

Cumpston Sarjeant Pty Ltd

Consulting Actuaries

High insurer profits allow
better benefits to the injured?

Richard Cumpston

1 June 2005

High insurer profits allow better benefits to the injured?

Richard Cumpston

This report has been written for presentation at a Personal Injury & Compensation Forum to be held by the Law Council of Australia in Sydney on June 3, 2005. Richard Cumpston is a director of Cumpston Sarjeant Pty Ltd, consulting actuaries, Melbourne.

1. Summary

Following a severe shortfall of insurance capital in 2001, substantial changes were made to the common law entitlements of injured persons in most states.

This report looks at recent profits by compulsory third party, public liability and medical indemnity insurers, to help assess whether there is room to provide better benefits to the injured.

Australian insurers now argue that after-tax returns on capital of about 12% to 15% are reasonable. By contrast, Australian direct insurers obtained after-tax returns on capital averaging about 8% in the 11 years to June 2004.

The limited data currently available suggest that:

- Australian insurers had returns on capital of about 23% in the 6 months to 31 December 2004
- compulsory third party insurers had returns on capital of about 19% in 2003-04
- public liability insurers had returns on capital of about 19% in 2003-04
- At 30 June 2004 medical indemnity insurers had capital of 166% of the minimum capital requirement, and were projecting an increase to 206% by 30 June 2005.

Profits in 2002-03 were depressed by the need for insurers to meet new risk capital requirements, and profits in 2003-04 were increased by good investment returns.

The profits and capital of insurers appear high enough to allow better benefits to injured persons, particularly those most harshly affected by recent legislative changes.

APRA could publish much more information that would help legislators, and organisations making submissions to legislators.

2. Introduction

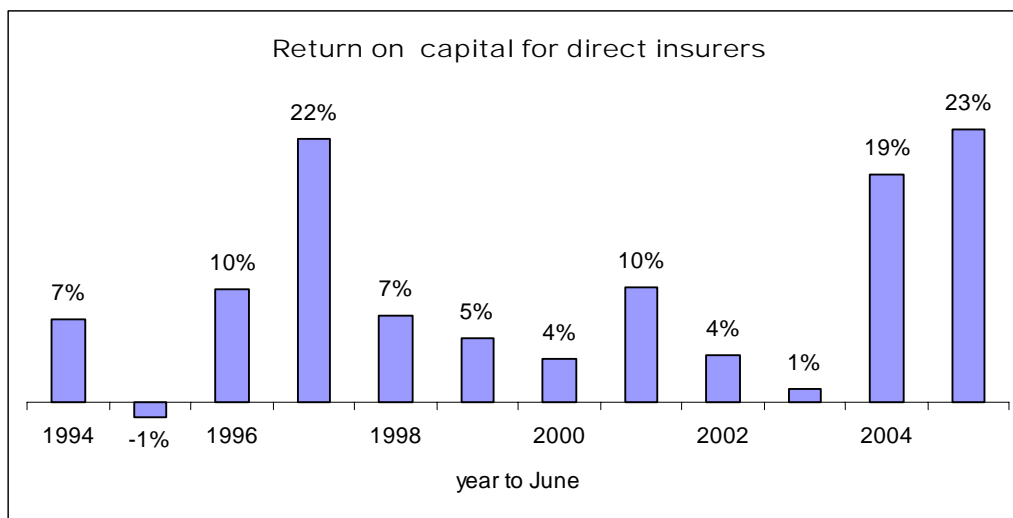
The Law Council of Australia commissioned Cumpston Sarjeant Pty Ltd to analyse the available data on the profits of personal injury insurers, and to recommend ways to obtain better data to assist legislative change.

The report explores the following matters:

- reasonable profits for insurers
- compulsory third party insurance
- public liability
- medical indemnity
- statistics formerly published by APRA but now not available
- other statistics that could valuably be published by APRA
- wider consultation by APRA.

3. Reasonable profits for insurers

3.1 Past returns on capital for Australian direct insurers



The above bar chart shows the estimated after-tax return on capital of Australian direct insurers (see appendix C). The last bar is for the six months to December 2004. Market value changes in investments, and profits from non-insurance business, are included. The average after-tax profit for the 11 years to June 2004 was about 6% of net premiums, and the average after-tax return on capital about 8%. The after-tax return for the six months to December 2004 was a high 23%.

The low return on capital in 2002-03 was partly due to the risk margins made necessary from 1 July 2002 by changes to the Insurance Act 1972. Insurer provisions for premium liabilities and outstanding claims now have to include risk margins chosen so as to give at least a 75% probability of adequacy. Before 1 July 2002 most insurers included prudential margins on their outstanding claims provisions, but generally below the risk margins now held.

3.2 Reasonable profits for insurers

There is lively debate about reasonable profits for insurers. The NSW Motor Accidents Authority has initiated some of this debate, as compulsory third party insurers in NSW are required to file analyses of their proposed premiums, including profit margins. Page 101 of the MAA report for 03-04 said:

"The indicative range resulting from Taylor Fry's calculations is a profit of 4.5-6% of gross premium for the representative insurer..."

"Over the last five years, profit margins (in premium filings) have ranged from 7.5% to 10% for individual insurers ... The MAA considers this range of profit margins to be reasonable although the MAA has on-going discussions with the CTP insurers who believe that the level of profit derived from the Taylor Fry methodology is not adequate."

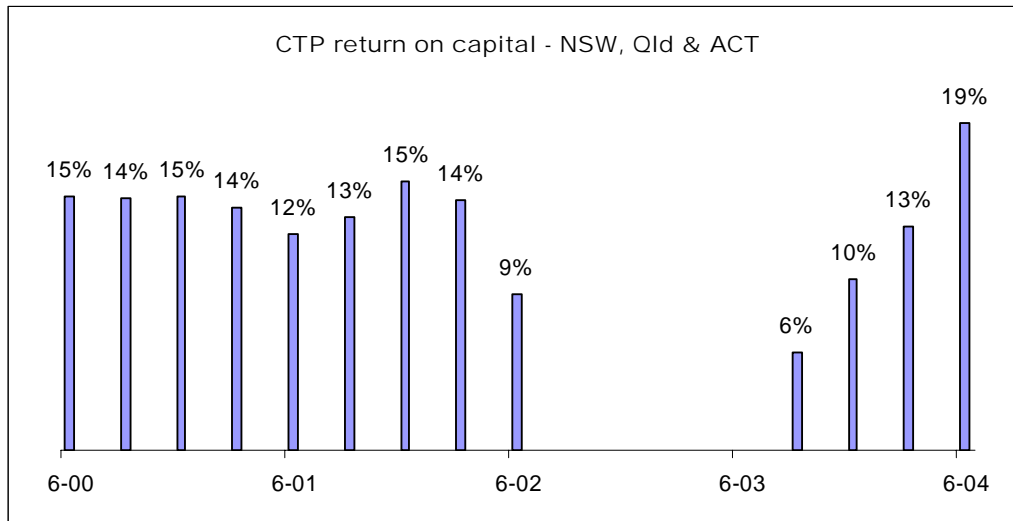
On 20 July 2004 the Institute of Actuaries of Australia and the Insurance Australia Group held a one-day seminar "The economic theory of profit margins". One of the presentations was by Tim Andrews, who argued that insurance premiums need to support returns on capital which are in line with the general expectations of mainstream investment markets.

Andrews noted that Australian listed insurers had recently been achieving returns on capital of about 12%, and had stated target returns of 12% to 15%. I understand these returns on capital include investment earnings on capital, and are after taxes on profits. Target returns of 12% to 15% are above the 8% average achieved in the 11 years to June 2004. For comparison, Australian banks apparently average 16% return on capital, with the big 4 averaging 20%.

Based on an example provided by Andrews, target returns of 12-15% may correspond to premium profit margins of 10-13%, where premium profit margins are estimated ignoring tax and capital, and assuming all investments are risk-free.

4. Compulsory third party insurance

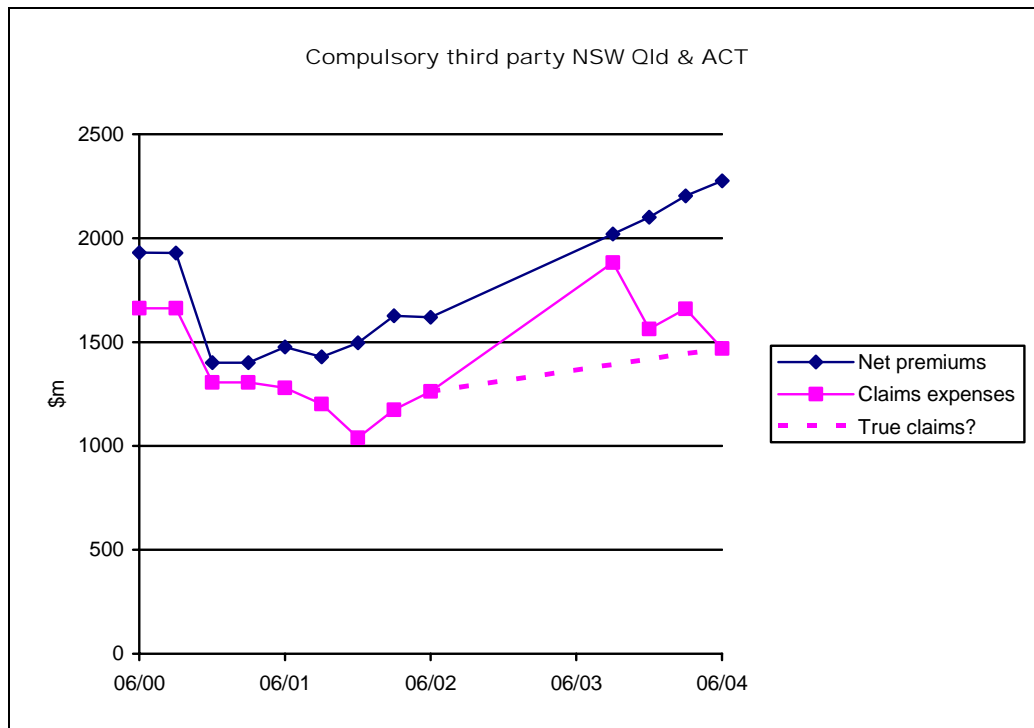
4.1 Returns on capital in NSW, Queensland and the ACT



