NSW Motor Accidents CTP scheme

Motor Accidents Compensation Act 1999

Scheme performance report 2018

Issued 2020

NSW GOVERNMENT

Contents

1. Executive Summary

1.1 Introduction

This is the State Insurance Regulatory Authority's (SIRA) 2017-2018 performance report for the '1999' NSW Compulsory Third Party (CTP) Motor Accidents ('Green Slip') Scheme established under the *Motor Accidents Compensation Act 1999* (1999 Act).

Following a major scheme review, the 1999 scheme stopped selling CTP policies on 30 November 2017. Policies were then sold under the new '2017 scheme', established under the *Motor Accident Injuries Act 2017* (2017 Act), which commenced on 1 December 2017. SIRA regulates both schemes.

The 1999 scheme will continue to operate for many years until claims for accidents occurring before 1 December 2017 are finalised.

This report covers the 1999 scheme experience from 1 July 2017 to 30 June 2018, the last accident year of the scheme. It is a partial accident year of five accident months from 1 July 2017 to 30 November 2017, as accidents from 1 December 2017 onward report into the 2017 scheme. Consequently, claim numbers for this accident year will be substantially lower than previous accident years. From 1 December 2017, the 1999 scheme is in run-off.

As people injured in road accidents before 1 December 2017 had up to six months after their accident to submit a claim under the 1999 scheme, regular lodgement of claims ended on 31 May 2018. Claims lodged more than six months after the date of accident may be accepted if the injured person can provide a full and satisfactory explanation for the delay. This means that some data in this report has been scaled up to equate to a full accident year for comparison purposes.

Future scheme performance reports will be briefer as there will be minimal, if any, new claims lodged in future years to impact scheme experience. The focus therefore will be on the settlement of remaining claims. Cost drivers in the scheme have been dealt with in the 2017 scheme design and are now mostly redundant as the scheme is in run- off. This means that current and future motorist insurer premiums are all related to the 2017 Scheme, so are unaffected by any changing claims trends from the 1999 Scheme run-off.

The insurers that were licensed to underwrite the 1999 scheme as at 1 December 2017 all transitioned to the 2017 scheme with new licences, however CIC Allianz no longer operates in the market. There have been no new entrants to the 2017 scheme.

A separate 2017-2018 performance report has been produced for the 2017 scheme and is on the SIRA website at: https://www.sira.nsw.gov.au/corporate-information/ctp-scheme-reports. Premium information and the market share of licensed insurers is provided in that report.

The data in this report is based on analysis by the scheme actuary, Ernst & Young (EY), and information provided by SIRA. Some values in this accident year have been adjusted so that they are comparable with other accident years.

Dominant trend in the 1999 scheme addressed

The dominant trend in the NSW CTP scheme since 2008 has been year on year increases in legally represented minor severity injury claims, increasing overall claims costs per policy issued. This trend was reduced through:

- changes to the Motor Accidents Compensation Regulation 2015 (Cost Regulation) on 1 November 2016, which capped legal costs for smaller settlements ($50,000 or less) to protect settlement amounts from disproportionately large contracted out legal costs
- the impact of the CTP Fraud Taskforce and establishment of NSW Police Strike Force Ravens in August 2016, which made arrests and charges for CTP fraud.

1.2 Key performance indicators for the 1999 scheme

The final year of premiums saw a slight decrease from an average of $661 on 30 June 2017 to $658 on 30 November 2017 for all vehicles before the commencement of the 2017 scheme. This three-dollar reduction reflects the beginning effect of capped legal costs for smaller settlements and CTP fraud reduction strategies.

- Projected average efficiency for the latest five accident years (2014 - 2018) is 46 percent and 44 percent over the lifetime of the scheme.
- In the last 24 months there has been a decrease in the number of legally represented minor severity injury claims reported. Projected minor severity legally represented numbers show a reduction of 15 percent for the 2016/2017 accident year and 17 percent for the 2017/2018 accident year on an annualised basis.
- Cost per policy increased significantly from 2008 to 2016, but between 2016 and 2018 is largely unchanged, with the highest contributor being legally represented minor severity claims.
- The average claim size increased materially in 2017, a trend that has not been seen since 2009. This reflects a reduced frequency of smaller claims and a projected shift in claims mix towards moderate severity claims compared to 2016.
- Insurer profit margin for the most recent five accident years[1] (2014 - 2018) is estimated to be 22 percent, compared to the average filed profit margin of 8 percent.
- Scheme experience is that legal costs are 22 percent of the claim costs, half of which is for contracting out legal costs.
- The Claims Assessment and Resolution Service (CARS) general assessment applications rose by four per cent (83 more applications) in 2017-18. There was also a 16 percent decrease in CARS applications seeking an exemption from claims assessment which also exempts a claim from the regulated legal costs regime (370 fewer applications).

[1] Accident years generally run from 1 July to 30 June.

