

FEATURE

industry resources



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ISA IS AN INDUSTRY-BASED VOLUNTARY ORGANISATION WHICH PROVIDES STATISTICS TO GIVE INSIGHT INTO INDUSTRY PERFORMANCE DRIVERS.

When Bill Mansfield (Commercial Union), Graeme Anschutz (QBE), Harold Levick (GRE), Peter Tanner (Australian Eagle) and Stephen Westwood (Australian Reinsurance) met with John Trowbridge and Geoff Atkins in late 1987 to discuss a possible successor to the Insurance Council statistical service that had just been closed down, it is doubtful that any of them foresaw the nature and extent of the change that would affect general insurance in Australia over the next twenty years.

Despite that uncertainty, they recognised that the collection and presentation of data about the performance of insurance business was important both for the development of the industry as a whole and for individual insurers. However, any such collection needed to balance timeliness, accuracy, confidentiality and simplicity so insurers would be prepared to participate and useful information could be produced.

A series of feasibility studies into collection of data for motor, house, commercial property and liability business were done under the oversight of that steering committee and reports were published. Following extensive discussions, 35 insurers representing about twenty per cent of private sector insurance premiums agreed to proceed with four classes of insurance data and Insurance Statistics Australia Limited was incorporated on 1 August 1988. Over the next two years, reports on various exposure and claim measures were brought into production, generating trends with which individual insurers could compare their own performance for benchmarking purposes.

Insurance Statistics Australia (ISA) has continued to adapt to the changing needs of its members. A number of feasibility studies have been undertaken into data collection for other classes of business. While some of these have not been used directly by ISA, they have contributed

to development of industry data collection in a variety of ways. Most prominent of these was ISA's involvement in the development of specifications for the National Claims and Policy Database based on its own recently developed liability specifications.

Today, while the number of members is less than in 1988 with industry consolidation, the personal lines syndicates include insurers representing more than ninety per cent of personal lines motor and house insurance business in Australia, eighty per cent of medical indemnity and lenders' mortgage insurance and seventy per cent of SME commercial property business.

To encourage insurers to participate in such a voluntary collection of data, ISA needs to be careful to ensure that only members receive access to data, otherwise the system

With development of Financial Condition Reports for general insurers, the availability of industry data that actuaries can use to benchmark their company's performance has become even more important.

CASE STUDY 1 "COMPREHENSIVE" MOTOR INSURANCE BENCHMARKING

Benchmarking data is becoming increasingly important for insurers required to prepare financial condition reports for their directors and APRA, as well as to help judge the emergence and impact of economic and social trends on an insurance portfolio. ISA data on private "comprehensive" motor cover provides loss ratio, average premium and claim frequency trends by state for the past 15 years, with theft, windscreen and major weather event claim results available separately for the past ten years. Because the database has represented over ninety per cent of Australian motor business for the last six years, it also provides insurers with an independent quantification of their own market share.



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CASE STUDY 2

HOUSEHOLDERS AND HOMEOWNERS WEATHER CLAIMS COST

Weather claims cost can vary greatly from one year to the next. Short term insurer-specific weather experience is generally considered a poor indicator for expected future weather costs. The ISA member supplemented its own experience with ISA weather claim data for the previous ten years. An industry benchmark loading for weather claims was then established by averaging the (inflated) cost per policy over the last ten years for different ISA regions. Adjustments for the expected impact of climate change were also made. The member developed loadings to be applied in its pricing by comparing its own experience with the overall ISA experience for recent periods, and adjusting the industry-wide loadings where there appears to be a consistent difference between its own experience and that of the industry.



BENOIT LAGANIERE
HEAD OF ACTUARIAL, QBE
INSURANCE AND CURRENT
ISA CHAIR.

“ISA provides us with a high degree of resolution into the key drivers of performance for the general insurance industry. This information is not available anywhere else. It allows QBE to continuously benchmark itself at a portfolio and state level in terms of market share, average premium, claim frequency and average claim size. At a more detailed level, the commercial property information by occupation type, for example, has been and continued to be integral part of our pricing assessment models due to the high volatility of the claim experience for that particular class of business.”



GARRY TOWNSEND
CHIEF OPERATING OFFICER,
ALLIANZ AUSTRALIA.

“Access to industry data helps Allianz to improve the efficiency for our business by providing the benchmarks which we strive to exceed. The data collection and reporting process facilitated by ISA therefore, fulfils a very important function for us. ISA also provides a great forum for the industry to meet to discuss common issues and determine if combining our data can assist in lifting standards within the industry and, ultimately, helping our end customer – the policy holder.”

would die because of the “free rider” issue common in many areas of our community. Nevertheless, ISA endeavours to assist the Insurance Council, students and researchers and government departments where industry data can be supplied without compromising individual member confidentiality. ISA data has been used on a number of occasions to support Insurance Council submissions to various government inquiries.

