Review of the NSW CTP Green Slip Scheme under the Motor Accident Injuries Act 2017 (NSW)

State Insurance Regulatory Authority

November 2018

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Executive Summary

Background to this review

SIRA has commissioned an interim review of the 2017 NSW CTP Scheme (the 2017 Scheme) by its independent Scheme Actuary EY to assess the status of the 2017 Scheme and provide early insights or observations that would inform any actions by SIRA. SIRA has commissioned independent actuarial firm Taylor Fry to peer review the EY report.

The principal objectives of the Terms of Reference for this interim review are to:

- Assess whether there is any evidence to change the Motor Accident Guidelines Schedule 1E (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 their premium rates
- 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.

Structure of this report

This report provides some background on the scheme costing, target average premium and derivation of the Motor Accident Guidelines (MAG) Schedule 1E premium parameters and resulting premium (Schedule 1E premium). It then considers different impacts on the original 2017 Scheme costing and provides a range to the estimated scheme average premium of the following:

- The most recent 1999 Scheme experience to 30 June 2018 and the resulting impact on the original 2017 Scheme filing parameters
- Experience of the 2017 Scheme to 30 June 2018, and updated for more recent data as at 31 August 2018
- Updated economic (inflation and discounting) assumptions for a future filing date (nominally 1 January 2019).

The market-weighted average premium is also considered to illustrate the extent to which the market premium currently deviates from the Schedule 1E target premium. The considerations above are used to address the principal objectives of the Terms of Reference directly, as well as to provide recommendations and next steps.

Conclusions

The following conclusions are reached from the work performed in this review:

- The 2017 Scheme is long tailed with many claims expected to take a number of years to be reported and finalised. In addition, the first year of the 2017 Scheme is not yet complete. There is high degree of uncertainty with using the nine months of emerging claims experience of the 2017 Scheme to assess the impacts on future premium assumptions
- Based on the limited experience to date, there are some indications that claims experience may be emerging better than expected for the smaller cost elements of the premium and in particular, the at-fault and not at-fault minor injury segments
- A range of potential impacts on the Schedule 1E premium parameters have been considered, which indicate:
    - Potential for a reduction of $10 based on updating the original costing for the latest experience from the 1999 Scheme, which has an uncertainty range of +/- $10 around this estimate. This analysis is based on a high level approach and requires further work to refine this estimate further, as outlined in the body of the report
    - Potential for a $7 reduction if the emerging 2017 Scheme claims experience was representative of a longer term annualised trend

- An increase of $3 to allow for the changes to economic (inflation and discounting) assumptions and a roll-forward to a future underwriting period that will be effective for any future insurer filings (with a selected date of 1 January 2019 for the purposes of this report)

- In total, there is potential for an average premium adjustment of -$16 against the $528 Schedule 1E premium (with a range around this adjustment being -$4 to -$28), assuming a future filing date of 1 January 2019
- When EY commenced this review, the market average filed premium was [redacted].

The analysis and results indicate an estimated scheme average premium range of between $500 and $524 including GST and levies for an underwriting period commencing on 1 January 2019. This range is mainly a result of the uncertainty around and sensitivity to key assumptions of the 1999 Scheme update. The potential impacts on the 2017 Scheme Schedule 1E premium are summarised in the table below.

Table i: Summary of potential impacts on 2017 Scheme Schedule 1E premium

Adjustments	Impact of Adjustments	Average Premium (incl GST and Levies)
MAG Schedule 1E: 1 December 2017		**$528**
Identified savings pre-filing	-$2	
Commencement premium 1 December 2017		**$526**
Recalibration of costing basis (1999 Scheme experience)	-$10	$516
Adjusted at-fault claim frequency	-$6	
Adjusted not at-fault minor claim frequency	$4	
Adjusted not at-fault minor average claim size	-$5	
Adjusted not at-fault minor and non-minor claim mix	$0	$509
Premium range for 1 December 2017 effective filing		**($497, $521)**
Economic assumptions for new underwriting period	$3	**$512**
Estimated scheme average premium range for 1 January 2019 filing		**($500, $524)**

**Results displayed may not add due to rounding in the displayed numbers*

Concluding statement on Objective 1 of the Terms of Reference

There is emerging evidence that would support the Schedule 1E Parameters and resulting premium being adjusted to within the range of $500 to $524, with the centre of that range being $512 (for a selected 1 January 2019 effective filing date).

On commencement of the 2017 Scheme, insurers filed parameters and premiums that were, on average, below the Schedule 1E parameters and premium. Several insurers have subsequently filed lower parameters and premiums based on a combination of their competitive market positioning and view of emerging claims experience. The currently approved market average filed premium for premiums from [redacted].