- The Medical Assessment Service (MAS) medical treatment dispute applications rose by 51 percent (485 applications), the highest in recent years (321 applications were received in 2016-17).

1.3 Outlook

The number of new claims lodged in the 1999 scheme will be minimal as the scheme is in its run-off period.

SIRA is monitoring the 1999 scheme to ensure injured people are treated fairly in accordance with the legislation and are assisted through the claims process. CTP Assist, SIRA's support and information service, provides a telephone and digital service for injured people in both the 1999 and the 2017 schemes.

The 2017 scheme design addresses problems with the 1999 scheme, such as poor efficiency rates, high legal costs and insurer profit margins, and the lengthy and complicated claims process.

The recovery of the injured person is central to the 2017 scheme, with more CTP dollars to go to injured people, particularly for people with more severe injuries. Scheme design has streamlined the claims process and encourages the payment of benefits to injured people sooner compared to the 1999 scheme.

The consistent pattern of discrepancy between 'filed' and realised insurer profits under the 1999 scheme is also addressed in the 2017 Act. SIRA has additional powers to recoup insurer profits and cover losses that are excessive through the Transitional Excess Profit and Loss (TEPL) mechanism, developed in consultation with insurers.

Powers under the 2017 Act have strengthened SIRA's ability to investigate and prosecute people with unmeritorious or exaggerated claims.

SIRA is working collaboratively with the NSW Police Force's Financial Crimes Squad and other peak investigative bodies to deter, detect and prosecute fraudulent claims and suspected unlawful activity involving the CTP schemes.

2. Background

2.1 State Insurance Regulatory Authority

The State Insurance Regulatory Authority (SIRA) is a statutory body established under the *State Insurance and Care Governance Act 2015*. It regulates the CTP insurance scheme, or Green Slip insurance, for motor vehicles registered in NSW, along with other mandatory state insurances.

Green Slip insurance covers drivers against liability for the injury or death of another person. Claims are managed by the CTP insurer of the vehicle at fault.

SIRA licenses and regulates private insurers that underwrite the 1999 and 2017 schemes, which provide benefits for pedestrians, passengers, cyclists, motorcyclists, drivers of other vehicles and, to a limited extent, the driver at fault. Both schemes also provide funeral expenses and compensation to relatives of people killed in a motor accident.

Benefits under the schemes are fully funded from premiums. The Nominal Defendant Fund ensures anyone injured by an uninsured or unidentified vehicle can also claim scheme benefits.

A levy on Green Slip premiums covers initial ambulance and hospital expenses for people injured in a motor accident in NSW, regardless of fault and whether the person makes a CTP claim.

SIRA's functions are set out under section 206 of the 1999 Act, and 10.1 of the 2017 Act.

2.2 SIRA's Dispute Resolution Service

SIRA operates an independent Dispute Resolution Service (DRS) which provides an alternative to court for resolving disputes for the NSW CTP schemes.

SIRA's dispute resolution role is to encourage the early resolution of motor accident claims through the quick, cost-effective and just resolution of disputes for people injured in motor accidents.

For claims under the 1999 Act, it includes the Medical Assessment Service (MAS) and the Claims Assessment and Resolution Service (CARS).

SIRA's services are delivered without charge to injured people and insurers. Services are funded through a levy on premiums.

2.3 Overview of the 1999 scheme

The 1999 scheme, established on 5 October 1999, is an adversarial common law scheme where lump sum payments are received by not-at-fault injured road users once their injuries have sufficiently recovered.

For accidents that occurred up to and including 30 November 2017, the 1999 scheme provides compensation for injured people where another driver was at fault. Children

injured in an accident are also covered, regardless of who was at fault. The scheme provides up to $5,000 worth of treatment and lost earnings, incurred within the first six months after an accident, regardless of fault. A claim for such benefits is termed an Accident Notification Form (ANF) and must be lodged within 28 days of the date of accident.

For those not-at-fault, medical treatment, rehabilitation and domestic assistance are paid by the insurer as they are incurred by the injured person.

The scheme also provides lump sum damages for:

- future treatment, rehabilitation and care
- past and future economic loss.

If the driver was not-at-fault, funeral expenses and compensation to relatives is available.

If injuries are assessed as exceeding 10 percent permanent impairment, lump sum damages can include an amount for non-economic loss (e.g. pain and suffering).

Lump sum settlements are negotiated with the insurer by the person who was injured once their injuries are sufficiently recovered. After a settlement is paid, no further claim can be made on the insurer for the injuries sustained in the accident.

Claims under the 1999 scheme can take a long time to resolve, with some claims taking three or more years to reach settlement. Although the 1999 Act does provide for advances on settlement to avoid financial hardship, the lengthy claim process under the 1999 scheme often causes prolonged stress and inconvenience for the injured person.

