



cutting through complexity

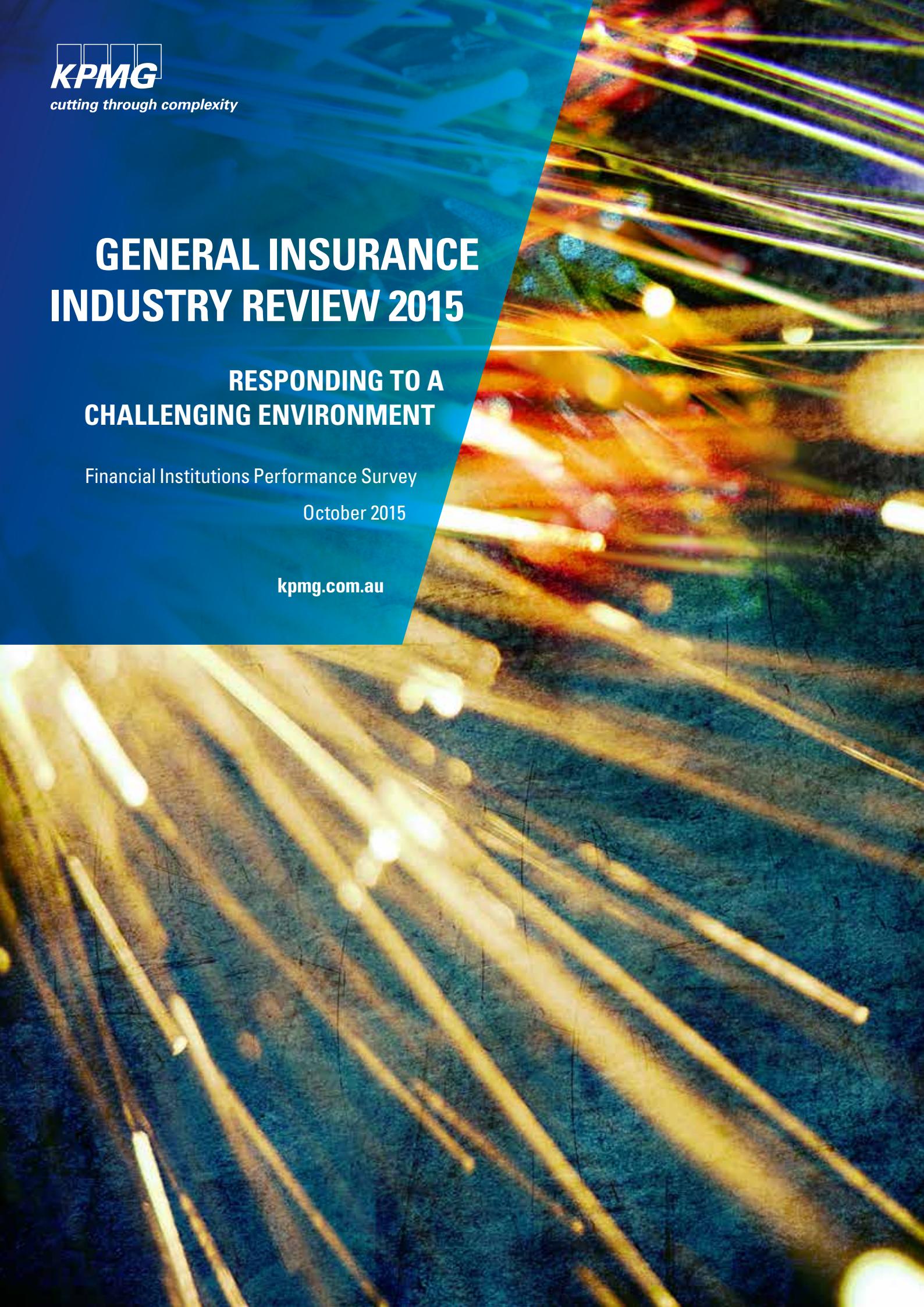
GENERAL INSURANCE INDUSTRY REVIEW 2015

RESPONDING TO A CHALLENGING ENVIRONMENT

Financial Institutions Performance Survey

October 2015

kpmg.com.au



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FOREWORD

KPMG's General Insurance Industry Review 2015, now in its 29th year, includes the financial results of general insurers that represent a significant part of the Australian market. The results of re-insurers have been excluded from this analysis.

The financial information, analysis and observations have been compiled from publicly available financial reports, disclosure statements and APRA General Insurance Statistics, and include information from the prior year. In certain instances, data obtained from other publicly available information has been supplemented with information obtained directly from insurers.

The report also includes what KPMG views as the 'Top 10 Opportunities and Risks for the Australian General Insurance Industry'. We reflect on the implications of these current and emerging themes, which may well require Australia's general insurers to significantly adapt the way they do business.

As always, we much appreciate insurer contributions to the report. We would also like to acknowledge the significant contributions of Julia Gunn and Deborah Ha to the development of the report.



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GENERAL INSURANCE INDUSTRY REVIEW 2015

YEAR IN REVIEW: RESULTS SNAPSHOT

→ **GROSS WRITTEN PREMIUM**
\$32,478M

GWP flat at \$32,478m – **zero growth** after strong competitive pressures

↓ **INSURANCE PROFIT**
\$3,735M 2015
\$4,892M 2014

Insurance profit **decreased** to \$3,735m, reflecting strong competition and multiple weather events

↑ **LOSS RATIO**
67.2%

Loss ratio **increased** due to **five natural catastrophe events**

→ **EXPENSE RATIO**
26.3%

Expense ratio **flat** at 26.3% – cost discipline maintained despite competitive pressures

↓ **CAPITAL RATIO**
x1.74

Capital ratio at 1.74 times the **prescribed capital amount** compared to 1.90 as at 30 June 2014

TOP 10: OPPORTUNITIES AND RISKS

NEW ENTRANTS



Emerging competitors
An increasingly crowded field



Fintech and insurance
Meeting the disruptors halfway

NEW PRODUCTS



Driverless cars
A new legal challenge



Telematics
Getting consumers comfortable

NEW INSIGHTS



Social media
The pros and cons



Machine learning
A game changer



Big data
Finding value

NEW MARKETS



Cyber insurance
Risk or opportunity?



NEW APPROACH



Conduct risk
Increasing regulatory focus

A holistic global view
Dealing with an interconnected world

2015 GENERAL INSURANCE INDUSTRY – YEAR IN REVIEW

AT A GLANCE

PERFORMANCE MEASURE	TOTAL 2014/15	TOTAL 2013/14
Gross written premium	\$32,478m	\$32,474m
Net earned premium	\$27,382m	\$26,855m
Underwriting result	\$1,766m	\$3,258m
Insurance profit	\$3,735m	\$4,892m
Loss ratio	67.2%	61.6%
Expense ratio	26.3%	26.3%
Combined ratio	93.5%	87.9%
Insurance margin	13.6%	18.2%

Source: Participating insurer surveys and KPMG analysis

YEAR IN REVIEW

Australian insurers faced tough conditions in the year to June 2015, producing an insurance profit of just \$3,735 million, down 23.6 percent from the previous 12 month's 5-year high. The result was driven by a number of factors including:

- continued competitive pressures on premium rates with only marginal growth in gross written premiums, and
- frequent natural catastrophes (five were declared in the 12 months to June 2015, costing the industry about \$3.6 billion).

However, these pressures were offset to some extent by improving investment returns. The past 12 months saw insurers revisit their investment strategies and venture into alternative assets as they continued to operate in a low interest rate environment in Australia and globally.

The results of the Australian operations of the surveyed Australian-based insurers are shown on page 28.

Gross written premiums remained flat at \$32,478 million, reflecting the strong competition faced by insurers throughout the year. Small gains were made in the domestic home and motor classes as well as Compulsory Third Party (CTP), offset by a contraction in other classes including Fire & Industrial Special Risks (ISR).

While some insurers have been able to grow their books via merger or acquisition activity, organic growth in the industry has proven difficult to attain. Nevertheless, there may be opportunities on the horizon for insurers to introduce new products or distribution channels, as we discuss further in our 'Top 10 Opportunities and Risks for the Australian General Insurance Industry' on page 12.

Net earned premium increased by 2.0 percent as insurers continued to reap the benefits of lower reinsurance costs, the result of increased capacity in global reinsurance markets. Whether capacity in the reinsurance market will continue to expand or plateau remains to be seen.

The past year has also seen more activity by global insurers in the Australian market with an increasing number of deals between Australian and international insurers replacing existing partnerships. One example is a strategic partnership between Insurance Australia Group (IAG) and Berkshire Hathaway allowing for a 10-year 20 percent quota share agreement. Another is Westpac's new tie-up with Bermuda-based Arch Capital Group for loans with loan to valuation ratios greater than 90 percent.

Following a quiet period without significant natural disasters, insurers faced five catastrophes this year. They included Cyclone Marcia, heavy storms in NSW and South East Queensland, hailstorms in Sydney and Brisbane, as well as bushfires in South Australia. Together these have cost the industry \$3.6 billion. As a result, the industry loss ratio increased to 67.2 percent from the 5-year low of 61.6 percent in 2014.

Insurers have demonstrated their ability to maintain cost discipline. The industry expense ratio has been steady over the past 5 years with the ratio at 26.3 percent in 2015. This is despite limited premium growth and a highly competitive market in which insurers are continuing to fight to maintain market share. Additionally, a number of insurers who in recent years invested in transformation and cost optimisation projects are now beginning to see the benefits of implementing new systems and streamlining processes.

