



BUILDING A SUSTAINABLE FUTURE

**General Insurance Industry
Review 2022**

With the top 10 trends
impacting the sector

April 2022

[KPMG.com.au](https://www.kpmg.com.au)



The *KPMG General Insurance Insights Dashboard* which accompanies this report contains a range of interactive charts and graphs presenting the key industry metrics for the past 5 years. The interactive dashboard enables the data to be filtered to view the metrics for a particular year or insurer. It also enables comparison of metrics for an individual insurer to others in the market .



The dashboard can be accessed via our website at:
[KPMG.com/au/insurancereview](https://www.kpmg.com/au/insurancereview)





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Foreword

KPMG's General Insurance Industry Review 2022 includes the financial results up to 31 December 2021 of all Australian general insurers.

The format, content and presentation of the 2022 General Insurance Industry Review comprises three segments:

- 1. The year in review** – a concise but insightful analysis of how the general insurance sector performed throughout the year utilising Australian Prudential Regulation Authority (APRA) annual data statistics.
- 2. Top 10 emerging trends** – KPMG's views on the top 10 trends that will shape and influence the industry for the remainder of 2022 and beyond. In this section we reflect on the implications of these current and emerging themes, which may require Australian general insurers to significantly adapt the way they do business to ensure a sustainable future.
- 3. [KPMG General Insurance Insights Dashboard](#)** – this interactive dashboard contains a range of interactive charts and graphs presenting the key industry metrics for the past 5 years. The interactive dashboard enables the data to be filtered to view the metrics for a particular year or insurer. It also enables comparison of metrics for an individual insurer to others in the market.

Results and analysis

At a glance

| | | 2021 | 2020 | 2019 | 2018 | 2017 |
|----------------------------------|---|--------|--------|--------|--------|--------|
| Gross written premium \$m | ● | 53,824 | 48,624 | 46,271 | 44,111 | 42,596 |
| Net earned premium \$m | ● | 35,995 | 33,703 | 32,967 | 31,217 | 30,677 |
| Underwriting result \$m | ● | 3,567 | (185) | 2,211 | 3,443 | 3,213 |
| Insurance profit \$m | ● | 3,486 | 915 | 4,070 | 4,609 | 4,534 |
| Investment income \$m | ● | 510 | 1,435 | 2,983 | 1,912 | 2,379 |
| Loss ratio | ● | 66% | 75% | 69% | 65% | 65% |
| Expense ratio | ● | 24% | 25% | 25% | 24% | 25% |
| Combined ratio | ● | 90% | 101% | 93% | 89% | 90% |
| Insurance margin | ● | 9.7% | 2.7% | 12.3% | 14.8% | 14.8% |
| Capital ratio | ● | 1.71 | 1.68 | 1.67 | 1.74 | 1.78 |

Source: APRA Annual General Insurance Performance Statistics Dec 2021 (Direct Insurers only) and KPMG analysis

Year in review

Insurance profit for the year ended 31 December 2021 was up 281 percent to \$3,486 million for Direct Insurers, a significant increase on the annual result from 2020 which had been impacted by severe natural hazards events and the initial recognition of COVID 19 Business Interruption provisions. The increase in Insurance Profit was largely driven by an increase in Gross written premiums (GWP), with no similar corresponding increase in claims costs. Investment income for 2021 decreased by 64 percent in comparison to 2020 to \$510 million. This outcome is significantly lower than investment performance in recent years and as a result, 2021 insurance profit is still well below the insurance profits received in 2017 through to 2019 despite the increase in GWP and improvements in claim costs.

GWP increased by 11 percent to \$53,824 million. This growth in GWP was largely rate driven as the industry continued to re-price for claims cost inflation. The growth was evident across all lines of business (with the exception of CTP, travel and employers liability), but was more profound in the following areas where we saw both an increase in rate and the number of risks underwritten:

- motor and home classes (for personal products) and
- commercial property and professional indemnity classes (for commercial products).

These rate rises are a result of insurer's continuing to price products to reflect the underlying risks and costs of a policy which will drive a more sustainable product.

The impact of COVID-19 continued to influence premium levels in some areas of the industry. In particular, written premiums for travel insurance continued to be impacted with limited domestic travel and almost no international travel until the fourth quarter of the year.

Travel GWP for 2021 was \$234 million compared to the pre-pandemic GWP of \$1,197 million in 2019. GWP in the 31 December 2021 quarter increased 133 percent in comparison to the 30 September 2021 quarter as Australia's domestic and international borders started to reopen. Insights from Google show that "Travel Insurance" Google searches continued to be limited in 2021 however interest started to increase from October in line with the recorded increase in GWP. Consumer interest has not yet reached pre-pandemic levels which is also consistent with the GWP trends.

