TAYLOR FRY

Peer review of advice provided by Ernst & Young on a review of experience for the NSW CTP Green Slip Scheme

1 Purpose and scope

Taylor Fry has been engaged by the State Insurance Regulatory Authority ("SIRA") to peer review a report prepared by Ernst & Young ("EY") for SIRA, titled "Review of the NSW CTP Green Slip Scheme under the Motor Accident Injuries Act 2017 (NSW)" dated 22 November 2018. In this letter that EY report is referred to as the "EY Review Report".

The terms of reference for the EY Review Report are to:

- Assess whether there is any evidence to change the Motor Accident Guidelines Schedule 1E parameters based on the scheme experience from 1 December 2017 to 30 June 2018 inclusive, which may lead to a direction to insurers to re-file
- Based on the above findings, advise of any emergent potential to alter benefit-related costs without altering premiums (including GST and levies), taking into account the need to assure financial stability of the scheme and a competitive market.

The purpose of our peer review is to review and provide an opinion on the reasonableness of the approach adopted for and conclusions described in the EY Review Report. Our peer review does **not** provide a guarantee of EY's advice, nor a detailed check on the technical accuracy of EY's analyses.

This letter should only be considered together with the EY Review Report, and not in isolation.

2 Peer review process

Our peer review process consisted of:

- Discussions and email correspondence with staff of EY and SIRA
- Reviewing information supplied by EY which is relevant to the EY Review Report. The information supplied included various draft EY reports, presentations, detailed file notes and spreadsheets
- Asking EY questions which arose from our review
- Considering EY's responses to our questions and comments, and
- Reviewing draft versions of the EY Review Report and making suggestions regarding possible modifications to those draft versions.

EY cooperated fully with our peer review, and several of the modifications to draft versions of the EY Review Report which we suggested have been made in the final version of that report.

3 General approach adopted for the EY Review Report and resulting estimate of future average premium

3.1 Categories of claims in the 2017 Scheme and claims data currently available

Table ii in the Executive Summary section in the EY Review Report is reproduced below as Table 1.

Table 1 Claims categorisation and attributes

Fault status	Injury type	WPI	Estimated risk premium	Indication of the amount of 2017 Scheme experience available
At-fault			$11	Low - Medium
Not at-fault	Minor		$5	Low - Medium
Not at-fault	Non-minor	WPI <=10%	$95	Very low*
Not at-fault	Non-minor	WPI > 10%	$149	None*
		TOTAL	$260	

* While (some) claims that will eventually be in these categories are already receiving statutory benefits, no reliable information is available yet about which category they will finalise in.

Table 1 shows that, of the estimate of average risk premium for Schedule 1E in the current Motor Accident Guidelines of $260:

» Only $16 (6%) of the total is attributable to the first two categories of claim. These are the categories of claim for which experience data to 31 August 2018 for the 2017 Scheme can be regarded as providing some meaningful indication of likely ultimate claims experience and costs, and

» The remaining $244 (94%) is attributable to the latter two categories of not at-fault non-minor injury claims, for which claims experience data for the 2017 Scheme does **not** yet provide a meaningful indication of likely ultimate claims experience and costs.

3.2 General approach adopted

Given the circumstances described in section 3.1 above and constraints on the time available to prepare the EY Review Report, the general approach adopted by EY was to:

» Analyse claims data up to each of 30 June 2018 and 31 August 2018 for the 2017 Scheme in detail

» Based on that analysis, make resulting adjustments to estimates of the components of claim frequencies, average claim sizes ("ACS") and hence risk premium for the 2017 Scheme attributable to the first two categories of claim referred to in Table 1

» Also undertake a limited review of claims experience up to 30 June 2018 for the NSW CTP scheme which commenced in 1999 ("1999 Scheme"). Claims experience for the 1999 Scheme is relevant because, for the latter two categories of not at-fault non-minor injury claims referred to in Table 1:

- A majority of the estimates of average risk premium components of $95 and $149 shown in Table 1 was based on EY's previous analysis of claims experience of the 1999 Scheme up to 30 June 2016 (subject to adjustments intended to allow for differences between the 1999 and 2017 Schemes), and

- Actual claims experience of the 1999 Scheme since 30 June 2016 has **differed materially** from the previous projections based on analysis of claims experience up to 30 June 2016

» Taking account of results of the limited review of claims experience for the 1999 Scheme, make further adjustments to estimates of claim frequencies, ACS and risk premium for the 2017 Scheme, and

» Update economic assumptions to be suitable for a future underwriting year commencing 1 January 2019.