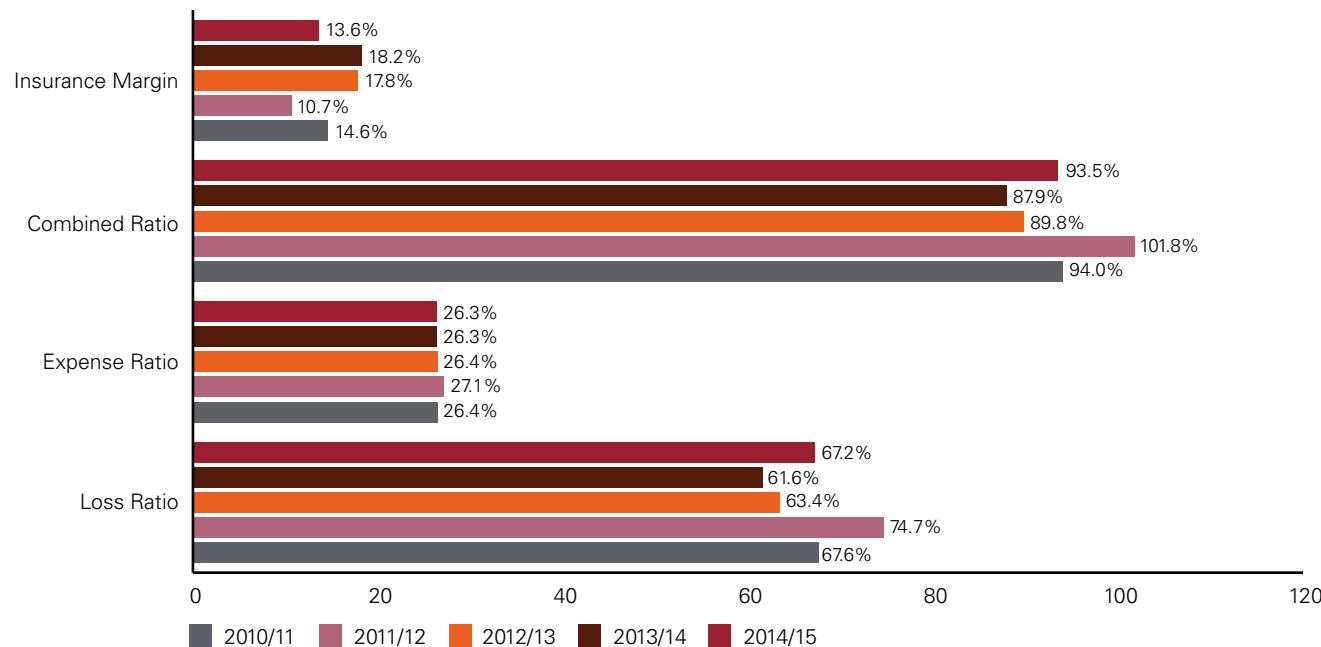
Investment income allocated to insurance funds has improved 20.4 percent to \$1,969 million from \$1,634 million in the prior year, despite market volatility in late 2015. The overall increase reflects the willingness of insurers to re-enter the growth and alternative asset markets to support their operations. However, insurers have still maintained investment portfolios dominated by government and corporate bonds, even in a low interest rate environment, demonstrating their restraint in chasing returns versus ensuring asset quality.

The combined impact of all these factors contributed to an insurance industry profit of \$3,735 million and an insurance margin of 13.6 percent. The graph below shows the trend in the insurance margins over the past 5 years, 2014/15 and 2011/12 being those heavily affected by natural disasters.

The industry's capital coverage at 30 June 2015 was 1.74 times the Australian Prudential Regulation Authority (APRA) prescribed capital amount. This compares to 1.90 times at 30 June 2014, the decrease being driven partly by the claims events during the year.

The results of the surveyed Australian-based insurers, including their international operations where relevant, are shown at pages 22 to 26.

Key ratios



Source: Participating insurer surveys and KPMG analysis

MARKET OUTLOOK

Sustained competition throughout the industry has had a significant impact on premiums, the growth rate slowing to almost nil in the March 2015 quarter before increasing slightly to 1.3 percent in the June 2015 quarter.

If these competitive pressures continue into 2016, insurers will have to ensure underwriting discipline is maintained in order to protect future earnings and avoid acquiring poor quality portfolios, simply to achieve short-term, top-line growth.

The industry continues to see strong growth in challenger brands, non-traditional market entrants and low-cost online insurers. These challenger brands persist in taking market share from the incumbents. While their growth has slowed in recent years, they continue to outpace industry growth, albeit off a smaller base. Whether these insurers continue a low-price strategy or make the move into product differentiation to grow their market share remains to be seen.

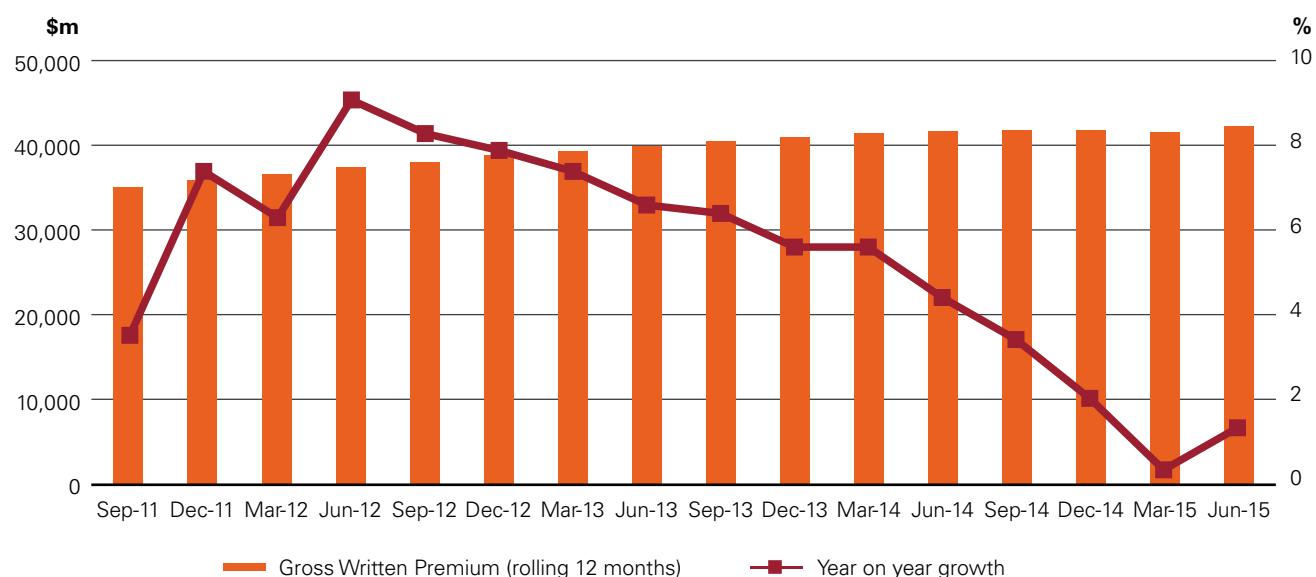
The graph opposite demonstrates that the challenger brands' pace of growth (based on the sample selected) continues to significantly exceed growth for the insurance industry as a whole.

Despite top-line pressures, insurers will need to continue investing in their future to stay ahead of their peers. It is imperative they shift their focus to identifying and developing technologies to enhance the customer experience in an increasingly digital world. The ability to embrace change will be essential in this rapidly evolving environment. We discuss this further on page 12.

The combined effects of the above elements on performance have driven a reduced return on equity for insurers in the past financial year, in line with the industry's reduced insurance profit result.

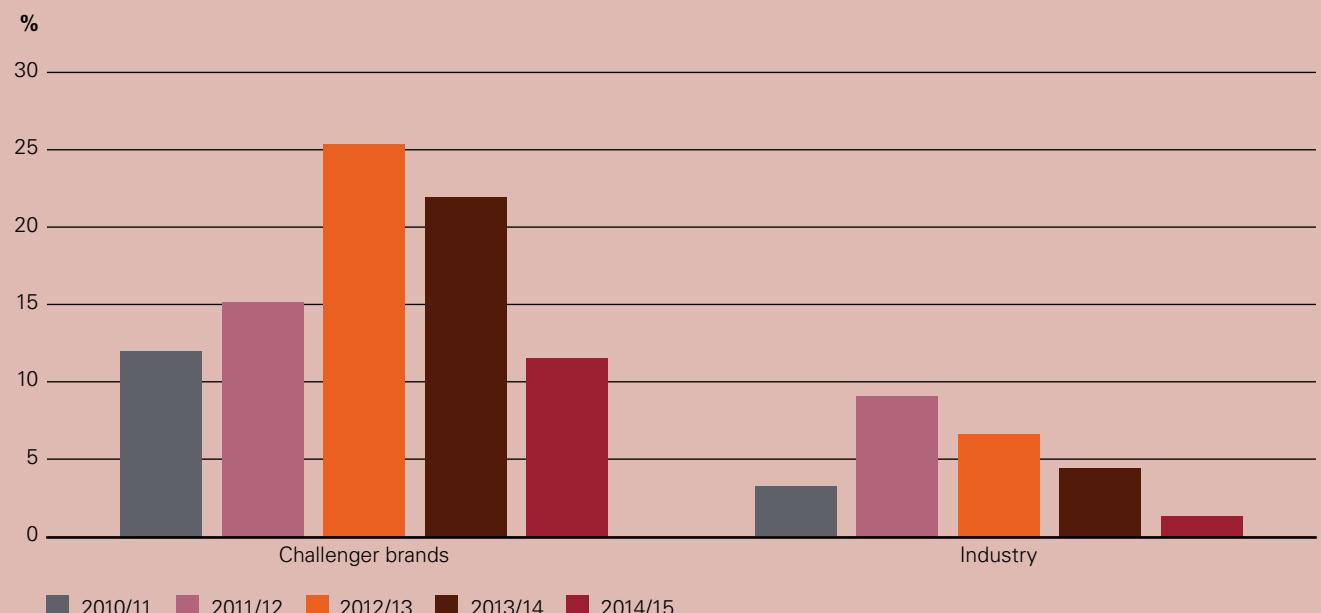
In the past year, the global insurance sector has seen ongoing merger and acquisition activity (including ACE and Chubb, XL and Catlin). Insurers are keen to partner with allies, whether in specialised products to diversify their portfolio, or to join forces with others to create synergies and reduce costs. This trend has not been as pronounced in Australia with limited large-scale activity on the acquisition front in the past 12 months. Time will tell whether the anticipated benefits of these global transactions will be realised.

