

**STANDING COMMITTEE ON LAW AND JUSTICE  
REVIEW OF THE LIFETIME CARE AND SUPPORT AND DUST DISEASES SCHEMES  
STATE INSURANCE REGULATORY AUTHORITY (SIRA)  
QUESTIONS TAKEN ON NOTICE – 28 JUNE 2017**

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**QUESTION 1**

***The Hon. LYNDA VOLTZ: How many instances have you had, say, over the past 12 months in which you have issued an official warning?***

***Mr NICHOLLS: I would have to take that on notice but we have had a number of inquiries in the current scheme. But I think the new scheme—***

***The Hon. LYNDA VOLTZ: Not inquiries—I asked how many instances have you had in issuing an official warning.***

***Mr NICHOLLS: I would have to take that question on notice.***

***Mr DAVID SHOEBRIDGE: What about a fine, a punishment or anything?***

***Mr NICHOLLS: We have certainly issued fines to insurers.***

***The CHAIR: You might take that on notice to give us information on that.***

***Mr NICHOLLS: I think I will take those on notice.***

***The CHAIR: It would be interesting to us.***

***Mr NICHOLLS: Yes. Absolutely.***

**Answer Q1**

From 1 July 2016 to 30 June 2017, SIRA issued 21 official warnings to insurers regarding claims handling and non-compliances. All insurers received at least one such warning. SIRA also issued financial penalties to two insurers (AAMI and GIO) relating to Medical Care and Injury Services (MCIS) levy payments.

**QUESTION 2**

***The Hon. DANIEL MOOKHEY: Drilling down further, have SIRA prepared projections as to how many cases you will be applying all this scrutiny and all these powers to, particularly a three-year review? How many people each year do you expect to have to be reviewing at that level of detail to make sure that insurers are not deferring their liabilities?***

***Mr NICHOLLS: The approach that we are taking is effectively to triage claims depending on the severity of the injury and if there are other signals at the point of lodgement of the claim. What we are moving towards is a system whereby all injury notifications will come to SIRA rather than go off to the insurer. So the first point of contact for the injured person will be through SIRA, which means we get the first ability to look at those claims and make an assessment. And then it is very much about triaging those according to how severe the injuries are, how long that might take, how likely it might be that due to the nature of this claim it might end up in dispute. And then it will be about developing different approaches. So this is a fairly standard approach. And icare is developing a similar approach with their support services so that effectively the bulk of people you would expect to come into the system will be dealt with quickly and appropriately and move out of the system.***

***It is more about providing them with support and information, but at the other—***

***The Hon. DANIEL MOOKHEY: I accept that and appreciate the elucidation of the process by which you would do this, but can you just give us the ballpark figures, either now or on notice?***

## **Answer Q2**

Any eligible Compulsory Third Party (CTP) insurance scheme claimant who passes the six-month threshold may make a claim for treatment at a later stage. There will be active claimants at the five year mark and passive claimants who have exited but may need to return later.

SIRA will use triaging to identify the claimants who have a greater likelihood of needing longer term treatment and the expectation is that these will be relatively easy to identify at the three year mark. By the five year mark SIRA will have clear indication of the remaining active claims to ensure they are being well managed.

Based on the Victorian volumes, and adjusted to a NSW basis, at five years SIRA, based on actuarial advice, expects to have 500 to 550 claims that are actively receiving some treatment and/or care at the five year mark. As noted above, however, any claim that gets through the six-month thresholds, being neither 'at fault' nor a 'minor injury', may apply for reasonable treatment and/or care at a later date.

icare is liable from the five year point and is expected, based on actuarial estimates, to be collecting a levy of approximately \$10.50 per policy, in the first year, and \$11.00 per policy after this to account for a maturing scheme. icare has a statutory right to recover funds from insurers in the instance where the insurer has not provided sufficient treatment rehabilitation and care during the first five years.

## **QUESTION 3**

***Mr NICHOLLS: Sorry, I perhaps misunderstood your previous question. No, there are costings around that. As we move into a new scheme where we have now effectively treatment and rehabilitation benefits for life, which I think is a really important aspect of this new scheme, we are breaking new territory. We are dealing with costings. Costings necessarily have their hypothetical assumptions behind them but those costings have been developed looking at the experience in other jurisdictions and applying those to the New South Wales situation. Off the top of my head—but I am happy to take it on notice—the estimate is something around a \$60 million impact.***

***The Hon. DANIEL MOOKHEY: On notice as well, can you also elucidate the level of dialogue you have with icare? It seems there is a bit of a discrepancy here with icare seemingly unaware of all these steps you are taking to mitigate the risk. It would be very helpful if you were able to provide that detail. We can put the same question to them about it so we are able to make sure that you are talking.***

***Mr NICHOLLS: Absolutely. I am very happy to take that on notice but I can assure you we have a very constructive and collaborative relationship with icare. We have had a number of engagements about this process. We have shared the costings with them. They are aware of the likely numbers that will be coming into that cohort and it is on that basis that they are developing the levy component that we talked about before. But I would be happy to give you more detail on notice if that is helpful to you.***

## **Answer Q3**

In relation to the CTP reforms, icare was consulted extensively in the development of the new legislation. SIRA is now working with all stakeholders, including icare, on a detailed implementation plan for the new scheme. SIRA has met with icare to discuss their responsibilities to claimants beyond five years. Substantial resolution of the arrangements will be finalised in the second half of 2017, noting that the new arrangements do not get implemented until 2022 unless earlier with the agreement of the insurer and LTCSA. SIRA will be establishing a working group, initially with icare, to develop guidelines and processes and information requirements.

More broadly, executive level meetings between SIRA and icare are scheduled on a bi-monthly basis as part of SIRA's Executive Stakeholder Program. These meetings provide an opportunity for the SIRA and icare executives to discuss respective work programs and priorities, SIRA's compliance and performance expectations and icare results. Additionally SIRA leaders in the areas of insurer performance, compliance, policy and premiums and

market practice, meet with their icare counterparts on both a regular and ad hoc basis, as needs arise.

SIRA places tremendous value in building and maintaining productive and effective working relationships with icare at executive and operational levels.

#### **QUESTION 4**

**Mr DAVID SHOEBRIDGE:** *Are you aware of the concerns from stakeholders about the absence of an achievable, independent review mechanism from decisions being made by the Lifetime Care And Support Authority, particularly about decisions on eligibility? Are you aware of those concerns from stakeholders, particularly lawyers groups?*

**Mr PLAYER:** *I was in the room earlier when Ms Ahilas was giving her evidence. She is clearly an absolute subject matter expert in this area; having practised in it for 20 years—*

**Mr DAVID SHOEBRIDGE:** *Twenty-seven years.*

**Mr PLAYER:** *I do not profess to be an expert. Our dispute resolution services do not have a role in the dust diseases area. On the basis of her information alone, it is quite clear that the stakeholders have concerns about the level of ability to access a review of those determinations.*

**Mr DAVID SHOEBRIDGE:** *I think we are talking about two different things—we might get back to dust diseases in a minute. Are you aware of the concerns of stakeholders that if eligibility for lifetime care and support is disputed they will find them disputed in the Supreme Court in very expensive and stressful litigation and that it can often be repeated efforts from insurers that see them in the Supreme Court?*

**Mr PLAYER:** *We definitely are aware of that in the lifetime care space, as opposed to dust diseases. I misunderstood your question, I thought it was dust.*

**Mr DAVID SHOEBRIDGE:** *That does not matter. I will come back to dust diseases later.*

**Mr PLAYER:** *On the lifetime care front, the process for those disputes being resolved does include a number of stages to those processes. The dispute that arises can arise between three parties—the CTP insurer, the claimant or participant in the Lifetime Care and Support Scheme and the authority, as well around eligibility for the scheme. All three of those parties have the right to contest a decision of an independent medical panel around whether or not somebody satisfies those medical eligibility criteria. That question is one of the most hotly disputed issues that arise in the CTP scheme as a whole. As you can imagine, it is a major issue for a vulnerable, injured person who has potentially got catastrophic injuries going into that scheme or not going into that scheme.*

**Mr DAVID SHOEBRIDGE:** *All the merit review steps are within the authority.*

**Mr PLAYER:** *Within the Lifetime Care and Support Authority?*

**Mr DAVID SHOEBRIDGE:** *Yes.*

**Mr PLAYER:** *Within the authority but determined by independent medical experts who are on those panels. The first step is a decision by a member of staff, as I understand it, of the authority. The second step is on the question of eligibility, a panel of three medical experts.*

**Mr DAVID SHOEBRIDGE:** *Chosen and appointed by the authority?*

**Mr PLAYER:** *Yes, who make a decision on that issue. The third step is where we become involved in an administrative sense—there is a proper officer gateway threshold test to determine whether there is a reasonable cause to suspect an error in the decision that could warrant the dispute moving to a further panel of three dispute resolution assessors, who are appointed by the Lifetime Care and Support Authority.*

**Mr DAVID SHOEBRIDGE:** *That is all within the authority?*

**Mr PLAYER:** *That is correct. Mr DAVID SHOEBRIDGE: My question was predicated on the assumption that all those merit reviews are within the ambit of the authority and the call is for an independent agency of some description— court, tribunal or otherwise—to be able to determine it, which does not have all of the costs, expense and delays in going to the Supreme Court. It is not a merit review anyhow; it is just a jurisdictional review.*

**Mr PLAYER:** *I think that is a valid point.*

**Mr NICHOLLS:** *I think that is a fair comment.*

**Mr PLAYER:** *But I would say that there is a very, very small number of claims that we are dealing with. It is incredibly traumatic and difficult for people to go—*

**The Hon. TREVOR KHAN:** *How small is "small"?*

**Mr PLAYER:** *At that tier of medical eligibility disputes, I will have to take it on notice, but it is less than half a dozen disputes a year that have come towards the third tier of medical eligibility dispute resolution that we see and there has literally only been one that has been decided.*

**Mr DAVID SHOEBRIDGE:** *How many get stuck in the teeth of the proper officer though?*

**Mr PLAYER:** *It is less than half a dozen a year.*

**Mr DAVID SHOEBRIDGE:** *That come to the proper officer at all?*

**Mr PLAYER:** *Yes.*

**Mr DAVID SHOEBRIDGE:** *As opposed to go through the gateway of the proper officer?*

**Mr PLAYER:** *Yes.*

**The CHAIR:** *Could you take that question on notice and provide the Committee with the figures for that.*

**Mr PLAYER:** *I will take it on notice. It is certainly less than double figures, and I think it is less than half a dozen.*

#### **Answer Q4**

#### **SIRA Medical Dispute Applications - Volumes, Outcomes and Lifecycles**

There are only a very small number of medical disputes each year arising in the Lifetime Care and Support Scheme (LTCS) that are escalated to the point of referral to SIRA's Dispute Resolution Services Division.

#### ***Medical Eligibility Disputes***

##### How do these applications arise?

If a medical eligibility dispute arises about a decision of the Lifetime Care and Support Authority (LTCSA), an injured person, a CTP insurer, or the LTCSA may refer that dispute to a LTCSA panel of three Dispute Assessors to conduct a review of the medical dispute and issue a determination.

If an injured person, a CTP insurer, or the LTCSA itself believe there is an error in that decision, they may refer that decision to the SIRA Dispute Resolution Services Division's Proper Officer (PO) of the Motor Accidents Medical Assessment Service (MAS) for determination of whether or not the statutory test is satisfied for referral to a review panel of three Dispute Assessors.

The PO will give both parties the opportunity to make submissions and will then review the materials and issue a determination. The PO will dismiss the application if the test is not satisfied, or accept the application and refer it to a panel of three Dispute Assessors to conduct a fresh review of the medical dispute.

The panel of three LTCSA Dispute Assessors will then be convened, and may conduct teleconferences, face to face conferences, or medical examinations as required, before issuing a decision and reasons to the parties.

How many applications have there been and what were the PO decisions?

