Actuaries Institute Podcast
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Introduction:

Win-Li: Hello, and welcome to the Actuaries Institute podcast. This episode is part of the Practice Update series, and we'll bring you the latest news and developments from the Institute's General Insurance Practice Committee, also known as the GIPC. My name is Win-Li Toh and I am the Convenor of the GIPC. And today I'm joined by Estelle Pearson, who is also a member of the GIPC. Hi, Estelle.

Estelle: Oh, hello, Win-Li, and hello everyone else.

Win-Li: Our plan today is to chat about what's on the GI landscape, some of the topical issues and what GIPC has been doing over the past year, both in contributing to wider policy discussion, and also to support our membership in helping insurers navigate these interesting times. And my goodness, what interesting times and what a big year it's been. So, let's look back and see.

Win-Li: First of all, last year we had the Financial Services Royal Commission, that's the Hayne Royal Commission, reporting at the beginning of last year. And then we had the flurry of regulatory change that followed that and a huge cultural shift in the way insurers deal with customers. And then not so long after we had unprecedented summer bushfires affecting lives and livelihoods, and now we've barely taken a breath and we find we're in the midst of a global pandemic, COVID-19. So, let's take a step back and start with the regulation piece arising from the Royal Commission.

Win-Li: Well, to insurers' relief, the government announced in May that it will defer implementation of most of the commitments for at least six months because of COVID-19. So, shifting most of insurers obligations from around early mid to later in 2021. This is except for the treatment of vulnerable customers, of course, and the hardship provisions of the general insurance code of practice. These were fast tracked because of COVID-19.

Win-Li: But the thing to note is that the six month extension is not for us to sit on our laurels, the regulatory changes are not just about legal and compliance, they involve many operational changes, including to product, claims and with IT implications and training of staff and

so on. So, insurers will definitely need that six, extra six months to get ready. So, at the center of these reforms are the new design and distribution obligations, or we all know them as DDO. So, Estelle, what are your thoughts on the DDO?

Estelle: Well, thanks, Win-Li for asking me that because as you know at the Actuaries Summit, I had the pleasure of chairing a plenary session that involves Karen Chester, the Deputy Chair of ASIC. And she described DDO and other three letter acronym 'PIP', the product intervention powers, as the two bookends of ASIC's regulatory approach. And I guess by that, what she meant was that DDO really provides the product governance framework for insurers.

Estelle: So that's sort of principles based, and that means that insurers need to establish these target market determinations. So, who is this product valuable to? Or maybe another way of thinking about is who isn't this valuable to, to align their distribution approach to that target market, and then to monitor and make sure that they're selling the product to people for whom it's valuable. So that's sort of principles base.

Estelle: And then at the other end of the, the books, the 'PIP'. She described that as the precision sniper in ASIC's regulatory arsenals. So, what that means is that ASIC can intervene directly on specific products that they're concerned about. And interestingly, she also said that all of the case studies that were looked at by the Hayne Royal Commission would have failed DDO. So, I guess that's why that's so such an important part.

Estelle: And I think the other thing that was for the profession that was encouraging was that she talked about the role that Actuaries could play, because one of the things that she did say was that one of the things that's lacking for insurers is data and really good reporting on the right sorts of measures. And so, I think, well, she thought that there was a great role for the profession in terms of measuring consumer outcomes, as opposed to financial outcomes as part of that whole DDO regime. So, I thought that one was a really interesting take on the regulatory changes, but also encouragement for the profession. But on the whole regulatory change area, has the Institute been busy? What's the Institute been doing about that? Have they been putting in submissions about all of this?

Win-Li: **Oh yes. Yes, yes, indeed. We've, or the Institute via the GIPC has made some submissions in relation to the regulations on the duty not to make misrepresentations to the insurer. So, shifting the balance of power from insurers to consumers, and also on the unfair contract terms legislation. So, in general, I would say the Institute are very supportive of the intent of the regulations, which is to protect vulnerable consumers. So, our submissions focus really on ensuring there's no unintended consequences in the way the legislation is framed.**

Estelle: So, laws that may mean the average customer is better off, but which inadvertently make things less available or even unaffordable for those at the edges. So, for example, people who live in higher risk areas such as bushfire prone areas. So, we've got really one or two chances to get this right. So, submissions really focus on how these laws are framed.

Win-Li: So, talking about bushfire prone areas, let's move onto bushfires. We get bushfires every year in Australia, don't we? I mean, it's part of the regeneration of the Australian bush. So, Estelle, what's different about this year's?

Estelle: Well, Win-Li, I mean, I guess it was just the scale of the bushfires, as you say, we have bushfires every year, but the scale of this current or the last bushfire season was just larger than we'd ever seen before in Australia. And of course, it wasn't just the bushfires, the bushfires were followed by storms and hailstorms. And I think overall general insurers paid about $5 billion in losses across all of those events which occurred over about a three-month period of time. And I guess that's made people change their views of bushfire and bushfire risk and what that means for the community and for Australia.