2.4 Scheme reform

Before the introduction of the 2017 scheme, NSW CTP insurance (under the 1999 scheme) was among the most expensive in Australia. Contributing substantially to scheme costs were:

- legally represented minor severity claims, such as whiplash and soft tissue injuries (about 60 percent of all claims before reform)
- insurer profits
- legal and investigative expenses and expert medical advice
- fraud and exaggerated claims.

In March 2017, after lengthy and broad consultation, the NSW Parliament passed the 2017 Act, introducing a new approach to CTP insurance in NSW. The 2017 scheme better supports people injured on our roads, has a focus on their optimal recovery and, for vehicle owners, reduces the cost of Green Slips.

Insurers stopped selling CTP policies under the 1999 scheme on 30 November 2017 and started selling policies under the 2017 scheme on 1 December 2017. The 1999 scheme will, however, be in operation for many years, as injuries, claims, and any disputes which may arise from accidents that occurred up to that date are resolved.

SIRA now regulates two CTP insurance schemes for motor vehicles registered in NSW: the ‘1999 scheme’ and the newer ‘2017 scheme’.

3. Analysis of cost drivers:1999 scheme

3.1 Background

The 2018 accident year was a partial accident year of five accident months from 1 July 2017 to 30 November 2017, as accidents from 1 December 2017 onward report into the 2017 scheme. Consequently, claim numbers for this accident year will be substantially lower than previous years. From 1 December 2017, the 1999 scheme is in run-off.

The following cost drivers have been addressed in the 2017 scheme design and are recorded in this report for completeness. Some values in this accident year have been annualised so that they are comparable with other accident years.

Reporting drivers related to claim numbers in the scheme will be redundant beyond the 2018 accident year as the number of late claims lodged will be insignificant.

The major trend since 2008 of year on year increases in legally represented minor severity claims has reduced due to strategies implemented by SIRA. These include the Cost Regulation on 1 November 2016 (which capped legal costs for settlements of $50,000 or less to protect settlement amounts) and CTP fraud strategies initiated from 1 August 2016. This has impacted propensity to claim and claims frequency and estimated legal and investigation costs, reducing the cost per policy.

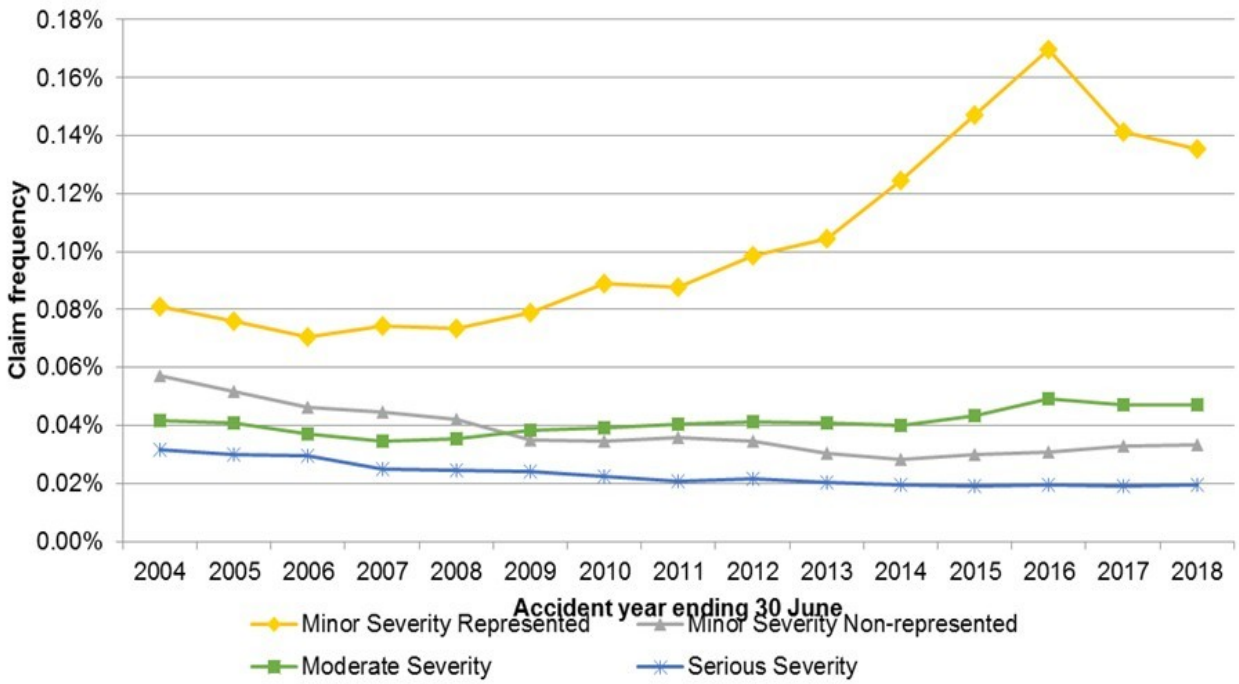
3.2 Key facts

Topic	Fact
Propensity to claim The ultimate number of claims divided by the number of road casualties.	While casualty numbers have continued to fall (from around 29,000 in 2008 to around 21,000 in 2018), the propensity to claim (excluding ANFs and workers compensation recoveries) increased from 30 percent in 2008 to 60 percent in 2016. This trend has flattened in the most recent accident years: the propensity to claim remained at around 60 percent from the 2016 to 2018 accident years.