The table below sets out the volume of all medical eligibility disputes referred to SIRA<sup>1</sup> to date and their outcomes:

MAS PO Referrals		MAS PO Decisions	
Year	Referred to Proper Officer	Dismissed by Proper Officer	Accepted, to Review Panel
2017	0	0	0
2016	4	2	2
2015	3	2	1
2014	3	1	2
2013	0	0	0
2012	1	0	1
2011	1	0	1
2010	1	Application withdrawn	
Pre 2010	0	0	0
<b>Total</b>	<b>13</b>	<b>5</b>	<b>7</b>

Who is making the applications?

The 13 applications made to the PO have been made by the following parties;

- Application by the Injured Person      5
- Application by the CTP Insurer      8
- Application by the LTCSA      0

Are repeated eligibility applications being made to SIRA for one injured person?

No. There are no instances of repeated applications for one injured person ever being referred back to the PO on more than one occasion by either an insurer, a claimant, or the LTCSA. There are two instances (one in 2012 and one in 2015) of review panel decisions subsequently being remitted by the Supreme Court for a fresh panel decision to be made about a matter which had previously been referred to the PO.

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<sup>1</sup> Prior to September 2015 these were referred to SIRA's predecessor the Motor Accidents Authority.

### How long do the applications take to be determined?

The most up to date lifecycle information is as follows;

- **PO Decisions** – Over the life of the scheme the median lifecycle for all 12 PO decisions issued is 26 calendar days, within our target lifecycle of 30 calendar days.
- **Dispute Assessor Panel Decisions** - Over the life of the scheme the median lifecycle for all six panel decisions issued (one matter settled after allocation to a panel) is 129.5 calendar days. (NB. Information provided prior to the hearing, which referred to a longer median lifecycle, has subsequently proven to be incorrect, as the spreadsheet had been attempting to include in the calculation a matter which had settled before a panel decision was issued.)

### ***Treatment and Care Disputes***

#### How do these applications arise?

If a medical treatment and care dispute arises about a decision of the LTCSA, an injured person, a CTP insurer or the LTCSA, the LTCSA may refer that dispute to a LTCSA Dispute Assessor to issue a determination.

If an injured person, a CTP insurer, or the LTCSA itself believe there is an error in that decision, they may refer that decision to the SIRA Dispute Resolution Services Division's PO of the Motor Accidents MAS for determination of whether or not the statutory test is satisfied for referral to a review panel of three Dispute Assessors.

The PO will give both parties the opportunity to make submissions and will then review the materials and issue a determination. The PO will dismiss the application if the test is not satisfied, or accept the application and refer it to a panel of three Dispute Assessors to conduct a fresh review of the medical dispute.

The panel of three LTCSA Dispute Assessors will then be convened, and may conduct teleconferences, face to face conferences, or medical examinations as required, before issuing a decision and reasons to the parties.

#### How many applications have there been and what were the PO decisions?

The table below sets out the volume of all Medical Treatment and Care disputes referred to SIRA<sup>2</sup> to date and their outcomes:

<b>MAS PO Referrals</b>		<b>MAS PO Decisions</b>	
Year	Referred to Proper Officer	Dismissed by Proper Officer	Accepted, to Review Panel
2017	2	1	1
2016	6	5	1
2015	3	3	0
2014	2	2	0
2013	1	1	0
2012	1	0	1
2011	1	0	1
Pre 2011	0	0	0
<b>Total</b>	<b>16</b>	<b>12</b>	<b>4</b>

<sup>2</sup> Prior to September 2015 these were referred to SIRA's predecessor the Motor Accidents Authority.

### Who is making the applications?

The 16 applications made to the PO have been made by the following parties;

- Application by the Injured Person 16
- Application by the CTP Insurer 0
- Application by the LTCSA 0

### Are multiple applications being made for one scheme participant?

Yes, however every application to date has been about a separate and different treatment and care dispute, not a repeat of a previous treatment and care dispute.

The 16 applications for treatment and care disputes relate to only eight different scheme participants. One participant has made eight dispute applications, two participants have each made two applications, and four participants have each made one application.

### How long are the applications taking to be determined?

The most up to date lifecycle information is as follows;

- **PO Decisions** – Over the life of the scheme the median lifecycle for all 16 PO decisions issued is 20 calendar days, within our target lifecycle of 30 calendar days.
- **Dispute Assessor Panel Decisions** - Over the life of the scheme to date the lifecycle for the three Panel decisions issued to date (one application is currently before a panel) has been 141, 180 and 190 calendar days.

Some Review Panel determinations do take longer than others to finalise due to the individual circumstances of those cases. This can often be a result of the need for the Panel to requesting important further medical information or clinical notes before making a decision, or from the need for the Panel to arrange and undertake further clinical assessments before making a decision.

Factors lengthening the duration of these disputes include establishing a suitable availability for the participant and for the LTCSA Review Panel Dispute Assessors, as assessments are usually conducted in the participant's home.

## **QUESTION 5**

***The Hon. LYNDA VOLTZ: How many quarterly reports have you released in 2017 and are they available on your website?***

***Mr NICHOLLS: They are, yes.***

***Mr DAVID SHOEBRIDGE: Have you released any in 2017?***

***Mr NICHOLLS: We have, yes.***

***The Hon. LYNDA VOLTZ: I could not find them on the website.***

***Mr NICHOLLS: Okay. They are definitely there.***

***The CHAIR: Could you take that on notice and come back to the Committee about that?***

***Mr NICHOLLS: I am happy to take that on notice and I am happy to provide them to the Committee.***

***The Hon. LYNDA VOLTZ: Can you provide in detail when it was released?***

***The CHAIR: There may also be a question as to their visibility on the website.***

***Mr NICHOLLS: I will take that on notice.***

## **Answer Q5**

In 2017, SIRA has published two CTP Scheme Quarterly Reports for the December 2016 and the March 2017 quarters. These reports were published in February and June 2017 respectively. A copy of each is attached.

The June 2017 report is currently being prepared, and will be published in August 2017.

The reports are available from <http://www.sira.nsw.gov.au/about-us/scheme-reports>

## **QUESTION 6**

**The Hon. LYNDA VOLTZ:** *Do you mean your anticipation of what future wage inflation will be?*

**Mr NICHOLLS:** *Correct.*

**The Hon. DANIEL MOOKHEY:** *What are you forecasting it as?*

**Mr NICHOLLS:** *I would have to take that on notice.*

**The Hon. TREVOR KHAN:** *Is this part of our inquiry?*

**The Hon. LYNDA VOLTZ:** *It was directly referred to, which is why we are trying to ascertain what it is.*

**Mr NICHOLLS:** *I will take the technical detail on notice, but there are a number of upward pressures on the scheme that we have seen particularly since about 2013 and, quite rightly, through 2015 and 2016 those pressures were certainly there. We have seen in the last six months a reversal on those things—bond yields have softened in terms of the downward pressure they were previously under—but we have particularly seen a real change in claims numbers, a dramatic change in claims numbers.*

**The Hon. LYNDA VOLTZ:** *Just clarify for me because I assume when you as actuaries do it right at the beginning you anticipate that when you are making a payment you are taking growth in wage into your initial assessment anyway. Given we are in a period of wage stagnation, why is suddenly wage inflation an upward pressure when that would have been counted as part of your actuary anyway?*

**Mr NICHOLLS:** *The comments are really trying to refer it to a time series over time of what is different in relation to those actuarial assessments and so the statement in our report is trying to illustrate the variables, if you like, in the assumptions that actuaries will use over a period of time that impact on the reasons why prices would go up.*

**The Hon. LYNDA VOLTZ:** *So what you are saying is that instead of it just being part of what you would anticipate normally for your actuaries, that wages would go up, what I am trying to ascertain is are you seeing some different growth in wages that is extraordinary to that?*

**Mr NICHOLLS:** *No, over time in terms of time series. With inflation, wages typically move in line with inflation. So if inflation is moving then the expected wage inflation will also move and over time, because payment of economic loss is an important part in the scheme, movements in wage inflation will affect the underlying liability in the scheme.*

**The Hon. LYNDA VOLTZ:** *But when I see a significant increase in small claims I would assume that that is putting upward pressure because it is unusual and unexpected.*

**Mr NICHOLLS:** *It is, yes.*

**The Hon. LYNDA VOLTZ:** *If I see wage inflation in there I assume that there has been some extraordinary wage inflation that has not been anticipated. I am not sure why that would not be normal pressure rather than upward pressure.*



**Mr NICHOLLS: Sure. I think we are now getting into the realm of actuaries and their definitions. I would be happy to take on notice the way the actuaries view wage inflation.**

#### **Answer Q6**

For the insurer premiums in the CTP scheme, wage inflation forecasts are determined by each insurer individually when setting their premiums.

Wage inflation is typically defined by the jurisdiction to which it may apply. Typical measures for the NSW CTP scheme include NSW Average Weekly Ordinary Time Earnings, NSW Average Weekly Earnings or the NSW Wage Price Index. The source of wage inflation forecasts may include commercially available economic forecasts and state government budget forecasts.

Given the relationship between claims for economic loss and wages, it is typical for anticipated wage inflation to be considered when estimating future claims costs. Everything else being equal, allowances for future wage inflation would naturally add to the cost of premiums over time.

While there will be impacts on the premiums from movements in wage inflation forecasts, typically, the impact is driven by the combination of wage inflation and interest rates movements together, where interest rate forecasts tend to vary more often and by more than wage inflation forecasts.

The current market share weighted average wage inflation estimate that insurers are applying in their premiums (1 July 2017 filings) is 3.04 per cent per annum, which represents a weighted sum for the relevant future periods of expected wage inflation.

#### **QUESTION 7**

**The CHAIR: Can you provide to us on notice what you are suggesting the datasets would be for the improved reporting capacity?**

**Mr NICHOLLS: Absolutely. I am happy to take that on notice.**

#### **Answer Q7**

The implementation of the new CTP Scheme includes the development of an enhanced data analytics capability which incorporates the following:

- Enhanced data collection methods which address increased frequency and timing, and the addition of new data sets and data items that are not currently collected. This work is already well underway with:
  - Policy data from insurers on a monthly basis (progressively moving to weekly collection)
  - Claims data: a new claims data collection system is being developed, which will be collected in almost real time.
  - Disputes data: a new disputes management system is being implemented to support the new Scheme.
  - External data sources: a target list of external data sources that would enrich the data analytics has been prepared and work will commence progressively to include these data sources into analytics. Examples are NSW Health and ambulance information (in support of the bulk billing agreement) and Roads and Maritime Services data.
- A suite of visualisation and advanced analytics tools will be utilised to provide the operational and strategic analysis required for scheme monitoring and regulation.

## **Claims Register and Statistical Database**

The NSW CTP scheme currently has a Claims Register and Statistical Database, also known as the Personal Injury Register or PIR, which collects information on all claims received under the NSW Motor Accidents CTP scheme.

For the new Scheme, this database will be enhanced with additional granularity of claims information, including capturing key service providers and the associated services provided. It will also provide improved data accuracy and speed through new data ingestion and validation processes that will allow a real time capability option.

Further, the existing datasets on disputes and legal costs will be enhanced, allowing improved reporting through monitoring of the following areas:

- insurers' response time to claimant inquiries;
- provider level information;
- injury management outcomes such as return to work and work capacity duration;
- internal review and dispute resolution processes; and
- both monitoring and diagnosing Scheme performance relative to Scheme costing and pricing.