Gross written premium (rolling 12 months)



Source: www.apra.gov.au/GI/Publications/Pages/quarterly-general-insurance-statistics.aspx

Challenger brands – growth in GWP (YoY)



Source: www.apra.gov.au/GI/Publications/Pages/quarterly-general-insurance-statistics.aspx

In December 2014, the Australian Government released its final report following the Financial System Inquiry. It focused on:

- the issue of disclosure to consumers
- competition
- under-insurance, particularly in areas prone to natural disasters.

The subsequent introduction of the government-run North Queensland Home Insurance (NQHI) aggregator website was met with much scrutiny by the industry.

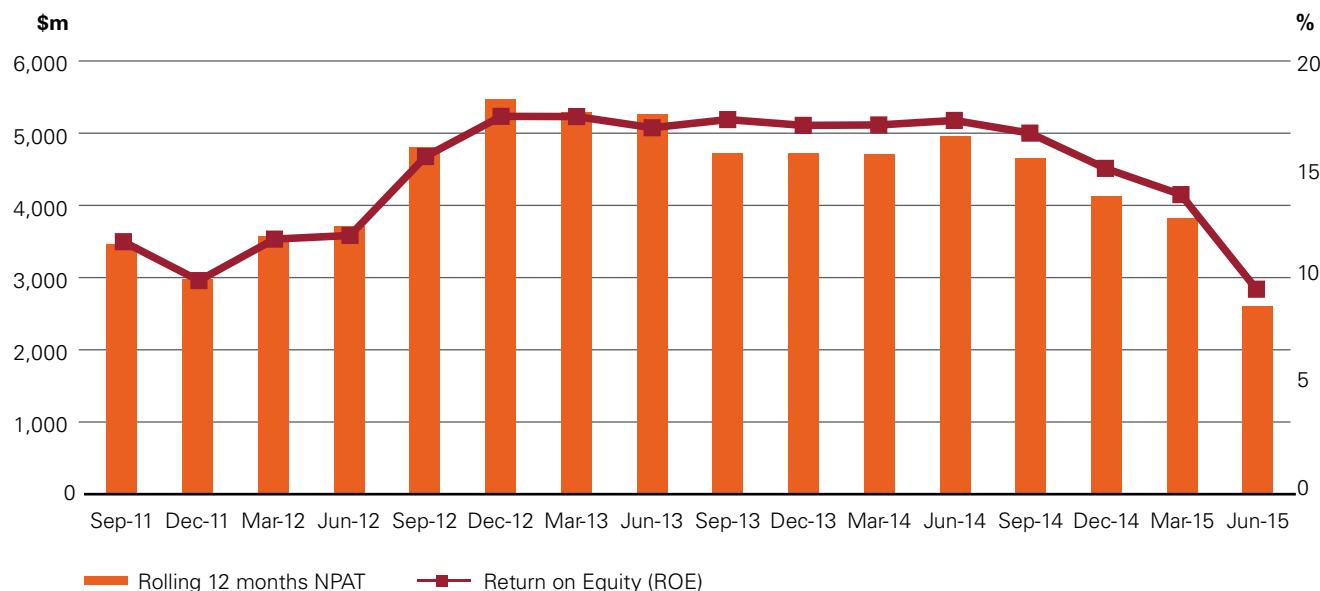
The Industry viewed the move as emphasising price rather than quality of coverage, and argued that did little to address the issue of under-insurance.

The website provides indicative pricing for various levels of coverage offered by participating insurers based on location, policy type and sum insured, before redirecting consumers to the insurers' websites for further detailed information. Whether this website achieves its aim of being an effective and well utilised comparison website for residents is yet to be seen.

The report also recommended increased disclosure of the replacement value of home and contents in insurance policies to assist customers in understanding and determining an appropriate insurance sum. The aim is to try and address consumer awareness of under-insurance. In addition, the government lowered the entry barriers for unauthorised foreign insurers to underwrite business in this region where their price is substantially lower than local insurers' quotes. Both these moves address only part of the affordability and coverage issues faced by residents of North Queensland. Each have flaws in their execution.

While it is clear there are no easy answers, the government has established the Northern Australia Insurance Premiums Taskforce to assess potential solutions to reduce home, contents and strata insurance premiums in Northern Australia. Insurers are also working proactively with the community and local government to promote risk mitigation and resilience programs, the aim being to reduce the cost of insurance in the region. This continued partnership and dialogue between the community, government and the insurers will be essential in providing the best outcome all around.

Return on equity



Source: www.apra.gov.au/GI/Publications/Pages/quarterly-general-insurance-statistics.aspx

SHARE PRICE PERFORMANCE

The graph below depicts the share price performance of the four listed Australian General Insurers – IAG, QBE, Suncorp (SUN) and Genworth (GMA) – and their performance against the Australian Stock Exchange (ASX) 200 Index for the period from January 2010 to September 2015.

Generally the share price of the Australian listed insurers suffered in 2015. The exception was QBE whose share price recovered much of its 2014 losses, up 22.4 percent on 30 June 2014. Meanwhile, IAG was down by 6 percent, Suncorp by 9.4 percent and GMA by 2.4 percent, compared to a decrease in the ASX index of 0.4 percent.

However, in the period from 30 June 2015 to 30 September 2015, the insurers' share prices were heavily impacted by the volatile equity markets. QBE fell by 5.5 percent, IAG by 14.7 percent, GMA by 27.7 percent and Suncorp by 9.4 percent during this period. In comparison, the ASX 200 dropped by 9.3 percent.

Insurance companies share price performance since 1 January 2010





TOP 10 OPPORTUNITIES AND RISKS FOR THE AUSTRALIAN GENERAL INSURANCE INDUSTRY

As our previous section outlines, Australian general insurers are facing a challenging market just now, in large part due to increased competition – from both local and global players – and a volatile economic environment.

In this section of our report, we identify 10 opportunities and risks the global general insurance sector faces, now and in the future, and consider their implications and importance for Australian general insurers.

A dominant theme in our list is digital technology. Clearly, technology and innovation are creating a new world order for individuals, businesses and society. The reality is that customers, investors and employees demand innovation and the insurance industry can only ignore them at their peril. New technologies and new business models are emerging at an increasingly rapid pace, requiring the insurance industry to respond with agility, flexibility and speed.

It isn't merely a matter of addressing the risks. Insurers need to recognise the inherent opportunities as well. Without doubt, they can no longer do 'more of the same' and expect to stay ahead.

THE REALITY IS THAT CUSTOMERS, INVESTORS AND EMPLOYEES DEMAND INNOVATION AND THE INSURANCE INDUSTRY CAN ONLY IGNORE THEM AT THEIR PERIL



THERE IS A SENSE THAT THE TRADITIONALLY CLOSED INSURANCE SECTOR IS NOW OPEN FOR BUSINESS

NEW ENTRANTS

01 EMERGING COMPETITORS AN INCREASINGLY CROWDED FIELD

While competition is inevitable, the Australian general insurance industry has certainly experienced more than its fair share in recent years. Wave after wave of new entrants such as challenger brands (think Budget, Youi, Progressive and Coles), aggregator websites (Compare the Market and iSelect), and white label products have made their mark on the Australian general insurance landscape. There is a sense that the traditionally closed insurance sector is now open for business.

A recent example of the new face of competition in the general insurance industry involves smash repair businessman Tony Murdaca and Bob Jane, the founder of tyre retailer Bob Jane T-Mart. They have joined forces to set up their own insurance company, which will initially focus on motor vehicle cover. Their stated aim is to bring the smash repair industry on board and see it gets a better deal¹.

Undoubtedly, greater competition is beneficial for consumers. It increases their choices and keeps insurers' focus squarely on competitive pricing and cost reductions.

For the insurance sector, it is a matter of recognising that this is an issue that simply won't go away. Certainly KPMG does not expect any respite from the high levels of competition. Rather, we believe it is likely to intensify, both through new direct entrants and new distribution and comparative website platforms.



Joining forces

As yet, aggregator websites are not well established in Australia. The majors have strongly resisted selling their products through these platforms and this is not expected to change. We see a place for them here, as they become increasingly popular among consumers.