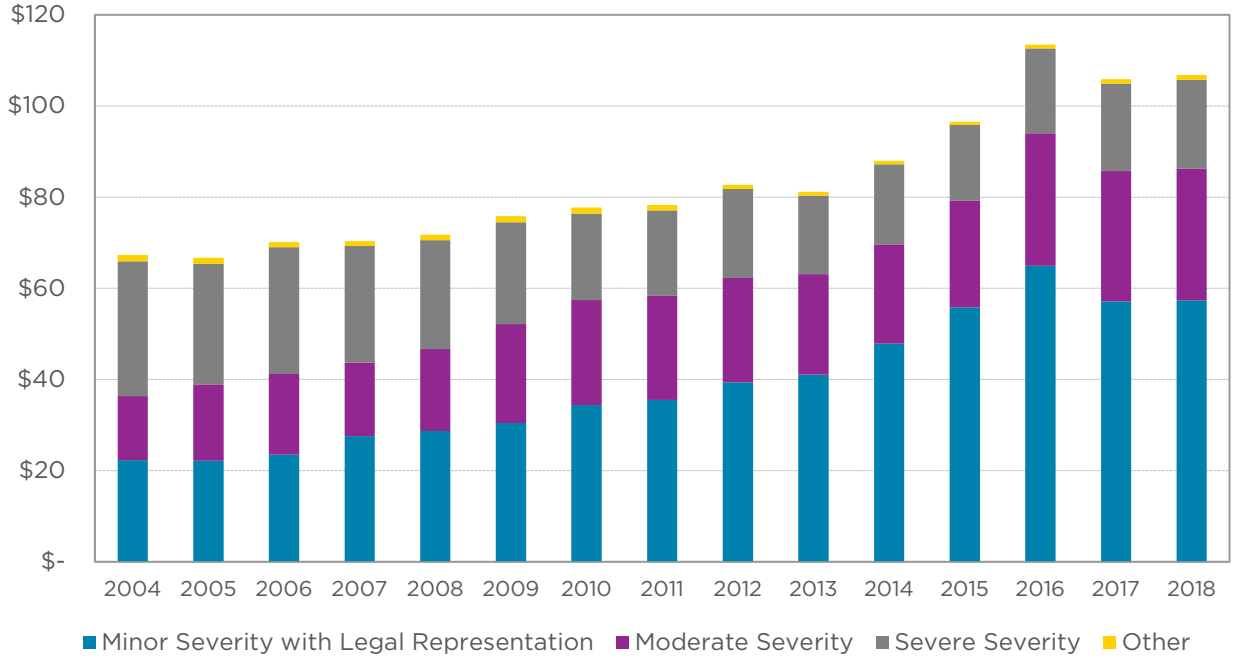
Topic	Fact
Claim frequency The number of claims divided by the number of policies exposed.	Claim frequency (all claims) reduced steadily between 2004 and 2008 and has been increasing since, except for a slight reduction in 2013 reflecting legislative changes limiting NSW workers compensation journey claims. The increase between 2013 and 2016 was predominantly driven by legally represented minor severity claims. In 2017 and 2018, there is projected to be a significant decrease in frequency which is similarly driven by a reduction in legally represented minor severity claims. Claim frequency excluding workers compensation recoveries and ANFs has also been increasing in recent years at a higher rate with a similar reduction from 2016 to 2017.
Legally represented minor severity claims	The reduction in legally represented minor-severity claims reporting in 2017 and 2018 is partially offset by an increase in the number of moderate severity claims reporting over the same period. The higher claim frequency for moderate severity claims was particularly significant in 2016 (14 percent). The increase consisted mainly of spinal injury claims that were initially reported as minor severity injury claims and subsequently recognised as moderate severity claims.
Cost per policy The estimated total cost of claims divided by the number of insured motor vehicles in the scheme.	Average cost per policy was largely unchanged from 2016 to 2018. This reflects the offsetting impact of reduced claim frequency for smaller claims with the increase in average claim size driven partially by the increase in moderate severity claims in 2017 and 2018.
Legal and investigation costs per policy	Legal costs represent over 90 percent of the category 'legal and investigation costs'. Total legal and investigation costs per policy remained relatively stable until 2013, then began increasing significantly to 2017. Legal and investigation costs per policy then decreased by 5 percent in 2017 and increased by 1 percent in 2018 in line with inflation. Legal plaintiff costs are estimated to be 22 percent of the cost per policy for the 2018 accident year. About half of this is contracted-out legal costs.