EY has also advised in section 6.2 of the EY Review Report that further analyses are required to provide a comprehensive updated estimate of average risk premium based on data to 30 June 2018, including:

» More detailed analysis of claims experience of the 1999 Scheme up to 30 June 2018 on a "head of damage" basis, and its implications for claims costs and average risk premium in the 2017 Scheme

» Analysis of data to 30 June 2018 for the TAC Scheme in Victoria, which will provide updated estimates of treatment and care claim costs for the NSW 2017 Scheme, and

» Analysis of updated data on numbers of traffic accident casualties in NSW and Victoria.

We discussed with EY and SIRA both the general approach adopted for the EY Review Report and the further analyses required described in section 6.2 of that report, and agree that they are appropriate.

3.3 Resulting estimate of future average premium

EY's resulting estimate of average premium for a future underwriting year commencing 1 January 2019 is summarised in Table 2, which is an abbreviated version of Table i in the Executive Summary section in the EY Review Report. The starting point of the EY assessment ($528 in Table 2) is an average premium that already incorporates an expected 'honeymoon' reduction of $23 from the mature scheme premium originally estimated by EY of $551.

We regard EY's adjusted estimate of average premium of $512 for a future underwriting year commencing 1 January 2019 as reasonable, and developed using a sound approach. Consequently, we also agree with the concluding statements in the Executive Summary section in the EY Review Report in response to the objectives of the terms of reference.

Sections 4, 5 and 6 below provide comments on each of the adjustments shown in Table 2 (except for the $2 per policy expected savings which were identified before 1 December 2017).

Table 2 Summary of potential effects on 2017 Scheme MAG Schedule 1E average premium

Item\adjustment	Estimated effect on average premium	Adjusted estimate of average premium (incl GST and levies)
MAG Schedule 1E published as at 1 December 2017		$528
Expected savings identified before 1 December 2017	($2)	
Average premium required as at 1 December 2017		$526
Adjustments based on detailed analysis of claims experience up to 31 August 2018 for the 2017 Scheme	($7)	
Further adjustments based on limited review of claims experience to 30 June 2018 for the 1999 Scheme	($10)	
Updated economic assumptions and application to future underwriting year commencing 1 January 2019	+$3	
Adjusted estimate for future underwriting year commencing 1 January 2019		**$512**

Results shown may not add due to rounding.

4 EY's conclusions from detailed analysis of claims experience to 31 August 2018 for the 2017 Scheme

EY's main conclusions are summarised on pages v and vi in the Executive Summary of the EY Review Report:

- The total frequency of statutory benefits claims appears similar to EY's initial projection for the "honeymoon period" following commencement of the 2017 Scheme (except for the December 2017 and January 2018 accident months for which total frequency has turned out to be less than projected)
- The frequency of at-fault claims is less than the initial projection
- The frequency of not at-fault minor injury claims is more than the initial projection. However, at present the ultimate frequency of these claims remains unavoidably uncertain because it will depend on the extent to which the multi-stage dispute resolution process under the 2017 Scheme may result in claims being re-classified from the minor injury category to non-minor injury
- ACS appears to be less than the initial projection for not at-fault minor injury claims, and
- It is not possible yet to reach reliable conclusions about other aspects of claims experience for the 2017 Scheme.

We agree with those conclusions. Further we agree that EY's assessment, described in sections 8.2 and 8.4 of the EY Review Report, that the claims experience data to 31 August 2018 available for the 2017 Scheme justifies an overall reduction of about $7 in the estimate of average premium (including GST and levies), with a range of +/- $2, is reasonable.

5 EY's conclusions from limited interim review of claims experience to 30 June 2018 for the 1999 Scheme and proposed further analyses

5.1 Background, approach adopted and EY's conclusions

These are described in sections 6.1, 8.1 and 10.1 in the EY Review Report.