The above bar chart shows estimated returns on capital for CTP private insurers in NSW, Queensland and the ACT, the only states allowing private insurance. The estimated returns have been derived from APRA's quarterly "Insight" general insurance statistics, which were not published for the quarters ending September 2002 to June 2003. The "Insight" statistics are not intended to provide full details, and the estimated returns thus rest on a number of approximate assumptions (see appendices A and B). The returns shown are for the years ending in June, September, December and March.

Compulsory third party and travel insurance data are grouped together in "Insight" from September 2003 on, and the CTP figures shown here were estimated by assuming that travel insurance formed unchanged percentages of net premiums and net claims from June 2002 on. As travel insurance is a much smaller class of insurance than CTP, the estimates for CTP insurance should be reasonably reliable.

4.2 CTP net premiums and claim expenses

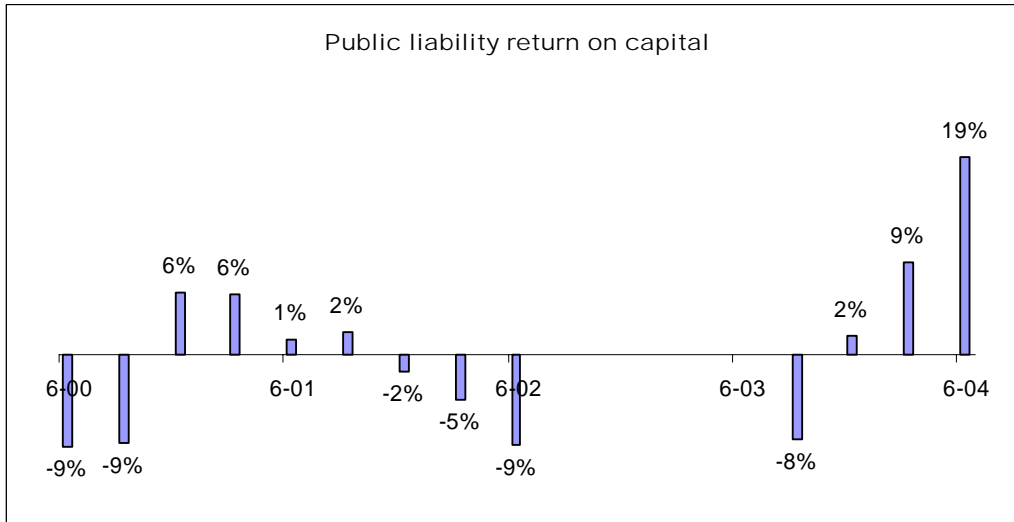


The above graph shows claims expenses increasing by 81% from December 2001 to September 2003, then dropping by 22% to June 2004. The dotted line on the claims is drawn between the June 2002 and June 2004 claims expense estimates, and falls \$490m below the actual value for September 2003. A plausible explanation for this abrupt rise and fall is that insurer risk margins on CTP insurance increased by about \$500m between June 2002 and 2004.

In June 2002 (the last time APRA published relevant data) Australian direct insurers had net provisions for CTP unearned premiums and outstanding claims of \$6619m, and a \$500m increase would have been about 8% of these provisions. Given the large size of these provisions, even a modest increase in risk margins has a large (but temporary) increase in claims expenses reported by insurers.

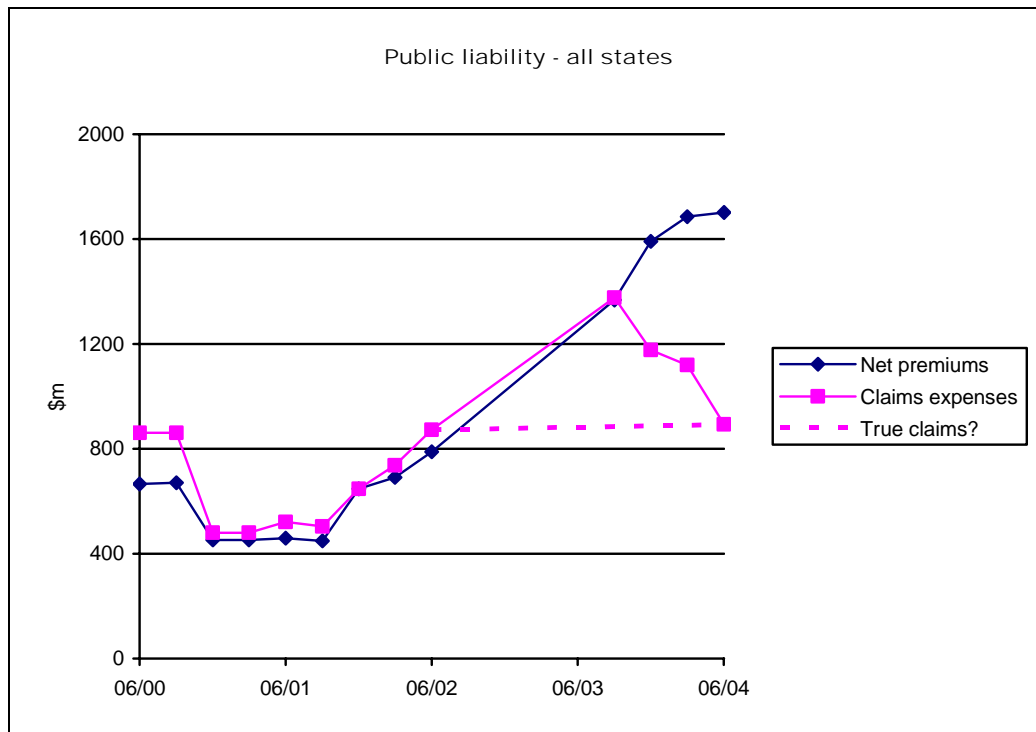
5. Public liability

5.1 Public liability return estimates from APRA data



The above bar chart shows estimated returns on capital for public liability insurers in Australia, derived from APRA's quarterly "Insight" general insurance statistics (see appendix A). As with CTP, many uncertainties exist in these estimates.

5.2 Public liability premiums and claims from APRA data



The above graph shows estimated public liability premiums and claims for private insurers in all states. The dotted line is drawn between the June 2002 and June 2004 claims expense estimates, and falls \$492m below the actual value for September 2003.

These estimates suggest that abnormal increases in public liability outstanding claim provisions were about \$500m between June 2002 and 2004. In June 2002 Australian direct insurers had net provisions for public liability unearned premiums and outstanding claims of \$3208m, and a \$500m increase would have been about 16% of this provision. A plausible breakup of the \$500m of abnormal claims may be:

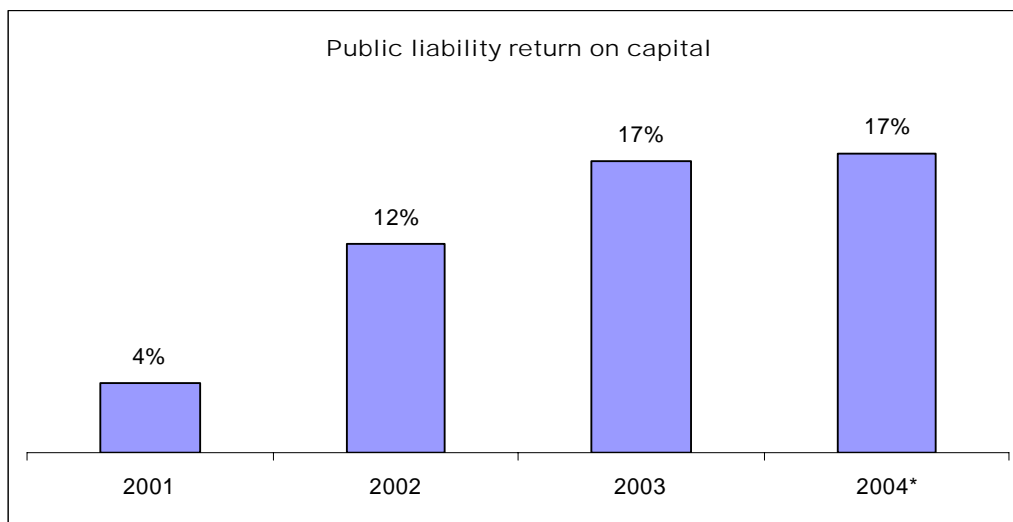
- \$200m for increases in risk margins
- \$150m for abnormally high numbers of claims made when plaintiff lawyers became aware that tort reforms might be retrospective
- \$150m of provisions for asbestos-related claims from insurance covers provided many years ago.

