

Non-confidential summary of IAG and RAC's claimed public benefits associated with the Proposed Transaction: non-confidential summary provided by IAG and RAC

Note: this is not an ACCC document and does not express ACCC views

- 1 Insurance Australia Group Limited (**IAG**) and RACWA Holdings Pty Ltd (**RACWAH**) are proposing to enter into a strategic distribution alliance under which IAG will underwrite RAC Insurance Pty Limited's (**RACI**) general insurance products and RACWAH will continue to distribute, market and sell insurance products to RAC members in Western Australia. IAG will acquire the general insurance business conducted by RACI from a wholly owned subsidiary of the Royal Automobile Club of Western Australia (**RAC**) and enter into a 20 year distribution agreement with RACWAH (the **Proposed Transaction**).
- 2 IAG seeks an acquisition determination from the ACCC that the Proposed Transaction would be of net public benefit. The Parties consider that the Proposed Transaction will deliver a substantial public benefit that outweighs any public detriment that may arise including from any lessening of competition.

Background

- 3 RACI is the insurance business of RAC. RAC is a member owned organisation with a large membership base and diverse activities, and it exists for the benefit of its members. Through its commercial subsidiary, RACWAH delivers services including roadside assistance, auto services, travel and tourism, security, financial lending services and retirement living.
- 4 The Proposed Transaction would allow RAC to stay focused on its member services and further elevate its work in the community, while ensuring the insurance offering remains strong, sustainable and resilient for the future.
- 5 As a single-state insurer, there are limits to the scale and capability RACI can build on its own. While RAC has continually fine-tuned and improved its insurance business, the changing risk and regulatory environment has now shifted to a point where RAC considers that partnering is in the best interest of its members and people.
- 6 Insurance plays a critical role in economic resilience by absorbing the financial consequences of large loss events. Insurers face rising claims and operating costs driven by increasing frequency and severity of events, increasingly onerous and complex regulatory regimes and capital requirements to protect members against large or unexpected claims, inflationary risk and growing geopolitical risks. The repercussions of these trends extend beyond individual policyholders and are capable of affecting the resilience of insurers, the affordability and availability of insurance and the broader financial system. It is in the context of this changing insurance landscape that the Proposed Transaction has been entered into.

Public benefits

- 7 The Parties submit that the Proposed Transaction gives rise to substantial public benefits. The public benefits can be characterised in four categories:
 - (a) benefits to RACI and IAG, their policyholders, RAC members and IAG shareholders through substantial productive efficiencies and elimination of duplicated costs by leveraging IAG's existing capabilities;
 - (b) benefits to RACI policyholders and the general public from enhancing the financial and prudential resilience of RACI by integrating into an ASX listed, diversified national insurance organisation;
 - (c) benefits for RAC members and the broader Western Australian community, including:
 - (i) enhanced investment in community and members, from RAC being able to focus on its core activities and use the proceeds from the sale to invest and expand on its

community initiatives without the cost and risk associated with underwriting the insurance business; and

- (ii) long-term investment in the safety and resilience of Western Australian communities by IAG's investment in Western Australia, including:
 - (A) enhancing road safety through access to a package of IAG's initiatives tailored for Western Australia;
 - (B) strengthening community resilience to natural hazards through expanded disaster preparedness, mitigation and recovery initiatives;
 - (C) supporting skills development, workforce capability and innovation across Western Australia through targeted funding, training and industry partnerships; and
 - (D) accelerating innovation and the transition to a more sustainable future through investment in emerging technologies such as electric vehicles; and
- (d) benefits for RACI policyholders through access to broader claims handling, major natural peril event response, improved technology and other capabilities that IAG offers as a larger insurer with access to greater resources.

8 These benefits are explained in more detail below.

The Proposed Transaction benefits RACI policyholders, RAC members and IAG shareholders through substantial productive efficiencies

9 The Proposed Transaction is expected to generate substantial efficiencies and cost savings, representing a significant quantified benefit assessed over both the medium and long term. These benefits are expected to arise from:

- (a) **reinsurance synergies**, reflecting IAG's scale, geographic diversification and established reinsurance arrangements;
- (b) **claims cost synergies**, resulting from the application of IAG's advanced fraud detection, analytics and claims optimisation capabilities to the RACI business; and
- (c) **operating expense synergies** generated through optimising operations and technology platforms.

10 While the Proposed Transaction will involve integration and additional costs, these are finite, front-loaded and substantially outweighed by the recurring efficiencies expected to be generated by the transaction.

11 These synergies are expected to flow through to policyholders and absent the Proposed Transaction, would not be realised.

The Proposed Transaction benefits RACI policyholders and the Australian public by enhancing the resilience of RACI

12 RACI – unlike its competitors – faces a concentration risk: it supplies insurance products in Western Australia, more specifically in the southern part of Western Australia, and a high proportion of its policyholders are located within the Perth Metropolitan Area. This means that a single event affecting Perth could generate claims from a very large proportion of its customers. RACI's small size but high concentration impacts the amount of capital RACI is required to hold. As a regulated insurer, RACI has intensive demands for capital for both regulatory and strategic purposes. However, RACI as part of a member based organisation has more limited access to equity or debt capital markets compared with listed entities.

