



Australian
Competition &
Consumer
Commission

Determination

**Applications for revocation of authorisations
A30217 and A30218
and substitution of replacement authorisations A90997
and A90998**

lodged by

**Allianz Australia Insurance Limited
QBE Insurance (Australia) Limited
Insurance Australia Limited (trading as NRMA Insurance)**

in relation to:

*An unincorporated joint venture operating through an agent and trading as Community
Care Underwriting Agency (CCUA)*

Date: 6 July 2006

Authorisation nos.
A90997 and A90998

Public register no.
C2006/51

Commissioners

Samuel
Sylvan
Smith
McNeill
Willet

Executive Summary

The Applications

On 22 December 2005, Allianz Australia Insurance Limited (Allianz), QBE Insurance (Australia) Limited (QBE) and NRMA Insurance Limited (NRMA) – together the ‘Applicants’ – lodged application for the revocation of authorisation A30217 and A30218 and substitution of replacement authorisations A90997 and A90998 under section 91C of the *Trade Practices Act 1974* (the Act).

The Applicants are seeking re-authorisation of an unincorporated joint venture agreement – operating through an agent (QBE) and trading as Community Care Underwriting Agency (CCUA) – for the collective supply of public liability insurance to eligible ‘not for profit organisations’ (NFPOs) through a ‘co-insurance pool’.

The co-insurance pool arrangements were originally authorised in March 2004. Interim authorisation was first granted in November 2002. At the time authorisation was last considered it was generally accepted that the market within which public liability insurance was supplied had undergone, or was undergoing, a ‘crisis’. The poor performance of Australian insurance companies from 1998 was exacerbated by the collapse of the HIH Group of companies and the terrorist attacks in the United States. These events led to a ‘hardening’ (i.e. reduction in available capital leading to higher premiums and, in some cases, the exit of insurer’s from certain classes of insurance) of the public liability insurance market. This had a particularly detrimental effect on NFPOs due to their financial limitations.

One of the key elements of the original joint venture agreement was that each of the parties to the arrangements was *required* to refer NFPO business to the co-insurance pool. The latest application contains an important amendment to the joint venture agreement. That is that each of the Applicants are now *not* obliged to refer new NFPO business to the ‘co-insurance pool’ but may elect to do so on a case-by-case basis. This means that, in effect, each of the parties to the joint venture agreement are now not constrained from competing individually against the co-insurance pool.

Assessment of detriment and benefit

Public detriment

The ACCC considers that ‘softening’(i.e. increased capital availability leading to market entry and lower premiums) conditions in the market within which public liability insurance is supplied since authorisation was last considered and changes to the joint venture agreement have reduced both the anti-competitive detriments and the public benefits associated with the arrangements.

The ACCC is of the view that the anti-competitive detriment flowing from the proposed arrangements is likely to now be limited due to the increased level of competition in the market, improved conditions for market entry and the increased countervailing power of brokers. In addition, the ACCC considers that the amendment to the joint venture agreement may operate to reduce the level of anti-competitive detriment in that the Applicants are now not prevented from competing against each other for NFPO business, and in some cases may have a commercial incentive to do so.

However, the extent to which the Applicants will compete against each other for NFPO's business under the arrangements as amended is unclear given that they will continue to set the terms of supply for some NFPOs collectively. In turn, this may affect the terms on which they offer such insurance individually.

Further, to the extent that the agreement by the Applicants not to pay broker commissions in respect of NFPO business written by the co-insurance pool reduces the role of brokers in the market, this may also generate some public detriment.

Public benefits

The ACCC considers that market conditions have 'softened' since authorisation was last considered. This appears to have led to the increased availability and affordability of public liability insurance for NFPOs. This suggests that the public benefits associated with the co-insurance pool have reduced since authorisation was last considered.

The ACCC considers it possible that the co-insurance pool arrangements may continue to result in a limited public benefit to the extent that they improve the availability and affordability of public liability insurance for certain NFPOs. However, the ACCC considers that throughout its consideration of the current application, the Applicants have not provided specific evidence which establishes that the co-insurance pool would significantly impact on the availability or affordability of such insurance for NFPOs in the current market environment.

The ACCC does accept that the continuation of the co-insurance pool will allow its NFPO clients to avoid the one-off transition costs of moving to new insurance providers.

Balance of public detriment and public benefit

In its draft decision, the ACCC requested specific information (from the Applicant or other parties) to substantiate a claim that the co-insurance pool significantly improves affordability or availability of public liability insurance to NFPOs. The arrangements have now been in place for almost four years. If the arrangements were resulting in increased affordability or availability it would be expected that specific evidence of this would be available. The ACCC considers, however, that such information has not been forthcoming. The ACCC is therefore not convinced as to the substance of the claimed public benefits.

The ACCC notes that no pre decision conference was requested to discuss the draft determination, pursuant to section 90A of the Act.

On balance, the ACCC is not satisfied, on the basis of the information provided to it, that ongoing authorisation of the co-insurance pool arrangements is likely to result in a public benefit that will outweigh any public detriment.

The ACCC notes that many NFPOs are currently supplied public liability insurance by the co-insurance pool. While satisfied that without these arrangements these NFPOs would be able to find alternative insurance coverage, the ACCC notes that sourcing alternative public liability insurance may take some time. This potentially leaves some NFPOs without cover in the short term. However, the ACCC notes that the Applicants

were unable to provide specific examples to the ACCC of NFPOs they considered would be unable to obtain cover absent the arrangements.

Determination

While not proposing to grant ongoing authorisation, the ACCC considers that there is a net public benefit in authorising the arrangements for a short period to allow NFPOs currently sourcing public liability insurance from the co-insurance pool to find alternative arrangements.

On this basis, the ACCC revokes authorisations A30217 and A30218 and grants substitute authorisations A90997 and A90998 to the Applicants in respect of the joint venture arrangements which govern the operation of the CCUA co-insurance pool to:

- continue to write or renew policies up until 31 December 2006¹; and
- give effect to any policies until midnight 31 December 2007.

This will allow annual policies to continue to be written by the co-insurance pool up until 31 December 2006, and for these policies to be given effect to for their duration. Existing annual policies expiring after 31 December 2006 will also be able to be given effect to for their duration, although they will not be able to be renewed by the co-insurance pool. However, in these cases, NFPOs will have sufficient notice to find alternative arrangements.

Finally, the ACCC notes that the Act does not prevent pricing arrangements within genuine joint venture arrangements where these would not substantially lessen competition. Provided CCUA is confident that its arrangements do not have a substantial anti-competitive effect, it may be free to continue to offer policies albeit absent any agreement not to pay broker commissions.

¹ as long as such policies do not expire after midnight on 31 December 2007

List of abbreviations

ACCC	Australian Competition and Consumer Commission
Allianz	Allianz Australia Insurance Limited
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CCUA	Community Care Underwriting Agency
FSRA	Financial Services Reform Act 2001
HIH Group	Included: CIC Insurance, World Marine and General Insurance, FAI General Insurance, HIH Casualty and General Insurance, HIH Underwriting and Insurance (Australia) FAI Traders Insurance and FAI Reinsurance
Insurance Act	Insurance Contracts Act 1984
IAG	Insurance Australia Group
ICA	Insurance Council of Australia
IEC	Insurance Enquiries and Complaints Ltd
IMA	Insurance Manufacturers of Australia Pty Limited
The Ipp Review	Review of the law of negligence – October 2002
ISA	Insurance Statistics Australia Pty Ltd
MAV	Municipal Association of Victoria
NIBA	National Insurance Brokers Association
NFPO	Not For Profit Organisation
NRMA	NRMA Insurance Limited
Our Community	Our Community Pty Ltd
QBE	QBE Insurance (Australia) Limited
The Senate Review Committee	Senate Economics Reference Committee – A Review of Public Liability and Professional Indemnity Insurance – October 2002
SIA	Sports Industry Australia
SME	Small Medium Enterprise
Act	<i>Trade Practices Act 1974</i>
Trowbridge	Trowbridge Consulting Limited

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1 Introduction

Authorisations

- 1.1 The Australian Competition and Consumer Commission (ACCC) is the independent Australian Government agency responsible for administering the *Trade Practices Act 1974* (the Act). A key objective of the Act is to prevent anti-competitive conduct, thereby encouraging competition and efficiency in business, resulting in a greater choice for consumers in price, quality and service.
- 1.2 The Act, however, allows the ACCC to grant immunity from legal action for anti-competitive conduct in certain circumstances. One way in which parties may obtain immunity is to apply to the ACCC for ‘authorisation’.
- 1.3 Broadly, the ACCC may ‘authorise’ businesses to engage in anti-competitive arrangements or conduct where it is satisfied that the public benefit from the arrangements or conduct outweighs any public detriment.
- 1.4 The ACCC conducts a comprehensive public consultation process before making a decision to grant or deny authorisation.

Revocation and substitution of authorisations

- 1.5 Section 91C of the Act allows a party to apply to the ACCC to have their existing authorisation revoked and to have a substitute authorisation granted in its place. Before the ACCC may grant an application to revoke an existing authorisation and grant a substitute authorisation, it must assess the proposed substitute authorisation in the same manner that it would consider a new authorisation application.
- 1.6 In this instance, the ACCC must consider the proposed conduct against the relevant tests set out in sections 90(6), 90(7) and 90(8) of the Act.
- 1.7 In making its decision, the ACCC conducts the same public consultation process as it would for a new application for authorisation, including informing interested parties about the application, inviting submissions and issuing a draft and final determination. The ACCC invited further submissions prior to issuing this final determination.

The current applications

- 1.8 On 22 December 2005, Allianz Australia Insurance Limited (Allianz), QBE Insurance (Australia) Limited (QBE) and NRMA Insurance Limited (NRMA) – together the ‘Applicants’ – lodged application for the revocation of authorisation A30217 and A30218 and substitution of replacement authorisations under section 91C of the Act.

- 1.9 The Applicants are seeking re-authorisation of an unincorporated joint venture agreement – operating through an agent and trading as Community Care Underwriting Agency (CCUA) – for the collective supply of public liability insurance to eligible ‘not for profit organisations’ (NFPOs) through a ‘co-insurance pool’. The Applicants are seeking re-authorisation for a period of five years.
- 1.10 The ACCC originally authorised the joint venture arrangement on 24 March 2004. This authorisation is due to expire on 31 December 2006.²
- 1.11 The substantive difference with respect to the current application is an amendment to the joint venture agreement. This amendment, made on 11 August 2005, means that the joint venture participants are now *not* obliged to refer new NFPO business enquiries received by any of them individually to the ‘co-insurance pool’. Rather, they may elect to do so on a case-by-case basis.
- 1.12 In lodging this application, the Applicants have sought authorisation to:
- make a contract or arrangement, or arrive at an understanding, where a provision of the proposed contract, arrangement or understanding would be, or might be, an exclusionary provision within the meaning of section 45 of the Act;
 - give effect to a provision of a contract, arrangement or understanding where the provision is, or may be, an exclusionary provision within the meaning of section 45 of the Act;
 - make a contract or arrangement, or arrive at an understanding, a provision of which would have the purpose, or would have or might have the effect, of substantially lessening competition within the meaning of section 45 of the Act; and
 - give effect to a provision of the contract, arrangement or understanding which provision has the purpose, or has or may have the effect, of substantially lessening competition within the meaning of section 45 of the Act.

Interim authorisation

- 1.13 At the time of lodging the application, the applicants also requested that the ACCC grant interim authorisation under section 91 (2) of the Act to the arrangements pending the outcome of the full authorisation application. While the existing authorisation does not expire until 31 December 2006, the effect of this time limit is that the existing authorisation does not extend to the continued giving effect to annual policies written after 31 December 2005, after 31 December 2006.³ The Applicants argued that this significantly impacts on their ability to write new annual business, or accept annual renewals, after 31 December 2005.

² Interim authorisation was initially granted to the arrangements on 28 November 2002.

³ The Applicants have advised that the ‘vast majority’ of policies are written on an annual basis.

- 1.14 Therefore, the Applicants sought interim authorisation so as to allow it to continue to write annual policies while the application is being considered.
- 1.15 On 1 February 2006, the ACCC granted interim authorisation to the arrangements for the period 1 January 2007 until 12 months after the ACCC issues a final determination in respect of the substantive applications.

Draft Determination

- 1.16 On 4 May 2006, the ACCC issued a draft determination proposing to revoke authorisations A30217 and A30218 and grant substitute authorisations to the Applicants in respect of the joint venture arrangements which govern the operation of the CCUA co-insurance pool to:
- continue to write or renew policies up and until 31 December 2006 and
 - give effect to any policies until 31 December 2007.
- 1.17 The ACCC requested submissions from interested parties by 25 May 2006.
- 1.18 In reply, following the draft determination, the ACCC received substantive submissions from the Applicants and the Council of Social Service of New South Wales. The ACCC notes that no pre decision conference was requested to discuss the draft determination, pursuant to section 90A of the Act.

2 The Applicants

The Applicants

Allianz Australia Insurance Limited

- 2.1 Allianz is a wholly owned subsidiary of the worldwide Allianz Group. It is Australia's fifth largest general insurance provider with over 2 million policy holders and a combined premium income of over \$2.4 billion.⁴
- 2.2 Through its subsidiaries, Allianz offers a wide range of insurance and risk management products and services, including:
- workers compensation (it is one of the leading private workers compensation insurers in Australia, providing cover for approximately one in five Australian employees)
 - personal lines (home & contents, motor, boat and travel insurance)
 - industrial and commercial insurance
 - corporate insurance
 - public and product liability insurance
 - loss control and risk management strategies and
 - injury Management and Occupational Health and Safety Strategies.

QBE Insurance (Australia) Limited

- 2.3 QBE is part of the QBE Insurance Group Limited, which is one of Australia's largest general insurance and reinsurance groups. For the year ended 31 December 2005, QBE Insurance Group Limited announced a record net profit after tax of \$1,091 million, an increase of 27 per cent from the previous year. It also announced a gross written premium of \$9,408 million, up 7 per cent from the previous year.⁵
- 2.4 QBE's (Australia) portfolio mix for the year ended 31 December 2005 was as follows (as a percentage of gross earned premium):
- professional indemnity (5.2 per cent)
 - credit and surety (4.7 per cent)
 - accident and health (7.3 per cent)
 - property (16.6 per cent)
 - motor vehicle (9.3 per cent)
 - travel (1.8 per cent)

⁴ See <http://www.allianz.com.au/allianz/AU+Allianz+Australia.html>

⁵ QBE Insurance Group, *Results Announcement 2005*, 23 February 2006.

- householders (10.6 per cent)
- compulsory third party (7.4 per cent)
- general liability (18.7 per cent)
- workers compensation (8.2 per cent)
- marine and aviation (4.6 per cent) and
- other (5.6 per cent).⁶

2.5 The 18.7 per cent figure attributed to ‘general liability’ insurance compares to 18.2 per cent from the previous year (i.e. year ended 31 December 2004).

NRMA Insurance Limited

2.6 NRMA is part of the Insurance Australia Group (IAG). IAG is the leading general insurance group in Australia and New Zealand, serving over 3.8 million customers in Australia. For the half-year ended 31 December 2005, it announced a net profit after tax (attributable to owners of ordinary shares) of \$461 million. It also announced a gross written premium of \$3,206 million.⁷

2.7 IAG’s core lines of insurance offerings include:

- home
- motor vehicle
- health
- commercial
- consumer credit
- extended warranty
- compulsory third party and
- workers compensation.

⁶ QBE Insurance Group, *Annual Report December 2005*, p. 24.

⁷ Insurance Australia Group, *Fact Sheet – Results for the six months to 31 December 2005*, 23 February 2006.