There is also reason to believe that foreign comparison sites will make their way to Australia through the likes of the United States' Google and Facebook or Chinese internet giant Alibaba. All three have launched comparison sites in other countries and it is very probable that Australia is also on their radar. Nevertheless, we believe their arrival isn't imminent. In all likelihood they will pursue the many opportunities overseas first.

¹ www.smh.com.au/business/banking-and-finance/bob-jane-in-bid-to-create-new-motor-vehicle-insurer-20150925-gjv6pt.html



02 FINTECH AND INSURANCE MEETING THE DISRUPTORS HALFWAY



Insurers are particularly vulnerable to disruption. This is because they have fewer toucher points with their customers compared to other industries and are thus more price sensitive. In fact, most people are either agnostic or negative about their insurance companies. One of the very few times customers interact with their insurers is when they wish to make a claim. Unfortunately, this is when customer satisfaction tends to be at its lowest point.

Traditional insurers are also vulnerable to disruption due to the fact they have been slow to embrace new financial technology (fintech). While some Australian insurers have now 'dipped their toes' into various technological advancements such as online self-service portals for customers to enhance customer engagement, significant opportunities remain. Insurers are scouring the market for fintech acquisition targets to help them build their businesses into digital ecosystems.

In fact, those viewed as potential disruptors could become suitable partners for insurance organisations seeking to innovate. As part of our recent global survey on the The Insurance Innovation Imperative, we interviewed Steven Mendel, chief executive and co-founder of the UK start-up, Bought By Many. The company leverages social media to target niche insurance segments and collaborate with insurers to provide unique and tailored cover.

At the time, Mendel told KPMG: "We firmly believe that the insurance sector is ripe for disruption; the vast majority of insurance across the world is still sold through face-to-face meetings with brokers doing exactly the same job they've done for the last 100 years. But while we want to disrupt and change the current process, our real focus is actually on partnering with insurance organisations to drive new business and help them build longer-term relationships with their customers. We're much more of a friend to the insurance sector than we are a foe."

Nonetheless, insurers can't ignore the fact they are likely to be disrupted by new entrants to the market and more agile incumbents. We believe this makes it important for insurers to:

- add flexibility and agility to innovation processes and strategies to quickly respond to new competitive threats and opportunities
- analyse their organisation's 'weak points' that could be eroded by new entrants and develop strategies to defend and protect these lines of business first
- consider how they might work with or acquire innovators to improve competitive positioning, rather than fighting every new competitor that emerges
- consider alliances with partners outside of insurance. For example, developments in automotive technology and telecommunications are changing the nature of car insurance. Working with these sectors could accelerate customer benefits and expand the value chain.

THOSE VIEWED AS POTENTIAL DISRUPTORS COULD BECOME SUITABLE PARTNERS FOR INSURANCE ORGANISATIONS SEEKING TO INNOVATE

NEW PRODUCTS

03 DRIVERLESS CARS A NEW LEGAL CHALLENGE



Among the many technological advances expected to have a significant impact on the general insurance industry is the advent of the driverless car. As software and sensors take greater control of motor vehicles, insurers inevitably face a number of questions. One of the more pressing is: who is at fault in an accident caused by a driverless car – the person behind the wheel or the systems controlling the car?

Undoubtedly, there will be incidents in which drivers retain liability, for example, if they do not effectively maintain the car or update its systems. However, what happens if the car does not have its latest updates when it knocks someone over? How can this liability be priced into insurance?

The idea of legal responsibility shifting from the human to the machine is sound, but far from straight forward. Nevertheless, the benefits of automating driving are so compelling that the insurance industry will need to

address these fundamental questions of liability very early in its evolution. This will require global consensus given the fact manufacturers and insurers often operate right around the world.

There are other issues to consider. The driverless car could mean that traditional motor insurance becomes more closely aligned to liability insurance; that it is sold to manufacturers rather than drivers. Additional products are also likely to evolve such as business interruption insurance (to cover the impact of vehicle breakdown) as well as insurance to cover the risk of cyber-attacks on the networks controlling driverless vehicles.

There are those who estimate driverless cars could be main-stream as early as 2020. That gives insurers a limited time to respond to the raft of issues they necessarily raise. Yet the journey will be fascinating and promises opportunities to those insurers that are able to adapt quickly, innovate and collaborate.



04 TELEMATICS GETTING CONSUMERS COMFORTABLE

Already being used extensively by insurers around the globe, telematics can instantaneously tell an insurer where and how a policyholder drives. For example, it can reveal if a driver has used a phone to text while driving, exceeded speed limits, braked heavily or consistently driven negligently. Clearly this technology can radically transform the existing claims management functions of insurers.

There are concerns this sounds a bit too much like 'Big Brother' taking over. Yet despite very real privacy concerns, we believe the benefits are too great to ignore. In all likelihood, the use of telematics will become the norm for the Australian motor vehicle insurance industry – at best an 'opt out' rather than an 'opt in' feature.

Yet given privacy concerns, how might Australian insurers build acceptance of telematics? We believe it's a matter of promoting the benefits to consumers. Potentially these could include:

- **Attractive pricing.** This will inevitably be one of the battlegrounds for insurers.
- **Instant crash notifications.** These can provide customers with a value added service while providing immense efficiencies for the insurer resulting in potentially significant reductions in claims handling costs. Insurers can proactively manage claims with the policy holder rather than wait for the call. Crash

notification can also save lives. In Europe, an 'e-call' device has been built into all vehicles so that in the event of a crash, emergency services are notified with the location and estimated severity of the crash.

• **Convenience and control of premiums.** This will be another area we expect to see innovation. Pay As You Drive policies or the widely praised San Francisco Metromile, (where, if users drove less than 10,000 miles a year, they paid a flat rate plus a cent a mile, saving them an average of US\$500 a year) provided this control.

• **Feedback on driver safety.** This would improve driving behaviour in the long run, which could appeal to the general community – and perhaps to parents in particular. There might also be the appeal of having a portable safe driving record. It could become as useful and valued as a good credit rating.

It is conceivable that whoever creates a telematics-based insurance product may not be an insurer in the traditional sense. Of possible importance will be the ability to price risks at the individual policy level, offer coverage for individual journeys or periods of time and enable this through relatively cheap technology, as well as transform the handling of claims from being 'reactive' for insurers to 'proactive'. In any case, we believe that existing Australian insurers will need to embrace telematics quickly or risk disrupters securing a piece of the market.

NEW INSIGHTS

05 SOCIAL MEDIA THE PROS AND CONS



Social media has impacted almost every aspect of the general insurance industry including the sales cycle, product development and claims management. Importantly, it represents not only a risk but an opportunity for insurers. Two examples are:

Product development

In today's digital world, a company's reputation can be damaged in a matter of minutes. It is little wonder then that CEOs and other senior executives consistently put this in their list of top 10 risks. This has created a market for insurance policies that provide coverage for adverse events that damage reputation, including those that occur through social media.

Customer retention and acquisition

The trust in brands built up by traditional broadcast and marketing messaging is being replaced by trust being derived from online ratings, digital experiences and social media.

The Facebook page and Twitter account may offer useful ways to push new products and messages to 'followers' but they are far more powerful when used to actively solve customer concerns and improve the customer experience. The expectation is that an organisation will be able to solve typical issues and complaints via their social media channel.

Customer acquisition is another growing area. Rather than using social media purely to communicate in the traditional broadcast sense, insurers can adopt a more personalised and targeted approach in listening to public social media discussions in order to identify sales leads.

Once considered 'creepy', it is increasingly accepted that a brand will introduce itself by way of Twitter or YouTube for instance. An example of this is Facebook which has launched, in the Netherlands, its own insurance product 'Kroodle'. As a result this approach is now converting into revenue.

06 BIG DATA FINDING VALUE

Australian insurers have been using data analytics for years and most insurers understand the potential value that big data could deliver to their organisations. However, few insurers are currently ready to take full advantage of the many opportunities that could be captured with greater data insights. Many continue to struggle to expand their current use and make the most of their data and analytics capabilities.

Some of the opportunities are fairly easy to recognise. One example is the insights that could be gained simply by integrating social media data with claims data to identify potentially fraudulent activity (such as pictures of a worker's compensation claimant riding a rollercoaster) or to quickly verify evidence of flood damage through geo-tagged photos on Flickr. As a result, claims could be reduced, liabilities more accurately assessed, and risks better monitored. Such possibilities of using data are almost endless.

Yet clearly it will take something of a transformation for insurance organisations to evolve into the type of data-driven, insight-led organisations that are now emerging in other sectors.



We would suggest several ways for insurers to begin catalysing change. These include:

- reducing the bloat and sprawl of internal data and infrastructure before starting to add new data into the mix
- instituting a data governance model that is flexible across the business
- enthusing a culture of experimentation
- creating an enterprise data management function that is empowered to break down internal silos.

Ultimately, the biggest technology risk for Australian insurers is that they are left behind in the race to turn data into insights and insights into value. Our experience suggests that it will be those that are able to create the right environment and governance models to support data-driven experimentation and exploration that will win in the more customer-centric insurance model of the future.

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INTO VALUE

07 MACHINE LEARNING A GAME CHANGER



Organisations around the world have been taking full advantage of their machines to create new business models, reduce risk, dramatically improve efficiency and drive new competitive change. The big question is why insurers have been so slow to start collaborating with machines.

Machine learning refers to a set of algorithms that use historical data to predict current or future outcomes. Most of us rely on these processes every day. For example, banks use machine learning algorithms to identify irregular activity on cards.