GROSS SEARCH QUERIES - TRAVEL INSURANCE



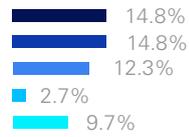
Source: Google Trends Data AU, January 2019 to March 2022

Key ratios

The loss ratio (claims cost) has improved in 2021 down from 75 percent in 2020 to 66 percent. The significant decrease is due to:

- No significant strengthening to COVID 19 Business Interruption provisions that were raised in 2020 as insurers await the final outcomes from the ongoing 'test cases'; and
- 2020 being largely impacted by the extensive natural catastrophe claims costs, the cost of which was not repeated in 2021.

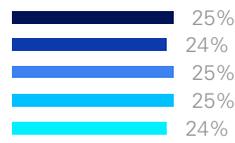
INSURANCE MARGIN



COMBINED RATIO



EXPENSE RATIO



LOSS RATIO



■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021

Source: APRA Annual General Insurance Performance Statistics Dec 2021 (Direct Insurers only) and KPMG analysis



Although insurers continued to be impacted by natural perils in 2021, the overall net claims cost for the industry was down and far less than the 2020 year which was impacted by the catastrophic “Black Summer” bushfires and severe storm activity (hail, rain and flooding).

| CATASTROPHES – 2021 | | CLAIMS RECEIVED | TOTAL LOSS \$B |
|---------------------|--|-----------------|----------------|
| CAT216 | Oct 2021 SA VIC Severe Storms | 99,109 | 0.76 |
| CAT215 | Sept 2021 Mansfield Earthquake | 14,781 | 0.12 |
| CAT214 | June 2021 Victorian Storms and Floods | 32,814 | 0.29 |
| CAT213 | April 2021 Cyclone Seroja (WA) | 9,319 | 0.35 |
| CAT212 | March 2021 East Coast Storms and Floods (NSW, QLD) | 58,865 | 0.62 |
| CAT211 | Feb 2021 Perth Hills Bushfire | 1,342 | 0.99 |
| | | | 3.13 |

| CATASTROPHES – 2020 | | CLAIMS RECEIVED | TOTAL LOSS \$B |
|---------------------|--|-----------------|----------------|
| CAT204 | Oct 2021 Halloween Hailstorm (QLD) | 44,703 | 1.06 |
| Undeclared | April 2020 Rockhampton Hail | 14,804 | 0.50 |
| CAT202 | Feb 2020 East Coast Storms and Floods (QLD, NSW, VIC) | 102,286 | 0.97 |
| CAT201 | Jan 2020 Hailstorms (VIC, ACT, QLD, NSW) | 132,205 | 1.68 |
| CAT195 | Nov 2019 – Feb 20 Bushfires (NSW, QLD, VIC, SA) ¹ | 38,936 | 2.32 |
| | | | 6.53 |

¹ CAT 195 spanned from 8 November 2019 to 13 February 2020 so distorts the 2020 total loss as 2019 losses are also included in this number

Source: [insurancecouncil.com.au](https://www.insurancecouncil.com.au) – Historical Catastrophe Data March 2022

The cost discipline of insurers has tightened during 2021 with a decrease in the expense ratio from 25 percent to 24 percent. This improvement comes despite continued spending on technology, regulatory and compliance costs. Although overall expenses have increased for the industry, the premium growth rate has exceeded the expense growth rate resulting in a reduction in the expense ratio.

Investment income was \$510 million down 64 percent from \$1,435 million in 2020 due to low investment returns arising from continuing historically low interest rates and depressed yields.

Investment income for both 2021 and 2020 is significantly lower than investment performance in the 2017 to 2019 years.

The combined impact of these factors above contributed to a higher industry insurance result of \$3,486 million (prior year \$915 million) and an insurance margin of 9.7 percent. However we do note that the 2021 insurance result is still well below the insurance profits received in 2017 through to 2019 despite the improvements compared to the prior year. The ‘Key ratios’ on the previous page show the trend in insurance margins and other key statistics over the past 5 years.

The industry’s capital coverage at 31 December 2021 for direct insurers increased marginally to 1.71 times the APRA prescribed capital amount. This compares to 1.68 times at 31 December 2020.