3 The existing authorisations

The original application for authorisation

3.1 On 22 October 2002, Allianz, QBE and NRMA – together the ‘Applicants’ – sought authorisation for a joint venture for the collective supply of public liability insurance to eligible NFPOs through a ‘co-insurance pool’. The applications were made under subsection 88(1) of the Act and sought authorisation to:

- make and give effect to a contract, arrangement, or understanding; a provision of which would be or might be an exclusionary provision within the meaning of section 45 of the Act (A30217); and
- make and give effect to a contract, arrangement, or understanding; a provision of which would have the purpose or would have or might have the effect of substantially lessening competition in a market within the meaning of section 45 of the Act (A30218).

3.2 In summary, the terms of the original joint venture agreement:

- outline each participants share in the agreement;
- outline the eligibility criteria for an NFPO;
- stipulate that all new applications for public liability insurance by NFPOs *must be* referred to the co-insurance pool;
- provide that commissions *would not* be paid to insurance brokers who place NFPOs seeking public liability insurance with the co-insurance pool;
- outline the collective determination of terms and conditions, policy wording and underwriting;
- determine the model to be applied in setting premiums; and
- determine the jurisdictional operation of the co-insurance pool.

Other than the changes to the terms of the joint venture agreement (referred to in paragraph 1.11) such that new applications need not be referred to the co-insurance pool, the current application is for re-authorisation on the same terms as the original authorisation. Each of these terms is discussed in more detail below.

Shares in the joint venture

3.3 Clause 3.2 of the joint venture agreement states that the shares in the joint venture of each participant are:

- Allianz – 25 per cent;
- QBE – 37.5 per cent; and
- NRMA Insurance – 37.5 per cent.

Eligibility

- 3.4 As noted, the joint venture agreement provides for the collective supply of public liability insurance through a co-insurance pool to eligible NFPOs. For an NFPO to be eligible it needs to:
- provide services to the broader community;
 - have a NFPO tax status or turnover/funding of less than \$5 million per annum;⁸
 - not distribute profits to its members; and
 - comprise mainly of volunteer members.
- 3.5 The Applicants note that NFPOs which are most likely to meet these criteria are those involved in the areas of:
- personal services;
 - cultural and recreational services – small sporting groups;
 - services to the arts – local music and drama groups;
 - creative arts – artists operating under government grants;
 - health and community services – welfare and community groups;
 - interest groups – pensioner groups, ratepayers associations and the like; and
 - community radio and television operators.
- 3.6 The Applicants submit that the arrangements do not provide coverage for larger organisations with the financial capability to purchase public liability insurance such as:
- religious organisations;
 - semi-government bodies; and
 - national and state sporting bodies.
- 3.7 The arrangements include an internal dispute resolution process to consider appeals against whether or not an organisation qualifies as an NFPO and to consider complaints in respect of claims.

Referring of new business to the pool

- 3.8 The joint venture agreement provided that each of the Applicants could continue to supply public liability insurance to those NFPOs with whom it had an existing public liability insurance arrangement prior to the establishment of the CCUA co-insurance pool.

⁸ The joint venture agreement originally stipulated turnover/funding of less than \$2 million per annum. This aspect of the joint venture agreement was amended.

- 3.9 Clause 3.11 of the joint venture agreement originally stipulated that the Applicants must refer all new applications for public liability insurance by NFPOs to the co-insurance pool. The Applicants were prevented from individually offering public liability insurance to a NFPO unless the co-insurance pool had advised that it was not prepared to offer public liability insurance to an NFPO.
- 3.10 As noted in paragraph 1.11, this clause has now been amended in the current application such that each of the Applicants are now *not* obliged to refer new NFPO business to the co-insurance pool, but may elect to do so on a case-by-case basis.

Restriction on broker commission

- 3.11 The joint venture agreement provides that the Applicants will not pay commission to insurance brokers who place NFPOs seeking liability insurance with the co-insurance pool.
- 3.12 Specifically, clause 5.2 of Schedule 4 to the joint venture agreement provides that the agent, appointed by the Applicants to act for each co-insurance pool member in connection with arranging business through the pool, must not pay, or agree to pay, money or any other form of benefit to any broker or other person in relation to a contract of insurance provided by the co-insurance pool.

Collective determination of terms and conditions, policy wording and underwriting

- 3.13 Schedule 1 to the joint venture agreement establishes the terms and conditions upon which public liability insurance will be offered by the co-insurance pool. It provides that the contract of insurance will be based on a standard liability policy wording agreed by the applicants with the following modifications:
- the definition of ‘employee’ will include volunteers⁹ so that they are not considered to be third parties
 - there will be a ‘participant-to-participant’ exclusion
 - there will be a child molestation/sexual abuse exclusion
 - the territorial limits will be to be restricted to Australia only, although the policy could be extended to cover overseas trips on a case-by-case basis
 - the care, custody and control sub-limit shall be removed
 - it will remove vicarious professional liability and cover first aid only
 - the limits of liability are inclusive of defence costs

⁹ A ‘volunteer’ means a person who carries out community work on a ‘voluntary basis’. In this context, ‘voluntary basis’ means that the person receives no remuneration for the work; or is only remunerated for the reasonable expenses incurred while performing that work.

- the maximum limit of liability is \$10 million per policy per claim subject to higher limits being available if approved by the CCUA Management Committee
- a minimum deductible of \$1,000 per occurrence will apply with higher levels of deductible being imposed on particular exposures and
- an exclusion for various provisions of the Act and ancillary legislation.

Model used to set premiums

- 3.14 Schedule 2 to the original joint venture agreement establishes underwriting guidelines to be applied by the CCUA agent (QBE) of the co-insurance pool in determining the premium applicable to an individual NFPO contract of insurance.
- 3.15 Premiums are initially determined based on the following criteria:
- type of activity
 - size of organisation
 - claims history and
 - risk analysis.
- 3.16 These criteria determine whether a NFPO presents a low, medium or high hazard. Examples of low, medium and high hazards include:
- *low hazard* – book clubs, rostrum clubs and community arts
 - *medium hazard* – historical associations, street markets and eisteddfods and
 - *high hazard* – crisis centres, fetes and pony clubs.
- 3.17 Once an NFPOs hazard level premium has been determined, the underwriting guidelines provide for the application of a ‘multiplier factor’. The multiplier factor is determined based upon consideration of ‘exposure measures’. Examples of exposure measures include the:
- number of attendees
 - turnover
 - total funding – government and non-government
 - number of stallholders
 - number of full/part-time staff and volunteers
 - number of beds
 - frequency and nature of events and
 - full range of activities undertaken.

- 3.18 The multiplier factor is then applied to the initial premium value to determine the final premium payable.
- 3.19 The underwriting guidelines also provide that an eligible NFPO may be excluded from cover if they have a poor loss history, are an unduly high risk and/or have an overseas exposure. They also state that parties seeking cover of this type may be provided cover on different conditions with the approval of the CCUA Management Committee.

ACCC decision in 2004

- 3.20 The ACCC first granted interim authorisation to applications for authorisations A30217 and A30218 on 28 November 2002.
- 3.21 On 24 March 2004, the ACCC issued a determination granting *conditional* authorisation to the arrangements until 31 December 2006.
- 3.22 At the time, the ACCC considered that the co-insurance pool was likely to have a detrimental effect on competition. In particular, the ACCC expressed its view that the proposed arrangements would further concentrate the relevant market (determined to be the national market for public and product liability insurance) and may have the effect of increasing barriers to entry. The ACCC also expressed a concern that the co-insurance pool was unlikely to be significantly constrained by competitive forces of the countervailing power exercise by brokers.
- 3.23 That said, the ACCC also considered that there were likely to be public benefits flowing from the authorisation of the co-insurance pool. In particular, the ACCC considered that the co-insurance pool was likely to result in improved availability of public liability insurance to eligible NFPOs and, to the extent that the agreement not to pay broker commissions was passed on through lower premiums, improved affordability.
- 3.24 Overall, the ACCC considered that there was some uncertainty about whether the public benefits of the arrangements outweighed the public detriments. However, it considered that the imposition of certain conditions would reduce this uncertainty such that it could be satisfied that the public benefits of the arrangements would outweigh the public detriment.
- 3.25 Therefore, the ACCC granted authorisation to the co-insurance pool subject to conditions that:
- the Applicants collect and publish relevant data so as to establish the effects of the arrangements
 - the co-insurance pool implement a complaints handling procedure and
 - complaints received and the outcome of complaints be reported to the ACCC on a quarterly basis.

- 3.26 The ACCC notes that no substantive complaints against the co-insurance pool have been made through the complaints handling process since the authorisation was granted.

4 Industry background¹⁰

General insurance

- 4.1 Insurance is the commercial relationship by which an insurance company agrees to pay the insured a sum of money as compensation on the occurrence of a specified event causing loss to the interests of the insured. The insured party pays an amount, known as a 'premium', in consideration.¹¹
- 4.2 In Australia, the Australian Prudential Regulation Authority (APRA) has responsibility for the licensing and prudential regulation of general insurance companies.¹² The products provided by general insurance companies can be divided into nine main classes:
- domestic motor
 - home
 - commercial third party (CTP)
 - accident and travel
 - fire and industrial special risk
 - commercial motor
 - public and product liability
 - marine and
 - other.
- 4.3 The major sales avenue for insurance is through companies' own outlets, or through intermediaries – namely, agents or brokers. Brokers carry on the business of arranging contracts of insurance on behalf of policyholders and also sell insurance on behalf of one or more insurers.
- 4.4 Entry into the general insurance industry requires entities to:
- gain knowledge of their targeted market segments
 - enter at a level sufficient to claim the necessary economies of scale
 - attract necessary capital
 - establish distribution channels and

¹⁰ The information contained in this section is sourced from the ACCC's Fifth Monitoring Report (August 2005) on Public Liability and Professional Indemnity Insurance, JP Morgan and Deloitte 2005 *General Insurance Industry Survey* – 8 November 2005, www.asic.gov.au, www.apra.gov.au, www.apf.gov.au, www.qbe.com.au, www.allianz.com.au, www.iag.com.au, the Applicants' submission on 22 December 2005, their original submission on 22 October 2002 and submissions made by interested parties in relation to this (and the previous) application for authorisation.

¹¹ Business Law, 11th Edition, Peter Gillies, 2003 at page 716.

¹² APRA is also responsible for the prudential regulation of banks, superannuation funds, credit unions, building societies and friendly societies.

- obtain staff with the skills to write for the business.

Previous ‘crisis’ in public liability insurance

- 4.5 Anecdotal evidence suggests that the markets within which general insurance was supplied (including the market within which public liability insurance is supplied), were highly competitive in the mid-to-late 1990s. By about 1998, however, many insurers were realising losses from public liability insurance and either increasing premiums, cutting back the amount/type of business they were willing to write, or pulling out of the public liability insurance market altogether.
- 4.6 Subsequently, the poor performance of Australian insurance companies was exacerbated by two large and unusual events in 2001.
- 4.7 The first of these occurred in March 2001 when the HIH Group of companies was placed in liquidation. The HIH Group of companies represented around one-eighth of the domestic insurance market (as measured by premium revenue) as was widely regarded as being a ‘price leader’, particularly in the mid to late 1990’s. Based on information available during the ACCC’s previous assessment of the co-insurance pool arrangements, had the HIH Group been included in the 2001 APRA statistics, the general insurance losses in 2001 reported by APRA would have been in excess of \$4 billion.¹³
- 4.8 The second event was the terrorist attacks in the United States on 11 September 2001. This event has been estimated to have resulted in insured losses in the range of US\$20 to US\$40 billion.
- 4.9 These events lead to a major reduction in available capital and increase in the cost of reinsurance, and a corresponding increase in insurance premiums. This ‘hardening’ of the public liability insurance market had a particularly detrimental effect on NFPOs and resulted in the cancellation of some community events due to the inability of NFPOs to obtain appropriate public liability insurance.¹⁴
- 4.10 To address this concern several public liability insurance related initiatives were introduced by a range of industry stakeholders, including governments, insurers and NFPO umbrella organisations. The co-insurance pool application with respect to public liability insurance for NFPOs, was one such initiative.

Reforms, monitoring programs and industry initiatives

- 4.11 Commonwealth, state and territory governments participated in several joint ministerial meetings between 2002 and early 2004 and agreed to a series of reforms to address the perceived problems of affordability and availability of certain classes

¹³ ACCC, *Second insurance industry pricing review*, September 2002, p. 18.

¹⁴ The previous determination on the CCUA arrangements (28 March 2004) noted that anecdotal evidence provided to the Commonwealth Department of Treasury suggested that many NFPOs experienced significant increases in the price of public liability insurance premiums over the course of 2002, and that some NFPOs were unable to obtain cover, despite not having made a claim under their insurance policy in the many years they had held it.

of insurance – notably, public liability and professional indemnity insurance. These reforms included:

- changes to the application of tort law
- legal system reforms
- prudential reforms
- the implementation of data collection and publication exercises and
- initiatives by governments and industry stakeholders.

Tort reforms

- 4.12 The major types of tort reforms implemented by 31 December 2004 included the capping of damages for economic loss (i.e. loss of past and/or future income) and non-economic loss (i.e. pain and suffering) as well as the capping of legal costs. Other reforms included the introduction of minimum thresholds of minimum impairment for access to damages for non-economic loss, limitation periods for personal injury claims and waivers for risky activities.

Legal system reforms

- 4.13 In July 2002 a Negligence Review Panel, chaired by Justice Andrew Ipp (the Ipp Review) was jointly established by Commonwealth, State and Territory Governments. The Terms of Reference stated that *'it is desirable to examine a method for the reform of the common law with the objective of limiting liability and quantum of damages arising for personal injury and death'*. The Ipp Review Final Report was released on 15 October 2002
- 4.14 In relation to NFPOs, the Final Report recommended that there should be no provision exempting NFPOs from damages claims for death and personal injury caused by negligence or limiting their liability for such damages. However, the Ipp Review made recommendations, the effect of which are to limit liability for the materialisation of obvious risks of recreational services (Recommendation 11) and to exclude liability for failure to warn of obvious risks in any circumstances (Recommendation 14).¹⁵ The Ipp Review considered that these recommendations will make significant contribution towards furthering the objectives relating to NFPOs.¹⁶
- 4.15 By November 2002, all governments agreed to implement the recommendations of the Ipp Review.¹⁷ The Insurance Council of Australia (ICA) notes that the States and Territories have effectively completed their public liability law reforms and

¹⁵ Final Report of the Review of the Law of Negligence page 59 paragraph 4.3

¹⁶ Further information regarding tort reforms implemented by state and territory governments can be found in the ACCC's *Public liability and professional indemnity insurance* monitoring reports (July 2003, January 2004).

¹⁷ Insurance Council of Australia, *Industry Response to the Liability Challenge in Australia*, July 2005, p.9.

that most have also introduced Professional Standards and proportional liability reforms. Further, the ICA notes that in February 2006 the final major piece of legislation – the *Trade Practices Amendment (Personal Injuries and Death) Bill* was passed by the Federal Parliament.¹⁸

Prudential reforms

- 4.16 A new framework for the prudential regulation of Australian general insurers became effective on 1 July 2002. This new framework aimed to strengthen and modernise the prudential requirements applying to general insurers in Australia.¹⁹ For example, APRA now imposes stronger requirements in relation to both financial soundness (liability valuation and capital adequacy²⁰) and risk management (particularly in relation to governance and reinsurance). These reforms, coupled with new legislative provisions, strengthen APRA's capacity to intervene in the affairs of an ailing insurer.²¹

Data collection: APRA's role

- 4.17 APRA's prudential reporting framework for general insurers changed significantly with the introduction of the *Financial Sector (Collection of Data) Act 2001* and prudential and reporting standards that took effect on 1 July 2002. APRA now releases a *Quarterly General Insurance Statistics* publication, and also a quarterly *Insight* that provides editorial on the wide range of APRA's interests as prudential regulator.²²
- 4.18 In January 2005, at the request of the Federal Government, APRA launched a National Claims and Policies Database (NCPD) for 'public and product liability' and 'professional indemnity' insurance. All APRA-regulated insurers that provide these types of insurance policies are required to contribute claims and policies data to the NCPD. Other organisations, such as state and territory insurers also submit data to the NCPD. The first data collection occurred in early 2005 and included claims and policies data for the period from 1 January 2003 to 31 December 2004.