Most insurers today have three main objectives. Machine learning can help to achieve all of them, as follows:

- **Improving compliance** – Algorithms can be used to review, analyse and assess information in pictures, videos and voice conversations, to better monitor and understand interactions between customers and agents in order to improve their controls.
- **Improving cost structures** – A shift from human resources to automation should deliver significant cost savings. KPMG has worked with a global insurer to develop an algorithm focussed on efficient claims processing. The time to process claims was reduced from months to minutes – and the machines were not just faster, they were also more accurate and reliable than the traditional human-led approach.
- **Improving competitiveness** – Machine learning can give an insurer the competitive edge. Customers are often willing to pay a premium for a product that guarantees frictionless claim payout without having to call the claims team. Others can enhance customer loyalty by simplifying the renewal or on-boarding process to just a handful of questions.

While we can envisage endless benefits to adopting machine learning, an insurer's culture often impedes this process. Insurers are not widely viewed as being early adopters and their risk-averse nature dampens the willingness to experiment and fail if necessary. The problem here is that machine learning is all about experimentation and learning from failure in the pursuit of the best algorithm to assist the business.

The battle of the machines in the insurance sector has already started. We believe those that remain on the sidelines will likely suffer the most as they watch their competitors find new ways to harness machines to drive increasing levels of efficiency and values.

NEW MARKETS

08 CYBER INSURANCE RISK OR OPPORTUNITY?



Globally, insurers are growing their cyber insurance sales, but assessing and managing cyber risk is still in its embryonic stages and poses a significant challenge.

The opportunities within the cyber insurance market are booming due to the rising incidence of cyber-attacks, together with associated costs of response and remediation, but insurance organisations will need to become much more sophisticated in their approach to assessing and managing cyber risk if they hope to turn cyber policies into a strong and sustainable line of business.

In Australia, cyber insurance is currently being offered by a small, but growing, handful of insurers (ACE, Zurich, Allianz, Chubb to name a select few). While we expect this number will grow, given the risks, knowledge and experience required we don't expect small, medium or niche players to enter the market anytime soon.

There are many forces driving the growth of cyber insurance, including:

- high profile data security hacks, causing significant reputational impacts, business impacts and subsequent litigation
- companies implementing better cyber risk management practices resulting in a transfer of their cyber risk
- regulatory pressures and 'notification' legislation that require all companies to notify individuals if their personal data is breached
- matters of national security.

Matters of national security might seem an unusual driver of cyber insurance but in 2013 the Director General of MI5 and the UK government issued a letter to the chairs of the top 350 FTSE companies stressing the importance of cyber security and requesting them to undertake a 'cyber governance health check'.

The Australian Government or intelligence agencies haven't gone as far but they have certainly stressed the importance of cyber security and the risk of cyber-attack in numerous public forums.

The challenge for any fast-growing and emerging market segment is that it often takes some time to fully understand the unique risks and challenges that they are taking on. In part, this is because the risk is continuously changing, as cyber criminals' vast toolkit evolves rapidly. Also, some insurers may struggle with how to value and compensate data breaches that cause reputational and brand damage. Some insurance companies are outsourcing this role until they can upskill internally.

The underlying problem is that few insurance organisations have a clear understanding of what 'good' cyber security looks like for their customers. They are therefore unable to assess whether their customers are taking the right precautions to properly manage their risk.

KPMG is of the view that if the Australian cyber insurance market is to properly mature and effectively transfer risk, insurers (and any eventual re-insurers) will need to become much more sophisticated in their approach to assessing, quantifying and managing cyber risk.

THE UNDERLYING PROBLEM IS THAT FEW INSURANCE ORGANISATIONS HAVE A CLEAR UNDERSTANDING OF WHAT 'GOOD' CYBER SECURITY LOOKS LIKE FOR THEIR CUSTOMERS

A NEW APPROACH

09 CONDUCT RISK INCREASING REGULATORY FOCUS



In the period immediately following the financial crisis, regulators across the globe focussed on strengthening the resilience of insurers by seeking to apply higher solvency standards and enforcing greater oversight from the risk management functions at institutions.

Nevertheless, customers remain sceptical of the financial institutions they interact with and examples of customer detriment continue to emerge.

As a result, regulators are now focusing on a new risk: conduct risk. This is based on the view that poor customer outcomes are a result of information asymmetry in culture, sales and communications, and product design.

Australia is already looking to adopt some of the principles and approaches employed by international bodies and early adopters of conduct supervisory tools such as the UK.

In 2015-2016, the Australian Securities and Investments Commission (ASIC) intends to focus on the following areas in relation to conduct risk:

- seeking companies to improve their standards of product design with a particular focus on considering customer need
- understanding leadership accountabilities in relation to customers and culture
- monitoring complaints, root cause analysis and complaints handling procedures to identify issues at specific companies
- seeking to understand how companies detect specific customer vulnerabilities in their processes
- considering the impact of behavioural economics by seeking to understand how companies understand and act upon behavioural biases.

There is a commonly held view that the culture of an organisation is inextricably linked with its conduct. Accordingly, both ASIC and APRA want insurers to demonstrate how good customer outcomes are provided for within their broader risk management frameworks.

ASIC has recently launched its '3 C's' framework for conduct risk. This includes:

- **Communication** – clear communication of good conduct across the organisation.
- **Challenge** – firms should challenge existing practices to determine whether current practices are appropriate.
- **Complacency** – should undertake continual reviews.

One of the greatest challenges for firms in dealing with conduct risk is the subtle difference between prudential risk and conduct risks. Prudential risks largely focus on the financial soundness of the insurer while conduct risks focus on customer impacts. This subtle difference means that at a practical level, when monitoring conduct risks, firms need to look beyond their profit, growth, cost and claims ratios that have traditionally populated management dashboards for monitoring prudential risks. Typically, conduct risk measurement starts with the customer by considering key indicators such as levels and types of complaints and claims (including underlying patterns and ratios). However, there is also an important interplay between conduct and prudential risk monitoring in relation to financial metrics as indicators. For example, high profit or excessive returns may be positive in a prudential sense but could potentially be indicators of poor value for a customer.

Globally, insurance companies have sought to address the balance of prudential and conduct risk management by developing a more formal conduct risk framework and incorporating conduct risk into their enterprise risk management framework. This includes developing the relevant supporting processes, procedures, measures and controls in place to identify and monitor conduct risks in an effort to demonstrate greater customer protection.

We believe Australian insurers need to take note. Local regulators are already progressing quickly towards formally requiring insurers to consider conduct into the risk management system.

BOTH ASIC AND APRA WANT INSURERS TO DEMONSTRATE HOW GOOD CUSTOMER OUTCOMES ARE PROVIDED FOR WITHIN THEIR BROADER RISK MANAGEMENT FRAMEWORKS

10 A HOLISTIC GLOBAL VIEW

DEALING WITH AN INTERCONNECTED WORLD



With so many challenges (and opportunities) to consider at home, insurers would be forgiven for ignoring the rest of the world. Yet they can't afford to. The degree to which the world's various economies are interconnected means events abroad can have a profound effect on the state of Australia's economy and hence insurers' businesses.

The US made this abundantly clear when it decided to leave interest rates unchanged in September due to their potential global impact or, as its Federal Open Market Committee put it, "given the significant and financial interconnections between the US and the rest of the world".

While the world's fortunes have been interconnected for some time now, the degree to which countries rely on each other's continued good health has reached a critical point. No longer is it good practice to make decisions on individual risks. A holistic view is essential.

Due to the degree of interconnectedness, some of the current concerns internationally are likely to have huge repercussions for Australian insurers. These include:

- **High debt levels.** Rich countries' debt to GDP levels have increased by 50 percent² in the post-2007 low interest rate environment while global debt levels have risen by \$57 trillion³. Yet, with few exceptions, most domestic economies around the world have limited fiscal and monetary policy space to stimulate pervasive anaemic economic growth.
- **The US dollar.** An increase in US interest rates can be expected to result in a strengthening of the Dollar. A stronger Dollar will also pose significant challenges to emerging economies that have binged on cheap Dollar borrowings.
- **The price of shares.** As 48 percent of sales in the S&P 500 result from exports to markets outside the US,⁴ an interest rate hike will have a multiplier (adverse) effect on share prices: not only will domestic economic activity be expected to decelerate (resulting in lower share price valuations), but overseas growth and sales numbers are likely to be weakened through adverse exchange rate movements as well.

• **Slowdown in global trade flows.** Trade flow dropped 25 percent from their 2007 peak levels to 2012.⁵ Since 2012, the G20 is 'increasingly reverting to protective measures'.⁶

• **Anti-money laundering regulations.** This alone has seen the world's biggest banks cutting one third of their relationships with emerging economies⁷. This further adds to the challenges of sparking global economic growth.

• **The bond market.** The IMF estimates that a 1 percent increase in US interest rates will result in a \$2.3 trillion loss in bond markets⁸. With global insurance companies being one of the largest holders of these bonds, there is the potential for large scale financial losses in the investment portfolios held by these insurers.

• **A problematic China.** The fact China's increasingly debt burdened economy is slowing has huge repercussions for the rest of the world. Its synergies on the upside are not asymmetric on the downside. This means the raising of US interest rates is nuanced and profoundly complicated, thereby rendering a global economic recovery particularly challenging.

We believe the issue of interconnectedness, while largely uncontrollable by Australian insurers, needs to be considered in their decision-making process. There is no doubt it will have an impact on the Australian economy and therefore locally incorporated insurers. Of course, the decisions and judgements made by the head offices of those foreign insurers that have set up operations in Australia are likely to be still further shaped by our global environment.