### **QUESTION 8**

***The CHAIR: The Australian Lawyers Alliance submitted to us that insurers are making multiple applications on behalf of individual claimants to have them accepted into the Lifetime Care and Support Scheme and says, "The Alliance believes insurance should be limited to one application per claimant". How common are multiple claims? Is that an issue you are concerned about? Should it be limited to one or two? What is your response to that?***

***Mr PLAYER: I will answer that. I think we will take on notice the numbers. We will need to go and report back in detail because I do not want to place any misapprehensions, but it goes to the question—***

***The Hon. TREVOR KHAN: Over the length of the scheme can you do?***

***Mr PLAYER: I think we will take that on notice and we will aim to do that. The scheme has been running since 2007 with very small inception numbers over the years. I think we are now up to around 1,000 participants in the scheme. Those numbers vary over time. We will try and do that. But it goes to the question Mr Shoebridge raised earlier around those dispute resolution processes within the Lifetime Care scheme. Having read the evidence from participants earlier in the Committee, those avenues of review and appeal are open to all parties. We will take on notice the question about the volume of those that might be exercised on multiple occasions by insurers, but the right exists for a claimant to do that as well.***

***The Hon. TREVOR KHAN: Do they exercise it in that way?***

***Mr PLAYER: Again, I will take those—***

***Mr DAVID SHOEBRIDGE: Let us get the numbers of the three participants, the applications by three participants.***

***Mr PLAYER: I can tell you that there have not been any applications that have come to our end of the dispute processes at the tail end around eligibility that relate to an application by the authority; it has only ever been the CTP insurer or the claimant. We can take those on notice and come back to you. But it is incredibly small numbers, which is very hard to draw broad conclusions from, we are literally talking handfuls of people— but for those people it is very traumatic and it is a lifetime-changing decision, so they are very important decisions.***

### **Answer Q8**

Please see response to Question 4

### **QUESTION 9**

**Mr NICHOLLS:** *Something the Committee may want to think about is to provide SIRA with the balance to be able to intervene both ways where an intruder might be tardy. I think that is appropriate because we do want to ensure that somebody who needs to get to Lifetime Care gets there quickly if an insurer is tardy, but also a power to be able to—*

**The Hon. DANIEL MOOKHEY:** *Vexatious litigation.*

**Mr NICHOLLS:** *Yes, to deal with vexatious aspects. But we need to be careful because sometimes it is going to be legitimate because somebody's injury changes over time and legitimately the insurer is coming back and saying, "I think now we need to—*

**Mr DAVID SHOEBRIDGE:** *But should that not be maybe where we are looking rather than the sort*

*of broad discretionary powers, you are not sure when to call it in?*

**Mr NICHOLLS:** *Perhaps, yes.*

**Mr DAVID SHOEBRIDGE:** *But the other suggestion that has been put is that insurers get one go and they only get a second go if there is a very substantial change in circumstances or some other sort of exceptional circumstances test, and that might be a better construct and more consistent with other Acts.*

**Mr PLAYER:** *I think, Mr Shoebridge, that what you are suggesting is what is in place at the moment. I do not think that we are seeing multiple repeat applications for insurers. I think what we are seeing is one application by an insurer that might go through multiple stages of the review processes, but I do not think that at*

*the end of that process what you are seeing is the insurers coming back in six months' or nine months' time having another shot. I do not think that is what is occurring. We will have to look at the numbers.*

**Mr NICHOLLS:** *Maybe we will take that on notice.*

**Mr PLAYER:** *I think the issues that were coming up in the Committee were that insurers were using all of the available steps through the process, I suspect.*

**The Hon. TREVOR KHAN:** *That was not my impression. The impression I perceived from the evidence was that they were chopping in twice.*

**Mr NICHOLLS:** *Could we take that on notice, because that was my read of it as well?*

**Mr DAVID SHOEBRIDGE:** *But it may well be that some of the frustration we are hearing from the lawyers is explained also by those multiple internal reviews. Maybe if you could give an answer on that.*

**The Hon. TREVOR KHAN:** *It may well. If two applications actually mean six processes that is a hell of a thing.*

**Mr PLAYER:** *We will take both issues on notice. The volume on the first stage and whether any come back for a second shot.*

#### **Answer Q9**

Please see response to Question 4

## **QUESTION 10**

**Mr DAVID SHOEBRIDGE:** *In most commercial relationships there is an opportunity for a negotiated outcome rather than having to do that. That may be unattractive to the authority because you may say, "We have a clear decision making process and we will let the cards fall where they do". Have you thought about having a commercial resolution process?*

**Mr NICHOLLS:** *I am happy to consider those options. I think there might be some merit in looking at that further but I have not turned my mind to it.*

## **Answer Q10**

A negotiated outcome could have a range of unintended consequences, such as encouraging disputes and creating less incentive for early reporting of potential applicants to LTCS. SIRA will continue to monitor options in this area and consider stakeholder views, but is currently satisfied with existing arrangements.

## **QUESTION 11**

**The Hon. DANIEL MOOKHEY:** *Mr Nicholls, in your opening statement you made the point that a serious legislated role in relation to workers comp dust diseases, and secondly, to determine the rate of the dust diseases levy according to industry. Are you noticing any changes in the patterns of industries that are subject to that levy or is the incidence of the levy changing as the nature of dust diseases is changing? What research base do you maintain? What projections have you got? How are you planning for the future, particularly as we are seeing a whole different category of dust diseases than the ones that the first scheme was designed for?*

**Mr NICHOLLS:** *I will take some of that question on notice, appreciating that I have had responsibility for the Dust Diseases Authority for four days and I am still learning about it. There is an approach in the current levy setting process whereby there are effectively nine classes of employer, depending on the historic level to which those different classes of employer contribute towards dust diseases. You have eight assessable groups. Every employer in the State makes a contribution but the vast bulk make a small contribution of 0.01 per cent of the payroll.*

**The Hon. DANIEL MOOKHEY:** *Construction and mining pay a lot more.*

**Mr NICHOLLS:** *They pay a lot more. It goes up to 1.2 per cent. I am happy to take it on notice and give you the exact figures for the high risk. You have a small group of employers where direct exposure is part of their job. People who might go and clear an asbestos site and they have no option but to deal with asbestos, because it is the nature of the work, they are a special category and they pay 4 per cent of their payroll. Those classifications, to your point, have been in place for some time. It is something that I would have to take on notice to consider the efficacy of those.*

**The Hon. DANIEL MOOKHEY:** *The Committee is particularly after time series data that looks at the changing of the incidences and where the liabilities are moving to. In addition, what is the research base you are maintaining around this? How are you forecasting, are you collaborating with safe WorkCover and other authorities to minimise risk and liability?*

**Mr NICHOLLS:** *We collaborate with WorkCover and particularly icare. icare maintain the primary role in relation to research in this area and we take their advice and information to help us in the levy setting process so we are allocating it fairly. One of the challenges we have in levy setting is that it is based on injuries that occurred sometimes 20, 30 or 40 years ago. The challenge we have is how do we fairly allocate the levy to employers today? You may have an industry employer today that has first class safety management systems in place and all the research and evidence is showing that this risk is well managed but we are dealing with people in that industry that 30 or 40 years ago got an injury that is unrelated to the current management.*

**The Hon. TREVOR KHAN:** *It may be unrelated to the current engineering or the way work is done in the industry.*

**Mr NICHOLLS:** *Correct. Things have changed.*

**The Hon. DANIEL MOOKHEY:** *How are you doing it?*

**Mr NICHOLLS:** *We have to apply some level of historic allocation but with a level of cross-subsidy. Effectively, all employers in the State make a base contribution but then industries that have historically contributed more get a loading. You could argue that is a little bit unfair because of those changes but there is no other way of doing with it without it being unfair on other employers that have nothing to do with that history. That is the inherent problem with levy setting in dust diseases.*

**The Hon. DANIEL MOOKHEY:** *Will you take that on notice?*

**Mr NICHOLLS:** *Yes.*

### **Answer Q11**

#### **SIRA's role**

SIRA's regulatory role in relation to workers compensation dust diseases is to determine how the levy contribution is to be split amongst insurers and across industries, as well as the timing of the contributions. As prescribed in section 6(6) and 6(7) of the *Workers Compensation (Dust Diseases) Act 1942* (the Act), SIRA:

- determines the amount and timing of payment by each insurer
- determines the rate of the Dust Disease Levy (DDL) by industry
- publishes the above in the form of a notice allowing insurers to include the details in amendments to their premium filings as per the *Market Practice and Premium Guidelines*.

To achieve these objectives, SIRA writes annually to the Dust Diseases Authority (DDA), within icare to formally request a certified estimate of expenditure out of the Workers Compensation (Dust Diseases) Fund (the Fund) for the following year. Section 6(3) and 6(4) of the Act requires the DDA, to determine the risk that a class of employment or industry represents regarding contracting a dust disease, and to provide SIRA an estimated amount projected to be expended from the Fund for the coming policy year. This amount forms the contribution amount.

SIRA uses the Dust Diseases Scheme (DDS) actuarial report to assess the proposed rates for each industry and can also undertake additional analysis, if required, and seek advice from SIRA actuaries.

#### **Industry Classifications for the Dust Diseases Levy**

Along with the estimated expenditure, the DDA is required to provide SIRA with a certificate and estimate of the Dust Disease Contribution and advice on any recommended changes to the classification of industries in regard to their dust disease risk.

All industries in NSW contribute to the DDL through their annual workers compensation insurance premiums. The contributions for each policy renewal are determined by the DDA, in conjunction with the Dust Diseases Scheme actuary, and require approval from SIRA.

The DDL rates are based on industry classifications where every Workers Compensation Industry Classification (WIC) code is allocated to a Schedule. There are eight Schedules with Schedule 1 representing the highest risk of dust disease and Schedule 8 representing the lowest risk. Those industries defined as 'determined classes of employment', as per the Government Gazette of 11 May 1979, are not allocated to a Schedule, as these industries specifically handle asbestos and have a defined rate of four per cent. The 2017/18 DDL rates for each schedule are outlined below in **Table 1**.

Based on its analysis of claims data, if the DDA or its actuaries consider a particular industry would be more appropriate in another schedule based on their dust disease claims experience, the DDA will recommend that SIRA change the schedules accordingly.

For the 2017/18 DDL rates, the DDA recommended that six WICs be shifted to a lower rate as a result of reduced claims experience. These industries are outlined below in **Table 2**. Conversely, no industries for the 2017/18 policy year have moved to a higher schedule.

**Table 1: SIRA approved DDL rates for 2017/18**

<b>Schedule</b>	<b>Levy Rates 2017/18</b>
<b>D12</b>	4%
<b>1</b>	1.250%
<b>2</b>	0.500%
<b>3</b>	0.250%
<b>4</b>	0.110%
<b>5</b>	0.065%
<b>6</b>	0.040%
<b>7</b>	0.020%
<b>8</b>	0.010%

**Table 2: Industries which have moved to a lower schedule in 2017/18**

○ <b>Beer and Malt Manufacturing</b>	○ <b>Services to Air Transport</b>
○ <b>Printing</b>	○ <b>Travel Agency Services</b>
○ <b>Road Freight Transport – Short Distance</b>	○ <b>Other Education and Training</b>

SIRA uses estimates of wages by industry, as well as advice from the DDA in relation to changes in claims experience by industry to determine how much each insurer is required to contribute.

For 2017/18, SIRA undertook a review of the DDA's proposed rates and engaged independent actuarial advisors to complement the review. The analysis and review included:

- review of the '*Dust Diseases Authority of NSW, Actuarial Assessment of Dust Disease Levies for 2017/18*' report prepared by the external actuary agency engaged by the DDA to estimate the dust diseases levies for the 2017/18 policy renewal year;
- analysis of the claims experience data contained in the actuarial report to assess the suitability between the perceived risk for each WIC code and the subsequent schedule allocation proposed by the DDA; and
- analysis of the proposed dust disease levy rates by assessing the DDA's schedule allocation, and the variance of schedules within each industry.

The SIRA approved DDL rates for the 2017/18 policy year range from 0.010 per cent to 1.250 per cent and are 40 to 90 per cent lower than the 2016/17 rates. This is based on a reduced estimate of expenditure from the DDA, with a reduction from \$109 million to \$59.29 million due to the inclusion of investment income in the estimation of the target expenditure amount.

## **Data**

icare is the authority responsible for collecting dust diseases data. The DDA, within icare, operates the DDS. The DDA reports to the icare Board and is within the portfolio responsibilities of the Treasurer.

The DDA collates and maintains data regarding the incidence of dust disease claims in order for icare and its actuaries to assess the financial requirements, and the sustainability of the Fund to meet the Scheme's claim liabilities presently and into the future. icare advises that the data is also used to inform initiatives and opportunities to develop and improve services and outcomes for Scheme participants. As SIRA does not have access to the icare dust diseases claims database, it is unable to provide time series data or analysis on possible industry trends by claim number.