¹⁸ Insurance Council of Australia, *Briefing Note: Tort Laws Reformed – Outcomes Being Achieved*, March 2006.

¹⁹ One interested party (which requested that its submission be kept confidential), however, submitted that the new prudential regime was introduced quickly and with little consultation meaning that insurance capacity was quickly and substantially decreased due to more capital being required to underwrite long tail classes of insurance (such as public liability) and, also, the requirement that insurers' reserves for such classes be increased.

²⁰ From 1 July 2002, under APRA's new prudential regime, capital requirements for general insurers became a risk-based measure where higher requirements are placed on insurers with higher risks. In addition, the absolute minimum capital requirement (MCR) for an authorised general insurance company was increased from \$2 million to \$5 million.

²¹ In its quarterly bulletin (*Insight*) for the 3rd quarter of 2005, APRA indicated that further work is required to strengthen the prudential supervision framework for general insurance.

²² In late 2005, APRA released its proposal for a new bi-annual statistical publication on the insurance industry. It released a consultation document on 30 September 2005 and invited submissions by 16 November 2005. APRA has not yet indicated when this publication will be released.

- 4.19 The NCPD is designed to provide insurers, the community and the government with a better understanding of these types of insurance, and enable them to identify trends and implement changes to reduce the number of claims or lower the cost of claims. The NCPD is also designed to make these products more affordable and available by providing insurers with detailed information to help them assess risks and determine appropriate premiums for these insurance products; and through also helping insurers to develop or enhance the products available to policyholders in the future.

Data collection: ACCC's role

- 4.20 At a 30 May 2002 ministerial meeting on public liability insurance, all participating ministers unanimously agreed to an ongoing role for the ACCC in monitoring the insurance industry.²³ Since July 2003, the ACCC has published bi-annual monitoring reports on public liability and professional indemnity insurance specifically. The last report (fifth in the series) was published by the ACCC on 11 August 2005 and included a specific section on NFPOs.

Government and industry initiatives

- 4.21 Aside from the co-insurance pool which is the subject of this determination, a number of other initiatives have been implemented by Government and industry (often in combination) to address the issue of ensuring affordable public liability insurance for NFPOs.
- 4.22 For example, in August 2002, the Queensland Government announced that it would develop a group purchasing insurance scheme for NFPOs that had difficulty in obtaining public liability insurance. Following a competitive tender process, Suncorp-Metway was appointed as underwriter to the scheme with AON Risk Services appointed to provide liaison services between NFPOs and Suncorp-Metway.
- 4.23 The ACCC understands that there are a number of NFPOs participating in this scheme. The Queensland Government has also published a 'Public Liability Information' brochure which includes information on tort law reform, risk management, duty exemptions on premiums and insurance price monitoring, as well as relevant frequently asked questions.
- 4.24 In May 2002, Civic Mutual Plus, operated by the Municipal Association of Victoria (MAV), commenced a public liability insurance scheme for NFPOs. The scheme defined 'eligible' NFPOs as those that:
- provide public benefit or serve a charitable purpose

²³ On 5 July 2002 the then Parliamentary Secretary to the Treasurer, Senator the Hon. Ian Campbell, asked the ACCC to monitor costs and premiums in the public liability and professional indemnity sectors of the insurance industry on a six-monthly basis over a two-year period. The monitoring period has subsequently been extended, though reports are now provided by the ACCC on an annual basis.

- support the social fabric of the community
- are not controlled or appointed by the business or government sectors and
- do not return profits to the owners or managers.

According to the Civic Mutual Plus website, for 2005, the scheme had around 130 members.

4.25 In its latest monitoring report (released July 2005), the ACCC noted that there are several organisations that either provide, or help provide, insurance to the ‘not-for-profit’ sector. These included:

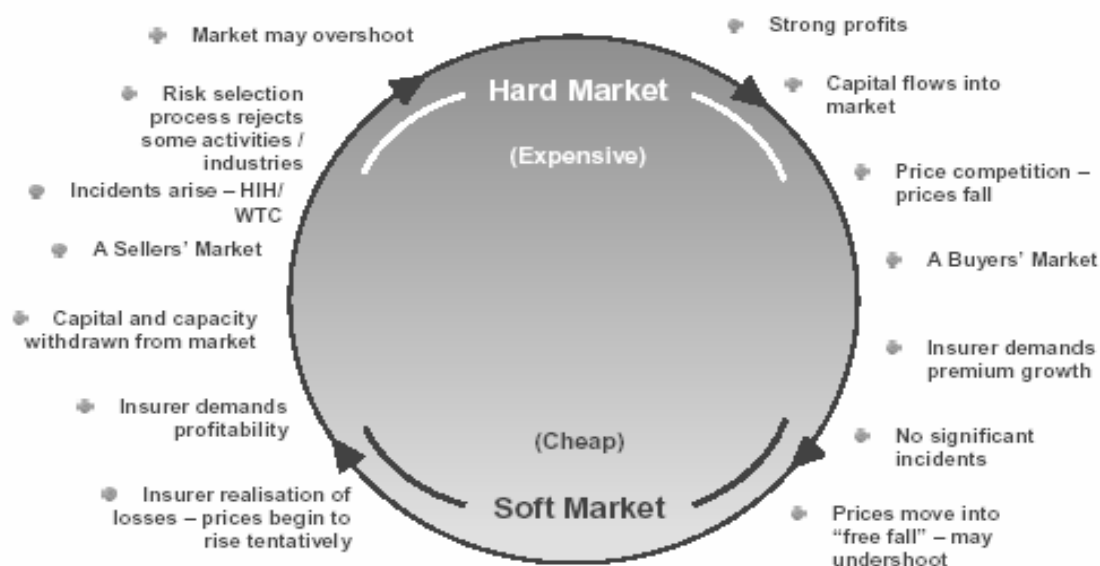
- the Community related Insurance and Superannuation Program (CRISP) which is a program of the NSW Meals on Wheels Association and is available to any NFPO within Australia
- Brokers AON Risk Services and the Council of Social Service of NSW (NCOSS) have created NCOSS Community Cover which is a bulk buying program that helps a range of NFPOs obtain public liability insurance policies through licensed insurance companies
- Catholic Church Insurances Limited (CCI) offer a full range of insurance products, including liability personal accident insurance, to parishes, schools (and other education facilities), hospitals, nursing homes, welfare organisations and other religious institutions in Australia
- The Ecclesiastical Insurance Group (EIG) acquired the Australian, New Zealand and UK subsidiaries of Ansvar Insurance to form EIG-Ansvar. EIG-Ansvar provides insurance primarily for church groups, but also provides insurance for care homes, retirement villages and independent schools in Australia.

Current state of the insurance sector in Australia

General insurance

4.26 According to a March 2002 report by Trowbridge Consulting (the ‘Trowbridge Report’) the insurance industry is notorious for its cyclical behaviour. An overview of a typical insurance cycle, as described in the Trowbridge Report, is shown in Figure 1 below.

Figure 1: Insurance Market Cycle



- 4.27 At the time the Applicants made their original application for authorisation, the general consensus appeared to be that the insurance market was in a 'hard' phase. According to the Trowbridge Report, the Australian general insurance market began to enter a 'hard' phase in June 2000. This situation was then exacerbated by the previously described 'external shocks' in 2001.²⁴ Anecdotal evidence presented to the ACCC, as well as the Senate Review Committee,²⁵ suggested that these market conditions had a particularly adverse effect on NFPOs.
- 4.28 It appears, however, that the state of the general insurance industry in Australia has changed considerably since authorisation was substantively granted in March 2004 and even more so since interim authorisation was first granted in November 2002.
- 4.29 In a broad sense, APRA's monitoring reports of this sector indicate that there has been an ongoing trend of industry consolidation since 1998. This trend appears to have continued from 2002 to the latest monitoring period. As at 30 March 2005, there were 89 active direct insurers in Australia, compared to 97 at 30 June 2002.²⁶ Also, there were 15 active reinsurers and 32 inactive institutions (being those institutions whose quarterly revenues are below \$200,000 and quarterly unearned premiums are below \$500,000), compared with 20 and 26 respectively as at 30 June 2002.

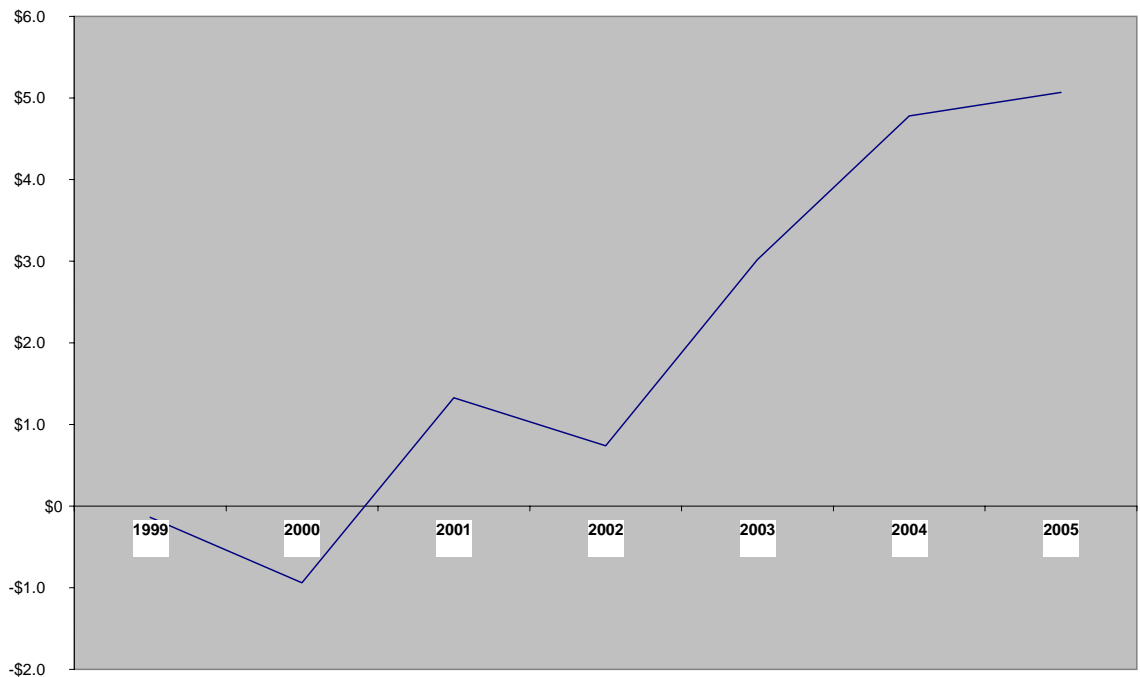
²⁴ According to one confidential interested party submission, the situation in 2002 was also exacerbated by APRA's hastily implemented prudential reforms which mandated that relatively more capital was required to underwrite long tail classes of insurance (such as public liability).

²⁵ Senate Economics Reference Committee – A Review of Public Liability and Professional Indemnity Insurance – October 2002

²⁶ There comprised 30 diversified insurers (being direct insurers who are active in six or more lines of business) and 59 other insurers (being direct insurers who are active in less than six lines of business).

- 4.30 As in 2002, the current market is comprised of Australian-based insurers as well as a number of overseas insurers. This includes the operation in the Australian market of a number of affiliates of leading overseas insurance companies.
- 4.31 One interested party has suggested that industry consolidation has had a negative effect on competition. However, APRA observes that the gradual decline in the number of general insurers since the peak in 1998 means that major insurers now have the size and diversity to handle major loss events with little impact on the balance sheet.²⁷
- 4.32 The profitability of the general insurance industry has improved significantly since 2002. According to APRA, total industry ‘net profit after tax’ for the year ended 30 June 2005 was \$5,067 million. Figure 2 below illustrates the trend of net profit (or loss) registered by the insurance industry in Australia over the last six years.

Figure 2: Australian Insurance Industry – Net profit/loss over last 6 years (\$ billion)



- 4.33 As the above figure shows, the net profitability of the industry as at 30 June 2005 is substantially higher than the net profitability of the industry around the time of the CCUA’s original application for authorisation (approximately \$0.74 billion). Moreover, the current industry net profitability levels are in contrast to the negative net profit levels reported by APRA for 1999 and 2000.

²⁷ APRA, *Insight*, 3rd Quarter 2005, p. 4.

- 4.34 Further evidence of the health of the insurance industry can also be seen by considering the latest return on equity (ROE) result.²⁸ At 30 June 2005, the ROE of the insurance industry was 21.0 per cent, marginally above the 20.6 per cent from June 2004. Moreover, this ROE result is substantially higher than those for the period 1999 to 2003 which ranged from -1.0 to 15.0. More recently, for the year ended 31 December 2005 the ROE result was 21.5 per cent.²⁹
- 4.35 Total assets for the general insurance sector have also improved. For the year ended 30 June 2005, total assets for the sector were valued at \$80.1 billion. This is an increase of 2.2 per cent on 2004, 5.5 per cent on 2003 and 23 per cent on 2002.³⁰ At 31 December 2005, total assets for the insurance industry were \$82.3 billion, an increase of 4.9 per cent on 2004, the previous year.³¹
- 4.36 Of itself, overall industry profitability levels and increasing asset stocks do not necessarily indicate that competition has increased in the insurance sector. However, as Figure 1 suggests, strong profitability is typically considered a precursor to a 'softening' of market conditions in the insurance sector. This is because as capital flows back into the market, insurance companies could be expected to re-enter to supply certain classes of insurance. Increased entry across classes of insurance could be expected to lead to price competition between companies which begins to place downward pressure on premium rates.
- 4.37 The information examined by the ACCC in the context of the current application suggests that this 'softening' has taken place in certain elements of the Australian insurance industry. For example, the *2005 General Insurance Industry Survey* released by JP Morgan/Deloitte indicates that premium rates for a number of types of commercial insurance fell in 2004 and 2005³², while premium rates for domestic classes of insurance (i.e. domestic motor and household insurance) increased – though by less than in previous years.³³
- 4.38 This survey also reveals that the insurance industry itself anticipates that premium rates for commercial insurance will fall even further in 2006.³⁴ This evidence has

²⁸ Strictly, ROE = Net Income/Shareholders Equity. Essentially, the ROE measures how much money profit a company (or in this case, an industry) generates with the money shareholders have invested in it.

²⁹ APRA, Quarterly General Insurance Performance, December 2005 (issued 6 April 2006)

³⁰ APRA, *Insight*, 3rd Quarter 2004, p. 5.

³¹ APRA, Quarterly General Insurance Performance, December 2005 (issued 6 April 2006).

³² For example, the survey indicates the following premium movements in 2004 and 2005 respectively: Fire & ISR (-7 per cent, -14 per cent), Commercial Motor (-8 per cent, -6 per cent), Liability (+3 per cent, -11 per cent), Professional Indemnity (+6 per cent and -12 per cent), Workers Compensation (-9 per cent, 0 per cent).