² The Economist online, 13 June 2015

³ McKinsey Global Institute: Debt and (not much) deleveraging. February 2015

⁴ The Economist online, 29 August 2015

⁵ World Economic Forum. Global Risk 2015. 10th Edition, p.32

⁶ 12th G20 Report; Global Trade Alert Report

⁷ The economist online, 14 June 2014

⁸ Min Zhu, Deputy Managing Director, IMF. 20 November 2013



THE DEGREE TO WHICH
COUNTRIES RELY ON EACH
OTHER'S CONTINUED GOOD
HEALTH HAS REACHED
A CRITICAL POINT

FINANCIAL RESULTS AND ANALYSIS

GENERAL INSURERS – ALL OPERATIONS

Insurance operations ^{1,2,3,4} (alphabetical)	Period ⁵	Premium revenue							
		Gross written premium \$m	Gross earned premium \$m	Reinsurance expense \$m	Net earned premium ⁶ \$m	Gross claims incurred \$m	Reinsurance and other recoveries income \$m	Net claims incurred ⁷ \$m	
AUD Reporting Currency									
ACE Insurance	Year to 31 December 2014	584	572	314	258	354	214	140	
	Year to 31 December 2013	580	578	339	239	227	113	114	
AIG Australia Limited	Half year to 30 June 2015	306	286	128	158	181	70	111	
	Year to 31 December 2014	539	555	290	265	254	104	150	
	Year to 31 December 2013	552	529	308	221	406	284	122	
Allianz Australia Group	Half year to 30 June 2015	2,075	2,035	371	1,664	1,723	498	1,225	
	Year to 31 December 2014	4,058	3,920	711	3,209	3,084	700	2,384	
	Year to 31 December 2013	3,915	3,755	688	3,067	2,407	385	2,022	
ANZ General Insurance ²⁰	Year to 30 September 2014	359	280	60	220	72	5	67	
	Year to 30 September 2013	334	262	47	215	82	8	74	
Auto & General Insurance Company	Year to 30 June 2015	433	405	27	378	315	98	217	
	Year to 30 June 2014	371	331	19	312	202	46	156	
Chubb Insurance Company	Year to 31 December 2014	410	406	66	340	303	77	226	
	Year to 31 December 2013	403	420	70	350	213	23	190	
Commlnsure ²¹	Year to 30 June 2015	698	674	58	616	564	56	508	
	Year to 30 June 2014	661	618	57	561	363	26	337	
Genworth Financial ²²	Year to 31 December 2014	634	521	75	446	91	7	84	
	Year to 31 December 2013	596	472	74	398	133	5	128	
Great Lakes	Half year to 30 June 2015	261	263	175	88	148	118	30	
	Year to 31 December 2014	520	489	334	155	224	176	48	
	Year to 31 December 2013	491	476	317	159	176	136	40	
The Hollard Insurance Company	Year to 30 June 2015	410	373	90	283	260	97	163	
	Year to 30 June 2014	343	317	70	247	185	51	134	
Insurance Australia Group	Year to 30 June 2015	11,440	11,525	1,196	10,329	9,363	2,422	6,941	
	Year to 30 June 2014	9,779	9,721	1,077	8,644	7,058	1,857	5,201	
Wesfarmers Insurance ²³	Year to 30 June 2014	1,803	1,786	197	1,589	1,136	162	974	
RACQ Insurance	Year to 30 June 2015	705	705	77	628	573	162	411	
	Year to 30 June 2014	702	694	77	617	438	67	371	
Suncorp Insurance Group	Year to 30 June 2015	8,872	8,875	1,010	7,865	7,581	1,994	5,587	
	Year to 30 June 2014	8,870	8,786	1,060	7,726	6,595	1,355	5,240	
Westpac Insurance ²⁴	Year to 30 September 2014	534	540	93	447	176	7	169	
	Year to 30 September 2013	492	522	86	436	208	18	190	
Zurich Australian Insurance	Year to 31 December 2014	1,225	1,266	304	962	865	126	739	
	Year to 31 December 2013	1,315	1,296	316	980	964	342	622	
USD Reporting Currency									
QBE Insurance Group ²⁵	Half year to 30 June 2015	8,692	7,293	1,064	6,229	4,197	470	3,727	
	Year to 31 December 2014	16,332	16,521	2,437	14,084	10,326	1,426	8,900	
	Year to 31 December 2013	17,975	17,889	2,493	15,396	11,180	1,249	9,931	

Footnotes for the tables on pages 22 – 25 are detailed on page 26

ND: Not disclosed

^: Calculation not meaningful or available

Operating result											
Underwriting expenses ⁸	Underwriting surplus/(deficit) ⁹	Dividends, interest and rent	Changes in net market value (unrealised)	Changes in market value (realised)	Total investment revenue ¹⁰	Other expenses	Other revenue	Profit/(loss) before tax	Tax expense/(income)	Profit/(loss) after tax ¹¹	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
AUD Reporting Currency											
104	14	35	30	0	65	6	0	73	22	51	
110	15	30	(12)	(8)	10	3	0	22	7	15	
29	18	22	(6)	1	17	37	3	1	0	1	
70	45	49	10	1	60	64	1	42	13	29	
63	36	52	(7)	7	52	36	0	52	16	36	
447	(8)	136	(64)	(3)	69	144	180	97	28	69	
833	(8)	273	166	13	452	259	375	560	168	392	
800	245	269	(106)	(5)	158	278	345	470	147	323	
38	115	31	0	0	31	58	55	143	43	100	
40	101	33	0	0	33	57	53	130	38	92	
117	44	7	0	0	7	36	1	16	5	11	
96	60	7	0	0	7	42	1	26	8	18	
134	(20)	61	57	(2)	116	1	0	95	29	66	
133	27	62	(31)	(2)	29	0	0	56	17	39	
126	(18)	17	(1)	0	16	4	0	(6)	(2)	(4)	
121	103	15	(1)	0	14	7	0	110	33	77	
119	243	158	64	4	226	11	0	458	135	323	
110	160	161	(59)	1	103	11	0	252	74	178	
52	6	1	0	0	1	10	0	(3)	(1)	(2)	
93	14	2	0	0	2	16	0	0	0	0	
98	21	3	(1)	0	2	15	0	8	3	5	
140	(20)	7	6	6	19	0	2	1	0	1	
111	2	6	5	3	14	0	1	17	5	12	
2,847	541	575	14	227	816	595	187	949	119	830	
2,303	1,140	565	296	(2)	859	374	177	1,802	472	1,330	
410	205	61	1	0	62	117	11	161	49	112	
194	23	39	2	(4)	37	0	1	61	18	43	
184	62	55	(4)	(6)	45	8	4	103	31	72	
1,783	495	548	(20)	34	562	26	29	1,060	304	756	
1,775	711	628	31	74	733	33	23	1,434	424	1,010	
120	158	24	(1)	0	23	4	4	181	54	127	
127	119	31	2	0	33	0	5	157	47	110	
341	(118)	109	7	0	116	0	6	4	(4)	8	
326	32	110	(16)	0	94	0	3	129	29	100	
USD Reporting Currency											
2,207	295	305	ND	ND	305	203	282	679	189	490	
4,637	547	717	ND	ND	717	491	158	931	182	749	
5,124	341	699	ND	ND	699	1,642	154	(448)	(204)	(244)	

Footnotes for the tables on pages 22 – 25 are detailed on page 26

ND: Not disclosed

^: Calculation not meaningful or available

GENERAL INSURERS – ALL OPERATIONS (CONT.).