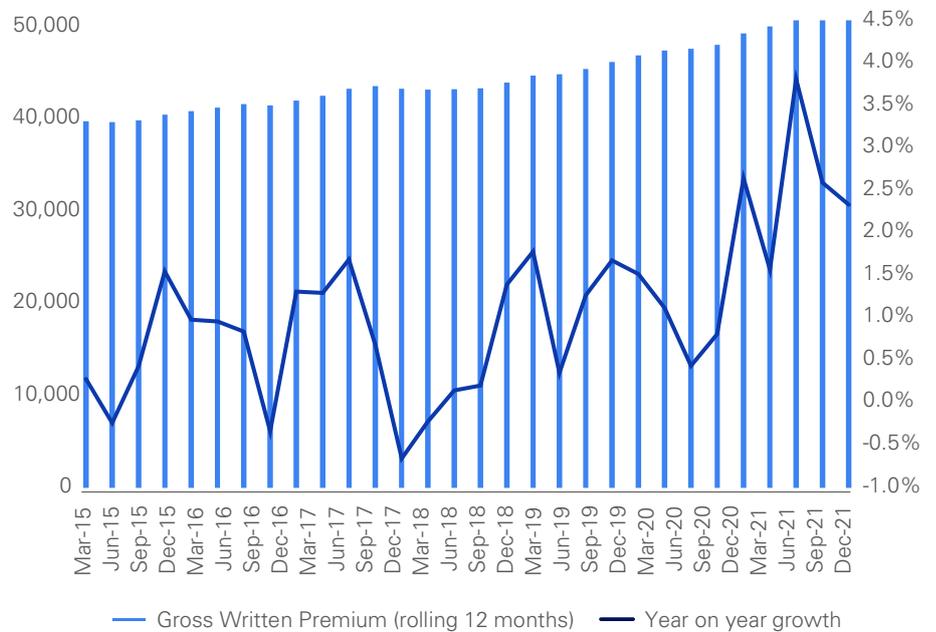
Market outlook

The average GWP quarterly increase for 2021 was 2.6 percent (refer to ‘Gross written premium – rolling 12 months’ graph). The growth in 2021 reflects the highest percentage movement we have seen in recent years and as this growth is partially driven by rate increases in some product classes, it demonstrates the continued hardening of the market. The graph did show some tapering off of premium increases in response to the COVID-19 pandemic in 2020 however rate rises returned in 2021 and is expected to continue in the current year across both personal and commercial classes.

Looking ahead, insurers are forecasting continued growth in GWP with ongoing rate increases expected for 2022. Continued growth in natural hazard events is likely and as we have seen just recently, the East Coast Flood events in March 2022 will be a significant cost to the insurance industry with early estimates of \$2.32 billion being reported by the Insurance Council of Australia².

The industry is increasingly concerned that the frequency and severity of natural hazard events will significantly push premiums up and make some areas uninsurable.

GROSS WRITTEN PREMIUM (ROLLING 12 MONTHS)



Source: APRA Annual General Insurance Performance Statistics Dec 2021 (Direct Insurers only) and KPMG analysis

The industry may not be able to sustain insurance in flood-prone areas and is looking to the government to implement flood mitigation measures to reduce the impact to communities when natural hazard events occur. The Productivity Commission found that across Australia 97 percent of natural disaster funding is spent after an event,

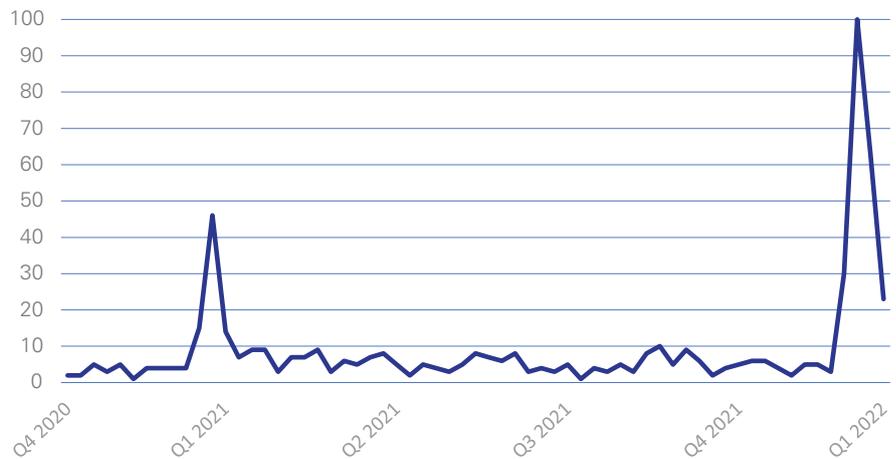
with just 3 percent spent on measures to improve community resilience ahead of an event³. To create a more sustainable future for insurance, where insurance is affordable, the government will need to invest in mitigation measures to lessen the impact of these extreme weather events on communities.