With development of Financial Condition Reports for general insurers, the availability of industry data that actuaries can use to

benchmark their company’s performance has become even more important. And while members are not allowed to use ISA data for comparative advertising, high-level comparison of their own results with industry averages can be supplied by members to insurance analysts or in their annual reports.

ISA continues to meet the needs of insurers operating in the Australian general insurance market as the various case studies and quotations from individual insurance executives indicate. The data collections and reports are tailored to the requirements of the members of each syndicate.

ISA has worked effectively because of the trust and interaction between the Board of Directors, the various steering committees and the independent management team. While the management team have been in four different organisations over the twenty years – Trowbridge Tillinghast, Trowbridge Consulting, Trowbridge Deloitte and now Finity Consulting – there has been a fair degree of stability in personnel, with Geoff Atkins, Colin Brigstock and David Minty each involved in various roles for more than 15 years and Nevena Mackic and David Sandoe each involved for more than ten years.

With its business plan for 2008 focusing on a new data collection for engineering business, web-based delivery of new reports and development of motor repair cost benchmarking, the Board of ISA is looking at ensuring that the organisation will continue to meet the needs of its members in the changing environment for the insurance industry in Australia. ISA welcomes all insurers that underwrite motor, house, LMI, medical indemnity or property business in Australia to participate in its future development, and will help to define and collect insurance data for other classes of insurance business as the need arises on behalf of its stakeholders. II

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GRAEME ADAMS
HEAD OF CTP, NRMA INSURANCE

“NRMA Insurance uses ISA data to track our portfolio performance relative to the rest of the market. It validates the trends we see in our products, and helps us understand what actions we should take to capitalise on the trends. It also allows us to triangulate other information we have about portfolio performance, and in some cases, it means we can focus in on the real issues in a market.”

CASE STUDY 3**LARGE LOSS PRICING FOR COMMERCIAL PROPERTY INSURANCE**

Few individual insurers have a sufficiently large portfolio in which large losses are fully represented even over the medium term. The ISA commercial property data provides comprehensive large loss data in respect of SME business in Australia and representative large claim information in respect of corporate risks. This provides insurers with a firmer basis to establish loadings for large losses in pricing this business, hopefully increasing the likelihood that this aspect of costs will be priced adequately in all phases of the insurance cycle.

CASE STUDY 4**COMMERCIAL PROPERTY BENCHMARKING**

The data collected for the ISA commercial property syndicate enables market prices and claims, not just loss ratios, to be monitored. The data can be presented by accident period, thus avoiding the impact of prior year adjustments. With information separately available for business interruption, package (SME) and ISR covers, insurers with specialised portfolios have sufficient detail to construct benchmarks relevant to the nature of their own business, not just a generic industry-wide measure. For instance, benchmarks can be developed to allow for mix relevant to bias by State, rural/metro, sum insured, and industry groups. Claim data is broken down into a dozen causes of claim.

ISA MEMBERSHIP (JANUARY 2008.)

- ☐ AAMI Limited
- ☐ Allianz Australia Insurance Limited
- ☐ Ansvr Insurance Limited
- ☐ Australian Alliance Insurance Company Limited
- ☐ Avant Insurance Limited
- ☐ Calliden Group Limited
- ☐ CGU Insurance Ltd
- ☐ Commonwealth Insurance Limited
- ☐ CUNA Mutual Group
- ☐ General Reinsurance Australia Ltd
- ☐ Genworth Financial
- ☐ HBF Insurance Pty Ltd
- ☐ Insurance Australia Group
- ☐ Insurance Council of Australia
- ☐ Lumley General Insurance Limited
- ☐ MDA National Insurance Pty Limited
- ☐ Medical Indemnity Insurance Pty Ltd
- ☐ Medical Indemnity Industry Association of Australia
- ☐ Medical Insurance Group Australia
- ☐ Munich Holdings of Australasia Pty Ltd
- ☐ PMI Mortgage Insurance Ltd
- ☐ OBE Insurance (Australia) Limited
- ☐ RAA Insurance Limited
- ☐ RAC Insurance Pty Limited
- ☐ RACQ Insurance Limited
- ☐ RACT Insurance Pty Ltd
- ☐ Suncorp Metway Insurance Limited
- ☐ Swiss Reinsurance Company
- ☐ Territory Insurance Office
- ☐ Tokio Marine & Nichido Fire Insurance Co Ltd
- ☐ Vero Insurance Limited
- ☐ Wesfarmers Federation Insurance Limited
- ☐ Western OBE Insurance Limited
- ☐ Westpac Landers Mortgage Insurance Ltd

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- ☐ MEDICAL INDEMNITY STEERING COMMITTEE
Chair Lisa Clarke, Avant

