The main cost driver of Mortgage is the economic cycle.

5.6.10 Travel

A significant cost driver of Travel is the economic cycle. The level of the Australian Dollar also has a significant impact as claims made by overseas travellers for medical expenses are paid in the currency of the country in which they are travelling.

5.6.11 Other Accident and Other

Other covers a wide range of policy types and risk covers. No attempt has been made to list the various elements likely to affect this diverse grouping of policies.

5.6.12 Inward Treaty

The cost drivers of Inward Treaty will depend on the nature of the contracts.

PART B

Review of Insurer Returns

6 Summary of Insurer Responses

Insurers were requested to provide details for any change to premium rates for specified class of business for policies written or renewed in the period 1 July 2000 to 12 June 2001. In, particular, they were asked to provided:

(a) The average percentage change to premium rates;

(b) The range and distribution of premium rate changes;

(c) The monthly average percentage change to premium rates;

(d) A description of the reasons for the premium rate changes in a) to c);

(e) A description of the impact of any applicable State taxation regime changes on premium rates; and

(f) A description of the impact of the failure of HIH.

This section provides a brief summary of each insurer's response. Details of premium increase are contained in Section 7, which summarises responses by class of business.

6.1 AAMI

AAMI predominantly underwrites Domestic and Commercial Motor, CTP Motor, and Houseowners/Householders and provided information detailing the premium increases for those classes. Details of AAMI's range and distribution of premiums did not cover all business but they indicated that it represented the 'bulk of the AAMI portfolio'.

Average dollar premiums were provided each month for the 11 months to May 2001 for each region (principally defined as States).

Simple averages can hide other fundamental changes in premium rates. AAMI reported an extremely wide movement in premiums with many receiving a reduction, and a small number experiencing an increase of over 40 percent. The movements in the motor portfolios were attributed to rating factors such as age, driving history, post code, no claim bonus, etc.

AAMI indicated that State taxes and the liquidation of HIH had no impact on their premiums.

6.2 Allianz

Allianz provided a detailed response that specified the percentage changes in average premiums for each class of business underwritten and the method of ascertaining the change for the 11 months to May 2001. Reasons for premium increase were not detailed for each class of business; instead general commentary was provided on the main drivers.

Significant increases (over 10 percent) were indicated for Fire, ISR, Commercial Motor, Marine & Aviation, Professional Indemnity, Public and Product Liability and Other Accident.

The method of ascertaining the change in premium was described as either the 'Rate Book' method, which measures the percentage changes in the company's rate tables for given classes of insurance and jurisdictions, or the 'price comparison' method, in which one year's premium was compared with the previous year's premium for the same group of risks. The 'Rate Book' method was used for non-commercial classes of business and the 'price comparison' method is used for commercial classes of insurance.

Allianz indicated that an increase in the cost of catastrophe reinsurance for ISR, Fire and Householders/Homeowners resulted in premium increases for these classes. The stated increases were significantly higher than would be expected based on the industry analysis in Section 4. Reinsurance rates tend to increase over a number of years and would tend to be incorporated into direct prices with a 'lag'. Further comment is not possible without details of Allianz's specific reinsurance arrangements. Lack of profitability was also cited as a reason for increased prices, which is consistent with analysis of the industry.

Other reasons for increasing premiums included intrinsic increases in claims cost (increasing litigation and court awards) and portfolio reviews. In particular, lack of profitability was cited as the reason for the significant increase in Marine and Aviation.

Allianz indicated that the liquidation of HIH had no impact on book rates and no 'measurable' impact on actual market rates up to 31 May 2001.

6.3 AMP

AMP provided a concise response that specified percentage changes in average premiums for each class of business for the period 1 July 2000 to 12 June 2001 and have supplied a reason for each of the changes. The reasons for the premium changes were mainly that a review of loss ratios indicated that a rate rise was required to achieve profitability.

AMP indicated that State taxes had no impact on premiums. They did, however, indicate that the liquidation of HIH affected Tasmanian workers compensation premiums for a short period in anticipation of a levy. However, this levy does not become effective until 1 July 2002. In addition, AMP indicated that premiums for ISR and Professional Indemnity are assessed on a case by case basis and that the collapse of HIH was an influence on premiums.

AMP raised an issue that affected several insurers. They indicated that the simple matter of aligning GIO and AMP general insurance business' might act to alter premiums for many policyholders. The effect of business integration on premiums is likely to be similar to that experienced by policyholders transferring from one insurer to another. Although in the later case such transfers would normally be done to minimize premiums.

6.4 CGU

CGU have specified the average premium rate change for each class of business. Statistics for the Commercial and Personal Divisions are for the period July 2000 to June 2001 and to April 2001 for the Professional Risks Division. The monthly rate changes were determined as the year on year movement and exclude fire service levy, stamp duty and TNTS.

In their response each Division of CGU stated that the figures do not represent a reliable or meaningful measure of rate increases. They argued that average premium rates do not take into account a range of variables which can significantly affect individual premiums such as movement in accounts, timing, changes in exposure, assets insured, etc. Indeed, CGU's approach of including new accounts rather than just renewals will tend to distort premium increases and introduce another factor making comparison with other insurers unreliable.

CGU indicated that

> *"… premium rate changes have not been implemented, with the exception of Workers' Compensation and a two percent increase on Property rates…"*

due to an increase in reinsurance costs. CGU reported significant increases in average premiums over several months for ISR, Workers Compensation, Public & Product Liability, Engineering, Commercial Motor and Personal Accident. Inflation in sums insured alone would not account for the observed increases. As indicated above it is not possible to separate the effect of new business, which could be significant for classes with relatively small numbers but large premium policies. CGU have also advised that the removal of discounts has contributed to the increased averages. The removal of discounts can be a significant contributor to premium increases.

Increases for some classes are yet to be implemented by CGU. Some reasons for premium increases include:

- Change in mix of business (Motor)
- New rating structure (Motor)
- No Claim Bonus (Motor)
- Updated sums insured (Motor)
- Under-performance (Houseowners/Householders)
- Increased Fees & Assets (Professional Indemnity)
- Poor underwriting performance (Travel)
- High claims/loss ratios (Other).

CGU indicated that the liquidation of HIH had no impact on their premiums.

6.5 Fortis

Fortis have provided a brief response providing indicative average premium increases for each class of business, but not the range and distribution of changes in rates or the average change from month to month. The response was of limited value as increases for classes written (except for Domestic Motor vehicle where some ranges are given) were specified as 10 percent, 5 percent, 0 percent and, therefore, appeared not to be derived from actual renewal data.

Fortis have indicated that for commercial classes of business there have not been any premium rate increases but that premiums have increased due to:

- revaluation of underwriting experience
- risk appraisal/surveys
- alteration of cover
- revised sums insured
- resetting targets in light of experience.

Similar issues to CGU were raised in their response to the meaning of the averages stating that

> *"it is very common for there to be alteration of the cover itself, the sum insured levels altered to reflect inflation and business expansion and for there to be some change to risk categorization for an entity. Taken together all these factors may well result in premium increase but the rates themselves have not varied."*

Fortis also explained that for Personal Lines Insurance rates (Private Motor and Householders) are influenced by factors such as changes to no claim bonus categories and claim costs and incidence. A range of premium increases was indicated for each State (capped at 15 percent/17 percent) based on

> *"… general portfolio performance and poor underwriting outcomes due to claims frequency."*

Fortis indicated that the liquidation of HIH had no impact on their premiums and noted that stamp duty rates reduced slightly in NSW (Home and Contents) from 11.5 percent to 10 percent.

6.6 NRMA

NRMA (including RACV) prepared a comprehensive response that detailed the average premium increase for each class of business (in some instances by State and sub-class), the range and distribution of changes in rates, and the average change from month to month (July 2000 through to June 2001). Comments were also provided in respect of the nature and date of each change in the pricing structure.

Premium increases were based on renewals (whether accepted or not) offered after 1 July 2000. For RACV only those actually renewing were included. NRMA indicated that it had adopted a new pricing philosophy in early 2000 aimed at adjusting rating factors rather than simply base premium. They acknowledge that this reduces cross-subsidies in premiums and results in considerable variation in premiums (both up and down).

Personal insurance business was underwritten by Insurance Manufacturers Australia (IMA) who implemented a pricing policy early in calendar 2000 designed to

> *" …reduce loses and provide a satisfactory return on capital."*

This is consistent with a general shift in focus by insurers from growth to profit. NRMA also pointed out that premiums change as a result of personal circumstance (eg address, young driver, sum insured, etc).

Some of the reasons presented for premium increases were:

- increase in reinsurance cost (Motor and Home Insurance);
- weak dollar causing the price of parts/contents to rise (Motor and Home Insurance);
- NSW storm claims (Home Insurance);
- increases in numbers of employees, turnover or sums insured (Public and Product Liability);
- merging of pricing structure of NRMA and RACV; and
- reclassification of vehicle types, areas, bonus/malus structure, relativities (NSW CTP).

NRMA indicated that the liquidation of HIH has not affected premiums but that this is being monitored as NRMA may lose recoveries that would otherwise have been payable by HIH.

6.7 QBE Mercantile Mutual

QBE Mercantile Mutual has provided detailed information on the average premium increase for each class of business, the range and distribution of changes rates, and the average change from month to month. Some of the data provided corresponds to the APRA classes of business, other parts of the data were for QBE Mercantile Mutual classes of business which are combinations of APRA classes, e.g 'Farm Pack' contains some Fire, Public and Product Liability, Houseowner/Householders - Contents/Other and Motor Vehicle (both Domestic and Commercial) sections. This 'Farm Pack' data included a wide range of standard classes of business so direct comparison to the APRA classes was not possible.

Only a general list of reasons were provided to support premium increases. QBE Mercantile Mutual also specified that the change in premiums take into account factors other than premium rate increases, i.e. the general reasons why premiums increase such as loss of no claim bonus for private motor and householders, changes in the sum insured, increased asset values or business turnover.

Like NRMA, the underwriting agency QBE Mercantile Mutual reported they have a pricing philosophy to give shareholders their target level of return on capital. They state that any change in premium rates are designed to ensure that all parts of the QBE Mercantile Mutual portfolio achieve the same return on equity.

Consistent with all insurer responses, QBE Mercantile Mutual passes on all State and Federal taxes and levies to the consumer. They also indicated that the liquidation of HIH has not impacted its pricing policy or premiums.

6.8 RACT

RACT provided a brief response that contained the premium increase for Domestic Motor and Houseowners/Householder. The increases were attributed to deteriorating underwriting results.

6.9 Royal & Sun Alliance

Royal & Sun Alliance provided a concise summary of the requested information, which they based on policies from 1 July 2000 to 31 May 2001. The summary provided average premium increases for each class of business, the range of changes in rates, and the maximum and minimum change on a month by month basis.

The reasons for the increase in premium rate were specified for each class of business. In summary they are:

- Historical portfolio result and increased reinsurance costs (ISR)
- Rating factor following performance review (Motor and Fire)
- Removal of discretionary discounts (Fire)
- Change in target segment (Professional Indemnity)
- Remedial action on unprofitable segments (Professional Indemnity)
- Deterioration of results (Public and Product Liability)
- Actuarial rating (Public and Product Liability)
- Change in portfolio (Travel)
- Portfolio rate review (Other Accident)
- Analysis of experience (Employers Liability).

Some classes have no formal rating structure and so premiums are affected by turnover, claims experience, risk assessments, etc.

Royal & Sun Alliance indicated that the State taxation regime and the liquidation of HIH have not impacted reported premium changes.

6.10 Suncorp-Metway

Suncorp-Metway prepared a detailed response that provided information on the average premium increase for each class of business, the range of changes in rates, and the maximum and minimum change on a month by month basis for the period 1 July 2000 to 12 June 2001. Suncorp-Metway reported that there has been no premium *rate* increases for a number of classes of business but there have been quite large increases in the average premium charged.

Reasons for premium increases include:

- Poor performance of the portfolio (ISR)
- Deteriorating claims performance (Commercial – Fire & Public Liability)
- Changes in policy cover or underlying risk factors (Houseowners)
- Poor claims experience (Houseowners)
- Introduction of competitive pricing (CTP – Queensland)
- Removal of cross-subsidies (Motor)
- Poor performance (Motor, Professional Indemnity, Public Liability)
- Increase in cost of imported parts (Motor)
- Increase in frequency observed in selected segments (Marine).

The wide range of premium increases reported for some portfolios suggests that risks were re-rated. This is clearly evident in ISR and Domestic Motor.

Suncorp-Metway passes on statutory charges to the consumer. They also indicated that the liquidation of HIH has not impacted premium rates charged.

6.11 Zurich

Zurich provided the Commission with limited information. 'Significant losses' in recent years were cited as the driver for reviewing pricing, underwriting, claims, systems and marketing. The initiatives are designed to improve the return on equity to shareholders.

Details of average percentage change to premium rates together with the distribution across each state were provided. No specific reasons for the premium increases, other than overall poor financial performance, have been given.

Zurich did not provided any commentary on the failure of HIH or the impact of State taxes.

6.12 Munich and Swiss Re

Responses from the reinsurers contained little information of direct relevance to the issues canvassed in this report. The Munich declined to respond citing that they

> *"… issue no direct insurance policies"*

while Swiss Re made general comments that they had little influence over the market as 70 percent of it is placed on original terms.

Reinsurers have a significant impact on prices charged by direct writers. Non-proportional rates flow directly into premiums when setting prices while exchange commission represent a rebate on the cost of proportional reinsurance also affecting the premium to be charged to the customer.

Information from reinsurance brokers indicates that reinsurers have significantly increased rates, initially at December 2000, and more recently in June 2001. These increases are believed to be around 10 percent to 15 percent and affect both proportional (through lower exchange commission) and non-proportional business (through rate increases).

These expected rate increases will reduce profitability of direct underwriters. They can respond by increasing premiums to insureds, or by other means canvassed in Section 2.1.4.

7 Summary of Results

This section summarises the responses from insurers by class of business. Premium increases for each insurer are tabulated with commentary on reasons provided for the increases.

7.1 Impact of State Taxation

All the insurers who responded commented on the impact of State taxes. Most insurers commented that any change in State taxes is passed straight on to the insured, be it an increase in premium or a decrease in premium. Others indicated that the changes in premiums reported do not include the effects of State taxes, meaning that they consider the issue of State taxes separately when adjusting the actual premium that a customer is charged.

NRMA provided a very detailed analysis of each change in State tax and how it was passed on to the insured. One insurer also provide an example of how the effects of State taxes impact upon the premium charged by the insurer. The original change in base rate is increased by the addition of State taxes and GST. The example given is of a 10 percent increase in a base premium rate for the Fire class in Victoria which will be impacted by a 52 percent impost for Fire Service levy, a 10 percent impact for GST and then a 10 percent impost for State stamp duty. The original 10 percent increase was translated to an 18.392 percent increase in the premium charged to the customer.

This example has the potential to be extremely misleading in that a 10 percent increase in base premium will result in a 10 percent increase in the final premium charged to the consumer as the levies are usually applied as a percentage of the insurance premium. The 18.392 percent increase does not compare like with like as it compares the revised total premiums with the original (base) premium rather than with the original total premium (including taxes). Such statistics are considered to mislead rather than inform.

7.2 Insurer Responses

The premium rate changes between 2000 and 2001 and reasons provided by each insurer are summarised in this section. The responses are summarised under each class of business to distil the key features from all responses.

Some insurers did not provide reasons for premium rate changes, or provided a general response that was not specific to class. However, some general conclusions can still be made from those insurers who provided specific responses for each class of business.

7.2.1 The New Tax System (TNTS)

This report considers non-TNTS related increases. The advised premiums by one insurer were adjusted to remove the impact of the Goods and Service Tax (GST), which had been separately specified for most classes. Other insurers provided premium increases excluding those related to TNTS.

7.2.2 Comparisons

As pointed out by most insurers, calculating average premiums and ranges is not straight forward. Typically, insurers can only consider premium increases for those policyholders invited to renew. This obviously excludes premiums for new policyholders and, therefore, will tend to distort actual increases observed by consumers.

Comparisons between insurers within each class can be misleading as:

- Averages do not reveal the range of increases (hence the inclusion of the range);
- Averages are calculated on different basis (month on month and year on year); and
- Periods differ (insurers provided increases for either 10 months to April 2001, 11 months to 31 May 2001, or later if available).

The reported increases are considered to provide an indication of the 'order of magnitude' experienced by that class. However, in several classes (eg Domestic Motor Vehicle), the large range of rate changes within the class dwarfs the average increase. Therefore, consumers will witness significantly higher (and lower) increases to that suggested by the average.

In addition, the average increase may bear no relationship to the *relative premium* charged by each insurer. An insurer with a large increase may still charge the lowest premium while another insurer with a small increase may have the highest premium.

Given the different approaches adopted by insurers in calculating premium increases and their differing treatment of GST, Stamp Duty and Fire Service Levies, no attempt has been made to modify the reported increases. One exception to this is NRMA who explicitly report their total increase and allowance for TNTS. Figures shown are net of TNTS to be consistent with other insurers who had all excluded the effects of TNTS in their premium increases.

7.2.3 Industrial Special Risks (ISR)

ISR provides a range of cover to business for 'all risks of loss or damage'. Given the broad cover policy wording is, typically, characterised by its specific exclusions.

Two companies (AAMI and NRMA) do not write this business and are excluded from the summary of premium increases in Table 7.1. In addition, Fortis did not increase rates, probably due to preparation for the impending sale that eventually went to CGU.

Table 7.1 – Industrial Special Risks

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	14	-95	100	-23	106	Cost of Reinsurance	None	None
AMP	20	na	na	na	na	To achieve profitability	None	Minimal
CGU[1]	31	na	na	-32	253	Change in portfolio	Direct	None
Fortis	0	0	0	0	0	No rate change	Direct	None
QBE MM[2]	21	<-60	>+100	-20	274	To achieve target profit	Direct	None
Royal & Sun Alliance	35	-3	110	-5	20	Deteriorating loss ratios	Direct	None
Suncorp-Metway	34	-65	300	-26	35	Poor experience	None	None
Zurich	21	-16	421	na	na	Not Specified	None	None
Average	26							

1. CGU note that increases are largely influenced by changes in the portfolio

2. Excludes data provided by QBE-MM.

na = not available

Except for Fortis, all companies have recorded significant increases in premiums for ISR between 2000 and 2001. Analysis of Fire and ISR combined (as available from APRA) indicated that the hailstorm in Sydney, floods in NSW and Qld, and the explosion at Esso/Longford had significantly reduced the profitability of this class.

Given that around 40 percent of this business is ceded to reinsurers and reinsurance rates are expected to increase, pressure to increase premiums in this class is considered high.

7.2.4 Fire

Fire provides indemnity against loss of the building and/or its contents resulting from fire, lightning or explosion.

AAMI did not write this business and is excluded from the summary of premium increases in Table 7.2. The increase for Fortis is based on a general comment that most rates were increased by 10 percent.

Table 7.2 – Fire

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	16	-80	100	12	21	Cost of Reinsurance	None	None
AMP	5	5	5	5	5	To achieve profitability	None	None
CGU	4	na	na	-10	27	Change in portfolio	Direct	None
Fortis [1]	10	10	10	0	10	Deterioration in experience	Direct	None
NRMA[2]	15	<-30	>30	5	34	Change in sum insured	Direct	None
QBE MM[3]	21	<-60	>+100	-20	274	To achieve target profit	Direct	None
Royal & Sun Alliance	5	0	25	-1	2	Rating factor adjustments	Direct	None
Suncorp-Metway[4]	21	-20	412	-6	5	Deterioration in experience	None	None
Zurich	12	11	13	na	na	Not Specified	None	None
Average	12							

1. Fortis, 5% in SA
2. NRMA, Commercial insurance
3. QBE MM combines Fire and ISR - Premium Increase reduces to 12% if Commerical Packages are included
4. Suncorp-Metway, FIRE refers to a part of their Commercial package

As for ISR, Fire has seen a large increase in premiums in the last year. The average premium increase was 12 percent. The reasons given by insurers for the premium increases include a deterioration in claims experience, increasing loss ratios, and an increase in reinsurance costs. These comments are consistent with the analysis of the APRA data which indicate that the profitability of the combined classes of Fire and ISR had been high since the middle of the 1990's but had decreased since.

The APRA data reveals a significant increase in the cost of reinsurance with the cost increasing from $425 million in 1998/99 to $506million in 1999/00 and $492 million in 2000/01 (excluding the HIH Group). This is likely to flow through to increases in insurers' premiums as they seek to restore profitability.

7.2.5 Houseowners/Householders - Contents

All insurers who responded to the Commission's request wrote this class, which covers property damage to the owner's house and contents. Typical exclusions are for flood, war, and civil unrest, etc. Insurers explicitly rate contents separately from building and public liability associated with Houseowners/Householders. Table 7.3, which summarises premium increases for Contents, reveals considerable differences between insurers in reported premium increases.

Table 7.3 – Houseowners/Householders- Contents

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
AAMI	1	na	na	0	4	Not Specified	None	None
Allianz[1]	6	<-35	>35	0	4	Increased Reinsurance	None	None
AMP	0	-25	25	0	1	Change in portfolio.E	None	None
CGU	4	0	15	2	5	Change in portfolio	Direct	None
Fortis	0	0	0	0	0	No rate change	Direct	None
NRMA[2]	7	<-30	>30	5	11	Reinsurance premiums	Direct	None
QBE MM[3]	3	<-60	>+100	-9	5	To achieve target profit	Direct	None
RACT	5	uniform	uniform	0	5	Deterioration in experience	Direct	None
Royal & Sun Alliance	2	0	10	-1	4	Change in sum insured	Direct	None
Suncorp-Metway	-2	-50	>+50	0	0	Change in portfolio	None	None
Suncorp-Metway	8	-50	>+50	0	9	Deterioration in experience	None	None
Zurich	2	0	20	na	na	Not Specified	None	None
Average	3							

1. Allianz, Combined Contents/Other
2. NRMA, NSW only.
3. QBE MM, this is Houseowners/Householders - Contents, Houseowners/Householders - Other, and Other

Similar pricing techniques have been developed for this class as for Domestic Motor and Commercial Motor Vehicles with the volume of information enabling sophisticated statistical analysis of the claims data and examination of the key drivers of risk. A discussion of the reason for the large range in premium movements is contained in Section 7.2.8 on Domestic Motor Vehicle below.

The following lists some of the typical risk rating factors used by insurers in their analysis:

- Post code
- Type of Construction
- Sum Insured
- Owner Occupied or Rental.

Houseowners/Householders - Contents insurance has witnessed low increases in premium when compared to increases in other classes. The reasons given by insurers for the premium increases include deterioration in claims experience and an increase in catastrophe reinsurance.

Analysis conducted on published APRA data suggests that the profitability of this class has been Moderate, recording underwriting profits in recent years. Accordingly, there is little pressure to alter premium rates for Houseowners/Householders. The APRA data also reveals some cost pressure arising from a 50 percent increase in the cost of reinsurance between 1999 and 2000.

Table 7.4 summaries the responses for Houseowners/Householders - Other

Table 7.4 – Houseowners/Householders - Other

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
AAMI	0	Provided	Provided	-2	2	Not specified	None	None
ALLIANZ	6	<-35	>35	0	4	Increased Cat Reinsurance	None	None
AMP	0	-25	25	0	1	Change in portfolio.E	None	None
CGU	3	0	15	2	4	Change in portfolio	Direct	None
FORTIS	0	0	0	0	0	No rate change	Direct	None
NRMA	-1	<-30	>30	3	14	Reinsurance premiums	Direct	None
RACV	9	<-30	>30	-2	17	Rating factor adjustments	Direct	None
QBE-MM	3	<-60	>+100	-9	5	To achieve target profit	Direct	None
RACT	3	uniform	uniform	-	3	Deterioration in experience	Direct	None
RSA	-4	-	10	-1	2	Change in sum insured	Direct	None
SUNCORP	0	-50	>+50	-	-	Change in portfolio	None	None
SUNCORP	3	-50	>+50	-	8	Deterioration in experience	None	None
ZURICH	2	-	20	na	na	Not Specified	None	None
Average	2							

Allianz, Combined Contents/Other
QBE-MM, this is Houseowners/Householders - Contents, Houseowners/Householders - Other, and Other
NRMA, buildings in NSW only.
RACT represents Buildings.

7.2.6 Compulsory Third Party Motor Vehicle

Several insurers exited the CTP market (which is dominated by NSW) when it was realised in 1993/94 that prices had been inadequate to cover losses.

Table 7.5 - Compulsory Third Party Motor Vehicle

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
AAMI	0	na	na	-19	3	Not specified	None	None
Allianz	1	-40	100	-1	4	Not specified	None	None
AMP	1	0	1	0	1	Claim statistics analysis	None	None
NRMA	2	-50	90	0	2	Reclassification of Vehicles	Direct	None
Suncorp-Metway	-2	-2	0	-2	0	Competitive pricing	None	None
Average	0							

NRMA, this is for NSW only

In Queensland the introduction of competitive pricing has seen a slight decline in the average premium charged by Suncorp-Metway. In NSW, premiums are regulated through a 'file and write' system with submissions for approval made to the Motor Accident Authority.

Analysis of this class indicates that the profitability of this class has been High following the correction of NSW premiums in 1994/95, legislative amendments and a reduction in the number of insurers writing this class.

7.2.7 Commercial Motor Vehicle

Commercial Motor covers commercial fleets for the same risks as provided under Domestic Motor Vehicle. Pricing is also conducted along similar lines. The main exception is that significant discounts may be given that can further decrease the moderate level of profitability typically experienced for this class.

Table 7.6 - Commercial Motor Vehicle

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
AAMI	Not written							
Allianz	13	-95	100	-16	59	Not specified	None	None
AMP	12	0	12	0	12	To achieve profitability	None	None
CGU	11	na	na	-3	37	Change in portfolio	Direct	None
Fortis	10	10	10	0	10	Deterioration in experience	Direct	None
NRMA	20	<-30	>30	-6	76	Change in sum insured	Direct	None
QBE MM	-2	<-60	>+100	-42	144	To achieve target profit	Direct	None
Royal & Sun Alliance	-9	0	25	-4	3	Rating factor adjustments	Direct	None
Suncorp-Metway	3	-27	412	-5	11	Deterioration in experience	Direct	None
Zurich	14	11	15	na	na	Not Specified	None	None
Average	8							

NRMA, this is Commercial and Domestic Motor

Commercial Motor Vehicle has seen an increase in average premium of around 8 percent during 2000/01 and has also exhibited a considerable range of premium increases and decreases. A discussion of these changes is contained in the Domestic Motor Vehicle section below.