13 Unlike RACI, RACI's main competitors all either have a listed parent company or extensive diverse operations across Australia and globally. The ability to raise capital, particularly in the aftermath of a catastrophe event, is significantly enhanced where insurance businesses or their parent companies are listed and diversified. As a large national or multinational insurer, the benefits of diversification mean that capital demands are lower because a catastrophe in any one location impacts a relatively

smaller proportion of the insurer's risk portfolio. IAG, as a listed entity, has a proven track record in raising and managing capital.

- 14 The Proposed Transaction will also improve the reinsurance program for RACI. Reinsurance allows insurers to transfer a portion of its risk exposure to other insurers (ie, the reinsurer) to limit losses from high-severity, low-frequency events. Reinsurance is generally more efficient when risks are diversified across broader portfolios and geographic regions. Post-Proposed Transaction, RACI's business will be integrated into IAG's group substantial reinsurance program, enabling RAC to benefit from IAG's greater arrangements.
- 15 The benefit of enhancing the resilience of RACI is important due to RACI's risk and perils exposure. RACI faces the following risks: (a) exposure of its Perth-concentrated portfolio to earthquake in the Southwest seismic zone; and (b) the capacity of clustered weather events to consume capital.
- 16 Earthquake is a key natural peril risk for Western Australia. With the growing population and expansion of the metropolitan area in recent decades, damage of a significant and catastrophic scale can result from an earthquake in Perth.
- 17 The insured cost of extreme weather events in Australia is also rising, and insurers are facing rising claims and operating costs. Insurance is necessary to absorb the financial consequences of large loss events, however insurers face significant uncertainty in managing these risks.
- 18 Smaller, state-based insurers (of which only two remain in Australia being RACI and RAA Tasmania) are less able than larger, more diversified insurers to absorb these pressures. There is a material public benefit in strengthening RACI's ability to withstand the increasing frequency and severity of catastrophe losses and associated volatility in insurance markets to support sustainability of the insurance offering to West Australian consumers. The Proposed Transaction is expected to materially improve RACI's access to capital, particularly following major peril events and deliver the benefits associated with that improved access to capital.

The Proposed Transaction benefits members and the Western Australian community by enabling RAC to focus on and invest in its other activities

- 19 A sale of the RACI underwriting business to a dedicated insurance group while retaining RACWAH's right to distribute insurance products under a long term Distribution Agreement would provide for a less volatile income stream and enable RAC to focus on its community based initiatives
- 20 As RAC is a member-owned organisation whose purpose is to serve its members and the Western Australian community, all benefits that accrue to RAC as a result of the Proposed Transaction support RAC's member and community objectives in Western Australia.
- 21 Regulation of insurers has increased, and larger insurers are better placed to spread and absorb these costs.
- 22 As regulatory requirements continue to increase, this will place greater pressure on smaller, local insurers such as RACI. Compliance costs that a state-based insurer bears alone, and that an integrated national group spreads across a much larger policy base, is a real resource cost. This can be contrasted to the placement of RACI within IAG, a group whose board, executive and infrastructure are focussed on insurance. To the extent that integration into IAG's group compliance framework reduces RACI's risk and compliance costs, those savings represent a public benefit that are expected to be passed through to consumers.
- 23 RAC also intends to reinvest the proceeds of the Proposed Transaction in the Western Australian community. Some of these initiatives include:
 - (a) **investing in additional driver safety programs** targeting reduction in young people being killed or seriously injured on Western Australian roads;
 - (b) **investing in Western Australian jobs and tourism**, including through developing its Parks & Resorts business to build a network of regional accommodation options.
- 24 The Proposed Transaction will also facilitate significant investments in the Western Australian community by IAG. Some of these initiatives include:

- (a) **increasing road safety in Western Australia**, including through deploying telematics capabilities under the Safer Journey's program, sharing road-use data with the Western Australian Government to support road safety interventions and supporting driver training programs, particularly in regional and Indigenous communities in Western Australia;
- (b) **expanding mitigation pricing capabilities to RACI customers**, such as through the Bushfire Resilience Rating program;
- (c) **implementing community disaster preparedness in Western Australia**, including through bringing IAG's programs and initiatives to Western Australia to educate communities about local severe weather risks and help households prepare for extreme events such as bushfires, floods and storms;
- (d) **improving local skills development, training and employment in Western Australia**, including through establishing TAFE and trade pathways for motor vehicle trades, sponsorships and regional apprenticeships aligned with Western Australia's employment needs;
- (e) **facilitating the transition to electric vehicles in Western Australia** by improving electric vehicle safety, risk management and research in WA and accelerating the development of specialised electric vehicle repair in Western Australia; and
- (f) **innovation funding investments**, ensuring investment in innovation and growth initiatives connected with the RAC and IAG relationship in Western Australia.