Topic	Fact
Investment income	The premium collected at the time of issuing the CTP policy is reliant on return on investment to fund future claims. Some scheme claim payments are linked to inflation and may drive premiums in a continuing scheme. The impact of the increase in interest rates between June 2017 and June 2018 and a revision of discount factors impacting claim payments is a 0.2 percent decrease in the forecast claim payments for the 2018 accident year.

Claim frequency by injury severity



Estimate total legal and investigation costs including contracted out legal costs[2]



4. Claims

4.1 Background

The scheme is in run-off from 1 December 2017. The table 'Ultimate number of full claims and ANFs since 2004' shows the pattern of claims over the life of the scheme since 2004. There will be minimal changes to the number of claims beyond the 2018 accident year as late claim numbers will be small.

Similarly, several metrics in the table 'Claim trends for the 2018 accident year' will be redundant after the 2018 accident year.

4.2 Key facts

The total number of claims (including workers compensation recovery claims and ANFs) reduced between 2004 and 2008 then increased until 2016, followed by reductions for 2017 and 2018.

Ultimate claim numbers in the 2017 and 2018 accident years have seen a reduction against the peak of the 2016 accident year.

[2] This represents legal and investigative costs including contracted-out legal costs in June 2018 values by accident year (excludes self-represented minor severity claims, ANFs and workers compensation recoveries).

Ultimate number of full claims and ANFs since 2004

Accident Year	Minor Severity Represented	Minor Severity not represented	Moderate Severity	Serious Severity	Workers comp recoveries	**Total Claims**	Total ANFs
2004	3,251	2,290	1,672	1,275	1,570	10,058	2,267
2005	3,124	2,133	1,679	1,235	1,675	9,846	2,124
2006	2,967	1,935	1,564	1,232	1,490	9,188	1,964
2007	3,193	1,907	1,487	1,074	1,533	9,194	1,722
2008	3,212	1,843	1,556	1,073	1,340	9,024	1,398
2009	3,541	1,572	1,728	1,072	1,427	9,340	1,848
2010	4,093	1,596	1,803	1,029	1,376	9,897	2,198
2011	4,131	1,689	1,913	979	1,336	10,048	2,806
2012	4,738	1,664	1,992	1,035	1,297	10,726	3,200
2013	5,128	1,485	2,000	988	348	9,949	3,514
2014	6,262	1,421	2,021	989	278	10,971	3,613
2015	7,581	1,533	2,228	988	272	12,602	3,519
2016	8,977	1,632	2,603	1,031	232	14,475	3,447
2017	7,646	1,779	2,539	1,024	225	13,213	3,439
2018	7,429	1,825	2,574	1,063	224	13,115	3,416

Claim trends for the 2018 accident year

Topic	Fact
Lodgement of claims	Since the start of the scheme, the median time taken to lodge a full claim is 3.4 months (the average is 5.3 months) from the date of accident.
Lodgement of claims	21 per cent of full claims were lodged after the six-month time limit. Of these, 31 per cent were lodged within one month of the six-month time limit.
Lodgement of claims	The median time to lodge an Accident Notification Form (ANF) was 22 days (the average is 25 days) after the accident.

Topic	Fact
Lodgement of claims	25 per cent of not-at-fault ANFs were lodged after the 28-day time limit compared with 33 per cent of at-fault ANFs. Of these, 49 per cent were lodged within the following week.
Lodgement of claims	The median time to settle a full claim is 20 months (the average is 25 months) after lodgement. Typically, claims for minor severity injuries settle in a relatively short time for below average cost and high severity injury claims take longer to settle at a higher cost.
Injury notifications and claim finalisations	During 2017-18, 9,528 injury notifications (ANFs converted and full claims) were received and 17,678 claims, that were mainly lodged in previous years, were finalised.
Payments	The scheme paid $1.42 billion in benefits in 2017-18, mainly for claims made in previous years. This compares with a total of $1.43 billion in benefits paid in 2016-17. This was a small reduction of $10.9 million in total benefits over 12 months.
Payments	The average payment on full claims finalised in 2017-18 was $116,216, compared to $119,941 in 2016-2017.
Claims by gender of driver	In NSW, males currently make up 49.6 per cent of the population and 51.1 per cent of licence holders but cause 62.7 per cent of crashes that result in injuries. In contrast, females cause only 35.3 per cent of injury crashes. In the remainder of cases the gender of the at-fault driver/s is unknown.
Claims by age of driver	Persons aged between 17 and 25 years currently make up 12 percent of the population and 13.5 percent of licence holders but cause 23.3 percent of all injury crashes, which account for 25.4 percent of all claims costs.
Claims by age of driver	Persons in the 50-69 year old category make up 22.7 percent of the population and 30.7 percent of licence holders but cause 22.2 percent of injury crashes, which account for 21.2 percent of all claims costs.
Small number of claims with high average claim costs	Claims made by pillion passengers, motorcycle riders and pedestrians account for small numbers of claims but disproportionately high average claim costs. Claims from pillion passengers make up only 0.5 per cent of claims but 1.1 percent of overall claims costs with an average incurred cost per claim of $229,000. In contrast, drivers make up about half of all claims and have an average cost per claim of $89,500.

