

17th **General Insurance Seminar**
Risk and Reward



Institute of Actuaries of Australia

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Implications from the annual JP Morgan Deloitte General Insurance Industry Surveys

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Survey Overview

A Deloitte & JP Morgan collaboration since 1993

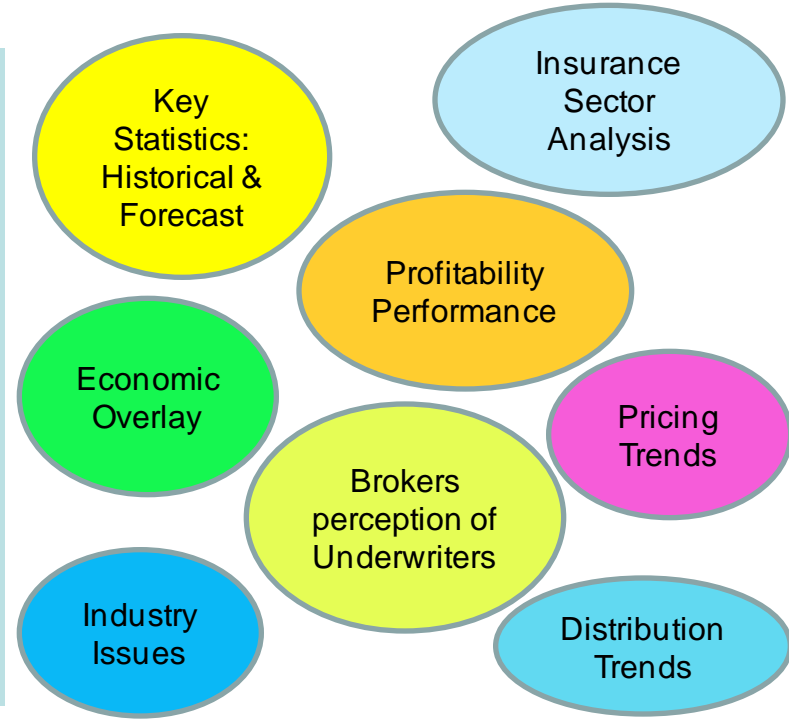
1. Underwriters

2. Reinsurers

3. Brokers

Classes:

- Domestic Motor Vehicle
- Householders
- CTP
- Fire & ISR
- Commercial Motor
- Worker's compensation
- Public & Product Liability
- Professional Indemnity
- Directors & Officers



August:
Survey mail out

October / November:
Results compilation

November / December:
Meetings with participants

January:
Official Release





Survey Data

Class Level

- Change in Premium rates +
- Change in Reinsurance rates
- Change in Capacity
- Claim Inflation Rate
- Claim Frequency change
- Loss Ratio
- Expense ratio
- Normalising loss ratio
- 3 most important issues
- Policy wording (E,R,U) +
- Policy excesses and deductibles (E,R,U) +
- Perception of class profitability

Overall

- Loss ratio +
- Expense ratio +
- Capital position
- Operational Efficiency (1,10):
 - overall
 - claims mgt
 - distribution
 - back office
- Areas for improvements (h,m,l) (e/d)
- 5 most significant issues
- Distribution +
- Investment assets allocation
- Free form Q



Industry Issues

2007 Survey

2008 Survey

2009 Survey

Underwriters

1. Skill Shortage
2. Competition / pricing disc
3. Compliance Costs
4. Climate Change
5. Unwound of Tort reform

1. Climate Change
2. Economic Conditions
3. High Competition
4. Employee shortage
5. Underwriting discipline

1. Weather / Cat/ Climate Change
2. Changing regulatory environment
3. Increased Competition
4. Underwriting Disc / Profitability
5. Attracting/retaining staff

Reinsurers

1. Competition
2. Climate Change
3. Regulation
4. Underwriting Discipline

1. Rates / Competition
2. Economic Outlook
3. Reinsurance Capacity

1. GFC / Economic environment
2. Pricing of original risk
3. Cat event losses / climate change
4. Investment returns
5. Regulatory changes
6. Rates / competition

Brokers

First appearance of distribution as issue for brokers

1. Economy / financial crisis
2. Higher competition
3. Claims / Weather related claims
4. Retaining/attracting staff
5. Government taxes/poor regulation

