

# Life Insurance Risk Profitability Update

March Quarter 2017

The life insurance industry reported profits of \$394m for risk products in the March 2017 quarter, after a loss of \$153m in the previous quarter.

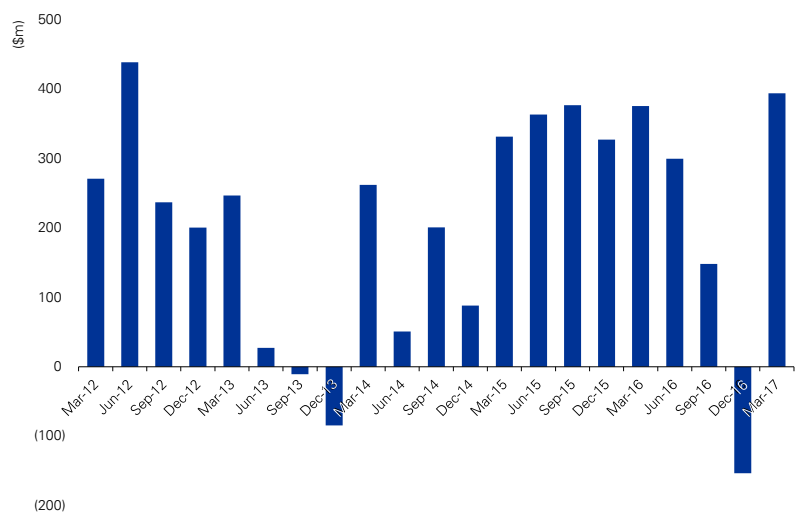
## Profitability by product

The profit in the March 2017 quarter was driven by retail lump sum returning back to profitability.

Retail disability income reported significantly lower losses compared to the prior quarters.

Group life shows signs of improving profitability and group disability income profits continue to be volatile.

Figure 1: Risk products net profit after tax by quarter over the last five years

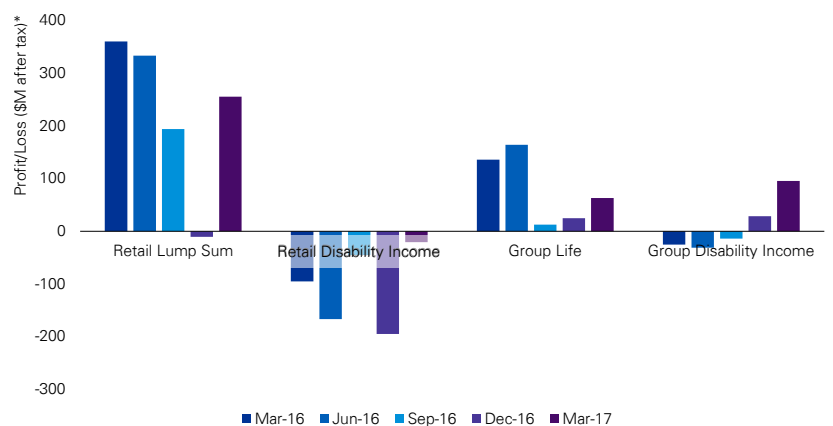


Source: APRA Quarterly Life Insurance Performance Statistics March 2017

## Both retail and ordinary products made profits in the March quarter.

- Retail lump sum profit increased to \$255m, compared to a \$12m loss reported in the December 2016 quarter.
- Retail disability income reported a loss of \$20m, which is a lower loss compared to the December quarter (\$200m loss), making it the fifth consecutive loss-making quarter.
- Group risk products produced slightly higher profits:
  - Group life profitability appears to have improved, but continues to be at historically lower levels.
  - Group disability income produced slightly higher profit, consistent with a reinsurance/retrocession agreement that impacted profit.

Figure 2: Net profit after tax by quarter



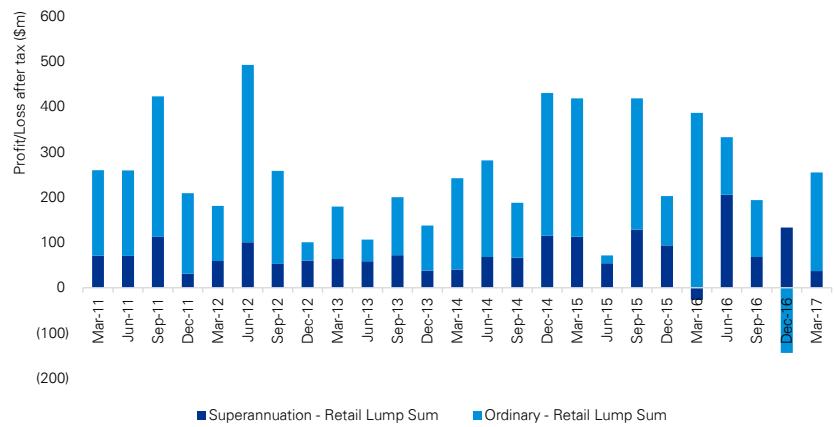
Source: APRA Quarterly Life Insurance Performance Statistics March 2017

\*All profit figures are after tax and after reinsurance. It includes both insurers and reinsurers' results but excludes business retroceded overseas.