Topic	Fact
Nominal defendant	SIRA received 485 claims as the Nominal Defendant during 2017-18 compared to 691 in 2016-17. Nominal Defendant claims represented approximately 4.2 per cent of all claims and 4.9 per cent of incurred costs, since the scheme was established in 1999.
Open claims	As of 30 June 2018, there were 24,135 open claims under the 1999 scheme.
Outstanding estimates	$4.55 billion as at 30 June 2018.

5. Dispute Resolution Service

5.1 Background

As outlined in section 2.2, SIRA provides a dispute resolution service as an alternative to court, for medical and claims disputes.

The Medical Assessment Service (MAS) provides independent, binding, expert assessment of disputes about:

- Treatment: Whether the treatment provided, or to be provided, is reasonable and necessary in the circumstances, and whether it relates to an injury caused by the motor accident.
- Permanent impairment: Whether the degree of permanent impairment due to the motor accident injury is greater than 10 percent. This threshold determines whether an injured person is entitled to claim damages for non-economic loss, such as pain and suffering.

The Claims Assessment and Resolution Service (CARS) provides a simpler, more accessible and faster way of assessing claims than the courts for compensation and to resolve procedural disputes between an injured person and an insurer. There is no access to the courts unless a claim has either been assessed at CARS or exempted from a claims assessment (if, for example, fault is denied).

5.2 Key facts

Medical Assessment Service

- There were 5,676 MAS applications lodged and 5,670 disputes were finalised in 2017-18.
- Permanent impairment assessment applications decreased by nearly 5 percent from 4,023 in 2016-17 to 3,841 in 2017-18. Permanent impairment disputes took an average of 110 working days to resolve in 2017-18 compared to 115 working days in 2016-17.
- Treatment dispute applications rose by 51 percent (485 applications), the highest in recent years. (321 applications were received in 2016-17).
- Treatment disputes took an average of 128 working days to resolve, a significant reduction compared to 142 working days in 2016-17.
- Administrative challenges resulted in 8 MAS decisions being set aside by the court and sent back for a new decision to be made.

Claims Assessment and Resolution Service (CARS)

- There were 4,120 CARS application lodged and 4,035 disputes resolved in 2017-18.
- CARS general assessment applications rose by 4 per cent (83 more applications) in 2017-18. There was also a 16 percent decrease in CARS applications seeking an exemption from claims assessment which also exempts a claim from the regulated legal costs regime (370 fewer applications).
- Despite a 14 per cent increase in general assessment applications finalised, the time to finalisation remained stable at 156 working days.
- Exemption applications were resolved on average within 15 working days compared to 18 working days in 2016-17.
- Administrative challenges resulted in 3 CARS decisions being set aside by the court and sent back for a new decision to be made.

6. Insurer profit

6.1 Background

Once a premium is collected, insurer profits depend on the emerging claims cost per policy. Premiums were based on the actual and forecast claim experience of an insurer's expected portfolio mix of vehicles and rating districts[3] for the filing period. SIRA had limited power to reject a premium under the 1999 Act. SIRA's powers have been strengthened under the 2017 Act, with SIRA now able to recoup excessive insurer

[3] Rating districts under the 1999 scheme were Metropolitan, Outer Metropolitan, Newcastle/Central Coast, Wollongong and Country.

profits and cover losses. As premiums are no longer sold under the 1999 scheme, SIRA has no influence on 1999 scheme profit margins.

The extent to which projected profit margins align with the actual profits made by insurers depends on the extent to which the assumptions in insurers' premium filings under the 1999 Act from previous years are realised. This is a by-product of insurance underwriting practice in a common law scheme where it is not uncommon for claims to be settled years after the accident and therefore actual profits cannot be determined with any accuracy before this. This uncertainty has been limited under the 2017 scheme design where recovery is the focus and timed thresholds exist for damages claims.

In this report, the profitability of CTP policies is estimated as:

Profitability calculation
(+) Premium income
(+) Investment income*
(-) Insurers' expenses excluding claims handling expenses
(-) Claim payments (both past and estimated future payments)**
(-) Insurers' claims handling expenses
(=) Profit

* Investment income is earned on premiums received and reserves set up for future claim payments.

** Claim payments include plaintiffs' and defendants' legal costs and claim investigation costs.

6.2 Key facts

The 2018 accident year is the most immature of the years shown and is predominantly based on projected costs. As a result, 2018 is subject to the largest uncertainty, with estimated profit and loss ratios likely to change as actual experience emerges in the next few years.