## **Future planning**

SIRA will continue to work closely with the DDA going forward and welcomes the DDA's advice on any recommended changes to the classification of industries in regard to their dust disease risk. For example, if industries emerge where dust disease claims are becoming more prevalent, or for any industry experiencing a significant increase or decrease in dust disease claims.

Any legislative changes would be a matter for the Government.

## **QUESTION 12**

**Mr DAVID SHOEBRIDGE:** *Is the delay in convening the panel, or is the delay in the proper officer determination? Where is the delay?*

**Mr PLAYER:** *I am not sure there is a delay.*

**Mr DAVID SHOEBRIDGE:** *On average, it is 150 calendar days. I would call that a delay.*

**The CHAIR:** *We have to conclude questions with this witness. You might want to take that question on notice and give us some more information about the performance in the area and where you are reporting it, as discussed, because it is an issue that we are concerned about. If members have any other questions, they might like to put them on notice or give notice of them now.*

**Mr DAVID SHOEBRIDGE:** *I will put them on notice.*

## **Answer Q12**

Please see response to Question 4.

**Andrew Nicholls**  
**Acting Chief Executive**  
**SIRA**

# NSW Motor Accidents CTP Scheme Quarterly Report

March 2017



State Insurance  
Regulatory Authority



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# Introduction and summary

The New South Wales Compulsory Third Party (CTP) Scheme is governed by the *Motor Accidents Compensation Act 1999* (the Act). The Green Slip market currently comprises six licensed insurers operated by four entities: Suncorp (AAMI and GIO), Allianz Australia (Allianz and CIC Allianz), NRMA and QBE. The market is split into two segments: retail and non-retail. AAMI, GIO, Allianz and NRMA compete mainly in the retail segment, CIC Allianz competes in the non-retail commercial vehicle market and QBE operates in both market segments. Zurich ceased issuing Green Slip policies from 1 March 2016.

Under the Act, the State Insurance Regulatory Authority (SIRA) reports on premium market share to each insurer each quarter. SIRA also provides insurers with a detailed claims report and a price trend report each quarter. The claims report provides aggregate claims numbers and claims costs, illustrating the claims experience of the current scheme and the 'run-off' of the previous (pre-1999) scheme.

During the March 2017 quarter, five insurers implemented new prices with various effective dates to reflect deterioration in claims frequency, low government bond yields and changes to the bonus and loading structure in some cases.

GIO continued to be the insurer with the best price by offering \$606 for a Sydney passenger vehicle. Despite NRMA's best price being \$34 above GIO, NRMA dominated the market with a share of around 30 per cent due to its brand impact, branch network and product bundling.

The price changes implemented during the March 2017 quarter resulted in an average premium of \$718 for Sydney passenger vehicles and an average premium of \$492 for regional passenger vehicles.

No filings were lodged with SIRA during the March 2017 quarter.

GIO will maintain its position as the market price leader for Sydney passenger vehicles by offering the lowest headline price (\$606), while CIC Allianz will be offering the highest best price (\$673) during the next quarter.

SIRA has asked all insurers to file new premium rates to apply from 1 July 2017 which take into account the recent claims experience. A further round of premium rate filings will be required for policies to be issued from 1 December 2017, taking into account the changes introduced in the *Motor Accident Injuries Act 2017*. It is expected that most policyholder will receive reductions in their Greenslip prices from 1 December 2017 as a result of the CTP reform.

## Green Slip premiums and market trends

### Insurer premium filings

Insurers set their own Green Slip premiums in a competitive market, within part 2.3 of the Act and the *Motor Accidents Premiums Determination Guidelines* approved by the

SIRA Board. Insurers can file proposed premiums with SIRA at any time and there is no limit to the number of filings an insurer may lodge each year.

SIRA may only reject a premium filing if it is of the opinion that the premium:

- will not fully fund the present and likely future liability of the insurer
- is excessive having regard to actuarial advice and to other relevant financial information
- does not conform to the Motor Accidents Premiums Determination Guidelines (PDG).

The scheme actuary, Ernst and Young, and SIRA internal analysts review the assumptions underpinning each premium filing. The assumptions include projected industry and insurer's claims costs, economic factors, expenses, profit loading and insurer's forecast market share.

## Adjustments to the Medical Care and Injury Services (MCIS) levy

The MCIS levy is made up of a Motor Accidents Fund (MAF) levy and Lifetime Care and Support (LTCS) levy. SIRA Board is able to review and adjust the SIRA component of the MCIS Levy as required under s.213 and s.214 of the Act. SIRA sets the levy in order to generate a balanced budget outcome, while maintaining a preferred prudential reserve target.

The LTCS levy component could also be adjusted by the Insurance and Care NSW (icare) Board of Directors to meet the Board's target funding amount for a specified period. During the March 2017 quarter, the components of the MCIS levy rates were adjusted. The MAF levy rate was reduced by 0.25 per cent to 9.25 per cent and the LTCS levy rates were coincidentally reduced by 0.9 per cent across all vehicle classes and regions, resulting in an average reduction of 1.1 per cent in the MCIS levy rates. These adjustments took effect from 15 January 2017.

## Headline prices

Table 1 shows the changes in headline prices that occurred during this reporting quarter. The headline price is the lowest CTP premium price (including levies and GST) offered by each insurer to a new retail customer, aged 30 to 54, for a private use passenger vehicle garaged in Sydney.

GIO continued to offer the best market price for a Sydney passenger vehicle during this reporting quarter. The dominant premium market share insurer, NRMA, was \$34 higher than the market price leader, GIO.

**Table 1: Sydney car headline price changes**

Filing period	NRMA	GIO	AAMI	Allianz	QBE	CICA
March 2017 quarter* (\$)	640	606	622	623	613	673
December 2016 quarter (\$)	624	590	603	628	611	662

Filing period	NRMA	GIO	AAMI	Allianz	QBE	CICA
September 2016 quarter (\$)	611	578	592	604	603	653
March 2017 quarter* price change \$ (%)	16 (2.6)	16 (2.7)	19 (3.2)	-5 (-0.8)	2 (0.3)	11 (1.7)
December 2016 quarter price change \$ (%)	13 (2.1)	12 (2.1)	11 (1.9)	24 (4.0)	8 (1.3)	9 (1.4)

\* Prices came into effect in March 2017 quarter

It should also be noted that the highest price for Metropolitan Class 1 passenger vehicle has reached \$900 based on the latest insurer filings.

## Premium market share

Insurers are required under the Act to submit information on insurance premiums to SIRA at the end of each quarter. This information is used to determine the premium market share for each insurer and to report trends in premium levels over time.

The total amount of premiums collected (excluding MCIS levy and GST) during the year to 31 March 2017 was \$2.59 billion. This represented an increase of around 13.1 per cent on the previous year (\$2.29 billion).

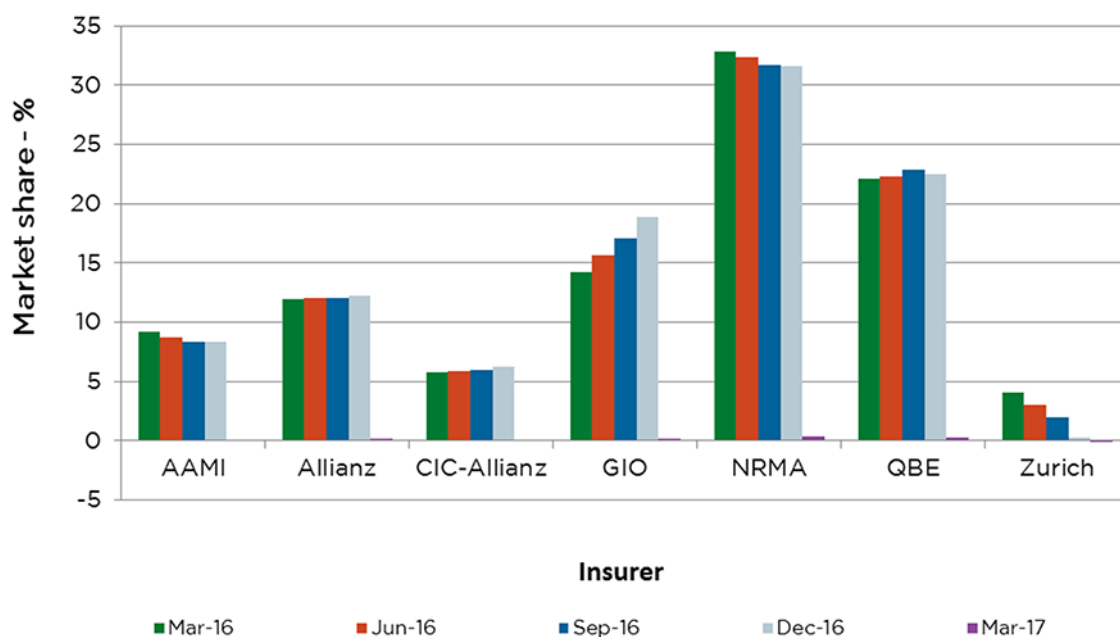
Table 2 shows NRMA continues to lose market share year-on-year, but still remains the dominant insurer in the market. Its premium market share at the end of this reporting quarter was 30.7 per cent, compared to 33.2 per cent the same period last year. GIO gained a significant 5.1 per cent market compared to the March 2016 quarter.

Allianz and CIC Allianz gained a marginal 0.6 per cent and 0.3 per cent market share respectively compared to the March 2016 quarter. NRMA, QBE and AAMI lost 2.5%, 1.3% and 0.7% market share respectively compared to March 2016 quarter.

**Table 2: Insurer market share in the NSW CTP scheme**

Insurer	4 quarter average	Premium share for individual quarters (s.172)								
		Mar-17	Dec-16	Sep-16	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15
%										
AAMI	8.1	7.8	7.6	8.2	8.8	8.5	7.6	10.1	10.6	10.4
Allianz	12.3	13.2	12.5	11.4	12.2	12.6	11.9	11.2	12.0	12.6
CIC-Allianz	6.3	6.1	6.9	6.6	5.7	5.8	6.0	6.1	5.2	5.1
GIO	20.1	20.5	21.1	20.1	18.8	15.4	14.0	14.1	13.2	13.3
NRMA	31.0	30.7	30.7	30.2	32.5	33.2	31.1	32.9	34.0	33.9
QBE	22.2	21.9	21.2	23.5	22.0	23.2	22.7	21.3	21.0	20.5
Zurich	-0.1	0.0	0.0	0.0	0.0	1.3	6.7	4.2	4.1	4.3
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Graph 1: Premium market share (rolling 12-month) comparison**



Graph 1 shows the proportion of premiums collected in the 12 months to the quarter end. Based on rolling twelve month periods this graph reduces any volatility that exists from quarter to quarter due to the seasonal renewal of large fleet vehicles and shows smoother trends in market share.

AAMI, NRMA and QBE market shares continue to decrease, while GIO continues to gain significant market share in the last twelve months. Allianz and CIC Allianz market shares have been relatively stable.