7.2.8 Domestic Motor Vehicle

This class covers property damage to the owner's vehicle and/or third party property such as other motor cars or damage done by the policyholders vehicle to other property.

This is the largest class by gross written premium with $3.4 billion out of total Premium Revenue reported to APRA in the year to 30 June 2001 of $15.7 billion for Private Sector Direct Underwriters (refer Appendix C.2.9). It is also one of the most competitive as evidenced by the number of insurers writing this business and, until 2000/01, the low return on capital achieved by this class (refer Section 4.3.6).

Sophisticated pricing techniques have been developed for this class. The volume of information, certainly for the larger writers of this business such as NRMA, RACV, Suncorp-Metway, and AAMI, enables sophisticated statistical analysis of the claims data and examination of the drivers of risk. The following lists some of the typical risk rating factors used by insurers in their analysis:

- Age
- Age of Vehicle
- Finance
- Number of Prior Accidents
- Number of Traffic Violations
- Post Code
- Sex
- Sum Insured
- Usage (Private/Commercial)
- Vehicle Category (make and model)

Domestic Motor Vehicle has experienced a similar increase in the average premium between 2000 and 2001 as for Commercial Motor Vehicle of around 8 percent. The principle reasons put forward by insurers for these premium increases include deterioration in claims experience (causing either "refinement" of the rating structure or a total re-rating of risks) and change in risk profile (significant numbers of policyholders change circumstances which affect their premium). The examination of the APRA data supports the contention that historical returns for this class were Low but following the recent re-rating, premium increases and reduction in claim cost for 2000/01, profitability is now considered Moderate.

Table 7.7 - Domestic Motor Vehicle

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
AAMI	1	<0	>40	-4	3	Not specified	None	None
Allianz	9	-35	35	0	9	Not specified	None	None
AMP	7	-25	25	2	10	Claim statistics analysis	None	None
CGU	6	na	na	5	7	Change in portfolio	Direct	None
Fortis	8	6	10	0	10	Deterioration in experience	Direct	None
NRMA	9	<-30	>30	12	19	Rating factor adjustments	Direct	None
QBE MM	4	<-60	>+100	-3	6	To achieve target profit	Direct	None
RACT	3	uniform	uniform	2	3	Deterioration in experience	Direct	None
Royal & Sun Alliance	21	0	25	-4	21	Rating factor adjustments	Direct	None
Suncorp-Metway	1	-50	50	-1	5	Deterioration in experience	None	None
Zurich	2	2	2	na	na	Not Specified	None	None
Average	6							

Fortis varies by State. 8% is an average

NRMA is represented by Comprehensive Car NSW - averages vary across States and policy covers

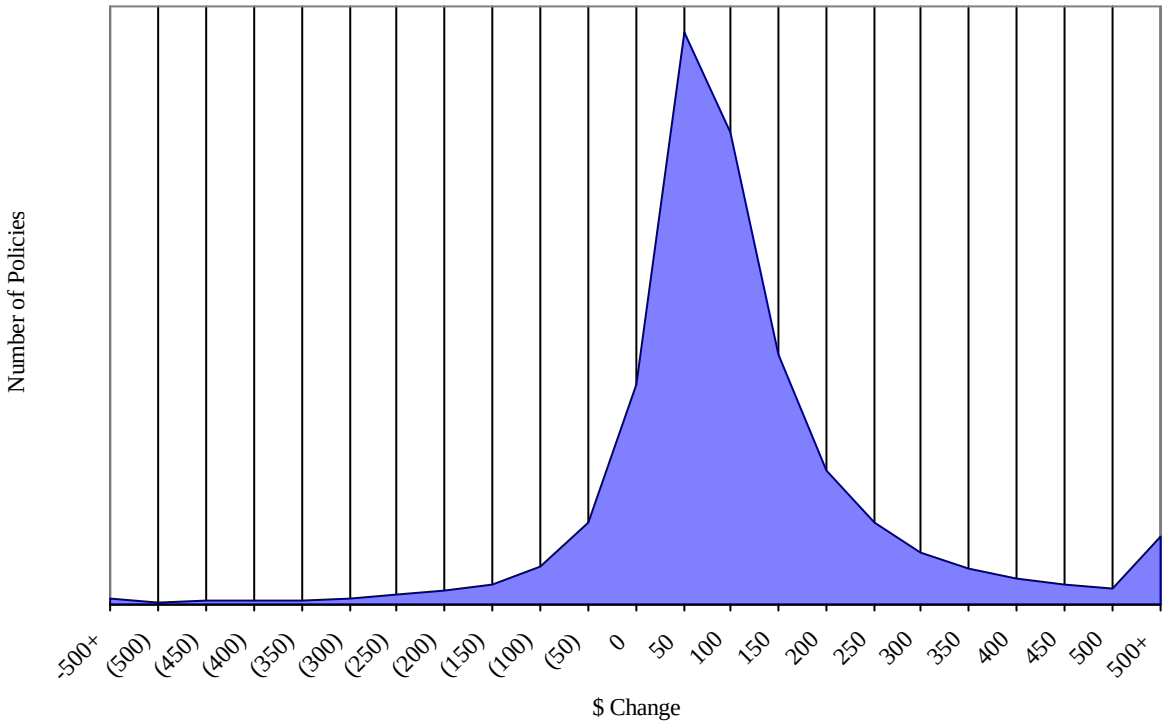
These increases include different mixes of business across States for different insurers. Therefore, some differences in Table 7.7 may simply reflect experience between States.

A common reason put forward by insurers for the increases in average premiums was an increase in the cost of claims (which is supported by the analysis of APRA data).

A feature of this class (which is mirrored in Commercial Motor) is the large *range* of premium increases observed. Several insurers have reported that they have recently undertaken detailed reviews of their portfolios, which is evidenced by the considerable *range* of premium increases within States and also the *average* premium increases reported between States (some States have recorded modest increases or even slight decreases in the average premium for segments of the portfolio while increases for other States, particularly NSW and the ACT, have been substantial).

The large range of premium increases reflects the outcome of introducing new pricing structures. Figure 7.1 is typical of the range of increases in premiums after the introduction of new pricing structures. The chart represents the frequency of premium increases for comprehensive motor insurance for one insurer respondent.

Figure 7.1 – Frequency of Premium Changes



The extreme range of increases shows the extent of the pricing review undertaken. These technical pricing reviews aim to allocate the projected cost of claims according to statistically determined risk factors (refer above). The effectiveness of these systems depends on the accuracy of information available and detail of analysis undertaken.

It is evident that the review illustrated by the results in Figure 7.1, represents a fundamental change to the previous method of rating Domestic Motor Vehicle by that insurer. Several insurers reported similar results.

Figure 7.1 also highlights the impact of re-rating on policyholder premiums. Many policyholders may experience an increase (or a decrease) in premium even though their personal circumstance has not changed.

Examples provided by insurers of the main drivers of the large increases in premiums include theft and cost of imported parts, particularly for some specific models, as well as high claims costs associated with specific regions. Some of the largest increases simply reflect the loss of a no claims bonus (ie the insured has had an accident), which can result in a 50 percent increase in premium.

It is also possible that insurers, in some instances, simply get it wrong and react incorrectly to a temporary deterioration in claims experience or analytical error. In such situations it is unlikely that all insurers will have the same view or may not have the same need to recoup the recent losses, which can be relatively easily tested in the market by seeking alternate quotes.

7.2.9 Marine and Aviation

This is a broad aggregation of policy types that covers own damage to the vessels or craft, third party property damage (including cargo) and personal injury. All companies who submitted responses wrote this business except for AAMI.

Table 7.8 - Marine and Aviation

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	15	-85	100	6	28	Not specified	None	None
AMP	0	0	0	0	0	No rate change	None	None
CGU	5	1	14	na	na	Deterioration in experience	None	None
Fortis	0	0	0	0	0	No rate change	Direct	None
NRMA[1]	-2	<-30	>30	-7	3	Change in portfolio	Direct	None
QBE MM	Not available							
Royal & Sun Alliance	6	0	25	-3	1	Change in sum insured	Direct	None
Suncorp-Metway	-1	-85	480	-54	104	Increased claims frequency	None	None
Zurich	0	0	0	na	na	Not Specified	None	None
Average	3							

1 NRMA represents Boat insurance in NSW
2 Excludes data provided by QBE-MM.

The average reported premium increase between 2000 and 2001 for Marine and Aviation across all insurers is 3 percent. This relatively low increase is consistent with the analysis of the APRA data showing that Marine and Aviation has recorded high underwriting profits for each year since 1995.

Reasons for premium increases specific to Marine and Aviation were not provided. The largest increase was for Allianz who introduced a wide range of increases (similar to that illustrated for Domestic Motor Vehicle in Figure 7.1 above) due to lack of profitability.

7.2.10 Professional Indemnity

Policies in this class provide cover to persons against legal liability for losses caused by professional negligence. Three companies (AAMI, QBE Mercantile Mutual, and NRMA) do not write this business.

Table 7.9 – Professional Indemnity

Insurer	Premium Increase % (a)	Range of Changes % (b)		Month to Month % (c)		Reasons quoted for (a,b,c) (d)	Impact of State Taxes (e)	Impact of HIH (f)
	%	Min	Max	Min	Max			
Allianz	19	-85	100	2	50	Not specified	None	None
AMP	Min increased to $1,000	na	na	na	na	To achieve profitability	None	Minimal
CGU	22	na	na	na	na	Deterioration in experience	None	None
Fortis	10	10	10	0	10	Deterioration in experience	Direct	None
Royal & Sun Alliance	53	0	690	0	13	To achieve profitability	Direct	None
Suncorp-Metway	21	-53	175	-42	61	Deteriorating loss ratios	None	None
Zurich	35	na	na	na	na	Not Specified	None	None
Average	27							

Insurer responses indicted that very large premium increases are expected in this class. The common reason for these increases is the increased cost of claims over recent years. This is consistent with analysis, which shows this class has experienced Very Low returns over the last three years.

The nature of Professional Indemnity is such that the full extent of losses may not be realised for several years. Therefore, it is not possible to comment on whether it is recent experience or the recognition by some insurers of the extent of past losses that has caused the 'deterioration in experience'.

Although gross written premiums have increased for the class in recent years, this growth has been outstripped by growth in the number of policies resulting in a decrease in the average premium per policy. This indicates the potential for further pressure on premiums to emerge.

At 30 June 2000 the HIH Group controlled over one third of industry wide gross written premium; a level that is highly likely to have a considerable impact on pricing in this market. The liquidation of the HIH Group effectively removed a barrier for others to increase premiums.

Insurers indicated that HIH's liquidation had no impact on current premiums. This is consistent with the lead time required to implement new rates. However, rates for this class can be expected to increase as the market absorbs risks previously underwritten by HIH.

7.2.11 Public and Product Liability

Policies in this class provide protection against claims made on the insured by third parties for bodily injury or damage to property for which the insured is legally liable. Cover can include recall of products and breach of warranty. All companies who submitted responses wrote this business except for AAMI.

Insurers reported an average premium increase of 15 percent (refer Table 7.10). The main reason given by insurers' for these premium increases was a general deterioration of claims experience.

Table 7.10 - Public and Product Liability

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	17	- 95	100	- 7	34	Not specified	None	None
AMP[1]	7	-	7	-	7	Deteriorating loss ratios	None	None
CGU	25	na	na	- 42	48	Deterioration in experience	Direct	None
Fortis	10	10	10	-	10	Deterioration in experience	Direct	None
NRMA	12	<-30	>30	- 5	29	Change in sum insured	Direct	None
QBE MM	12	<-60	>+100	- 16	219	To achieve target profit	Direct	None
Royal & Sun Alliance	3	- 87	1,156	- 4	12	To achieve profitability	Direct	None
Suncorp-Metway	21	- 53	175	- 28	46	Deteriorating loss ratios	None	None
Zurich	25	8	100	na	na	Not Specified	None	None
Average	15							

1AMPa reported an average of 15%

The analysis of APRA data shows that the Public and Product Liability class has experienced high combined ratios since 1999. The combined ratios for these years were well in excess of 150 percent. These ratios are considerably higher than those in the early 1990's as Public and Product Liability recorded apparent underwriting profits between 1993 and 1995.

The reported average increases are the industry's response to the Very Low profitability of this class. However, insurers indicated that these increases have been far from uniform, which have also been widely reported in the media. Based on the numerous complaints received by the Commission an examination was undertaken of the drivers for these increases with some of the cases addressed in more detail.

Examples

Complaints were received evidencing three and four fold increases in premiums for Public Liability for small business operators and community/volunteer organisations (eg: shopping centres, tourist operators, sporting clubs and other volunteer groups). Many of these risks are considered by underwriters (along with mining and commercial operations associated with the transport, production and storage of chemicals) to be 'high risk'.

Retail shopping centres are referred to as 'frequency' accounts, which signifies the high number of claims for 'slips and trips' that tend to occur. Trail rides and adventure tourism are characterised by accidents that can occur and which result in serious injury almost regardless of the safety measures implemented. The consequences of these characteristics are considered under the heading cost drivers below.

Cost Drivers

Interviews were undertaken with several insurers and the key drivers identified by insurance company interviewees for recent increases in this class of business are:

- **Community** - increased litigiousness of the general public and heightened awareness of common law rights (this is consistent with observations made in respect of increasing costs in other liability classes).
- **Court Awards** - increased court awards (this is anecdotal but again consistent with general observations of other liability classes).
- **Legal** –several observations were made concerning the impact of increased legal activity as a result of:
  - contingency fees
  - touting for business
  - attention of law firms (particularly when access to common law was removed from Victorian workers compensation legislation in late 1997)
  - increase in prevalence of representative (class) actions
  - general increase in legal costs.
- **Labour Market** – Traditionally, workplace injuries were compensated through statutory workers compensation benefits (Employers Liability). However, during the 1990's there has been a significant trend towards replacements of permanent employees with contract labour. It is apparent that compensation is now being sought at common law against employers who are indemnified through their Public Liability policy.
- **Insurance Market** - Decreased capacity (consolidation in the local and international market of direct writers, reinsurers, and brokers has caused lack of depth in the market and the ability for stockholders to demand higher returns for the risk carried).

Market Impact

The response of the insurance industry to the combined effect of:

- Low returns in the 1990's;
- increased costs (numbers and quantum of damages as well as legal costs);
- contraction of capacity (domestically and internationally); and
- switch in demand by stockholders from "growth" to "profit" targets.

has been to significantly increase premiums for this class.

Contractually, Public & Product Liability is largely written on a 'claims occurring' basis, which results in considerable delays from incident to report. In addition, once a claim is reported there are considerable delays in settlement due to the need to determine liability and quantum. These delays require substantial reserves for claims yet to be reported (IBNR) and yet to be settled.

The pricing of these risks must likewise reflect both the need to recognise the future development of claim costs and the uncertainty associated with current estimates of these costs. However, in interviews, representatives of the industry acknowledged that underwriting of this class has focussed on matching recent levels of cash claim payments (described in Section 5 as 'cash flow' underwriting). This relies on current premiums and investment income being sufficient to meet emerging claim payments.

This approach will ultimately fail if claim costs increase faster than investment returns (which has been the case in this class of business in recent years) or if premium volumes decrease and in the most severe case if premiums cease.

Any lack of sound technical underwriting skills will exacerbate the situation. Evidence that this has been the case is provided by the recent realisation of the extent of losses by several insurers. If previously unrecognised losses are factored into pricing, it can cause premium increases to be greater than otherwise necessary and, in some instances, result in the refusal to provide cover at any price. This tends to mask the actual increase in cost to the community, as the natural response by individuals and organisations is to retain a much higher proportion of the risk in order to mitigate price increases.

The contraction of the market is due to limited capacity for this business within the domestic market (essentially NRMA, QBE Mercantile Mutual, and Suncorp-Metway). This limitation enables global insurers who have also experienced Low returns to dominate premium setting. While the 'correction' may be short term (high rates are expected to lead to increased profitability with the inevitable return of capital and hence price competition), the consequences of extremely high premiums or the inability of organisations to obtain the necessary cover may have a stifling effect on the economy.

7.2.12 Employers' Liability

Each State and Territory in Australia requires employers to indemnify employees in the event of workplace injury. Access to compensation and the quantum varies significantly as do the types of schemes. Workers Compensation is privately underwritten in Western Australia, South Australia, Tasmania, Northern Territory and the Australian Capital Territory.

AAMI, QBE Mercantile Mutual, and Suncorp-Metway indicated that they do not write this business.

Table 7.11 - Employers' Liability

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	2	-95	>100	-24	18	Not specified	None	None
AMP	8	<-25%	>25%	-4	24	To achieve profitability	None	Minimal
CGU	17	na	na	-17	77	Not specified	Direct	None
Fortis	0	0	0	0	0	No rate change	Direct	None
NRMA	2	na	na	-11	29	Policy claims experience	Direct	None
Royal & Sun Alliance	Not applicable	-56	500	na	na	ANZSIC rates	Direct	None
Zurich	15	8	35	na	na	Not Specified	None	None
Average	7							

Insurers reported an average premium increase of 7 percent between 2000 and 2001 for Employers' Liability. The reasons given by insurers for the premium increases include deteriorating claims experience and deteriorating loss ratios. These comments are consistent with the observation that combined ratios for Employer's Liability have been greater than 138 percent for three of the last four years. Analysis of the APRA data indicates that the profitability of this class has been Very Low and is regarded as one of the most unprofitable classes of business since 1993.

Workers Compensation business has proved a difficult class for both the public and private sectors to underwrite. Many jurisdictions (Tasmania, Western Australia, NSW, and to some degree Victoria) have experienced difficulty in balancing the premium and cost equation.

As benefits are legislated, insurers need to compete on service and price. Competition in this market is quite strong as insurers also seek to place other classes of commercial and personal lines through this contact.

Changes to legislated benefits are also difficult to price. Insurers' initial assessment of the required premium rates will be refined as claims experience emerges and it becomes possible to better analyse the true financial impact.

7.2.13 Mortgage

Only one insurer (Royal & Sun Alliance) responded in relation to this class and indicated that rates had not changed. Other insurers either do not write this business or were in the process of disposing of it.

Analysis of APRA data indicates that this class has returned an underwriting profit in each of the last four years.

7.2.14 Consumer Credit

Consumer Credit was written by two insurers (Allianz and Fortis) with increases of 0 percent and 5 percent respectively. Fortis did not state a reason for the premium increase.

Analysis of APRA data indicates that this class has returned an underwriting profit in each of the last three years and, while the economy remains buoyant, little pressure would exist to increase premiums.

7.2.15 Travel

Travel policies provide protection against injury or loss during travel. These can include cancellation costs and repatriation in the event of illness or injury whilst abroad.

This class was only written by NRMA, Royal & Sun Alliance, and Zurich. NRMA had the highest average premium increases, and in their response, cited deteriorating loss ratios as the cause. Other reasons given by insurers for the premium increases include deteriorating loss ratios, an increase in reinsurance, and the devaluation of the Australian dollar.

Table 7.12 - Travel

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
CGU	na	na	na	na	na	Increase in Reinsurance	None	None
NRMA	10	-5	15	0	10	Deteriorating loss ratios	None	None
Royal & Sun Alliance	6	na	na	na	na	Change in portfolio	Direct	None
Zurich	2	-20	20	na	na	Not Specified	None	None
Average	6							

Insurer comments are consistent with the significant increase in loss ratio experienced in the year ended 30 June 2001.

7.2.16 Other Accident

This class represents a broad collection of risks such as burglary, money, glass, fraud or dishonesty, electronic equipment, and machinery breakdown of ‘packaged’ policies. It also includes sickness and accident policies provide benefits (income or lump sum) in the event of accidents resulting in injury or death. AAMI and Zurich did not write this business.

Table 7.13 - Other Accident

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
Allianz	20	-75	100	10	35	No comment	None	None
AMP	3	0	3	0	3	To achieve profitability	None	None
CGU	10			0	37	Change in portfolio	Direct	None
Fortis [1]	10	10	10	0	10	Deterioration in experience	Direct	None
NRMA	13	<-30	>+30	-4	25	Change in sum insured	Direct	None
QBE MM[2]	-29	<-60	>+100	-50	224	To achieve target profit	Direct	None
Royal & Sun Alliance	35	na	na	-4	17	To achieve profitability	Direct	None
Suncorp-Metway	-19	-87	932	77	104	Change in portfolio	None	None
Average	5							

1 5% in SA

2 Other Accident and Other combined

Insurers gave a range of reasons for the wide range of reported premium increases. Reasons included a requirement to achieve profitability, change in portfolio deterioration in claims experience, and changes in sums insured.

Analysis of the APRA data indicates that the profitability of this class had decreased in recent years but made a significant recovery in 2000/01. Assuming that insurers are able to identify the areas of loss and can act to mitigate those losses, then the wide range of premium increases is not surprising given the diverse range of policies and risks included in this class.

Royal & Sun Alliance is the insurer with the largest average premium increase and only made general comments about the difficulty of providing details for this diverse class and the need to achieve profitability, while Allianz made no specific comment on this class.

7.2.17 Other

Other represents a ‘mix’ of all other insurance business not specifically addressed elsewhere. Examples include trade credit, extended warranty, and kidnap and ransom. AAMI, Allianz, AMP, NRMA, Royal & Sun Alliance, and Zurich indicated that they have no business falling into this class.

Table 7.14 - Other

Insurer	Premium Increase %	Range of Changes %		Month to Month %		Reasons quoted for (a,b,c)	Impact of State Taxes	Impact of HIH
	(a)	(b)		(c)		(d)	(e)	(f)
	%	Min	Max	Min	Max			
CGU	4	na	na	na	na	Deteriorating loss ratios	None	None
Fortis	0	na	na	na	na			
QBE MM	-29	<-60	>+100	-50	224	To achieve target profit	Direct	None
Suncorp-Metway	-6	-17	349	-15	11	Good loss ratios	None	None
Average	-8							

QBE MM combined the results for Other Accident and Other

Premiums are reported to have decreased for all insurers except CGU who reported a relatively small increase of 4 percent. Analysis indicates that some components of this class had been generating Very Low returns. This may be reflected in the large range of increases reported by QBE Mercantile Mutual and Suncorp-Metway.

7.2.18 Inward Treaty

No insurer responded in respect of this class, all indicating that they did not write this business.

8 Impact of the Liquidation of the HIH Group

Considerable speculation surrounded the high profile liquidation of the HIH Group and the potential linkage to increases in premiums charged by other insurance companies. This section examines this relationship.

8.1 Background

The HIH Group had a diverse corporate structure that included both local and international companies. Underwriting of Australian insurance business was primarily conducted for the HIH Group by CIC Insurance, World Marine & General Insurance, FAI General Insurance, and HIH Casualty and General Insurance. Three other companies within the group (HIH Underwriting & Insurance (Australia), FAI Traders Insurance, and FAI Reinsurance) also had Australian licenses, however, these companies were not writing business when the HIH Group was placed in provisional liquidation as they were already in run-off.

Out of an industry total of $17.7 billion in gross written premium for the APRA reporting year to 30 June 2000, the HIH Group accounted for $1.65 billion or 9.3 percent. Examination of the decreases in premium revenue and provisions for outstanding claims liability reported to APRA at 30 June 2001 (subsequent to HIH's liquidation) indicates that the major classes underwritten by the HIH Group were CTP, Professional Indemnity and Public & Product Liability.

In June 2001 it was announced that a Royal Commission was to be established to examine the circumstances surrounding the failure of the HIH Insurance Group. This announcement followed the appointment of provisional liquidators (KPMG) on 15 March 2001 to 18 companies (including the seven Australian licensed insurers), which itself followed considerable market speculation and rumour as to the ongoing viability of the HIH Group. The HIH Group was placed in liquidation on 27 August 2001.

A Royal Commission is currently investigating the circumstances surrounding the failure of the HIH Group. The following considers the general impact on the market and consumers.

8.2 Movement Prior to Liquidation

The HIH Group underwent considerable expansion and contraction over the last decade. Some of the larger transactions directly impacting business in Australia include the acquisition of CIC Insurance Group in 1995, Winterthur Swiss' sale of its 51 percent shareholding in 1998, takeover of FAI Insurance in 1998/99, acquisition of World Marine & General Insurance in 1999.

In 2000 Allianz entered into a joint venture with HIH in respect of lines of personal insurances (Householders/Homeowners, Domestic Motor Vehicle, NSW CTP, and some Marine). Early in 2001, HIH announced a joint venture with QBE in respect of commercial insurances. Just prior to the appointment of provisional liquidators, HIH agreed to sell its Workers Compensation portfolio (ACT, NT, Tas, and WA – Workers Compensation is underwritten by public sector schemes in other jurisdictions) to NRMA.

8.3 HIH Market Share

Some impact on premiums in the classes in which HIH had a dominant share could be expected. Table 8.1 shows that the HIH Group, in recent APRA returns, had a significant share (significant has arbitrarily been taken to mean 10 percent) in CTP Motor, Professional Indemnity, Public and Product Liability, Employers Liability, and Other.