## Retail risk products reported profits in the March 2017 quarter, after a loss-making December quarter.

- Ordinary retail lump sum reported profits of \$218m, predominately due to favourable reserve movements.
- Superannuation retail lump sum reported lower profits than the previous quarter, but is a relatively small block of business.
- Ordinary retail lump sum has returned to generating most of the profits for retail risk products.

Figure 2: Retail lump sum experience quarter to 31 March 2017

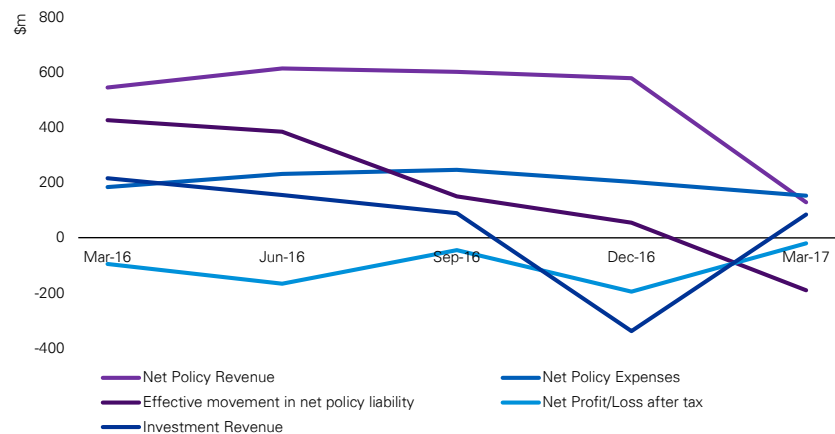


Source: APRA Quarterly Life Insurance Performance Statistics March 2017

### Retail disability income reported losses for the fifth consecutive quarter

- The reduction in losses in the March 2017 quarter appear to be due to the impact of a reinsurance agreement that impacted reported profit.
- The graph on the right shows net policy revenue decreased in the March 2017 quarter, offset by a decrease in net reserves.
- This highlights that care is required when interpreting the APRA statistics.

Figure 3: Components of retail disability income profits



Source: APRA Quarterly Life Insurance Performance Statistics March 2017

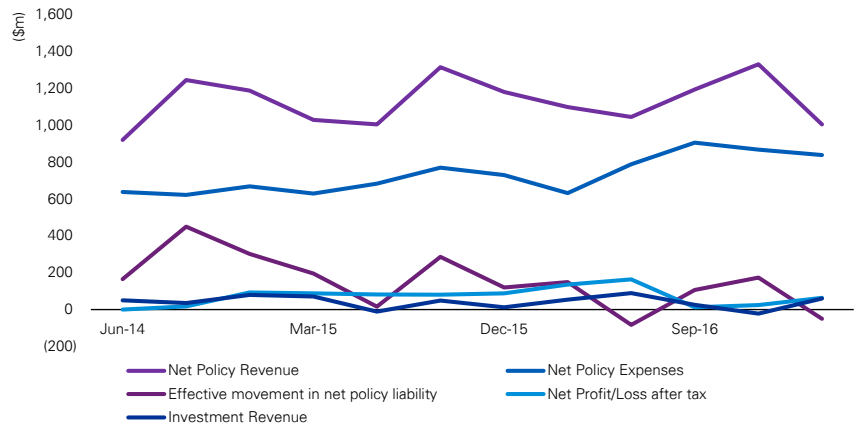


## Group risk products posted a profit of \$159m in the March 2017 quarter, up from \$54m in the December 2017 quarter.

### Group life produced profit of 6 percent of net revenue, which is slightly higher profit than the December 2016 quarter.

- However, the March quarter profits of \$63m is lower than historical levels (2015 average of \$84m).
- The graph on the right indicates this appears to be predominantly driven by a higher level of net policy expenses which includes claims.