As well as quarterly data on risk margins, APRA gets annual data on the claim numbers and claim developments from each past accident year for each class of insurance. These data would allow good estimates for each of the above suggestions, but unfortunately have not been published.

The KPMG General Insurance Industry Survey 2003 said (p4)

“2002/03 was, in broad terms, a benign year in terms of claims experience... In the wake of the positive underwriting results some insurers took the opportunity to strengthen reserves in areas relating to asbestos, liability and prudential margins.”

5.3 Public liability estimates from ACCC data

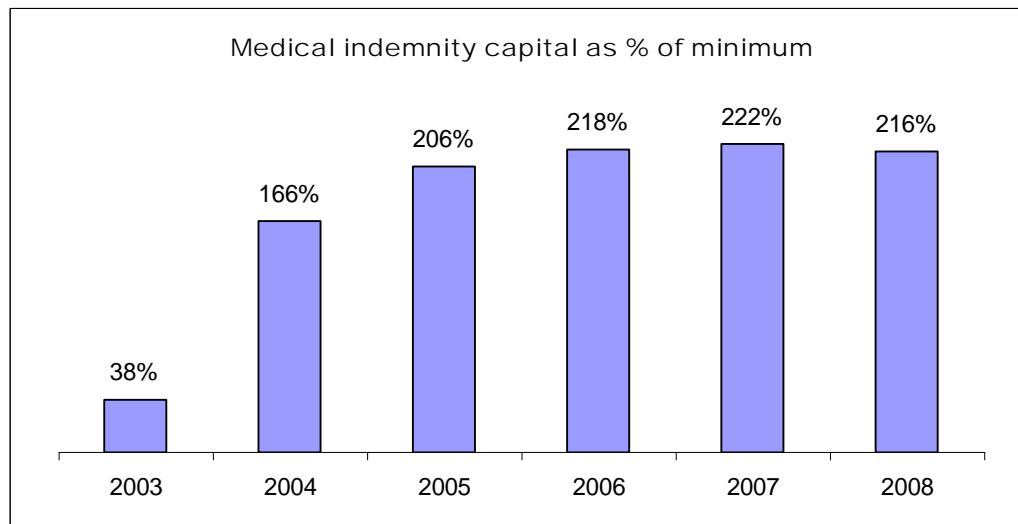


The above public liability estimates are derived from chart 3.9 of the ACCC's January 2005 report "Public liability and professional indemnity insurance". This chart was

derived by making approximate assumptions about investment earnings, taxes and net assets. The periods covered are incident calendar years, except that 2004 is the 6 months to June 2004. Details of the source data, assumptions and calculations are in appendix D1.

These return estimates are uncertain, partly because they rely on the estimates made by ACCC of the ultimate claims from each of the incident periods. The estimate for the 6 months to June 2004 is particularly uncertain, as not enough time has elapsed for reliable profit estimates to emerge. These estimates do suggest, however, that public liability insurers made substantial profits in 2002 and 2003.

6. Medical indemnity



The above percentages are estimates from chart 3 of "Review of competitive neutrality in the medical indemnity insurance industry", a March 2005 report by Graham Rogers. They are ratios as at 30 June each year of insurer net assets to APRA's minimum capital requirements. The figures for 2003 and 2004 are actual, and those for 2005 and on are projections. Rogers notes (page 9) that these projections are above the 150% that APRA has designated as an appropriate minimum for the medical indemnity industry.

7. Statistics formerly published by APRA but now not available

- APRA used to publish premiums and claims for each class of business in each state each six months, but has not done so since June 2002. Such data would be particularly valuable now, as they would help assess the effectiveness of the legislative changes in each state. We understand that these will be published for the year to June 2005, and then may be published for the years to June 2003 and June 2004.
- APRA used to publish annual analyses by accident year and state of claim numbers and costs for CTP and employers liability, and for Australia for public liability. It now receives such data for Australia for each class of insurance,

but not by state. Such analyses for public liability would be particularly helpful now, as they would help identify temporary claim increases associated with impending legislation, and asbestos claims emerging from past cover.

- APRA used to publish statistics for CTP and travel insurance, but marks the data for these classes as “na” in its quarterly “Insight” statistics. CTP is one of the largest and most profitable classes of insurance, and it is hard to see why statistics should not be published for it.

8. Other statistics that could valuably be published by APRA

- The HIH Royal Commission recommended that all the statistical returns supplied regularly by insurers to APRA should be publicly available. APRA has rejected this recommendation, at least for the solvency details of each insurer, and for the business of some specialised insurers. APRA instead intends to publish summaries, but this may be slow and uninformative.
- Since 1 July 2002 insurers have been required to add risk margins to their provisions for outstanding claims and future claims, to give a probability of about 75% that these provisions will prove adequate. Regular publication of these risk margins for each class of insurance would help show whether increases in claims incurred were due to increases in claims or increases in risk margins.
- APRA’s quarterly “Insight” statistics, and its new “Quarterly general insurance performance” statistics, would be more valuable if they showed revenues, expenditures, assets and liabilities for each class separately.

9. Wider consultation by APRA

- At present APRA consults extensively with the insurance industry when drafting prudential regulations and guidance notes, and when designing statistical inputs and outputs.
- Unlike submissions to the Productivity Commission, submissions made to APRA are kept confidential, severely limiting informed public discussion.
- Many types of insurance statistics are of value to legislators, and to bodies such as the Law Council of Australia seeking to make submissions about legislation.
- APRA should consult with representative organisations, as well as with the insurance industry, about its data collections and publications.
- APRA should make available on its website any submission it receives about its data collections and publications.

10. Acknowledgements

This report was written for the Law Council of Australia, as part of the background information for its Personal Injury & Compensation Forum in Sydney on 3 June 2005. The Law Council commissioned Cumpston Sarjeant Pty Ltd to analyse the available data on the profits of personal injury insurers, and to recommend ways to obtain better data to assist legislative change.

Appendices A and B were initially written for a tutorial in March 2005 on tort reform for general insurance students of the Institute of Actuaries of Australia, and have been substantially reworked for this report.

Actuarial views on reasonable profits were obtained from presentations on 20 July 2004 at a one-day seminar "The economic theory of profit margins", held by the Institute of Actuaries of Australia and the Insurance Australia Group. Advice in May 2005 from Greg Taylor and Nathan Rivett was helpful in understanding current views on reasonable profits.

The report was peer reviewed for the Law Council by Robyn Bateup. Her suggested method of apportioning net assets between classes of insurance was adopted.

Appendix A : APRA Insight statistics for active direct insurers

A1 Assets and liabilities

Type	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Investments	62.0%	61.0%	64.6%	62.0%	62.5%	62.7%	62.7%	63.5%	62.7%	66.7%	68.3%	68.9%	66.6%
Reinsurance recoverables	14.2%	14.4%	11.4%	11.2%	10.9%	11.7%	11.7%	11.6%	11.3%	12.9%	12.7%	12.6%	12.7%
Other recoverables										3.6%	3.6%	3.6%	3.3%
Premium receivables	6.1%	6.7%	5.9%	6.9%	7.6%	6.6%	6.6%	6.2%	7.2%	8.0%	7.1%	6.7%	8.1%
Other assets	17.7%	17.9%	18.1%	19.9%	19.0%	19.0%	19.0%	18.7%	18.8%	8.8%	8.3%	8.2%	9.3%
Total assets (\$b)	47.1	48.6	42.9	46.8	51.0	51.2	51.2	53.0	54.4	61.0	63.0	63.9	64.8
Outstanding claims	59.4%	58.7%	58.0%	57.2%	54.2%	57.7%	57.7%	56.2%	56.5%	58.5%	58.4%	61.2%	60.0%
Premium liabilities	25.0%	25.7%	26.7%	27.4%	27.5%	28.0%	28.0%	26.7%	28.0%	25.8%	24.9%	24.4%	25.7%
Tax provisions	1.0%	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%	0.8%	1.0%	2.1%	2.0%	2.2%	1.9%
Reinsurance payables										3.0%	2.2%	1.9%	2.3%
Borrowings & loans	12.7%	12.8%	12.5%	12.6%	14.8%	11.0%	11.0%	13.9%	12.0%	4.7%	5.9%	4.1%	3.6%
Other liabilities	1.9%	1.9%	1.7%	1.8%	2.6%	2.5%	2.5%	2.3%	2.5%	6.0%	6.6%	6.1%	6.5%
Total liabilities (\$b)	35.2	36.5	31.6	34.9	38.3	37.5	37.5	39.5	40.1	44.5	45.6	44.9	45.5
Net assets (\$b)	11.9	12.1	11.3	11.9	12.7	13.7	13.7	13.5	14.3	16.5	17.4	19.0	19.3

The above data are from Table C1 of APRA "Insight".

The reductions in assets and liabilities in the December quarter of 2000 are presumably due to the failure of the HIH group to submit returns for that quarter and subsequently.