Table 8.1 – HIH Market Share by Premium Revenue Inside Australia

Class of business	30-Jun-98	30-Jun-99	30-Jun-00
Fire and ISR	9.9%	9.4%	8.5%
Houseowners/Householders	7.4%	7.5%	8.6%
CTP Motor Vehicle	16.0%	16.4%	19.0%
Commercial Motor Vehicle	11.7%	9.1%	7.2%
Domestic Motor Vehicle	7.2%	7.0%	6.5%
Marine and Aviation	23.9%	25.1%	9.6%
Professional Indemnity	35.6%	33.2%	35.1%
Public and Product Liability	21.9%	16.1%	15.4%
Employers' Liability	6.9%	8.6%	11.8%
Mortgage	0.0%	0.0%	0.0%
Consumer Credit	0.9%	0.6%	0.0%
Travel	27.2%	26.7%	28.5%
Other Accident	13.0%	9.9%	6.7%
Other	9.4%	12.5%	14.3%
Inward Treaty	8.9%	5.1%	2.1%

Since the APRA return for 30 June 1999, the HIH Group's share increased in CTP Motor, Professional Indemnity, Travel and Other but declined significantly in Marine and Aviation (one of the classes with Very High/High returns). Of these classes, Professional Indemnity and Public and Product Liability have experienced Very Low returns; they represented 20 percent of the HIH Group's business throughout this period.

8.4 Insurer Responses

In addition to the information supplied for analysing price increases (refer Section 6 and 7 of this report) insurers were asked to provide details only of the effects the failure of HIH has had so far on their premiums. Most insurers reported that the failure of the HIH Group of companies has had no impact upon any of the classes of business that they write. Instances specifically referred to by the insurers are summarised below.

8.4.1 Workers Compensation - Tasmania

AMP reported that the failure of HIH had an impact on Worker's Compensation in Tasmania, along with the classes of Industrial Special Risks and Professional Indemnity. AMP reported that with respect to Tasmanian Workers Compensation they understood that there would be a levy imposed in order to fund the Tasmanian Nominal Insurer. AMP subsequently increased their rates by 10 percent on 5 May 2001. The Tasmanian government did introduce a special levy in relation to Workers Compensation insurance, however this is effective from 1 July 2002. AMP in turn removed the rate increase on 30 May 2001.

8.4.2 Professional Indemnity and Industrial Special Risks

AMP has also made a general comment upon the effects of the failure of HIH on Professional Indemnity and Industrial Special Risks. They commented that insurers consider Professional Indemnity and ISR risks on an individual basis, and market factors including the failure of HIH are influences on the premiums.

HIH's obvious dominance in the Professional Indemnity and Public & Product Liability markets could trigger premium increases if their competitive pricing had acted to maintain premiums at a low level. However, influence on ISR and Workers Compensation would only by localised given the relatively small share of the market held by HIH.

8.4.3 Settlement Costs

Suncorp-Metway mentioned one possible future effect of the failure of HIH. They considered that there has been no impact on the rating levels being charged at this stage, however, some deterioration in claims costs is anticipated due to claims involving Suncorp-Metway insured's who are co-tortfeasors with defendants insured with HIH. The likely impact of this on bottom line profitability is still being determined.

NRMA also detailed the possible future effects. With respect to CTP in NSW, NRMA will not be able to recover monies that would have been recoverable from HIH when an HIH customer was responsible for a loss involving an NRMA customer. NRMA will estimate the shortfall at the end of the 2001 financial year, and will then have to decide if a premium rate increase is necessary to replace this shortfall.

8.4.4 Pricing Lead Time

NRMA provided a detailed explanation as to why the failure of HIH has no effect *to date* on the premium rates being charged. An example was supplied for CTP in NSW.

> *"The failure of the HIH group of insurance companies had no impact on the premium rates charged for CTP insurance in NSW. Premium rates changes can only be introduced through an actuarial review and a subsequent refiling of rates to the Motor Accidents Authority. This process last occurred in August 2000 for policies written after 5 October 2000, well prior to the failure of the HIH insurance companies".*

The issues raised by Suncorp-Metway and NRMA will be a relatively common concern impacting the liability classes (including CTP). It may be anticipated that loss ratios will increase as the magnitude of this is realised but will not affect rates until liabilities are assessed in the current year and rates reviewed.

8.4.5 Comment

The effect of the liquidation of the HIH Group on premiums is not expected to be realised for some time and will probably lead to a series of increases. The dominant share of the HIH Group in Professional Indemnity and Public & Product Liability would enable competitors to increase premiums if the anecdotal evidence is indeed correct that HIH undercut the market.

It is likely that the failure of the HIH Group acted as a circuit breaker to the obvious Very Low rates of return experienced by these classes that may enable premiums to increase to more sustainable levels. The combination of the HIH Group's failure with the Very Low rates of return may lead to higher increases than either factor in isolation.

8.5 General Impact of the HIH Group Liquidation on the Market

Many insurers remarked that the insolvency of the HIH Group has had little or no effect upon them. Those insurers that have felt an impact have not indicated that it is across the market as a whole, rather that it is specific to individual classes of business. HIH had a large share of Professional Indemnity as well as Public and Product Liability insurance and were charging premiums that have been described as 'unsustainable' by other insurers. Insurers consider that their exit from the market has 'cleared the path' for remaining insurers to increase premiums for these classes.

It must be remembered that although insurers indicated that HIH had no impact on premiums the responses related to current premiums and followed shortly after the liquidation of HIH in which little time had elapsed for insurers to react.

Feedback from insurers through interviews suggest that the collapse of the HIH Group (locally) & Independent (internationally) had two critical effects on the market. The first was to remove domestic capacity for some risks much of which now can only be placed offshore and at higher premiums. The second was the removal of a barrier to increase premiums in some classes thus enabling premiums to set at a level that reflects the underlying risks. As a result the effect of HIH's liquidation on the market is expected to act as a catalyst (or a least another contributing factor) that will act to trigger premium increases.

8.6 Impact of Increased Insurance Premiums

Premiums in recent years for Professional Indemnity Public & Product Liability have produced Very Low returns on capital for insurers. This indicates that policyholders have been enjoying low premiums (compared to the actual risks being insured).

As insurers increase premiums (or withdraw from the market) in reaction to this poor performance, policyholders can expect disproportionately high increases in premiums on renewal. This is because:

- Increases in premium in line with general wage inflation can normally be expected as both insurer operating costs and claims costs (for liability classes) tend to increase with wages;
- The low premium base enjoyed by policyholders in recent years will mean restoration of premiums to an adequate level will result in significant percentage increases;
- Continuing increases in the cost of claims (as illustrated by large court awards – a recent medical malpractice case in NSW settled for approximately $14 million) tend to drive premium increases (for liability classes) at a greater rate than wage inflation;
- Increased reinsurance costs (also from a low base) are expected to flow through to direct premiums as the industry recovers from recent losses;
- Any insurer seeking to recover past losses will further add to the observed percentage premium increase. Competition between insurers will tend to limit the extent this can be done. Overcharging will attract new entrants or insurers with a strong capital base to charge more realistic premiums; and
- Very Low returns may have caused some insurers to withdraw from the market, in addition to HIH. The removal of capacity means that insurers who set premiums at higher levels become more widely utilised, resulting in higher overall market average premiums.

The greatest premium increases can be expected in classes in which insurers have suffered significant losses and have chosen to withdraw from the market. Remaining insurers are left relatively free to set the market. Excessive premiums will ultimately attract other insurers back into the market, however, this may not occur for several years.

Increases in Fire and ISR could be of the order of 10 percent (if insurers seek to restore profitability) up to 30 percent (as reinsurance rates harden). Significantly higher increases could occur for Professional Indemnity and Public & Product Liability classes, the actual increases will depend on the how insurers react to the issues outlined above.

PART C

Consumers and General Insurance

9 Introduction

As a consequence of the Commission's work in preparing this review of the general insurance industry, it received a significant number of queries from individuals, small businesses and community/volunteer organisations. Inquiries and complaints lodged from small business operators and community/volunteer organisations concerned a range of general insurance products. However, of particular concern to these parties was the price and availability of Public Liability insurance. Complaints and inquiries made by individuals related to personal insurance products such as automobile, home and contents and funeral insurance policies.

In response to the number of re-occurring issues raised by consumers, this chapter discusses aspects of the present relationship between insurers and their customers. It is relevant to note that the complaints made to the Commission were not from medium to large businesses; the purchasers of industrial or commercial insurance. In these sectors the consumers are well-informed buyers who generally have the resources and expertise to examine and negotiate in detail over each of the terms and conditions of an insurance contract. It is the consumers that do not have the resources to devote to insurance purchasing matters that have brought issues to the attention of the Commission.

Table 9.1 provides the break down of complaints between personal and business related insurance matters received by the Commission for the period from 7 June 2001 to 31 October 2001.

Table 9.1 – Summary of Complaints

Class	Occurrence	Percentage
	#	%
Personal	312	54
Business	204	35
Others	64	11
Totals	**580**	**100**

All complaints received by the Commission, either by way of its call centre or as written submissions were reviewed. The majority of the complaints involved situations where consumers had experienced a significant premium increase. Consumers also complained where they had contacted the insurer and were dissatisfied with the response they had received or were concerned about the lack of information provided by the insurer on initial receipt of the renewal offer.

The main issue highlighted by the complaints was the poor quality of information provided by insurers to insureds about the reasons for significant increases and the specific changes to the cover purchased.

9.1 Is General Insurance Understood by Consumers?

Insurance is traditionally a system of combining many loss exposures so that all participants share the costs of unexpected losses. It is generally understood that the reason for insuring is to remove from the individual the risk or uncertainty about a possible financial loss. Insurance offers a method to transfer the risk of the financial loss away from the individual.

When insurance is purchased, risk is transferred to an insurer who in return undertakes to reimburse the insured if a specified loss occurs. To determine the price for which the insurer is willing to accept the responsibility to reimburse an individual's potential financial loss, the insurer will estimate the total losses that it expects to incur and its expenses, then charge each policyholder a share of the total in the form of the premiums for the policy.

The insurer is able to price its policies with some accuracy because it is dealing with the total cost of many exposures. Since incremental risk decreases as the number of exposures increases, the result is that policyholders replace the possibility of a relatively large loss with the payment of a much smaller expense, the premium.

This simple description of insurance and the manner in which policies are priced, although understood in a general sense may be for the majority the extent of their appreciation of the industry and the services that it offers.

It is the adequacy of information about the industry, its services currently available to consumers and the basis of setting premiums that appear to be the underlying issues behind the queries that the Commission has received. In the Commission's view, consumers are not primarily interested in being told about the vital role insurance plays in the economy, a point that is often repeated in defence of the industry by participants. Consumers would benefit, however, from being provided with a clear account of:

- their insurer's recent profitability;
- the basis of setting premium charges; and
- the specific reasons why the insurer has increased their premium.

The experience of the Commission in this regard is in part reflected by the latest annual report of the General Insurance Inquiries and Complaints Scheme (IEC). This publication reported that a lack of communication between insurance company or the insurance agent and the consumer forms the basis of 64 percent of all denials of claims and hence disputes[16]. The areas cover claimed events not covered by policy (16 percent), conditions or exclusions relating to the policy (40 percent) and non-disclosure (8 percent).

[16] Insurance Inquiries and Complaints Scheme Annual Review 30 June 2000.

According to the IEC these three categories highlight the need for insurers to improve their sales practices and marketing to better inform their customers. Greater efficiency needs to be achieved in explaining the extent of cover and in what circumstances the policy will provide protection[17].

It should be noted that the role of the IEC does not involve the handling of complaints or inquiries from consumers that are seeking a reappraisal of the price that has been set by a particular insurer for a specific insurance policy. Currently, the only recourse that consumers have with respect to pricing decisions is with their insurer. Insurers though are not obliged to review premiums when questioned by consumers, nor are they required to provide clear and concise explanations of the reasons why they have determined that a particular risk warrants a certain premium.

9.2 What the industry tells consumers about price

The cost drivers in the general insurance industry and the industry's recent profitability were identified in previous chapters. A broad indication of likely price outcomes across the various classes of general insurance business was also provided.

The length of the discussion of the various issues involved and the performance of the different classes of business is indicative of the complexity of pricing insurance policies. In summary, an explanation for a particular pricing outcome or trend is unlikely to be a matter of taking one or two cost factors into account. The final price is a product of a large number of cost factors that are not always immediately quantifiable, readily distinguishable or of the same weight. In addition, the effects of price competition between insurers offering similar insurance services is a further complicating factor in assessing price movements. As discussed in Section 5.5, insurers may be operating with different pricing techniques depending on their particular commercial objectives. Given this complexity there is a considerable amount of effort and care required from insurers when explanations for premium increases are prepared and presented to insureds and the public at large.

Following the collapse of HIH, consumers were provided with a barrage of claims and counter-claims regarding the reasons for insurance premium increases. Media reports at the time were indicative of the information provided to consumers and recounted to the Commission and consumer groups. These explanations were in general limited to the citing of brief reasons for why insurance premiums had increased.

[17] Insurance Enquiries and Complaints Scheme Annual Review 30 June 2000, figures for refusal of claims July 1999 to June 2000.

A number of the explanations that were provided in the period following the collapse of HIH to consumers as to why premiums were being increased are listed below. Where comments were offered in respect to a particular class of business these generally concerned Domestic Motor insurance premiums.

i. *Premiums have gone up because imported part prices are up with the fall of the Aussie dollar. They are up for some manufacturers by up to twenty per cent and that increases our cost of claims, which we have to then reflect in our premiums*[18]*;*

ii. *The cost of reinsurance is up following the April '99 hailstorm*[19]*;*

iii. *Car theft is up over ten per cent on average across the State (NSW)*[20]*;*

iv. *We're collecting on average around about $70 from each policy just to cover the cost of theft*[21]*;*

v. *Labour rates have obviously gone up*[22]*; and*

vi. *We are putting in place a more of an individual risk rating model. So that good policyholders don't subsidise those who have lots of claims*[23].

The performance of the general insurance industry was also referred to as contributing to general insurance premium increases, the comments included:

i. *The whole general insurance industry has been unprofitable. Last year we made a $1.8 billion loss in underwriting across the industry. So it has been historically a very unprofitable industry*[24]*;*

ii. *Between 1997 and 2000, global reinsurance rates were driven down to unsustainably low levels which are no longer available*[25]*;*

iii. *All insurance companies are feeling the same cost pressures that we are and I'm sure they're adjusting their premiums in different ways, because we have different rating models and different rating factors, different ways of doing it*[26]*;*

iv. *The Australian general insurance industry has for years been characterised by over capacity and too many competitors. As a result, the return to equity in the industry has been around five per cent, which is well short of capital costs*[27]*; and*

[18] ABC 702 2BL, 07/06/2001, S00004166575
[19] ABC 702 2BL, 07/06/2001, S00004166575
[20] ABC 702 2BL, 07/06/2001, S00004166575
[21] 2SM, 07/06/2001, S00004167908
[22] A Current Affair, Channel 9, 07/06/2001, M00004172555
[23] 2SM, 07/06/2001, S00004167908
[24] ABC 702 2BL, 07/06/2001, S00004166575
[25] Business Sunday, Channel 9, 27 May 2001, S00004074174
[26] ABC 702 2BL, 07/06/2001, S00004166575
[27] Business Sunday, Channel 9, S00004074174

v. Over the last two or three years, a lot of insurance companies haven't made much money out of the insurance business itself. They've lived off their investment income[28].

The majority of the comments listed above are consistent with the information presented in this report. However, these general statements even with an understanding of the industry provide little by way of a clear and structured account to the individual as to why their particular premiums have increased by more than the rate of inflation.

Of considerable concern to the Commission are those comments that do not accurately or fully reflect the true position of the industry.

The remark that the April 1999 hailstorms will have had the consequence of increasing *reinsurance* rates is not accepted to be the case given the international nature of the reinsurance market and the relative small size of Australia's insurance market. The broad claim that the industry is historically very unprofitable is a comment that without any further explanation or qualifications, since there are certain classes of insurance that have been extremely profitable (e.g. Mortgage, Consumer Credit), is one that is not consistent with the analysis of the industry provided in this review. The fact that such comments generally go unchallenged or require a more comprehensive explanation only further serves to indicate that the awareness of the public is limited in regards to how the insurance industry prices its services.

The case study below is indicative of a number of complaints made to the Commission where the insured found it difficult to get a 'straight answer' on why such a significant premium increase occurred.

Case Study

Type: Car

A female car insurance policy holder in Victoria contacted her insurer after receiving a policy renewal letter in which her premium had risen quite substantially. She has never submitted any claims and had not changed any policy particulars. This individual first spoke with a car insurance call centre operator who agreed that given the particular circumstances, the increase seemed unreasonably high. Nonetheless the car insurance call centre operator was unable to offer any explanations for the increase and instead offered to discuss the situation with her manager.

However, after discussing the situation with her manager, the call centre operator did not provide any explanations and instead offered to decrease the premium by $40. Angered by this, the consumer then contacted the manager directly and was told that the reasons for the increase were "because all other Mazdas must have put in an increased number of claims".

[28] A Current Affair, Channel 9, M00004172555

9.3 Recommendations Regarding Pricing Information

The Commission makes several recommendations to the general insurance industry intended to assist consumers assess whether premiums being offered are acceptable.

A. Increases to the previous policy's premium should be clearly explained when policies are offered for renewal. This could be achieved by a note summarising what premium was paid last year, whether coverage is extended or proscribed and what other factors, such as risk rating factors, have been reassessed so as to cause a change in premium;

B. The industry should provide consumers at large with general premium trend data for the various classes of insurance, and comprehensible explanations outlining the influence of the major cost drivers on premiums. The absence of publicly available premium information does not promote consumers general level of awareness or confidence in the general insurance industry; and

C. Insurers should improve their premium complaints and query handling systems to enable consumers to contest premium assessments and access detailed explanations for specific increases.

9.4 An Information Asymmetry – General Insurance Policies

The second significant area of consumer concern brought to the Commission's attention was the difficulty consumers face in accessing adequate information regarding the extent of the cover that they had paid for. This is corroborated by the IEC report, which states that 64 percent of disputes between consumers and the insurer relate to inadequate explanations of the extent of cover and the circumstances in which the insurance policy will provide protection.

An information asymmetry refers to a situation where, despite the presence of competition amongst suppliers in a given market, such as Home and Contents insurance, Domestic Motor insurance etc, consumers of the service are unable to adequately determine the fundamental value of the service offered.

When a consumer is unable to understand and compare the particulars of a specific good or service they are denied some of the advantages that competition usually provides. Without the information being presented in a manner that is easily comprehensible consumers are unable to utilise their resources in the most efficient manner given their particular requirements.

Specific information asymmetry problems that retard the level of competition between like insurance policies offered by different insurers have been outlined in a recent paper in the Australian Business Law Review[29] by Julie-Anne Tarr. These are summarised as follows,

i. The vast variety and heterogeneity of policy terms to be found in any one given area of insurance;

ii. The presence of unexpected and idiosyncratic terms, conditions or exclusions in policies;

iii. Consumer ignorance of the nature and extent of cover obtainable in any given area of the insurance market.

9.5 Terminology and Conditions

The Australian Law Reform Commission (ALRC) in its 1982 review of the insurance field emphasised that when consideration is being given to the terms and conditions of individual insurance policies the contractual nature of the relationship between insurer and insured remains. This however, as stressed in the ALRC's review, should not be considered as a sufficient reason for preventing a balance being struck between the legitimate business interests of the insurer to define and hence offer cover on commercially feasible terms and the rights of the consumer to obtain a policy that is comprehensible. Where the opportunity for a clear understanding of the policy is hindered by complex conditions the consumer is at a significant disadvantage.

The relevant legislation requiring fair and reasonable disclosure in policies is the *Insurance Contracts Act 1984*. The Act places the onus on the insurer to clearly inform new policyholders of what their cover includes or excludes and also requires insurers to clearly inform existing policyholders of any changes to their policies. The *Insurance Contracts Act 1984* is not a prescriptive regime, something that may be counter to the best interest of both parties. However, it does set out some of the expectations of the community in relation to policy wording and construction. These are essentially to be provided with a service that is presented in such a manner that it affords the individual the opportunity to exercise, where sufficient competition exists, the option to determine the subjective value of the product and its competitors.

Presently, consumers have to search through some home policies to discover whether they are covered for new-for-old replacement or indemnity. Some policies pay for fusion and claim that they do not depreciate, but then claim the insured must contribute a percentage to the cost of replacement depending on age of the motor (this is no different to depreciation). Some policies do not cover landslip, others say it has to be the result of an earthquake within 48 or 72 hours of the earthquake occurring. There are many fine print differences between the policies and each has a different wording and way of presenting the information.

[29] Julie-Anne Tarr, "Disclosure under the Prescribed Insurance Contracts Regime: Section 35 of the Insurance Contracts Act 1984 and Consumer Protection Revisited", Australian Business Law Review 29 (3) June 2001 pp198-210

Where the industry continues to define events in different ways, draft exclusions in different and often confusing language, and use different terminology to describe similar situations, it will be difficult for consumers to compare policies and as such this presents a serious impediment to competition.

The divergence in policy terminology and cover has been highlighted in the Australian Consumers' Association 1998 and 2001 reviews of Home Building and Contents insurance[30]. These surveys highlight the disparity between types of policies available for these risks with not all policies surveyed offering coverage for those events most commonly claimed.

The introduction of more consistent terminology is also likely to be beneficial for those insurers that can provide a competitive product. A more consistent, and where feasible, simplified language for like policies across the industry readdresses the comparative disadvantage that the majority of insureds find themselves at. Consumers generally lack the time or the ability to critically examine a selection of different policies to determine which one best suits their particular requirements. Consequently, in an environment where policies are more easily understood those insurers who offer 'better' products are likely to attract more business.

The second advantage that would accrue to insurers through the use of more common terminology and clearly explained conditions is that their policyholders are more likely to understand the extent of the cover they have purchased and the legal relationship that they have entered into with the insurer. A better understanding of the policy that has been contracted will in turn reduce the potential for disputation (a costly exercise in itself) and the subsequent loss of goodwill.

The Commission acknowledges that there is a limit to the extent to which terms and conditions can or should be standardised and simplified. The nature of insurance does at times require the use of technical wording in the drafting of certain policies without which the insurer may significantly increase the potential for the insurer to be subjected to risks that the product was not designed or costed to include.

The Commission is aware that agreements between insurers on standardised policy terms and conditions may facilitate certain anti-competitive behaviour and stifle pro-consumer outcomes. The OECD in commenting on agreements related to standardised policy terms and conditions cited the following issues of concern[31]:

i. These agreements may support successful collusion on price;

[30] The surveys are reported in the ACA's *Choice* magazine November 1998 and September 2001 issues.

[31] OECD, (1998), "Competition and Related Regulation Issues in the Insurance Industry", The Committee on Competition Law and Policy, December 1998.

ii. These agreements may restrict product variety available to consumers limiting the choice of a product that is more closely suited to their needs; and

iii. Standardisation may restrict innovation. By limiting deviation from established standards consumers may be forced to forego the benefits of innovative new products employing a completely different approach.

However, the OECD also recognised that the drawbacks that may arise could be offset by:

i. Not binding insurers to the use of standardised contracts (perhaps with the requirement on insurers who choose not to offer standard contracts to disclose this fact to the consumer); and

ii. Applying standardisation to only some part of the overall insurance contract.

9.6 Recommendations on Terminology and Conditions

The Commission makes several suggestions for consideration by the general insurance industry.

A. Insurance contracts in each class and policy area sought by consumers, small business and community organisations should contain on the front page of policies a standard checklist that would use generic terms for each type of insurance cover.

B. Increase where practicable the use of standard terms across policies.

C. Utilise large font, direct and plain English disclosure (supported by consumer testing of policy documents by companies) of the extent of any exclusions, with practical examples to highlight impacts (eg “if your house catches fire in X situation, or you are robbed by Y, we will seek not to cover your claim” etc).

Just as the Commission supports any attempts to promote transparency in the flow of information between insurer and insured, the Commission also believes that insureds should be provided with information in a timely manner. Although the notion of good faith is extremely broad, the Commission believes that it should include the assumption that insurance companies do not allow there to be any unreasonable delays in providing an insured with explanations.

Glossary

The following contains a brief description of common terms used in the insurance industry and that appear in this report. It is not intended to form a complete list of terminology used by the general insurance industry.

Term/Phrase	Meaning
Bonus/Malus	A premium reward (bonus) or penalty (malus) attaching to the renewal premium. The level of the extra premium or discount depends on the level of insurance claims made in previous year(s).
Case Estimates	An estimate of total payments expected to be made in respect of claims already reported to the insurer.
Claims Expense	Cost of claims. In accounting terms it is calculated as total payments in the year plus the change in provisions for the outstanding claims liability over the year.
Claims Made	Insurance policies which cover claims that are *notified* in the year of cover (typically used for Medical Malpractice and other Professional Indemnity classes).
Claims Occurring	Insurance policies which cover claims that *occur* in the year of cover.
Combined Ratio	The sum of the loss ratio and expense ratio.
Earned Premium	Written Premium plus change in provision for Unearned Premiums. This represents premiums actually earned in respect of risk exposures during the year.
Expense Ratio	Operating expenses divided by earned premium.
IBNER	Incurred But Not Enough Reported. Reserves held in addition to an insurer's case estimates in the event that case estimates are considered insufficient to meet future payments for know claims.
IBNR	Incurred But Not Reported. Claims that have already been incurred but have not yet been reported to the insurer.
Insurance Profit	Underwriting Profit plus allocated investment income.
Long tail	Classes of business that have claims reported and paid over many years such as Employers Liability, Product & Public Liability and Professional Indemnity.
Loss Ratio	Claims Expense divided by earned premium.
Outstanding Claims Liability	Balance sheet provision held to meet future payments for known claims and IBNR claims.
Profit Signature	The pattern of profits expected to emerge over time from a block of business.
Rating Factor	Factors which determine the level of premium an insured must pay (e.g. vehicle category, age of driver for car insurance). Typically they are based on factors consider to influence the underlying risk being underwritten.
Return on Capital	Insurance Profit/Benchmark Capital.
Return on Equity	Profit divided by net assets or shareholders' funds.

Risk-free	An investment with a zero percent default risk (typically represented by government bonds).
Run-off	Refers to a book closed to new business (eg HIH, New Cap Re, GIO Re).
Segment	Specific elements of the insurance market targeted by insurers.
Shareholder Capital	Capital supplied by shareholders to support the business – a detailed definition is set out in the new APRA guidelines.
Short Tail	Classes of business which have claims reported quickly and generally paid quickly such as Motor, Houseowners/Householders, etc.
Technical Reserves	Provisions held to support the claims yet to be paid (Outstanding Claims Liability) and unearned premiums (Unearned Premium Reserve).
Underwriting Profit	Earned Premium less operating expenses less Claims Expense.
Unearned Premium	Premiums received before the balance date but which relate to risks after that date.
Written Premium	Premiums written in the financial year. Some of this premium relates to risk exposures in subsequent year(s).

