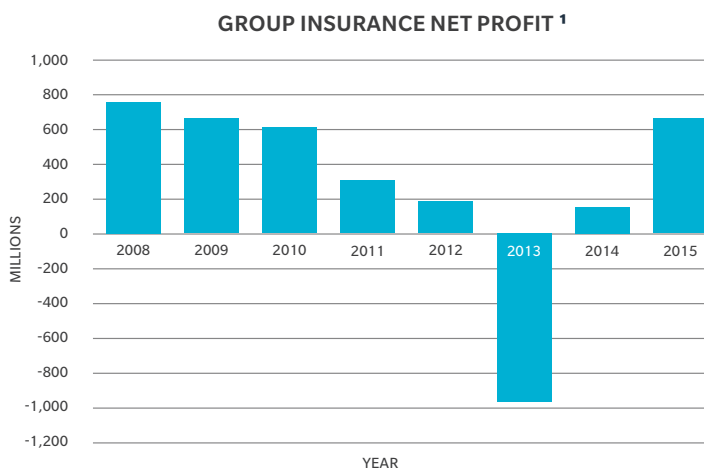


Group Life and Disability Insurance – The market is back

Australia's group insurance (group life and group income protection) market is returning to profitability after several lean years caused by an increase in claims costs, with insurers showing a renewed appetite and willingness to compete.

Falling profits since 2008, followed by the industry incurring close to \$1 billion of losses in 2013, led to a market correction with some insurers and reinsurers exiting the market and considerable rate increases being applied to existing customers. This change in fortunes for the insurers was driven by an increase in the number of claims, and time on claim for disability benefits added to the gradual reduction in the quality of health of many insured members.

As a result of this experience, insurers have been far more selective in which schemes they are willing to tender, giving careful consideration to their own risk appetites against the benefit designs, occupations and the claims experience of each individual scheme. This has led to many tenders operating in a limited market of insurers participating, or even no competition in some cases. The variance in offers from the competing insurers has also been considerably wider compared to the historical market outcomes.



BOARD DISCUSSION

Over the past 12 months:

- The market has started to stabilise, however reinsurers are still reporting losses
- Insurers are showing more interest in insurance tenders
- Insurers are expanding their risk appetite and willingness to negotiate on terms

The market has since started to stabilise, with insurers' profitability returning to over \$600 million in the past 12 months. However, reinsurers are continuing to struggle, with many reporting a loss for the year to December 2015 and the Australian Prudential Regulatory Authority reporting that four of the five leading reinsurers in Australia posted losses in 2015.

REINSURER² PROFIT FOR YEAR TO 31 DECEMBER 2015 (\$M):

RGA	-24
MUNICH	-17
PACIFIC LIFE RE	-13
SCOR	-2
HANNOVER	3

While the reinsurance market has not yet recovered to a wholly profitable position, the sector sees reason for optimism as the market begins to return to a competitive landscape.

Over the past 12 months, we have seen insurance tenders attract considerable interest from multiple insurers. Interestingly these cases also range in occupations and claims experience outcomes, showing that insurers are expanding their risk appetites. In addition, insurers have revealed a keenness to negotiate on their offerings while customers are also beginning to renew on the current terms, both of which are positive reflections of the market direction.

¹ APRA Quarterly Life Insurance Performance Database – August 2016. Profits are for Group Disability Income Insurance and Group Lump Sum Risk

² APRA Life Insurance Institution-level Statistics – issued 8 June 2016

While the reinsurance market has not yet recovered to a wholly profitable position, the sector sees reason for optimism as the market begins to return to a competitive landscape.

Further signalling a market improvement are the innovation and improvements flows through to the market. In order to balance the interest of both the employer's budget requirements and their employee's needs, brokers have become more innovative in benefit design. Insurers in turn have responded by becoming more marked in their willingness to accommodate these innovations, and we anticipate insurers will look to integrate them into their standard product offering. . In addition they are also investing in their propositions and claims management capability to improve processes and outcomes in this area.

However throughout all of this we need to be cognisant of the recent media attention around claims practices and its impact, especially in the default superannuation insurance sector. The negative commentary in the media around claims decisions has also challenged the insurance market, adding to pressure for a Royal Commission into the banking and financial service sector. It is likely this has held back the speed of the market's recovery and has certainly impacted insurers' resourcing, with staff prompted to concentrate efforts on investigating matters and implementing improvements flowing from identified issues. Depending on the breadth and depth of these issues, this could continue to hamper the market's recovery.

Overall the group insurance market is returning to a position of being a competitive and efficient market. As we enter 2017, corporate schemes facing a renewal and wishing to consider the wider market, should find ample interest from insurers willing to provide impressive offers.