Estimates of costs of the 2017 Scheme were originally developed by EY during the second half of 2016. For the economic loss, non-economic loss and legal costs components of common law claims costs, those estimates were based mainly on claims experience of the 1999 Scheme up to 30 June 2016, subject to adjustments intended to allow for differences between the 1999 and 2017 Schemes. At the time when those original cost estimates were prepared:

- It was known that with effect from 1 November 2016 there would be significant changes in regulations governing limits on recoverable legal and related costs, and contracting-out arrangements between legal practitioners and claimants, but
- EY had to make complex assumptions about the extent to which those changes in regulations would affect claim frequency and ACS for claims reported on or after 1 November 2016, for each of the 1999 and 2017 Schemes.

Since EY's original cost estimates were prepared, claim frequency for the final accident year governed by the 1999 Scheme has turned out to be considerably less than for immediately preceding accident periods. This outcome is believed to be due to a combination of causes, including the changes in regulations on 1 November 2016 and anti-fraud initiatives. Sections 6.1, 8.1 and 10.1 in the EY Review Report describe the approach adopted by EY to take account of this for the limited interim review, and EY's best estimate of a resulting reduction in average premium (including GST and levies) for the 2017 Scheme of about $10, with a range from $0 to $20 for this estimated reduction.

We agree that the approach adopted and the resultant range of estimated reduction in average premium for the 2017 Scheme due to 1999 Scheme experience are reasonable. Combined with the estimated $7 reduction (+/- $2) due to the experience of the 2017 Scheme, the overall reduction estimated by EY is $17 (+/- $12).

5.2 Required further analyses and cautionary comment

We also agree that the required further detailed analyses described in section 6.2 of the EY Review Report are appropriate. The findings from this further analyses should form an important input for SIRA's consideration of potential changes to Schedule 1E to apply for a future underwriting period.

It should be borne in mind that, in our opinion, it is possible that those further analyses will result in a revised estimate of the effect of 1999 Scheme experience well outside this current estimated range of a $0 to $20 reduction in average premium.

6 Economic and claims inflation assumptions

We have reviewed the updated assumptions described in section 7 of the EY Review Report and confirm that they are suitable for a future underwriting year commencing 1 January 2019.

Section 7.2 of the EY Review Report explains EY's rationale for adopting future superimposed inflation ("SI") assumptions for the 2017 Scheme of:

- Nil SI during the period up to 31 December 2018 only, given that little or no SI of average claim sizes has been experienced in the 1999 Scheme in recent years, and

» 2.5% per annum future SI for the 2017 Scheme for periods after 31 December 2018, which is the same assumption as was adopted for EY's previous costing estimates for the 2017 Scheme.

We regard EY's rationale and adopted future SI assumptions as reasonable. However, assumptions regarding future SI are an unavoidable source of material uncertainty inherent in estimates of future claims costs for personal injury schemes.

7 Illustrative range of scenarios considered by EY

Section 8.5 in the EY Review Report describes four illustrative alternative scenarios for future claims experience of the 2017 Scheme, and for each scenario quantifies the implied average premium and comments on the apparent likelihood or otherwise of the scenario. We agree that those scenarios provide a useful illustration of a range of conceivable outcomes for future claims experience and average premium.

However, it should be borne in mind that the range of possible ultimate outcomes for future average premium needed for the 2017 Scheme is wider than the illustrative range of scenarios described in section 8.5 in the EY Review Report.

8 Uncertainty inherent in estimates of average future CTP premiums

The descriptions of sources of risk and uncertainty, and reliances and limitations, in the EY Review Report and especially in the Executive Summary and sections 2, 11 and 12 of that report, are important and should be regarded as an integral part of EY's advice to SIRA.

9 Distribution and use of this letter

This letter, or any part thereof, may not be published in any document, statement or communication with third parties without prior written approval by Taylor Fry of the form and context in which it will appear.

Further, Taylor Fry requires that, if this letter is provided to any third party:

» It must be provided in its entirety, and

» It must be provided in conjunction with the EY Review Report in its entirety.