Bibliography

ACA, *Choice Magazine*, November 1998 and September 2001 issues.

AON Risk Services, *"2001 Insurance Market Overview"* report, 2001.

Australian Bureau of Statistics (ABS), *Consumer Price Index (CPI) Bulletins cat 6401.0*, (various editions, from 1986 to 2000).

Australian Prudential Regulation Authority ,*"Selected Statistics of the General Insurance Authority"*, June 1993 to 2001.

Brigstock C., Johnston K. and Watson B., (1999) *"What is a General Insurer Worth*", Institute of Actuaries of Australia, XIIth General Insurance Seminar.

Carpenter G., (2000) *"The World Catastrophe Reinsurance Market 2000"* report.

Hart D. G., Buchanan R. A. and Howe B. A, (1996, 5th edition) *"Actuarial Practice of General Insurance"*, Institute of Actuaries of Australia, Sydney

Insurance Inquiries and Complaints Scheme, *"Annual Review"*, 30 June 2000.

McCarthy P. and Trahair G., (1999) *"Lack of Industry Profitability and Other Stories"*, Institute of Actuaries of Australia, Eleventh General Insurance Seminar.

Marsh (2001), *"2001 Insurance Market Review and Forecast"* report.

OECD, *"Competition and Related Regulation Issues in the Insurance Industry"*, The Committee on Competition Law and Policy., December 1998.

Scott A. G., (1999) *"National Flood Insurance Program"*, Institute of Actuaries of Australia, Eleventh General Insurance Seminar.

Tarr, Julie-Anne., *"Disclosure under the Prescribed Insurance Contracts Regime: Section 35 of the Insurance Contracts Act 1984 and Consumer Protection Revisited"*, Australian Business Law Review 29 (3) June 2001, pp. 198-210.

Taylor G., *"Underwriting Cycles"*., A Coopers & Lybrand Report, Coopers & Lybrand, Sydney.

Australian Competition and Consumer Commission

Insurance Industry Market Pricing Review

APPENDICES

March 2002

A Description of Regulatory Bodies

This appendix briefly describes the roles of the main Commonwealth government bodies involved in the regulation of the financial services sector.

A.1 Role of the Australian Competition and Consumer Commission

The Commission seeks to improve competition and efficiency in markets, foster adherence to fair trading practices in well informed markets, promote competitive pricing wherever possible and restrain price rises in markets where competition is less than effective. It is particularly concerned to foster a fair and competitive operating environment for small business.

The Australian Competition and Consumer Commission is an independent statutory authority. Its formation in 1995 was an important step in the implementation of the national competition policy reform program agreed to by the Council of Australian Governments.

The Commission administers the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983* and has major responsibilities under other legislation. The objective of the Trade Practices Act is to enhance the welfare of Australians through the promotion of competition and fair trading and protection of consumers.

The Commission is the only national agency dealing generally with competition matters and the only agency responsible for enforcing the Trade Practices Act and associated State and Territory legislation. The Commission applies the Trade Practices Act's competition provisions to all Australian businesses, including government enterprises and unincorporated entities, through the Competition Code.

The Commission can examine prices to promote competitive pricing and to restrain price rises in markets where competition is less than effective.

A.2 Role of the Australian Securities and Investments Commission

The Australian Securities and Investments Commission (ASIC) is an independent Commonwealth government body established by the Australian Securities and Investments Commission Act 1989. It began on 1 January 1991 as the Australian Securities Commission, to administer the Corporations Law. It replaced the National Companies and Securities Commission (NCSC) and the Corporate Affairs offices of the States and Territories. In July 1998 it received new consumer protection responsibilities and its current name.

ASIC is one of three Commonwealth government bodies, along with APRA and the Australian Taxation Office, that regulate financial services. Its responsibilities encompasses the protection of investors, superannuants, depositors and insurance policy holders, the regulation and enforcement of laws that promote honesty and fairness in financial markets, products and services and in Australian companies.

The consumer protection responsibilities of ASIC that are particularly relevant to general insurance regulation include:

- consumer disclosure requirements including disclosure of terms and conditions (including exclusions), disclosure of premiums and other fees, disclosure of risks, and the disclosure of complaints handling arrangements. This includes disclosure in the paper-based form or on the web or through telephone sales;
- dispute resolution procedures;
- oversight and approval of the operation of codes of conduct and the operation of the Insurance Enquiries and Complaints Scheme; and
- the conduct of sales representatives, including their disclosure obligations and training requirements. This includes telesales staff as well as brokers and agents.

ASIC's consumer protection capacity has been further enhanced with the recently passed Financial Services Reform legislation which sets out a range of new consumer protection requirements in relation to both disclosure and conduct for the financial services sector, including the insurance industry.

A.3 Role of the Australian Prudential Regulation Authority

The Australian Prudential Regulation Authority (APRA) was established on 1 July 1998. It is responsible for the prudential regulation of banks, life insurers, general insurers, superannuation funds, building societies, credit unions and friendly societies. APRA is fully funded by the industries that it supervises.

The following legislation governs the extent to which APRA is involved in the regulation of insurers:

- *Australian Prudential Regulation Authority Act 1998* – allows APRA to undertake the prudential supervision of deposit taking institutions, life and general insurance companies and superannuation funds;
- *Insurance Act 1973;* and
- *Insurance Acquisitions and Takeovers Act 1991*.

A.3.1 Insurance Act 1974

Insurers are currently governed by the *Insurance Industry Act 1974*. In order to write insurance business in Australia, private sector insurers must be incorporated under the *Corporations Act 1989* and be authorised under the *Insurance Act 1973*.

The insurer needs to be granted an authority to carry on insurance business by the Commissioner, which involves fulfilling the following financial criteria:

- The company must have a paid up capital of not less than $2,000,000;
- If the company is incorporated in Australia, the value of its assets must exceed its liabilities by not less than $2,000,000; and
- The value of the company's assets in Australia must exceed its liabilities by not less than $2,000,000.

Statistics used in this report have been derived from published APRA (available from 1996/97) and ISC (available from 1992/93) statistics. As a result our analysis primarily relates to the period from 1992/93 to 2000/01. Where required other sources have been referenced for periods prior to 1992/93.

A.3.2 APRA Review

APRA recently implemented new Prudential Standards for general insurance companies. These new standards significantly change the prudential framework of the industry. These changes include:

- The raising of the minimal capital requirement, which is to come into effect on 1 July 2002. In certain circumstances APRA may approve an insurer's proposal to raise the additional capital required over time but no later than June 2004.

- The Liability Valuation Standard will see a new standard set for the reporting of insurance liabilities. The insurance liability will be set at the 75th percentile of the range of possible outcomes.
- The appointment of a valuation actuary to provide the board of each company with advice on the valuation of insurance liabilities in accordance with the new Liability Valuation Standard.

For the industry as a whole, required minimum capital, which is one important part of any supervisory system will increase by around 50 per cent. Most insurers are expected to be able to meet the new higher requirements when they come into effect in July 2002 without having to raise additional capital. However, a number of very small insurers are not expected to meet the new minimum requirements immediately. APRA will determine a timetable for these companies.

A.4 Role of the Insurance Enquiries and Complaints Scheme

The General Insurance Enquiries and Complaints Scheme is a national scheme developed by the Insurance Council of Australia (ICA) to handle enquiries and complaints and to resolve claims disputes which come within the Terms of Reference of the Scheme.

The Scheme, which began operations in December 1993, is approved by the Australian Securities and Investments Commission (ASIC) in accordance with ASIC Policy Statement 139 *"Approval of external complaints resolution schemes"*.

The scheme operates on two tier system. At the first tier level Consumer Consultants provide advice in relation to enquiries and assistance in encouraging resolution of by promoting conciliation between claimants and insurance companies.

If a claims dispute falling within the scope of the Terms of Reference of the Scheme remains unresolved following an insurer's Internal Dispute Resolution process (IDR) or review, it can be referred to the second tier of the Scheme. At this tier a Panel, Referee or Adjudicator offers claimants the facility of an impartial and authoritative alternative to litigation. An Adjudicator can make binding determinations on participating insurers for amounts not exceeding $3,000 and by a Panel or Referee for amounts not exceeding $120,000. A Panel or Referee may also make recommendations, for an amount greater than $120,000 but not exceeding $290,000.

Claimants are not bound by any Panel, Referee or Adjudicator determination and retain their rights to legal action or other forms of redress in the event of being dissatisfied with a determination.

These dispute-handling arrangements have been put into place essentially for the benefit of claimants who are natural persons, not corporations. This restriction is intended to exclude large commercial concerns, which could be expected to have the resources to pursue disputes by other means. Small Business organisations as defined may refer disputes to the Scheme.

The Scheme also allows consumers, who are natural persons and who are seeking to make a claim in relation to motor vehicle property damage against an insured or against a person to whom a policy of insurance extends, to have access. The claim is limited to an amount not exceeding $3,000.

All participating insurers sign an Agreement signifying their compliance with the Terms of Reference, including the procedures to be followed to resolve disputes within the periods set down in the Terms of Reference. The Agreement also means that insurers undertake to comply with the binding determinations, of an Adjudicator for amounts not exceeding $3,000 and of a Panel or Referee to the $120,000 limit outlined above.

B Components of Profit

Total profit of an insurance company is derived from two main sources; investment income on shareholders' funds and insurance profit. Insurance profit is derived from underwriting but is not directly disclosed in financial statements. Insurance profit consists of the underwriting profit *plus* investment income attributable to the assets supporting the insurance operations.

In this appendix each component of profit is described together with the process for allocating investment income between shareholders' funds and the insurance business. It also summarises the main components of the accounting standard that drives profit reporting and disclosure to APRA.

B.1 Underwriting profit

Underwriting profit is equal to earned premium, less incurred claims and expenses, as shown in the insurer's accounts. Both earned premium and incurred claims allow for movement in the technical provisions. These technical provisions are established in respect of premiums relating to cover after the balance date (unearned premium reserve B.4.1) and claims incurred before the balance date but not paid (outstanding claim liabilities B.4.2). These reserves are the primary source of investment revenue supporting insurance profit.

B.2 Investment income

Investment income is the investment return from all sources, as shown in the insurer's accounts. As indicated above, investment income can be thought of as coming from two different sources.

The first source of investment income is that earned on the capital supporting the general insurance company. This consists of initial capital subscribed, other capital raisings and retained profits.

The second source of involvement income is that earned on the insurers' technical reserves. The largest of these are the provisions for outstanding claims and the unearned premium reserve.

B.3 Accounting Standards (AASB 1026)

For all balance dates after 30 June 1992, annual returns for general insurance business that are filed under the Corporations Act follow the guidelines set out in accounting standard AASB1023 (private sector) and AAS26 (public sector) with respect to the financial reporting of general insurance business.

Broadly these accounting standards require assets marked to market with a consistent approach to valuing liabilities. Introduction of these standards sparked considerable debate as to their appropriateness; debate which still continues in some quarters.

B.3.1 Definition of premiums

Premiums are generally considered to include levies and charges but do not include Stamp Duty. Premium is earned from the date that risk is attached to that premium and is then earned in accordance with the pattern of risk. Typically, this is calculated in proportion to days of policy cover but some classes have an unusual exposure patterns (eg Consumer Credit) requiring a different approach.

APRA statistics up to 30 June 2000 are all prior to the introduction of The New Tax System ("TNTS"). Statistics in the 30 June 2001 APRA report are understood to be inclusive of GST.

B.3.2 Outstanding claims liabilities

Outstanding claims liabilities are recorded as the discounted present values of expected future payments. The expected payments include IBNR (incurred but not reported) claims, future payments on claims already notified and management expenses associated with those claims.

Future payments are discounted using a rate described in the relevant Accounting Standard as a "market determined, risk adjusted rate of return". Disclosure requirements include the undiscounted claims amount, the reported outstanding claims liability and the average weighted expected term to settlement from the balance date of the claims.

Average claim inflation and discount rates for the year after the balance date and all subsequent years are also shown, as well as claims expense split into current and prior years.

B.3.3 Deferred acquisition costs

Deferred acquisition costs are reported in accounts as assets and are amortised over the financial years in which the expenses incurred will benefit the insurer. Deferred acquisition costs include commission or brokerage fees paid to intermediaries, selling, administrative and premium collection costs associated with writing new policies or renewal business. The amount that may be deferred is limited by the accounting standard so that anticipated claim costs on the unearned business plus deferred acquisition costs do not exceed the total of unearned premiums.

B.3.4 Reinsurance

The premiums that are paid for reinsurance (i.e. outwards reinsurance premiums) are considered an outwards reinsurance expense. Inwards reinsurance and retrocession expenses are subject to the same accounting procedures as premium revenue. Reinsurance claims reserves and other recoveries are accounted for when they can be reliably measured.

B.3.5 Investment Income

Investment income consists of dividend and interest payments as well as both actual capital gains made on the sale of assets and the unrealised capital gains on assets according to market valuation.

B.3.6 Expenses

Management expenses are split up into "Other Underwriting Expenses" which refer to expenses that are related to the underwriting result and "General and Administration Expenses".

B.3.7 Prudential Margins

Many insurers hold a provision in excess of the central estimate of the outstanding claims liability in order to increase the probability that they ultimately prove adequate. APRA statistics do not disclose the level of these margins. In this report we have assumed that on average a 10 percent prudential margin is included in insurers' provisions.

B.3.8 Discount Rate

Accounting standard AASB1023 states that "The discount rate or rates to be used in measuring the present value of the expected future payments shall be the rate or rates of return that the insurer anticipates it could earn if sufficient funds were available to meet claims liabilities as they fall due. The discount rate or rates shall be determined by reference to market-determined risk-adjusted rates of return appropriate to the insurer."

This is interpreted by insurers in many ways ranging from a conservative view in which the yield on Commonwealth Government used raised to a more optimistic return, which capitalises all future investment profit. The use of yields from Government Securities is considered by much of the industry to be conservative and a more usual practice is to use the risk-free rate of return plus 1 percent.

B.4 Tax Ruling IT 2663

Tax ruling IT 2663 sets out a set of taxation rules that addresses the basis for claiming a tax deduction for certain liabilities.

B.4.1 Unearned premium provisions

Provisions for unearned premium may be created by a general insurance company and effectively defers premium income until a later year of income. The Commissioner of Taxation recommends the use of the "365ths" or "daily" basis (pro-rating the earning of premiums over two accounting years based on days of cover) to calculate the unearned premium provision at the end of the year. If an insurer wishes to use another method of calculating the unearned premium provision it must be justified. The premium income that is allowed to be deferred is the net premium income, after deducting acquisition costs and tax deductible reinsurance.

B.4.2 Outstanding claim provisions

Insurers are allowed to make a deduction in respect to provisions established to meet outstanding claims, including claims that are IBNR. The Commissioner states in IT 2663 that the provision for outstanding claims should include notified claims and IBNR claims, the costs of litigation, the costs of investigation, assessment and settlement, future investment earnings, reinsurance recoveries, and other recoveries. The inclusion of 'future' means that the outstanding claims provision should also take full account of both inflation and super-imposed inflation. An allowance is also made in IT 2663 for the uncertainty present in the outstanding claim provision by allowing a prudential margin to be included in the provision.

B.5 APRA's New Prudential Standards

In 2001 APRA introduced new regulatory controls for general insurance companies that become effective on 1 July 2002. These prudential standards are contained in:

- GPS 110 Capital Adequacy (sets out the Minimum Capital Requirement (MCR) for general insurance companies)
- GPS 120 Assets in Australia (describes when assets will be counted in Australia as required for Section 28 of the *Insurance Act 1973* and capital adequacy for foreign insurers in GPS 110)
- GPS 210 Liability Valuation (principles for the measurement and reporting of insurance liabilities)
- GPS 220 Risk Management (provides guidance on the sound and prudent management an insurer)
- GPS 230 Reinsurance Arrangement (expectations for reinsurance to ensure an insurer has a High likelihood of meeting its obligations)
- GPS 410 Transfer and Amalgamation of Insurance Business (requirements for transferring or amalgamating insurance business)

These prudential standards are supported by extensive Guidance Notes, which provide greater detail of how the prudential standards are to be interpreted and implemented.

GPS 110 sets out a 'prescribed' basis for determining the minimum capital required by an insurer. This prudential standard effectively increased the level of capital required to support insurance business. The analysis conducted for this report applies the new minimum capital requirements when determining the return on capital for the various classes examined (refer Section 4). The approach for allocating capital to each class is outlined in Appendix B.6 below.

B.6 Allocation of Capital and Investment Income

Insurance Profit is the sum of the underwriting profit and investment income attributable to the business. The level of investment income attributable to the business will include the returns on technical provisions and allocated capital.

Although technical provisions are reported to APRA and hence known, capital supporting insurance business, until recently, has been ill defined. For the purposes of this review capital has been allocated to each class by applying the Minimum Capital Requirement (MCR) guidelines in APRA's new prudential standard (GPS 100).

It should be noted that this approach produces a minimum capital allocation. Insurers will actually hold a higher level of capital. Higher capital will weight the return on capital result towards actual investment earnings; effectively diluting the effect of a good underwriting result. In essence the higher the level of capital held the more an insurance company behaves like an investment company.

The MCR guidelines contain three three parts, the Insurance Risk Capital Charge, Investment Risk Capital Charge, and the Concentration Risk Capital Charge. These are described below.

B.6.1 Insurance Risk Capital Charge (APRA GGN 110.3)

Insurance Risk Capital Charge consists of the *Outstanding Claims Risk* and the *Premium Liability Risk.*

- *Outstanding Claims Capital Charge* is determined by multiplying the net outstanding claims liability for each class of business by the specified *Outstanding Claims Risk Capital Factor* for that class of business.

  The outstanding claims risk capital factors are reproduced in Table B.1.

Table B.1 – Outstanding Claims Risk Capital Factors

Class of Business	Outstanding Claims Risk Capital Factor
Householders Commercial Motor Domestic Motor Travel	9%
Fire and ISR Consumer Credit Mortgage Other Accident Other	11%
CTP Public and Product Liability Professional Indemnity Employers Liability	15%

1 Source: Table 1 - APRA guidance note GGN 110.3-3

- *Premium Liability Risk Capital Charge* is calculated as the Premium Liability (assumed to be the unearned premium reserve) multiplied by the Premium Liability Risk Capital Factor for that class of business, which are reproduced in Table B.2.

Table B.2 – Premiums Liability Risk Capital Factors

Class of Business	Premiums Liability Risk Capital Factor
Householders Commercial Motor Domestic Motor Travel	13.5%
Fire and ISR Consumer Credit Mortgage Other Accident Other	16.5%
CTP Public and Product Liability Professional Indemnity Employers Liability	22.5%

2 Source: Table 1 - APRA guidance note GGN 110.3-3

3 The capital factors for premium liability risk are 1.5 times the capital factors for outstanding claims risk.

For the purpose of the analysis capital is allocated to each class each year by applying the factors in Tables B.1 and B.2 to total reported provisions for outstanding claims liability and unearned premium.

B.6.2 Investment Risk Capital Charge (APRA GGN 110.4)

The *Investment Risk Capital Charge* is in response to the risk of adverse movements in the value of the insurer's assets and/or off-balance sheet exposures. The Investment Risk Capital Charge is calculated as a percentage (Investment Capital Factor) of the value of investments held in specified asset classes. These investment capital factors range from 0.5 percent for debt obligations of the Commonwealth Government though to 12 percent for direct holdings of real estate and up to 100 percent for unsecured loans to employees. Goodwill and other intangibles do not attract a capital charge as they do not count towards Tier 1 capital.

For the purpose of the analysis the Investment Risk Capital Charge is calculated for the whole industry by applying the Investment Capital Factors to reported assets values for each class for business in Australia. The total Investment Capital Charge Risk was then apportioned to the insurance classes in proportion to technical reserves. These calculations are shown in Appendix C.6.

An *Investment Concentration Charge* applies to the risk arising from excessive exposure to a particular asset. Holdings in excess of the specified thresholds are subject to an Investment Capital Factor of 100 percent. The standard Investment Capital Factor applies to the holding below the thresholds.

It is not possible to assess the level of Investment Concentration Charge that may apply to insurers and so is not included in the capital allocation in the analysis.

B.6.3 Concentration Risk Capital Charge (APRA GGN 110.5)

The Concentration Risk Capital Charge responds to the aggregation of insured losses. The capital is designed to cover risks associated with having a large number of policies in the same geographic area that can be adversely affected by a single catastrophic event. The concentration risk has the greatest impact on Fire & ISR, Commercial Motor and Domestic Motor. The Concentration Risk Capital Charge is calculated with reference to an insurer's Maximum Event Retention (MER).

Details of insurers MER are not available. Instead, figures provided by APRA from the industry 'road test' indicate that, out of the 53 insurers who participated, Concentration Risk Capital Charge represented 8.9 percent of the total MCR. Based on discussions with participants in the 'road test' this converts to a 200 percent loading of Fire and ISR and 150 percent for Commercial and Domestic Motor. These loadings are somewhat subjective but should provide a reasonable allocation and illustrate the movement and the absolute return on capital that would have been achieved under the new regulatory environment.

B.6.4 Allocation of Investment Income

In the analysis investment income is allocated to each class by crediting 6 percent to average technical provision and allocated capital. The rate of 6 percent has been adopted for all years as a benchmark rate that could reasonably be expected (consistent with the yield on 10 year government bonds in recent years).

Investment earnings tend to be volatile and would distort the return on capital in some years. Therefore, a fixed rate was allocated rather than actual investment earnings as the objective is to illustrate the contribution of underwriting to the overall result.

C Insurance Industry Statistics and Analysis

This appendix contains industry data used in our analysis. All figures relate to direct private underwriters unless otherwise specified.

Appendix C.1 contains aggregate statistics extracted from the regulators.

Appendix C.2 reproduces key statistics from the regulators.

Appendix C.3 contains calculations of average premiums.

Appendix C.4 summarises loss ratios and combined ratios by class

Appendix C.5 details the calculation of return on capital

Appendix C.6 allocates benchmark capital based on APRA's new Prudential Standards

Appendix C.7 calculated the Investment Risk Capital Charge

Appendix C.8 lists major catastrophes greater than US$25 million

Information from 1992/93 to 1996/97 comes from ISC Data. The data for years 1997/98 to 1999/00 is APRA Data. The ISC Data uses 22 different classes of business. The APRA Data uses 15 different classes of business. Some of the classes of business identified in the ISC Data have been combined to match the APRA Data.

Table C.1 below outlines the combining of classes. The classes that have been combined are:

- Industrial Special Risks and Fire have combined to produce Fire and Industrial Special Risks
- Marine Hull, Marine Cargo and Aviation have combined to produce Marine Aviation
- Product Liability and Public Liability have combined to produce Public and Product Liability
- Trade Credit, Consumer Credit, Extended Warranty have combined to produce Consumer Credit, Other and Construction have become Other.