² www.insurancecouncil.com.au – Historical Catastrophe Data – March 2022

³ www.insurancecouncil.com.au – News Release East Coast flood event insurance update – 9 March 2022

Consumers are concerned as many cannot afford flood insurance and if they do have a policy, they are concerned as to what it actually covered in regards to flood damage. Insights from Google show that “Flood Insurance” Google searches increased in March 2021 with the East Coast Storms and Floods in NSW/QLD and was even more pronounced in February/March 2022 around the time of the East Coast Flood event in QLD/NSW.

GOOGLE SEARCH QUERIES – FLOOD INSURANCE



In regards to other costs and issues, continued technology, regulatory and compliance costs are expected to continue as insurers focus on strategic and operational changes as well as dealing with further expected

changes from the regulators. In addition, insurers will also need to finalise their implementation of the global accounting standard, IFRS 17 Insurance Contracts given the 2023 transition date.

Share price performance

ASX LISTED INSURANCE COMPANIES' PERFORMANCE



Source: KPMG analysis

The 'ASX Listed Insurance Companies' Performance' graph depicts the share price performance of the four listed Australian General Insurers – IAG, QBE, Suncorp (SUN) and Genworth (GMA) – against the Australian Stock Exchange (ASX) 200 Index for the period from January 2017 to December 2021.

The overall ASX200 Index increased by 11 percent during 2021 however the Australian listed insurers had mixed results in relation to their own share price performance. QBE outperformed the ASX 200 index with a 33 percent increase for the 2021 year.

Suncorp was largely in line with the index up 12 percent, whereas IAG and Genworth saw a decrease in share price of 10 percent and 6 percent respectively.

Top 10 GI industry trends

Here we identify 10 emerging trends in the global general insurance sector, and consider the implications for Australian general insurers. Many of these trends impact the future of the industry and individual insurer's need to consider what changes need to be made to ensure the sustainability of their business.



1. Regulatory & compliance transformation



2. Simplification & cost optimisation



3. Changing customer expectations



4. Pricing & affordability



5. Digital, data, innovation & cyber security



6. Competition for Talent



7. Mergers & Acquisitions/ Integration



8. IFRS17



9. Climate change



10. ESG

1. Regulatory & compliance transformation



The general insurance industry has gone through significant regulatory change in the last 24 months with many insurers hopeful to move into a phase of embedment and refinement of the regulatory changes. Although this activity will be critical for organisational success, we predict that the following year will continue to bring a significant volume of change which general insurers should start to prepare for.

Key headwinds

- Insurers have focussed on the deployment of additional and updated processes to meet the requirements of reforms driven out of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
- Insights from Australian Regulators indicate that the environment is likely to continue to evolve at pace with revised changes supporting the focus on enhanced customer outcomes and transparency
- The UK's Financial Conduct Authority (FCA) is focusing on a number of thematic areas (i.e. GI Pricing Practices, Enhanced Product Governance and Additional Customer Duty) which provides insight into what the future of GI regulation may look like over the next few years
- Pace of changes to existing regulatory guidance to continue, with APRA prefacing several consultations papers along with the implementation of new and updated standards
- Regulatory focus from APRA to be diverted into the strengthen, resolution and crisis management capability and the promotion of the sustainability of insurance products for the long-term benefit of consumers
- Discussions around Enforceable Code Provisions will likely start to develop following the final implementation of the 2020 General Insurance Code of Practice in July 2021
- APRA required a number of insurers to review the soundness of their insurance risk management frameworks in 2021 in light of the Business Interruption policy wording issues that were identified during the pandemic
- Financial Accountability Regime (FAR) will extend the Banking Executive Accountability Regime (BEAR) to all APRA regulated entities in 2023
- Increased data and security risks as a result of a continuing remote workforce and increasing instances of cyber security attacks and phishing.
- governance which have historically been managed at a more operational level such as marketing and distribution
- Structure regulatory programs to transform customer experience and operating models, as opposed to driving compliance to consider the perspective of customer expectations and to include the concept of fairness and a real understanding of conduct risk
- Insurers should be planning regulatory change programs well and performing post implementation reviews of these programs focused on ensuring better customer outcomes
- Following on from APRA's review of insurance risk management frameworks, insurers should look to review and continue to enhance product management processes, starting from product design, through to pricing and monitoring in order to maintain a robust framework.