## Premium trends

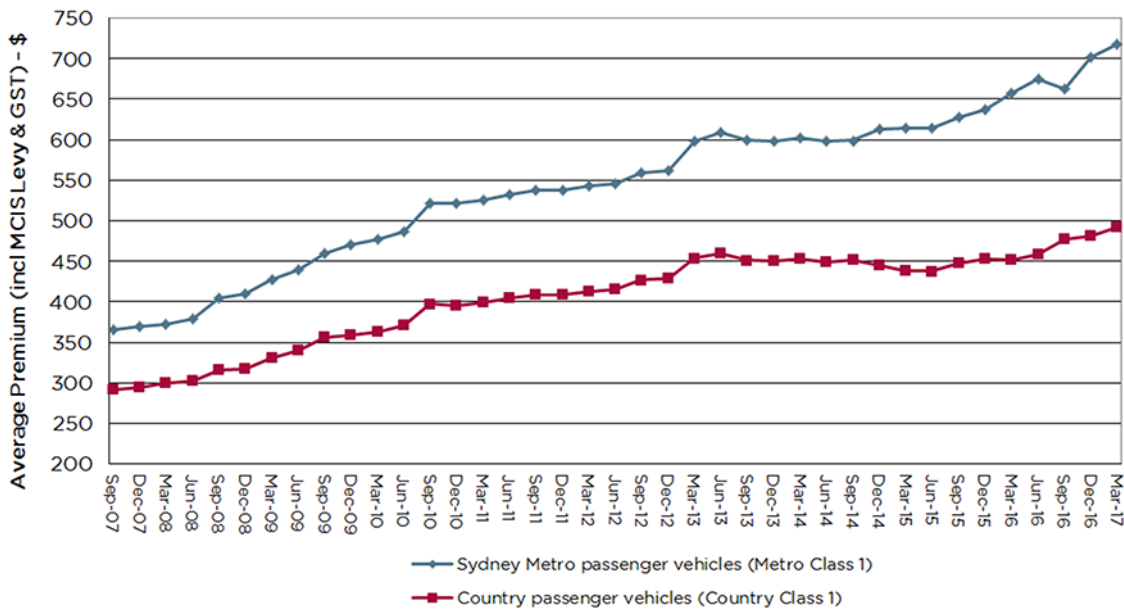
Since 2008, Green Slip premiums have generally continued to experience upward pressure (Graph 2).

Contributing factors are:

- increasing claims frequency even though it appears to decline in the last three quarters.
- low bond yields, resulting in low investment returns for insurers (Graph 3)
- wage inflation.

While the increase in the number of small claims reduces the overall average claims cost, the long term increase in claims frequency means the overall effect is an increase in the cost per policy. These cost pressures are expected to continue in 2017 resulting in further increases in Green Slip prices.

**Graph 2: Average premium (quarterly trends)**

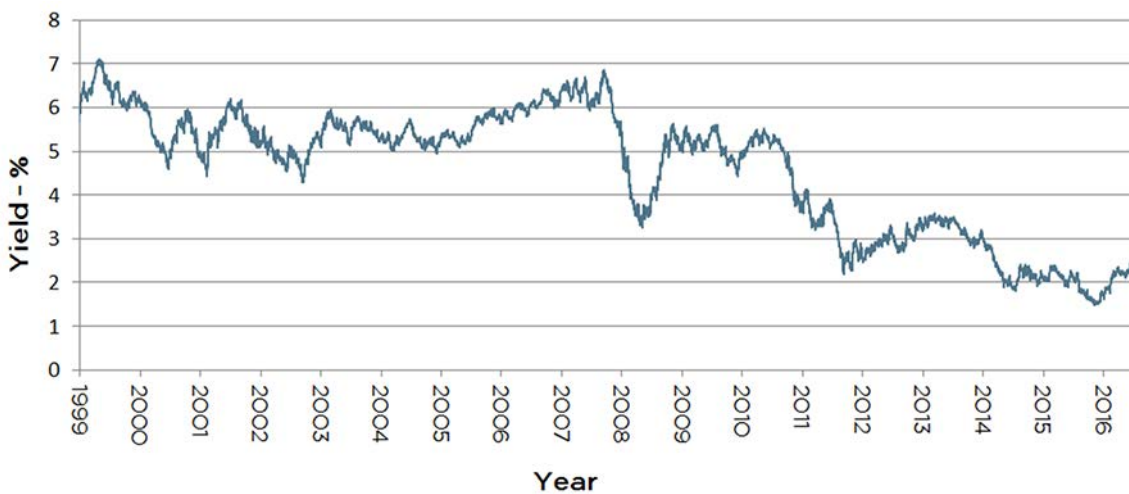


In the March 2017 quarter:

- The average premium (including MCIS levy and GST) paid by Sydney passenger vehicle owners was \$718, an annual increase of \$61 (9.3 per cent).
- The average premium paid by regional passenger vehicle owners was \$492, an annual increase of \$40 (8.8 per cent).

Premium prices are also affected by insurers' investment returns. Graph 3 shows movements in the five-year Commonwealth Government bond yield since the inception of the current CTP Scheme 17 years ago.

**Graph 3: Trend in five year Commonwealth bond yield to 31 March 2017**



Low bond yields have a negative impact on the investment returns of insurers who invest collected premiums in the bond market. The yield on the five-year Commonwealth Government bond has been at historically low levels in recent years and material changes are not expected in the short term. Movements in five-year bond yields are generally consistent with movements in the yields of other maturities.

## Claims trends

### Number of claims

#### Newly reported claims

Claims trends are measured from 5 October 1999, when the current Act (MACA) came into effect. The scheme actuaries complete an annual valuation of the scheme in June each year to provide projections for the number of claims expected to be reported. In the March 2017 quarter, the actual number of newly reported claims since the previous quarter, December 2016, was 3,883 (16 per cent) less than the 4,597 anticipated from the June 2016 valuation of the scheme. Some of these newly reported claims were lodged with respect to past accident quarters. However, the number of claims reported from accidents in the latest accident quarter, March 2017, was 2,003, which breaks the trend that started in March 2008. This reduction could be because of a number of factors including: the new Legal Costs regulation; a market response to Strike Force Ravens<sup>1</sup>, which was set up in August 2016 to investigate CTP fraud in South Western Sydney; and implementation by insurers of new claims management practices designed to combat fraud and exaggeration.

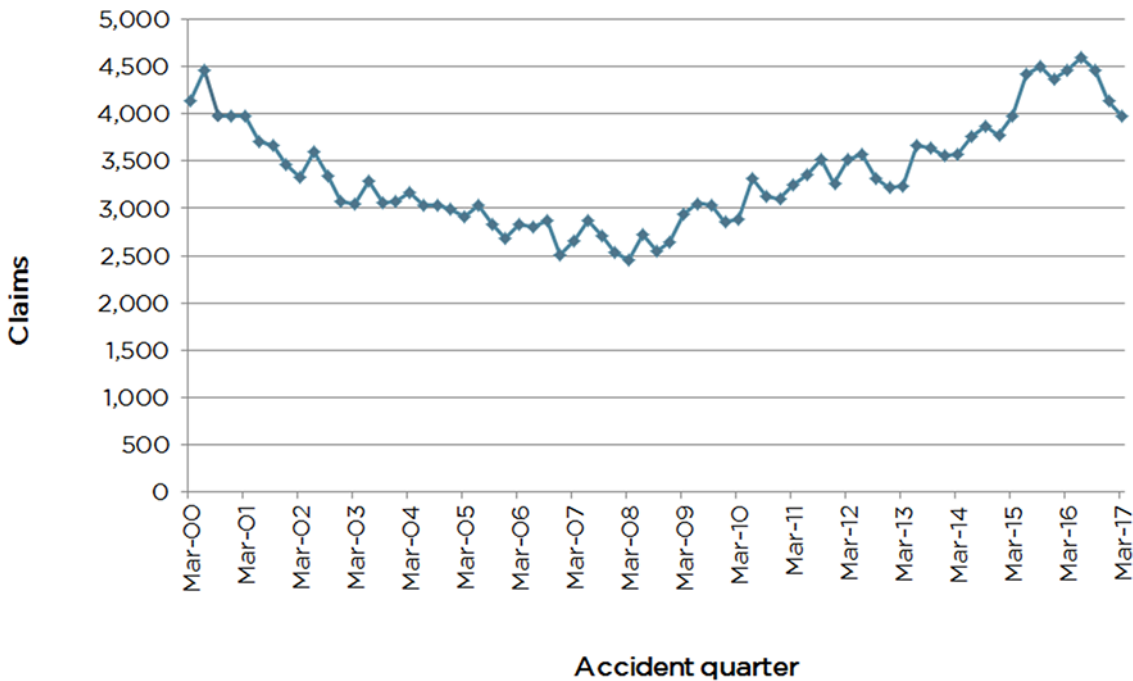
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<sup>1</sup> Operation Strike Force RAVENS, funded by SIRA and run by the Fraud & Cybercrime Squad of NSW Police in August 2016.

## Claims by accident quarter

Graph 4 shows the number of CTP claims per accident quarter<sup>2</sup>. Since March 2008 there has been a clear upward trend in the number of claims per accident quarter from 2,451 in March 2008 to 4,597 in June 2016 and thereafter the number of CTP claims per accident quarter is estimated to decline to 4,138 in December 2016 and 3,983 in March 2017.

**Graph 4: Claims by accident quarter**



## Claim frequency

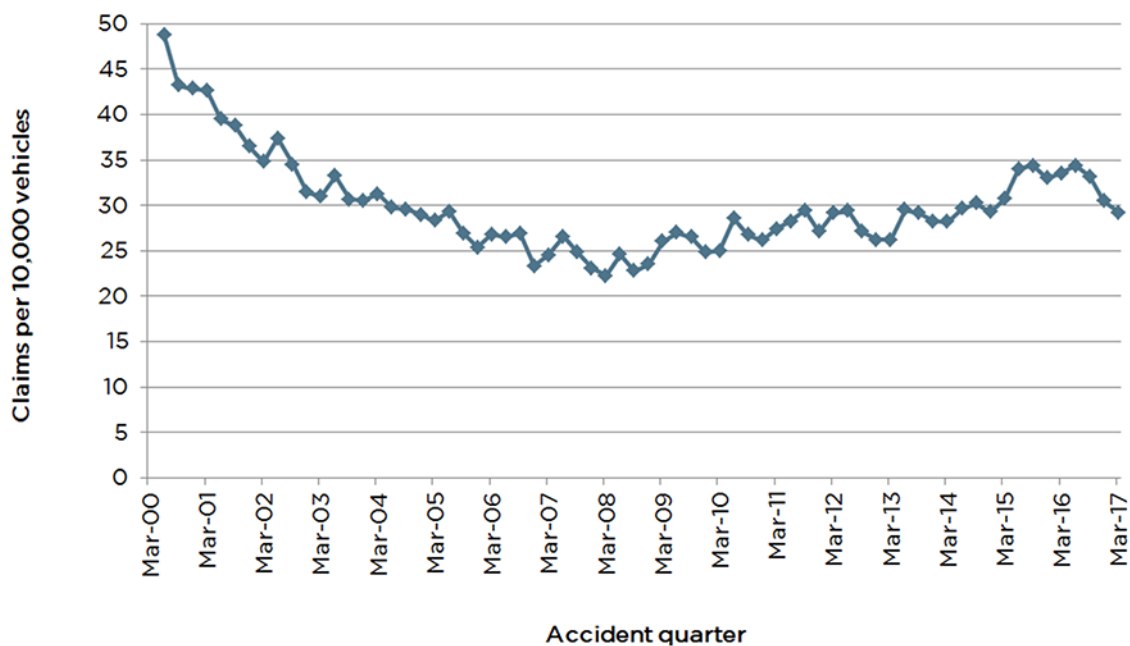
Claim frequency is defined as the ultimate number of claims divided by the number of registered vehicles. The ultimate number of claims comprises all reported notifications (full claims and Accident Notification Forms (ANFs)) plus an estimate of claims yet to be reported.

Graph 5 shows the trend in claim frequency by accident quarter. Claims frequency increased consistently from 22 claims per 10,000 vehicles in March 2008 to 34 claims per 10,000 vehicles in June 2016 and thereafter it has declined. The estimated claim frequency for the March 2017 accident quarter is 29 claims per 10,000 vehicles and the average for the year to March 2017 is 32 claims per 10,000 vehicles.

<sup>2</sup> The numbers of claims reported for accidents from 2014 onward, includes projections for claims incurred but not yet reported (IBNR).



## Graph 5: Trend in claims frequency



Note: For the more recent accident quarters, projections are based on incomplete claims hence data presented for these quarters are just indicative and depend on the robustness of ultimate claims projections.