Estelle: And so, we've had two inquiries, the New South Wales bushfire inquiry, and also the Royal Commission into Natural Disaster Arrangements. So, the bushfire inquiry has already handed down its recommendations. They made 76 recommendations at the end of July. And I think very pleasingly that that inquiry really recognise the impact that climate change is having on the severity of events.

Estelle: And of course, many of the recommendations were around resources and equipment and hazard reduction and emergency response. But there were also some recommendations that I know would really resonate with Actuaries around using data and technology to better understand and mitigate risk, and also in building better resilience through better land planning and management. And one of the recommendations suggested the use of premium subsidies, for example, to provide a financial incentive for individual property owners to mitigate their bushfire risk.

Estelle: And I mean, I guess again, the concern and you've already noted it before, but the concern of course will be about the affordability of premiums for those people living in bushfire zones. And I don't think that the Institute made a submission to the New South Wales inquiry, but they did to the Royal Commission, what were the main points made in that submission?

Win-Li: Yes. Our Climate Change Working Group put together submission that discussed natural disasters in Australia, as well as the change in climate. And they looked at the affordability of insurance and health impacts as well. And their focus was on building resilience rather than mopping up afterwards. So, prevention rather than cure so to speak. Our Climate Change Working Group led by the Sharanjit

Paddam also was invited to present to the commission in person, which was really good.

Win-Li: **So I think with the ability of insurers to price risk better these days, for example, insurers know exactly where high flood or bushfire prone areas are for example, there's sort of a greater visibility and awareness of the real risks and vulnerability of people in these areas. So rather than cross subsidising high risk areas with higher premiums for the lower risk customers, say, I think this is a really good opportunity for government and the private sector to work together, shore up our resilience in these areas rather than wait for the floods to wash everything away every few years and having people's property, not to mention lives ruined.**

Win-Li: **So rather than just charging more money for these high-risk areas I think there's a great opportunity to work together to know where these areas are and for government to work with the private sector to shore up resilience. So, these summer months had barely ended, and we hadn't even yet caught our breaths, and in February we hear of a pandemic ravaging the globe. So, let's turn to COVID-19. Estelle you're on the COVID-19 Working Group for the Actuaries Institute. What has COVID-19 meant for the GI industry?**

Estelle: Well, yeah, I guess in terms of thinking about the GI industry in terms of say operations, it seems like insurers were generally able to get back to sort of normal service “in inverted commas” quite quickly as we moved into lockdown. And I think there were a few hiccups, but those seem to get sorted out fairly quickly. But in terms of financial impacts so far, the impact seems to me anyway, to be more longer term and on the top line rather than the bottom line.

Estelle: So obviously there have been some COVID related claims under landlord's policies and trade credit, and some event cancellation, not a lot here in Australia, and of course travel. But I think insurers here and around the world really generally introduced pandemic exclusions after SARS back in the early 2000s or mid 2000s highlighted that these kinds of pandemic events just aren't insurable. There's no diversification.

Estelle: Of course, we've also seen some workers' compensation claims and I'm thinking there we'll probably end up seeing a bigger impact so far in Victoria, given there have been a number of work-related outbreaks in abattoirs and aged care facilities and hospitals. And I guess for the insurers, the most uncertain and probably the contentious area in the area, that, I think beeen very difficult, not just here but around the globe is business interruption.

Estelle: So, we've got a test case that I think has started, or is just about to start on whether exclusions for business interruption losses which cite the Quarantine Act, which was repealed and replaced by the Biosecurity Act, whether those exclusions are valid. So, I think that will take... I mean,

obviously they'll have to be that case and then it might take even longer for that to play out.

Estelle: I think from a premium perspective and, Win-Li, when you and I were poring over the APRA statistics on the weekend in preparation for this, we saw that there had been a real impact on June quarter premiums for insurers, particularly for motor and workers' compensation. And I think in the longer term, it's going to be more difficult to get premium increases in an economic environment that's going to be challenging and where people are going to be questioning value.

Estelle: And obviously on the commercial space we've been seeing some really strong and much needed rate increases before COVID particularly around property and D&O. But I think it's sort of now more uncertain about to what extent those will continue as a lot of businesses are under some significant stress as we look out to the future.

Estelle: And I know obviously for actuaries, it's been challenging sort of dealing with the discontinuity in experience with something like COVID. And, Win-Li, I know that you had the pleasure of having some March year-end clients and so you were in the middle of your work when COVID really hit in Australia. So how did you find that?

Win-Li: Well, it was certainly a challenge dealing with information that's changing on a daily basis when I was trying to do the AVR and writing the FCR at the same time. So quite early on, I mean the GIPC saw a need to support our members in the same position. So, what we did was we quickly put together an Insights Session for appointed Actuaries at the Institute in around mid-April.

Win-Li: We had a lot of positive feedback from that session actually. People appreciated the opportunity to share their thoughts on how to deal with the discontinuity and really the situation that kept or shall we say keeps evolving daily. So, it was a really good opportunity, and everyone really shared their thoughts. And I think everyone came away better for it. If only to know that some things really needed time to work through.

Win-Li: Estelle, as I said, you're the GI representative on our institute's COVID-19 Working Group, perhaps you can talk a little bit about the efforts that GIPC working group did to help our members navigate COVID-19. So not just that first Appointed Actuaries iInsights, but I know that we've done quite a bit to help our members provide good sound advice to insurers in this climate.

