



The Impact of Falling Interest Rates, Volatile Equity Markets and Reinsurer Market Capacity Challenges

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- The Global Financial Crisis
- Australian General Insurance Participants
- Financial Position of the Australian General Insurance Industry
- Financial Position of the Australian Medical Indemnity Insurers
- Reinsurer Market Capacity
- APRA Focus on General Insurance 2009/10



- A challenge in Australia but less so than in many other countries
- Shared credit between industry and regulators
 - Sound risk management
 - Good corporate governance
 - Active supervision (not just regulation)
 - Forward looking focus
 - Good core focus on appropriate risk taking
- For the General Insurance Industry there has been less impact than for other APRA regulated industries



Emerging issues include:

- volatile/deteriorating solvency positions - all industries
- funding & liquidity constraints - primarily banking & wealth management
- contagion risks - particularly from unregulated entities
- balancing capital and funding needs given constraints on access to additional capital



General Insurers

- As at 31 March 2009 there were 134 authorised insurers compared to 128 at the end of 2007
- This included 116 direct insurers and 18 reinsurers (excluding Lloyds)
- There are currently 5 active providers of Medical Indemnity Insurance in Australia
- Overall structure of the industry changed little over 2008 and up to mid 2009 except for the purchase of PMI's Australian businesses and Elders insurance operations by QBE



General Industry Financial Position

- The financial position of the industry continues to be sound, despite the impact to date of the Global Financial Crisis, and subsequent economic downturn
- Coverage of APRA's minimum capital requirement remained strong at the industry level and at the level of individual insurers

Profitability

- The industry recorded a \$2.2 billion net profit for 2008 which was approximately 50 percent lower than the industry net profit for 2007. It included the first industry underwriting loss since the commencement of the current statistical collection in 2002



Underwriting

- The 2008 underwriting loss reflects continuing frequent storm activity impacting claims experience in motor and home portfolios and deterioration in experience in a number of other - mostly long tail - classes of business
- The 2008 underwriting loss also reflected the impact of reduced discount rates on liability valuations



Investment Earnings

- Investment income for the year to December 2008 was up 20% to \$5.2 billion
- Investment earnings by insurers were well above previous levels in the second half of 2008, with the main contributor being unrealised gains. These largely reflected gains on fixed interest investments due to revaluations following the reductions in interest rates for these investments
- Those insurers with investments in corporate bonds would not have benefited to the same degree, and unrealised losses on equity investments also partially offset these unrealised gains



Investments

- At the end of December 2008, approximately 77 percent of insurers' aggregate investment portfolios were in cash and liquids, interest bearing securities and loans and advances, with less than 5 percent in equities
- The level of equity investments is down from around 7 percent in December 2007, reflecting both falls in value and moves out of equity investments, partly as a result of the higher investment risk capital charges imposed by APRA in mid-2008



Outlook

- Industry expectations are for increases in premium rates in most classes of business in 2009, which may help moderate underwriting losses
- However, the Victorian bushfires may have an adverse impact, as may the expected lower future investment returns



MII Sector Financial Position (December 2008)

- MIIs continued to be in a sound financial position
- All MIIs exceeded the capital target set by APRA to maintain capital coverage of at least 1.5x their MCR

Profitability (12 months to June 2008)

- Aggregate MII net profitability declined compared to 2007

Underwriting (12 months to June 2008)

- Improvement in the aggregate MII underwriting result compared to 2007



Investment Earnings (12 months to June 2008)

- Aggregate MII investment income was significantly lower compared to 2007



- There have been recent reinsurer ratings downgrades internationally
- APRA is still generally happy with the capital position of the Australian authorised reinsurers



- Solvency - including access to capital
- Downward Trend in Underwriting Profits
- Reinsurance Exposures
- Group Supervision
- Policy Issues