A2 Net premiums as % of total revenue

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	5.2%	5.2%	5.1%	5.1%	5.3%	5.3%	5.6%	5.7%		6.6%	6.9%	6.6%	6.7%
House	11.8%	11.9%	11.9%	11.9%	11.4%	11.3%	10.6%	10.5%		9.8%	10.2%	9.6%	9.6%
CTP	12.7%	12.6%	10.1%	10.1%	10.8%	10.7%	11.1%	11.3%		9.9%	10.3%	10.2%	10.3%
Commercial MV	5.9%	5.9%	5.6%	5.6%	5.9%	6.0%	5.8%	5.8%		5.5%	5.7%	5.5%	5.5%
Domestic MV	15.9%	15.9%	16.6%	16.6%	13.7%	13.3%	13.5%	13.1%		12.0%	12.8%	12.3%	12.1%
Marine & aviation	2.0%	2.0%	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%		2.2%	2.2%	2.1%	2.0%
Professional indemnity	2.5%	2.5%	1.9%	1.8%	1.5%	1.6%	2.2%	2.2%		3.7%	4.3%	4.3%	4.5%
Public & product liability	4.5%	4.5%	3.3%	3.3%	3.4%	3.4%	4.9%	4.9%		6.7%	7.8%	7.8%	7.7%
Employers liability	4.0%	4.0%	4.8%	4.8%	5.3%	4.9%	4.6%	4.7%		4.3%	4.2%	3.9%	4.2%
Mortgage	0.6%	0.6%	0.9%	0.9%	0.9%	1.0%	1.2%	1.2%		1.7%	2.0%	2.0%	1.1%
Consumer credit	0.8%	0.9%	0.9%	0.9%	1.0%	1.1%	1.1%	1.1%		0.9%	0.8%	0.8%	0.8%
Travel	0.8%	0.8%	0.5%	0.5%	0.5%	0.6%	0.7%	0.6%		0.6%	0.6%	0.6%	0.6%
Other accident	3.8%	3.8%	3.7%	3.7%	3.8%	3.8%	3.8%	3.9%		3.1%	3.7%	3.6%	3.7%
Other	1.9%	1.9%	1.9%	1.8%	1.1%	1.1%	1.5%	1.5%		4.9%	2.9%	2.0%	2.1%
Inward reinsurance	11.3%	11.4%	12.6%	12.6%	16.3%	16.7%	16.6%	16.8%		13.7%	13.3%	13.4%	13.5%
Foreign net premiums	2.3%	2.3%	1.0%	1.0%	1.0%	1.0%	1.8%	1.8%					
Investment revenue	13.6%	13.6%	16.7%	16.8%	14.8%	14.9%	11.4%	11.4%		11.0%	10.8%	13.4%	12.6%
Other revenue	0.5%	0.5%	0.8%	0.8%	1.5%	1.5%	1.5%	1.4%		3.4%	1.5%	1.9%	3.0%
Total	100.1%	100.3%	100.1%	100.0%	100.0%	100.1%	99.8%	99.8%		100.0%	100.0%	100.0%	100.0%
Total revenue (\$b)	14.8	14.9	13.7	13.7	13.5	13.2	13.2	14.1		20.4	20.4	21.6	22.1
Investment revenue (\$m)	2013	2026	2288	2302	1998	1967	1505	1607	1300	2244	2203	2894	2785
Other revenue (\$m)	74	75	110	110	203	198	198	197	143	694	306	410	663

The above data are from Table C2 of APRA "Insight". They refer to the 12-month period ending in the month shown.

From the September quarter of 2003 on, net premiums were not available for CTP or travel insurance.

Travel insurance was assumed to remain at its March 2002 share of 0.6% of revenue, and CTP taken as the balance.

The last two lines of the table were derived by multiplying total revenue by the shares for investment revenue and other revenue.

Investment and other revenue for the year to June 2002 are from table 1b of APRA's "Selected statistics on the general insurance industry year ending June 2002", released on 7/3/03.

A3 Net claims & other expenses as % of total expenses

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	3.5%	3.5%	3.6%	3.6%	3.4%	3.5%	3.3%	3.4%		2.4%	3.2%	2.7%	3.1%
House	7.5%	7.5%	7.1%	7.1%	6.9%	7.4%	7.2%	7.2%		6.0%	6.4%	6.4%	6.9%
CTP	11.0%	11.0%	10.5%	10.5%	10.2%	9.9%	8.5%	8.6%		9.7%	8.1%	8.6%	7.9%
Commercial MV	5.2%	5.2%	5.1%	5.1%	5.0%	5.1%	4.7%	4.7%		4.0%	4.3%	4.3%	4.5%
Domestic MV	13.8%	13.7%	15.4%	15.5%	11.8%	11.3%	10.7%	10.3%		11.4%	11.7%	11.9%	12.2%
Marine & aviation	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	1.2%	1.3%		1.2%	1.1%	1.1%	1.2%
Professional indemnity	2.3%	2.4%	1.6%	1.6%	2.0%	2.2%	2.8%	2.8%		2.4%	2.4%	2.4%	2.7%
Public & product liability	5.9%	5.9%	3.9%	3.9%	4.2%	4.2%	5.4%	5.5%		7.1%	6.1%	5.8%	4.8%
Employers liability	5.6%	5.5%	5.4%	5.4%	5.6%	5.3%	4.4%	4.4%		4.8%	4.3%	4.1%	4.4%
Mortgage	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%		0.0%	0.0%	0.0%	0.0%
Consumer credit	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%		0.2%	0.2%	0.2%	0.3%
Travel	0.7%	0.7%	0.5%	0.5%	0.5%	0.5%	0.8%	0.7%		0.7%	0.7%	0.7%	0.7%
Other accident	2.6%	2.6%	2.4%	2.4%	2.4%	2.8%	2.6%	2.6%		1.7%	1.6%	1.6%	1.8%
Other	1.8%	2.0%	2.4%	2.4%	0.4%	-0.1%	0.3%	0.4%		1.5%	2.2%	1.8%	1.9%
Inward reinsurance	9.2%	9.2%	11.0%	11.0%	15.9%	16.4%	15.7%	15.8%		10.7%	10.8%	11.3%	12.2%
Future years (all classes)										6.1%	6.4%	6.0%	3.5%
Foreign net claims	2.5%	2.5%	0.8%	0.8%	0.8%	0.8%	1.3%	1.3%					
Underwriting	23.0%	23.0%	24.1%	24.1%	24.3%	24.6%	25.2%	25.2%		22.7%	23.3%	23.9%	24.9%
General & admin	3.6%	3.6%	4.3%	4.3%	4.8%	4.2%	5.2%	5.1%		7.4%	7.2%	7.2%	7.0%
Total	99.9%	100.0%	100.0%	100.1%	100.1%	100.1%	100.0%	100.0%		100.0%	100.0%	100.0%	100.0%
Total expenses (\$b)	14.6	14.6	12.3	12.3	12.4	12.0	12.0	13.4		19.4	19.3	19.3	18.6
Underwriting (\$m)	3358	3358	2964	2964	3013	2952	3024	3377	3450	4404	4497	4613	4631
General & admin (\$m)	526	526	529	529	595	504	624	683	737	1436	1390	1390	1302

The above data are from Table C3 of APRA "Insight". They refer to the 12-month period ending in the month shown.

Travel insurance was assumed to remain at its March 2002 share of 0.7% of expenses, and CTP taken as the balance.

The last two lines of the table were derived by multiplying total expenses by the shares for underwriting and general and administration expenses.

Underwriting, general and administration expenses for the year to June 2002 are from table 1b of APRA's "Selected statistics on the general insurance industry year ending June 2002", released on 7/3/03.

A4 Net premiums (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	791	796	707	707	724	708	755	821	888	1346	1408	1426	1481
House	1794	1822	1650	1650	1558	1510	1429	1512	1689	1999	2081	2074	2122
CTP	1931	1929	1401	1401	1476	1429	1496	1627	1619	2020	2101	2203	2276
Commercial MV	897	903	777	777	806	802	782	835	894	1122	1163	1188	1216
Domestic MV	2418	2434	2302	2302	1872	1777	1820	1886	2160	2448	2611	2657	2674
Marine & aviation	304	306	250	250	246	254	256	274	281	449	449	454	442
Professional indemnity	380	383	263	250	205	214	297	317	294	755	877	929	995
Public & product liability	684	689	458	458	465	454	660	705	789	1367	1591	1685	1702
Employers liability	608	612	666	666	724	655	620	677	790	877	857	842	928
Mortgage	91	92	125	125	123	134	162	173	167	347	408	432	243
Consumer credit	122	138	125	125	137	147	148	158	157	184	163	173	177
Travel	122	122	69	69	68	80	94	86	109	122	122	130	133
Other accident	578	582	513	513	519	508	512	562	627	632	755	778	818
Other	289	291	263	250	150	147	202	216	239	1000	592	432	464
Inward reinsurance	1718	1745	1747	1747	2227	2231	2238	2419	2272	2795	2713	2894	2984
Total	12728	12844	11316	11289	11300	11048	11471	12267	12974	17462	17891	18295	18652

The above net premiums were estimated from the total revenues and revenue shares in A2.
For example, CTP net premiums in the year to September 2003 were estimated as

total revenue in the year to September 2003 (\$m)	20400
times CTP net premiums as % of total revenue	9.9%
<u>CTP net premiums in the year to September 2003 (\$m)</u>	<u>2020</u>

For years up to March, foreign net premiums were spread in proportion to other premiums.
Premiums for the year to June 2002 are from B1.