Table C.1 – Insurance Class Mapping

ISC Classes	APRA Classes
Industrial Special Risks Fire	Fire and Industrial Special Risks
Houseowners/Householders	Houseowners/Householders
CTP Motor Vehicle	CTP Motor Vehicle
Commercial Motor Vehicle	Commercial Motor Vehicle
Domestic Motor Vehicle	Domestic Motor Vehicle
Marine Hull Marine Cargo Aviation	Marine and Aviation
Professional Indemnity	Professional Indemnity
Product Liability Public Liability	Product and Public Liability
Employers' Liability	Employers' Liability
Loan, Mortgage & Lease	Mortgage
Trade Credit Consumer Credit Extended Warranty	Consumer Credit
Sickness and Accident Travel	Other Accident Travel
Other Construction	Other
Inward Reinsurance	Inward Treaty

Appendix C.1.1 Return on Investments

Private Sector - Direct Underwriters

Year (ending 30 June)	Investment Return ($m)
1993	1,217
1994	1,331
1995	659
1996	1,962
1997	2,746
1998	2,034
1999	2,144
2000	2,081
2001	2,221

Notes:

1. ISC statistics for years ending 30 June 1993 to 30 June 1997
2. APRA statistics for years ending 30 June 1998 to 30 June 2001

Appendix C.1.2 Solvency (Old APRA Basis)

All Business written inside Australia

Year ending 30 June

	1997	1998	1999	2000	2001
	($m)	($m)	($m)	($m)	($m)
Total Assets	43,287	47,746	49,881	53,147	50,909
less Total Liabilities	31,597	34,906	36,967	40,325	38,354
Net Assets	11,690	12,840	12,913	12,822	12,554
less Adjustments	4,283	2,817	2,684	1,917	2,103
Adjusted Net Assets	7,407	10,023	10,229	10,905	10,452
less solvency margin					
20% of premium income	1,428	1,944	2,640	1,411	1,594
15% of OCP	1,883	1,050	2,528	2,150	1,904
$2 million	114	144	326	132	132
	3,435	3,138	5,494	3,693	3,629
Solvency Surplus	3,973	6,885	4,735	7,212	6,822
Solvency Surplus/Net Assets	34%	54%	37%	56%	54%

Notes:
1. ISC statistics for years ending 30 June 1993 to 30 June 1997
2. APRA statistics for years ending 30 June 1998 to 30 June 2001

Appendix C.1.3 Return on Equity

Private Sector - Direct Underwriters

		Year Ending 30 June								
		1993	1994	1995	1996	1997	1998	1,999	2000	2,001
Net Profit After Tax	($m)	397	471	- 77	650	1,673	676	405	384	1,041
Total Assets	($m)	22,484	25,613	27,945	30,335	36,970	40,563	42,043	44,648	42,580
Net Assets	($m)	6,389	6,774	6,687	7,469	9,187	9,865	10,105	10,596	10,349
Return on Equity		6.7%	7.2%	-1.1%	9.2%	20.1%	7.1%	4.1%	3.7%	9.9%

Notes:

1. Return on equity = net profit after tax / average net assets held over the year
2. Return on equity calculation for years ending 30 June 1996 and 1997 do not agree with APRA statistics, but has a similar order of magnitude
3. ISC statistics for years ending 30 June 1993 to 30 June 1997
4. APRA statistics for years ending 30 June 1998 to 30 June 2001

Appendix C.2.1 ISC Data For 12 months ending 30 June 1993

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums	Direct Policies ued or Renewed during the year less Lapsed, Cancelled or Terminated	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	964,750	407,587	557,164	664,728	275,411	389,317	290,147	-122,301	336,072	1,073,400	675	69.9%	52.1%	122.0%	1,591
Houseowners/Householders	1,278,513	256,963	1,021,551	730,200	79,591	650,609	447,204	-76,262	291,761	1,392,509	6,646	63.7%	43.8%	107.5%	210
CTP Motor Vehicle	893,715	82,024	811,691	816,440	154,747	661,693	176,326	-26,329	2,532,653	851,069	3,939	81.5%	21.7%	103.2%	216
Commercial Motor Vehicle	713,025	100,195	612,830	595,279	108,196	487,083	121,766	3,981	152,186	716,862	513	79.5%	19.9%	99.4%	1,398
Domestic Motor Vehicle	2,193,878	281,989	1,911,889	1,998,569	439,200	1,559,368	448,686	-96,165	319,834	2,306,613	6,363	81.6%	23.5%	105.0%	363
Marine and Aviation	311,979	111,255	200,724	233,157	71,715	161,442	59,888	-20,606	149,452	331,328	208	80.4%	29.8%	110.3%	1,596
Professional Indemnity	253,782	78,161	175,621	270,091	94,523	175,568	49,253	-49,200	499,266	285,069	44	100.0%	28.0%	128.0%	6,411
Public and Product Liability	527,278	103,357	423,921	309,367	26,249	283,118	122,580	18,223	1,205,628	554,801	1,227	66.8%	28.9%	95.7%	452
Employers' Liability	258,997	14,915	244,082	389,934	91,107	298,827	42,946	-97,692	1,258,735	275,085	89	122.4%	17.6%	140.0%	3,083
Mortgage	32,952	3,110	29,842	43,144	18,820	24,325	12,382	-6,865	29,088	50,753	65	81.5%	41.5%	123.0%	784
Consumer Credit	167,136	37,217	129,919	83,632	23,330	60,302	60,974	8,643	48,508	180,154	275	46.4%	46.9%	93.3%	655
Travel	87,758	16,286	71,472	63,367	10,828	52,539	26,896	-7,963	22,824	93,052	427	73.5%	37.6%	111.1%	218
Other Accident	177,092	24,194	152,898	100,080	8,109	91,971	62,823	-1,896	65,402	179,907	441	60.2%	41.1%	101.2%	408
Other	428,739	94,390	334,350	334,104	124,419	209,685	114,782	9,883	228,157	449,056	891	62.7%	34.3%	97.0%	504
Inward Treaty	0	0	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%	0
TOTAL	8,289,596	1,611,642	6,677,954	6,632,092	1,526,245	5,105,846	2,036,655	-464,548	7,139,564	8,739,658	21,803	76.5%	30.5%	107.0%	401

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.2 ISC Data For 12 months ending 30 June 1994

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums	Direct Policies ued or Renewed during the year less Lapsed, Cancelled or Terminated	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,118,936	528,362	590,574	433,589	177,641	255,948	315,932	18,694	260,099	1,189,423	620	43.3%	53.5%	96.8%	1,919
Houseowners/Householders	1,420,219	352,607	1,067,612	795,395	96,187	699,208	503,855	-135,451	300,831	1,507,721	6,429	65.5%	47.2%	112.7%	235
CTP Motor Vehicle	847,142	109,999	737,143	747,967	80,103	667,864	181,631	-112,352	2,578,664	900,169	3,872	90.6%	24.6%	115.2%	232
Commercial Motor Vehicle	661,032	83,304	577,728	524,043	98,409	425,634	122,073	30,021	124,466	665,252	469	73.7%	21.1%	94.8%	1,418
Domestic Motor Vehicle	2,352,192	285,890	2,066,302	2,253,720	475,967	1,777,753	508,589	-220,040	325,766	2,475,596	5,909	86.0%	24.6%	110.6%	419
Marine and Aviation	344,889	129,536	215,353	237,299	79,730	157,569	61,840	-4,056	222,979	351,117	227	73.2%	28.7%	101.9%	1,544
Professional Indemnity	289,284	104,682	184,602	299,033	120,532	178,501	45,576	-39,475	475,518	306,719	46	96.7%	24.7%	121.4%	6,638
Public and Product Liability	599,044	123,908	475,136	405,818	68,939	336,879	132,439	5,818	1,335,592	630,820	1,188	70.9%	27.9%	98.8%	531
Employers' Liability	1,111,882	727,532	384,350	918,237	463,566	454,671	45,174	-115,495	1,216,193	1,303,932	312	118.3%	11.8%	130.0%	4,173
Mortgage	43,568	14,445	29,123	25,009	8,528	16,481	7,728	4,914	19,256	113,516	83	56.6%	26.5%	83.1%	1,360
Consumer Credit	138,586	34,036	104,550	53,342	11,123	42,219	46,492	15,839	41,325	149,142	186	40.4%	44.5%	84.9%	804
Travel	96,854	16,178	80,676	62,794	12,641	50,153	34,231	-3,708	22,946	103,180	691	62.2%	42.4%	104.6%	149
Other Accident	186,373	22,907	163,466	117,629	12,357	105,272	64,966	-6,772	93,959	188,377	304	64.4%	39.7%	104.1%	620
Other	434,997	107,315	327,682	297,294	58,522	238,772	108,369	-19,459	202,604	473,061	967	72.9%	33.1%	105.9%	489
Inward Treaty	47,772	438	47,334	24,507	51,116	-26,609	8,953	64,990	60,126	48,320	0	-56.2%	18.9%	-37.3%	0
TOTAL	9,692,770	2,641,139	7,051,631	7,195,676	1,815,361	5,380,315	2,187,848	-516,532	7,280,324	10,406,345	21,304	76.3%	31.0%	107.3%	488

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.3 ISC Data For 12 months ending 30 June 1995

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums	Direct Policies ued or Renewed during the year less Lapsed, Cancelled or Terminated	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,302,504	574,877	727,627	597,665	267,810	329,855	344,096	53,676	256,799	1,333,709	995	45.3%	47.3%	92.6%	1,340
Houseowners/Householders	1,793,063	378,228	1,414,835	1,010,657	99,270	911,387	584,266	-80,818	378,923	1,893,703	8,616	64.4%	41.3%	105.7%	220
CTP Motor Vehicle	967,927	88,367	879,560	1,429,546	166,932	1,262,614	174,440	-557,494	3,250,024	1,045,108	4,672	143.6%	19.8%	163.4%	224
Commercial Motor Vehicle	773,580	93,048	680,532	701,021	143,718	557,303	147,533	-24,304	146,600	827,105	684	81.9%	21.7%	103.6%	1,210
Domestic Motor Vehicle	2,704,351	273,001	2,431,350	2,649,934	542,076	2,107,858	498,010	-174,518	377,400	2,795,249	7,154	86.7%	20.5%	107.2%	391
Marine and Aviation	397,997	118,326	279,671	212,403	45,368	167,035	79,982	32,654	158,121	408,733	290	59.7%	28.6%	88.3%	1,412
Professional Indemnity	365,750	124,502	241,248	294,854	75,998	218,856	51,755	-29,363	660,713	388,056	54	90.7%	21.5%	112.2%	7,188
Public and Product Liability	700,388	128,882	571,506	472,977	91,744	381,233	168,988	21,285	1,432,384	728,184	2,234	66.7%	29.6%	96.3%	326
Employers' Liability	1,374,890	909,203	465,687	1,353,229	804,434	548,795	39,963	-123,071	1,429,492	1,405,790	380	117.8%	8.6%	126.4%	3,695
Mortgage	67,485	19,703	47,782	11,073	1,342	9,731	17,461	20,590	16,078	85,485	82	20.4%	36.5%	56.9%	1,046
Consumer Credit	195,950	31,079	164,871	85,813	15,781	70,032	80,249	14,590	49,129	223,532	382	42.5%	48.7%	91.2%	586
Travel	148,011	17,688	130,323	83,242	10,869	72,373	59,931	-1,981	27,225	153,043	1,036	55.5%	46.0%	101.5%	148
Other Accident	208,712	17,385	191,327	119,733	10,767	108,966	70,159	12,202	94,359	213,402	732	57.0%	36.7%	93.6%	291
Other	619,735	145,706	474,029	321,611	111,178	210,433	144,833	118,763	211,985	651,655	1,127	44.4%	30.6%	74.9%	578
Inward Treaty	43,153	3,602	39,551	12,807	1,894	10,913	4,922	23,716	60,484	49,475	0	27.6%	12.4%	40.0%	0
TOTAL	11,663,496	2,923,597	8,739,899	9,356,565	2,389,181	6,967,384	2,466,588	-694,073	8,549,716	12,202,229	28,437	79.7%	28.2%	107.9%	429

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.4 ISC Data For 12 months ending 30 June 1996

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums	Direct Policies ued or Renewed during the year less Lapsed, Cancelled or Terminated	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,302,019	557,898	744,121	550,197	200,217	349,980	324,601	69,540	269,768	1,322,582	812	47.0%	43.6%	90.7%	1,628
Houseowners/Householders	1,921,131	358,975	1,562,156	1,014,988	77,765	937,223	617,473	7,460	410,550	1,970,656	8,333	60.0%	39.5%	99.5%	236
CTP Motor Vehicle	1,177,730	111,935	1,065,795	1,803,535	296,476	1,507,059	177,877	-619,141	3,986,173	1,388,373	4,314	141.4%	16.7%	158.1%	322
Commercial Motor Vehicle	859,848	90,547	769,301	769,101	123,117	645,984	159,887	-36,570	167,204	866,924	908	84.0%	20.8%	104.8%	955
Domestic Motor Vehicle	2,859,277	262,285	2,596,992	2,905,516	581,259	2,324,257	533,454	-260,719	442,768	2,927,405	7,045	89.5%	20.5%	110.0%	416
Marine and Aviation	412,520	111,655	300,865	254,240	66,759	187,481	89,765	23,619	178,684	440,034	282	62.3%	29.8%	92.1%	1,561
Professional Indemnity	380,897	135,569	245,328	311,010	153,153	157,857	63,410	24,061	682,286	397,055	53	64.3%	25.8%	90.2%	7,485
Public and Product Liability	744,445	132,935	611,510	565,867	76,793	489,074	178,127	-55,691	1,549,144	776,955	1,689	80.0%	29.1%	109.1%	460
Employers' Liability	1,384,443	919,526	464,917	1,638,426	1,094,939	543,487	66,764	-145,334	1,341,858	1,399,115	365	116.9%	14.4%	131.3%	3,830
Mortgage	65,468	15,025	50,443	20,602	6,014	14,588	21,346	14,509	20,292	66,787	76	28.9%	42.3%	71.2%	880
Consumer Credit	189,554	33,108	156,446	76,463	10,005	66,458	82,588	7,400	50,488	206,298	310	42.5%	52.8%	95.3%	665
Travel	159,043	19,412	139,631	101,054	11,215	89,839	52,670	-2,878	38,780	164,253	555	64.3%	37.7%	102.1%	296
Other Accident	212,185	16,844	195,341	137,636	11,218	126,418	70,592	-1,669	105,382	214,242	724	64.7%	36.1%	100.9%	296
Other	493,831	103,706	390,125	254,652	155,840	98,812	143,386	147,927	223,474	491,388	982	25.3%	36.8%	62.1%	500
Inward Treaty	26,454	42	26,412	40,028	942	39,086	7,522	-20,196	59,298	26,935	0	148.0%	28.5%	176.5%	0
TOTAL	12,188,845	2,869,462	9,319,383	10,443,315	2,865,712	7,577,603	2,589,462	-847,682	9,526,149	12,659,002	26,449	81.3%	27.8%	109.1%	479

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.5 ISC Data For 12 months ending 30 June 1997

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue	Underwriting Expenses	Underwriting Result	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums	Direct Policies ued or Renewed during the year less Lapsed, Cancelled or Terminated	Loss Ratio	Expense Ratio	Combined Ratio	Average Premium
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(c)-[(f)+(g)]		(i)	(j)	(f)/(c)	(g)/(c)	(k)+(l)	(i)/(j)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)	(k)	(l)	(m)	($)
Fire and Industrial Special Risks	1,318,170	494,429	823,741	630,578	196,006	434,572	364,685	24,484	289,082	1,322,956	852	52.8%	44.3%	97.0%	1,552
Houseowners/Householders	2,118,149	349,679	1,768,470	1,228,347	102,272	1,126,075	662,809	-20,414	490,683	2,184,504	8,957	63.7%	37.5%	101.2%	244
CTP Motor Vehicle	1,858,635	173,930	1,684,705	2,168,986	318,163	1,850,823	255,313	-421,431	5,747,336	2,057,527	5,995	109.9%	15.2%	125.0%	343
Commercial Motor Vehicle	927,596	93,984	833,612	823,117	151,313	671,804	187,293	-25,485	181,064	931,094	742	80.6%	22.5%	103.1%	1,255
Domestic Motor Vehicle	3,193,123	288,387	2,904,736	3,089,572	584,446	2,505,126	602,588	-202,978	457,229	3,320,049	7,940	86.2%	20.7%	107.0%	418
Marine and Aviation	421,234	102,189	319,045	229,180	38,373	190,807	90,597	37,641	205,191	414,055	307	59.8%	28.4%	88.2%	1,348
Professional Indemnity	367,793	130,513	237,280	354,990	144,902	210,088	51,592	-24,400	636,110	382,872	61	88.5%	21.7%	110.3%	6,259
Public and Product Liability	767,910	131,061	636,849	665,341	122,432	542,909	188,314	-94,374	1,616,665	785,072	1,860	85.2%	29.6%	114.8%	422
Employers' Liability	1,475,437	989,092	486,345	2,028,538	1,426,397	602,141	68,796	-184,592	1,691,450	1,489,436	370	123.8%	14.1%	138.0%	4,027
Mortgage	67,791	11,068	56,723	49,673	9,275	40,398	22,455	-6,130	28,187	76,257	92	71.2%	39.6%	110.8%	827
Consumer Credit	221,981	47,779	174,202	104,838	19,994	84,844	83,738	5,620	65,448	206,009	286	48.7%	48.1%	96.8%	721
Travel	158,125	21,199	136,926	91,682	11,507	80,175	51,911	4,840	34,784	156,673	1,437	58.6%	37.9%	96.5%	109
Other Accident	237,190	15,815	221,375	151,157	4,168	146,989	80,510	-6,124	120,015	249,477	773	66.4%	36.4%	102.8%	323
Other	612,840	129,014	483,826	383,307	153,610	229,697	162,257	91,872	259,619	644,520	937	47.5%	33.5%	81.0%	688
Inward Treaty	36,599	6,774	29,825	84,236	3,192	81,044	9,014	-60,233	63,474	45,468	0	271.7%	30.2%	302.0%	0
TOTAL	13,782,573	2,984,913	10,797,660	12,083,542	3,286,050	8,797,492	2,881,872	-881,704	11,886,337	14,265,969	30,610	81%	26.7%	108.2%	466

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.6 APRA Data For 12 months ending 30 June 1998

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums (in accordance with AASB/1023 AAS 26)	Total Number of Policies in Force at Balance Date	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,236,403	459,554	776,849	688,728	284,542	404,186	335,048	37,615	269,014	1,213,170	2,131	52.0%	43.1%	95.2%	569
Houseowners/Householders	2,149,359	305,204	1,844,155	1,081,375	68,413	1,012,962	728,936	102,257	476,593	2,187,734	10,811	54.9%	39.5%	94.5%	202
CTP Motor Vehicle	2,029,966	219,165	1,810,801	2,241,241	384,972	1,856,269	268,629	-314,097	6,172,298	2,144,434	6,485	102.5%	14.8%	117.3%	331
Commercial Motor Vehicle	888,462	91,394	797,068	846,551	174,526	672,025	178,331	-53,288	191,875	908,160	1,158	84.3%	22.4%	106.7%	784
Domestic Motor Vehicle	3,172,087	338,786	2,833,301	3,029,765	676,411	2,353,354	580,192	-100,245	358,683	3,272,386	7,999	83.1%	20.5%	103.5%	409
Marine and Aviation	412,604	92,082	320,522	279,730	69,052	210,678	97,199	12,645	189,748	426,460	356	65.7%	30.3%	96.1%	1,198
Professional Indemnity	482,219	156,611	325,608	501,730	198,459	303,271	75,548	-53,211	825,430	499,374	103	93.1%	23.2%	116.3%	4,848
Public and Product Liability	719,591	121,387	598,204	778,412	171,564	606,848	184,726	-193,370	1,584,772	732,651	2,347	101.4%	30.9%	132.3%	312
Employers' Liability	1,441,376	962,260	479,116	2,051,324	1,400,581	650,743	77,174	-248,801	2,625,244	1,473,296	361	135.8%	16.1%	151.9%	4,081
Mortgage	58,613	7,204	51,409	25,030	4,795	20,235	21,697	9,477	24,580	95,638	237	39.4%	42.2%	81.6%	404
Consumer Credit	88,270	944	87,326	41,445	357	41,088	45,648	590	45,220	115,779	643	47.1%	52.3%	99.3%	180
Travel	164,267	26,785	137,482	106,325	13,269	93,056	44,081	345	28,067	164,076	1,218	67.7%	32.1%	99.7%	135
Other Accident	379,757	53,774	325,983	239,710	40,069	199,641	122,244	4,098	193,352	406,877	1,039	61.2%	37.5%	98.7%	392
Other	428,232	98,760	329,472	273,366	80,204	193,162	131,729	4,581	113,792	455,495	1,557	58.6%	40.0%	98.6%	293
Inward Treaty	801,013	57,532	743,481	662,788	46,136	616,652	176,262	-49,433	673,913	1,018,348	1	82.9%	23.7%	106.6%	1,018,348
TOTAL	14,452,219	2,991,442	11,460,777	12,847,520	3,613,350	9,234,170	3,067,444	-840,837	13,772,581	15,113,878	36,446	80.6%	26.8%	107.3%	415

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.7 APRA Data For 12 months ending 30 June 1999

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums (in accordance with AASB/1023 AAS 26)	Total Number of Policies in Force at Balance Date	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,249,146	425,696	823,450	1,262,354	755,864	506,490	377,349	-60,389	375,562	1,239,791	1,861	61.5%	45.8%	107.3%	666
Houseowners/Householders	2,289,315	333,620	1,955,695	1,583,931	356,359	1,227,572	764,617	-36,494	489,812	2,338,854	7,908	62.8%	39.1%	101.9%	296
CTP Motor Vehicle	2,184,873	290,495	1,894,378	2,000,554	347,171	1,653,383	304,240	-63,245	6,461,943	2,228,539	3,443	87.3%	16.1%	103.3%	647
Commercial Motor Vehicle	963,444	109,746	853,698	970,937	227,151	743,786	192,651	-82,739	208,734	993,144	871	87.1%	22.6%	109.7%	1,140
Domestic Motor Vehicle	3,263,421	394,599	2,868,822	3,457,411	1,031,206	2,426,205	605,504	-162,887	331,468	3,401,784	5,904	84.6%	21.1%	105.7%	576
Marine and Aviation	486,063	116,606	369,457	360,600	106,844	253,756	109,980	5,721	193,374	453,428	262	68.7%	29.8%	98.5%	1,731
Professional Indemnity	542,674	239,006	303,668	604,912	259,764	345,148	88,811	-130,291	919,218	581,993	162	113.7%	29.2%	142.9%	3,593
Public and Product Liability	803,476	196,740	606,736	1,091,669	241,821	849,848	225,193	-468,305	2,091,061	820,127	1,963	140.1%	37.1%	177.2%	418
Employers' Liability	1,126,186	601,007	525,179	1,610,192	967,345	642,847	85,620	-203,288	1,829,434	1,206,015	480	122.4%	16.3%	138.7%	2,513
Mortgage	81,557	21,236	60,321	20,143	5,966	14,177	16,207	29,937	19,564	177,570	11,205	23.5%	26.9%	50.4%	16
Consumer Credit	122,152	2,480	119,672	51,536	574	50,962	42,519	26,191	53,534	124,697	185	42.6%	35.5%	78.1%	674
Travel	183,954	25,643	158,311	137,596	20,783	116,813	49,920	-8,422	30,542	185,101	192	73.8%	31.5%	105.3%	964
Other Accident	540,972	94,689	446,283	359,527	80,935	278,592	168,717	-1,026	217,144	556,815	931	62.4%	37.8%	100.2%	598
Other	439,639	113,974	325,665	315,077	110,959	204,118	119,398	2,149	145,830	465,037	1,341	62.7%	36.7%	99.3%	347
Inward Treaty	795,302	58,720	736,582	697,237	8,175	689,062	138,230	-90,710	804,570	932,786	27	93.5%	18.8%	112.3%	34,548
TOTAL	15,072,182	3,024,265	12,047,917	14,523,680	4,520,920	10,002,759	3,288,961	-1,243,798	14,171,795	15,705,688	36,768	83.0%	27.3%	110.3%	427

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.2.8 APRA Data For 12 months ending 30 June 2000

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense (a)-(b)	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue (d)-(e)	Underwriting Expenses	Underwriting Result (c)-[(f)+(g)]	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums (in accordance with AASB/1023 AAS 26)	Total Number of Policies in Force at Balance Date	Loss Ratio (f)/(c)	Expense Ratio (g)/(c)	Combined Ratio (k)+(l)	Average Premium (i)/(j)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(i)	(j)	(k)	(l)	(m)	(n)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)				($)
Fire and Industrial Special Risks	1,276,898	506,141	770,757	1,480,951	979,820	501,131	347,145	-77,519	354,109	1,193,519	1,197	65.0%	45.0%	110.1%	997
Houseowners/Householders	2,319,814	505,074	1,814,740	1,514,198	424,777	1,089,421	700,718	24,601	460,181	2,330,137	8,066	60.0%	38.6%	98.6%	289
CTP Motor Vehicle	2,075,863	366,769	1,709,094	2,132,703	555,042	1,577,661	321,430	-189,997	6,313,687	2,194,458	6,729	92.3%	18.8%	111.1%	326
Commercial Motor Vehicle	1,148,286	172,705	975,581	968,123	305,840	662,283	208,930	104,368	209,797	1,078,034	866	67.9%	21.4%	89.3%	1,245
Domestic Motor Vehicle	3,384,929	997,279	2,387,650	3,600,001	1,435,546	2,164,455	430,716	-207,521	306,135	3,536,329	9,379	90.7%	18.0%	108.7%	377
Marine and Aviation	374,876	102,695	272,181	256,217	84,955	171,262	80,358	20,561	178,023	383,159	382	62.9%	29.5%	92.4%	1,003
Professional Indemnity	581,901	194,387	387,514	914,016	504,069	409,947	86,787	-109,220	1,131,062	592,155	143	105.8%	22.4%	128.2%	4,141
Public and Product Liability	811,513	154,043	657,470	1,162,394	334,158	828,236	202,501	-373,267	2,396,071	915,535	1,029	126.0%	30.8%	156.8%	890
Employers' Liability	775,868	169,589	606,279	1,058,334	254,866	803,468	83,572	-280,761	1,637,638	905,649	125	132.5%	13.8%	146.3%	7,245
Mortgage	113,147	33,009	80,138	32,070	5,097	26,973	19,286	33,879	13,500	175,905	719	33.7%	24.1%	57.7%	245
Consumer Credit	145,860	3,301	142,559	48,329	1,132	47,197	48,215	47,147	51,966	140,433	2,520	33.1%	33.8%	66.9%	56
Travel	177,803	40,345	137,458	112,248	22,655	89,593	44,998	2,867	37,125	156,747	1,159	65.2%	32.7%	97.9%	135
Other Accident	691,468	138,611	552,857	510,708	135,929	374,779	212,144	-34,066	286,739	748,902	1,411	67.8%	38.4%	106.2%	531
Other	395,253	133,812	261,441	422,413	141,592	280,821	96,429	-115,809	181,162	453,225	1,082	107.4%	36.9%	144.3%	419
Inward Treaty	1,681,048	77,021	1,604,027	1,633,082	385,131	1,247,951	331,073	25,003	1,018,226	2,403,454	3,421	77.8%	20.6%	98.4%	703
TOTAL	15,954,527	3,594,781	12,359,746	15,845,787	5,570,609	10,275,178	3,214,302	-1,129,734	14,575,421	17,207,641	38,228	83.1%	26.0%	109.1%	450

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates
5. Net Claim Expense for Domestic Motor Vehicle (f) is different from that provided in the APRA return.