Insurance provisions									
Insurance operations ^{1,2,3,4} (alphabetical)	Period ⁵	Unearned premium provision ¹² \$m	Gross outstanding claims provision \$m	Total insurance provisions \$m	Total insurance provisions/ total assets %	Total investments ¹³ \$m			Total assets \$m
						Net assets \$m	Total investments ¹³ \$m	Total assets \$m	
AUD Reporting Currency									
ACE Insurance	Year to 31 December 2014	278	708	986	60.7%	273	695	1,625	
	Year to 31 December 2013	266	646	912	59.5%	267	659	1,533	
AIG Australia Limited	Half year to 30 June 2015	404	883	1,287	64.7%	320	950	1,989	
	Year to 31 December 2014	377	858	1,235	63.4%	358	915	1,949	
	Year to 31 December 2013	394	1,033	1,427	62.6%	414	904	2,278	
Allianz Australia Group	Half year to 30 June 2015	2,527	6,175	8,702	75.5%	2,164	5,557	11,528	
	Year to 31 December 2014	2,424	5,772	8,196	74.9%	2,101	5,031	10,943	
	Year to 31 December 2013	2,284	5,214	7,498	73.5%	1,925	4,821	10,196	
ANZ General Insurance ²⁰	Year to 30 September 2014	512	93	605	47.6%	490	908	1,272	
	Year to 30 September 2013	424	84	508	44.4%	464	826	1,144	
Auto & General Insurance Company	Year to 30 June 2015	221	106	327	75.5%	63	155	433	
	Year to 30 June 2014	193	60	253	69.9%	71	164	362	
Chubb Insurance Company	Year to 31 December 2014	248	680	928	58.1%	571	1,218	1,598	
	Year to 31 December 2013	245	647	892	58.2%	534	1,145	1,531	
Commlnsure ²¹	Year to 30 June 2015	361	314	675	69.6%	246	470	970	
	Year to 30 June 2014	343	160	503	57.7%	275	419	871	
Genworth Financial ²²	Year to 31 December 2014	1,363	230	1,593	38.1%	2,229	3,795	4,176	
	Year to 31 December 2013	1,249	240	1,489	37.4%	2,177	3,582	3,980	
Great Lakes	Half year to 30 June 2015	201	310	511	70.6%	69	33	724	
	Year to 31 December 2014	203	268	471	69.9%	51	37	674	
	Year to 31 December 2013	173	218	391	66.6%	49	36	587	
The Hollard Insurance Company	Year to 30 June 2015	224	112	336	54.9%	115	117	612	
	Year to 30 June 2014	187	77	264	53.5%	106	124	493	
Insurance Australia Group	Year to 30 June 2015	6,156	12,687	18,843	60.0%	7,018	15,535	31,402	
	Year to 30 June 2014	6,256	12,006	18,262	61.4%	6,794	15,377	29,748	
Wesfarmers Insurance ²³	Year to 30 June 2014	910	1,137	2,047	70.4%	592	1,574	2,908	
RACQ Insurance	Year to 30 June 2015	343	850	1,193	73.9%	315	1,161	1,615	
	Year to 30 June 2014	343	793	1,136	73.6%	307	1,146	1,544	
Suncorp Insurance Group	Year to 30 June 2015	4,697	9,735	14,432	58.3%	7,939	12,273	24,759	
	Year to 30 June 2014	4,659	9,514	14,173	56.3%	8,368	12,963	25,166	
Westpac Insurance ²⁴	Year to 30 September 2014	417	140	557	57.2%	267	418	973	
	Year to 30 September 2013	424	169	593	51.1%	499	581	1,161	
Zurich Australian Insurance	Year to 31 December 2014	725	2,635	3,360	81.7%	593	1,966	4,115	
	Year to 31 December 2013	743	2,707	3,450	78.1%	713	2,003	4,416	
USD Reporting Currency									
QBE Insurance Group ²⁵	Half year to 30 June 2015	8,579	19,119	27,698	60.1%	11,005	26,924	46,101	
	Year to 31 December 2014	7,366	20,412	27,778	61.7%	11,082	27,716	45,000	
	Year to 31 December 2013	8,184	21,669	29,853	63.2%	10,403	29,368	47,271	

Footnotes for the tables on pages 22-25 are detailed on page 26

ND: Not disclosed

^: Calculation not meaningful or available

Strength/Soundness measures											
Increase/ (decrease) in total assets	Increase/ (decrease) in profit/ (loss) after tax	Loss ratio ¹⁴	Expense ratio ¹⁵	Combined ratio ¹⁶	Profit/(loss) after tax/ average total assets ¹⁷	Profit/(loss) after tax/ average net assets ¹⁷	Increase / (decrease) in gross written premium	Capital adequacy multiple ¹⁸	Tier 1 & tier 2 capital ¹⁹	POS ¹⁹	
%	%	%	%	%	%	%	%		\$m	%	
AUD Reporting Currency											
6.0%	240.0%	54.3%	40.3%	94.6%	3.2%	18.9%	0.7%	2.0	269	75.0	
(3.7%)	(68.8%)	47.7%	46.0%	93.7%	1.0%	5.4%	0.1%	2.0	262	75.0	
^	^	70.3%	18.4%	88.7%	^	^	^	2.1	344	75.0	
(14.4%)	(19.2%)	56.6%	26.4%	83.0%	1.4%	7.5%	(2.4%)	2.3	367	75.0	
(5.4%)	(56.1%)	55.2%	28.5%	83.7%	1.5%	8.2%	3.8%	2.6	408	75.0	
^	^	73.6%	26.9%	100.5%	^	^	^	1.4	1,694	75.0	
7.3%	21.4%	74.3%	26.0%	100.3%	3.7%	19.5%	3.7%	1.4	1,700	75.0	
1.6%	(11.5%)	65.9%	26.1%	92.0%	3.2%	16.7%	4.7%	1.5	1,490	75.0	
11.2%	8.7%	30.5%	17.3%	47.8%	8.3%	21.0%	7.5%	1.4 / 2.3	580 / 112	75.0	
10.2%	12.2%	34.4%	18.6%	53.0%	8.4%	18.3%	16.8%	1.5 / 2.0	547 / 96	75.0	
19.6%	(38.9%)	57.4%	31.0%	88.4%	2.8%	16.4%	16.7%	1.3	69	75.0	
19.9%	28.6%	50.0%	30.8%	80.8%	5.4%	26.9%	22.8%	1.8	78	75.0	
4.4%	69.2%	66.5%	39.4%	105.9%	4.2%	11.9%	1.7%	2.5	574	75.0	
(1.8%)	(37.1%)	54.3%	38.0%	92.3%	2.5%	7.4%	(3.4%)	2.4	529	75.0	
11.4%	(105.2%)	82.5%	20.5%	103.0%	(0.4%)	(1.5%)	5.6%	1.7	250	75.0	
14.3%	10.0%	60.1%	21.5%	81.6%	9.4%	31.2%	10.7%	2.2	284	75.0	
4.9%	81.5%	18.8%	26.7%	45.5%	7.9%	14.7%	6.4%	1.4	2,571	75.0	
2.3%	3.5%	32.2%	27.6%	59.8%	4.5%	8.3%	9.4%	1.5	2,520	75.0	
^	^	34.1%	59.1%	93.2%	^	^	^	1.6	62	75.0	
14.8%	(100.0%)	31.0%	60.0%	91.0%	0.0%	0.0%	5.9%	1.4	45	75.0	
11.2%	(37.5%)	25.2%	61.6%	86.8%	0.9%	10.4%	24.3%	1.8	48	75.0	
24.1%	(91.7%)	57.6%	49.5%	107.1%	0.2%	0.9%	19.5%	1.7	75	75.0	
23.6%	59.9%	54.3%	44.9%	99.2%	2.9%	14.7%	17.1%	1.9	73	75.0	
5.6%	(37.6%)	67.2%	27.6%	94.8%	2.7%	12.0%	17.0%	1.7	4,785	90.0	
19.7%	50.8%	60.2%	26.7%	86.9%	4.9%	22.6%	3.0%	1.7	4,981	90.0	
(39.5%)	(15.1%)	61.3%	25.8%	87.1%	2.9%	19.1%	4.6%	1.5	416	85.0	
4.6%	(40.3%)	65.4%	30.9%	96.3%	2.7%	13.8%	0.4%	2.2	429	92.5	
0.6%	176.9%	60.1%	29.8%	89.9%	4.7%	23.2%	6.0%	2.1	413	92.5	
(1.6%)	(25.1%)	71.0%	22.6%	93.6%	3.0%	9.3%	0.0%	1.9	4,079	90.0	
0.7%	14.4%	67.8%	23.0%	90.8%	4.0%	12.4%	3.3%	2.2	4,606	90.0	
(16.2%)	15.5%	37.8%	26.8%	64.6%	11.9%	33.2%	8.5%	1.7 / 1.4	142 / 240	80.0	
(8.4%)	32.5%	43.6%	29.1%	72.7%	9.1%	20.7%	10.6%	2.3 / 1.3	187 / 342	80.0	
(6.8%)	(92.0%)	76.8%	35.4%	112.2%	0.2%	1.2%	(6.8%)	1.5	618	85.0	
(3.6%)	(14.5%)	63.5%	33.3%	96.8%	2.2%	14.1%	4.4%	1.9	750	85.0	
USD Reporting Currency											
^	^	59.8%	35.5%	95.3%	^	^	^	1.7	9,804	89.0	
(4.8%)	(407.0%)	63.2%	32.9%	96.1%	1.6%	7.0%	(9.1%)	1.7	9,704	88.7	
(6.9%)	(131.3%)	64.5%	33.3%	97.8%	(0.5%)	(2.2%)	(2.5%)	1.6	8,955	90.7	

