

17 March 2020

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Australian Prudential Regulation Authority  
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By email: [dataanalytics@apra.gov.au](mailto:dataanalytics@apra.gov.au)

Dear Sir/Madam

### **TRANSPARENCY OF GENERAL INSURANCE DATA**

The Insurance Council of Australia (Insurance Council)<sup>1</sup> appreciates the opportunity to provide comments on APRA's letter of 10 February titled, "*APRA Commences Consultation On Increased Transparency of General Insurance And Life Insurance Data*" (**Transparency Letter**).

The Transparency Letter outlines APRA's intention to "determine class of business and product group data to be non-confidential". It explains the purpose of the intended change is to publish "a greater breadth of industry-aggregate data" so as to "promote greater efficiency and accountability" in the general insurance (**GI**) and life insurance (**LI**) industries". APRA's intention is to "enhance competition, efficiency, and contestability in the financial sector and boost innovation and productivity in the economy."

The Insurance Council would like to provide context around the approach we have taken. We note that the line of reasoning in the Transparency Letter is "presumptive" rather than "demonstrative"; i.e. the Transparency Letter presumes that enhanced competition will be the result. However, the Letter does not attempt to explain how more vigorous competition will arise as a consequence of unmasking class of business and product group data. Rather, it asserts that it will follow.

The Insurance Council is therefore concerned, in the absence of an explanation from APRA, that the actual outcome may be different to that expected. Indeed, we are concerned that

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<sup>1</sup> The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent approximately 95 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. December 2019 Australian Prudential Regulation Authority statistics show that the general insurance industry generates gross written premium of \$50.2 billion per annum and has total assets of \$129.7 billion. The industry employs approximately 60,000 people and on average pays out about \$152.3 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

APRA's proposals will lead to a weakening of competition and greater concentration of market power in certain product classes. The reasons why the Insurance Council held, and continues to hold, these concerns are clearly articulated in the Council's letter of 23 April 2013 to APRA. Those reasons are attached in extract form in Appendix 1 for your convenience.<sup>2</sup>

We note that consultation on this reform commenced in 2013 and was paused in 2015.<sup>3</sup> Subsequently, APRA was subject to the *Australian Prudential Regulation Authority Capability Review June 2019 (Capability Review)*. The Capability Review made a number of observations as to how APRA addresses competition issues in performing its multifaceted mandate.<sup>4</sup> In particular, it recommended that APRA "should create a competition champion" so as to "ensure there is sufficient internal debate and analysis of competition".<sup>5</sup>

Given that consultation on the proposed unmasking commenced before the Capability Review and also in view of the Insurance Council's long held concern that APRA's proposals will lead to a weakening of competition, the unmasking proposal may be an example of insufficient internal debate and analysis within APRA of the likely competitive impact.

We therefore think it would be of benefit for APRA to provide the Insurance Council and members with its analysis of the competition effects of unmasking class of business and product group data and any assessment by its competition champion. This will help give the general insurance industry confidence that its concerns about the anti-competitive effects of this proposal are unlikely to eventuate. It would also be a tangible demonstration of APRA's commitment to transparency and accountability.<sup>6</sup>

We have not sought to address the specific questions asked in the Transparency Letter because individual insurers are in the best position to provide specific examples of product classes which if made public would result in a detriment.<sup>7</sup> The Insurance Council has therefore encouraged its members to make confidential submissions on this point directly to APRA.

If you have any questions or comments in relation to our submission please contact 



Yours sincerely



Robert Whelan  
Executive Director & CEO

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<sup>2</sup> The reasons are reproduced in extract form as other parts of the 23 April 2012 letter are, with the passage of time, no longer relevant.

<sup>3</sup> As advised by APRA's letter of 23 June 2015.

<sup>4</sup> Pages 69 to 73, *Australian Prudential Regulation Authority Capability Review June 2019*

<sup>5</sup> Recommendation 3.7, *Australian Prudential Regulation Authority Capability Review June 2019*

<sup>6</sup> Recommendation 2.2, *Australian Prudential Regulation Authority Capability Review June 2019*

<sup>7</sup> For example, the first question reads, "details of specific class of business or product group data items that would create detriment if they were made non-confidential."

**Extracts from Insurance Council of Australia submission to APRA of 23 April 2013**

“The Insurance Council considers that much of the information provided to APRA under the FSCOD Act can be made public at the appropriate time. However, there are a number of commercially sensitive items whose release cannot be justified in terms of the public interest in a sound general insurance sector. The information would only be used by industry participants and third parties for their own commercial advantage. In the context of section 57 of the APRA Act, it will not benefit the public (and may harm it in the event that it has a destabilising or anti-competitive impact on the industry) and it will cause a detriment to the commercial interests of industry members. As such, that data should not be determined non-confidential.

...

It is acknowledged that under APRA’s proposal all Australian licensed general insurers would have access to the same level of information about each other’s operations. However, the potential for making commercial use of the data will vary with competitive strength. Rather than encouraging more entrants into a particular market, it could enable stronger players to squeeze their competitors out. There is also the possibility that the publicly available data will facilitate price signalling to the detriment of overall competition.

With the public availability of the number of policies issued by a particular entity, the release of detailed commercial data may result in uninformed conclusions about pricing in the absence of a full understanding of an insurer’s operations. There is a further complication that the provision of a high level of detail to the public on individual regulated entities without an understanding of intra- group operations could lead to misjudgements about the financial position of level 2 and level 3 groups.

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**Forms which provide insurer level statistics at the class of business and state by class of business level**

The forms listed In Attachment B provide insurer level statistics at the class of business level or at the state level within each class of business. These forms, when taken collectively, enable the calculation of insurer specific profit margins and market share by class and by state within each class.

This information is commercially sensitive. The public interest would not be served by disclosing this information at an insurer specific level. In addition, that disclosure could cause material detriment to the commercial interests of an insurer. Consequently, the forms listed in Attachment B should not be classified as non-confidential.

These conclusions are based on the following:

The combined information in these forms would enable an insurer’s competitors to form a clear picture of the underlying combined operating ratios, and the contributors to those ratios, of each class of business, and for each class of business by State, can be derived for the

insurer. This could have a material impact on the market which may be adverse to the public interest and damaging to the interests of the insurer concerned. For instance:

- The forms would assist competitors to determine the insurer's underlying business strategy. They would reveal, for example, on which classes of business the insurer has taken an aggressive approach on pricing and some of the underlying reasons for that. Moreover, it could indicate whether an insurer is lowering prices due to performance in a product class or whether it is doing that in order to increase market share. That information could enable the competitor to take action which may be adverse to the public interest.
- Most insurance companies cross subsidise some classes of insurance business against others. An analysis of the information in these forms would enable competitors to identify those classes where low combined operating ratios are being achieved and could lead to insurers being pressurised to reduce rates on their more profitable books. This could have an adverse effect on other classes which could result in affordability issues for customers. The same argument could be applied across different states.
- The competitor behaviours referred to above could also create pressure on the underlying financial stability of the industry, with price pressure reducing profitability and the size of the capital buffer in place to reduce the effect of catastrophe events.

We can think of few situations where the information in these forms would be of interest or use to the public.”