Appendix C.2.9 APRA Data For 12 months ending 30 June 2001

Private Sector - Direct Underwriters

Class of Business	Premium Revenue	Outwards Reinsurance Expense	Premium Revenue less R/I Expense	Claims Expense	R/I and other Recoveries Revenue	Claims Expense Less Recoveries Revenue	Underwriting Expenses	Underwriting Result	Discounted Provision for Outstanding Claims Net of Reinsurance and Other Recoveries	Total Premiums (in accordance with AASB/1023 AAS 26)	Total Number of Policies in Force at Balance Date	Loss Ratio	Expense Ratio	Combined Ratio	Average Premium
	(a)	(b)	(a)-(b)	(d)	(e)	(d)-(e)	(g)	(c)-[(f)+(g)]		(i)	(j)	(f)/(c)	(g)/(c)	(k)+(j)	(i)/(j)
	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	($'000's)	(000's)	(j)	(k)	(l)	($)
Fire and Industrial Special Risks	1,212,898	492,469	720,429	904,415	471,443	432,972	370,616	-83,159	411,478	1,290,187	2,118	60.1%	51.4%	111.5%	609
Houseowners/Householders	2,200,585	654,393	1,546,192	1,167,876	308,573	859,303	576,465	110,424	494,236	2,228,808	9,111	55.6%	37.3%	92.9%	245
CTP Motor Vehicle	1,635,474	177,874	1,457,600	1,519,350	250,123	1,269,227	212,309	-23,936	5,803,481	1,532,183	5,346	87.1%	14.6%	101.6%	287
Commercial Motor Vehicle	959,368	147,167	812,201	832,848	202,097	630,750	171,714	9,737	189,703	990,497	972	77.7%	21.1%	98.8%	1,019
Domestic Motor Vehicle	3,276,436	1,412,407	1,864,029	3,113,738	1,640,764	1,472,974	345,067	45,988	282,238	3,359,901	8,136	79.0%	18.5%	97.5%	413
Marine and Aviation	330,151	76,534	253,616	337,150	158,002	179,148	78,192	-3,724	175,536	343,271	431	70.6%	30.8%	101.5%	796
Professional Indemnity	363,221	141,075	222,146	308,737	29,188	279,549	73,104	-130,507	916,535	404,507	220	125.8%	32.9%	158.7%	1,839
Public and Product Liability	760,802	295,403	465,399	994,378	411,650	582,728	214,649	-331,978	2,193,299	805,896	2,545	125.2%	46.1%	171.3%	317
Employers' Liability	760,146	51,276	708,870	788,009	91,775	696,234	71,223	-58,587	1,699,700	844,620	165	98.2%	10.0%	108.3%	5,119
Mortgage	168,840	45,824	123,016	30,480	7,421	23,059	19,266	80,691	24,616	300,344	989	18.7%	15.7%	34.4%	304
Consumer Credit	134,001	2,572	131,429	47,634	2,518	45,116	52,601	33,712	51,221	153,797	809	34.3%	40.0%	74.3%	190
Travel	102,941	29,975	72,965	77,921	17,462	60,459	29,332	-16,826	32,377	107,928	386	82.9%	40.2%	123.1%	280
Other Accident	679,425	157,720	521,704	411,442	100,445	310,997	190,848	19,859	274,840	700,090	2,236	59.6%	36.6%	96.2%	313
Other	363,256	188,982	174,273	249,354	158,947	90,407	117,120	-33,254	129,144	399,671	956	51.9%	67.2%	119.1%	418
Inward Treaty	2,239,847	115,522	2,124,325	2,106,981	214,319	1,892,662	459,468	-227,805	1,109,419	2,280,452	3,402	89.1%	21.6%	110.7%	670
TOTAL	15,187,398	3,989,196	11,198,202	12,890,313	4,064,727	8,825,585	2,981,982	-609,365	13,787,824	15,742,156	37,827	78.8%	26.6%	105.4%	416

Notes:

1. Data relates to the direct underwriters from the private sector
2. Data relates to business written inside Australia
3. ISC is the Insurance and Superannuation Commission (predecesors of APRA)
4. APRA returns relate to data at company balance dates

Appendix C.3.1 Premium Growth

Gross Written Premium (reported value)

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
	($m)	($m)	($m)	($m)	($m)	($m)	($m)	($m)	($m)
Fire and Industrial Special Risks	1,073	1,189	1,334	1,323	1,323	1,213	1,240	1,194	1,290
Houseowners/Householders	1,393	1,508	1,894	1,971	2,185	2,188	2,339	2,330	2,229
CTP Motor Vehicle	851	900	1,045	1,388	2,058	2,144	2,229	2,194	1,532
Commercial Motor Vehicle	717	665	827	867	931	908	993	1,078	990
Domestic Motor Vehicle	2,307	2,476	2,795	2,927	3,320	3,272	3,402	3,536	3,360
Marine and Aviation	331	351	409	440	414	426	453	383	343
Professional Indemnity	285	307	388	397	383	499	582	592	405
Product and Liability	555	631	728	777	785	733	820	916	806
Employers' Liability	275	1,304	1,406	1,399	1,489	1,473	1,206	906	845
Mortgage	51	114	85	67	76	96	178	176	300
Consumer Credit	180	149	224	206	206	116	125	140	154
Travel	93	103	153	164	157	164	185	157	108
Other Accident	180	188	213	214	249	407	557	749	700
Other	449	473	652	491	645	455	465	453	400
Inward Treaty	0	48	49	27	45	1,018	933	2,403	2,280
Total	8,740	10,406	12,202	12,659	14,266	15,114	15,706	17,208	15,742

Appendix C.3.2 Premiums (current values)

Gross Written Premiums (current June 2001)

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
	($m)	($m)	($m)	($m)	($m)	($m)	($m)	($m)	($m)
Fire and Industrial Special Risks	1,502	1,615	1,740	1,651	1,590	1,399	1,379	1,285	1,319
Houseowners/Householders	1,949	2,047	2,471	2,460	2,625	2,524	2,602	2,508	2,279
CTP Motor Vehicle	1,191	1,222	1,363	1,733	2,472	2,474	2,479	2,362	1,567
Commercial Motor Vehicle	1,003	903	1,079	1,082	1,119	1,048	1,105	1,161	1,013
Domestic Motor Vehicle	3,228	3,361	3,647	3,654	3,989	3,775	3,785	3,807	3,435
Marine and Aviation	464	477	533	549	497	492	504	412	351
Professional Indemnity	399	416	506	496	460	576	648	637	414
Product and Liability	776	856	950	970	943	845	912	986	824
Employers' Liability	385	1,770	1,834	1,746	1,790	1,700	1,342	975	864
Mortgage	71	154	112	83	92	110	198	189	307
Consumer Credit	252	202	292	257	248	134	139	151	157
Travel	130	140	200	205	188	189	206	169	110
Other Accident	252	256	278	267	300	469	620	806	716
Other	628	642	850	613	774	525	517	488	409
Inward Treaty	0	66	65	34	55	1,175	1,038	2,587	2,332
Total	12,229	14,128	15,919	15,800	17,140	17,435	17,474	18,524	16,096

Appendix C.3.3 Policies in Force

Policies in Force

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Fire and Industrial Special Risks	675	620	995	812	852	2,131	1,861	1,197	2,118
Houseowners/Householders	6,646	6,429	8,616	8,333	8,957	10,811	7,908	8,066	9,111
CTP Motor Vehicle	3,939	3,872	4,672	4,314	5,995	6,485	3,443	6,729	5,346
Commercial Motor Vehicle	513	469	684	908	742	1,158	871	866	972
Domestic Motor Vehicle	6,363	5,909	7,154	7,045	7,940	7,999	5,904	9,379	8,136
Marine and Aviation	208	227	290	282	307	356	262	382	431
Professional Indemnity	44	46	54	53	61	103	162	143	220
Product and Liability	1,227	1,188	2,234	1,689	1,860	2,347	1,963	1,029	2,545
Employers' Liability	89	312	380	365	370	361	480	125	165
Mortgage	65	83	82	76	92	237	11,205	719	989
Consumer Credit	275	186	382	310	286	643	185	2,520	809
Travel	427	691	1,036	555	1,437	1,218	192	1,159	386
Other Accident	441	304	732	724	773	1,039	931	1,411	2,236
Other	891	967	1,127	982	937	1,557	1,341	1,082	956
Inward Treaty	-	-	-	-	-	1	27	3,421	3,402
Total	21,803	21,304	28,437	26,449	30,610	36,446	36,735	38,228	37,827
	0	0	0	0	0	0	0	0	

Appendix C.3.4 Average Premium per Policy

Average Premium per Policy

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
	($)	($)	($)	($)	($)	($)	($)	($)	($)
Fire and Industrial Special Risks	1,591	1,919	1,340	1,628	1,552	569	666	997	609
Houseowners/Householders	210	235	220	236	244	202	296	289	245
CTP Motor Vehicle	216	232	224	322	343	331	647	326	287
Commercial Motor Vehicle	1,398	1,418	1,210	955	1,255	784	1,140	1,245	1,019
Domestic Motor Vehicle	363	419	391	416	418	409	576	377	413
Marine and Aviation	1,596	1,544	1,412	1,561	1,348	1,198	1,731	1,003	796
Professional Indemnity	6,411	6,638	7,188	7,485	6,259	4,848	3,593	4,141	1,839
Product and Liability	452	531	326	460	422	312	418	890	317
Employers' Liability	3,083	4,173	3,695	3,830	4,027	4,081	2,513	7,245	5,119
Mortgage	784	1,360	1,046	880	827	404	16	245	304
Consumer Credit	655	804	586	665	721	180	674	56	190
Travel	218	149	148	296	109	135	964	135	280
Other Accident	408	620	291	296	323	392	598	531	313
Other	504	489	578	500	688	293	347	419	418
Inward Treaty	0	0	0	0	0	0	34,548	703	670
Total	401	488	429	479	466	415	428	450	416
	0	0	0	0	0	0	0	0	

Appendix C.4.1 Net Loss Ratios

Net Loss Ratios

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
Fire and Industrial Special Risks	70%	43%	45%	47%	53%	52%	62%	65%	60%
Houseowners/Householders	64%	65%	64%	60%	64%	55%	63%	60%	56%
CTP Motor Vehicle	82%	91%	144%	141%	110%	103%	87%	92%	87%
Commercial Motor Vehicle	79%	74%	82%	84%	81%	84%	87%	68%	78%
Domestic Motor Vehicle	82%	86%	87%	89%	86%	83%	85%	91%	79%
Marine and Aviation	80%	73%	60%	62%	60%	66%	69%	63%	71%
Professional Indemnity	100%	97%	91%	64%	89%	93%	114%	106%	126%
Public and Product Liability	67%	71%	67%	80%	85%	101%	140%	126%	125%
Employers' Liability	122%	118%	118%	117%	124%	136%	122%	133%	98%
Mortgage	82%	57%	20%	29%	71%	39%	24%	34%	19%
Consumer Credit	46%	40%	42%	42%	49%	47%	43%	33%	34%
Travel	74%	62%	56%	64%	59%	68%	74%	65%	83%
Other Accident	60%	64%	57%	65%	66%	61%	62%	68%	60%
Other	63%	73%	44%	25%	47%	59%	63%	107%	52%
Inward Treaty	0%	-56%	28%	148%	272%	83%	94%	78%	89%
Total	76%	76%	80%	81%	81%	81%	83%	83%	79%

Note: Net loss ratio = claims expense (net of reinsurance and other recoveries) / net earned premium

Appendix C.4.2 Expense Ratios

Expense Ratios

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
Fire and Industrial Special Risks	52%	53%	47%	44%	44%	43%	46%	45%	51%
Houseowners/Householders	44%	47%	41%	40%	37%	40%	39%	39%	37%
CTP Motor Vehicle	22%	25%	20%	17%	15%	15%	16%	19%	15%
Commercial Motor Vehicle	20%	21%	22%	21%	22%	22%	23%	21%	21%
Domestic Motor Vehicle	23%	25%	20%	21%	21%	20%	21%	18%	19%
Marine and Aviation	30%	29%	29%	30%	28%	30%	30%	30%	31%
Professional Indemnity	28%	25%	21%	26%	22%	23%	29%	22%	33%
Public and Product Liability	29%	28%	30%	29%	30%	31%	37%	31%	46%
Employers' Liability	18%	12%	9%	14%	14%	16%	16%	14%	10%
Mortgage	41%	27%	37%	42%	40%	42%	27%	24%	16%
Consumer Credit	47%	44%	49%	53%	48%	52%	36%	34%	40%
Travel	38%	42%	46%	38%	38%	32%	32%	33%	40%
Other Accident	41%	40%	37%	36%	36%	38%	38%	38%	37%
Other	34%	33%	31%	37%	34%	40%	37%	37%	67%
Inward Treaty	0%	19%	12%	28%	30%	24%	19%	21%	22%
Total	30%	31%	28%	28%	27%	27%	27%	26%	27%

Note: Expense ratio = underwriting expense / net earned premium

Appendix C.4.3 Combined Ratios

Combined Ratios

	Year ending June 30								
Class of Business	1993	1994	1995	1996	1997	1998	1999	2000	2001
Fire and Industrial Special Risks	122%	97%	93%	91%	97%	95%	107%	110%	112%
Houseowners/Householders	107%	113%	106%	100%	101%	94%	102%	99%	93%
CTP Motor Vehicle	103%	115%	163%	158%	125%	117%	103%	111%	102%
Commercial Motor Vehicle	99%	95%	104%	105%	103%	107%	110%	89%	99%
Domestic Motor Vehicle	105%	111%	107%	110%	107%	104%	106%	109%	98%
Marine and Aviation	110%	102%	88%	92%	88%	96%	98%	92%	101%
Professional Indemnity	128%	121%	112%	90%	110%	116%	143%	128%	159%
Public and Product Liability	96%	99%	96%	109%	115%	132%	177%	157%	171%
Employers' Liability	140%	130%	126%	131%	138%	152%	139%	146%	108%
Mortgage	123%	83%	57%	71%	111%	82%	50%	58%	34%
Consumer Credit	93%	85%	91%	95%	97%	99%	78%	67%	74%
Travel	111%	105%	102%	102%	96%	100%	105%	98%	123%
Other Accident	101%	104%	94%	101%	103%	99%	100%	106%	96%
Other	97%	106%	75%	62%	81%	99%	99%	144%	119%
Inward Treaty	0%	-37%	40%	176%	302%	107%	112%	98%	111%
Total	107%	107%	108%	109%	108%	107%	110%	109%	105%

Note:

1. Combined ratio = loss ratio + expense ratio
2. The combined ratios in 1996-97 are different from that provided in APRA return but they have the same order of magnitude

Appendix C.5.1 Return on Capital for 12 months ending 30 June 1993

Class of Business	Total Premiums	Benchmark Capital Level[1]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,073,400	408,428	389,692	336,072	498,342	336,072	-122,301	6.0%	(50,990)	-12%
Houseowners/Householders	1,392,509	465,205	613,094	291,761	727,090	291,761	-76,262	6.0%	9,361	2%
CTP Motor Vehicle	851,069	834,219	453,172	2,532,653	410,527	2,532,653	-26,329	6.0%	201,594	24%
Commercial Motor Vehicle	716,862	175,440	330,512	152,186	334,349	152,186	3,981	6.0%	43,584	25%
Domestic Motor Vehicle	2,306,613	503,712	994,567	319,834	1,107,302	319,834	-96,165	6.0%	16,304	3%
Marine and Aviation	331,328	63,523	92,183	149,452	111,531	149,452	-20,606	6.0%	(1,716)	-3%
Professional Indemnity	285,069	169,662	84,570	499,266	115,857	499,266	-49,200	6.0%	(3,051)	-2%
Product and Public Liability	554,801	413,818	240,156	1,205,628	267,679	1,205,628	18,223	6.0%	130,625	32%
Employers' Liability	275,085	372,191	83,805	1,258,735	99,893	1,258,735	-97,692	6.0%	5,675	2%
Mortgage	50,753	28,199	66,395	29,088	84,196	29,088	-6,865	6.0%	1,090	4%
Consumer Credit	180,154	75,821	219,924	48,508	232,942	48,508	8,643	6.0%	29,688	39%
Travel	93,052	8,784	12,931	22,824	18,225	22,824	-7,963	6.0%	(5,132)	-58%
Other Accident	179,907	33,697	63,827	65,402	66,642	65,402	-1,896	6.0%	7,964	24%
Other	449,056	103,651	168,721	228,157	189,038	228,157	9,883	6.0%	40,524	39%
Inward Treaty	0	0	0	0	0	0	0	6.0%	0	0%
Total	8,739,658	3,656,349	3,813,549	7,139,564	4,263,611	7,139,564	-464,548	6.0%	425,522	12%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.2 Return on Capital for 12 months ending 30 June 1994

Class of Business	Total Premiums	Benchmark Capital Level[1]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,189,423	442,151	457,460	336,072	527,947	260,099	18,694	6.0%	92,670	21%
Houseowners/Householders	1,507,721	510,240	653,139	291,761	740,641	300,831	-135,451	6.0%	(45,245)	-9%
CTP Motor Vehicle	900,169	880,533	393,743	2,532,653	446,770	2,578,664	-112,352	6.0%	119,035	14%
Commercial Motor Vehicle	665,252	172,421	307,859	152,186	312,079	124,466	30,021	6.0%	67,264	39%
Domestic Motor Vehicle	2,475,596	573,058	1,082,652	319,834	1,206,056	325,766	-220,040	6.0%	(97,627)	-17%
Marine and Aviation	351,117	78,580	106,454	149,452	112,682	222,979	-4,056	6.0%	18,406	23%
Professional Indemnity	306,719	181,456	108,979	499,266	126,414	475,518	-39,475	6.0%	7,718	4%
Product and Public Liability	630,820	457,098	246,672	1,205,628	278,448	1,335,592	5,818	6.0%	125,234	27%
Employers' Liability	1,303,932	428,967	114,704	1,258,735	306,754	1,216,193	-115,495	6.0%	(2,865)	-1%
Mortgage	113,516	35,166	62,386	29,088	132,334	19,256	4,914	6.0%	14,316	41%
Consumer Credit	149,142	65,266	175,371	48,508	185,927	41,325	15,839	6.0%	33,289	51%
Travel	103,180	10,283	15,807	22,824	22,133	22,946	-3,708	6.0%	(580)	-6%
Other Accident	188,377	39,006	63,805	65,402	65,809	93,959	-6,772	6.0%	4,238	11%
Other	473,061	116,011	191,360	228,157	229,424	202,604	-19,459	6.0%	13,048	11%
Inward Treaty	48,320	12,991	14,130	0	14,678	60,126	64,990	6.0%	68,438	527%
Total	10,406,345	4,003,229	3,994,521	7,139,564	4,708,096	7,280,324	-516,532	6.0%	417,337	10%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.3 Return on Capital for 12 months ending 30 June 1995

			Beginning of Financial Year		End of Financial Year					
Class of Business	Total Premiums	Benchmark Capital Level[1]	Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,333,709	461,478	573,032	260,099	604,237	256,799	53,676	6.0%	132,190	29%
Houseowners/Householders	1,893,703	528,935	554,435	300,831	924,693	378,923	-80,818	6.0%	15,685	3%
CTP Motor Vehicle	1,045,108	972,442	458,032	2,578,664	535,213	3,250,024	-557,494	6.0%	(294,489)	-30%
Commercial Motor Vehicle	827,105	187,945	344,685	124,466	398,210	146,600	-24,304	6.0%	17,392	9%
Domestic Motor Vehicle	2,795,249	616,946	1,250,972	325,766	1,341,870	377,400	-174,518	6.0%	(38,621)	-6%
Marine and Aviation	408,733	80,173	117,574	222,979	128,310	158,121	32,654	6.0%	56,274	70%
Professional Indemnity	388,056	206,076	132,941	475,518	155,247	660,713	-29,363	6.0%	25,734	12%
Product and Public Liability	728,184	490,075	302,916	1,335,592	330,712	1,432,384	21,285	6.0%	152,738	31%
Employers' Liability	1,405,790	477,757	314,098	1,216,193	344,998	1,429,492	-123,071	6.0%	4,738	1%
Mortgage	85,485	51,252	153,930	19,256	171,930	16,078	20,590	6.0%	34,501	67%
Consumer Credit	223,532	84,953	243,364	41,325	270,946	49,129	14,590	6.0%	37,830	45%
Travel	153,043	11,994	23,032	22,946	28,064	27,225	-1,981	6.0%	1,777	15%
Other Accident	213,402	42,193	67,314	93,959	72,004	94,359	12,202	6.0%	24,563	58%
Other	651,655	125,296	249,464	202,604	281,384	211,985	118,763	6.0%	154,644	123%
Inward Treaty	49,475	18,329	5,103	60,126	11,425	60,484	23,716	6.0%	28,930	158%
Total	12,202,229	4,355,847	5,060,510	7,280,324	5,599,243	8,549,716	-694,073	6.0%	361,972	8%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.4 Return on Capital for 12 months ending 30 June 1996

Class of Business	Total Premiums	Benchmark Capital Level[1]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,322,582	471,638	607,958	256,799	628,521	269,768	69,540	6.0%	150,730	32%
Houseowners/Householders	1,970,656	652,474	935,153	378,923	984,678	410,550	7,460	6.0%	127,888	20%
CTP Motor Vehicle	1,388,373	1,193,375	535,270	3,250,024	745,913	3,986,173	-619,141	6.0%	(292,017)	-24%
Commercial Motor Vehicle	866,924	202,858	399,926	146,600	407,002	167,204	-36,570	6.0%	9,223	5%
Domestic Motor Vehicle	2,927,405	657,440	1,354,496	377,400	1,422,624	442,768	-260,719	6.0%	(113,354)	-17%
Marine and Aviation	440,034	81,312	136,830	158,121	164,344	178,684	23,619	6.0%	47,637	59%
Professional Indemnity	397,055	237,285	156,753	660,713	172,911	682,286	24,061	6.0%	88,478	37%
Product and Public Liability	776,955	520,981	332,804	1,432,384	365,314	1,549,144	-55,691	6.0%	85,957	16%
Employers' Liability	1,399,115	489,126	331,279	1,429,492	345,951	1,341,858	-145,334	6.0%	(12,529)	-3%
Mortgage	66,787	53,168	171,930	16,078	173,249	20,292	14,509	6.0%	29,146	55%
Consumer Credit	206,298	90,717	270,963	49,129	287,707	50,488	7,400	6.0%	32,592	36%
Travel	164,253	14,804	28,537	27,225	33,747	38,780	-2,878	6.0%	1,859	13%
Other Accident	214,242	43,602	72,008	94,359	74,065	105,382	-1,669	6.0%	11,322	26%
Other	491,388	109,630	211,771	211,985	209,328	223,474	147,927	6.0%	180,202	164%
Inward Treaty	26,935	16,459	3,649	60,484	4,130	59,298	-20,196	6.0%	(15,382)	-93%
Total	12,659,002	4,834,870	5,549,327	8,549,716	6,019,484	9,526,149	-847,682	6.0%	331,750	7%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.5 Return on Capital for 12 months ending 30 June 1997

			Beginning of Financial Year		End of Financial Year					
Class of Business	Total Premiums	Benchmark Capital Level[1]	Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,322,956	482,171	612,215	269,768	617,001	289,082	24,484	6.0%	107,056	22%
Houseowners/Householders	2,184,504	739,505	1,034,715	410,550	1,101,070	490,683	-20,414	6.0%	115,067	16%
CTP Motor Vehicle	2,057,527	1,653,278	852,682	3,986,173	1,051,574	5,747,336	-421,431	6.0%	26,899	2%
Commercial Motor Vehicle	931,094	218,333	421,317	167,204	424,815	181,064	-25,485	6.0%	23,447	11%
Domestic Motor Vehicle	3,320,049	742,699	1,493,084	442,768	1,620,010	457,229	-202,978	6.0%	(38,023)	-5%
Marine and Aviation	414,055	91,515	167,487	178,684	160,308	205,191	37,641	6.0%	64,482	70%
Professional Indemnity	382,872	236,889	158,774	682,286	173,853	636,110	-24,400	6.0%	39,344	17%
Product and Public Liability	785,072	559,299	363,293	1,549,144	380,455	1,616,665	-94,374	6.0%	56,471	10%
Employers' Liability	1,489,436	532,875	340,619	1,341,858	354,618	1,691,450	-184,592	6.0%	(40,763)	-8%
Mortgage	76,257	55,835	170,824	20,292	179,290	28,187	-6,130	6.0%	9,178	16%
Consumer Credit	206,009	101,338	314,409	50,488	298,437	65,448	5,620	6.0%	33,564	33%
Travel	156,673	15,303	29,966	38,780	28,514	34,784	4,840	6.0%	9,719	64%
Other Accident	249,477	48,538	71,978	105,382	84,265	120,015	-6,124	6.0%	8,238	17%
Other	644,520	139,489	275,205	223,474	306,885	259,619	91,872	6.0%	132,197	95%
Inward Treaty	45,468	18,961	5,412	59,298	14,281	63,474	-60,233	6.0%	(54,821)	-289%
Total	14,265,969	5,636,029	6,311,980	9,526,149	6,795,376	11,886,337	-881,704	6.0%	492,053	9%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.6 Return on Capital for 12 months ending 30 June 1998

			Beginning of Financial Year		End of Financial Year					
Class of Business	Total Premiums	Benchmark Capital Level[1]	Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,213,170	420,562	597,066	289,082	573,833	269,014	37,615	6.0%	114,719	27%
Houseowners/Householders	2,187,734	678,011	1,058,985	490,683	1,097,360	476,593	102,257	6.0%	236,646	35%
CTP Motor Vehicle	2,144,434	1,808,702	1,010,146	5,747,336	1,124,613	6,172,298	-314,097	6.0%	216,057	12%
Commercial Motor Vehicle	908,160	199,433	415,587	181,064	435,285	191,875	-53,288	6.0%	(4,608)	-2%
Domestic Motor Vehicle	3,272,386	653,477	1,507,353	457,229	1,607,652	358,683	-100,245	6.0%	56,891	9%
Marine and Aviation	426,460	82,350	152,740	205,191	166,596	189,748	12,645	6.0%	39,014	47%
Professional Indemnity	499,374	246,403	199,021	636,110	216,176	825,430	-53,211	6.0%	17,875	7%
Product and Public Liability	732,651	513,079	365,165	1,616,665	378,225	1,584,772	-193,370	6.0%	(44,240)	-9%
Employers' Liability	1,473,296	638,793	320,036	1,691,450	351,956	2,625,244	-248,801	6.0%	(60,813)	-10%
Mortgage	95,638	53,411	165,307	28,187	202,332	24,580	9,477	6.0%	25,294	47%
Consumer Credit	115,779	52,994	145,617	65,448	173,127	45,220	590	6.0%	16,652	31%
Travel	164,076	12,333	28,183	34,784	27,992	28,067	345	6.0%	4,656	38%
Other Accident	406,877	74,578	148,520	120,015	175,641	193,352	4,098	6.0%	27,699	37%
Other	455,495	102,456	231,568	259,619	258,831	113,792	4,581	6.0%	36,643	36%
Inward Treaty	1,018,348	200,053	276,220	63,474	493,555	673,913	-49,433	6.0%	7,785	4%
Total	15,113,878	5,736,635	6,621,514	11,886,337	7,283,174	13,772,581	-840,837	6.0%	690,269	12%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.7 Return on Capital for 12 months ending 30 June 1999