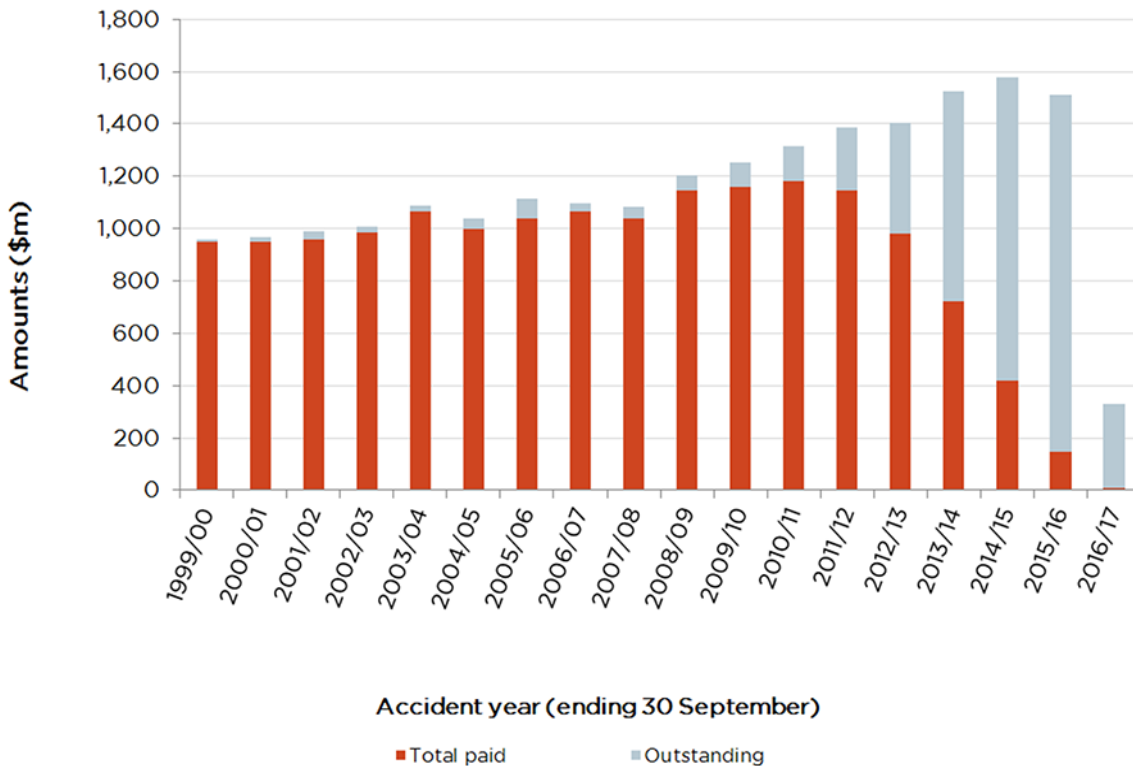
## Claims cost

As at 31 March 2017, a total of 233,227 notifications (full claims and ANFs) with a total incurred cost of \$20.8 billion<sup>3</sup> has been reported since the current scheme commenced in October 1999. It is estimated that \$4.9 billion (23%) is yet to be paid for claims reported to date.

Graph 6 shows how this unpaid amount is distributed across prior full accident years. Further development in payments is anticipated for accident year 2016/17, which has only two out of four quarters worth of claims reported for the accident year as at 31 March 2017. Also, as late claims are reported and estimates for already reported claims get revised, the actual incurred costs becomes more evident.

<sup>3</sup> Incurred cost comprises the amount already paid on claims plus an estimate for likely future payments on claims yet to be finalised. Incurred costs shown here are as reported by insurers and have not been adjusted for inflation.

**Graph 6: Payments on reported claims as at 31 March 2017**



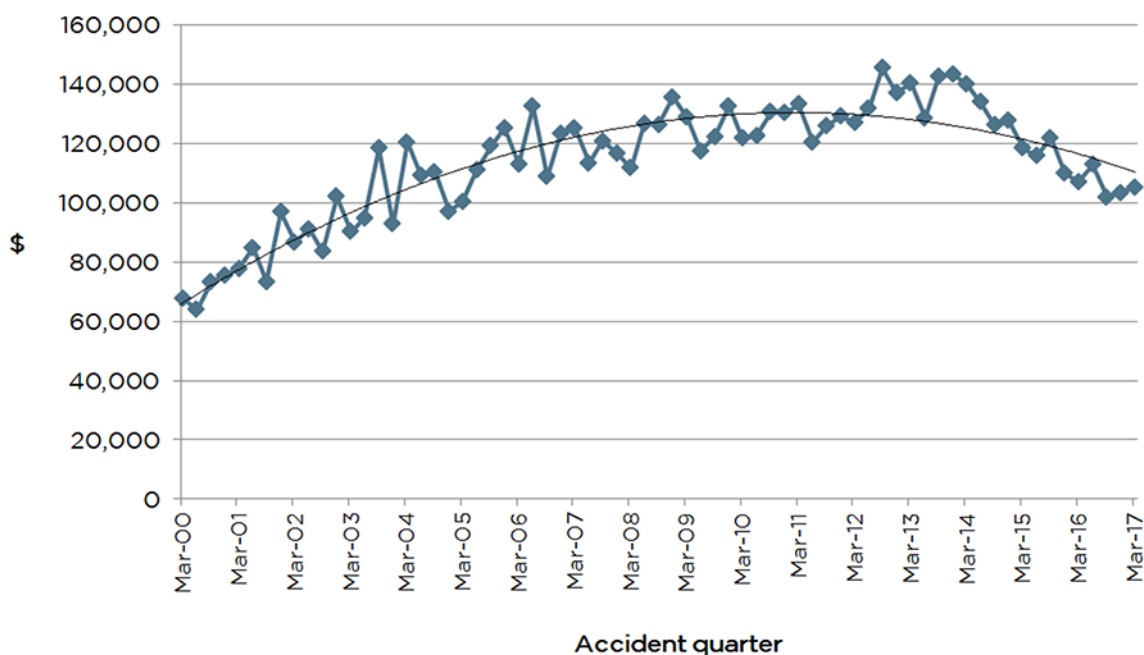
The trend in average incurred costs of full claims<sup>4</sup> that have already been lodged with CTP insurers is shown in Graph 7. The incurred costs are historic amounts supplied by insurers and are not adjusted for inflation.

Since the start of the MACA 1999 scheme, the average incurred cost increased from about \$68,000 in March 2000 to about \$145,000 in September 2012 and then began to fall thereafter. For claims already reported, insurers will continue to revise their cost estimates as more information is received on these claims. Insurers are yet to receive late claims from some accidents that have already occurred but not yet had claims lodged; this especially applies to the four most recent accident quarters.

These revisions and late reports introduce some uncertainty in the average cost estimates hence the trend line superimposed on Graph 7 presents a more likely level of final average costs of claims in more recent accident quarters. The average incurred costs of claims, arising from accidents in March 2016 is more likely to be around \$116,000 and \$110,000 for claims from the March 2017 quarter.

<sup>4</sup> Full claims account for over 99% of scheme incurred claims costs

**Graph 7: Average incurred cost (full claims only)**



## About SIRA

SIRA is the government organisation responsible for the regulation of workers compensation insurance, motor accidents compulsory third party (CTP) insurance and home building compensation in NSW.

We focus on ensuring key public policy outcomes are achieved in relation to service delivery to injured people, affordability, and the effective management and sustainability of these insurance schemes.

For the NSW motor accidents insurance scheme, we monitor insurer performance, support road safety initiatives, promote optimal recovery for injured people and provide an independent dispute resolution service.

SIRA assumed the regulatory functions of the former Motor Accidents Authority from 1 September 2015.

## Contact

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#### Disclaimer

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website [legislation.nsw.gov.au](http://legislation.nsw.gov.au)

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# NSW Motor Accidents CTP Scheme Quarterly Report

December 2016



State Insurance  
Regulatory Authority

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# Introduction and summary

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During the December 2016 quarter, five insurers implemented new prices with various effective dates to reflect deterioration in claims frequency, low government bond yields and changes to the bonus and loading structure in some cases.

GIO continued to be the insurer with the best price by offering \$590 for a Sydney passenger vehicle. Despite NRMA's best price being \$34 above GIO, NRMA dominated the market with a share of around 30 per cent due to its brand impact, branch network and product bundling.

The price changes implemented during the December 2016 quarter resulted in an average premium of \$702 for Sydney passenger vehicles and an average premium of \$482 for regional passenger vehicles.

All six insurers filed for varying price increases during the reporting quarter to be effective during the March 2017 quarter. The price increases were generally due to:

- increases in claims frequency (the number of claims per 10,000 vehicles)
- changes to the bonus and loading structure.

GIO will maintain its position as the market price leader for Sydney passenger vehicles by offering the lowest headline price (\$606), while CIC Allianz will be offering the highest best price (\$673) during the next quarter.

Price increases are in line with the upward trend in the frequency of claims evident since 2008 (Graph 5), however despite relatively greater stability in claim frequency for the last four quarters to December 2016, since the start of current Act in 1999, this is still the highest number of claims reported within the first three months of any December accident quarter.

# Green Slip premiums and market trends

## Insurer premium filings

Insurers set their own Green Slip premiums in a competitive market, within part 2.3 of the Act and the *Motor Accidents Premiums Determination Guidelines* approved by the SIRA Board. Insurers can file proposed premiums with SIRA at any time and there is no limit to the number of filings an insurer may lodge each year.

SIRA may only reject a premium filing if it is of the opinion that the premium:

- will not fully fund the present and likely future liability of the insurer
- is excessive having regard to actuarial advice and to other relevant financial information
- does not conform to the Motor Accidents Premiums Determination Guidelines (PDG).

The scheme actuary, Ernst and Young, and SIRA internal analysts review the assumptions underpinning each premium filing. The assumptions include projected industry and insurer's claims costs, economic factors, expenses, profit loading and insurer's forecast market share.

## Adjustments to the Medical Care and Injury Services (MCIS) levy

The MCIS levy is made up of a Motor Accidents Fund (MAF) levy and Lifetime Care and Support (LTCS) levy. SIRA Board is able to review and adjust the SIRA component of the MCIS Levy as required under s.213 and s.214 of the Act. SIRA sets the levy in order to generate a balanced budget outcome, while maintaining a preferred prudential reserve target.

The LTCS levy component could also be adjusted by the Insurance and Care NSW (icare) Board of Directors to meet the Board's target funding amount for a specified period. During the December 2016 quarter, the components of the MCIS levy rates were adjusted. The MAF levy rate was increased by 0.5 per cent to 9.5 per cent and the LTCS levy rates were coincidentally reduced by 0.5 per cent across all vehicle classes and regions, resulting in no change to the MCIS levy rates. These adjustments took effect from 1 October 2016.

## Headline prices

Table 1 shows the changes in headline prices that occurred during this reporting quarter. The headline price is the lowest CTP premium price (including levies and GST) offered by each insurer to a new retail customer, aged 30 to 54, for a private use passenger vehicle garaged in Sydney.

GIO continued to offer the best market price for a Sydney passenger vehicle during this reporting quarter. The dominant premium market share insurer, NRMA, was \$34 higher than the market price leader, GIO.



**Table 1: Sydney car headline price changes**

Filing period	NRMA	GIO	AAMI	Allianz	QBE	CICA
March 2017 quarter* (\$)	640	606	622	623	613	673
December 2016 quarter (\$)	624	590	603	628	611	662
September 2016 quarter (\$)	611	578	592	604	603	653
March 2017 quarter* price change \$ (%)	16 (2.6)	16 (2.7)	19 (3.2)	-5 (-0.8)	2 (0.3)	11 (1.7)
December 2016 quarter price change \$ (%)	13 (2.1)	12 (2.1)	11 (1.9)	24 (4.0)	8 (1.3)	9 (1.4)

\* Prices to come into effect in March 2017 quarter

It should also be noted that the highest price for Metropolitan Class 1 passenger vehicle has reached \$900 based on the latest insurer filings.

## Premium market share

Insurers are required under the Act to submit information on insurance premiums to SIRA at the end of each quarter. This information is used to determine the premium market share for each insurer and to report trends in premium levels over time.

