

**MOTOR ACCIDENTS AUTHORITY
REPORT TO THE LAW AND JUSTICE COMMITTEE
NOVEMBER 2002**

Scheme performance indicators

In evidence to the Legislative Council's Standing Committee on Law and Justice in May 2000, the MAA identified four scheme performance indicators. Each of the performance indicators is addressed in this section based on the operation of the Motor Accidents Compensation Act 1999 since it started on 5 October 1999, to the end of September 2002. The four scheme performance indicators are affordability, effectiveness, fairness and efficiency.

Affordability

The affordability of Green Slips prices has improved according to three measures:

- Average premiums
- Ratio of premiums to average weekly earnings
- Price paid by the majority of Sydney metropolitan passenger vehicle owners.

Average premium

The average premium for a Sydney metropolitan passenger vehicle dropped from \$441 in June 1999 to \$341 in December 2000 increasing to \$347 (excluding GST) in September 2002. It is anticipated that the average will drop to \$345 in December 2002.

The average annual premium over all vehicle classes in NSW has dropped from \$419 in June 1999 to \$336 in September 2002.

Premiums and Average Weekly Earnings

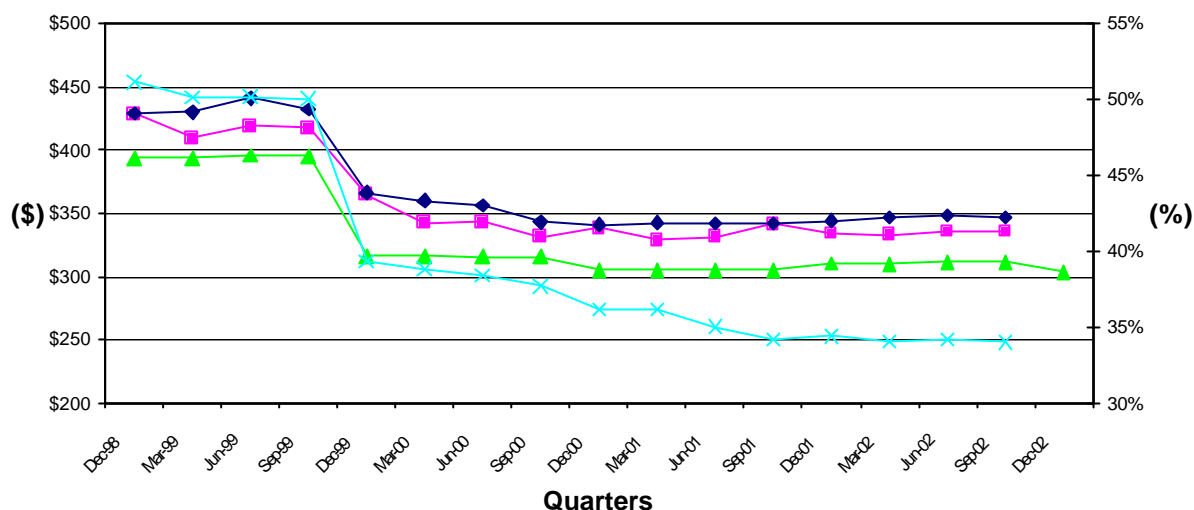
The price of a Green Slip premium has dropped while average weekly earnings have increased. As a proportion of average weekly earnings, weighted best price has dropped from 50% before the reforms to 34% in September 2002.

Premiums reduce for most vehicle owners

At September 2002, more than 70% of owners of metropolitan passenger vehicles paid \$318 or less (excluding GST) for a Green Slip.

For the first year after the commencement of the legislation, the MAA had the power to reject a premium if the MAA 'was not satisfied ... that the majority of policies relating to passenger motor vehicles in metropolitan areas will attract a premium of not more than approximately \$330'. In the first year of the scheme, more than 70% of premiums for metropolitan passenger vehicles were \$330 or less. The \$330 mark has now dropped to \$318 and is expected to drop further still.