24.2 The Proposed Transaction will therefore have a significant and enduring investment impact across Western Australian businesses and community initiatives.

The Proposed Transaction benefits RACI policyholders through access to technology and other enhanced capabilities

- 25 As a state-based insurer, RACI faces scale and geographic concentration limitations that constrain its ability to expand claims handling following a catastrophic event. It is expected that the Proposed Transaction would improve RACI's ability to support customers during these periods by providing access to IAG's broader retail claims handling function, including increased claims handling personnel, together with IAG's crisis management capabilities and broader network of assessors, builders and repair providers. Because of IAG's diversification and greater scale, it is also expected that RACI's catastrophe response would be enhanced and policyholders will be supported more effectively and with greater efficiency during times of heightened stress.
- 26 IAG has made a significant investment over multiple years in uplifting its digital systems to the Enterprise Platform, a unified solution for claims and policy management. Under the Proposed Transaction, RACI will benefit from IAG's digital systems, including its IAG's claims handling, digital services, online platforms and self-service tools. It is expected that this migration would deliver material public benefits for RACI's policyholders, including faster and more automated claims handling, a significantly enhanced digital customer experience and strengthened cyber resilience and regulatory compliance, without the expense that RACI would incur. By migrating RACI onto IAG's Enterprise Platform, policyholders will benefit from the digital investment IAG has made.
- 27 Additionally, RACI does not offer home and contents insurance north of the 26th parallel due to cyclone risk. The Proposed Transaction will introduce the RAC-branded home and contents insurance products in mainland WA above the 26th parallel as an additional, genuinely distinct product offering for consumers. Given climate change considerations and the growing climate peril challenge IAG can spread risk across the country as it is a national insurer and has access to external capital markets enhancing its ability to raise capital quickly following major catastrophe events.

The public benefit outweighs the public detriment

- 28 The Parties consider that the Proposed Transaction will result, or be likely to result, in a public benefit that will outweigh any public detriment.
- 29 While the ACCC's determination is that the Proposed Transaction will substantially lessen competition, the parties do not accept the ACCC's assessment of the degree or extent of that lessening of competition, which the Parties consider overstates the competitive effects of the Proposed Transaction. There are a number of strong national insurers present in WA that consumers can switch to, and whose presence has increased in Western Australia during the period of consideration of the Proposed Transaction. Further, RAC's continuing involvement in the pricing, quality and positioning of RAC-branded products will also limit any adverse effects on competition.
- 30 The substantial and enduring benefit to RAC members and RACI policyholders, IAG shareholders, Western Australians and the broader Australian public, outweighs the potential public detriment.

The proposed remedy package

- 31 This application is also supported by a proposed section 87B undertaking for 10 years offered by IAG, which contains a package of commitments directed towards addressing potential ACCC competition concerns and securing key public benefits arising from the Proposed Transaction. The key commitments include:
- (a) **Divestiture:** IAG must divest to an ACCC-approved purchaser the renewal rights in respect of the active NRMA home and motor insurance book in Western Australia and, at the option of the purchaser, the SGIO brand.
 - (b) **Competitive outcomes:** IAG must comply with key competitiveness, benchmarking, pricing consultation and termination provisions in the Distribution Agreement. As an enhancement since the ACCC's Phase 2 review, certain key termination rights relating to competitiveness and RAC brand protection will be brought forward from eight years to three years after commencement of the Distribution Agreement. For the term of the undertaking, IAG cannot amend those protections without ACCC approval, and any amendment must also be made in accordance with the Distribution Agreement, which cannot be amended unilaterally by IAG. Thereafter those provisions, as with all provisions in the Distribution Agreement, may only be amended by agreement between the parties to the Distribution Agreement.
 - (c) **Smash repairer access and conduct:** IAG must not impose exclusivity, preferential dealing or other restrictions that could limit competing insurers' access to specified regional WA smash repairers. IAG must also comply with the Motor Vehicle Insurance and Repair Industry Code of Conduct in its dealings with smash repairers in Western Australia.
 - (d) **Minimum service standards:** In addition to the protections contained in the Distribution Agreement, IAG must maintain a Western Australian contact centre and use reasonable endeavours to maintain claims service standards for RAC-branded motor and home insurance in Western Australia.
 - (e) **Expanded insurance availability:** IAG must make RAC-branded home and contents insurance available for eligible homes located north of the 26th parallel in mainland Western Australia within 12 months after completion of the Proposed Transaction and maintain that offering for the term of the undertaking.
 - (f) **Western Australian Community Fund:** IAG must establish and fund a dedicated Western Australian Community Fund supporting road safety, community resilience, skills development, electric vehicle initiatives and other community programs in Western Australia.
 - (g) **Compliance and oversight:** IAG must appoint a Compliance Officer and an ACCC-approved independent auditor to monitor compliance with the undertaking and provide regular reporting and audit oversight to the ACCC.