How insurers can respond

- Take stock of regulatory and industry changes and mobilise programs to ensure compliance and to identify opportunities for competitive advantage
- Insurers should review and document their internal governance practices, including a focus on ensuring that appropriate approvals are in place for any decisions which materially impact risk profile. This also includes consideration of enhancing areas of

2. Simplification & cost optimisation



Profitability remains a challenge as a result of declining investment returns combined with increased claims and operational costs. As a result, this is driving a continued focus on simplification and automation across the value chain.

Key headwinds

- The General Insurance industry Compound Annual Growth Rate (CAGR) is expected to increase from 0.9 percent to 3.4 percent over the next five years¹⁴¹
- Overall performance of investments is declining largely as a result of holdings in fixed interest assets
- Status of COVID 19 business interruption claims still to be finalised through the courts in Australia
- Increasing claims costs due to inflationary pressures in motor and home portfolios
- Continuing high natural peril costs impacting insurance margins.

How insurers can respond

- Continued focus on digitisation, simplification, productivity, automation, and operating model adjustments across all components of the value chain to drive efficiency and cost out such as identifying key experiences to digitise end-to-end and designing certain processes with human interactions for value adding activity
- Build data and analytics capabilities to allow informed decision making around risk, pricing and impacts on profitability
- Leverage third party data sources for more advanced risk and pricing decisions
- Negotiate leasing terms for office premises operating at reduced capacity due to COVID and hybrid working.

¹⁴¹ IBISWorld - General Insurance in Australia 2021



3. Changing customer expectations

Customers are looking for personalised, value-driven digital solutions and they want experiences that allow them to be in control of the process.

Key headwinds

- Customers have high digital expectations, as they are now comparing their Insurers against interactions with other utility providers
- Customer experience in other sectors has improved, for example in the banking sector, significant progress has been achieved making their offerings more digitally-focused and customer-centric
- KPMG research suggests that insurers continue to lag behind other sectors. According to a recent consumer survey, very few personal lines insurers are seen as delivering a 'best in class' customer experience
- Some insurers may have made significant investment in digitising and improving the front-end sales process. However, when it comes to managing a claim or amending policy details, the process is often slow and difficult for consumers. The lack of connectivity across the broad customer journey has become increasingly apparent.

How insurers can respond

- Personal lines insurers will likely need to make significant changes to their operating models if they hope to retain their customers and avoid becoming commoditised
- Insurers should use transformation programs to explore how emerging technologies can meet customer's evolving needs
- Insurers should start to focus on making the purchase, use and renewal of insurance policies simpler, faster and more tailored from the onboarding process through to claims process by leveraging easy-to-use digital tools and digital services across the journey
- Insurers should also be thinking more broadly about how they can deliver additional value to customers by exploring ways to transition towards a more prevention-based approach, for example by using real-time data, IoT sensors and advanced analytics models to predict a problem and then proactively reaching out to the customer to resolve the issue before a claim occurs for example installing moisture sensors under the house to predict flood damage.

4. Pricing & affordability

Today's operating environment is putting more pressure on pricing for growth and profitability, requiring advanced data and analytics capabilities at scale.



Key headwinds

- Profitability improved in 2021 in comparison to 2020 with strong rate rises to counter inflation and natural perils
- Insurers continue to be impacted by a significant number of natural peril events and although not included in the 2021 reported results of insurers, the East Coast Flood event in March 2022 has been a significant cost to the insurance industry and will most likely lead to increased premiums and reinsurance costs
- From 1 July 2022, the Federal Government has implemented a reinsurance pool for cyclones and related flood damage in Northern Australia. The reinsurance pool will be backed by a \$10 billion Government guarantee and will cover household, residential strata and small business property insurance policies. The pool is designed to improve the accessibility and affordability of insurance for households and small businesses in cyclone-prone areas in Australia. Considering the recent East Coast flooding, discussion has commenced as to whether the scope of the pool should be expanded to cover all flood damage (not just cyclone related damage).

- Advancement in data and analytics capabilities are allowing insurers to better price risk and manage profitability, by providing readily available information.

How insurers can respond

- Build data and analytics capabilities to allow informed decision making around risk, pricing and impacts on profitability including looking to invest in digital tools that allow for more accurate pricing of portfolios at a product level
- Leverage third party data sources for more advanced risk and pricing decisions
- Review the current risk profile to ensure it is adequately diversified
- Large insurers will be required to participate in the cyclone reinsurance pool with all cyclone-risk policies in the pool by 31 December 2023 and small insurers will have until 31 December 2024. Insurers will need to ensure their existing pricing structures are reviewed as the Australian Competition and Consumer Commission (ACCC) will monitor and collect data to ensure that savings are passed through to policyholders and the reinsurance pool is delivering on its intended outcomes.

