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Dear Geoff,

## Access to Industry Data

The Financial System Inquiry's Interim Report (9 July 2014: p3-97) stated that "financial system data is useful for policy makers, regulators, industry, academics and other". It also highlighted the problem it encountered in identifying and accessing industry data. The Institute agrees with this view and believes providing stakeholders with access to industry data should help drive better consumer outcomes and support system sustainability.

Access to insurance experience analysis is currently constrained and the Institute believes that the most practical way to address this situation is via a mandated regulatory response. To that end, the Institute requests a meeting with APRA to discuss the options for improving the collection and dissemination of a broader set of insurance experience data. We suggest there are various collection models that should be considered.

### Current situation

In the past, Australian life insurers contributed to industry experience studies that were conducted by the Actuaries Institute for retail business. For a variety of reasons, this practice fell away, and for an extended period there was no broad-based industry experience data available.

Currently, the following experience tables are available:

- The Institute has in the past developed a set of retail lump sum mortality and morbidity tables which are freely available but dated. There is no ongoing experience analysis against these tables.
- The Financial Services Council (FSC), through an external provider (KPMG), develops and monitors members' experience for retail lump sum and income protection products. Companies and individuals who are not participants must pay a fee in order to access the most up to date output of the studies (mortality or morbidity).
- KPMG produces a 6 monthly Group Life study from mid 1990's. This resulted in a group life table which is widely used to price Group Risk (excluding industry fund). This study covers corporate business and master trust, but not industry funds. These are available for a fee.
- Industry Funds experience: Rice Warner, in conjunction with Pacific Life Re, has developed a set of group Industry fund tables. Similar to the FSC tables, these are available for a fee.

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- Other reinsurers have over time developed their own tables based on global data.

In all these studies, the underlying data (even suitably de-sensitised or aggregated) is not available to anyone, including participants (other than their own data of course). This limitation is often a condition for participation in the studies.

From a public interest perspective, there are three key areas of concern with this situation:

- a. the underlying data is not available for research;
- b. the charging of fees for access (other than for older studies) limits the availability of the studies; and
- c. the granularity of the output is restricted.

In all cases, the opportunity for increased and deeper analysis by a broader number of researchers is limited. In addition, there is an ongoing risk that the composition of each study may not be representative of the entire industry.

Against this, the Institute acknowledges the risk to privacy of making the data more widely available as claims information is of a personal and sensitive nature. The contribution of data by insurers or superannuation funds are often subject to these considerations. The EU General Data Protection regulations, which come into force from 25 May 2018, and the Australian Privacy Act 1988 impose common requirements relating the rights of customers in respect of their privacy. However, the data can be suitably de-sensitised to manage this risk.

### Why open architecture for experience analysis is important?

Access to the graduated tables and underlying experience investigation data (suitably anonymised), would create the opportunity for stakeholders to interpret the experience levels and shape (via the actual vs expected analysis), improving industry understanding of underlying experience levels and trends.

Data transparency is core to the industry understanding trends, pricing and capital risks appropriately. Some of the benefits to the industry of an open architecture are set out below.

- Competition – A core element of a sustainable system is competition. Data availability enhances competition and should lead to more sustainable practices and so, over the long term, better consumer outcomes.
- Better informed new entrants - A common approach taken by new entrants (both insurers and reinsurers) is to rely on the existing market pricing (and shape) to set their terms, which perpetuates any mispricing. It also leads to terms being set without appropriate access to statistical and actuarial data, whereas a key recommendation of the PJC was that such data should be available. Indeed, as some providers expect over time to review their rates, business models are developed without the full understanding of the sustainability of consumer premium rates, leading to poor consumer outcomes and, at the extreme, potential prudential solvency risk.



- Deeper analysis would enhance understanding – A higher level of data transparency would allow industry stakeholders and researchers to conduct further research on the data (including far broader analysis utilising a range of techniques and incorporating other data sources) that would otherwise not be completed by one single party.

Providing enough information to all market participants to aid in their understanding of market trends is in the best interests of the entire industry as it assists in meeting community and market expectations. In particular, this means that any new entrants are sufficiently aware of the broad experience of the industry, such that they are less likely to make a gross mistake in their pricing, that could create an artificially low price that will subsequently cause pain through repricing, additional costs and misallocated product purchase decisions due to the incorrect price signal. Additionally, the release of market level trends could improve the industry's ability to communicate the cost of insurance to policyholders, to distribution and to the broader community.