³³ The increase in domestic motor insurance premiums over 2004 and 2005 respectively was +2 per cent and +2 per cent while the 'average increase' over the 1994-2005 period was approximately 6 per cent. The increase in household insurance premiums over 2004 and 2005 respectively was +5 per cent and +3 per cent, while the 'average increase' over the 1994-95 period was approximately 5 per cent. The movement in CTP (NSW) premiums over 2004 and 2005 was 2 per cent and -4 per cent respectively, while the 'average increase' over the 1994-95 period was approximately 10 per cent.

³⁴ For example, the 2005 General Insurance Industry Survey published by JP Morgan/Deloitte indicates that premiums for the following classes of insurance will fall in 2006; Fire & ISR (-4 per cent),

led JP Morgan/Deloitte to conclude that competition in the industry has ‘intensified considerably’.³⁵

Public liability insurance

- 4.39 The co-insurance pool arrangements that are the subject of this determination provide for the supply of public liability insurance to NFPOs.
- 4.40 Public liability insurance protects individuals, businesses and organisations against the financial risk of being found liable to a third party for death or injury, loss or damage of property or ‘pure economic’ loss resulting from negligence by the insured. Public liability policies are typically written on a claims occurring basis in which premiums cover all incidents that occur in the policy year regardless of when they are notified.
- 4.41 In the past, public liability insurance has been described as ‘fat’ and ‘long’ tailed. It is ‘fat’ tailed in the sense that, although claims are generally not frequent, such claims have previously tended to involve high payouts. This risk appears to have been mitigated somewhat by the ‘capping’ of damages and the review of the ‘law of negligence’. It is ‘long’ tailed because many years may elapse between the date the incident occurred and the final settlement of the claim.
- 4.42 Participants in the public liability insurance market include:³⁶
- **Buyers** - Most members of the community who own, control or occupy property are exposed to the risk of a negligence action by a third party for injury or damage. To protect themselves from damages payouts should such an action be successful, it is customary and prudent to purchase “third party” public liability insurance. This cover is automatically provided in home insurance products to protect the owner or tenant. Business owners need separate cover to protect themselves from actions arising from incidents in the course of undertaking their business.
 - **Brokers** – Traditionally, most public liability of a commercial nature is acquired through insurance brokers, specialist intermediaries whose role is to advise on insurance needs and obtain the best deal (including price) for their clients.
 - **Agents** – In some cases the intermediary may be an agent, who acts only for one or a few insurers. For example, in the case of the CCUA co-insurance pool, QBE acts as the ‘agent’ on behalf of the Applicants.
 - **Insurers** - Most general insurers provide public liability cover. Each policy is assessed by the insurer before a premium and terms of cover are offered.

Commercial Motor (–1 per cent), Liability (–6 per cent), Professional Indemnity (–8 per cent) and Directors & Officers (–4 per cent).

³⁵ JP Morgan and Deloitte, *2005 General Insurance Industry Survey*, p. 5.

³⁶ Public Liability Insurance, Analysis for Meeting of Ministers 27 March 2002, Trowbridge Consulting.

- **Underwriting agents** - Some public liability insurance, especially in specialist classes, is placed with underwriting agents who perform most of the functions of the insurer but do not carry the risk, which is passed to one or more insurers on a bulk basis.
 - **Reinsurers** - Insurers buy reinsurance protection against individual large losses that they may incur. For example, with liability cover of \$10 million an insurer's own risk retention may be \$2 million with any claim above this amount covered by reinsurance. Reinsurers charge insurers a premium for that cover.³⁷
- 4.43 Most Australian licensed insurers sell public liability insurance. Typically, this has been a consequence of it being a component of home and contents insurance policies. In addition, in most industries (and especially for smaller businesses), public liability and products liability are sold as a combined product with a single premium amount. Usually, therefore, statistics are only available for public and products liability combined.
- 4.44 The market information collected by APRA suggests that the public liability sector represents a very small proportion of total Australian insurance activities, and therefore, a relatively small proportion of the insurance book of the major Australian insurers.
- 4.45 For example, APRA reports that as at 30 June 2005, public liability and product liability insurance represented 9.4 per cent of total gross premium revenue earned by direct general insurers in Australia. The APRA statistics also show that five classes of insurance (i.e. domestic motor vehicle, homeowners/householders, fire and ISR, CTP motor vehicle and other direct classes) generated a greater proportion of gross premium revenue in this period.³⁸
- 4.46 During the insurance 'crisis' early this decade, many insurance companies operating in the Australian market became more selective about the risks they were prepared to underwrite. In this regard, one of the poorer prospects was 'long tail' liability classes (i.e. such as public liability). This is because these classes require significant capital reserves. In particular, there is anecdotal evidence to suggest that insurers became reluctant to provide cover to NFPOs for public liability because of the poor prospects of a profitable return on capital and also because of a perceived high risk of claims against them.
- 4.47 This was consistent with anecdotal evidence provided to the Commonwealth Department of Treasury around the time of the last authorisation. This anecdotal evidence suggested that many NFPOs had experienced significant increases in the price of public liability insurance premiums over the course of 2002 and that some

³⁷ In this sense, reinsurance could be considered an 'input cost' for general insurance companies. Therefore, the price of reinsurance will typically have an indirect impact on premium rates for general insurance.

³⁸ APRA, *Half Yearly General Insurance Bulletin: June 2005*, 30 March 2006, p. 10.

- were unable to obtain cover. It was also noted at the time that many of these NFPOs had not ever made a claim under their public liability insurance policy.³⁹
- 4.48 Consistent with the insurance industry more broadly, it appears that conditions in the market within which public liability insurance is supplied have changed substantially since 2002. In short, there appears to have been a significant ‘softening’ of market conditions. This is based on a number of key factors.
- 4.49 In the first instance, there now appears to be more companies supplying public liability insurance to NFPOs. Information provided by the Applicants in support of their application suggests that at the date of the original application for authorisation there were approximately 11 companies/facilities that provided public liability insurance to NFPOs.⁴⁰ The Applicants submit that there are now around 20 companies/facilities providing public liability insurance to NFPOs (this includes the co-insurance pool participants offering NFPOs public liability insurance individually outside the joint venture agreement). Further detail on the new entrants in the relevant market since the ACCC previously considered these arrangements is provided at paragraph 5.7.
- 4.50 In addition, the available evidence suggests that there continues to be a low level of concentration in the public and product liability insurance market. Data collected by the ACCC for its last monitoring report with respect to the public liability insurance sector (year ending 31 December 2004) indicates that there has been consolidation in the market since 2002.⁴¹ However, this data also indicates that the four insurers with the largest market share earned 48 per cent of total gross premium revenue in 2004. That said, confidential information provided by the Applicants suggests that their combined share of the market is substantial.
- 4.51 Perhaps the strongest indication of a ‘softening’ of market conditions is evidence of premium rate reductions for public liability insurance in recent periods. In its latest quarterly bulletin (for the 3rd quarter of 2005), APRA cites anecdotal evidence that the pricing of large public liability risks appears to be becoming ‘very competitive’. APRA notes that its own on-site visits and reviews of board documentation show that, in general, such aggressive pricing is part of a considered strategy with recognition of the risk-return trade-off.⁴²

³⁹ ACCC, *Determination: Application for Authorisation Lodged by Allianz Australia Insurance Limited, QBE Insurance Limited and NRMA Insurance Limited*, 24 March 2004, p. 15.

⁴⁰ These were the CCUA co-insurance pool participants (Allianz, QBE and NRMA), QBE Mercantile Mutual, ANSVAR, Suncorp Metway, Concord Underwriting Agency (using local and overseas insurers), Global Underwriting Agency (using local and overseas insurers), Triton Underwriting Agency (Transpacific Insurance Company based on the Cayman Islands), Marsh Insurance Services (using local insurers), AON Client Placement Facility (using local insurers), Jardine Lloyd Thompson Commercial and Domestic Facility (using local insurers) and Catholic Church Insurances.

⁴¹ The report shows that the number of direct insurers active in the public liability class declined from 47 in December 2002 to 42 in December 2004.

⁴² APRA, *Insight – Quarter 3 2005*, 5 January 2006, p. 4.

- 4.52 The 2005 General Insurance Industry Survey reveals that premium rates for public liability insurance declined by 11 per cent in 2005. Notably, premium rates paid by 'small medium enterprises' (SMEs) specifically (which encompasses NFPOs) declined by 9 per cent. Looking forward, the survey forecasts that premium rates for liability insurance generally are expected to decline by 6 per cent in 2006 and 1 per cent in 2007.⁴³
- 4.53 This information appears to be broadly consistent with the pricing data collected by the ACCC for the last monitoring report it published in July 2005 (i.e. for the period ending 31 December 2004). These data reveal that the 'average premium' for public liability insurance in real terms decreased by 4 per cent, from \$1416 to \$1363, in 2004. Previously, the average premium was stable in real terms between 1997 and 1999 at approximately \$640 before increasing substantially to peak in 2003.

⁴³ Based on forecasts by survey respondents.

5 Submissions received by the ACCC

Applicants' submissions prior to the draft determination

- 5.1 A copy of the Applicants' original submission in support of its application for re-authorisation is available on the ACCC's website www.accc.gov.au. A summary of the main issues raised in the Applicants' submission is provided below.

Public detriment

- 5.2 The Applicants noted that in its final determination authorising their arrangements on 24 March 2004, the ACCC concluded that the relevant market in which to assess the potential effect on competition of the CCUA co-insurance pool arrangement was the 'national market for the supply of public and product liability insurance'. The Applicants have adopted the same market definition for the purpose of their submission regarding the potential public detriments generated by their arrangements.
- 5.3 The Applicants submit that without the arrangements, each Applicant would individually choose whether or not it wanted to supply public liability insurance to NFPOs (and may unilaterally decide not to in certain circumstances). With the arrangements, the Applicants submit that the continuing existence of the co-insurance pool will not preclude each applicant from supplying public liability insurance individually to NFPOs. Rather, the Applicants contend that the existence of the CCUA co-insurance pool acts as an additional player in the market which is specifically focused on providing insurance to NFPOs (and has set up its own systems to assist with this) and that this creates greater competition overall within the market.⁴⁴
- 5.4 In this regard, the Applicants note that the parties to the co-insurance pool currently supply certain NFPOs with public liability insurance outside the arrangements. As a result, the Applicants submit that the CCUA co-insurance pool arrangement does not, of itself, have the effect of increasing market concentration or barriers to entry. Rather, in their view, it has created an additional competitor in the market.
- 5.5 The Applicants also submit that the continuation of the CCUA co-insurance pool arrangement will not significantly inhibit other competitors from operating in, or entering, the relevant market.
- 5.6 The Applicants cite four additional issues that are relevant to their submission that the CCUA co-insurance pool arrangement will not have, or be likely to have, the effect of substantially lessening competition moving forward. These are that:

⁴⁴ For example, the Applicants submit that, by its nature, CCUA may quote on some risks that each party may individually choose not to do, because the pool arrangement allows the Applicants to distribute between them the risk of claims being made which makes it more economically viable for them to provide cover in some circumstances.

- there is increased competition in the relevant market;
- there is evidence of new entry and scope for new entry;
- CCUA places emphasis on risk management; and
- there have been improvements in industry-wide data collection and publication.

Each is discussed in turn below.

5.7 *Increased competition* – The Applicants submit that at the date of the original application for authorisation, around 11 companies/facilities provided public liability insurance services to NFPOs.⁴⁵ The Applicants note that at the present time, in addition to these companies/facilities:

- CGU, IAG and QBE Commercial also write public liability insurance for NFPOs
- CGU and QBE Commercial participate in the bulk buying arrangement brokered by AON for NCOSS (New South Wales Council of Social Services)
- Lloyds of London writes public liability insurance for a bulk buying arrangement brokered by Meals on Wheels for hundreds of NFPO groups, initially in NSW, but now spreading across Australia
- Calliden Group Limited is a new entrant to the relevant market, specialising in the Small Medium Enterprise (SME) sector including NFPOs and
- Employers Mutual Limited provide capacity to Renaissance Underwriting Agency (formerly Triton Underwriting Agency).

5.8 The Applicants therefore submit that the increased level of competition within the market, compared to the level that existed at the date of the current authorisation, acts as a constraint upon the conduct of the pool.

5.9 *Market entry* – In support of their original application, the Applicants submitted that there were no significant barriers to entry to insurance companies wishing to enter the market from within or outside Australia. The Applicants now submit that the recent entry of Calliden into the market (early 2005) confirms that there are still no significant barriers to entry in this market. The Applicants also note that the amended joint venture agreement allows the CCUA co-insurance pool participants to write public liability insurance for NFPOs in competition with the pool arrangements.

⁴⁵ These were the CCUA co-insurance pool participants (Allianz, QBE and NRMA), QBE Mercantile Mutual, ANSVAR, Suncorp Metway, Concord Underwriting Agency (using local and overseas insurers), Global Underwriting Agency (using local and overseas insurers), Triton Underwriting Agency (Transpacific Insurance Company based on the Cayman Islands), Marsh Insurance Services (using local insurers), AON Client Placement Facility (using local insurers), Jardine Lloyd Thompson Commercial and Domestic Facility (using local insurers) and Catholic Church Insurances.

- 5.10 *Data collection/publication* – The Applicants note that at the time of the final determination, the ACCC commented on the lack of industry wide data. The ACCC considered that such data would assist insurers and their actuaries to set appropriate rates for individual risks and to set appropriate claims reserves.
- 5.11 The Applicants note, however, that in January 2005, APRA established the NCPD for public/product liability and professional indemnity insurance. This was discussed in paragraphs 4.18 to 4.19. The Applicants submit that the NCPD should assist insurers and their actuaries to set appropriate rates for individual risks and to set appropriate claims reserves. The Applicants also submit that when NCPD reports are published they may provide further assistance to potential new entrants in deciding whether to enter the market.

Public benefits

- 5.12 The Applicants submit that the continuation of the CCUA co-insurance pool arrangements will result in the following public benefits.
- 5.13 *Greater availability of cover for NFPOs* – The Applicants argue that although the situation has eased in recent years due to ‘softening’ market conditions, there is still continuing ‘unavailability’ and ‘unaffordability’ of public liability insurance for certain NFPOs, particularly those that meet CCUA’s eligibility criteria (which are designed to capture smaller NFPOs). As evidence of this, the Applicants submit that while public liability insurance premiums for corporate and commercial clients have reduced, this is true to a lesser extent for NFPOs. They also notes that in 2005 there was no increase in premiums for co-insurance pool clients unless there were changes in their operations which increased their risk exposure.
- 5.14 As a result, the Applicants submit that there is a continuing need for the co-insurance pool arrangements because it allows them to distribute risk between them for certain NFPO clients. In the Applicants view, this, in turn, makes it more economically viable for them to offer public liability insurance to certain NFPOs which may otherwise not be able to access public liability insurance. The Applicants submit that public liability insurance will therefore continue to be available to certain types of NFPOs which, prior to the arrangements being entered into, had been unable to obtain cover or had to cancel events because of the cost of cover.
- 5.15 In support of this claim, the Applicants provided a list of six organisations that were unable to get public liability insurance prior to arrangements being entered into, but which now have cover from the co-insurance pool.⁴⁶ In the Applicants’

⁴⁶ They include *Sea Shepherd Conservation Society* (organisation dedicated to protecting marine wildlife), *Tom Price Motorcycles* (organises motorcycle community events for children), *Girls Ride Out* (group who ride Harley Davidson motorcycles for social and fundraising purposes), *Baa Baa Rella* (a petting farm and organisation which takes farm animals to community events), *United Muslim Association* (made up of several local Muslim associations) and *Warakuma Artists’ Aboriginal Corporation* (a corporation of aboriginal artists which produces arts and crafts).

view, this in turn supports public events and community initiatives which contribute to the community spirit, particularly in outlying communities.