5. Digital, data, innovation and cyber security



COVID has changed the way insurance companies can achieve growth and insurers need to react to the digital driven changes in consumer preferences.

Key headwinds

- Lockdown forced many Australians to move to digital channels in order to connect for work, shopping and social purposes
- Insurance CEOs globally recognise that a digital-first approach lies at the heart of how organisations can avoid disruption, stay innovative and create new sources of value. Seventy-five percent of insurance CEOs suggest they need to be quicker to shift investments and divest businesses that face digital obsolescence, and 65 percent feel that new partnerships will be critical to continue with pace of digital transformation
- The need for innovative real time digital solutions are accelerating the importance of modernising core technology platforms and accelerating cloud migration
- With consumer expectations of service quality and digital accessibility increasing, businesses are at real risk of losing their customers if they do not adapt
- Insurers are finding it is more cost effective at times to partner with an existing Insurtech to fast-track innovative offerings

- Cyber security threats limit growth for digital development. Sustainable cyber security practices help the development of digital ecosystems, increase resilience from attacks and build confidence in the governance framework. The need for cyber security has become crucial as a result of increased digitisation and cyber threats are recognised as a major security issue that can restrict business growth.

How insurers can respond

- Optimise channels and self-serve capability to improve customer experience and reduce overall cost to serve such as improving customer front-end capability to allow digital claim reporting and app based self-service capability so the customer can receive proactive status updates
- Use transformation programs to explore how emerging technologies can meet customers' evolving needs, including platform based ecosystem solutions and partnerships with Insurtechs
- Accelerate cloud migration, and/ or optimise multi-modal environments where possible

- Replace / re-platform legacy technologies with cloud based platforms that future proof operations
- Establishing a modular, adaptable technology infrastructure that supports Insurers evolving operating models with changing customer and market demands such as technology architecture that enables the best of breed service providers to integrate with end-to-end processes (for example a "plug-in" capability may include ID verification)
- Review of distribution channels and opportunities for innovation and potential partnerships with Insurtechs and/or other providers can assist in delivering a superior and more cost effective distribution channel
- Implement appropriate cyber security measures such as enhancing cloud security through automation – from deployment and monitoring to remediation
- Increasing cyber security threats in all industries provides further product development opportunities for insurers and the market will dictate how these products will evolve over time.



6. Competition for talent

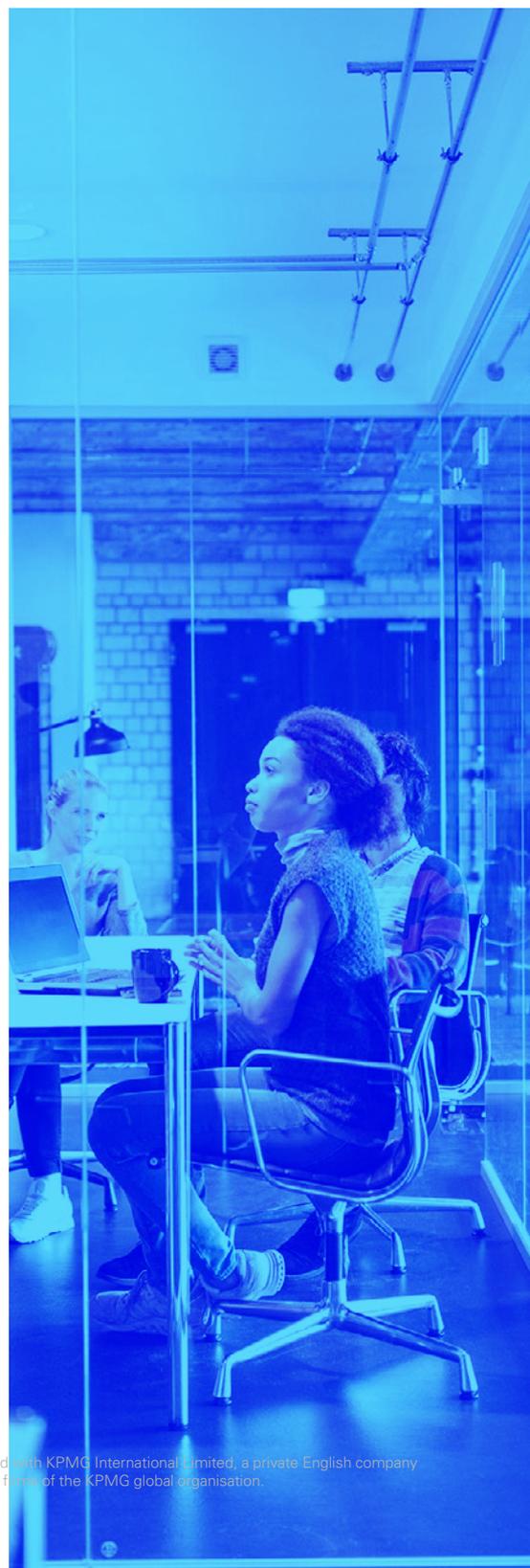
Attracting and retaining talent in the insurance industry is becoming an increasing challenge, specifically in the evolving hybrid work environment.