A5 Net claims (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	529	529	448	448	426	425	404	464	475	466	618	521	577
House	1134	1134	883	883	865	898	880	983	1102	1164	1235	1235	1283
CTP	1663	1663	1306	1306	1279	1201	1039	1174	1263	1882	1563	1660	1469
Commercial MV	786	786	634	634	627	619	575	642	668	776	830	830	837
Domestic MV	2086	2071	1916	1928	1480	1371	1308	1406	1644	2212	2258	2297	2269
Marine & aviation	197	196	162	162	163	170	147	178	161	233	212	212	223
Professional indemnity	348	363	199	199	251	267	342	382	332	466	463	463	502
Public & product liability	892	892	485	485	527	510	660	751	873	1377	1177	1119	893
Employers liability	846	831	672	672	702	643	538	601	687	931	830	791	818
Mortgage	15	15	25	25	25	24	37	41	40	0	0	0	0
Consumer credit	45	45	50	50	50	49	49	55	54	39	39	39	56
Travel	106	106	62	62	63	61	98	96	103	136	135	135	130
Other accident	393	393	299	299	301	340	318	355	358	330	309	309	335
Other	272	302	299	299	50	-12	37	55	8	291	425	347	353
Inward reinsurance	1391	1391	1368	1368	1994	1990	1920	2157	1950	2076	2084	2181	2269
Future years (all classes)										1183	1235	1158	651
Total	10702	10716	8807	8819	8804	8556	8352	9340	9717	13561	13414	13298	12667

The above net claim expenses were estimated from the total expenses and expense shares in A3.
For example, CTP net claims in the year to September 2003 were estimated as

total expenses in the year to September 2003 (\$m)	19400
times CTP net claims as % of total expenses	9.7%
<u>CTP net claims in the year to September 2003 (\$m)</u>	<u>1882</u>

For years up to March, foreign net claims were spread in proportion to other premiums.
Claims for the year to June 2002 are from B3.

A6 Net claims, with future years allocated to classes (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	529	529	448	448	426	425	404	464	475	557	715	611	628
House	1134	1134	883	883	865	898	880	983	1102	1299	1379	1366	1357
CTP	1663	1663	1306	1306	1279	1201	1039	1174	1263	2019	1708	1799	1549
Commercial MV	786	786	634	634	627	619	575	642	668	852	910	905	879
Domestic MV	2086	2071	1916	1928	1480	1371	1308	1406	1644	2377	2438	2465	2363
Marine & aviation	197	196	162	162	163	170	147	178	161	263	243	241	239
Professional indemnity	348	363	199	199	251	267	342	382	332	517	524	522	537
Public & product liability	892	892	485	485	527	510	660	751	873	1470	1287	1226	952
Employers liability	846	831	672	672	702	643	538	601	687	991	889	845	851
Mortgage	15	15	25	25	25	24	37	41	40	24	28	27	8
Consumer credit	45	45	50	50	50	49	49	55	54	51	50	50	62
Travel	106	106	62	62	63	61	98	96	103	144	144	143	135
Other accident	393	393	299	299	301	340	318	355	358	373	361	358	363
Other	272	302	299	299	50	-12	37	55	8	359	465	375	370
Inward reinsurance	1391	1391	1368	1368	1994	1990	1920	2157	1950	2265	2272	2364	2373
Total	10702	10716	8807	8819	8804	8556	8352	9340	9717	13561	13414	13298	12667

The above net claims were estimated from the net claims in A5, allocating future year claims in proportion to the net premium revenue for each class. For example, CTP net claims in the year to September 2003 were estimated as

future year claims in the year to September 2003 (\$m)	1183
times CTP net premiums in the year to September 2003	2020
divided by total net premiums in the year to September 2003 (\$m)	17462
share of future year claims allocated to CTP (\$m)	137
plus CTP net claims in the year to September 2003, excluding future year claims (\$m)	1882
CTP net claims in the year to September 2003, including future year claims (\$m)	2019

A7 Estimated underwriting expenses (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	409	407	361	363	390	381	396	450	463	599	656	684	693
House	665	668	605	608	602	583	537	594	632	638	696	714	712
CTP	177	175	127	128	141	136	139	158	150	159	174	188	189
Commercial MV	174	173	149	149	163	162	154	171	175	187	203	214	213
Domestic MV	472	470	444	446	380	361	360	390	425	411	459	481	472
Marine & aviation	100	99	81	81	84	87	85	95	93	127	133	138	131
Professional indemnity	122	122	84	80	69	72	97	108	95	209	254	277	290
Public & product liability	198	197	131	132	140	137	194	216	231	341	415	453	446
Employers liability	124	123	134	135	154	139	128	146	162	154	157	159	171
Mortgage	10	10	13	13	14	15	17	19	18	32	39	43	23
Consumer credit	50	56	51	51	59	63	62	69	66	65	61	66	66
Travel	47	47	26	27	27	32	37	35	43	41	43	46	46
Other accident	223	222	195	197	208	204	200	229	244	210	262	278	285
Other	259	258	233	222	140	137	184	205	216	771	478	359	377
Inward reinsurance	328	330	330	332	443	444	434	490	438	460	467	513	516
Total	3358	3358	2964	2964	3013	2952	3024	3377	3450	4404	4497	4613	4631

The above underwriting expenses were estimated from the net premiums in A4 and the expense ratios in B2, and adjusted to give the total underwriting expenses in A3.

For example, CTP underwriting expenses for the year ended September 2003 were estimated as

CTP net premiums in the year to September 2003 (\$m)	2020
times CTP underwriting expenses as a % of net premiums	9%
<hr/>	
CTP underwriting expenses for the year ended September 2003 (\$m)	187
divided by factor to give the correct total expenses for the year	1.17
<hr/>	
CTP underwriting expenses for the year ended September 2003 (\$m)	159

These expense apportionments were based on detailed statistics for each class for the year to June 30 2002, and may not reflect subsequent changes in premiums and expenses. More recent statistics are badly needed from APRA.

A8 Estimated investment & other revenue, less general and administration expenses (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	61	62	73	74	63	65	42	44	28	59	44	75	84
House	92	93	110	111	95	98	64	66	42	88	66	113	126
CTP	483	487	578	582	497	514	334	347	218	465	346	593	664
Commercial MV	38	38	45	46	39	40	26	27	17	37	27	47	52
Domestic MV	102	103	122	123	105	108	70	73	46	98	73	125	140
Marine & aviation	15	15	18	18	15	16	10	11	7	14	10	18	20
Professional indemnity	95	96	114	114	98	101	66	68	43	91	68	116	130
Public & product liability	226	228	270	272	232	240	156	162	102	217	162	277	310
Employers liability	154	156	185	186	159	164	107	111	70	148	111	189	212
Mortgage	36	36	43	43	37	38	25	26	16	35	26	44	50
Consumer credit	16	16	19	19	16	17	11	11	7	15	11	19	21
Travel	3	4	4	4	4	4	2	3	2	3	3	4	5
Other accident	35	36	42	43	36	38	24	25	16	34	25	43	49
Other	22	22	26	26	22	23	15	15	10	21	15	26	30
Inward reinsurance	183	185	219	221	189	195	127	132	83	176	132	225	252
Total	1561	1575	1869	1882	1605	1661	1079	1121	705	1502	1120	1915	2146

Investment and other revenue are from A2, and general and administration expenses from A3.

Investment and other revenue, less general and administration expenses, were spread between classes in proportion to estimated total assets in B4.

For example, CTP investment and other revenue, less general and administration expenses for the year ended September 2003 were estimated as

investment & other revenue, less general and administration expenses in year ended September 2003 (\$m)	1502
times CTP assets as a % of total assets June 2002 (B5)	30.9%
CTP general & administration expenses for the year ended September 2003 (\$m)	465

A9 Estimated after-tax profit from each class of insurance (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	-74	-67	-24	-26	-25	-28	-2	-42	-20	214	69	177	210
House	75	97	234	232	159	109	64	1	-3	129	62	92	153
CTP	494	498	469	472	475	521	560	552	366	263	486	696	1034
Commercial MV	-21	-15	34	33	48	53	69	42	59	103	66	100	151
Domestic MV	-32	-3	56	44	100	132	191	140	118	-208	-183	-141	-18
Marine & aviation	19	22	21	21	12	11	30	10	29	63	72	80	79
Professional indemnity	4	-5	81	73	-15	-21	-66	-91	-78	103	144	211	257
Public & product liability	-155	-148	96	97	26	41	-33	-86	-183	-195	43	243	528
Employers liability	-179	-161	38	39	23	32	52	35	9	-102	-68	24	102
Mortgage	88	89	112	112	104	114	114	119	108	281	315	349	224
Consumer credit	36	45	37	37	38	45	41	39	39	71	55	65	60
Travel	-24	-23	-13	-13	-16	-8	-33	-36	-30	-51	-53	-48	-38
Other accident	-2	2	53	52	40	1	16	2	36	72	135	159	187
Other	-190	-213	-209	-211	-15	39	-3	-24	21	-94	-289	-237	-217
Inward reinsurance	157	180	231	231	-19	-7	9	-83	-29	212	91	208	298
Total	197	296	1216	1193	935	1033	1009	578	440	860	946	1978	3010