Average Premiums



■ Average Premium (\$) (Annual Policies) - All Classes
 ◆ Average Premium (\$) (Annual Policies) - Metro Class 1
▲ Average Premium (\$) (Annual Policies) - Weighted Best Price (\$)
 × Weighted Best Price as a % of AWE

Effectiveness

To measure scheme effectiveness the experience of the first three years of the new scheme is compared with the last three years of the old scheme at the corresponding point of development.

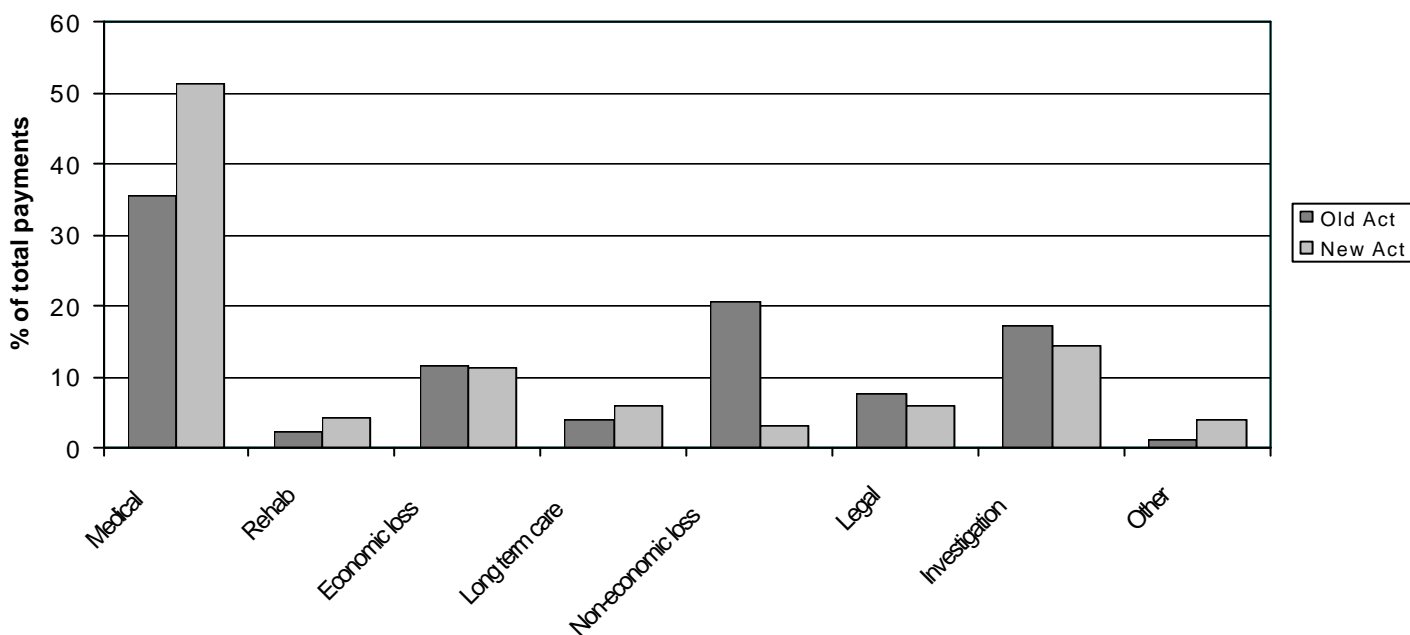
Number of claims and time periods

		Old scheme	New scheme	% difference
Number of notifications	ANFs		17,654	
	Direct full claims		23,217	
	Converted ANFs		8,804	
	Full claims		32,021	
	Total notifications	40,834	40,871	0.1%
Average time to notification (days)	ANFs		25.5	
	Full claims	113.6	100.8	-11.2%
	Total notifications	113.6	84.5	-25.6%
Average time to liability decision (days)	Full claims	125.0	96.6	-22.7%
Average time to first payment to claimant (days)	ANFs		41.8	
	Total notifications	171.6	98.1	-42.9%
Finalisations	Full claims	15,383 (37.7%)	12,308 (38.4%)	
	Total notifications	15,383 (37.7%)	19,536 (47.8%)	27.0%
Average time to finalisation (days)	ANFs		156.2	
	Full claims	350.4	350.6	0.1%
	Total notifications	350.4	280.1	-20%