The next table compares estimated profit:

- by accident year ending 30 June using data up to 30 June 2017
- by accident year ending 30 June using data up to 30 June 2018.

Comparison of profit and loss ratios by accident years ending 30 June 2017 and 2018

Accident year	Profit (2017 data)	Profit margin	Loss Ratio	Profit (2018 data)	Profit margin	Loss Ratio
	($m)	(%)	(%)	($m)	(%)	(%)
2001	409	31%	52%	409	31%	52%
2002	377	29%	54%	379	29%	54%
2003	433	32%	51%	434	32%	51%
2004	320	23%	59%	320	22%	59%
2005	405	27%	54%	406	28%	54%
2006	306	21%	59%	307	21%	59%
2007	343	25%	57%	344	25%	56%
2008	185	15%	65%	184	15%	65%
2009	100	8%	72%	103	9%	72%
2010	171	12%	69%	171	12%	69%
2011	320	20%	63%	322	20%	63%
2012	357	21%	63%	352	20%	63%
2013	425	23%	61%	442	24%	60%
2014	494	24%	61%	569	28%	58%
2015	404	19%	67%	534	25%	61%
2016	164	7%	78%	312	14%	71%
2017	350	14%	73%	573	23%	64%
2018				273	25%	63%
Total	5,564	20%	63%	6,434	24%	61%
Total excluding 2018	5,564	20%	63%	6,161	23%	62%

The profit margin forecast for 2018 is 25 percent, a 2 percent increase compared to last year's forecast of 23 percent.

The updated estimates for accident years prior to 2018 have generally increased, particularly for the 2015, 2016 and 2017 accident years where the projected profits were

5.7 percent, 6.2 percent and 8.5 percent higher respectively. This reflects the lower than expected payments made in these years (actual compared to expected payments), which in turn reflects the emergence of negative superimposed inflation.

Comparison of profit by accident year ending 30 June 2018

Historically, there was a very high profit margin of over 25 per cent for accident years 2000 to 2005 i.e. the first five years of the 1999 scheme. This is because claim frequency fell after the 1999 scheme started and actual claim costs were much lower than projected.

Profit margins for more recent accident years are lower and closer to the average filed profit margin of eight per cent but are still on average significantly above eight per cent (except for the 2016 accident year). There is considerable volatility between years, however, with some accident years being closer to the filing assumption than others – e.g. 2009, 2010 and 2016.

The lower profit for the 2016 accident year in part reflects the increase in legally represented minor injury claims over this period which were not fully reflected in the premium rates filed by insurers at the time.

History of CTP loss ratio for each accident year

The loss ratio was very low for accident years 2000 to 2007 and considerably lower than the average filing assumption. For accident years 2008 to 2018, loss ratios have been higher although still below the average filing assumption (except for 2016). There is considerable volatility between years and some years, such as 2009, 2010 and 2016, are closer to the filing assumption than other accident years.

Over time the loss ratio assessments have in general reduced as claim projections are replaced with claim payments and the assessment is revised. Overall, loss ratios have consistently emerged below the average filing assumption.

7. Superimposed inflation

7.1 Background

Superimposed inflation is the increase in claim costs over time, over and above wage inflation. It is a regular feature of compensation schemes and is usually caused by a combination of legal, judicial, social, medical and other external factors. Superimposed inflation tends to be volatile over time. The NSW CTP and workers compensation schemes have over time experienced both very high levels of superimposed inflation as well as benign or negative superimposed inflation.

While an absence of superimposed inflation is usually a sign of scheme stability, insurers have reasonably anticipated some degree of superimposed inflation in their liability estimates.

7.2 Key facts

At an overall scheme level, it appears that superimposed inflation has been relatively benign since the 2010 payment year and generally negative. However, considering the result at an overall scheme level is misleading since it masks the impact of changes in the claims mix that have occurred over this time.

Superimposed inflation at a more granular level indicates that it is still prevalent in the scheme, although at low levels.

8. Scheme efficiency

8.1 Background

Scheme efficiency has been addressed in the 2017 scheme design. Claims experience and efficiency varies across years. As a result, efficiency should be assessed on a longer-term basis.

8.2 Key facts

Projected average efficiency for the latest five accident years is 46 percent and over the lifetime of the scheme is estimated to be 44 percent.

Non-legally represented claims have approximately 56 percent efficiency across all claim sizes, while efficiency for legally represented claims ranges from 36 percent (<$100k) to 49 percent (>$1m). Legally represented claims consistently have lower efficiency than non-legally represented claims.

Scheme efficiency results by legal representation[4]

Claim size band	With legal representation	Without legal representation
<$50k	36 %	55 %
$50 - $100k	36 %	56 %
$100k - $200k	39 %	56 %
$200k - $500k	44 %	56 %
$500k - $700k	47 %	56 %
$700k - $1m	49 %	56 %
>$1m	49 %	55 %

[4] Results are based on finalised claims from accident years 2000 to 2018, and ANFs are excluded.