Figure 4: Components of group life profits by quarter

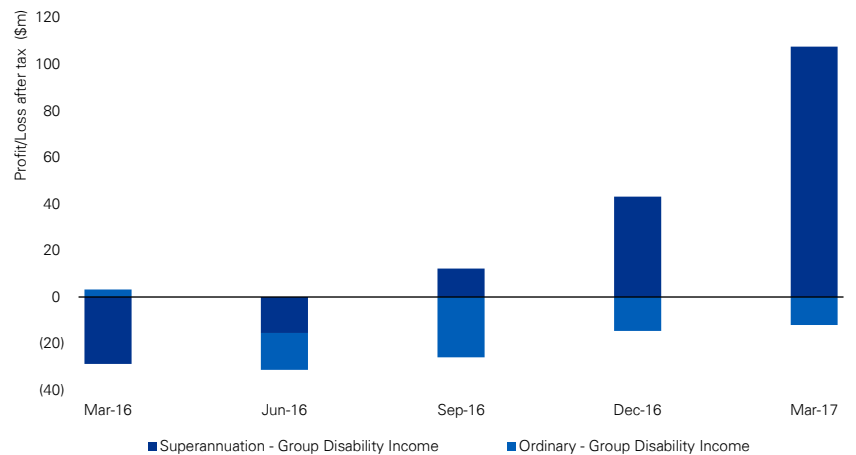


Source: APRA Quarterly Life Insurance Performance Statistics March 2017

### Group disability income made a large profit in the March quarter, reflecting:

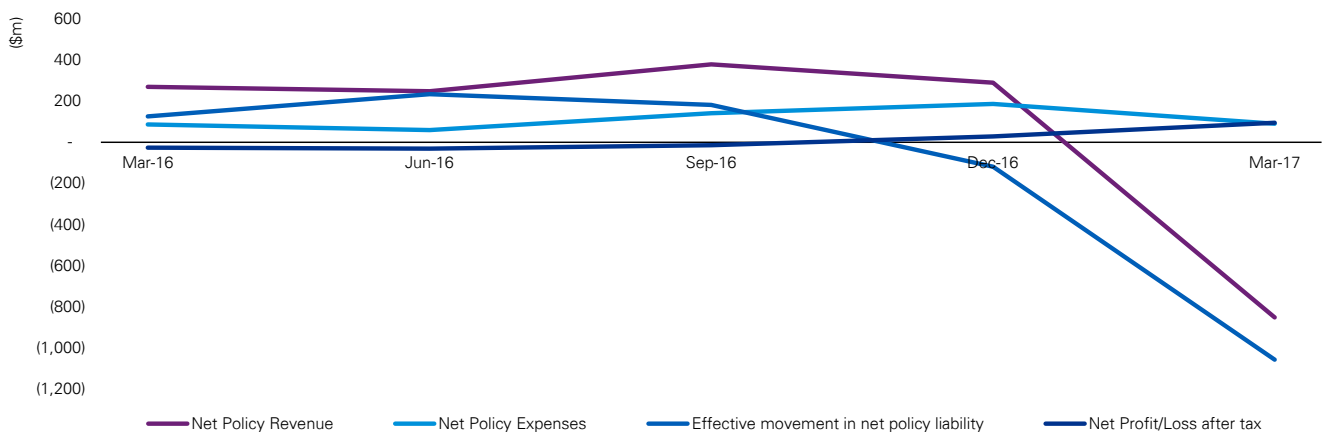
- Large profits in superannuation group disability income.
- The graph below shows that this improvement is consistent with a reinsurance agreement that impacted reported profit.
- This highlights that care is required in interpreting the APRA statistics.

Figure 5: Group disability income experience quarter to 31 March 2017



Source: APRA Quarterly Life Insurance Performance Statistics March 2017

Figure 6: Components of group disability income profits



Source: APRA Quarterly Life Insurance Performance Statistics March 2017

# Contact us



Hoa Bui  
Partner  
Actuarial, Insurance  
& Superannuation  
P: 9335 7875  
E: hbui@kpmg.com.au



James Collier  
Partner in Charge  
Actuarial, Insurance  
& Superannuation  
P: 9335 8933  
E: jamescollier@kpmg.com.au

[kpmg.com.au](http://kpmg.com.au)



The information contained in this document is of a general nature. It has been prepared to provide you with information only and does not take into account your objectives, financial situation or needs. It does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on the information contained in this document. Before acting or relying on any information, you should consider whether it is appropriate for your circumstances having regard to your objectives, financial situation or needs and also whether or not any financial product is appropriate for you. If applicable, you should obtain the Product Disclosure Statement relating to any financial product mentioned and consider the statement before making any decision about whether to acquire the financial product. To the extent permissible by law, KPMG Actuarial Pty Ltd, KPMG and their associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2017 KPMG Actuarial Pty Ltd ABN 91 144 686 046, Australian Financial Services Licence No.392050, an affiliate of KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.