The above profits were estimated from the net premiums in A4, the net claims in A6, the underwriting expenses in A7 and the investment and other revenue less general and administration expenses in A8. For example, the CTP profit for the year ended September 2003 was estimated as

net premiums (\$m)	2020
less net claims (\$m)	-2019
less underwriting expenses	-159
plus investment and other income, less general and administration (\$m)	465
<u>estimated CTP profit for year ending September 2003 (\$m)</u>	<u>306</u>
<u>less assumed average tax rate (see D)</u>	<u>-14%</u>
<u>estimated after-tax CTP profit for year ending September 2003 (\$m)</u>	<u>263</u>

A10 Estimated net assets for each class of insurance at end of year (\$m)

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	435	442	413	435	464	500	500	493	522	603	635	694	705
House	530	539	504	530	566	610	610	602	637	735	775	847	860
CTP	3845	3910	3651	3845	4104	4427	4427	4362	4621	5332	5623	6140	6236
Commercial MV	264	268	251	264	282	304	304	299	317	366	386	421	428
Domestic MV	639	649	606	639	681	735	735	724	767	885	934	1020	1036
Marine & aviation	106	108	101	106	114	123	123	121	128	148	156	170	173
Professional indemnity	810	824	769	810	864	932	932	919	973	1123	1184	1293	1314
Public & product liability	1904	1935	1808	1904	2031	2191	2191	2159	2287	2639	2783	3039	3087
Employers liability	1262	1284	1199	1262	1347	1453	1453	1432	1517	1750	1846	2016	2047
Mortgage	98	100	93	98	105	113	113	111	118	136	144	157	159
Consumer credit	72	73	68	72	76	82	82	81	86	99	105	114	116
Travel	27	27	25	27	29	31	31	30	32	37	39	43	43
Other accident	243	248	231	243	260	280	280	276	293	338	356	389	395
Other	86	87	81	86	91	99	99	97	103	119	125	137	139
Inward reinsurance	1579	1606	1500	1579	1686	1818	1818	1792	1898	2190	2309	2522	2562
Total	11900	12100	11300	11900	12700	13700	13700	13500	14300	16500	17400	19000	19300

The above net assets for each class were estimated from the total net assets in A1, allocating in proportion to the minimum capital requirements in B5. For example, CTP net assets for the year to September 2003 were estimated as

total net assets (\$m)	16500
times CTP minimum capital required June 2002 (\$m)	1181
divided by total capital required June 2002	3655
CTP net assets for the year to September 2003 (\$m)	5332

A11 Estimated after-tax profit from each class of insurance, as % of net assets at start of year

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	-19.2%	-17.2%	-6.7%	-6.7%	-5.8%	-6.3%	-0.4%	-9.7%	-4.3%	40.2%	12.4%	28.8%	33.6%
House	16.0%	20.3%	52.6%	49.5%	30.1%	20.2%	12.7%	0.1%	-0.5%	19.8%	9.1%	12.2%	20.1%
CTP	14.5%	14.4%	14.5%	13.9%	12.3%	13.3%	15.3%	14.3%	8.9%	5.6%	9.8%	12.8%	18.7%
Commercial MV	-9.1%	-6.4%	15.1%	14.2%	18.1%	19.7%	27.4%	16.0%	20.9%	31.7%	19.3%	26.7%	39.8%
Domestic MV	-5.7%	-0.5%	10.4%	7.7%	15.7%	20.3%	31.5%	22.0%	17.2%	-26.6%	-22.2%	-15.6%	-1.9%
Marine & aviation	20.6%	22.6%	23.6%	22.1%	11.3%	10.2%	29.2%	9.3%	25.1%	48.1%	52.1%	52.9%	52.0%
Professional indemnity	0.6%	-0.7%	11.9%	10.2%	-1.8%	-2.5%	-8.6%	-11.2%	-9.1%	10.4%	13.7%	18.5%	22.1%
Public & product liability	-9.2%	-8.7%	6.0%	5.8%	1.3%	2.1%	-1.8%	-4.5%	-9.0%	-8.4%	1.8%	9.0%	19.3%
Employers liability	-16.0%	-14.1%	3.6%	3.5%	1.8%	2.5%	4.3%	2.8%	0.7%	-6.6%	-4.2%	1.3%	5.6%
Mortgage	101.4%	100.7%	135.4%	128.8%	106.3%	114.4%	122.2%	121.1%	102.6%	232.8%	248.1%	251.8%	159.1%
Consumer credit	56.5%	69.2%	61.1%	57.8%	52.5%	61.1%	60.7%	54.8%	50.7%	80.3%	59.1%	64.7%	58.7%
Travel	-99.9%	-94.5%	-57.6%	-55.1%	-58.4%	-28.3%	-128.2%	-134.6%	-105.1%	-154.1%	-151.7%	-126.6%	-97.7%
Other accident	-1.0%	1.0%	25.8%	24.2%	16.3%	0.6%	6.9%	0.9%	13.7%	24.2%	42.9%	46.2%	53.6%
Other	-250.3%	-276.4%	-289.9%	-278.3%	-18.1%	44.3%	-3.6%	-28.4%	23.2%	-89.7%	-261.0%	-195.9%	-176.6%
Inward reinsurance	11.2%	12.7%	17.4%	16.5%	-1.2%	-0.4%	0.6%	-5.3%	-1.7%	10.9%	4.4%	9.3%	13.1%
Total	1.9%	2.8%	12.2%	11.3%	7.9%	8.5%	8.9%	4.9%	3.5%	5.9%	6.1%	11.8%	17.6%

The above profit percentages were estimated by dividing the profits in A9 by the net assets in A10. For example, the CTP profit as a % of net assets for the year ended September 2003 was estimated as

profit (\$m)		263
net assets at end (\$m)	5332	
divided by 1.13. to estimate net assets at start (\$m)	1.13	4718
profit as % of net assets at start		5.6%

The 1.13 factor to estimate net assets at the start of the year from those at the end is based on the 13% pa growth in net assets from June 2000 to June 2004. For June 2001 to June 2002, actual net assets a year previously were known and used.

A12 Investment & other revenue, less general & administration expenses, as a % of net premiums

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	7.8%	7.8%	10.4%	10.5%	8.7%	9.2%	5.6%	5.4%	3.1%	4.4%	3.1%	5.3%	5.7%
House	5.1%	5.1%	6.7%	6.7%	6.1%	6.5%	4.4%	4.4%	2.5%	4.4%	3.2%	5.4%	6.0%
CTP	25.0%	25.3%	41.3%	41.6%	33.7%	35.9%	22.3%	21.3%	13.5%	23.0%	16.5%	26.9%	29.2%
Commercial MV	4.2%	4.2%	5.9%	5.9%	4.8%	5.0%	3.4%	3.3%	1.9%	3.3%	2.3%	3.9%	4.3%
Domestic MV	4.2%	4.2%	5.3%	5.3%	5.6%	6.1%	3.9%	3.9%	2.1%	4.0%	2.8%	4.7%	5.2%
Marine & aviation	4.8%	4.8%	7.0%	7.1%	6.1%	6.1%	3.9%	3.8%	2.4%	3.1%	2.3%	4.0%	4.6%
Professional indemnity	25.0%	25.0%	43.1%	45.8%	47.6%	47.2%	22.1%	21.5%	14.6%	12.1%	7.8%	12.5%	13.1%
Public & product liability	33.0%	33.1%	59.0%	59.4%	49.9%	52.8%	23.6%	23.0%	12.9%	15.9%	10.2%	16.4%	18.2%
Employers liability	25.4%	25.4%	27.7%	27.9%	21.9%	25.1%	17.2%	16.4%	8.8%	16.9%	12.9%	22.5%	22.8%
Mortgage	39.5%	39.6%	34.6%	34.8%	30.1%	28.7%	15.4%	15.0%	9.8%	10.0%	6.3%	10.2%	20.4%
Consumer credit	12.8%	11.4%	15.0%	15.1%	11.7%	11.3%	7.3%	7.1%	4.5%	8.2%	6.9%	11.1%	12.1%
Travel	2.9%	2.9%	6.0%	6.1%	5.3%	4.6%	2.6%	2.9%	1.4%	2.7%	2.0%	3.3%	3.6%
Other accident	6.1%	6.1%	8.2%	8.3%	7.0%	7.4%	4.8%	4.5%	2.5%	5.4%	3.4%	5.6%	5.9%
Other	7.5%	7.5%	9.8%	10.4%	14.7%	15.6%	7.4%	7.2%	4.1%	2.1%	2.6%	6.1%	6.4%
Inward reinsurance	10.7%	10.6%	12.6%	12.7%	8.5%	8.7%	5.7%	5.4%	3.6%	6.3%	4.8%	7.8%	8.4%
Total	12.3%	12.3%	16.5%	16.7%	14.2%	15.0%	9.4%	9.1%	5.4%	8.6%	6.3%	10.5%	11.5%

The above percentages were estimated by dividing the investment and other revenue less general and administration expenses in A8 by the net premiums in A4. For example, the CTP percentage was estimated as

investment & other revenue (A8)	465
divided by net premiums (A4)	2020
investment and other revenue, less general and administration expenses, as a % of net premiums	23.0%