- 5.16 *Reduced reliance on government funding* – The Applicants submit that the CCUA co-insurance pool arrangement will continue to allow certain NFPOs to maintain their current services and reduce the need for these organisations to approach governments for increased funding.
- 5.17 *Commonwealth protection* – The Applicants submit there is a public benefit in allowing NFPOs to obtain cover from companies licensed in Australia because it affords them the protection of Commonwealth Government legislation which governs the conduct of these insurers.
- 5.18 *Education function* – In their original application, the Applicants submitted that the CCUA co-insurance pool arrangement would facilitate the education of NFPOs as insureds by providing a central information facility for risk management and also by providing information about the cost implications of certain activities. The Applicants note, however, that in its final determination (March 2004) the ACCC did not attach much weight to this claim because of the possibility that the education service might simply replace the role traditionally provided by brokers. Similarly, the Applicants note that the ACCC did not consider that adequate evidence had been provided of how aggregation would occur.
- 5.19 In support of the current application, the Applicants submit that their risk management education program is far in excess of any such education service traditionally provided by brokers. In this regard, the Applicants submit that since CCUA began issuing public liability insurance policies to NFPOs in December 2002, it has run a variety of risk management workshops in conjunction with a variety of stakeholders, including local councils,⁴⁷ a member of parliament⁴⁸ and peak public bodies.⁴⁹ The Applicants also note that they have, or are in the process of developing, a variety of risk management materials which will be made available free of charge on the CCUA website within the next couple of months, including:
- sample forms and checklists to help NFPOs plan safe events;
 - risk assessment templates which provide a framework for the development of a risk management plan; and

⁴⁷ This includes Mildura Rural City Council, Baulkham Hills Shire Council, Caloola Shire Council and Coonabarabran Shire Council and representatives of NFPOs attended each workshop.

⁴⁸ This was Joanna Gash, Federal Member for Gilmore (4 regional towns) and around 200 representatives of local NFPOs attended.

⁴⁹ This included Play Groups NSW (a presentation to zone managers who pass on information within their zones), NSW Film & Television Office and Regional Arts NSW (around 100 representatives of NFPOs attended).

- three booklets developed by the Nonprofits' Insurance Alliance of California, which will be amalgamated into one booklet ('Keeping Community fun alive and well') for Australian purposes.⁵⁰

The Applicants submit that as a result of the current arrangements, NFPO volunteers are better able to, and informed about, dealing with NFPO insurance issues.

- 5.20 The Applicants also note that co-insurance pool currently offers a 20 per cent premium reduction to NFPOs that have an acceptable risk management plan in place.⁵¹
- 5.21 *Collective purchasing arrangements* – The Applicants submit that they encourage discussion between their agent (QBE) and peak bodies in an attempt to develop collective or 'aggregated' purchasing arrangements that are of benefit to NFPOs in particular. In this regard, the Applicants note that the co-insurance pool currently has aggregated arrangements in place with ten organisations where a bulk public liability insurance policy covers multiple groups that operate under each organisation.⁵²
- 5.22 The Applicants submit that these collective purchasing arrangements result in cost savings to the individual organisations since they do not need to obtain individual covers.

Interested party submissions prior to the draft determination

- 5.23 The ACCC sought submissions on the applications for revocation and substitution from a range of interested parties.
- 5.24 In response the ACCC received submissions from eight interested parties. Five supported the Applicants' request for re-authorisation, two objected to it while another was equivocal on the matter.
- 5.25 Complete copies of all public submissions are available on the ACCC's website, <www.accc.gov.au>. A summary of the main issues raised by interested parties is provided below.
- 5.26 Aradley Insurance Brokers P/L (Aradley) strongly objects to the CCUA's substantive application for re-authorisation. It submits that circumstances have changed in the public liability insurance market since the late 1990s and early

⁵⁰ They are 'SAFE – Sound Advice for Functions and Events', 'Managing Volunteers: Balancing Risk and Reward' and 'Surviving a Crisis: Practical Strategies for Non profit Organisations'.

⁵¹ Risk management plans will vary depending on the nature of the NFPO and the type of events they hold.

⁵² These organisations include *Riding for the Disabled* (in all states and territories aside from Victoria), *Playgroups NSW* – one policy covers 1200 playgroups throughout NSW, *Regional Arts NSW* – covers nearly 100 individual groups, *Defence Community Australia* – covers nearly 50 individual groups, *Australian Miniature Pony Society* – covers group activities in all States and Territories, *Soroptimist International of Western Australia* – one policy covers all branches in WA, *Scouts NSW Hall Hirers* – provides cover to all casual hirers of NSW Scout halls, Girl Guide – NSW, Victoria, Tasmania and WA, *Bluey's Day Foundation* – covers National Shave Day events in all states and territories.

2000s – including legislative reforms, increased entry/competition and a fall in premium rates. Aradley submits that, in these circumstances, the continuation of the CCUA co-insurance pool unfairly prejudices other participants in the market. For these reasons, Aradley considers that there is no justifiable public benefit in allowing the CCUA co-insurance pool arrangement to continue.

- 5.27 The ACCC received one submission for which confidentiality was granted. Broadly, this submission argues that the application should be rejected. This submission agrees that when the original authorisation was granted there was a ‘crisis’ brought on by a number of key events, although it notes that the general insurance industry, (and, in particular, public liability insurance for NFPOs) has changed considerably since then and that the concatenation of events that caused the ‘crisis’ is most unlikely to be repeated. This submission also argues that there is no distinguishable public benefit that the co-insurance pool provides that its participants, acting individually, cannot (and do not) provide. On the detriment side, this submission argues that the co-insurance pool allows three major insurance players in the Australian market to act in collusion in relation to the NFPO sector, and further, tends to act as an exclusionary force for brokerage services.
- 5.28 Volunteering Australia believes that for the co-insurance pool to continue its operations, certain public benefits should be sufficiently evident to outweigh concerns that Applicants will continue to enjoy the market share generated by the joint agreement, despite competition opening up in the market.
- 5.29 Westpool (which the ACCC understands is a pooling arrangement by seven NSW regional councils for the supply of public liability and professional indemnity insurance) supports the application for re-authorisation. It notes that the co-insurance pool has provided an affordable alternative for NFPOs that either use its council facilities or provide services to its community groups and NFPOs.
- 5.30 The Local Government Association of Queensland Inc (LGAQ) strongly supports initiatives that seek to provide affordable public liability insurance to NFPOs. It notes that CCUA provides an additional option for NFPOs seeking insurance cover, and submits that there does not appear to be evidence that CCUA’s operations have been a barrier to other insurers entering or re-entering the market. On this basis, LGAQ has no objection to the application for re-authorisation.
- 5.31 TIO Insurance and Banking (TIO) considers it clear that the co-insurance pool has filled an important community need in certain parts of Australia. TIO also submits that it would be ‘unfortunate’ for the community if the CCUA’s efforts came to a stop, and further, that it would be unsettling and inconvenient for insured groups to have to make new arrangements so soon after entering the scheme. As a result, the TIO supports the re-authorisation of the arrangements, although for a period of three years rather than five.

- 5.32 The Department of Family and Community Services (FaCS) submits that while it does not have specific quantitative data on this issue, anecdotal evidence is that some NFPOs are still experiencing difficulties in accessing affordable insurance cover. On this basis, FaCS is supportive of the application.
- 5.33 The Australian Council for the Arts supports the application based on its belief that the public benefits arising from the co-insurance pool are significant.

Draft determination

- 5.34 On 4 May 2006, the ACCC issued a draft determination proposing to revoke authorisations A30217 and A30218 and grant substitute authorisations to the Applicants in respect of the joint venture arrangements which govern the operation of the CCUA co-insurance pool to:
- continue to write or renew policies up and until 31 December 2006; and
 - give effect to any policies until 31 December 2007.
- 5.35 Notwithstanding this draft decision, the ACCC noted the possibility that the co-insurance pool arrangements may continue to result in a public benefit to the extent that they improve the availability and affordability of public liability insurance for certain NFPOs. However, at that time, the ACCC was of the view that the evidence provided by the Applicants and interested parties did not sufficiently substantiate the claim that the co-insurance pool would significantly impact on the availability or affordability of such insurance for NFPOs in the current market environment.
- 5.36 As a result, in its draft decision, the ACCC requested specific information (from the Applicant or other parties) to substantiate a claim that the co-insurance pool significantly improves affordability or availability of public liability insurance to NFPOs. This was intended to make clear that the ACCC would consider any further information in the context of reaching a final decision on the application.

Applicants' submission in response to the Draft Determination

- 5.37 The Applicants provided a submission in response to the draft determination on 30 May 2006.
- 5.38 The Applicants stated their overall view that the public benefit is overwhelmingly served by the approval of the proposed arrangement which greatly outweighs any public detriment occasioned by the conduct.
- 5.39 In response to the ACCC's request for further information to substantiate the public benefit claimed, the Applicants noted that it would be "very time consuming and

- costly”⁵³ for them to provide information to support the contention that the co-insurance pool improves affordability or availability of public liability insurance.
- 5.40 Instead, the Applicants refer the ACCC to three reports (listed below) and argue that the ACCC should be guided by the observations in these reports:
- Report by the NSW Parliament General Purpose Standing Committee No 1 into Personal Injury Compensation legislation published December 2005
 - SA Parliament Economic and Finance Committee report on public liability published in December 2005 and
 - Report by the Department of Social Administration and Social Work, Flinders University entitled ‘*Insurance and Risk Management: Unravelling Civil Society*’ dated May 2005.
- 5.41 The Applicants submit that their desire to continue the operation of the pool arrangement is an expression of their commitment to the community and is not borne out of any commercial incentive. The Applicants also seek to emphasise that the 1600 CCUA policyholders represent a significantly larger number of community groups and hundreds of thousands of individuals and families who are involved with and benefit from the existence of such community groups. The Applicants submit that if the co-insurance pool arrangement is not permitted to continue beyond the short term, at least some current policy holders may be unable to procure public liability insurance. This is because very few competing insurers have a comprehensive understanding of the nature and needs of NFPOs and are still unwilling to insure small NFPOs.
- 5.42 The Applicants also submit that another factor which supports authorisation is the well documented cyclical nature of the market in which public liability insurance is provided. For this reason, the Applicants consider that some hardening of the market is inevitable. Further, the Applicants note that should the co-insurance pool not continue the likelihood of it being recreated at any time in the future is minimal.

Interested party submissions in response to the Draft Determination

- 5.43 The ACCC received one interested party submission from the Council of Social Service of New South Wales (NCOSS).
- 5.44 NCOSS stated that it does not have any objection to the ACCC revoking authorisations A30217 and A30218 and substituting with replacement authorisations.
- 5.45 NCOSS submits that allowing CCUA to continue to provide public liability cover for NFPOs will lead to increased competition in the relevant market and a greater public benefit due to increased choice of cover for NFPOs. NCOSS also stated

⁵³ Applicants’ submission in response to the draft determination, 30 May 2006

that the continued operation of CCUA does not prevent other insurers within Australia or overseas from entering the market.

- 5.46 NCOSS submitted it has no objection to the ACCC varying the terms of the original joint venture agreement.

6 The net public benefit test

- 6.1 Under section 91C of the Act, the ACCC may grant an application to revoke an existing authorisation and grant a substitute authorisation at the request of the party to whom the authorisation has been granted, or another person on behalf of such a party. The ACCC may also institute an application for revocation and substitution in certain circumstances.
- 6.2 In order for the ACCC to grant an application to revoke an existing authorisation and grant a substitute authorisation, the ACCC must consider the substitute authorisation in the same manner as the standard authorisation process.

The net public benefit tests

- 6.3 In assessing an application made under section 91C of the Act, the relevant tests that the Applicants must satisfy for the substitute authorisation to be granted are outlined in sections 90(6), 90(7) and 90(8) of the Act.
- 6.4 Under section 90(6) of the Act, the ACCC may grant authorisation in respect of a proposed contract, arrangement or understanding that may have the purpose or effect of substantially lessening competition if it is satisfied that:
- the contract, arrangement or understanding would result, or be likely to result, in a benefit to the public and
 - that benefit would outweigh the detriment to the public constituted by any lessening of competition that would result, or be likely to result, if the proposed contract or arrangement were made and the provision concerned were given effect to.
- 6.5 Under section 90(7) of the Act, the ACCC may grant authorisation in respect of a contract, arrangement or understanding that may have the purpose or effect of substantially lessening competition if it is satisfied that:
- the contract, arrangement or understanding would be likely to result in a benefit to the public and
 - that benefit would outweigh the detriment to the public constituted by any lessening of competition that would be likely to result from the contract arrangement or understanding.
- 6.6 Section 90(8) provides that the ACCC shall not make a determination granting authorisation under subsection 88(1) in respect of a provision of a proposed contract, arrangement or understanding that is or may be an exclusionary provision unless it is satisfied in all circumstances that the provision has resulted, or is likely to result in such a benefit to the public that the contract, arrangement or understanding should be allowed to be given effect to.

Application of the tests

- 6.7 There is some variation in the language particularly between the tests in sections 90(6) and 90(7) and that in section 90(8) of the Act.
- 6.8 The Australian Competition Tribunal (the Tribunal) has found that the tests are not precisely the same.⁵⁴ In particular the Tribunal considered that the test under section 90(6) was limited to a consideration of those detriments arising from a lessening of competition but that the test under section 90(8) was not so limited.
- 6.9 However, the Tribunal has previously stated that with respect to the test under section 90(6):
- [the] fact that the only public detriment to be taken into account is lessening of competition does not mean that other detriments are not to be weighed in the balance when a judgment is being made. Something relied upon as a benefit may have a beneficial, and also a detrimental, effect on society. Such detrimental effect as it has must be considered in order to determine the extent of its beneficial effect.⁵⁵
- 6.10 Consequently, when applying either test, the ACCC can take all public detriment likely to result from the relevant conduct into account either by looking at the detriment side of the equation or when assessing the extent of the benefits.
- 6.11 Given the similarity in wording between sections 90(6) and 90(7), the ACCC considers the approach described above in relation to section 90(6) is applicable to section 90(7) also.
- 6.12 In many authorisation applications, all detriments likely to result from the conduct appear to arise from a lessening of competition. The ACCC considers this to be the case in this matter.

Definition of public benefit and public detriment

- 6.13 Public benefit is not defined by the Act. However, the Tribunal has stated that the term should be given its widest possible meaning. In particular, it includes:
- ...anything of value to the community generally, any contribution to the aims pursued by society including as one of its principle elements ... the achievement of the economic goals of efficiency and progress.⁵⁶
- 6.14 Similarly, public detriment is not defined by the Act but the Tribunal has given the concept a wide ambit. It has stated that the detriment to the public includes:

⁵⁴ *Australian Association of Pathology Practices Incorporated* [2004] ACompT 4; 7 April 2004.

⁵⁵ *Re Association of Consulting Engineers, Australia* (1981) ATPR 40-2-2 at 42788. See also: *Media Council case* (1978) ATPR 40-058 at 17606; and *Application of Southern Cross Beverages Pty. Ltd., Cadbury Schweppes Pty. Ltd. and Amatil Ltd. for review* (1981) ATPR 40-200 at 42,763, 42766.

⁵⁶ *Re 7-Eleven Stores; Australian Association of Convenience Stores Incorporated and Queensland Newsagents Federation* (1994) ATPR ¶ 41-357 at 42677. The Tribunal recently followed this in *Qantas Airways Limited* [2004] ACompT9.