Key headwinds

- The insurance industry is currently struggling to attract and retain high level talent particularly within IT, Finance and Actuarial teams. This problem is further exacerbated with IT professionals, data scientists and finance professionals being in high demand in other industries resulting in Insurers now competing with a much more diverse set of industries
- Australia's response to COVID-19 was to close our borders which has left businesses across the board urgently requiring additional people resources
- The current skills shortage, combined with the lack of migration due to the border closure policy in 2021, has led to higher salaries for these in-demand professionals
- Employees are wanting flexibility of having more choice about where and when they work. For example, 70 percent of people in one study suggested that being able to work from home is one of the top criteria for choosing a job.^[5]

How insurers can respond

- Insurers must ensure they provide rewarding career benefits and opportunities for career development. They can encourage existing employees to adopt new capabilities and upskill them to meet a more digitised future considering the lack of data scientists and technology specialists in Australia
- Insurers need to focus on the “great renewal” – focusing on purpose, reskilling, working to create impact, understanding value and finding better ways to connect with employees
- Employers need to ensure that they can support workers to continue to have the flexibility of having more choice about where and when they work, rather than this being imposed on them. So there is clearly an ‘employee value proposition’ reason for continuing to allow for some working from home.



^[5] KPMG: Keeping us up at Night: The Big Issues Facing Business Leaders in 2022



7. Mergers & Acquisitions / Integration

Reduced M&A activity compared to 2021 levels is expected in the Australia General Insurance market with the focus for many companies being on integration post M&A activity.



Key headwinds

- Globally M&A activity for the insurance sector continued to be strong despite the COVID-19 pandemic
- There has been continued M&A activity in the General Insurance space in Australia with all big 4 Banks working towards full disposal of their insurance arms in recent years. In 2021, Westpac completed the sale of its General Insurance business to Allianz and its Lenders Mortgage Insurance business to Arch Capital Group. CBA is due to complete the sale of its General Insurance business to Hollard in mid-2022. As part of the sale agreements, the insurers have entered into exclusive agreements for the distribution of general insurance products to the Bank's customers
- As M&A activity starts to settle in Australia, the focus will turn to general insurers working through various integration programs post M&A activity with the goal to achieve synergies and unlock deal value
- M&A activity also occurred in the Australian insurance broker segment in 2021 and this is set to continue for 2022
- To meet customers' digital engagement demands and support new hybrid ways of working, Insurtech acquisitions are becoming increasingly desirable.

How insurers can respond

- Australian and International insurers can review strategic acquisition opportunities in the Australian market
- Prioritise integration programs to reduce complexity in the business
- Australian Insurers can look to Insurtech companies for opportunities to bring innovation and update legacy technology.

8. IFRS 17



The opening balance sheet for IFRS 17 has passed for insurers with a December year-end however, most are still in the process of implementing the new accounting standard. These challenges have been brought into sharper focus during Q1 by APRA's Quantitative Impact Study (QIS) to identify the impact of IFRS 17 on Australian Insurers.

Key headwinds

- The continued impact of COVID in 2020 and 2021 has contributed to many IFRS 17 implementation projects being delayed
- Many insurers are encountering delays in implementing their strategic software solutions to support IFRS 17 compliance, reducing the available time for testing and validating these solutions
- Implementation costs continue to add up – with available funding to support contingencies becoming increasingly limited
- Resource constraints in the local market limit insurers ability to accelerate their implementation programmes
- APRA released draft reporting standards together with a QIS to Australian insurers in December 2021. Responding to both requires effort from Australian insurers but also highlights IFRS 17 data “blindspots.”

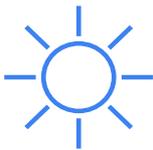
How insurers can respond

- Perform a reality check of implementation road maps, robustly challenging future plans and resource allocations given the 2023 transition date
- Challenge implementation and testing plans for new strategic software solutions and be prepared to pivot to tactical solutions to support short-term compliance when required by risk
- Work in focused short sprints in parallel and not in a series – allowing multiple activities to be undertaken in parallel, helping to accelerate progress and manage cost
- Secure resources now for remaining activities given constraints in the local market are expected to increase as the transition date gets closer
- Use the APRA QIS as an opportunity to accelerate the implementation programme, sharpening focus on critical data challenges.