Class of Business	Total Premiums	Benchmark Capital Level[1]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,239,791	387,346	561,508	269,014	552,152	375,562	-60,389	6.0%	15,599	4%
Houseowners/Householders	2,338,854	638,202	1,111,498	476,593	1,161,037	489,812	-36,494	6.0%	98,966	16%
CTP Motor Vehicle	2,228,539	1,754,984	1,078,723	6,172,298	1,122,389	6,461,943	-63,245	6.0%	487,115	28%
Commercial Motor Vehicle	993,144	189,117	426,712	191,875	456,411	208,734	-82,739	6.0%	(32,880)	-17%
Domestic Motor Vehicle	3,401,784	594,926	1,543,985	358,683	1,682,348	331,468	-162,887	6.0%	(9,697)	-2%
Marine and Aviation	453,428	71,301	165,083	189,748	132,448	193,374	5,721	6.0%	30,419	43%
Professional Indemnity	581,993	259,905	190,757	825,430	230,087	919,218	-130,291	6.0%	(49,732)	-19%
Product and Public Liability	820,127	531,767	382,325	1,584,772	398,976	2,091,061	-468,305	6.0%	(302,685)	-57%
Employers' Liability	1,206,015	604,168	299,478	2,625,244	379,307	1,829,434	-203,288	6.0%	(13,034)	-2%
Mortgage	177,570	69,294	223,132	24,580	319,145	19,564	29,937	6.0%	51,687	75%
Consumer Credit	124,697	59,129	206,537	45,220	209,082	53,534	26,191	6.0%	45,170	76%
Travel	185,101	10,683	27,144	28,067	28,291	30,542	-8,422	6.0%	(4,360)	-41%
Other Accident	556,815	89,477	205,874	193,352	221,716	217,144	-1,026	6.0%	29,485	33%
Other	465,037	84,282	237,672	113,792	263,070	145,830	2,149	6.0%	30,017	36%
Inward Treaty	932,786	270,209	343,621	673,913	481,105	804,570	-90,710	6.0%	(5,401)	-2%
Total	15,705,681	5,614,791	7,004,070	13,772,581	7,637,575	14,171,795	-1,243,798	6.0%	370,670	7%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.8 Return on Capital for 12 months ending 30 June 2000

			Beginning of Financial Year		End of Financial Year					
Class of Business	Total Premiums	Benchmark Capital Level[1]	Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,193,519	412,552	577,356	375,562	590,467	354,109	-77,519	6.0%	4,159	1%
Houseowners/Householders	2,330,137	654,829	1,168,952	489,812	1,225,640	460,181	24,601	6.0%	164,228	25%
CTP Motor Vehicle	2,194,458	1,755,047	1,113,058	6,461,943	1,076,895	6,313,687	-189,997	6.0%	364,273	21%
Commercial Motor Vehicle	1,078,034	218,806	500,144	208,734	570,396	209,797	104,368	6.0%	162,168	74%
Domestic Motor Vehicle	3,536,329	623,384	1,672,013	331,468	1,813,093	306,135	-207,521	6.0%	(46,437)	-7%
Marine and Aviation	383,159	66,865	139,776	193,374	135,001	178,023	20,561	6.0%	43,958	66%
Professional Indemnity	592,155	305,840	251,598	919,218	261,852	1,131,062	-109,220	6.0%	(13,958)	-5%
Product and Public Liability	915,535	627,186	414,839	2,091,061	426,463	2,396,071	-373,267	6.0%	(175,783)	-28%
Employers' Liability	905,649	473,473	222,839	1,829,434	352,620	1,637,638	-280,761	6.0%	(131,077)	-28%
Mortgage	175,905	73,049	262,095	19,564	324,853	13,500	33,879	6.0%	56,862	78%
Consumer Credit	140,433	58,917	209,082	53,534	203,655	51,966	47,147	6.0%	66,229	112%
Travel	156,747	9,235	28,271	30,542	7,215	37,125	2,867	6.0%	6,516	71%
Other Accident	748,902	119,133	278,580	217,144	332,434	286,739	-34,066	6.0%	6,529	5%
Other	453,225	88,463	220,641	145,830	269,368	181,162	-115,809	6.0%	(85,991)	-97%
Inward Treaty	2,403,454	426,546	495,308	804,570	1,217,714	1,018,226	25,003	6.0%	156,670	37%
Total	17,207,641	5,913,325	7,554,552	14,171,795	8,807,666	14,575,421	-1,129,734	6.0%	578,349	10%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.5.9 Return on Capital for 12 months ending 30 June 2001

Class of Business	Total Premiums	Benchmark Capital Level[1]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision	Underwriting Profit[2]	Investment Credit on Technical Reserves	Insurance Profit[3]	Return on Capital[4]
	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)	($000's)		($000's)	
Fire and Industrial Special Risks	1,290,187	400,199	518,202	354,109	595,492	411,478	-83,159	6.0%	(2,769)	-1%
Houseowners/Householders	2,228,808	627,173	1,140,264	460,181	1,168,486	494,236	110,424	6.0%	245,949	39%
CTP Motor Vehicle	1,532,183	1,587,663	906,868	6,313,687	803,577	5,803,481	-23,936	6.0%	486,152	31%
Commercial Motor Vehicle	990,497	195,099	461,815	209,797	492,944	189,703	9,737	6.0%	62,071	32%
Domestic Motor Vehicle	3,359,901	598,231	1,670,609	306,135	1,754,073	282,238	45,988	6.0%	202,273	34%
Marine and Aviation	343,271	58,687	107,321	178,023	120,441	175,536	-3,724	6.0%	17,237	29%
Professional Indemnity	404,507	285,919	183,568	1,131,062	224,854	916,535	-130,507	6.0%	(39,671)	-14%
Product and Public Liability	805,896	618,622	359,928	2,396,071	405,020	2,193,299	-331,978	6.0%	(134,231)	-22%
Employers' Liability	844,620	467,747	296,471	1,637,638	380,944	1,699,700	-58,587	6.0%	89,920	19%
Mortgage	300,344	126,359	456,520	13,500	588,024	24,616	80,691	6.0%	120,752	96%
Consumer Credit	153,797	65,345	228,203	51,966	247,999	51,221	33,712	6.0%	55,014	84%
Travel	107,928	8,905	13,733	37,125	18,719	32,377	-16,826	6.0%	(13,233)	-149%
Other Accident	700,090	121,466	290,580	286,739	311,245	274,840	19,859	6.0%	62,049	51%
Other	399,671	78,703	197,292	181,162	233,706	129,144	-33,254	6.0%	(6,293)	-8%
Inward Treaty	2,280,452	551,896	1,201,684	1,018,226	1,242,289	1,109,419	-227,805	6.0%	(57,543)	-10%
Total	15,742,156	5,792,012	8,033,063	14,575,421	8,587,820	13,787,824	-609,365	6.0%	1,087,680	19%

Notes:

1. The benchmark capital level is equal to the sum of the Insurance Risk Capital Charge, the Investment Risk Capital charge, and the Concentration Risk Capital Charge

2.Underwriting profit = premium revenue - claim expenses - underwriting expenses (all net of reinsurance)

3. Insurance Profit = 6% * (benchmark capital + average outstanding claims provision during year + average unearned premium reserve during year) + underwriting profit

4. Return on capital = insurance profit / benchmark capital

Appendix C.6.1 Benchmark Capital Level for 12 months ending 30 June 1993

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year: Unearned Premium Reserve	Beginning of Financial Year: Outstanding Claims Provision	End of Financial Year: Unearned Premium Reserve	End of Financial Year: Outstanding Claims Provision
							($000's)	($000's)	($000's)	($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	110,231	93,983	408,428	389,692	336,072	498,342	336,072
Houseowners/Householders	9.0%	13.5%	200%	116,721	115,881	465,205	613,094	291,761	727,090	291,761
CTP Motor Vehicle	15.0%	22.5%	100%	477,064	357,155	834,219	453,172	2,532,653	410,527	2,532,653
Commercial Motor Vehicle	9.0%	13.5%	150%	58,575	58,385	175,440	330,512	152,186	334,349	152,186
Domestic Motor Vehicle	9.0%	13.5%	150%	170,661	165,147	503,712	994,567	319,834	1,107,302	319,834
Marine and Aviation	11.0%	16.5%	100%	33,246	30,277	63,523	92,183	149,452	111,531	149,452
Professional Indemnity	15.0%	22.5%	100%	97,438	72,224	169,662	84,570	499,266	115,857	499,266
Product and Public Liability	15.0%	22.5%	100%	237,976	175,842	413,818	240,156	1,205,628	267,679	1,205,628
Employers' Liability	15.0%	22.5%	100%	209,476	162,715	372,191	83,805	1,258,735	99,893	1,258,735
Mortgage	11.0%	16.5%	100%	15,623	12,576	28,199	66,395	29,088	84,196	29,088
Consumer Credit	11.0%	16.5%	100%	42,697	33,124	75,821	219,924	48,508	232,942	48,508
Travel	9.0%	13.5%	100%	4,157	4,627	8,784	12,931	22,824	18,225	22,824
Other Accident	11.0%	16.5%	100%	17,958	15,739	33,697	63,827	65,402	66,642	65,402
Other	11.0%	16.5%	100%	54,612	49,039	103,651	168,721	228,157	189,038	228,157
Inward Treaty[6]	13.5%	20.3%	100%	0	0	0	0	0	0	0
Total				1,646,436	1,346,713	3,656,349	3,813,549	7,139,564	4,263,611	7,139,564

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.1 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.6.2 Benchmark Capital Level for 12 months ending 30 June 1994

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year Unearned Premium Reserve ($000's)	Beginning of Financial Year Outstanding Claims Provision ($000's)	End of Financial Year Unearned Premium Reserve ($000's)	End of Financial Year Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	114,085	106,990	442,151	457,460	336,072	527,947	260,099
Houseowners/Householders	9.0%	13.5%	200%	120,747	134,373	510,240	653,139	291,761	740,641	300,831
CTP Motor Vehicle	15.0%	22.5%	100%	477,906	402,627	880,533	393,743	2,532,653	446,770	2,578,664
Commercial Motor Vehicle	9.0%	13.5%	150%	54,295	60,652	172,421	307,859	152,186	312,079	124,466
Domestic Motor Vehicle	9.0%	13.5%	150%	183,540	198,499	573,058	1,082,652	319,834	1,206,056	325,766
Marine and Aviation	11.0%	16.5%	100%	38,562	40,018	78,580	106,454	149,452	112,682	222,979
Professional Indemnity	15.0%	22.5%	100%	99,591	81,866	181,456	108,979	499,266	126,414	475,518
Product and Public Liability	15.0%	22.5%	100%	249,668	207,430	457,098	246,672	1,205,628	278,448	1,335,592
Employers' Liability	15.0%	22.5%	100%	233,034	195,933	428,967	114,704	1,258,735	306,754	1,216,193
Mortgage	11.0%	16.5%	100%	18,723	16,443	35,166	62,386	29,088	132,334	19,256
Consumer Credit	11.0%	16.5%	100%	34,748	30,518	65,266	175,371	48,508	185,927	41,325
Travel	9.0%	13.5%	100%	4,621	5,663	10,283	15,807	22,824	22,133	22,946
Other Accident	11.0%	16.5%	100%	19,458	19,548	39,006	63,805	65,402	65,809	93,959
Other	11.0%	16.5%	100%	58,407	57,605	116,011	191,360	228,157	229,424	202,604
Inward Treaty[6]	13.5%	20.3%	100%	6,975	6,016	12,991	14,130	0	14,678	60,126
Total				1,714,359	1,564,181	4,003,229	3,994,521	7,139,564	4,708,096	7,280,324

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.2 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.6.3 Benchmark Capital Level for 12 months ending 30 June 1995

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year: Unearned Premium Reserve ($000's)	Beginning of Financial Year: Outstanding Claims Provision ($000's)	End of Financial Year: Unearned Premium Reserve ($000's)	End of Financial Year: Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	125,554	105,185	461,478	573,032	260,099	604,237	256,799
Houseowners/Householders	9.0%	13.5%	200%	130,430	134,038	528,935	554,435	300,831	924,693	378,923
CTP Motor Vehicle	15.0%	22.5%	100%	548,892	423,551	972,442	458,032	2,578,664	535,213	3,250,024
Commercial Motor Vehicle	9.0%	13.5%	150%	62,343	62,953	187,945	344,685	124,466	398,210	146,600
Domestic Motor Vehicle	9.0%	13.5%	150%	206,659	204,638	616,946	1,250,972	325,766	1,341,870	377,400
Marine and Aviation	11.0%	16.5%	100%	41,246	38,927	80,173	117,574	222,979	128,310	158,121
Professional Indemnity	15.0%	22.5%	100%	117,638	88,437	206,076	132,941	475,518	155,247	660,713
Product and Public Liability	15.0%	22.5%	100%	278,881	211,194	490,075	302,916	1,335,592	330,712	1,432,384
Employers' Liability	15.0%	22.5%	100%	272,575	205,183	477,757	314,098	1,216,193	344,998	1,429,492
Mortgage	11.0%	16.5%	100%	28,827	22,425	51,252	153,930	19,256	171,930	16,078
Consumer Credit	11.0%	16.5%	100%	47,406	37,548	84,953	243,364	41,325	270,946	49,129
Travel	9.0%	13.5%	100%	5,707	6,287	11,994	23,032	22,946	28,064	27,225
Other Accident	11.0%	16.5%	100%	21,851	20,342	42,193	67,314	93,959	72,004	94,359
Other	11.0%	16.5%	100%	66,597	58,699	125,296	249,464	202,604	281,384	211,985
Inward Treaty[6]	13.5%	20.3%	100%	9,815	8,514	18,329	5,103	60,126	11,425	60,484
Total				1,964,421	1,627,922	4,355,847	5,060,510	7,280,324	5,599,243	8,549,716

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.3 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.6.4 Benchmark Capital Level for 12 months ending 30 June 1996

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year: Unearned Premium Reserve ($000's)	Beginning of Financial Year: Outstanding Claims Provision ($000's)	End of Financial Year: Unearned Premium Reserve ($000's)	End of Financial Year: Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	130,971	104,848	471,638	607,958	256,799	628,521	269,768
Houseowners/Householders	9.0%	13.5%	200%	165,115	161,122	652,474	935,153	378,923	984,678	410,550
CTP Motor Vehicle	15.0%	22.5%	100%	686,848	506,528	1,193,375	535,270	3,250,024	745,913	3,986,173
Commercial Motor Vehicle	9.0%	13.5%	150%	68,589	66,650	202,858	399,926	146,600	407,002	167,204
Domestic Motor Vehicle	9.0%	13.5%	150%	224,363	213,930	657,440	1,354,496	377,400	1,422,624	442,768
Marine and Aviation	11.0%	16.5%	100%	43,371	37,941	81,312	136,830	158,121	164,344	178,684
Professional Indemnity	15.0%	22.5%	100%	137,812	99,473	237,285	156,753	660,713	172,911	682,286
Product and Public Liability	15.0%	22.5%	100%	302,153	218,828	520,981	332,804	1,432,384	365,314	1,549,144
Employers' Liability	15.0%	22.5%	100%	284,040	205,087	489,126	331,279	1,429,492	345,951	1,341,858
Mortgage	11.0%	16.5%	100%	30,478	22,691	53,168	171,930	16,078	173,249	20,292
Consumer Credit	11.0%	16.5%	100%	51,569	39,148	90,717	270,963	49,129	287,707	50,488
Travel	9.0%	13.5%	100%	7,174	7,629	14,804	28,537	27,225	33,747	38,780
Other Accident	11.0%	16.5%	100%	23,037	20,566	43,602	72,008	94,359	74,065	105,382
Other	11.0%	16.5%	100%	58,691	50,939	109,630	211,771	211,985	209,328	223,474
Inward Treaty[6]	13.5%	20.3%	100%	8,873	7,586	16,459	3,649	60,484	4,130	59,298
Total				2,223,083	1,762,965	4,834,870	5,549,327	8,549,716	6,019,484	9,526,149

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.4 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.6.5 Benchmark Capital Level for 12 months ending 30 June 1997

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year: Unearned Premium Reserve ($000's)	Beginning of Financial Year: Outstanding Claims Provision ($000's)	End of Financial Year: Unearned Premium Reserve ($000's)	End of Financial Year: Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	132,147	108,939	482,171	612,215	269,768	617,001	289,082
Houseowners/Householders	9.0%	13.5%	200%	184,721	185,032	739,505	1,034,715	410,550	1,101,070	490,683
CTP Motor Vehicle	15.0%	22.5%	100%	944,242	709,036	1,653,278	852,682	3,986,173	1,051,574	5,747,336
Commercial Motor Vehicle	9.0%	13.5%	150%	72,786	72,769	218,333	421,317	167,204	424,815	181,064
Domestic Motor Vehicle	9.0%	13.5%	150%	250,634	244,499	742,699	1,493,084	442,768	1,620,010	457,229
Marine and Aviation	11.0%	16.5%	100%	48,156	43,359	91,515	167,487	178,684	160,308	205,191
Professional Indemnity	15.0%	22.5%	100%	136,300	100,589	236,889	158,774	682,286	173,853	636,110
Product and Public Liability	15.0%	22.5%	100%	321,107	238,191	559,299	363,293	1,549,144	380,455	1,616,665
Employers' Liability	15.0%	22.5%	100%	305,712	227,163	532,875	340,619	1,341,858	354,618	1,691,450
Mortgage	11.0%	16.5%	100%	31,551	24,284	55,835	170,824	20,292	179,290	28,187
Consumer Credit	11.0%	16.5%	100%	56,936	44,401	101,338	314,409	50,488	298,437	65,448
Travel	9.0%	13.5%	100%	7,258	8,045	15,303	29,966	38,780	28,514	34,784
Other Accident	11.0%	16.5%	100%	25,287	23,252	48,538	71,978	105,382	84,265	120,015
Other	11.0%	16.5%	100%	74,593	64,897	139,489	275,205	223,474	306,885	259,619
Inward Treaty[6]	13.5%	20.3%	100%	10,281	8,680	18,961	5,412	59,298	14,281	63,474
Total				2,601,711	2,103,136	5,636,029	6,311,980	9,526,149	6,795,376	11,886,337

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.5 for the Investment Risk Capital

Appendix C.6.6 Benchmark Capital Level for 12 months ending 30 June 1998

							Beginning of Financial Year		End of Financial Year	
Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Unearned Premium Reserve ($000's)	Outstanding Claims Provision ($000's)	Unearned Premium Reserve ($000's)	Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	127,294	82,987	420,562	597,066	289,082	573,833	269,014
Houseowners/Householders	9.0%	13.5%	200%	189,081	149,925	678,011	1,058,985	490,683	1,097,360	476,593
CTP Motor Vehicle	15.0%	22.5%	100%	1,134,133	674,570	1,808,702	1,010,146	5,747,336	1,124,613	6,172,298
Commercial Motor Vehicle	9.0%	13.5%	150%	74,216	58,739	199,433	415,587	181,064	435,285	191,875
Domestic Motor Vehicle	9.0%	13.5%	150%	246,979	188,672	653,477	1,507,353	457,229	1,607,652	358,683
Marine and Aviation	11.0%	16.5%	100%	48,067	34,283	82,350	152,740	205,191	166,596	189,748
Professional Indemnity	15.0%	22.5%	100%	156,325	90,078	246,403	199,021	636,110	216,176	825,430
Product and Public Liability	15.0%	22.5%	100%	323,739	189,340	513,079	365,165	1,616,665	378,225	1,584,772
Employers' Liability	15.0%	22.5%	100%	399,351	239,442	638,793	320,036	1,691,450	351,956	2,625,244
Mortgage	11.0%	16.5%	100%	33,232	20,178	53,411	165,307	28,187	202,332	24,580
Consumer Credit	11.0%	16.5%	100%	32,383	20,611	52,994	145,617	65,448	173,127	45,220
Travel	9.0%	13.5%	100%	6,620	5,713	12,333	28,183	34,784	27,992	28,067
Other Accident	11.0%	16.5%	100%	43,978	30,599	74,578	148,520	120,015	175,641	193,352
Other	11.0%	16.5%	100%	60,996	41,460	102,456	231,568	259,619	258,831	113,792
Inward Treaty[6]	13.5%	20.3%	100%	127,713	72,339	200,053	276,220	63,474	493,555	673,913
Total				3,004,108	1,898,937	5,736,635	6,621,514	11,886,337	7,283,174	13,772,581

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.6 for the Investment Risk Capital

Appendix C.6.7 Benchmark Capital Level for 12 months ending 30 June 1999

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year: Unearned Premium Reserve ($000's)	Beginning of Financial Year: Outstanding Claims Provision ($000's)	End of Financial Year: Unearned Premium Reserve ($000's)	End of Financial Year: Outstanding Claims Provision ($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	127,329	66,345	387,346	561,508	269,014	552,152	375,562
Houseowners/Householders	9.0%	13.5%	200%	196,884	122,217	638,202	1,111,498	476,593	1,161,037	489,812
CTP Motor Vehicle	15.0%	22.5%	100%	1,195,193	559,791	1,754,984	1,078,723	6,172,298	1,122,389	6,461,943
Commercial Motor Vehicle	9.0%	13.5%	150%	77,638	48,440	189,117	426,712	191,875	456,411	208,734
Domestic Motor Vehicle	9.0%	13.5%	150%	248,834	147,783	594,926	1,543,985	358,683	1,682,348	331,468
Marine and Aviation	11.0%	16.5%	100%	45,618	25,683	71,301	165,083	189,748	132,448	193,374
Professional Indemnity	15.0%	22.5%	100%	178,194	81,712	259,905	190,757	825,430	230,087	919,218
Product and Public Liability	15.0%	22.5%	100%	363,584	168,184	531,767	382,325	1,584,772	398,976	2,091,061
Employers' Liability	15.0%	22.5%	100%	410,464	193,704	604,168	299,478	2,625,244	379,307	1,829,434
Mortgage	11.0%	16.5%	100%	47,166	22,128	69,294	223,132	24,580	319,145	19,564
Consumer Credit	11.0%	16.5%	100%	39,720	19,409	59,129	206,537	45,220	209,082	53,534
Travel	9.0%	13.5%	100%	6,379	4,303	10,683	27,144	28,067	28,291	30,542
Other Accident	11.0%	16.5%	100%	57,853	31,624	89,477	205,874	193,352	221,716	217,144
Other	11.0%	16.5%	100%	55,590	28,691	84,282	237,672	113,792	263,070	145,830
Inward Treaty[6]	13.5%	20.3%	100%	183,301	86,908	270,209	343,621	673,913	481,105	804,570
Total				3,233,748	1,606,921	5,614,791	7,004,070	13,772,581	7,637,575	14,171,795

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.7 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.6.8 Benchmark Capital Level for 12 months ending 30 June 2000

Class of Business	OCL[1] Risk Factor	Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Beginning of Financial Year		End of Financial Year	
							Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision
							($000's)	($000's)	($000's)	($000's)
Fire and Industrial Special Risks	11.0%	16.5%	200%	136,477	69,799	412,552	577,356	375,562	590,467	354,109
Houseowners/Householders	9.0%	13.5%	200%	204,385	123,030	654,829	1,168,952	489,812	1,225,640	460,181
CTP Motor Vehicle	15.0%	22.5%	100%	1,204,542	550,505	1,755,047	1,113,058	6,461,943	1,076,895	6,313,687
Commercial Motor Vehicle	9.0%	13.5%	150%	91,095	54,775	218,806	500,144	208,734	570,396	209,797
Domestic Motor Vehicle	9.0%	13.5%	150%	263,937	151,653	623,384	1,672,013	331,468	1,813,093	306,135
Marine and Aviation	11.0%	16.5%	100%	43,096	23,769	66,865	139,776	193,374	135,001	178,023
Professional Indemnity	15.0%	22.5%	100%	211,534	94,306	305,840	251,598	919,218	261,852	1,131,062
Product and Public Liability	15.0%	22.5%	100%	431,181	196,005	627,186	414,839	2,091,061	426,463	2,396,071
Employers' Liability	15.0%	22.5%	100%	324,770	148,703	473,473	222,839	1,829,434	352,620	1,637,638
Mortgage	11.0%	16.5%	100%	50,242	22,807	73,049	262,095	19,564	324,853	13,500
Consumer Credit	11.0%	16.5%	100%	39,853	19,063	58,917	209,082	53,534	203,655	51,966
Travel	9.0%	13.5%	100%	5,440	3,794	9,235	28,271	30,542	7,215	37,125
Other Accident	11.0%	16.5%	100%	78,122	41,011	119,133	278,580	217,144	332,434	286,739
Other	11.0%	16.5%	100%	58,410	30,053	88,463	220,641	145,830	269,368	181,162
Inward Treaty[6]	13.5%	20.3%	100%	296,482	130,064	426,546	495,308	804,570	1,217,714	1,018,226
Total				3,439,567	1,659,338	5,913,325	7,554,552	14,171,795	8,807,666	14,575,421

Notes:

1. OCL stands for outstanding claims liability

2.Insurance Risk Capital= OCL Risk Factor*(Average Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

3.Investment Risk Capital=Total Investment Risk Capital*(individual Class of businesses proportion of total sum of average Outstanding Claims Provision and Unearned Premium Reserve)