The total amount of premiums collected (excluding MCIS levy and GST) during the year to 31 December 2016 was \$2.51 billion. This represented an increase of around 11.1 per cent on the previous year (\$2.26 billion).

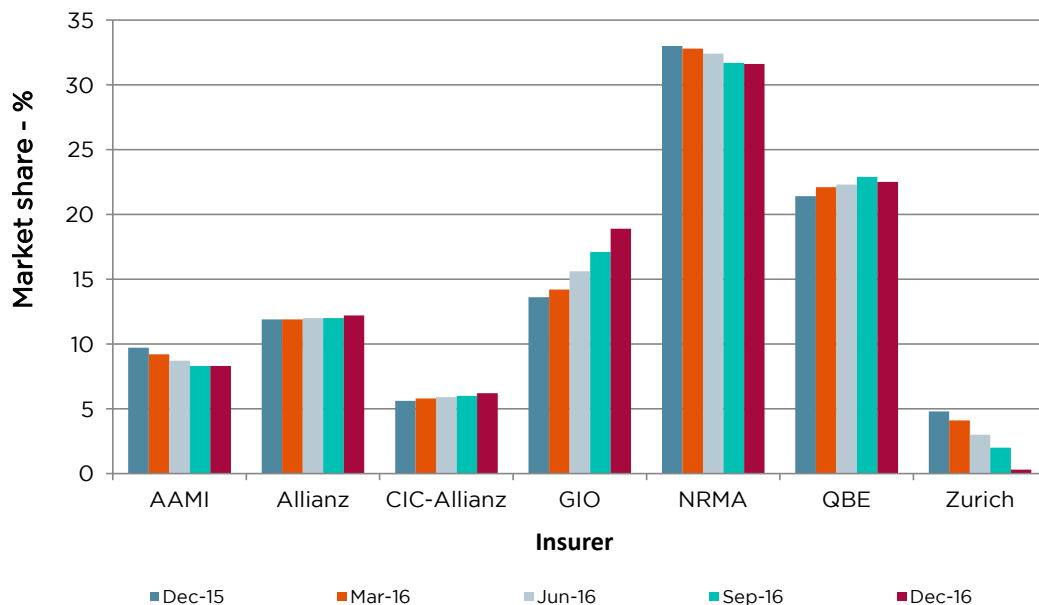
Table 2 shows NRMA continues to lose market share year-on-year, but still remains the dominant insurer in the market. Its premium market share at the end of this reporting quarter was 30.7 per cent, compared to 31.1 per cent the same period last year. GIO gained a significant 7.1 per cent market compared to the December 2015 quarter.

Allianz and CIC Allianz gained a marginal 0.6 per cent and 0.9 per cent market share respectively compared to the December 2015 quarter. NRMA and QBE lost 0.5% and 1.5% market share respectively. AAMI market share remained stable at 7.6 per cent.

**Table 2: Insurer market share in the NSW CTP scheme**

Insurer	4 quarter average	Premium share for individual quarters (s.172)								
		Dec-16	Sep-16	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14
%										
AAMI	8.3	7.6	8.2	8.8	8.5	7.6	10.1	10.6	10.4	8.6
Allianz	12.1	12.5	11.4	12.2	12.6	11.9	11.2	12.0	12.6	12.6
CIC- Allianz	6.2	6.9	6.6	5.7	5.8	6.0	6.1	5.2	5.1	5.2
GIO	19.0	21.1	20.1	18.8	15.4	14.0	14.1	13.2	13.3	12.5
NRMA	31.6	30.7	30.2	32.5	33.2	31.1	32.9	34.0	33.9	33.4
QBE	22.5	21.2	23.5	22.0	23.2	22.7	21.3	21.0	20.5	20.7
Zurich	0.3	0.0	0.0	0.0	1.3	6.7	4.2	4.1	4.3	7.1
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Graph 1: Market share (rolling 12 month) comparison



Graph 1 shows the proportion of premiums collected in the 12 months to the quarter end. Based on rolling twelve month periods this graph reduces any volatility that exists from quarter to quarter due to the seasonal renewal of large fleet vehicles and shows smoother trends in market share.

AAMI and NRMA market shares continue to decrease, while GIO continues to gain significant market share in the last twelve months.

## Upward pressure on premiums

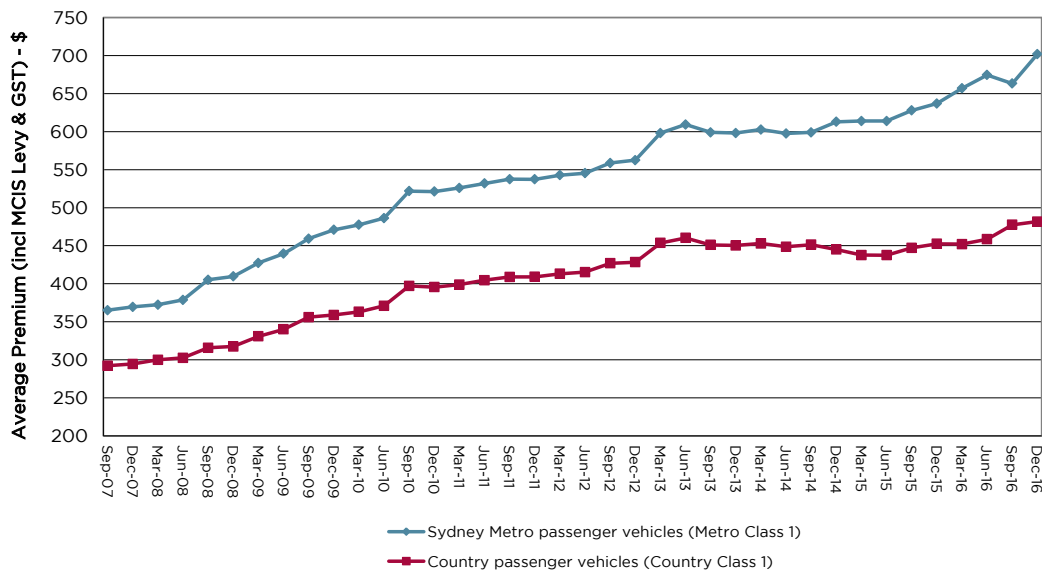
Since 2008, Green Slip premiums have generally continued to experience upward pressure (Graph 2).

Contributing factors are:

- increasing claims frequency
- a significant increase in both the number of small claim lodgements and the level of legal representation for small claims
- low bond yields, resulting in low investment returns for insurers (Graph 3)
- wage inflation.

While the increase in the number of small claims reduces the overall average claims cost, the long term increase in claims frequency means the overall effect is an increase in the cost per policy. These cost pressures are expected to continue into 2017 resulting in further increases in Green Slip prices.

**Graph 2: Average premium (quarterly trends)**

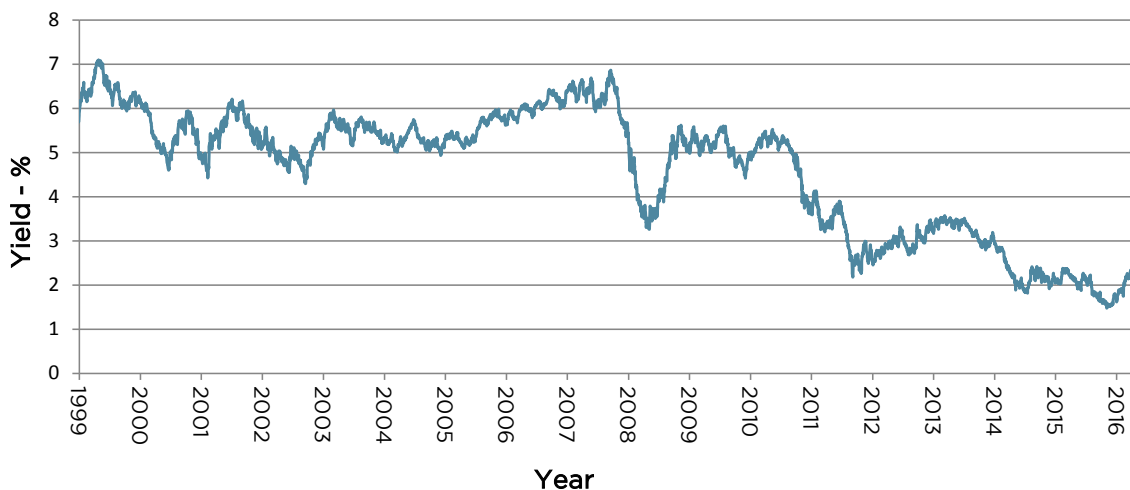


In the December 2016 quarter:

- The average premium (including MCIS levy and GST) paid by Sydney passenger vehicle owners was \$702, an annual increase of \$65 (10.2 per cent).
- The average premium paid by regional passenger vehicle owners was \$482, an annual increase of \$29 (6.4 per cent).

Premium prices are also affected by insurers' investment returns. Graph 3 shows movements in the five-year Commonwealth Government bond yield since the inception of the current CTP Scheme 17 years ago.

**Graph 3: Trend in five year Commonwealth bond yield to 24 January 2017**



\*Measured on 5 October each year

Low bond yields have a negative impact on the investment returns of insurers who invest collected premiums in the bond market. The yield on the five-year Commonwealth Government bond has been at historically low levels in recent years and material changes are not expected in the short term. Movements in five-year bond yields are generally consistent with movements in the yields of other maturities.

# Claims trends

## Number of claims

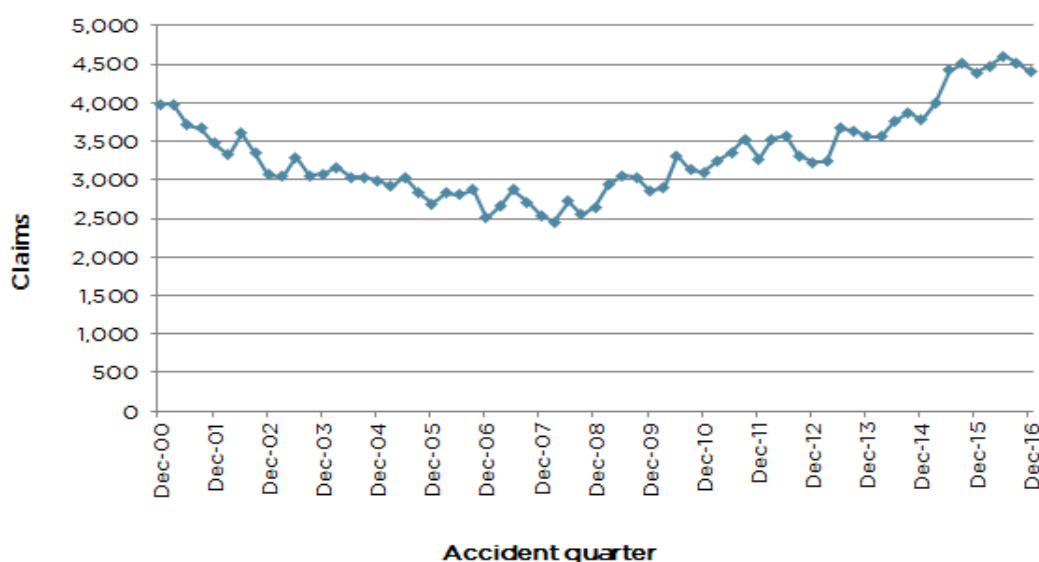
### Newly reported claims

Claims trends are measured from 5 October 1999, when the current Act (MACA) came into effect. The scheme actuaries complete an annual valuation of the scheme in June each year to provide projections for the number of claims expected to be reported. In the December 2016 quarter, the actual number of newly reported claims since the previous quarter, September 2016, was 4,542 (1.4 per cent) less than the 4,605 anticipated from the June 2016 valuation of the scheme. Some of these newly reported claims were lodged with respect to past accident quarters. However, the number of claims reported from accidents in the latest accident quarter, December 2016, was 2,210, the highest number of claims reported in the first development quarter of any December accident quarter since the current scheme began. Overall, the rising trend in claims arising from accidents since March 2008 continues.