A13 Net assets as a % of net premiums

Class	6/00	9/00	12/00	3/01	6/01	9/01	12/01	3/02	6/02	9/03	12/03	3/04	6/04
Fire & ISR	55.0%	55.5%	58.4%	61.4%	64.1%	70.7%	66.3%	60.1%	58.8%	44.8%	45.1%	48.7%	47.6%
House	29.6%	29.6%	30.5%	32.1%	36.3%	40.4%	42.7%	39.8%	37.7%	36.8%	37.3%	40.8%	40.5%
CTP	199.1%	202.7%	260.7%	274.5%	278.1%	309.7%	295.9%	268.1%	285.3%	264.0%	267.6%	278.7%	274.0%
Commercial MV	29.4%	29.7%	32.3%	34.0%	34.9%	37.9%	38.9%	35.9%	35.5%	32.6%	33.2%	35.5%	35.2%
Domestic MV	26.4%	26.7%	26.3%	27.7%	36.4%	41.4%	40.4%	38.4%	35.5%	36.2%	35.8%	38.4%	38.7%
Marine & aviation	35.0%	35.3%	40.5%	42.6%	46.2%	48.3%	47.8%	44.1%	45.5%	32.9%	34.7%	37.5%	39.1%
Professional indemnity	213.0%	215.2%	291.9%	324.4%	421.7%	436.2%	314.4%	290.1%	331.2%	148.8%	135.0%	139.2%	132.1%
Public & product liability	278.2%	281.0%	395.0%	415.9%	437.3%	482.5%	331.8%	306.1%	289.9%	193.1%	174.9%	180.4%	181.4%
Employers liability	207.5%	209.6%	180.1%	189.6%	186.1%	222.0%	234.4%	211.6%	192.1%	199.5%	215.4%	239.3%	220.6%
Mortgage	107.6%	108.7%	74.7%	78.7%	85.2%	84.6%	69.9%	64.5%	70.8%	39.3%	35.2%	36.3%	65.5%
Consumer credit	58.8%	52.8%	54.5%	57.4%	55.9%	56.1%	55.6%	51.3%	54.7%	54.1%	64.1%	66.1%	65.7%
Travel	22.0%	22.2%	36.7%	38.6%	41.9%	38.5%	32.7%	35.2%	29.4%	30.4%	32.0%	33.0%	32.8%
Other accident	42.1%	42.6%	45.1%	47.4%	50.0%	55.2%	54.7%	49.2%	46.7%	53.4%	47.2%	50.0%	48.3%
Other	29.6%	29.9%	30.9%	34.3%	60.8%	67.1%	48.8%	45.0%	43.1%	11.9%	21.2%	31.6%	29.9%
Inward reinsurance	91.9%	92.0%	85.8%	90.4%	75.7%	81.5%	81.3%	74.1%	83.5%	78.4%	85.1%	87.1%	85.9%
Total	93.5%	94.2%	99.9%	105.4%	112.4%	124.0%	119.4%	110.1%	110.2%	94.5%	97.3%	103.9%	103.5%

The above percentages were estimated by dividing the net assets in A10 by the net premiums in A4. For example, the CTP percentage was estimated as

net assets (A10)	5332
divided by net premiums (A4)	2020
net assets as a % of net premiums	264.0%

Appendix B : Selected statistics for year ended June 2002

B1 Premiums June 2002 - Inside Australia - Direct insurers

Class	Total premiums	Unearned premiums at start of year	Unearned premiums at end of year	Premium revenue	Reinsurance expense	Premium revenue less reinsurance	Estimated net unearned at end of year
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fire & ISR	1943.26	594.839	882.87	1655.22	767.628	887.60	473.43
House	2676.44	1209.83	1425.50	2460.77	771.395	1689.38	978.64
CTP	2274.73	817.934	1116.88	1975.78	356.375	1619.40	915.43
Commercial MV	1236.66	489.762	605.84	1120.58	226.969	893.62	483.13
Domestic MV	4036.51	1769.75	2096.66	3709.60	1550.096	2159.50	1220.55
Marine & aviation	412.27	120.224	153.84	378.66	97.809	280.85	114.10
Professional indemnity	641.65	225.099	310.86	555.90	262.022	293.87	164.33
Public & product liability	1183.47	405.03	587.21	1001.28	212.260	789.02	462.73
Employers liability	952.54	372.364	452.14	872.77	83.092	789.68	409.09
Mortgage	382.96	570.766	731.13	222.59	55.944	166.64	547.37
Consumer credit	179.94	233.964	252.35	161.56	4.360	157.20	245.54
Travel	127.66	19.02	16.53	130.15	20.695	109.45	13.90
Other accident	949.77	323.634	403.86	869.54	242.510	627.03	291.23
Other	507.74	226.823	306.79	427.77	188.907	238.87	171.31
Inward reinsurance	2547.70	1242.29	1332.74	2457.25	185.620	2271.63	1232.06
Total	20053.28	8621.33	10675.19	17999.42	5025.68	12973.74	7722.84

The above figures are from table 6 of APRA's "Selected statistics on the general insurance industry year ending June 2002", released on 7/3/03.

Net unearned premiums at the end of the year were estimated as

$$(\text{unearned premiums at end}) * (\text{premium revenue less reinsurance}) / (\text{premium revenue})$$

B2 Underwriting expenses June 2002 - Inside Australia - Direct insurers

Class	Commission expense	Commission revenue	Acquisition expense other than commission	Other expenses (net of revenue)	Total underwriting expense	Underwriting expense as % of premium revenue
	\$m	\$m	\$m	\$m	\$m	
Fire & ISR	170.40	125.22	124.72	294.01	463.91	52.3%
House	220.53	95.23	225.59	282.38	633.27	37.5%
CTP	41.36	24.27	52.70	80.33	150.12	9.3%
Commercial MV	113.39	54.01	68.38	47.20	174.96	19.6%
Domestic MV	136.55	96.47	209.18	176.42	425.69	19.7%
Marine & aviation	59.67	17.93	32.41	18.90	93.06	33.1%
Professional indemnity	55.66	27.80	33.73	33.99	95.58	32.5%
Public & product liability	135.77	22.10	73.92	43.37	230.94	29.3%
Employers liability	35.73	4.44	98.63	32.61	162.53	20.6%
Mortgage	7.80	10.53	18.78	1.89	17.94	10.8%
Consumer credit	47.63	9.84	8.94	18.97	65.70	41.8%
Travel	29.77	7.14	14.49	5.50	42.62	38.9%
Other accident	148.72	58.90	69.39	85.09	244.30	39.0%
Other	76.44	18.89	85.45	73.39	216.39	90.6%
Inward reinsurance	175.72	0.09	148.31	114.92	438.86	19.3%
Total	1455.14	572.86	1264.63	1308.94	3455.86	26.6%

Underwriting expenses are from table 9 of APRA's "Selected statistics on the general insurance industry year ending June 2002", released on 7/3/03.

B3 Net claims expense June 2002 - Inside Australia - Direct insurers

Class	Provision for outstanding claims at start of year	Provision for outstanding claims at end of year	Claims expenses	Reinsurance and other recoveries revenue	Claims expense less all recoveries	Value of outstanding recoveries at end
	\$m	\$m	\$m	\$m	\$m	\$m
Fire & ISR	986.49	1228.00	1249.67	774.32	475.36	811.185
House	762.92	832.24	1487.24	384.97	1102.27	225.690
CTP	7413.17	7709.12	1769.04	506.49	1262.55	1561.207
Commercial MV	321.34	355.55	947.35	279.84	667.51	143.600
Domestic MV	775.54	851.23	3244.75	1600.77	1643.97	540.643
Marine & aviation	246.48	237.84	217.51	56.07	161.43	94.139
Professional indemnity	1528.48	1842.08	618.88	286.51	332.37	746.293
Public & product liability	3086.29	3665.36	1220.24	347.45	872.78	947.910
Employers liability	2051.89	2200.60	773.87	87.17	686.70	324.435
Mortgage	29.67	56.44	46.14	6.18	39.96	7.032
Consumer credit	53.09	58.87	53.65	-0.01	53.66	0.820
Travel	41.44	77.74	130.31	26.89	103.42	19.070
Other accident	402.79	494.40	564.59	206.99	357.60	174.225
Other	185.97	281.78	443.27	435.37	7.90	95.808
Inward reinsurance	1500.20	2111.22	2294.78	344.87	1949.91	481.231
Total	19385.75	22002.45	15061.28	5343.87	9717.41	6173.288

The above are from tables 7 & 8 of APRA's "Selected statistics on the general insurance industry year ending June 2002", released on 7/3/03.