4.See appendix C.7.8 for the Investment Risk Capital

5.Benchmark Capital Level = Concentration Risk Factor *(Insurance Risk Capital + Investment Risk Capital)

el for 12 months ending 30 June 2001

					Beginning of Financial Year		End of Financial Year	
Premium Risk Factor	Concentration Risk Factor	Insurance Risk Capital[2]	Investment Risk Capital[3,4]	Benchmark Capital Level[5]	Unearned Premium Reserve	Outstanding Claims Provision	Unearned Premium Reserve	Outstanding Claims Provision
					($000's)	($000's)	($000's)	($000's)
16.5%	200%	133,987	66,112	400,199	518,202	354,109	595,492	411,478
13.5%	200%	198,789	114,797	627,173	1,140,264	460,181	1,168,486	494,236
22.5%	100%	1,101,213	486,450	1,587,663	906,868	6,313,687	803,577	5,803,481
13.5%	150%	82,424	47,642	195,099	461,815	209,797	492,944	189,703
13.5%	150%	257,643	141,178	598,231	1,670,609	306,135	1,754,073	282,238
16.5%	100%	38,236	20,451	58,687	107,321	178,023	120,441	175,536
22.5%	100%	199,517	86,402	285,919	183,568	1,131,062	224,854	916,535
22.5%	100%	430,259	188,363	618,622	359,928	2,396,071	405,020	2,193,299
22.5%	100%	326,510	141,237	467,747	296,471	1,637,638	380,944	1,699,700
16.5%	100%	88,271	38,088	126,359	456,520	13,500	588,024	24,616
16.5%	100%	44,962	20,383	65,345	228,203	51,966	247,999	51,221
13.5%	100%	5,318	3,587	8,905	13,733	37,125	18,719	32,377
16.5%	100%	80,537	40,928	121,466	290,580	286,739	311,245	274,840
16.5%	100%	52,624	26,079	78,703	197,292	181,162	233,706	129,144
20.3%	100%	391,068	160,828	551,896	1,201,684	1,018,226	1,242,289	1,109,419
		3,431,359	1,582,523	5,792,012	8,033,063	14,575,421	8,587,820	13,787,824

ge Outstanding Claims Provision) + Premium Risk factor*(Average Unearned premium Provision)

Capital*(individual Class of businesses proportion of total sum of average

mium Reserve)

l

ctor *(Insurance Risk Capital + Investment Risk Capital)

Appendix C.7.1 Investment Risk Capital Level for 12 months ending 30 June 1993

Type of Investment	Investment Capital Factor	Investment Inside Australia	Investment Capital[2]
		($000's)	($000's)
Cash	0.5%	26,932	135
Unpaid Premiums			
due in less than 3 months	4.0%	891,425	35,657
due in more than 3 months	8.0%	74,023	5,922
Reinsurance	2.0%	2,523,507	50,470
Other Recoveries	12.0%	417,962	50,155
Deferred Acquisition	12.0%	672,887	80,746
Miscellaneous Receivables	12.0%	711,836	85,420
Prepayments and Advances	12.0%	209,304	25,116
Inventories	12.0%	2,751	330
Operating Assets	12.0%	287,463	34,496
Future Income Tax Benefit	12.0%	224,884	26,986
Intangibles	12.0%	14,604	1,752
Land and Buildings	12.0%	1,064,626	127,755
Debt Securities			
short-term secure	0.5%	549,683	2,748
other short term	2.0%	1,500,478	30,010
Long-term secure	0.5%	4,396,239	21,981
other long term	2.0%	1,412,826	28,257
Shares			
Listed	8.0%	1,194,507	95,561
Unlisted	12.0%	2,595,466	311,456
Options	12.0%	9,559	1,147
Units in trusts			
Listed	12.0%	31,999	2,560
Unlisted	8.0%	188,800	22,656
Deposits	12.0%	838,044	4,190
Sub-section 30 (1) loans	0.5%	7,708	7,708
Other Loans	100.0%	2,247,022	269,643
Other Financial Instruments	12.0%	43,226	5,187
Other Investments	12.0%	96,458	11,575
Other Assets	12.0%	59,108	7,093
TOTAL ASSETS	6.0%	22,293,326	1,346,713

1. Investment capital = Investment Capital Factor* investment inside Australia

Appendix C.7.2 Investment Risk Capital Level for 12 months ending 30 June 1994

Type of Investment	Investment Capital Factor	Investment Inside Australia ($000's)	Investment Capital[1] ($000's)
Cash	0.5%	60,135	301
Unpaid Premiums			
due in less than 3 months	4.0%	1,071,192	42,848
due in more than 3 months	8.0%	120,061	9,605
Reinsurance	2.0%	4,410,180	88,204
Other Recoveries	12.0%	486,655	58,399
Deferred Acquisition	12.0%	653,790	78,455
Miscellaneous Receivables	12.0%	782,168	93,860
Prepayments and Advances	12.0%	208,870	25,064
Inventories	12.0%	2,556	307
Operating Assets	12.0%	307,386	36,886
Future Income Tax Benefit	12.0%	318,188	38,183
Intangibles	12.0%	11,181	1,342
Land and Buildings	12.0%	936,814	112,418
Debt Securities			
short-term secure	0.5%	34,843	174
other short term	2.0%	1,485,479	29,710
Long-term secure	0.5%	2,745,189	13,726
other long term	2.0%	3,508,217	70,164
Shares			
Listed	8.0%	1,369,905	109,592
Unlisted	12.0%	3,314,770	397,772
Options	12.0%	37,635	4,516
Units in trusts			
Listed	8.0%	174,715	13,977
Unlisted	12.0%	228,969	27,476
Deposits	0.5%	859,895	4,299
Sub-section 30 (1) loans	100.0%	10,364	10,364
Other Loans	12.0%	1,818,080	95,973
Other Financial Instruments	12.0%	29,870	3,584
Other Investments	12.0%	328,383	39,406
Other Assets	12.0%	294,828	35,379
TOTAL ASSETS	6.1%	25,610,318	1,564,181

1. Investment capital = Investment Capital Factor* investment inside Australia

Appendix C.7.3 Investment Risk Capital Level for 12 months ending 30 June 1995

Type of Investment	Investment Capital Factor	Investment Inside Australia ($000's)	Investment Capital[1] ($000's)
Cash	0.5%	38,698	193
Unpaid Premiums			
due in less than 3 months	4.0%	1,397,607	55,904
due in more than 3 months	8.0%	111,195	8,896
Reinsurance	2.0%	5,002,497	100,050
Other Recoveries	12.0%	442,527	53,103
Deferred Acquisition	12.0%	812,203	97,464
Miscellaneous Receivables	12.0%	865,313	103,838
Prepayments and Advances	12.0%	246,560	29,587
Inventories	12.0%	2,664	320
Operating Assets	12.0%	354,844	42,581
Future Income Tax Benefit	12.0%	535,868	64,304
Intangibles	12.0%	9,921	1,191
Land and Buildings	12.0%	1,089,773	130,773
Debt Securities			
short-term secure	0.5%	28,847	144
other short term	2.0%	2,185,176	43,704
Long-term secure	0.5%	3,487,100	17,436
other long term	2.0%	2,947,761	58,955
Shares			
Listed	8.0%	1,321,576	105,726
Unlisted	12.0%	2,939,688	352,763
Options	12.0%	21,279	2,553
Units in trusts			
Listed	8.0%	131,070	10,486
Unlisted	12.0%	280,425	33,651
Deposits	0.5%	1,045,287	5,226
Sub-section 30 (1) loans	100.0%	10,679	10,679
Other Loans	12.0%	2,144,304	85,914
Other Financial Instruments	12.0%	21,488	2,579
Other Investments	12.0%	230,045	27,605
Other Assets	12.0%	230,284	27,634
TOTAL ASSETS	5.9%	27,934,679	1,644,661

1. Investment capital = Investment Capital Factor* investment inside Australia

Appendix C.7.4 Investment Risk Capital Level for 12 months ending 30 June 1996

Type of Investment	Investment Capital Factor	Investment Inside Australia ($000's)	Investment Capital[1] ($000's)
Cash	0.5%	45,037	225
Unpaid Premiums			
due in less than 3 months	4.0%	1,518,989	60,760
due in more than 3 months	8.0%	150,371	12,030
Reinsurance	2.0%	4,950,789	99,016
Other Recoveries	12.0%	453,126	54,375
Deferred Acquisition	12.0%	886,117	106,334
Miscellaneous Receivables	12.0%	1,046,784	125,614
Prepayments and Advances	12.0%	233,485	28,018
Inventories	12.0%	2,775	333
Operating Assets	12.0%	368,742	44,249
Future Income Tax Benefit	12.0%	411,220	49,346
Intangibles	12.0%	8,201	984
Land and Buildings	12.0%	1,075,180	129,022
Debt Securities			
short-term secure	0.5%	27,581	138
other short term	2.0%	2,950,616	59,012
Long-term secure	0.5%	4,713,560	23,568
other long term	2.0%	2,031,812	40,636
Shares			
Listed	8.0%	1,302,088	104,167
Unlisted	12.0%	3,491,370	418,964
Options	12.0%	23,400	2,808
Units in trusts			
Listed	8.0%	274,725	21,978
Unlisted	12.0%	386,411	46,369
Deposits	0.5%	1,307,587	6,538
Sub-section 30 (1) loans	100.0%	9,973	9,973
Other Loans	12.0%	2,143,094	95,182
Other Financial Instruments	12.0%	14,254	1,710
Other Investments	12.0%	237,306	28,477
Other Assets	12.0%	259,577	31,149
TOTAL ASSETS	5.8%	30,324,170	1,762,965

1. Investment capital = Investment Capital Factor* investment inside Australia

Appendix C.7.5 Investment Risk Capital Level for 12 months ending 30 June 1997

Type of Investment	Investment Capital Factor	Investment Inside Australia	Investment Capital[1]
		($000's)	($000's)
Cash	0.5%	37,559	188
Unpaid Premiums			
due in less than 3 months	4.0%	1,734,407	69,376
due in more than 3 months	8.0%	165,207	13,217
Reinsurance	2.0%	6,208,981	124,180
Other Recoveries	12.0%	560,479	67,257
Deferred Acquisition	12.0%	980,697	117,684
Miscellaneous Receivables	12.0%	1,088,012	130,561
Prepayments and Advances	12.0%	270,577	32,469
Inventories	12.0%	3,016	362
Operating Assets	12.0%	395,308	47,437
Future Income Tax Benefit	12.0%	507,758	60,931
Intangibles	12.0%	6,356	763
Land and Buildings	12.0%	1,043,797	125,256
Debt Securities			
short-term secure	0.5%	30,686	153
other short term	2.0%	2,846,454	56,929
Long-term secure	0.5%	5,955,671	29,778
other long term	2.0%	2,682,669	53,653
Shares			
Listed	8.0%	2,135,735	170,859
Unlisted	12.0%	4,204,012	504,481
Options	12.0%	3,137	376
Units in trusts			
Listed	8.0%	529,344	42,348
Unlisted	12.0%	863,434	103,612
Deposits	0.5%	1,902,343	9,512
Sub-section 30 (1) loans	100.0%	10,813	10,813
Other Loans	12.0%	2,195,783	84,774
Other Financial Instruments	12.0%	26,146	3,138
Other Investments	12.0%	265,966	31,916
Other Assets	12.0%	269,940	32,393
TOTAL ASSETS	5.7%	36,924,287	2,103,136

1. Investment capital = Investment Capital Factor* investment inside Australia

Appendix C.7.6 Investment Risk Capital Level for 12 months ending 30 June 1998

Type of Investment	Investment Capital Factor	Investment Inside Australia ($000's)	Investment Capital[1] ($000's)
Land and buildings	12.0%	839,401	100,728
Debt securities	0.5%	11,879,424	59,397
Shares			
Listed	8.0%	4,506,401	360,512
Unlisted	12.0%	5,440,952	652,914
Options	12.0%	521	63
Units in trusts			
Listed	8.0%	358,977	28,718
Unlisted	12.0%	1,603,956	192,475
Other rights and interests in business undertakings	12.0%	77,155	9,259
Deposits	0.5%	2,774,932	13,875
Loans/amounts owing Section 30 of Insurance Act	12.0%	3,641,061	360,335
Other financial instruments	12.0%	25,253	3,030
Other investments	12.0%	341,991	41,039
Total Investments	6.0%	31,490,024	1,898,937

1. Investment capital = Investment Capital Factor* investment inside Australia OCL stands for outstanding claims liability

Appendix C.7.7 Investment Risk Capital Level for 12 months ending 30 June 1999

Type of Investment	Investment Capital Factor	Investment Inside Australia ($000's)	Investment Capital[1] ($000's)
Land and buildings	12.0%	793,130	95,176
Debt securities	0.5%	11,065,139	55,326
Shares			
Listed	8.0%	2,594,269	207,542
Unlisted	12.0%	5,275,556	633,067
Options	12.0%	206	25
Units in trusts			
Listed	8.0%	398,984	31,919
Unlisted	12.0%	2,066,771	248,013
Other rights and interests in business undertakings	12.0%	51,571	6,189
Deposits	0.5%	2,762,674	13,813
Loans/amounts owing Section 30 of Insurance Act	12.0%	2,368,915	284,270
Other financial instruments	12.0%	26,379	3,165
Other investments	12.0%	236,832	28,420
Total Investments	5.8%	27,640,426	1,606,923

1. Investment capital = Investment Capital Factor* investment inside Australia OCL stands for outstanding claims liability

Appendix C.7.8 Investment Risk Capital Level for 12 months ending 30 June 2000

Type of Investment	Investment Capital Factor	Investment Inside Australia	Investment Capital[1]
		($000's)	($000's)
Land and buildings	12.0%	663,531	79,624
Debt securities	0.5%	10,714,290	53,571
Shares			
Listed	8.0%	5,274,522	421,962
Unlisted	12.0%	2,927,306	351,277
Options	12.0%	332	40
Units in trusts			
Listed	8.0%	189,460	15,157
Unlisted	12.0%	2,895,240	347,429
Other rights and interests in business undertakings	12.0%	40,360	4,843
Deposits	0.5%	2,841,161	14,206
Loans/amounts owing Section 30 of Insurance Act	12.0%	2,963,905	355,669
Other financial instruments	12.0%	22,397	2,688
Other investments	12.0%	107,282	12,874
Total Investments	5.8%	28,640,894	1,659,338

1. Investment capital = Investment Capital Factor* investment inside Australia OCL stands for outstanding claims liability

Appendix C.7.9 Investment Risk Capital Level for 12 months ending 30 June 2001

Type of Investment	Investment Capital Factor	Investment Inside Australia	Investment Capital[1]
		($000's)	($000's)
Land and buildings	12.0%	407,435	48,892
Debt securities	0.5%	11,891,542	59,458
Shares			
Listed	8.0%	2,103,014	168,241
Unlisted	12.0%	5,353,818	642,458
Options	12.0%	16,285	1,954
Units in trusts			
Listed	8.0%	153,622	12,290
Unlisted	12.0%	2,311,291	277,355
Other rights and interests		-	-
in business undertakings	12.0%	55,200	6,624
Deposits	0.5%	2,375,292	11,876
Loans/amounts owing			
Section 30 of Insurance Act	12.0%	2,877,190	345,263
Other financial instruments	12.0%	23,233	2,788
Other investments	12.0%	44,372	5,325
Total Investments	5.7%	27,612,294	1,582,524

1. Investment capital = Investment Capital Factor* investment inside Australia OCL stands for outstanding claims liability

Appendix C.8 Catastrophes greater than $25 million

Event Month	Event Year	Event Type	Event Description	Insurance Loss		
				Original Values $M	Dec1998 Values $M	Jun2001 Values $M
Feb	1967	Bushfire	Bushfires, Hobart, Tas	14	101	104
June	1967	Hail	Rain and Hail, Brisbane, Qld	5	36	37
Jan	1970	Cyclone	T. Cyclone ‘Ada’, Qld	12	79	81
Aug	1970	Fire	Flooding, Tas	Approx 5	31	32
Dec	1971	Cyclone	Cyclone ‘Althea’, Townsville,Qld	Over 25	147	151
Mar	1973	Cyclone	Cyclone ‘Madge’, Qld, NT, WA	30	150	155
Jan/Feb	1974	Cyclone	T. Cyclone ‘Wanda’, BrisbaneFloods, Qld	68	328	338
Apr	1974	Fire	Flooding, Sydney, NSW	20	98	101
May	1974	Hail	Wind & Hail, Sydney, NSW	20	98	101
Dec	1974	Cyclone	T. Cyclone ‘Tracy’, Darwin, NT	200	837	863
March	1975	Fire	Flooding, Sydney, NSW	15	63	65
Dec	1975	Cyclone	Cyclone ‘Joan’, WA	20	74	76
Jan	1976	Hail	Hailstorm, Toowoomba, Qld	12	49	50
Nov	1976	Hail	Hailstorm, NSW	40	131	135
Dec	1976	Cyclone	T. Cyclone ‘Ted’, Qld	15	49	50
Jan	1977	Storm	Thunderstorms, NSW	15	49	50
Feb	1977	Bushfire	Fires, Western District, Vic	9	30	31
Feb	1978	Storm	Storms, Sydney, Newcastle, and Wollongong, NSW… 10-15	13	44	45
Apr	1978	Cyclone	T. Cyclone ‘Alby’, WA	13	39	40
Mar	1979	Cyclone	T. Cyclone ‘Hazel’, WA	15	41	42

Nov	1979	Hail	Hailstorm, SA	10	24	25
Feb	1980	Bushfire	Bushfires, Adelaide Hills, SA	13	34	35
Dec	1980	Storm	Storm, Brighton, Qld	15	36	37
Feb	1981	Fire	Floods, Dalby and storms, Qld	20	49	50
Feb	1983	Bushfire	Bushfires (Ash Wednesday)(single event), Vic	138	255	263
Feb	1983	Bushfire	Bushfires (Ash Wednesday(single event), SA	38	69	71
Nov	1984	Fire	Floods, NSW	80	132	136
Dec	1984	Bushfire	Bushfires, NSW	25	45	46
Jan	1985	Hail	Hailstorm, Brisbane, Qld	180	299	308
Jan	1986	Hail	Hailstorm, Orange, NSW	25	41	42
Jan	1986	Cyclone	T. Cyclone ‘Winifred’, Cairns to Ingham, QLD	40	65	67
Oct	1986	Hail	Hailstorm, Western Suburbs, Sydney, NSW	104	161	166
Apr	1988	Fire	Floods, Sydney, NSW	25	36	37
May	1988	Cyclone	T. Cyclone ‘Herbie’, Carnarvon to Denham, WA loss includes Korea Star	20	30	31
Feb	1989	Storm	Rainstorms, Melbourne, Vic	17	24	25
Apr	1989	Cyclone	T. Cyclone ‘Aivu’, Qld	26	35	36
Nov	1989	Hail	Hailstorm, Ballarat, Vic, 17-20	19	25	26
Dec	1989	Earthquake	Earthquake, Newcastle, NSW	800	1,124	1158
Feb	1990	Cyclone	T. Cyclone ‘Nancy’, Queensland and NSW	33	42	43
Mar	1990	Hail	Hailstorm, Sydney, NSW	319	384	396
April	1990	Fire	Floods, South Qld and Western NSW	30	38	39
Dec	1990	Fire	Flood and Wind, Qld,Coal Loss 32.0, (from T. Cyclone Joy) 30	62	75	77
Jan	1991	Storm	Storms, Sydney, NSW	226	257	265
Jan	1991	Hail	Hailstorm, Adelaide, SA	30	34	35
Dec	1991	Fire	Floods & Water Damage, Melbourne & Ballarat VIC	24	27	28

Feb	1992	Storm	Storm, Sydney, NSW	118	132	136
Jan	1994	Bushfire	Bushfires, NSW	58	63	65
May	1994	Storm	Windstorms, Perth, WA	37	40	41
Aug	1994	Earthquake	Earthquake, Cessnock, NSW	36	39	40
Nov	1994	Storm	Windstorms, NSW	29	31	32
Dec	1995	Hail	Hail Storms, S.E. QLD	40	42	43
May	1996	Fire	Floods, S.E. QLD	31	31	32
Sept	1996	Hail	Hailstorm, Armidale/Tamworth NSW	104	105	109
Dec	1996	Hail	Hailstorm, Singleton NSW	49	50	51
Dec	1997	Storm	Storms, Sydney, NSW	40	40	41
Jan	1998	Fire	Storms (T. Cyclone Sid) & Floods, Townsville, Thuringowa City, QLD	71	71	73
Jan	1998	Fire	Floods (ex. T. Cyclone Les),Katherine Northern Territory	70	70	72
Aug	1998	Storm	Storms/Flooding, Wollongong, NSW (50 is an estimate)	50	50	52
Oct	1998	Hail	Windstorm, S.E. QLD	23	23	24
Dec	1998	Hail	Hailstorm, Brisbane, QLD	76	76	78
Mar	1999	Cyclone	Cyclone Vance, Exmouth/Onslow	35	34	35
Apr	1999	Hail	Hailstorm, Sydney	1,700	1,669	1,720
Oct	1999	Storm	Storm, Sydney	40	39	40
Jan	2001	Storm	Storm, Casino		35	35
Mar	2001	Fire	Storm & Flood, NSW North Coast		25	25
Mar	2001	Storm	Severe Storm Flooding, Brisbane QLD		37	37

D The Commission's Request to Insurers

The Commission issued the following letter to selected insurers. This request was issued following a direction by the Minister to investigate reported premium increases. All insurers responded although there was no statutory requirement for them to comply.

Responses were examined for the following insurance companies.

- AAMI
- Allianz
- AMP/GIO
- CGU
- Fortis
- NMRA
- QBE
- ROYAL & SUNALLIANCE
- Zurich
- Munich Re
- Swiss Re

Each class of business list in the attachment to the Commission letter were included in our analysis.

12 June 2001

insert fields
ceo
company
address

Dear insert salutation

On 7 June 2001 the Hon. Joe Hockey MP, Minister for Financial Services & Regulation requested the Chairman of the Australian Competition and Consumer Commission to review and report on any significant recent increases in general insurance premiums.

It is in this context that I am writing to you requesting the details of, and the reasons for, any changes to your premium rates for certain classes of general insurance since 1 July 2000. Accompanying this letter is an attachment, **Appendix A,** outlining the classes of business that the Commission is requesting information about.

The Commission requests the following information for each of the classes of business set out in Appendix A, for each State and Territory in which you have accepted a policy proposal during the period 1 July 2000 to 12 June 2001 inclusive:

a) the average percentage change to premium rates;

b) the range and distribution of premium rate changes;

c) the monthly average percentage change to premium rates;

d) a description of the reasons for the premium rate changes relating to points a, b and c above;

e) if not specifically referred to above, a description of the impact of any applicable State taxation regime changes on premium rates; and,

f) if not specifically referred to above, a description of the impact of the failure of the HIH group of insurance companies on premium rates.

As you have previously provided the Commission with information regarding New Tax System related changes to premiums, this current request is only concerned with premium rate changes not related to the introduction of the New Tax System.
I would be pleased to receive your response by no later than close of business on **30 June 2001.**

Responses can be delivered to the Commission at:

- PO Box 1199, Dickson, ACT, 2602 or
- 7th Floor, 470 Northbourne Avenue, Dickson, ACT 2602

If you would like to discuss the matter, or have any questions about my request, please do not hesitate to call ……

Yours sincerely

John Grant
Executive General Manager
GST Operations Division

APPENDIX A

CLASSES OF BUSINESS

The classes of business the referred to in this letter are:

1. Industrial Special Risks (ISR)
Standard policy wordings exist for this type of policy. All policies which contain such standard wordings or where the wording is substantially similar are to be classified as ISR.

2. Fire
This class includes all policies normally classified as 'Fire' and includes:

> Sprinkler leakage, subsidence, windstorm, hailstone, crop, arson, loss of profits and any extraneous risk normally covered under fire policies, eg flood.

3. Houseowners/Householders - Contents
This class covers the common H & H policies relating to Contents insurance.

4. Houseowners/Householders - Other

This class covers the common H & H policies inclusive of:

> personal property, arson, burglary and public liability normally attached to these policies;

but exclusive of H&H contents insurance.

5. Compulsory Third Party Motor Vehicle (CTP)

This class consists only of CTP business.

6. Commercial Motor Vehicle

Motor vehicle insurance (including third party property damage) other than insurance covering vehicles defined below under Domestic Motor Vehicle. It includes long and medium haul trucks, cranes and special vehicles and policies covering fleets.

7. Domestic Motor Vehicle

Motor vehicle insurance (including third party property damage) covering private use motor vehicles including utilities and lorries, motor cycles, private caravans, box and boat trailers and other vehicles not normally covered by business or commercial policies.

/

8. Marine and Aviation

Includes Marine hull which includes pleasure craft, Marine cargo which includes sea and inland transit insurance and Aviation which includes aircraft hull and aircraft liability.

9. Professional Indemnity (PI)

Includes Directors' and Officers' liability insurance.

10. Public and Product Liability

Public liability covers legal liability to the public in respect of bodily injury or property damage arising out of the operation of the insured's business and product liability includes policies that provide for compensation for loss and/or injury caused by, or as a result of, the use of goods. Also includes environmental clean-up caused by pollution spills where not covered by ISR and Fire policies.

11. Employers' Liability (EL)

Includes Workers' compensation, Seamen's compensation and domestic workers' compensation.

12. Mortgage

Insurance against losses arising from failure of debtors to meet financial obligations to creditors or under which payment of debts is guaranteed. It includes lease guarantee.

13. Consumer Credit (CCI)

Insurance to protect a consumer's ability to meet the loan repayments on personal loans and credit card finance in the event of death or loss of income due to injury, illness or unemployment.

14. Travel

Insurance against losses associated with travel including loss of baggage and personal effects, losses on flight cancellations and overseas medical costs.

15. Other accident

Includes the following types of insurance:

a) Miscellaneous accident involving cash in transit, theft, loss of money,

b) All risks (Baggage, sporting equipment, guns),

c) Engineering (when not part of ISR or Fire policy),

d) Plate glass,

e) Guarantee (Insurance Bonds),

f) Live Stock,

g) Pluvius,

h) Construction,

i) Fidelity Guarantee,

j) Sickness and Accident: Provides stated benefits where the insured is killed or suffers loss of specific parts of the body or is prevented from carrying out the insured's normal occupation. In addition, regular benefits may be paid over a short period of time (typically less than three years), noting that continuous disability policies are now considered to be Life Insurance Policies and should not be provided by General Insurance companies.

16. Other

All other insurance business not specifically mentioned elsewhere (note that some of these types of insurance were categorised separately). This includes, for example:

a) Trade Credit

b) Extended Warranty

c) Legal Expense

d) Kidnap and Ransom

e) Contingency

17. Inward Treaty

A treaty which has been accepted for the account of a reinsurer.