23 October 2023

RACQ GROUP CEO AGM SPEECH

The events of the past few years have been some of the most defining in RACQ's history.

RACQ is building a more purposeful and resilient business and I want to assure you our commitment to our members remains at the core of everything we do.

FY23 performance

Turning now to an overview of our results, this year the Group recorded a net surplus after tax of 7.4 million dollars.

This reflected the challenges of the current operating environment and included the provision of 16 million dollars for our investment in transforming the organisation's risk management culture, processes and systems, and an increase in our pricing promises-related provision of 19 million dollars.

Our Insurance and Bank businesses hold capital well in excess of board targets, providing a strong buffer given our risk environment.

Our withdrawal from the Queensland Compulsory Third Party insurance scheme further strengthens our capital position and I'll discuss this further as I go through the Insurance results in more detail.

Insurance

Our Insurance business reported an after-tax profit of 31.9 million dollars driven by strong gross written premium, lower natural hazards costs, improved underlying claims cost performance, a more normal year of returns on investments, and the benefits of our CTP Loss Portfolio Transfer arrangement.

Our core portfolios of home and motor reflected the impact of premium increases, with gross premium revenue up 14.3% to 1.2 billion dollars and our market share in Queensland remained steady – RACQ is number one in motor and two in home.

In late June, RACQ concluded its Loss Portfolio Transfer arrangement which effectively transfers most of the claims liability risk in our CTP portfolio to a third party and brings much higher certainty to the future results from that portfolio.

We were also pleased to finalise our FY24 reinsurance program which was within our capital and cost expectations.

Insurers like RACQ are now experiencing significantly higher reinsurance costs as reinsurers reassess and price for the increased risk of natural disasters.

This, combined with high inflation, government taxes and levies on insurance products, and increasing claims costs, has led to the high insurance premiums across the industry.

In fact, consumers are being double taxed on their insurance premiums because of the unfair and inefficient state taxes and charges, where stamp duty is charged on top of the GST.

When premiums increase, there's a 20 per cent additional cost for GST and stamp duty.

Multiple reviews have criticised these taxes and we continue to urge state and federal governments to remove these inefficient taxes to improve the affordability of insurance.

Further to what I have outlined as key drivers of escalating insurance premiums, for our home portfolio in FY18, claims cost made up 40.1% of our premium earned, and in FY23 this now equates to 50.4%.

Reinsurance costs have escalated as a percentage of our premium earned across this period from 27.1% to 29.9%, while our operating expenses have reduced from 16.5% to 15.3%.

Reinsurance shares the claims cost, and to understand the full impact of claims inflation, claims and reinsurance costs can be added together. So over the past 5 years, claims costs have risen to 80% of premiums, from 67% in FY18.

In our motor portfolio, claims cost as a proportion of premium earned has escalated from 75.8% to 80.4%, reinsurance costs from 3.5% to 5.8%, with our operating expenses remaining flat at 13.4% to 13.3%.

Profit margins across both portfolios have reduced over this period from 16.8% to 5.8% in Home and 7.9% to 2% in Motor.

We also recognise there are other cost of living pressures resulting from high inflation. We continue to try and balance the rising cost of claims with affordability for members.

We understand the impact any price increase can have and we encourage you to please reach out if you are experiencing financial hardship.

We also continue to look for ways to drive greater efficiencies and improvements across our business, including improvements to our technical pricing, underwriting, distribution and claims management capabilities.

We have recently improved the accuracy of how we price peril risks such as floods, fire and cyclones. This will result in some premiums being cheaper and others will increase, depending on a member's individual address and risk profile.

We are contacting members to ensure that the information we have on their individual property is correct. This allows us to make sure we pass on the most accurate premium.

Advocacy also has a role to play when it comes to reducing the price of insurance premiums – for example, in response to the historic February 2022 floods, we partnered with the Federal and State Governments to deliver the insurer element of the Resilient Homes Fund.

The program enabled flood-impacted homeowners to undertake resilience works at the same time as their insurance claim repairs.

This work is critical to building more resilient communities – by reducing the risk we can reduce our premiums.

As I mentioned earlier, after 20 years of helping injured people on our roads, we made the difficult but necessary decision to withdraw from Queensland's Compulsory Third Party insurance scheme.

This decision, which came into force on the first of October, only affects RACQ CTP insurance policies - paid with your vehicle registration. Our suite of motor insurance products remain unchanged.

