

22 May 2024

Chief Data Officer
Technology and Data Division
Australian Prudential Regulation Authority
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By email: dataconsultations@apra.gov.au

Dear Chief Data Officer

APRA's Quarterly Insurance Publications

Finity Consulting (Finity) welcomes the opportunity to comment on APRA's proposed enhancements to published statistics for the general insurance industry. The observations in this letter relate specifically to general insurance. Finity's comments on private health insurance are being provided in a separate submission.

Finity provides Appointed Actuary services to 28 authorised general insurers, and engages with many of the larger insurers who have internal Appointed Actuaries. We are "heavy users" of APRA's general insurance statistics. We regularly and widely share our analysis of APRA statistics (for example, through our annual Optima publication) with, and for the benefit of, the general insurance industry. In fact, we have also frequently presented on the topic jointly with APRA.

Purposes of publishing statistics

Finity's starting point is the view that APRA publishes insurance statistics mainly for the following reasons:

- 1 To allow users to make an informed assessment of the performance of insurers as a market; the users may be market participants, analysts, brokers, interest groups, foreign entities, media and the like;
- 2 To support policymakers by giving reliable and factual information from a trusted expert source; and
- 3 More broadly, to support an efficient and stable market (the essence of Pillar 3 of the Basel framework).

As a general comment, we note that APRA has previously stated (as part of the 2016 consultation on GI statistics) that it "propose[s] to publish more general insurance statistics... to improve the usefulness of the data for general insurance industry analysis and promote a better understanding of the general insurance industry."

Will the current proposals meet those needs?

The current proposal goes some way to meeting those needs but, unfortunately, not all the way – indeed, in our view, it is a step backwards compared to the current suite of APRA statistics. As a result, we believe the current proposals result in the loss of information essential to the understanding of industry performance and its financial soundness. This is the fault of AASB17 (not APRA) and reflects the complexities of "transitioning" to a AASB17 format. Fortunately, we believe there are some relatively easy remedies to this which, in our view, will not add further regulatory burden to the industry.

Performance assessment requires a strong focus on revenue account items, while arguably APRA's prudential role requires more of a focus on balance sheet items. Performance assessment, including at a class of business

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level, is important to understanding trends and early identification of financial risks (that might, of course, translate to prudential risks).

The necessary items include both gross and reinsurance measures. The necessary metrics include written and earned premium, commission (an omission from the current proposed publications), expenses, claims paid and claims incurred (prior period changes being critical for the latter).

A proposal to “fill in the gaps”

Our suggestions that follow would build on APRA’s proposals and the resultant suite of statistics would, in our view, be much better aligned to the purposes of APRA statistics outlined above. We also note that all the items below are already collected by APRA from insurers (so would not result in any additional regulatory burden). As a general overarching comment, we would encourage APRA to continue to publish all data items that are currently included in its publications.

Release additional information that is already being collected

Information request	Description
Publish all items collected in GRS600 (at a Class of business level)	<p>APRA is proposing to release some items in GRS600. We propose that APRA release all of the items collected (which will include FSL, and gross payments and recoveries information).</p> <p>This enables calculation of the GWP excluding levies, and calculation of the movement in the outstanding claims provision on a GPS340 basis, respectively.</p>
<p>Publish more information from GRS310.3 (at a Class of business level)</p> <p>This information is currently collected via D2A. We presume this will continue to be collected when these forms transition to APRA Connect.</p>	<p>We propose that APRA publishes the underwriting expenses and operating expenses information (at a Class of business level). This will enable the calculation of combined operating ratios at a Class of business level.</p> <p>For the underwriting expenses, we propose that APRA breaks this down (at a Class of business level) into acquisition costs, levies and charges, commission expense, commission revenue, and other expenses, etc. This enables important metrics in the assessment of industry performance, such as GWP excluding commissions and levies.</p> <p>We also propose that APRA publishes the investment income on assets backing technical funds, and the investment income on assets backing shareholders’ funds (at an Industry segment level). This will enable allocation of the capital base to Class of business.</p>
Publish more information from GRS310 and GRS311.	<p>We propose that APRA publishes the breakdown of “other profit and loss items” (i.e. form items [20] through [26]) individually. This will enable the calculation of total expenses, and therefore combined operating ratio. We note that this would also be available if our above request for GRS310.3 is accepted.</p>
Publish additional capital information from GRS112.	<p>We propose that APRA publishes additional information from GRS112. In particular we propose APRA publishes items [1.1.1] through to [1.1.10], as well as the detailed components within [1.1.6], [1.1.7], [1.1.8] and [1.1.9] (e.g. [1.1.6.1], [1.1.6.2], [1.1.6.3], [1.1.6.4]). This level of detail would provide a better market understanding (at an Industry segment level) of the make-up of Capital Base, given the significant changes to items [1.1.6] through to [1.1.9] that were required due to the implementation of AASB17.</p>