Footnotes for the tables on pages 22-25 are detailed on page 26

ND: Not disclosed

^: Calculation not meaningful or available

FOOTNOTES: GENERAL INSURERS – ALL OPERATIONS

1. Information was extracted from published annual and half year reports (at a consolidated level, where applicable) and disclosure statements, including investor reports, and/or obtained directly from the insurers.
2. Only figures relating to general insurance operations have been included. Reinsurers have not been included. Where a figure is not disclosed, it is represented as 'ND'. Where a calculation is not meaningful, it is represented as '^'. There may be some rounding differences present.
3. The 2015 survey includes insurers with annual gross earned premium greater than \$200 million in the current year. Premium revenue reflects worldwide figures for Australian based entities, and Australian and New Zealand figures for certain entities with overseas holding companies. Certain other registered general insurers would have met the criteria for inclusion in the survey but for various reasons have not been included. Accordingly, these insurers have not been listed in the survey.
4. All figures for the current year and prior year are reported under AIFRS and in Australian dollars, unless noted otherwise.
5. All of the results reported in the 2015 survey were for a 12-month period with the exception of AIG, Allianz, Great Lakes and QBE where results for a period of the most recent six months only are also included. These half-year results are unaudited.
6. Net earned premium represents gross written premium less outwards reinsurance expense and an adjustment to reflect the movement in unearned premium provisions.
7. Net claims incurred are discounted.
8. Underwriting expenses include net commission, acquisition and other underwriting expenses (including deferred acquisition cost write downs).
9. Underwriting surplus/(deficit) is net earned premiums less net claims incurred and underwriting expenses.
10. Where items included in total investment revenue, other expenses and other revenue are included in the insurer's financial statements under different headings they have been allocated on a basis consistent with the prior year's survey.
11. Profit/(loss) after tax is before adjustment for non-controlling interests.
12. Unearned premium provisions are shown gross of deferred acquisition costs.
13. Total investments exclude investments in associates and joint ventures, operating cash and owner occupied investment property.
14. Loss ratio measures net claims incurred as a percentage of net earned premium.
15. Expense ratio measures underwriting expenses (including commission, acquisition and other underwriting expenses, and deferred acquisition cost write downs) as a percentage of net earned premium.
16. Combined ratio measures net claims incurred plus underwriting expenses as a percentage of net earned premium.
17. For the purposes of the ratio analysis, average total assets and average net assets have been calculated as the simple average of the opening and closing total assets/net assets of each insurer.
18. The capital adequacy multiple for the groups which have a group or non-operating holding company (Allianz Australia Group, Insurance Australia Group, QBE Insurance Group and Suncorp Insurance Group) were calculated in accordance with APRA's level 2 requirements. Capital base and capital adequacy multiple for Westpac Insurance Group are shown separately for Westpac General Insurance Limited and Westpac Lenders Mortgage Insurance Limited.
19. The probability of sufficiency ('POS') measures the likelihood that an amount set aside within the outstanding claims provision will be adequate to meet the actual out-turn of claims experience.
20. The results for ANZ General Insurance represent the results of ANZ Lenders Mortgage Insurance Pty. Limited and OnePath General Insurance Pty Limited.
21. The results for CommInsure represent the results of Commonwealth Insurance Limited.
22. The results for Genworth Financial represent the results of Genworth Financial Mortgage Insurance Pty Limited only.
23. The results for Wesfarmers Insurance for the year to 30 June 2014 include WFI Insurance Limited and Lumley General Insurance (NZ) Limited. The Wesfarmers Insurance business was sold to IAG on 30 June 2014 and is therefore included in IAG's balance sheet as at 30 June 2014. IAG's results for the year to 30 June 2015 reflect the combined businesses for the full year.
24. The results for Westpac Insurance include the combined results of Westpac General Insurance Limited and Westpac Lenders Mortgage Insurance Limited.
25. Results for QBE Insurance Group (QBE) are presented in USD. Due to fluctuations in exchange rates in the period, converting the results for the Group into AUD would not provide a representation consistent with the published results of QBE Insurance Group.

GENERAL INSURERS – AUSTRALIAN OPERATIONS

Insurance operations ^{1,2,3} (alphabetical)	Period ⁴	Gross written premium \$m	Net earned premium ⁵ \$m	Underwriting surplus/ (deficit) ⁶ \$m	Insurance profit ⁷ \$m	Loss ratio ⁸ %	Expense ratio ⁹ %	Combined ratio ¹⁰ %	Insurance margin ¹¹ %
AUD Reporting Currency									
ACE Insurance	Year to 31 December 2014	584	258	14	78	54.3%	40.3%	94.6%	30.2%
	Year to 31 December 2013	580	239	15	25	47.7%	46.0%	93.9%	10.5%
AIG Australia Limited	Half Year to 30 June 2015	306	158	18	28	70.3%	18.4%	88.7%	17.7%
	Year to 31 December 2014	539	265	45	105	56.6%	26.4%	83.0%	39.6%
	Year to 31 December 2013	552	221	36	88	55.2%	28.5%	83.7%	39.8%
Allianz Australia Group	Half Year to 30 June 2015	2,075	1,664	(8)	48	73.6%	26.9%	100.5%	2.9%
	Year to 31 December 2014	4,058	3,209	(8)	420	74.3%	26.0%	100.3%	13.1%
	Year to 31 December 2013	3,915	3,067	245	355	65.9%	26.1%	92.0%	11.6%
ANZ General Insurance	Year to 30 September 2014	359	220	115	146	30.5%	17.3%	47.8%	66.4%
	Year to 30 September 2013	334	215	101	133	34.4%	18.6%	53.0%	61.9%
Auto & General Insurance Company	Year to 30 June 2015	433	378	44	51	57.4%	31.0%	88.4%	13.5%
	Year to 30 June 2014	371	312	60	68	50.0%	30.8%	80.8%	21.7%
Chubb Insurance Company	Year to 31 December 2014	410	340	(20)	51	66.5%	39.4%	105.9%	15.0%
	Year to 31 December 2013	403	350	27	45	54.3%	38.0%	92.3%	12.9%
Commlnsure	Year to 30 June 2015	698	616	(18)	(2)	82.5%	20.5%	103.0%	(0.3%)
	Year to 30 June 2014	661	561	103	117	60.1%	21.5%	81.6%	20.8%
Genworth Financial	Year to 31 December 2014	634	446	243	293	18.8%	26.7%	45.5%	65.7%
	Year to 31 December 2013	596	398	160	189	32.2%	27.6%	59.8%	47.5%
Great Lakes	Half year to 30 June 2015	261	88	6	6	34.1%	59.1%	93.2%	6.8%
	Year to 31 December 2014	520	155	14	16	31.0%	60.0%	91.0%	10.3%
	Year to 31 December 2013	491	159	21	23	25.2%	61.6%	86.8%	14.5%
The Hollard Insurance Company	Year to 30 June 2015	410	283	(20)	(1)	57.6%	49.5%	107.1%	(0.4%)
	Year to 30 June 2014	343	247	2	16	54.3%	44.9%	99.2%	6.5%
Insurance Australia Group	Year to 30 June 2015	8,806	8,005	395	881	68.8%	26.3%	95.1%	11.0%
	Year to 30 June 2014	7,603	6,788	924	1,387	61.1%	25.3%	86.4%	20.4%
Wesfarmers Insurance	Year to 30 June 2014	1,381	1,226	210	256	59.2%	23.7%	82.9%	20.9%
QBE Insurance Group	Half year to 30 June 2015	2,471	2,138	196	317	62.9%	27.9%	90.8%	14.8%
	Year to 31 December 2014	4,896	4,274	555	758	58.4%	28.6%	87.0%	17.7%
	Year to 31 December 2013	5,005	4,196	506	722	58.2%	29.7%	87.9%	17.2%
RACQ Insurance	Year to 30 June 2015	705	628	23	60	65.4%	30.9%	96.3%	9.6%
	Year to 30 June 2014	702	617	62	107	60.1%	29.8%	89.9%	17.3%
Suncorp Insurance Group	Year to 30 June 2015	7,667	6,896	344	718	73.8%	21.2%	95.0%	10.4%
	Year to 30 June 2014	7,730	6,843	635	1,107	69.1%	21.6%	90.7%	16.2%
Westpac Insurance	Year to 30 September 2014	534	447	158	182	37.8%	26.8%	64.6%	40.7%
	Year to 30 September 2013	492	436	119	151	43.6%	29.1%	72.7%	34.6%
Zurich Australian Insurance	Year to 31 December 2014	1,225	962	(118)	(21)	76.8%	35.4%	112.2%	(2.2%)
	Year to 31 December 2013	1,315	980	32	103	63.5%	33.3%	96.8%	10.5%
Total 2014/15		32,478	27,382	1,766	3,735	67.2%	26.3%	93.5%	13.6%
Total 2013/14		32,474	26,855	3,258	4,892	61.6%	26.3%	87.9%	18.2%

Footnotes for the table on page 28 are detailed on page 29

ND: Not disclosed

^: Calculation not meaningful or available

FOOTNOTES: GENERAL INSURERS – AUSTRALIAN OPERATIONS

1. Information was extracted from published annual and half year reports (at a consolidated level, where applicable) and disclosure statements, including investor reports, and/or obtained directly from participating the insurers.
2. The figures in this table relate to general insurance operations in Australia only. Allianz, Chubb, Genworth, QBE and Zurich numbers also include the results from certain operations outside Australia. However, as the figures for the operations outside Australia are immaterial (<5%) compared to the Australian general insurance business, their inclusion in this table does not materially distort the results.
3. All figures for the current year and prior year are reported under AIFRS and in Australian dollars, unless noted otherwise.
4. All of the results reported in the 2015 survey were for a 12-month period with the exception of AIG, Allianz, Great Lakes and QBE where results for a period of six months only are also included. The half-year results are unaudited.
5. Net earned premium represents gross written premium less outwards reinsurance and an adjustment to reflect the movement in unearned premium provisions.
6. Underwriting surplus/(deficit) is net earned premiums less net claims incurred and underwriting expenses.
7. Insurance profit/(loss) is underwriting surplus/(deficit) plus investment income (net of related investment expenses) from assets backing policyholder funds.
8. Loss ratio measures net claims incurred as a percentage of net earned premium.
9. Expense ratio measures underwriting expenses (including commission, acquisition and other underwriting expenses, and deferred acquisition cost write downs) as a percentage of net earned premium.
10. Combined ratio measures net claims incurred plus underwriting expenses as a percentage of net earned premium.
11. Insurance margin measures insurance profit as a percentage of net earned premium.
12. Footnotes 20 to 24 on page 26 are also relevant to the Australian operations table.
13. Total figures for 2014/15 include the full year results of those insurers with years ended on 30 September 2014, December 2014 and 30 June 2015.
14. Total figures for 2013/14 include the full year results of those insurers with years ended on 30 September 2013, 31 December 2013 and 30 June 2014.



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October 2015. NSW N13437FS.