9. Glossary

Item	Description
Accident Notification Form (ANF)	This form provides for the early payment of reasonable and necessary medical expenses and/or lost earnings up to 6 months after an accident and a maximum of $5,000. ANFs can be lodged by at-fault and not-at-fault injured parties.
Accident year	The year in which the motor vehicle accident giving rise to the claim occurred. Accident years generally run from 1 July to 30 June.
Affordability	Green Slip affordability is measured by comparing the average Green Slip price for all passenger vehicles (including the MCIS or Fund levy but excluding GST) with the NSW average weekly earnings. The lower the ratio, the more affordable the premium.
Annualised basis	Projections including the phrase "on an annual basis" have usually used less than a year's worth of data to project a full year's worth of data.
Best price	The best price is the lowest CTP premium price (including levies and GST) offered by each insurer to a new customer, aged 30 to 54, for a private use passenger vehicle garaged in Sydney.
Bulk-billing	Under the Bulk Billing Agreement, also known as the Purchasing Agreement, an amount is collected as part of the Fund levy and paid to the Ministry of Health and the Ambulance Service of NSW for public hospital and public road ambulance services.
Cost per policy	Cost per policy is the total cost of claims divided by the number of insured motor vehicles in NSW. The claims cost is calculated by adding past claim payments and projected future claim payments allowing for wage inflation and an assumed level of future superimposed inflation.
Claims frequency	Claims frequency is the number of claims divided by the number of policies exposed.

Item	Description
Claims	The claims in the NSW CTP 1999 scheme are split into full claims, ANFs and workers compensation recovery claims.
Class 1 vehicle	A Class 1 vehicle is a motor car, station wagon or 4WD used for movement of passengers, with 9 or fewer seats (including the driver's). The definition excludes 4WD vehicles designed for the movement of goods.
Compulsory third party (CTP) insurance	CTP insurance protects a person (the first party) who buys the policy from an insurer (the second party) against claims made by someone they injure (the third party).
Contracted-out legal costs	These are costs payable to the legal practitioner representing the claimant, by the claimant, under an agreed private arrangement i.e. those costs in excess of those specified in the SIRA Cost Regulation. These costs are not transparent to the insurer or in the data they submit to SIRA. Information on these costs are directly submitted by legal practitioners to SIRA's claims costs disclosure database.
Claims Cost Disclosure	Insurers and claimants' legal practitioners are required to disclose claims costs by the Motor Accidents Compensation Regulation Clause 23(2) 2015. The costs breakdown includes the award or settlement amount, party/party costs, other legal fees including barrister fees and previous lawyers' fees.
Fund levy	The fund levy forms part of CTP insurance premiums. This funds the Lifetime Care and Support Scheme and used to fund SIRA and Bulk Billing arrangements for ambulance and hospital services.
Green Slip	A Green Slip is another name for a CTP policy that dates to the start of the NSW CTP scheme in 1989 when the CTP insurance invoice was a green piece of paper.

Item	Description
Loss ratio	The loss ratio is the cost of claims (excluding claims handling expenses) divided by the insurer's premium collected (excluding GST and Levies). Generally, a loss ratio is a ratio of losses to gains.
Medical Care and Injury Services (MCIS) Levy	A levy that's part of CTP insurance premiums which funds the Lifetime Care and Support Scheme. Part of the MCIS levy is also used to fund SIRA and Bulk Billing arrangements for ambulance and hospital services.
Non-economic loss	Non-economic loss is defined in the 2017 Act to include pain and suffering, loss of amenities of life, loss of expectation of life, and disfigurement.
Premium filing	Premium filing is the process of an insurer submitting its proposed premiums to SIRA for approval, together with full details of costs, actuarial reports and other information to ensure premiums meet the Act.
Run-off	Run-off means that the insurer ceases to take onboard any new business but will continue to fulfil existing claims.
Scheme efficiency	Scheme efficiency measures how much of the premium dollar goes to claimants as benefits. The higher the proportion, the greater the efficiency of the scheme.
Superimposed inflation	Superimposed inflation is the increase in claim costs over time, over and above wage inflation.
Underwrite	Underwriting is the process of assessing risk and ensuring the cost and conditions of the cover consider the risks faced by the individual concerned.
Whole person impairment (WPI)	Whole person impairment is an assessment of the degree of permanent impairment arising from an injury or injuries caused by a motor accident. It is based on standard guidelines that assign values to the permanent impairment of one or more body parts, systems or functions, expressed as a percentage.

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

This publication does not represent a comprehensive statement of the law as it applies to particular problems or to individuals, or as a substitute for legal advice. You should seek independent legal advice if you need assistance on the application of the law to your situation.

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