...any impairment to the community generally, any harm or damage to the aims pursued by the society including as one of its principal elements the achievement of the goal of economic efficiency.⁵⁷

Future with-and-without test

- 6.15 The ACCC also applies the ‘future with-and-without test’ established by the Tribunal to identify and weigh the public benefit and any detriment generated by arrangements for which authorisation is sought.
- 6.16 Under this test, the ACCC compares the public benefit and detriments generated by arrangements in the future if the authorisation is granted with those generated if the authorisation is not granted. This requires the ACCC to predict how the relevant markets will react if authorisation is not granted. This prediction is often referred to as the counterfactual.

Duration of authorisation

- 6.17 Section 91(1) of the Act allows the ACCC to grant authorisation for a specific period of time.
- 6.18 The ACCC may authorise different aspects of conduct for which authorisation is sought for different periods.

⁵⁷ Ibid., 42683.

7 ACCC evaluation

The relevant markets

- 7.1 The first step in assessing the public benefits and detriments of the conduct for which authorisation is sought is to consider the relevant market or markets in which that conduct occurs. Depending on the circumstances, the ACCC may not need to comprehensively define the relevant markets as it may be apparent that a net public benefit will or will not arise, regardless of the scope of the defined market.
- 7.2 In their latest application, the Applicants submit that the appropriate market through which to consider the proposed arrangements is the ‘national market for public and product liability insurance’.
- 7.3 The ACCC has not reached any conclusion on the ability of an insurance company supplying one type of insurance product to diversify its product range and supply other types (supply side substitutability). However, the ACCC notes that the different types of insurance products are generally not substitutable from the point of view of an organisation/person seeking insurance for a specific event, activity or property item (demand side substitutability). The ACCC also notes that public and product liability insurance are typically sold in a package by insurance companies, and that it is the general practice of insurers to offer public and product liability insurance on a national basis (and that licensing of providers is on a national basis).
- 7.4 For these reasons, the ACCC considers that the appropriate area of competition to consider the proposed arrangements is the ‘national market for public and product liability insurance’ while noting that the market may be broader than this due to supply-side substitutability.

The counterfactual

- 7.5 As outlined in section 6 of this final determination, the ACCC applies the ‘future with-and-without test’ established by the Tribunal to identify and weigh the public benefit and detriment generated by arrangements for which authorisation has been sought.
- 7.6 Under this test, the ACCC compares the public benefit and detriment generated by the arrangements in the future if the authorisation is granted with those generated if the authorisation is not granted. This requires the ACCC to make a reasonable forecast about how the relevant markets will react if authorisation is not granted. This forecast is referred to as the counterfactual.
- 7.7 In its 2004 determination, the ACCC considered that the most likely counterfactual in the short to medium-term was the market without the CCUA co-insurance arrangements in place (the ‘status quo’ at that time).⁵⁸ In reaching this view, the

⁵⁸ In this case, the ‘status quo’ meant the situation without interim authorisation (first granted by the ACCC on 28 November 2002).

- ACCC noted that a number of features of the proposed arrangements, including exclusionary provisions and agreements between competitors, may have substantially lessened competition. Therefore, in the absence of authorisation, the ACCC was of the view that the Applicants would be at risk of breaching the Act, and were therefore unlikely to engage in the proposed conduct. Further, the ACCC expressed the view that based on the submissions received from interested parties, the status quo meant that certain NFPOs would likely continue to face difficulties in obtaining public liability insurance in the short to medium term.
- 7.8 The ACCC considered that the counterfactual for the longer term was less easily identifiable. In particular, when the last application for authorisation was considered, a number of reviews were being conducted, and a range of initiatives were being introduced by both industry and Government in an attempt to alleviate the perceived ‘insurance crisis’. Accordingly, the ACCC considered that if authorisation was not granted the difficulties experienced by NFPOs in obtaining public liability insurance would be unlikely to continue, at least to the same extent.
- 7.9 The ACCC also noted that it is generally accepted that the insurance business is cyclical in nature, and that following a series of unusual events, the Australian market was then in a ‘hardened’ phase. The ACCC observed that the normal business cycle could see the market soften at some point, though it would be difficult to predict exactly when this would occur and what the market would look like.
- 7.10 As outlined in paragraphs 4.47 to 4.52, the ACCC is of the view that the market conditions in the Australian insurance sector have ‘softened’ since interim authorisation was first granted in 2002, and since authorisation was granted in 2004 with increased market entry and reductions in premium rates. This suggests that, as compared to when authorisation was originally granted, it is now easier for NFPOs to source public liability insurance at reasonable rates from the market. Moreover, the ACCC notes that these ‘softening’ market trends are forecast to continue in the short to medium term.
- 7.11 Despite amendments to the joint venture agreement, it is the ACCC’s view that the arrangements continue to raise concerns under the Act. In particular, the agreement not to pay broker fees. The ACCC considers therefore that the most likely counterfactual in the short to medium term would be the market without the operation of the CCUA co-insurance pool in its proposed form.
- 7.12 The ACCC notes, however, that the Act does not prevent pricing arrangements within genuine joint ventures arrangements where these would not substantially lessen competition. In this regard, it may be possible for CCUA to continue to offer policies where it is confident that its arrangements do not have a substantial anti-competitive effect (and provided it removed more specific concerns such as the agreements not to pay broker fees).

- 7.13 Without the arrangements and allowing for the possibility of a period of transition, each Applicant would individually choose whether or not it wanted to supply public liability insurance to NFPOs currently supplied by the co-insurance pool, and may unilaterally decide not to in certain circumstances.

Public detriment

- 7.14 The Applicants are seeking re-authorisation for a joint venture agreement to supply public liability insurance to NFPOs through the CCUA co-insurance pool that is governed by a joint venture agreement. As part of that joint venture agreement, the Applicants will agree not to pay any commission to brokers that place NFPOs with CCUA. Notably, however, under the amended joint venture agreement, each Applicant is free to individually supply public liability insurance to NFPOs.
- 7.15 In general, it is the ACCC's view that the grouping together of competitors to act as a collective supplier is likely to be of significant concern when the actions of the collective are not constrained, or significantly influenced, by competitive forces which would otherwise act to prevent the development of monopolistic conditions.
- 7.16 In considering the effect of the proposed CCUA co-insurance pool on competition, it is relevant to consider:
- the extent of competition from existing insurance companies
 - the scope for new entry and
 - countervailing power exercised by insurance brokers.

Competition from existing insurance companies

- 7.17 During consideration of the original application for authorisation, the ACCC was of the view that, irrespective of the existence of the CCUA co-insurance pool, the level of competition within the market for the supply of public liability insurance was limited. The ACCC considered that the ability of the Applicants to form a co-insurance pool to offer public liability insurance to NFPOs would further concentrate the market. As such, the ACCC was concerned that the ability of existing market participants to act as a constraint upon the conduct of the CCUA co-insurance pool was likely to be limited.
- 7.18 With respect to the current application, the ACCC notes that two interested parties have raised concerns that the arrangements will allow three 'major' insurance players in the Australian market to gain a market advantage which would inhibit competition. However, the ACCC considers that the ongoing operation of the co-insurance pool is likely to result in limited anti-competitive detriment. The ACCC has reached this view for four main reasons.
- 7.19 First, the level of competition within the market for the supply of public and product liability insurance appears to have increased since authorisation was last considered in 2004 and even more so since interim authorisation was first granted in 2002. In particular, the Applicants note there is evidence that there are now

approximately 20 insurers⁵⁹ writing public liability insurance for NFPOs in Australia, compared to 11 at the time when the original application for authorisation was lodged. There is also evidence of premium rates for public liability insurance decreasing in 2005, and expectations of further reductions in 2006. This evidence would tend to suggest that, as compared to when authorisation was originally granted, the ability of existing market competitors to exert a competitive constraint on the conduct of the co-insurance pool has improved. Indeed, one interested party has observed that ‘competition in this segment has never been higher’.⁶⁰

- 7.20 Second, the information available to the ACCC suggests that the market for ‘public and product liability insurance’ is not highly concentrated. Company-specific information provided to the ACCC as part of its latest monitoring report (July 2005) with respect to the public liability and professional indemnity sectors indicated that the four insurers with the largest market share (based on revenue) earned 48 per cent of total public and product liability revenue in 2004.
- 7.21 Third, the ACCC notes that the supply of public liability insurance to NFPOs represents only a subset of the total public liability insurance business conducted by insurance companies. Information provided by the Applicants on a confidential basis indicates that NFPO business written by CCUA represented a small proportion of liability insurance written in the year ended 31 December 2005. This suggests that a substantial amount of NFPOs already source public liability insurance outside the co-insurance pool arrangements.
- 7.22 Finally, the ACCC notes that the proposed amendment to the joint venture agreement means that the each party to the agreement is now free to compete against the CCUA co-insurance pool on an individual basis. The Applicants have provided anecdotal evidence that the parties to the co-insurance pool currently ‘can and do’ write public liability insurance, including for NFPOs, in competition with the co-insurance pool. The Applicants therefore submit that the co-insurance pool effectively provides ‘an additional player in the market, which is specifically focused on providing insurance to NFPOs, and has developed its own systems to do this’.
- 7.23 The ACCC accepts that in certain cases each Applicant is likely to have a commercial incentive to *not* refer profitable NFPO business to the co-insurance pool. As such, the ACCC is of the view that the amendment to the joint venture agreement significantly reduces any anti-competitive effects associated with the proposed arrangements.
- 7.24 Notwithstanding this, the joint venture agreement does provide for three major insurers to agree on the price and other terms and conditions on which public liability insurance will be collectively provided to some NFPOs by them. Therefore, while under the arrangements, as amended, each of the Applicants is

⁵⁹ Applicants’ submission, 22 December 2005

⁶⁰ Aradley submission, p. 2.

able to compete against the co-insurance pool, they will be doing so in the context where they are also collectively agreeing on the terms on which public liability insurance is provided to some NFPOs.

- 7.25 Consequently, there is some potential that the terms on which public liability insurance is offered by the insurers individually to an NFPO may be guided by the collectively agreed terms on which it is offer to that, or other like, NFPOs. To the extent that this did occur, this would limit the extent to which the amendment to the joint venture agreement serves to promote competition from each of the Applicants acting individually against the co-insurance pool.
- 7.26 Overall, the ACCC considers that the ability of the existing market participants to act as a constraint on the conduct of the co-insurance pool has improved significantly since authorisation was last considered. Further, the ACCC considers that the amendment to the joint venture agreement to allow each of the Applicants to write public liability insurance for NFPOs individually may also reduce the anti-competitive detriment generated by the arrangements for NFPOs in certain cases.

Scope for new entry

- 7.27 In lodging their original application for authorisation of the CCUA co-insurance pool arrangements, the Applicants submitted that there were no significant barriers to entry for insurance companies wishing to enter the market from within or outside Australia.
- 7.28 In its final determination, the ACCC indicated that it was concerned about the short-term capacity of insurers to enter the market and act as a competitive constraint upon the activities of the CCUA co-insurance pool. The ACCC also noted that, whilst the features of public liability insurance may create natural barriers to entry (particularly in a 'hardened' market), it was concerned that the increased market concentration resulting from the proposed agreement may, of itself, have the effect of increasing barriers to entry.
- 7.29 In support of their current application, the Applicants re-affirm their view that there are no significant barriers to insurance companies seeking to enter the market. The Applicants believe this has been confirmed by the fact that the Calliden Group Limited entered the market in April 2005 with a view to focusing on providing customised insurance solutions for the SME sector, which comprises NFPOs. In addition, the Applicants consider that the amendment to the joint venture agreement to allow each participant to write public liability insurance for NFPOs individually means that the co-insurance pool arrangement does not, of itself, have the effect of increasing barriers to entry, but rather has created an additional player in the market.
- 7.30 The ACCC is of the view that entry into the market for public and product liability insurance by new competitors (including the threat of credible entry) can act as a competitive constraint on the conduct of the CCUA co-insurance pool. Such

entrants may be new providers or existing domestic or international insurance market participants who have elected to broaden their portfolio.

- 7.31 As noted previously, the information available to the ACCC suggests that the market for the supply of public and product liability insurance appears to have ‘softened’ substantially since authorisation was last granted, and is predicted to continue to ‘soften’ in the short to medium term. The ACCC also notes that a number of reforms implemented since the ‘crisis’ in liability insurance, including prudential reforms, legal reforms and the establishment of the NCPD database, may improve prospects for stability in the insurance sector into the future.
- 7.32 In light of reforms providing for greater availability of market data, the ACCC considers that potential entrants to this market, and their actuaries, will now be better able to assess the risks associated with the provision of public liability insurance to particular clients, and to set appropriate claims reserves and premium rates. Therefore, while public and product liability insurance could still be described as ‘fat’ and ‘long’ tailed in nature⁶¹, the ACCC considers that into the future it is possible that entry into this market will occur on its economic merits.
- 7.33 Further, the ACCC considers that it has not received sufficient evidence to conclude that the co-insurance pool itself is operating as a barrier to entry in this market.

Countervailing power exercised by insurance brokers

- 7.34 An important issue raised during the original consideration of the co-insurance pool arrangements was whether brokers exercised countervailing power over the co-insurance pool. At that time, the National Insurance Brokers Association (NIBA) submitted that over 90 per cent all public liability insurance was placed through NIBA members, and provided anecdotal evidence that a high proportion of NFPOs obtained public liability insurance with the assistance of brokers.
- 7.35 The Applicants submitted that brokers were able to exert countervailing power through the aggregation of insureds, enabling them to obtain preferential terms and conditions for their clients. In turn, the Applicants submitted that this would act to constrain the pricing decisions of the CCUA co-insurance pool, thereby reducing the potential for anti-competitive detriment.
- 7.36 However, the ACCC noted that terms of the original joint venture agreement provided that the agent of the co-insurance pool must not pay, or agree to pay, commission (or any other form of benefit) to brokers. It was also noted that the co-insurance pool arrangements would not allow the issuing of a pre-payment ‘cover note’, meaning that cover would not be provided until the premium was paid in full.

⁶¹ It is ‘fat tailed’ in the sense that, although claims are generally not frequent, such claims tend to involve high payouts though this risk appears to have been mitigated somewhat by the ‘capping’ of damages and the review of the ‘law of negligence’. It is ‘long tailed’ as many years may elapse between the date the incident occurred and the final settlement of the claim.

- 7.37 Based on this information, the ACCC concluded that, to the extent that the co-insurance pool arrangements had the effect of reducing the level of broker involvement in the market, the direct effect of the countervailing power exercised by broker would be reduced. The ACCC noted that brokers would still be able to indirectly exert a certain amount of countervailing power over the co-insurance pool if they were able to find suitable insurance for NFPO clients with other insurance providers. However, the ACCC indicated that the level of countervailing power could be limited due to the level of competition in the market at that time.
- 7.38 With respect to the current application for authorisation, the ACCC believes that the ability of brokers to exert countervailing power over the co-insurance pool is likely to have increased since authorisation was originally granted. The ACCC has reached this view for two main reasons.
- 7.39 First, as noted previously, the level of competition in the market for public and product liability insurance has increased since authorisation was originally granted. This suggests that in searching for the best deal for their NFPO clients, brokers are now able to seek quotes from a wider array of alternative competitors to the co-insurance pool. To the extent that these alternative suppliers are prepared to pay broker commissions, this would tend to increase the level of countervailing power that can be exercised by brokers.
- 7.40 Second, the amendment to the joint venture agreement to allow the individual parties of the co-insurance pool to write public liability insurance for NFPOs individually further contributes to the level of countervailing power that can be exercised by brokers. This is because when supplying public liability insurance individually there is no constraint on each of the Applicants ability to pay broker commissions. Therefore, to the extent that brokers are able to place their NFPO clients with any of the Applicants, outside the co-insurance pool, this is likely to (all other things being equal) increase the level of broker involvement in this market.
- 7.41 However, in addition to any countervailing power that brokers may be able to exercise in their dealing with insurers through the aggregation of insureds, they often play another important role in the market. Generally, as an intermediary seeking to assess value, a broker will typically be more fully informed about the market for the supply of public liability insurance than an NFPO sourcing insurance directly. Therefore, generally speaking, brokers are likely to be in a better position to identify and negotiate the best possible terms for an NFPO than would the NFPO acting independently, albeit at a cost.
- 7.42 Accordingly, to the extent that the agreement by the Applicants not to pay brokers commissions in respect of policies written by the co-insurance pool does reduce the role of brokers in the market, this would continue to generate a public detriment.