The additional information we have requested does not need to form part of the data visualisations (at least not initially). Instead, we recommend it be released as part of the ‘flat file’ data set to aid speed of release. The additional information is likely to only be used by sophisticated users of the APRA statistical publications who use the ‘flat file’ information directly.

We also have additional suggestions (which do not need to feature in the initial data release, but which we encourage APRA to consider for future statistical publication enhancements):

Collect additional information and clarify definitions

Information request	Description
Collect additional information on reinsurance in GRS310 and GRS311.	<p>We propose APRA collect information on the split of reinsurance recoveries between current year and prior year movements, consistent with the information collected for gross claims. This will enable calculation of current year and prior year reserve movements on a net basis.</p> <p>We note that insurers already have to calculate this, at an aggregate level, for GRS320 every six months. Insurers would therefore need to calculate the split every quarter and calculate (or allocate) it for each class of business.</p>
Review definition of “gross accrued premium”	<p>One of the items collected in the GRS600 form is “gross accrued premium”. We understand that this should be the same as, or a close approximation to, the traditional “gross earned premium” that insurers calculated under AASB1023. This is a useful item to collect and publish.</p> <p>We suggest APRA review the current definition of “gross accrued premium”. We think that, in some cases, “gross accrued premium” could be understood as the premium collected during a period (rather than “earned”), depending on how insurers interpret “premium in advance”.</p> <p>The definition could be enhanced by referring specifically to the incidence of risk. For example, “Gross accrued premium is intended to be the amount of written premium that falls in the reporting period based on the incidence of risk under the insurance contract.”</p> <p>This suggestion also applies to the definition of “net accrued premium”.</p>
Confirm definition of insurance revenue	<p>We recommend APRA clarify that the GWP amount reported in GRS600 should be gross of any commission payments.</p> <p>We also recommend that APRA clarify that insurance revenue in GRS310 should also be gross of commission (and other acquisition) amounts. If APRA is unable to do this because GRS310 must align directly to AASB17 amounts, then we recommend APRA seek clarification on whether the insurance revenue reported is gross or net of commission amounts.</p> <p>We understand that most insurers have interpreted AASB17 in such a way that insurance revenue will be reported gross of any commission payments (consistent with the approach to reporting GWP and earned premium under AASB1023), but we are aware of instances where insurers report revenue after netting off commission amounts.</p> <p>Differences in approach (particularly where commissions can be significant) make industry level interpretation difficult.</p>

Timeframes

We strongly encourage APRA to endeavour to meet their indicated timeframes (of an initial data release in June 2024) and we look forward to hearing what the intended data release timetable is going to be thereafter. Further, beyond the initial release, we strongly encourage the resumption of the normal timetable for data release commencing with the release of data as at 30 June 2024 to occur in August 2024.

Further input

As heavy users of APRA's statistics for around 20 years we have a high level of familiarity with them. This, combined with our strong knowledge of AASB17 (including assistance with completion of APRA forms), has allowed us to consider, in some detail, APRA's proposal. This has included a "deep dive" into the differences between the current and proposed statistics, in much more detail than has been discussed in this document. Finity would be happy to discuss our findings and additional insights with APRA, with a view to assisting APRA with the publication of the best industry information that balances maximum usefulness with minimum regulatory burden.

We look forward to the consultation on all other insurance publications.

Yours sincerely

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