### Claims by accident quarter

Graph 4 shows the number of CTP claims per accident quarter<sup>1</sup>. Since March 2008 there has been a clear upward trend in the number of claims per accident quarter from 2,451 in March 2008 to 4,403 in December 2016<sup>2</sup> (e.g. a growth rate of 1.6 per cent per quarter).

**Graph 4: Claims by accident quarter**



This data reinforces the view that claim numbers are increasing faster than anticipated. Analysis of this issue has led SIRA to focus on deterring CTP fraud. The issue is discussed in SIRA's publication *Deterring fraudulent and exaggerated claims in the NSW CTP insurance scheme*.

<sup>1</sup> The numbers of claims reported for accidents from 2014 onward, include projections for claims incurred but not yet reported (IBNR).

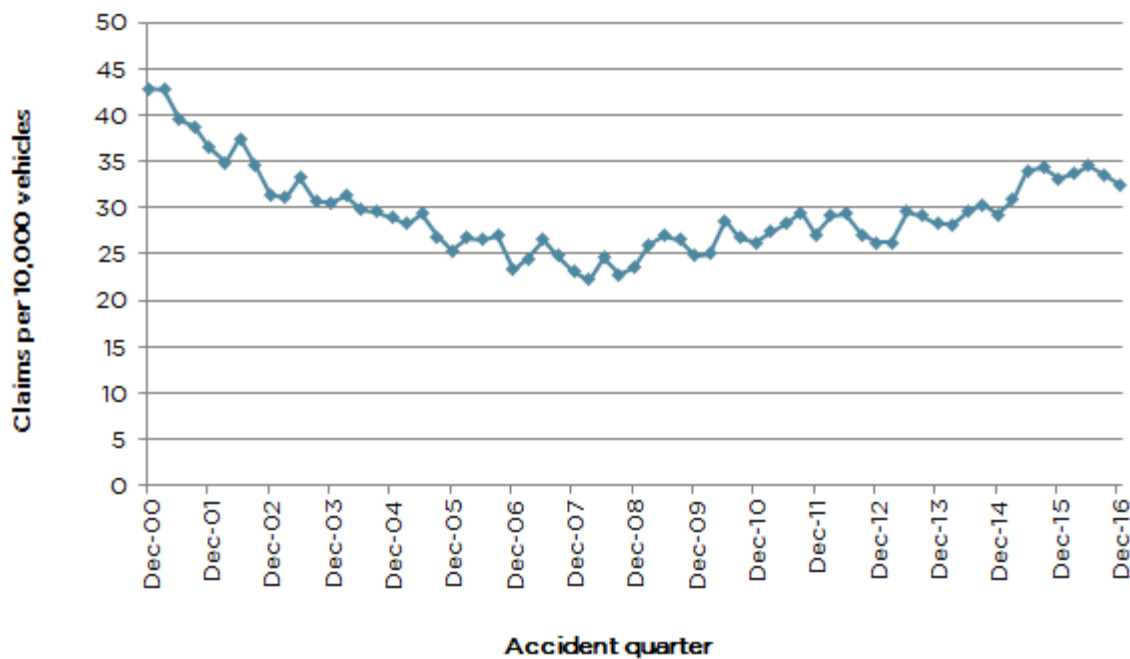
<sup>2</sup> Section b) - Claims per accident quarters considers expected claims from projections as at December 2016 for all future time not just the quarterly increase expected from newly reported claims from the June 2016 valuation, discussed in section a) - newly reported claims

## Claim frequency

Claim frequency is defined as the ultimate number of claims divided by the number of registered vehicles. The ultimate number of claims comprises all reported notifications (full claims and Accident Notification Forms (ANFs)) plus an estimate of claims yet to be reported.

Graph 5 shows the trend in claim frequency by accident quarter. The estimated claim frequency for the December 2016 accident quarter is 32 claims per 10,000 vehicles and the average for the year to December 2016 is 34 claims per 10,000 vehicles. The claims frequency increased consistently between March 2008 and September 2015, however in the year to December 2016 the claim frequency has averaged 33 claims per 10,000 vehicles. Since the start of current Act in 1999, this is the highest number of claims reported within the first three months out of any December accident quarter, despite greater stability in the past year.

**Graph 5: Trend in claims frequency**



Note: For the more recent accident quarters, projections are based on incomplete claims hence data presented for these quarters are just indicative and depend on the robustness of ultimate claims projections.

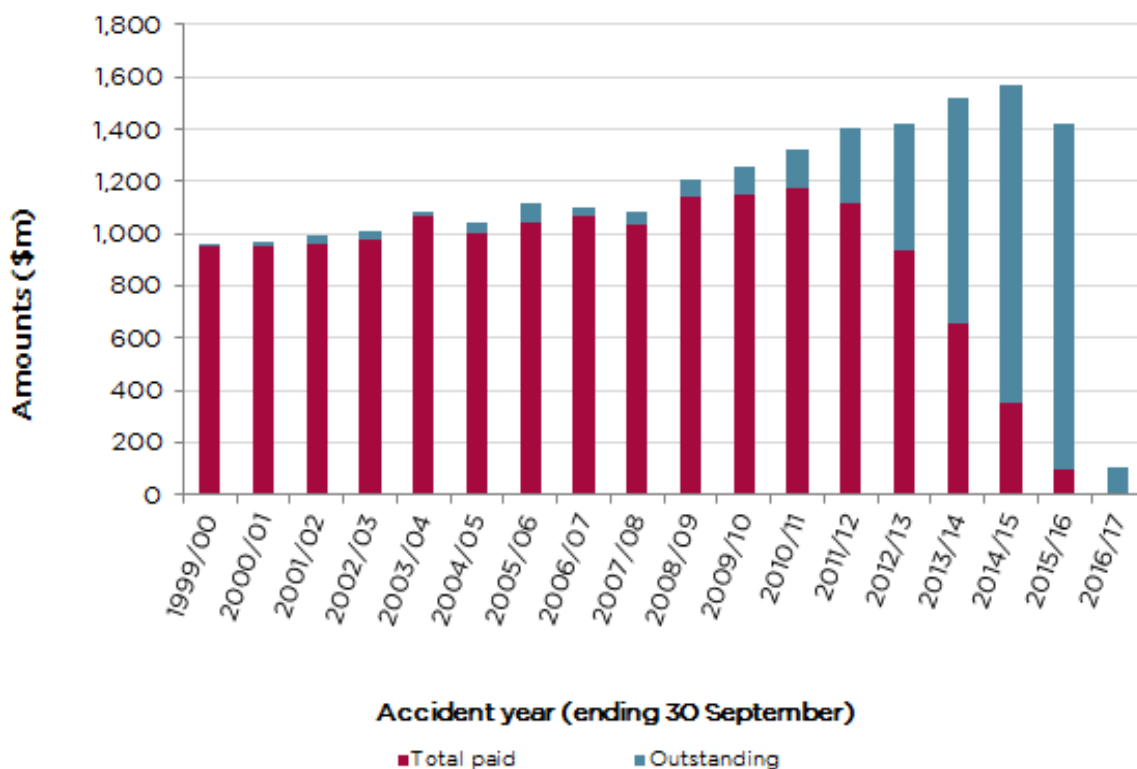
## Claims cost

As at 31 December 2016, a total of 229,344 notifications (full claims and ANFs) with a total incurred cost of \$20.6 billion<sup>3</sup> have been reported since the current scheme commenced in October 1999. It is estimated that \$4.9 billion (24%) is yet to be paid for claims reported to date.

<sup>3</sup> Incurred cost comprises the amount already paid on claims plus an estimate for likely future payments on claims yet to be finalised. Incurred costs shown here are as reported by insurers and have not been adjusted for inflation.

Graph 6 shows how this unpaid amount is distributed across prior full accident years. Further development in payments is anticipated for accident year 2016/17, which has only one out of four quarters worth of claims reported for the accident year as at 31 December 2016. Also, as late claims are reported and estimates for already reported claims get revised, the actual incurred costs becomes more evident.

**Graph 6: Payments on reported claims as at 31 December 2016**

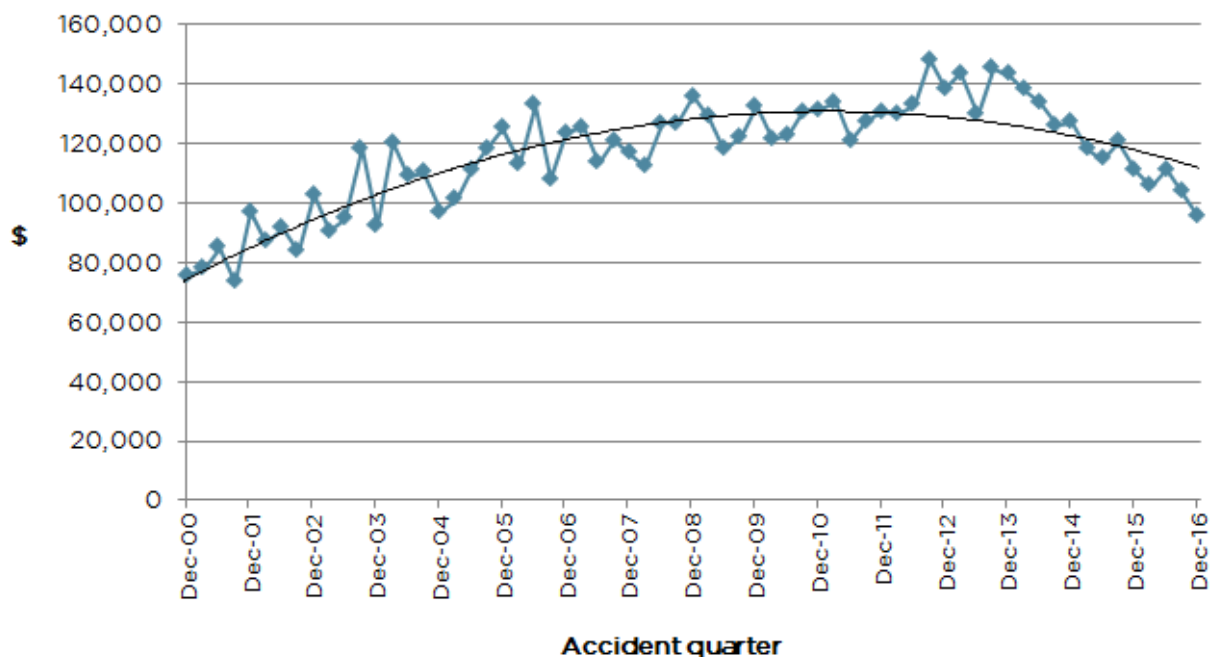


The trend in average incurred costs of full claims that have already been lodged with CTP insurers is shown in Graph 7. The incurred costs are historic amounts not adjusted for inflation.

Since the start of the current scheme, the average incurred cost increased from about \$67,000 in December 1999 to almost \$150,000 in September 2012 and then began to fall thereafter. For claims already reported, insurers will continue to revise their cost estimates as more information is received on these claims. Also insurers are yet to receive late claims from some accidents that have already occurred but not yet had claims lodged.

These revisions and late reports introduce some uncertainty in the average costs estimates, hence the trend line superimposed on Graph 7 presents a more likely level of final average costs of claims in more recent accident quarters. For example, the average incurred costs of claims arising from accidents in December 2015 are more likely to be around \$118,000 and \$112,000 for claims from December 2016 accidents.

Graph 7: Average incurred cost (full claims only)



## About SIRA

SIRA is the government organisation responsible for the regulation of workers compensation insurance, motor accidents compulsory third party (CTP) insurance and home building compensation in NSW.

We focus on ensuring key public policy outcomes are achieved in relation to service delivery to injured people, affordability, and the effective management and sustainability of these insurance schemes.

For the NSW motor accidents insurance scheme, we monitor insurer performance, support road safety initiatives, promote optimal recovery for injured people and provide an independent dispute resolution service.

SIRA assumed the regulatory functions of the former Motor Accidents Authority from 1 September 2015.

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#### Disclaimer

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website [legislation.nsw.gov.au](http://legislation.nsw.gov.au)

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