Estelle: Yeah, that's right. And I think, after we had that first session, we sort of quickly realised that there were sort of different impacts on different classes of business and in different areas that the Actuaries were needing to think about. So, we identified what we thought would be the biggest areas or highest priority areas and set up deep dive working groups. And

so that covered business interruption, CTP, landlords, travel, workers' compensation, risk margins, capital, and non-financial risk. And we really had a tremendous response from members volunteering to lead and participate on those groups. And we had another Insights Session in May where those groups all presented their initial thoughts and ideas and issues around the aspects they were looking at. And then that was followed up by another insight session by the risk margin group, and more detailed briefing notes on business interruption, CTP, non-financial risk, and stress testing and capital.

Estelle: Everyone was sort of trying to get those notes and everything out before or just after that 30th of June period to help our members in a timely way who were looking at 30th of June year end where obviously a lot insurers report on 30th of June balance date. So, look, lots and lots of activity around COVID. And I think some of those groups got a sort of a watching brief and I'm assuming we'll hear more from them as things continue to evolve and we understand more.

Estelle: But I know that that's not all GIPC's been doing. So, looking ahead and looking more generally, what's GIPC been up to and what are GIPC's focuses for the next year?

Win-Li: Yes, I agree with you. Our focus on COVID in the last few months can make us easily forget we actually have a number of key areas to tackle. So, the GIPC met together towards the end of last year and identified a number of key focus areas. And we've got a member of GIPC tasked with leading each area. So, I'll just list these focus areas. They are data driven decisions. That's led by Chris Dolman.

Win-Li: This is a very active area,and Chris was recently awarded an Institute Volunteer of the Year Award, which we were very happy with and well-deserved. And he currently has a draft information note out to Actuaries to provide guidance on applying ethics frameworks to automated decision making. So that's a good one. And hopefully everyone has a look and may provide some feedback.

Win-Li: Other focus areas that we have are emerging manmade risks and opportunities, pandemics and cyber risks, for example, fall all in this focus area. And that's led by Tim Clark. And then we've got climate and weather led by Yifan Fu. Policy and standards led very ably by Susan Ley. Emerging insurance regulations. That's been a very busy one too, with the Royal Commission outcomes. That's been led by Mat Ayoub. Personal injury and health led by Arie van den Berg. They see this as an area where members have really sought our input and which we, I think, need to expand over the next year.

Win-Li: We found when we did the workers' comp and for example, the CTP deep dives, there were a lot of members who were really, really interested in these areas. And it's almost a whole area in itself. So, we'll be looking to develop this area further over the next year. And

then there's research and innovation led very well by David Koob. He has done a lot in building relationships and working together with universities and carrying out research with the Institute in general insurance. And then there's education led by Melissa Yan. She's currently garnering people to help review course notes for our new syllabus. So, any volunteers listening to this podcast are most welcome to help with that. And we have two more areas where we are about to appoint some new leads that's in CPD and seminars and to be the editor for *Actuaries Digital*.

Estelle: And, Win-Li, in each of those areas, is there a group of people sitting below those leads? So, like if people want to get involved do we have subgroups don't we?

Win-Li: **We do. So, we have sub committees and what we call working groups. So, tackling individual areas of interest for each of those groups. So again, we're always looking for people to help out and there's lots, lots of really, really different areas of interest. Anything that you'd find something that interests you for sure. So please do get involved. You can get a lot out of it as I've noticed myself as well.**

Win-Li: **So, our newest members, David Jenkins just joined our group as well. And we have Vanessa Beenders is our Institute liaison. And also, David Whittle is our council liaison. I think the GIPC has a really good mix of people at the moment. We've had half the people in the GIPC have been there for a number of years and half of us have just joined this year, myself included. And I've only joined and led the GIPC for seven months myself.**

Estelle: It's been a very interesting seven months or so, Win-Li. So, what are your reflections on that experience so far?

Win-Li: **Goodness. When I first started leading the GIPC little did I know that I'd probably have to give up my day job. No, I'm just kidding. I'll tell you really what's really made me proud to be in this profession and call myself an Actuary. That's my experience in the last seven months. Whenever we've called for help, as we've done in all the various working groups and for help to review course notes or new professional standards or the COVID group as you've seen, so many people of our members, so many people from people who are experienced actuaries to new analysts, they've all been willing and happy to give their time and share their knowledge to help us all do our jobs better.**

Win-Li: **If I could have given a volunteer of the year award, I would have given it to everyone in the Institute. But I think the Institute won't have enough bottles of champagne to go around. So how wonderful is that?**

Estelle: It's great. And I think that seems like a great note to finish on.

Win-Li: I agree. So, in any case, that's all we have time for today. So, listeners, Estelle and I hope you've enjoyed this discussion. If you have any questions or comments, please feel free to send them our way. Thanks for joining our podcast today, Estelle.

Estelle: Thank you, Win-Li. It's been great to chat.

Win-Li: Yes. I'm Win-Li Toh, bye for now.