At the same time, we do recognise it is important that life insurers remain able to compete on price and also bring their expertise on pricing to bear on their products. As such, a balance needs to be drawn between the amount of information publicly available and that which remains accessible to active industry participants.

An example of this balance would be to release the industry tables and selected updates from future experience investigations that show how industry experience is trending at a macro level. This would continue to allow active industry participants to have exclusive deeper analysis in the industry experience investigations, whilst helping to reduce the risk of grossly mispriced offers.

### Actuaries Institute policy position on data

The Actuaries Institute public policy position has been to support an open architecture regime that facilitates the availability of industry data.

In particular, the Actuaries Institute argued for more data transparency in its FSI submission, making the following comments.

*The FSI has identified 'data gaps' with its own investigations into aspects of the financial system. The government should move to create an open data regime to allow increased access to and analysis of important government held data and modelling information to better manage macro risks to the financial system.*

- *While currently available statistics provide insights into particular financial sector activities, it is far more difficult to obtain a system-wide sector, market or individual view of emerging risk dynamics and behaviours. This information is important and will be needed to help formulate the most effective policies for managing future macro risks to the financial system. Some consideration should be given to ..... making suitably anonymised data more widely available.*



## CMI approach

We draw your attention to the Continuous Mortality Investigation (CMI), an organisation supported by the Institute and Faculty of Actuaries in the UK (IFoA), which provides authoritative and independent mortality and sickness rate tables for UK life insurers and pension funds. The CMI is funded by subscriptions paid annually by organisations that require access to its work for commercial purposes. Most new research is available only to:

- employees of subscribers; and
- researchers for non-commercial use.

Commercially, it is worth noting that academics are allowed free access to the research and subscription fees for other parties are largely nominal (between GBP 5,000 and GBP 20,000) for large consultancies/reinsurers with life offices having a broader cost range depending on size (but capped at GBP 75,000).

## Current trends in data transparency

In May 2017, APRA published a consultation paper, in which you pose the question whether an industry led data collection could achieve the same outcome (page 19)

[https://www.apra.gov.au/sites/default/files/life\\_claims\\_data\\_collection\\_discussion\\_paper\\_fin\\_al.pdf](https://www.apra.gov.au/sites/default/files/life_claims_data_collection_discussion_paper_fin_al.pdf)

We note that APRA and ASIC have recently initiated Declined and Disputed claims data collection which will result in a shift in information being made available to the public. <sup>1</sup> In particular, APRA confirms that “greater transparency is beneficial for the policyholders and the industry as a whole” in your 28 October 2018 letter to life insurers and friendly societies. We understand APRA position’s which is to publish industry level and named-entity level data but not identify individual claimants. In addition, APRA will deem all information collected to be non-confidential.

An extension to this exercise therefore would be to cover full experience studies which would ensure that the core elements of ongoing sustainable product management (pricing, setting capital and performing valuations) have access to suitably relevant historical experience data.

The Institute believes that, without APRA involvement, the industry is unlikely to agree to an increased transparency regime around this data.

A part solution would be for the FSC and external parties who have developed experience tables to consider a sliding commercial scale, akin to the CMI approach, to ensure that researchers and new entrants are able to utilise existing tables and experience reports, but we do not believe it is in APRA’s remit to mandate commercial terms.

We believe that a better alternative would be for APRA to consider mandating the collection and publication of suitably granular data (but de-sensitised and aggregated where possible). Now would appear to be an opportune time to change the architecture around industry data, and it should be possible to do so in a way that does not compromise privacy or commercial arrangements.

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<sup>1</sup> Towards a transparent public reporting regime for life insurance claims information. APRA



## Conclusion

The Institute believes, for the reasons set out in this submission, that an opportunity exists to reconsider the approach taken in Australia to life insurance industry experience analysis. However, without APRA mandating comprehensive industry-wide availability of experience analysis data, we do not believe that all the industry participants will agree to make the information available. We also believe that consideration should be given to increasing the access to, and transparency of, data pertinent to other insurance sectors.

Please advise Elayne Grace, CEO of the Institute at [elayne.grace@actuaries.asn.au](mailto:elayne.grace@actuaries.asn.au) if APRA would like to discuss the Institute's views on this subject and potential next steps.

Yours sincerely,

Nicolette Rubinsztein  
President