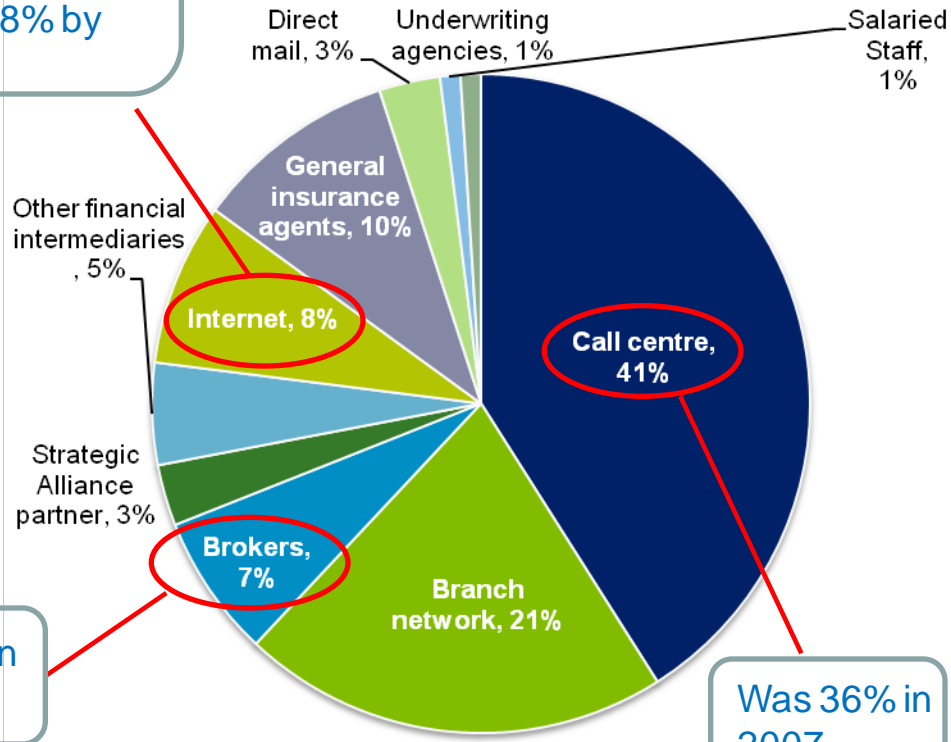
1. Attracting/retaining staff
2. Economic environment and associated claims
3. Government taxes / regulation
4. Weather / climate change
5. Profitability / Pricing
6. Distribution (direct mkt, electronic)



Distribution Breakdown & Trend

In 2007 the Internet was expected to grow to 7% by 2013
Internet now expected to grow to 11% by 2011 and 18% by 2014