Claim payments

Claim payments over this period have reduced from \$417 million to \$207 million, a reduction of \$180 million. This represents the expected savings from the reduction in payment on smaller claims that are finalised at an earlier point in time. The reduction in claim payments is considerably less than the reduction in premiums, which over this period reduced by \$405 million. The payment profile shows that as expected there has been an increase in payment going to medical payments rather than in direct compensation and a large reduction in non-economic loss payments. This is in line with expectations as the claims settled to date are less complex or relate to less serious injuries.

Payment Profile – percent of total payments



Fairness

The scheme is intended to provide a fair and equitable system for claimants ensuring that the most seriously injured receive maximum compensation. Two groups of claimants have been selected for more detailed examination in this regard.

The first group consists of claimants with serious brain injuries who represent one of the most significant serious injury groups, and historically have been one of the most costly groups. The second group is those claimants with serious leg fractures. The second group is substantial in size and also in cost.

It should be noted that the level of severity that is used by the MAA is based on coding which categorises injuries according to threat to life, i.e. the higher the score the more likely a person is to die of their injury. An injury that is very life threatening at the time of the accident may not result in permanent impairment if it is successfully dealt with and the person lives.

Further, brain injuries represent a heterogeneous group impacting on individuals in different ways and having different impairment results. It also should be borne in mind that brain injury may not be the only injury sustained by people included in this group. Individuals can sustain a number of other injuries which will also impact impairment and the level of compensation.

The MAA has presented information on the major injury groups of brain injury and leg fractures because it is the best measure available to identify serious injury groups.

When looking at seriously injured claimants, it is necessary to allow some time for their claims to develop. For this reason the following basis has been adopted for this comparison. The accident year immediately before the reforms was compared with the accident year immediately after the reforms. Both were compared at the same relative stage of development.

The **Old scheme** refers to claims from accidents between 5 October 1998 and 4 October 1999, as at September 2001. The **New scheme** refers to claims from accidents between 5 October 1999 and 4 October 2000, as at September 2002.

Brain Injuries

	Old scheme	New scheme	% difference
Number of notifications	256	246	-3.9%
Average time to notification (days)	132.9	132.8	-0.1%
Average time to liability decision (days)	222.4	136.1	-38.8%
Average time to first payment to claimant (days)	212.8	173.9	-18.3%
Finalisations	63 (24.6%)	51 (20.7%)	-19.0%
Average time to finalisation (days)	563.4	583.0	3.5%

There has been an overall reduction in the amount paid from \$23.7 million to \$17.6 million. While total payment on these claims is lower this primarily reflects the fact that a smaller number of matters are finalised. For finalised claims the average claim payment has increased from \$167,963 to \$230,331 an increase of 37%.

Finalised brain injury claims

More detailed information is presented on finalised brain injury claims where liability was fully accepted. Approximately equal numbers of claims were finalised in the two time periods. While legal representation was high in both schemes and even higher in the new scheme, no litigation was recorded for claims finalised in the new scheme.

The average payment overall increased, as did average payments in all individual payment categories.

Finalised brain injury claims (liability fully accepted)

	Old scheme	New scheme	% difference
Number of finalised claims	23	24	4%
Legally represented	87%	96%	9%
Litigated	26%	0%	-26%
MAIS (maximum severity score)			
3	10	12	20%
4	11	10	-9%
5 (most severe)	2	2	0%
Average payment	\$167,963	\$230,331	37%
Average payment (excl legal & investigation costs)	\$155,684	\$214,314	38%
Average payments by category			
Economic loss	\$51,366	\$147,199	187%
Long term care	\$42,641	\$80,344	88%
Medical	\$31,412	\$34,139	9%
Non economic loss	\$86,069	\$122,997	43%
Rehabilitation	\$2,749	\$4,655	69%
Investigation costs	\$1,833	\$2,874	57%
Legal costs	\$15,118	\$15,209	1%