B4 Assets and liabilities for each class of business June 2002 - direct insurers, inside Australia

Class	Provision for outstanding claims at end of year \$m	Unearned premiums at end of year \$m	Outstanding recoveries at end of year \$m	Premium receivables at end of year \$m	Estimated net assets at end of year \$m	Estimated assets at end of year \$m	Share of estimated assets at end of year
Fire & ISR	1228.00	882.87	807.76	379.56	452.53	1376.10	3.9%
House	832.24	1425.50	224.74	522.76	552.14	2062.38	5.9%
CTP	7709.12	1116.88	1554.61	444.30	4003.76	10830.85	30.9%
Commercial MV	355.55	605.84	142.99	241.54	274.85	851.70	2.4%
Domestic MV	851.23	2096.66	538.36	788.41	664.87	2286.00	6.5%
Marine & aviation	237.84	153.84	93.74	80.53	110.83	328.23	0.9%
Professional indemnity	1842.08	310.86	743.14	125.33	843.30	2127.76	6.1%
Public & product liability	3665.36	587.21	943.90	231.15	1981.96	5059.47	14.5%
Employers liability	2200.60	452.14	323.06	186.05	1314.45	3458.07	9.9%
Mortgage	56.44	731.13	7.00	74.80	102.23	808.01	2.3%
Consumer credit	58.87	252.35	0.82	35.15	74.53	349.78	1.0%
Travel	77.74	16.53	18.99	24.93	27.90	78.24	0.2%
Other accident	494.40	403.86	173.49	185.51	253.47	792.73	2.3%
Other	281.78	306.79	95.40	99.17	89.16	483.15	1.4%
Inward reinsurance	2111.22	1332.74	479.20	497.61	1644.49	4111.63	11.7%
Total	22002.45	10675.19	6147.20	3916.80	12390.46	35004.10	100.0%

Outstanding recoveries at June 2002 were estimated from the total assets and asset percentages in A1, and spread between classes in proportion to the estimates in the last column of B3.

Premiums receivable at June 2002 were estimated from the total assets and asset percentages in A1, and spread between classes in proportion to the premiums in B1.

Net assets are from table 2b of APRA's "Selected statistics on the general insurance industry year ending June 2002, and were spread between classes in proportion to the minimum capital requirements in B5.

For example, assets at June 2002 for CTP were estimated as

provision for outstanding claims at end of year (B3)	7709.12
plus unearned premiums at end of year (B1)	1116.88
less outstanding recoveries at end of year (B3)	-1554.61
less premium receivables at end of year (B1)	-444.30
<u>plus estimated net assets (B5)</u>	<u>4003.76</u>
assets	10830.85

B5 Minimum capital requirements in June 2002 - direct insurers, inside Australia

Class	Type	Net out- standing claims B3 \$m	Out- standing claims risk capital factor B6	Out- standing claims risk capital \$m	Net premium liability B1 \$m	Premium liability risk capital B6 %	Premium liability risk capital \$m	Value out- standing reco- veries B3 \$m	Invest- ment capital factor for reco- veries \$m	Invest- ment capital for reco- veries \$m	Total risk capital required \$m	Total risk capital required as %
Fire & ISR	2	417	11.0%	46	285	16.5%	47	811	5%	41	133	3.7%
House	1	607	9.0%	55	718	13.5%	97	226	5%	11	163	4.5%
CTP	3	6148	15.0%	922	803	22.5%	181	1561	5%	78	1181	32.3%
Commercial MV	1	212	9.0%	19	406	13.5%	55	144	5%	7	81	2.2%
Domestic MV	1	311	9.0%	28	1045	13.5%	141	541	5%	27	196	5.4%
Marine & aviation	2	144	11.0%	16	74	16.5%	12	94	5%	5	33	0.9%
Professional indemnity	3	1096	15.0%	164	209	22.5%	47	746	5%	37	249	6.8%
Public & product liability	3	2717	15.0%	408	576	22.5%	130	948	5%	47	585	16.0%
Employers liability	3	1876	15.0%	281	400	22.5%	90	324	5%	16	388	10.6%
Mortgage	2	49	11.0%	5	148	16.5%	24	7	5%	0	30	0.8%
Consumer credit	2	58	11.0%	6	94	16.5%	16	1	5%	0	22	0.6%
Travel	1	59	9.0%	5	15	13.5%	2	19	5%	1	8	0.2%
Other accident	2	320	11.0%	35	187	16.5%	31	174	5%	9	75	2.0%
Other	2	186	11.0%	20	6	16.5%	1	96	5%	5	26	0.7%
Inward reinsurance	4	1630	13.5%	220	1190	20.3%	241	481	5%	24	485	13.3%
Total		15829		2232	6156		1114	6173		309	3655	100.0%

Net outstanding claims are the gross outstanding claims in B3, less the value of outstanding reinsurance and other recoveries in B3. Net premium liability has been approximately taken as the estimated net unearned premiums from B1, multiplied by the ratio of net claim expenses (B3) to net premium revenue (B1), with an arbitrary 12.5% added to allow for claim handling and policy maintenance expenses. Omitting this 12.5% allowance for expenses, or doubling it, alters the estimated returns on capital in A11 by less than 0.3% for CTP and public liability. The 5% investment risk factor assumed for reinsurance and other recoveries is partly based on the factors of 2% to 8% applicable to reinsurers, and the 10% applicable to other assets not specified elsewhere in attachment 1 to APRA's GGN 110.4.

B6 Capital risk factors

Type	Outstanding claims risk capital factor	Premiums liability risk capital factor
1	9.0%	13.5%
2	11.0%	16.5%
3	15.0%	22.5%
4	13.5%	20.3%

The above factors are from table 1 and 2 of APRA's GGN 1103 - 3.

The values for inwards reinsurance (type 4) are averages of the highest and lowest values.

Appendix C : After-tax profits and returns on capital for direct insurers

Year ended 30 June	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005(d)	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Net premium revenue	7052	8740	9319	10798	11461	11514	12421	12694	14640	17066	18652	9484	
Underwriting result	-517	-694	-848	-882	-841	-1160	-1145	-517	-146	-1121	1354	1177	
Interest	1094	1088	1164	1429	1046	1062	1023	1067	1117	2064	2785	2194	
Dividends	(a)	(a)	(a)	(a)	288	257	269	617	724	(a)	(a)	(a)	
Rent	(a)	(a)	(a)	(a)	103	79	58	51	52	(a)	(a)	(a)	
Market value changes	237	-429	798	1318	516	635	644	283	-593	(a)	(a)	(a)	
Other revenue	(a)	(a)	(a)	(a)	81	116	86	203	143	704	663	(a)	
General & admin expenses	-315	-291	-306	-373	-505	-459	-534	-610	-737	-1480	-1302	-775	
Profit from other business	85	75	90	94	45	19	55	117	67				
Operating profit before tax & abnormal	584	-252	899	1586	733	548	456	1210	626	167	3500	2596	
Tax on operating profit	-76	195	-239	-76	-57	4	-48	-165	-112	-23(c)	-490(c)	-363	
Abnormal items net of tax	-37	-20	-10	163		-15	-42	-5		na	na	na	
Profit	471	-77	650	1673	676	538	366	1041	514	143	3010	2233	
Profit as % of net premium revenue	6.7%	-0.9%	7.0%	15.5%	5.9%	4.7%	2.9%	8.2%	3.5%	0.8%	16.1%	23.5%	
Net assets at end	6727(b)	6737	6748	7491	9143	9865	9990	10575	12554	12390	15567	19300	20019
Profit as % of net assets at start	7.0%	-1.1%	9.6%	22.3%	7.4%	5.5%	3.7%	9.8%	4.1%	1.2%	19.3%	23.1%	

- Notes
- (a) Included in "interest"
 - (b) Extrapolated from figures at June 1994 and 1995
 - (c) Estimated as 14% of operating profit, the average tax rate in the 3 years to June 2002
 - (d) 6 months to 31/12/04

Figures from 93-94 to 01-02 are from APRA's "Selected statistics on the general insurance industry". They are for direct underwriters inside Australia.

For the year to June 2004, net premium revenue is from A3, the underwriting result from A2 and A3, investment and other revenue are from A2, general and administration expenses from A3 and net assets from A1.

Figures for the year to September 2003 were derived as for the year to June 2004. Figures for the year to June 2003 were then estimated by extrapolation from the figures for September 2003 and June 2004. Increases in "other revenue" and "general and administration expenses" after the year to June 2002 may reflect the revenue and expenses of non-insurance business.

Figures for the 6 months to December 2004 are from APRA's "Quarterly general insurance performance - December 2004".

Appendix D : ACCC profit estimates for public liability

Incident year	Net loss ratio	Net underwriting expense ratio	Investment earnings as % of net premium	Profit before tax as % of net premium	Profit after tax as % of net premium	Net assets as % of net premium	Profit after tax as % of net assets
2001	76%	32%	24%	16%	13%	332%	4%
2002	52%	28%	14%	34%	29%	244%	12%
2003	48%	28%	10%	34%	29%	175%	17%
2004*	52%	30%	18%	36%	31%	181%	17%

Incident years are calendar years, but 2004 is the incident period 1/1/04 to 30/6/04.

Net loss and underwriting ratios are from chart 3.9 of the ACCC's January 2005 report "Public liability and professional indemnity insurance". This chart was derived by ACCC from responses provided by six insurers. The eight insurers who provided some public liability data to the ACCC represented 64% of the public and product liability provided to APRA in the year to June 2004. Chart 3.9 may thus represent about 50% of the APRA data.

Investment earnings as percentages of net premiums were obtained from the estimates in A12, interpolating for 2003. Net assets as percentages of net premiums were obtained from the estimates in A13, interpolating for 2003. Profit before tax as a percentage of net premium was estimated as

$$100\% - \text{net loss ratio} - \text{net underwriting expense ratio} + \text{investment earnings as a \% of net premiums}$$

Tax on profit of 14% was assumed, the average rate in the 3 years to June 2002 (see C).