I want to emphasise that our CTP losses do not relate to our high standard of claims management performance - put simply, the money we are allocated from the CTP scheme is not enough to cover the frequency and cost of claims that we receive.

I would also like to update you on our refund program in relation to the pricing promises review, which identified members who did not receive the full benefit of discounts.

Up until 18 October, we have processed more than 28 million dollars to eligible members across 240,000 motor policies, with several million dollars being paid each week now.

Finally, as expected, ASIC launched a Federal Court action against RACQ and we have admitted that the Product Disclosure Statements could have been misleading.

We have provisioned for an estimated penalty and related costs in our full-year results.

Assistance

Our Assistance portfolio delivered a 40.1-million-dollar profit in FY23, with the automotive businesses experiencing strong growth in our auto glass, batteries and vehicles inspection services.

The demand for travel and travel insurance also increased with more of our members travelling overseas for the Northern Hemisphere summer.

As part of our strategy to meet the changing mobility needs of our members, we marked the biggest change in our roadside assistance history with the launch of a new suite of products providing members with cover for all their mobility devices.

RACQ became the first roadside assistance provider in the country to cover everything from e-scooters to vehicles up to eight tonnes.

Following the Club's investment in GEM Energy, we also launched RACQ Solar, a key addition to our commitment to deliver products and services that will help Queenslanders live more sustainably.

While it has been a challenging start for the residential arm due to labour shortages, the response from our members and the Queensland community has been positive.

Bank

RACQ Bank continues to positively support the Group's overall performance, recording a net profit after tax of 5.7 million dollars.

This is the Bank's third consecutive profit which was driven by balance sheet growth and a 13% increase in its net interest income to 56.7 million dollars.

The Bank remains well positioned to manage the inflationary cycle, with a good quality book, low arrears, low high-LVR lending and competitive product suite.

We recognise the rapid series of RBA rate rises impacts members in different ways.

Following its October decision to increase rates, the Bank did not pass on the full rise to our home loan members and in November, we extended the effective date for the rate change to give our members more time to prepare for the change.

The Bank has lifted deposit rates and has some of the best rates in the market through the Bonus Saver and Term Deposit products.

During the year we entered the broker market, giving more choice and flexibility to members applying for a mortgage.

It was terrific to see the Bank receive industry endorsement with 17 awards including Canstar's Outstanding Value – Personal Loan category and Green Award for our Green Home Loan.

Advocacy

RACQ continued to be a leading voice for our members, advocating on issues to help them live and move safely, securely and sustainably, while preserving Queensland's liveability.

For example, at a time of record fuel prices, in the downloads of our Fair Fuel Finder App in August increased a massive 74% increase. We now have 70,000 active users on the app and our members can access discounts from participating Caltex and Puma service stations.

The importance of our advocacy efforts was again reinforced when Queensland recorded 297 deaths last year – the worst road toll in 13 years.

This devastating result led to the State Government's Road Safety Roundtable in which RACQ was invited to participate.

It was great to see the State Government adopt our recommendation for more peer-to-peer road safety initiatives with the introduction of Ride to Zero.

We will continue to raise awareness of the importance of road safety and our recent and innovative Blooms for Blokes campaign is a good reminder of why it's important to stay safe on our roads.

Our people

RACQ remains firmly committed to providing an organisational culture and workplace that supports our people and promotes diversity and inclusion.

Women make up 63% of executive roles and more than 53% of all leaders in the organisation.

As part of our diversity and inclusion strategy, we launched a suite of new and enhanced entitlements for our people to provide greater flexibility and support.

Our EnAble employee resource group was also created to support our people who have lived experience with a disability.

Our staff are just so passionate about our members and the Queensland community, and most of our members in return are fantastic to deal with.

Unfortunately, we have observed an increase in aggressive and inappropriate behaviour by a very small minority of members. We take the health and safety of our staff seriously and we don't tolerate poor behaviour.

In closing

I am as proud today as when I joined the organisation. RACQ is filled with good people, doing good things.

Our club makes a significant contribution to our members and communities right across Queensland. I want to thank our people for what they do each day, and I want to acknowledge the work of the Chair and the Board over the past year.

And finally, I would like to thank our members for their continued confidence in our organisation. Without your support we could not help our communities or advocate on your behalf as we drive a positive future for all Queenslanders.

Thank you.