9. Climate change

Insurers continue to face a higher exposure to natural perils, such as floods, bushfires and cyclones. Modelling predicts the frequency and severity of these natural peril event trends will only continue to increase.



Key headwinds

- There has been a significant change in the weather of spring and summer 2021/22 in comparison to summer 2019/20 when Australia suffered very hot and dry conditions resulting in the worst Australian bushfire season on record, known as the “Black Summer”
- This year has been characterised by very wet weather with frequent torrential rain and hail events. The change in large-scale weather patterns is linked to the switch from El Niño to La Niña conditions. La Niña was predicted by the Bureau of Meteorology (BOM) to bring above average rainfall across the eastern states of Australia in 2021/22¹⁶¹. Recent updates from the BOM suggest that La Niña has now peaked and is expected to return to neutral levels in late Autumn, which should result in a reduction in extreme rain and hail events
- There is a looming market failure and potential significant risk of underinsurance for some locations and classes of assets as natural perils become uninsurable (the likelihood is the burden of underinsurance will continue to affect lower socio economic groups and have greatest impact on regional Australia)
- The International Panel on Climate Change’s (IPCC) Sixth Assessment Report (AR6) released in February 2022, details the ways in which people and ecosystems are vulnerable to climate change

¹⁶¹ www.perils.org

¹⁷¹ KPMG: Time for action on climate is quickly fading. We must choose to respond - March 2022

¹⁸¹ www.insurancecouncil.com.au – News Release East Coast flood event insurance update – 10 March 2022

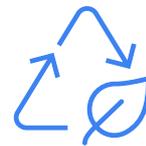
- Nine key risks in Australasia were identified including the following high level risk “Cascading, compounding and aggregate impacts on cities, infrastructure, supply-chains and services due to wildfires, floods, droughts, heatwaves, storms and sea-level rise”¹⁷¹
- Although not included in the 2021 reported results of insurers, the East Coast Flood event in March 2022 has been a significant cost to the insurance industry with early estimates of \$1.77b being reported by the Insurance Council of Australia¹⁸¹. Flood mitigation measures are necessary to lessen the impact of natural disasters as floods have a significant impact on people and communities and are also costing the insurance sector billions of dollars.

How insurers can respond

- Continue to support industry initiatives such as the Climate Measurement Standards Initiative (CMSI)
- Demanding/developing better climate modelling to further improve risk practices
- Educate customers through sharing insight and analysis and develop new products that encourage customers to undertake mitigation plans and increase their climate reliance.



10. Environmental, Social & Governance (ESG)



Globally insurers are increasingly recognising the breadth and depth of ESG within their own businesses and the impact they can have on society.

Key headwinds

- Insurers are considering and prioritising different elements of ESG depending on their appetite and industry focus
- ESG is evolving from a topic that was primarily owned by sustainability experts and teams, to a C-suite and Board concern
- One key outcome from COP26 is the creation of a new International Sustainability Standards Board (ISSB) to develop globally-consistent sustainability disclosure standards. In March 2022, the ISSB issued two exposure drafts - one on the general requirements of sustainability reporting and one on climate-related disclosures. The standards will likely be finalised by the end of 2022 with exposure drafts for subsequent standards expected to be issued in the second half of this year
- Globally we are seeing stakeholders including regulators, investors, finance providers, customers, brokers and reinsurers expecting progress on ESG. Insurers need to demonstrate

compliance and action

- Continuing calls from investors, NGOs and society for insurers to remove support/financial services from significant carbon emitters. Many of the larger insurance companies in Australia have committed to not invest in or insure any new thermal coal projects and phase out insurance of and investment in exiting thermal coal clients by 2030. Some have extended this moratorium to oil and gas exploration.

How insurers can respond

- Appoint C-suite ESG role to lead change and integrate ESG into enterprise-wide strategy
- Establish governance framework with clear allocation of roles and responsibilities with Board reporting and oversight
- Report exposure to and strategic response to climate risk under TCFD recommendations when reporting in preparation for the ISSB's Final Standards which will most likely be finalised later this year

- Consider climate risk and carbon exposure across investment portfolios. Set carbon emissions targets across portfolios that are aligned to Science Based Targets initiative and consider applying negative screens for high carbon emissions intensity investments
- Insurers will need to source new data and develop modelling and analytics tools to integrate ESG issues into decision making and risk management processes.

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