Conclusion on anti-competitive detriment

- 7.43 For the reasons discussed above, it is the ACCC's view that the co-insurance pool arrangements are likely to have limited anti-competitive effects in the market for the supply of public and product liability insurance in Australia. In particular, the ACCC considers that increased competition from other insurance companies, an improved environment for market entry and an increase in the countervailing power of brokers is likely to significantly limit any ongoing anti-competitive effects. In addition, the ACCC considers that the amendment to the joint venture agreement may also reduce the level of anti-competitive detriment in that the Applicants are now not prevented from competing against each other for NFPO business, and in some cases may have a commercial incentive to do so.
- 7.44 However, the extent to which the Applicants will compete against each other for NFPOs business is unclear given that it will remain the case that they will continue to set the terms of supply for some NFPOs collectively which may affect the terms on which they offer such insurance individually.
- 7.45 Further, to the extent to which the agreement by the Applicants not to pay brokers commissions in respect of business written by the co-insurance pool reduces the role of brokers in the market, this may also generate some public detriment.

Public benefit

- 7.46 To grant authorisation the ACCC must be satisfied that the anti-competitive detriment is outweighed by the benefits to the public arising from the proposed conduct. The Applicants submit that a number of public benefits are likely to flow from the granting authorisation to the proposed arrangements. The ACCC's consideration of these claims is set out below.
- 7.47 As a preliminary matter, however, the ACCC continues to recognise the importance of the services provided by NFPOs to the Australian community. It is the ACCC's view that there is a clear benefit to the public in ensuring that such services continue to be offered and that the availability of affordable public liability insurance is important to ensuring that this is the case.

Greater availability of cover for NFPOs

- 7.48 In considering the original application for authorisation, the ACCC accepted that, given the state of the insurance market at that time, the granting of authorisation would be likely to result in an improvement in the general availability of public liability insurance to NFPOs. The ACCC also considered that authorisation would likely improve affordability to the extent that the agreement not to pay broker commission was passed through to NFPOs in the form of lower premiums.
- 7.49 In support of the current application, the Applicants submit that while public liability premiums have reduced for commercial and corporate clients since the arrangements were originally authorised, this is true to a lesser extent for NFPOs. The Applicants submit there is existing evidence about the relative difficulty that

NFPOs have in acquiring affordable public liability insurance.⁶² Therefore, they consider that while the market has ‘softened’ to an extent, there is a continuing need for the CCUA co-insurance pool arrangement because it allows them to distribute the risk of claims being made which, in turn, makes it more economically viable for them to offer this type of insurance. The Applicants submit that public liability insurance will therefore continue to be available to certain types of NFPOs which had previously been unable to obtain cover, or had to cancel events because of the high cost of cover.⁶³

- 7.50 Certain interested parties have questioned the basis for this argument. In particular, one party considers that there is now sufficient capacity in the local and overseas insurance markets to provide cover for all risks, and that all NFPOs can now get reasonably affordable insurance. It was also argued that the ‘quantity’ of individual risks in this sector is usually not significant and the diversification benefit arises from insuring a ‘number’ of risks, not from the ‘sharing’ of risks as argued by the Applicants.
- 7.51 The Applicants state that the 1,600 CCUA policyholders represent a significantly large number of community groups and ultimately hundreds of thousands of individuals and families who are involved with and benefit from the existence of such community groups. The ACCC notes that for many NFPOs sourcing alternative public liability insurance may take some time potentially leaving some NFPOs without cover in the short term. However the ACCC notes that the 1,600 CCUA policyholders may continue to source insurance individually from one of the Applicants or from another insurer. In an increasingly competitive market, with new entrants, it may be expected that there will be a number of competitive offers available to NFPOs.
- 7.52 As previously noted, the Applicants submit there are now approximately 20 insurers writing public liability insurance for NFPOs (as listed in paragraph 5.13).
- 7.53 Further, the ACCC is aware of several other organisations that either provide or help to provide insurance for NFPOs they include *inter alia* Community Related Insurance and Superannuation program (CRISP), EIG-Ansvar, Aon Inc collaboration with the Queensland Government, Civic Mutual Plus (CMP), Municipal Insurance Broking Services (MIBs), WA Community Insurance Fund (CIF) and Local Government Association of South Australia Mutual Liability Scheme (LGAMLS).
- 7.54 The ACCC notes that Suncorp indicated in May 2005 it had moved to reduce liability premiums for the not-for-profit sector by 10%.⁶⁴ Suncorp currently has policies with over 1,300 NFPOs.⁶⁵

⁶² Applicants’ submission dated 30 May 2006, in response to the Draft Determination

⁶³ A list of such NFPOs was provided by the Applicants and is summarised in paragraph 5.13 above.

⁶⁴ Report by the NSW Parliament into General Purpose Standing Committee No1 into Personal injury Compensation legislation published December 2005 p. 78 para 10.23

- 7.55 While difficult to calculate a precise figure, the ACCC believes the 1,600 CCUA co-insurance pool clients are likely to represent a small proportion of the total number of NFPOs in Australia. Based on a broad definition it has been estimated that there are hundreds of thousands of NFPOs in Australia.⁶⁶ However for the purposes of this assessment, and based on the eligibility criteria discussed in paragraph 3.4, it seems likely that such an estimate would be at the high end. The ACCC notes that some insurers do not differentiate between businesses and NFPOs that purchase liability insurance. Therefore, it is difficult to disaggregate data and decipher a precise figure for the number of NFPOs in Australia.
- 7.56 An ABS report regarding Community Services in Australia, stated, for the financial year 1999-2000, there was approximately 5,938 NFPOs in community service related industries.⁶⁷ Because this ABS survey was confined to community service related industries (e.g. such as aged care and child care) the ACCC would expect to find that the number of NFPOs would be larger than this figure.
- 7.57 A key question is whether the ‘availability’ of public liability insurance for NFPOs would be better promoted with or without the proposed arrangements. In this context, the ACCC considers that the issue of the ‘affordability’ is integral to a consideration of availability. This is because, due to funding limitations, many NFPOs are unable to respond to rapid increases in the level of premiums, such as those that occurred in the early 2000s. Therefore, whether an NFPO can access public liability insurance often depends not only on whether they can obtain a quote, but whether this quote is reasonably within its financial limitations.
- 7.58 There appears to be a general level of consensus that the market has ‘softened’ since authorisation was last granted with increased competition and evidence of falling premium rates. That said, the Applicants have provided anecdotal evidence that public liability premium rates for NFPOs specifically have not fallen as dramatically as for other types of clients, and that some NFPOs are still experiencing difficulties in accessing affordable public liability insurance cover.
- 7.59 To further assess this claim, the ACCC asked the Applicants to provide details of NFPOs currently insured by the co-insurance pool that would not be able to source public liability insurance from any of the Applicants individually. In response, the Applicants did not provide specific examples of NFPOs they considered would be unable to otherwise obtain cover.
- 7.60 Moreover, in response to the ACCC’s request for further information within its draft determination, the Applicants noted that it would be “very time consuming

⁶⁵ Report by the NSW Parliament into General Purpose Standing Committee No1 into Personal injury Compensation legislation published December 2005 p. 76 para 10.22

⁶⁶ Mark Lyons, Third Sector: The contribution of nonprofit and cooperative enterprises in Australia, Sydney Allen and Unwin, 2001

⁶⁷ Australian Bureau of Statistics, Community Services in Australia, 8696.0, 1999-2000, Table 1.1 pg 7

- and costly”⁶⁸ for them to provide information to support the contention that the co-insurance pool improves affordability or availability of public liability insurance.
- 7.61 Instead, the Applicants refer the ACCC to three reports (listed below) and argue that the ACCC should be guided by the observations in these reports:
- Report by the NSW Parliament General Purpose Standing Committee No 1 into Personal Injury Compensation legislation published December 2005
 - SA Parliament Economic and Finance Committee report on public liability published in December 2005 and
 - Report by the Department of Social Administration and Social Work, Flinders University entitled ‘*Insurance and Risk Management: Unravelling Civil Society*’ dated May 2005.
- 7.62 These reports are discussed further at paragraphs 7.69 to 7.70. However, in summary, the ACCC does not consider that they demonstrate the extent to which CCUA increases the availability of public liability insurance for NFPOs.
- 7.63 The ACCC considers that it is possible that the co-insurance pool arrangements may increase the affordability and/or availability of public liability insurance to NFPOs. Indeed, this argument was accepted by the ACCC in authorising the arrangements in 2004. However, as also noted, market conditions have changed considerably since authorisation was first granted. In particular, there appears to have been a significant ‘softening’ in the market for the supply of public liability insurance. The ACCC considers that the current market conditions suggest that most (if not all) of CCUA’s 1600 clients would now be able to access public liability insurance in the absence of the CCUA co-insurance pool arrangements. This suggests that whether the proposed arrangements are authorised or not may not greatly impact on the general availability of this type of cover for most, if not all, NFPOs.

Greater affordability of cover for NFPOs

- 7.64 A related consideration is whether the proposed arrangements are likely to improve the ‘affordability’ of public liability insurance for certain NFPOs. The ACCC notes the Applicants’ claim that the proposed arrangements will enable them to distribute between them the risk of claims being made, making it more economically viable to offer public liability insurance to certain NFPOs. The ACCC also notes the Applicants claim that the exclusion of broker commissions (which at the time of the original application were claimed to average between 15 – 20 per cent of net premiums) enables them to supply public liability insurance to NFPOs at the lowest possible price.
- 7.65 The ACCC considers that in certain circumstances, the co-insurance pool may be in a position to provide lower premiums to NFPOs relative to circumstances in

⁶⁸ Applicants’ submission in response to the draft determination, 30 May 2006

which the co-insurance pool, or providers individually, would pay broker commission. Consequently, the proposed arrangements may improve affordability for NFPOs to the extent that the agreement not to pay broker commission is passed through to NFPOs in the form of lower premiums. Such a reduction in premiums could also be reflected in lower premiums offered by competitors of the co-insurance pool. Although, such a reduction in premiums would need to be weighed against any detriment generated by brokers having a reduced role in the market.

7.66 To substantiate this claim, the ACCC requested (both prior to and after the draft decision) that the Applicants provide empirical evidence that public liability insurance provided by the co-insurance pool is cheaper than that which the Applicants individually, or the market more broadly, is able to provide. In response the Applicants noted:

- the 20 per cent reduction in premiums offered to NFPO's who have acceptable risk management plans in place (as discussed in greater detail at paragraph 5.27);
- the agreement for the co-insurance pool not to pay brokers commission; and
- discussions with some co-insurance pool customers had indicated that premiums offered by the pool are lower than quotes offered by other underwriters.

7.67 As noted in previous paragraphs however, the Applicants did not provide specific evidence to substantiate the claim that public liability insurance provided by the co-insurance pool is cheaper than that which the Applicants individually, or the market more broadly, is able to provide. Instead, as noted in previous paragraphs, they referred the ACCC to three reports (discussed below).

7.68 The ACCC notes that the report by the Department of Social Administration was considered by the SA Parliament Economic and Finance Committee, which published its own report on public liability in December 2005. The report by the Department of Social Administration looked at how insurance and risk management was experienced by a sample of 388 community organisations in South Australia during the 2000- 2004 period. The report noted that for this sample group in SA, public liability insurance premiums remained high. That said, the ACCC notes that the report does not provide specific evidence that the CCUA co-insurance pool is able to provide public liability insurance to NFPOs at a lower price than could now be sourced from the Applicants operating individually, or other market participants.

7.69 The ACCC notes that in providing a submission to the NSW Parliament General Purpose Standing Committee No 1 the Cabinet Office (NSW) noted that the availability of cost-effective insurance had significantly improved for NFPOs. The Cabinet Office (NSW) highlighted the role of the CCUA in providing public liability to NFPOs and it also acknowledged that other insurers such as NCOSS and Suncorp were also supplying insurance cover to NFPOs. However none of the departmental reports provide specific evidence that the Applicants co-insurance

pool in the current market environment improves the affordability and/or availability of public liability insurance to NFPOs.

- 7.70 In the absence of any specific evidence to the contrary, the ACCC is unable to conclude that the co-insurance pool arrangements are likely to significantly impact on the affordability and/or availability of public liability insurance to NFPOs in the current market environment. The fact that other market participants appear to be effectively competing against the co-insurance pool suggests that the product offered by the co-insurance pool is not significantly cheaper. Consequently, the ACCC does not place great weight on this as a public benefit likely to flow from the arrangements.

Reduced reliance on government funding

- 7.71 The ACCC understands that many NFPOs obtain the funding necessary to enable them to provide services to the community from two main sources, being government funding or grants and through community support (including gifts, donations, and fundraising). Public liability insurance, as well as other operational necessities, must be secured using these funds.
- 7.72 In support of their original application, the Applicants submitted that as many NFPOs rely heavily on government funding and fundraising to maintain their services, the loss of fundraising opportunities due to the unavailability of public liability insurance would lead to an increased reliance on government funding or a reduction in services provided by the NFPO. In particular, the Applicants submitted that the proposed arrangement will enable NFPOs to maintain their current services and reduce their need to approach governments for increased funding.
- 7.73 In its previous determination, however, the ACCC concluded that it was not convinced that the proposed arrangements would prevent the need for increased government funding should such a need be identified, and that it did not have sufficient information to suggest this would occur. Accordingly, the ACCC did not accept this claim as a public benefit flowing from the proposed arrangements.
- 7.74 In support of their current application, the Applicants have reiterated their view that the proposed arrangements will continue to allow certain NFPOs to maintain their current services and reduce the need for these organisations to approach governments for increased funding. However, the Applicants did not provide any further information in support of this claim.
- 7.75 Therefore, based on the available information, the ACCC maintains its view that it is not convinced that the proposed arrangements would prevent the need for increased government funding. Accordingly, the ACCC maintains its view that this should not be considered a public benefit flowing from the proposed arrangements. In any case, the ACCC's views as to whether the proposed arrangements will improve the affordability of public liability insurance for some

NFPOs is discussed above. Accepting a reduced reliance on government funding as a public benefit flowing from the co-insurance pool would in effect, be double counting the same cost saving twice.