Personal Lines 2009



Was 17% in 2007

Was 36% in 2007

Iselect
RateCity
Zinsure

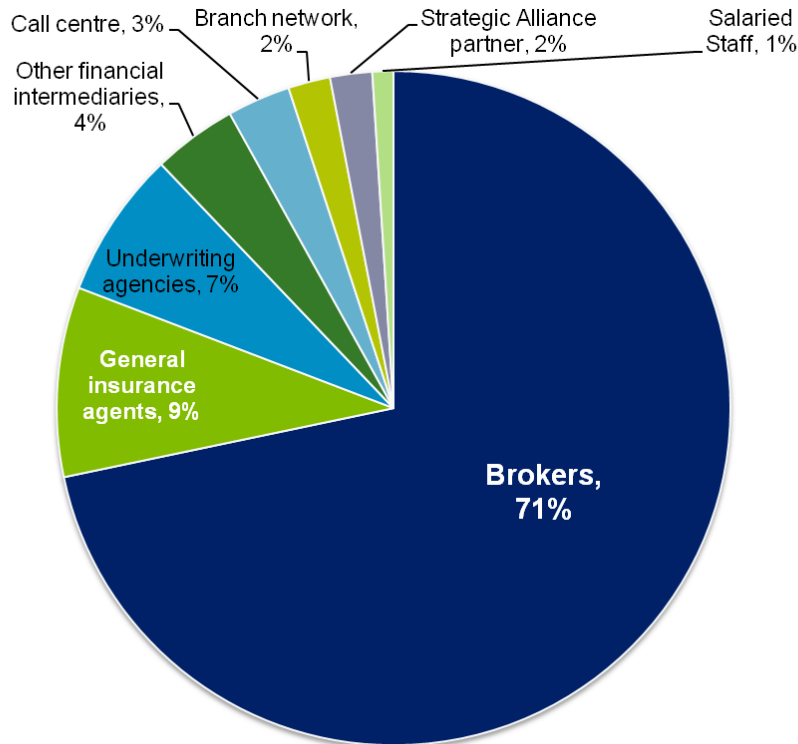
Coles,
AuPost,
Myer

Buzz, Budget
Direct,
Progressive,
Youi, Bingle,
Real Insurance,
Virgin Money

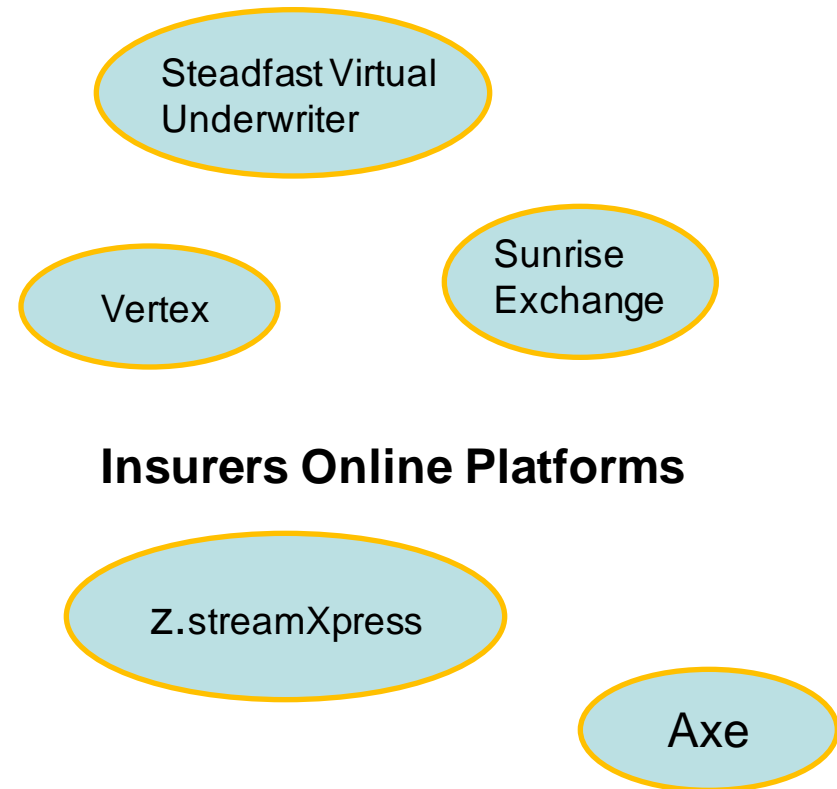


Distribution Breakdown & Trend

Commercial Lines 2009



Broker Platforms





2009 rate movement forecast

Industry actual and expected Premium Rate movements

	2007A	2008A	2008F from 2007 survey	2009A	2009F from 2008 survey	2010F	2011F
Domestic classes							
Domestic motor	2	3	3	5	4	5	4
Householders	4	4	5	10	6	9	7
CTP (NSW)	-12	-3	-2	10	4	9	7
CTP (QLD)	-1	3	-4	14	7	15	7
Weighted average	0	3	1	8	5	7	6
Commercial classes							
Fire & ISR (Commercial property)	-9	-3	-3	5	4	6	5
Commercial motor	-2	9	6	10	8	6	5
Public & Product Liability	-10	-6	-6	1	-1	4	4
Workers compensation (WA only)	-14	-12	-7	-6	-6	8	5
Workers compensation (TAS, NT & ACT)	-11	-8	-7	-5	-1	6	4
Professional indemnity	-9	-7	-6	4	0	8	6
Directors & officers	-8	-6	-6	6	4	9	7
Weighted average	-8	-2	-3	4	3	6	5



Normalised Combined Operating Ratio

Normalising the 2009 Actual Combined Ratio for Reserve Releases and other One-offs

	Reported CoR (2009)	less Abnormal reserve (releases) / additions	event activity above / (below) 'normal' allowances	less Impact on loss ratio from 'real' moves in interest	Normalised CoR (2009)
Domestic classes					
Domestic motor	91	0	4	0	87
Householders	108	0	10	1	97
CTP (NSW)	125	-19	na	14	131
CTP (QLD)	101	-23	na	8	116
Commercial classes					
Fire & ISR (Commercial property)	99	-1	3	0	97
Commercial motor	98	-1	2	0	97
Public & Product Liability	88	-11	na	9	90
Workers compensation (WA)	100	-15	na	6	109
Workers compensation (TAS, NT & ACT)	91	-15	na	6	100
Professional indemnity	84	-8	na	6	86
Directors & officers	109	-7	na	7	109



Theoretical Forecasted Combined Ratio

D&O calculation of theoretical 2010 combined ratio based on survey responses (WA)

Inputs	%	Method 1 (%)	Method 2 (%)
Premium rate change	6		
Claims inflation	3		
Expense inflation	3		
Reinsurance rates	3		
Claims frequency	0		
- Abnormal reserve (releases) / additions (pts)	-7		
- Events above / (below) 'normal' allowances (pts)	na		
- Impact from 'real' moves in interest rates (pts)	7		
	2009A	Theoretical 2010F	Theoretical 2010F
Loss ratio	81	80	80
Expense ratio	27	26	26
Combined ratio	109	106	107
Survey combined ratio for 2010F		87	

Method 1: Theoretical 2010 combined ratio based on 2009 reported loss ratio

Method 2: Theoretical 2010 combined ratio based on 2009 normalised loss ratio



Where to from now?

Industry: Loss ratio vs. expected loss ratio