Leg Fractures

		Old scheme	New scheme	% difference
Number of notifications	Total notifications	645	573	-11.2%
Average time to notification (days)	ANFs		39	
	Full claims	117.3	111.8	-4.7%
	Total notifications	117.3	111.7	-4.8%
Average time to liability decision (days)	Full claims	499.8	550.5	10.2%
Average time to first payment to claimant (days)	Total notifications	208.8	165.9	-20.6%
Finalisations	Full claims	282 (43.7%)	187 (32.7%)	
	Total notifications	282 (43.7%)	188 (32.7%)	-11.0%
Average time to finalisation (days)	Total notifications	500	549	10%

Total claim payment have reduced from \$36.3 million to \$19.4 million but again this is on a smaller number of finalised matters. More detailed information is presented on finalised leg fracture claims where liability was fully accepted.

Fewer claims have been settled in the new scheme. The difference is accounted for by fractures with severity 3, the least serious among the severe leg fractures. Average payments dropped by 28%, and by 26% when legal and investigation costs were excluded.

Fractures are by and large injuries from which most claimants will recover, and while there will inevitably be some pain during the recovery process, there will not be lasting impairment. This is reflected in the lower number of claimants receiving NEL. The average NEL payment increased by 26% from \$52,400 to \$66,200.

Average claim payments on finalised claims dropped from \$126,204 to \$91,375. However, average settlement amounts increased for all payment categories except legal and investigation costs where there were decreases of 37% and 24% respectively.

Finalised leg fracture claims (liability fully accepted)

	Old scheme	New scheme	% difference
Number of finalised claims	135	84	-38%
Legally represented	88%	73%	-15%
Litigated	20%	2%	-18%
MAIS (maximum severity score)			
3	129	77	-40%
4	5	5	
5 (most severe)	1	2	100%
Average payment	\$126,204	\$91,375	-28%
Average payment (excl legal & investigation costs)	\$117,998	\$87,752	-26%
NEL payment recorded	125	29	-77%
Average payments by category			
Economic loss	\$63,017	\$64,228	2%
Long term care	\$21,976	\$24,177	10%
Medical	\$18,958	\$20,719	9%
Non economic loss	\$52,432	\$66,234	26%
Rehabilitation	\$3,297	\$4,277	30%
Investigation costs	\$1,535	\$1,306	-15%
Legal costs	\$12,390	\$7,517	-39%

Efficiency

Scheme efficiency has risen from 59 to 63 per cent of the premium dollar being returned to injured people as compensation. This has been achieved by the reduction of transaction costs, that is, those costs incurred to administer the scheme.

Transaction costs include costs incurred by insurers in the initial collection of premiums, payment of their staff and their agents, the cost of employing investigators to investigate claims, the cost of claims departments to handle claims and payments to legal practitioners claimants and insurers.

Legal and medico-legal costs

In order to contain legal and medico-legal costs, the Motor Accidents Compensation Regulations were passed. Legal costs accounted for \$16.3 million in the first 36 months of the new scheme, compared to \$47.1 million in the comparable period of the old scheme. At this stage of the new scheme claims for more serious injuries have not been finalised. Those claims can be expected to involve significant legal costs.

Investigation costs

Investigation costs have dropped from \$42.8 million to \$20.6 million.

Insurers' costs

Other transaction costs in the scheme include claims handling expenses, acquisition expenses and insurers' profit margins. Insurers identify estimates of these costs in the premium filings they submit to the MAA. During the reporting period, insurers submitted filings to the MAA for premiums to commence on 5 October 2001. by comparison with prior years:

- claims handling expenses still account for 4%, indicating a reduction in dollar terms as the premium has decreased
- acquisition expenses account for 14%, indicating a reduction in dollar terms as the premium has decreased
- legal & investigation costs dropped from 14% to 11%, and
- claimant benefits (scheme efficiency) increased from 59% to 63%.