The protection afforded to NFPOs by Commonwealth Government legislation

- 7.76 The Applicants submit that there is a public benefit in allowing NFPOs to obtain cover from companies licensed in Australia because it affords them the protection of Commonwealth Government legislation which governs the conduct on these insurers. A similar argument was put forward by the Applicants in support of their original application.
- 7.77 In assessing this claimed public benefit, the ACCC has considered issues relating to prudential regulation and consumer protection. During its consideration of the current application, the ACCC has not received submissions on the issue of NFPOs sourcing public liability insurance from overseas insurers.
- 7.78 However, submissions in relation to the original application for authorisation indicated that some NFPOs, whether due to a general lack of availability, or a lack of affordability, obtained public liability insurance from foreign insurance companies. In particular, a submission from Our Community expressed concern that some NFPOs had obtained public liability insurance from obscure foreign insurers, and that, given NFPO resource constraints, these policies may have been entered into without first completing a due diligence assessment (including recognition of the risk that claims made under the policy may not be met).⁶⁹
- 7.79 APRA had also expressed concern that some foreign insurers had elected to use lightly regulated jurisdictions as a base from which to distribute their products into countries with higher prudential requirements.⁷⁰ In particular, APRA noted that such companies may target ill-informed consumers who buy purely on price without understanding the greater risk involved. For this reason, APRA was seeking to educate prospective policyholders as to these risks and in particular was encouraging prospective policyholders to check whether a locally unauthorised foreign insurer is licensed and regulated in its home country, and has the financial capacity to pay future claims.
- 7.80 The ACCC considers that there is a benefit in the prudential regulation of insurance companies in Australia and in Australian insureds being able to have claims under their policies met. To some extent, this may have been influenced by alterations to the prudential standards in Australia (discussed in paragraph 4.16) since the previous ‘crisis’ in public liability insurance.
- 7.81 However, while there may still be concern about Australian NFPOs, or indeed consumers more generally, obtaining insurance from unauthorised foreign insurers,

⁶⁹ Our Community Pty Ltd, 27 November 2002, at page 6.

⁷⁰ [General Insurance Industry - The Supervisor's Perspective](#), Australian Financial Review *Insurance Summit 2002*, Friday, 29 November 2002.

the ACCC does not consider that the proposed co-insurance pool is likely to address this issue other than by providing an alternate local source of public liability insurance. In other words, the arrangements themselves will not prevent NFPOs from obtaining public liability insurance from insurers located in lightly regulated jurisdictions should they choose to do so.

Facilitating the education of NFPOs as insureds

- 7.82 In support of their original application, the Applicants submitted that the proposed arrangements would facilitate the education of NFPOs as insureds by providing a central information facility for risk management and advice on the cost implications of certain activities.
- 7.83 In support of their current application, the Applicants have reiterated these arguments and provided further evidence to support their case that the co-insurance pool facilitates NFPO education. Specifically, the Applicants submit that its risk management education program is far in excess of any such education program traditionally supplied by brokers. In this regard, the Applicants have referred to a number of workshops that have been conducted with a variety of stakeholders and the development (and prospective development) of a number of free publications aimed at improving the education of NFPOs (and their staff) in this area.⁷¹ These initiatives were discussed in paragraph 5.26.
- 7.84 One interested party submission disputes the Applicants' assertion that the risk management education provided by CCUA exceeds that available via brokers and other insurers. For example, this submission notes that certain brokers provide NFPOs with a free risk management system when they purchase insurance with them and that certain brokers organise and liaise with relevant peak bodies to improve NFPO education.
- 7.85 The ACCC is of the view that improved risk management may reduce the potential for NFPOs to suffer detriment caused by moral hazard and adverse selection on the part of insurers. In addition, it is the ACCC's view that measures aimed at improving NFPO risk management and providing NFPOs with improved information resources to enable them to identify the cost implications of certain activities are likely to be of benefit.
- 7.86 The ACCC understands, however, that brokers generally provide some of these services and information to clients, including NFPO clients. From one perspective, to the extent that the CCUA co-insurance pool arrangements reduce the level of broker involvement, the education services described by the Applicants might have simply replaced those traditionally provided by brokers.
- 7.87 On this issue, the ACCC notes the Applicant's view that its risk management education programs are 'far in excess of' those traditionally supplied by brokers

⁷¹ The Applicants now offer a 20 per cent reduction of premium to NFPOs which have an acceptable risk management plan in place.

and an interested party's view to the contrary. While the ACCC does not rule out the possibility that the risk management initiatives outlined by the Applicants are more extensive than those typically supplied by brokers, on the available evidence, it is unclear whether this is the case. As such the ACCC does not attach significant weight to this public benefit claim flowing from the arrangements.

- 7.88 The ACCC does consider that the 20 per cent reduction in premiums to NFPOs which have an acceptable risk management plan in place is likely to promote acceptable risk management practices, which is likely to be of benefit. However, in this respect, all providers of public liability insurance have an incentive to ensure that insureds have acceptable risk management plans in place, and all could be expected to offer insureds such incentives which are necessary to ensure this is the case.

Encouragement of collective purchasing arrangements

- 7.89 In support of their original application, the Applicants submitted that the central information facility flowing from the proposed arrangements would also enable the possible aggregation of NFPOs (collective purchasing arrangements) as purchasers of public liability insurance, which in turn, would result in cost savings. In support of the current application, the Applicants have reiterated this argument, noting that the proposed arrangements encourage discussion between the co-insurance pool agent (QBE) and peak bodies in an attempt to develop collective purchasing arrangements. The Applicants have also provided a list of those groups/organisations that currently undertake collective or 'aggregated' purchasing arrangements. These groups/organisations were listed in footnote 51.
- 7.90 It is the ACCC's view that the aggregation of buyers can reduce the transaction costs associated with supplying insurance, in particular through the use of a single representative allowing for efficiency-enhancing negotiations with insurers that are precluded when each NFPO has to be dealt with separately. The aggregation of buyers could also result in more effective incentives under joint buying from within the purchasing body's own ranks to take adequate care, most notably by reducing moral hazard, to keep premiums down.
- 7.91 That said, despite the Applicants providing a list of those groups it currently has aggregated arrangements in place with, the ACCC considers that it is unclear whether the proposed arrangements are, themselves, necessary for this type of collective purchasing to occur. That is, it is not clear why these type of collective purchasing arrangements could not be entered into by a group/organisation dealing with an insurance broker that also fulfils a type of function as an 'information facility' for those wishing to purchase insurance. Similarly, it is not clear why these types of agreements could not be entered into by groups/organisations with the parties to the co-insurance pool individually, or other insurance providers directly.
- 7.92 Accordingly, on the available evidence, the ACCC does not place great weight on this claim as a public benefit.

Avoiding cost of transition

- 7.93 As noted above, without the arrangements, NFPOs that currently source public liability insurance from the co-insurance pool would be required to source alternative public liability insurance from either the Applicants operating individually, or through other market participants. The transition from the present arrangements to a market without the co-insurance pool would be likely to generate ‘transition’ costs for certain NFPOs.
- 7.94 It is difficult to speculate as to how significant these transition costs would be for NFPOs that currently source public liability insurance from the co-insurance pool. At the very least, they would involve the ‘search costs’ involved for NFPOs in finding a public liability quote commensurate with their current policy through the co-insurance pool.
- 7.95 Therefore, the ACCC considers that there may be a public benefit in maintaining the present arrangements to the extent that this avoids the costs that would otherwise be incurred in NFPOs currently sourcing public liability insurance from the co-insurance pool having to do so through other providers.
- 7.96 However, costs incurred in the transition to new public liability insurance providers would be ‘one-off’ costs. As such, the benefit of avoiding these costs would need to be weighed over the life of the co-insurance pool arrangements.

Conclusion on public benefits

- 7.97 It is the ACCC’s view that the co-insurance pool arrangements could result in a limited public benefit, by acting as a type of ‘safety net’ for those NFPOs that cannot source public liability insurance from insurance companies acting individually and, to the extent that the agreement not to pay broker commissions is passed through in the form of lower premiums, improve the affordability of public liability insurance for NFPOs. However, market conditions have changed considerably since authorisation was first granted to the arrangements. In particular there has been a significant ‘softening’ in the market for the supply of public liability insurance which suggests that the co-insurance pool may not greatly impact on the availability and affordability of such insurance to NFPOs. In this respect, the Applicants have not provided specific evidence which establishes that the co-insurance pool would significantly impact on the availability or affordability of such insurance for NFPOs in the current market environment. Consequently, on the basis of the information currently before it, the ACCC does not place great weight on this as a public benefit likely to flow from the arrangements.
- 7.98 While the ACCC does accept that the continuation of the co-insurance pool will mean that NFPOs currently sourcing insurance from it will avoid the one-off transition costs of moving to new insurance providers, it does not consider this public benefit to be significant.

Balance of public detriment and benefit

- 7.99 The ACCC may only re-authorise arrangements if it is satisfied that, in all the circumstances, the arrangements are likely to result in a public benefit that will outweigh any public detriment.
- 7.100 The ACCC considers that changes to the market and to the joint venture agreement have significantly reduced both the detriments and benefits generated by the arrangements.
- 7.101 As indicated above, the ACCC is of the view that the CCUA co-insurance pool arrangements are likely to have limited anti-competitive effects in the market for the supply of public and product liability insurance in Australia. In particular, the ACCC considers that increased competition from existing insurance companies, an improved environment for market entry and an increase in the countervailing power of brokers is likely to significantly limit any ongoing anti-competitive effects. In addition, the ACCC considers that the amendment to the joint venture agreement may also reduce the level of anti-competitive detriment in that the Applicants are now not prevented from competing against each other for NFPO business, and in some cases may have a commercial incentive to do so.
- 7.102 However, the extent to which the Applicants will compete against each other for NFPOs business is unclear given that it will remain the case that they will continue to set the terms of supply for some NFPOs collectively which may affect the terms on which they offer such insurance individually.
- 7.103 Further, to the extent to which the agreement by the Applicants not to pay brokers commissions in respect of business written by the co-insurance pool reduces the role of brokers in the market, this may also generate some public detriment.
- 7.104 The ACCC considers that the ‘softening’ of the market for the supply of public liability insurance since authorisation was last considered suggests that the co-insurance pool may not greatly impact on the availability and affordability of such insurance to NFPOs. In this respect, the Applicants have not provided specific evidence which establishes that the co-insurance pool would significantly impact on the availability or affordability of such insurance for NFPOs in the current market environment. Consequently, on the basis of the information before it, the ACCC does not place great weight on this as a public benefit likely to flow from the arrangements.
- 7.105 While the ACCC does accept that the continuation of the co-insurance pool will mean that NFPOs currently sourcing insurance from it will avoid the one-off transition costs of moving to new insurance providers, it does not consider this public benefit to be significant.
- 7.106 On balance, the ACCC is not satisfied, on the basis of the information before it, that ongoing authorisation of the co-insurance pool arrangements is likely to result in a public benefit that will outweigh any public detriment.

Duration of authorisation

- 7.107 While not satisfied that ongoing authorisation of the co-insurance pool arrangements will be likely to result in a public benefit that will outweigh any public detriment, the ACCC notes that many NFPOs are currently supplied public liability insurance by the co-insurance pool. While satisfied that without authorisation of the co-insurance pool, these NFPOs would be able to find alternative insurance coverage, the ACCC notes that for many NFPOs sourcing alternative public liability insurance may take some time potentially leaving some NFPOs without cover in the short term.
- 7.108 However as noted above, the Applicants did not provide specific examples to the ACCC of NFPOs they considered would be unable to obtain cover absent the arrangements.
- 7.109 While not proposing to grant ongoing authorisation the ACCC does consider that there are public benefits in granting authorisation for a transition period so as to allow NFPOs currently sourcing public liability insurance from the co-insurance pool to put in place alternative arrangements.
- 7.110 Therefore, the ACCC proposes to revoke authorisations A30217 and A30218 and grant substitute authorisations to the Applicants in respect of the joint venture arrangements which govern the operation of the CCUA co-insurance pool to:
- continue to write or renew policies up until 31 December 2006⁷²; and
 - give effect to any policies until midnight 31 December 2007.
- 7.111 In effect, this will allow annual policies to continue to be written by the co-insurance pool up until 31 December 2006, and for these policies to be given effect to for their duration. Existing annual policies expiring after 31 December 2006 will also be able to be given effect to for their duration, although they will not be able to be renewed by the co-insurance pool. However, in these cases, NFPOs will have sufficient notice of this to put in place alternative arrangements.

⁷² as long as such policies do not expire after midnight on 31 December 2007

8 The determination

The applications

- 8.1 On 22 December 2005, Allianz Australia Insurance Limited (Allianz), QBE Insurance (Australia) Limited (QBE) and NRMA Insurance Limited (NRMA) – together the ‘Applicants’ – lodged an application for the revocation of authorisation A30217 and A30218 and substitution of a replacement authorisation under section 91C and sub-section 88(1) of the *Trade Practices Act 1974* (Act).
- 8.2 The Applicants are seeking authorisation of an unincorporated joint venture agreement – operating through an agent and trading as Community Care Underwriting Agency (CCUA) – for the collective supply of public liability insurance to eligible ‘not for profit organisations’ (NFPOs) through a ‘co-insurance pool’.
- 8.3 The ACCC originally authorised the joint venture arrangement on 24 March 2004. This authorisation is due to expire on 31 December 2006.
- 8.4 The substantive difference with the current application is set out by the Applicants in their ‘Amended Agreement to Joint Venture Agreement’ as follows:

The Participants agree to delete Clause 3.11 of the Joint Venture Agreement in its entirety.

Clause 3.12 of the Joint Venture Agreement is amended to provide as follows:

“The Participants acknowledge that each of the Participants may provide insurance similar to a Contract of Insurance to any NFPO or any other body which is not a NFPO under this Agreement.

- 8.5 The Applicants are seeking immunity from legal action under the Act in respect of the joint venture agreement for a period of five years.

The net public benefit test

- 8.6 For the reasons outlined in this determination, the ACCC is not satisfied that in all the circumstances, the conduct for which authorisation is sought under subsection 88(1) of the Act in respect of provisions which would be or might be exclusionary provisions would be likely to result in such a benefit to the public that it should be allowed to be made and given effect to (A90997).
- 8.7 For the reasons outlined in this determination, the ACCC is not satisfied that, in all the circumstances, the conduct for which authorisation is sought under section 88(1) of the Act in respect of provisions which would have the purpose or would have or might have the effect of substantially lessening competition within the meaning of section 45 of the Act would be likely to result in a benefit to the public

and this benefit would outweigh the detriment to the public constituted by any lessening of competition that would be likely to result from the contract, arrangement or understanding (A90998).

- 8.8 The ACCC considers, however, that it is in the public interest to grant a transitional period of authorisation to the CCUA with respect to the co-insurance pool.

Revocation of authorisations

- 8.9 Accordingly, the ACCC revokes authorisations A30217 and A30218 grants substitute authorisations A90997 and A90998 to the Applicants in respect of the joint venture arrangements which govern the operation of the CCUA co-insurance pool to:

- continue to write or renew policies up until 31 December 2006⁷³; and
- give effect to any policies until midnight 31 December 2007.

- 8.10 However, as noted previously in this document, the Act does not prevent pricing arrangements within genuine joint ventures arrangements where these would not substantially lessen competition. In this regard, it may be possible for CCUA to continue to offer policies where it is confident that its arrangements do not have a substantial anti-competitive effect (and provided it removed more specific concerns such as the agreements not to pay broker fees).

Interim authorisation

- 8.11 At the time of lodging the application, the Applicants requested interim authorisation for the proposed arrangements pending the outcome of the full authorisation process.
- 8.12 On 1 February 2006, the ACCC granted interim authorisation to the arrangements for the period 1 January 2007 until 12 months after the ACCC issues a final determination in respect of the substantive applications (unless circumstances warrant revocation or amendment of the interim authorisation at an earlier stage).
- 8.13 Interim authorisation will remain in place until the date the ACCC's determination comes into effect.

⁷³ as long as such policies do not expire after midnight on 31 December 2007

Date authorisation comes into effect

8.14 This determination is made on 6 July 2006. If no application for review of the determination is made to the Australian Competition Tribunal (the Tribunal), it will come into force on 28 July 2006. If an application for review is made to the Tribunal, the determination will come into effect:

- Where the application is not withdrawn – on the day on which the Tribunal makes a determination on the review, or
- Where the application is withdrawn – on the day on which the application is withdrawn.