Concluding statement on Objective 2 of the Terms of Reference

Following on from the concluding statement of Objective 1 above, there appears to be limited scope to consider introducing additional benefit-related costs for claimants without potentially increasing premiums.

Additional comments

The average premium estimates are based on a model of assumed behaviours and costs based on the NSW 1999 Scheme and other schemes. As actual experience emerges over several years,

actual scheme results may vary from expected experience by a significant amount. Scheme reforms in other jurisdictions have observed variations exceeding 10% from expected levels.

The limitations and uncertainty underlying the analysis and results are highlighted throughout this report, with a summary of those at the end of the Executive Summary.

Scheme costing, target average premium and Motor Accident Guidelines Schedule 1E

As part of the process for the Motor Accident Injuries Act 2017 (MAI Act), EY, the State Insurance Regulatory Authority's (SIRA's) independent Scheme Actuary, provided a scheme costing estimate derived using a 'heads of damage' valuation model. Elements of the model were based upon relevant claims experience in existing schemes, being the 1999 NSW CTP Scheme, Victoria TAC Scheme and the NSW Workers' Compensation Scheme for different components of the costing.

The average premium in the 2017 Scheme was estimated to be $551 (including GST and levies) on a mature scheme basis. This represented an estimated reduction of around $100 compared to the 1999 CTP Scheme's (the 1999 Scheme) average premium.

The Government subsequently announced a target average premium of $528 (including GST and levies) for the commencement of the 2017 Scheme on 1 December 2017, taking into account the expectation that in the first few years following the implementation of personal injury scheme reforms, there tend to be lower claim numbers and claims costs than expected in a mature state basis – this is referred to as a 'honeymoon' period. This is due to a delay in motorists and the general public becoming fully aware of their rights under the 2017 Scheme, and the embedding of relationships and operations between insurers, service providers and the regulatory infrastructure.

The underlying claims costs for the mature state 2017 Scheme costing were then used to calibrate the Schedule 1E parameters to meet the target average premium announced by the Government. There were then subsequent adjustments to the 2017 Scheme target average premium from $528 to $526 prior to 1 December 2017 to allow for other identified savings in SIRA's service delivery model for the legal advice service.

Observations and findings

The emerging claim number and cost experience has been assessed to gain an indication of the potential impact on the estimated required scheme average premium.

The following table illustrates the amount of risk premium attributable to each high level cohort of claims within the 2017 Scheme. It is observed that the at-fault and not at-fault minor injury claims categories make up a small proportion of the risk premium, with these claims being reported within months of the accident and generally of low average cost.

The not at-fault non-minor claims represent the majority of the total risk premium. While these claims will also generally be reported within months of the accident, the categorisation of these claims takes longer. These claims will commence receiving their statutory benefit entitlements quickly, however it will take much longer to determine whether these claims will also lodge an award of damages claim, which is the main driver of claims cost in the scheme.

The amount of scheme experience currently available for analysis varies by claim cohort, as noted below. This impacts the reliability of the analyses and the conclusions that can be drawn.

Table ii: Claims categorisations and attributes

Fault status	Injury type	WPI	Estimated Risk Premium	Indication of the amount of 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 claims that will eventually be in these categories are already receiving statutory benefits, no reliable information is available about which category they will finalise in.*

A summary of the assessment of the potential impacts of claims experience on the Schedule 1E parameters is set out below.

The 1999 Scheme experience to 30 June 2018:

- The experience of the 1999 Scheme to 30 June 2016 was used to inform assumptions underlying the original costing for the 2017 Scheme
- The components of the original costing that were affected the most by the emerging experience from the 1999 Scheme were the assumptions underlying the costing of the award of damages claims for economic loss, non-economic loss and elements of the legal costs, as the benefit delivery mechanism for these elements was similar between the two schemes
- A high level approach has been used to update relevant experience of the 2017 Scheme costing for the latest 1999 Scheme experience up to 30 June 2018
- This approach highlighted the potential for a reduction in risk premium due to the following:
  - A reduction in claims frequency from the introduction of the legal cost regulation effective 1 November 2016 for the 1999 scheme
  - A reduction in average claims size due to favourable payment experience during the two year period from 30 June 2016 to 30 June 2018
- However, there is material uncertainty in this result as the methodology adopted for this high level review to estimate the changes in the 1999 Scheme was different to that used for the original 2017 Scheme costing
- Overall there is potentially a $10 reduction in allowing for 1999 Scheme experience since 30 June 2016 based on the high level approach for this review, with a likely range of +/- $10 around this estimate.

The impact of emerging 2017 Scheme experience to 31 August 2018:

Claims experience is only reasonably developed for a limited number of accident months in the 2017 Scheme, with even the most developed accident months expected to develop further. This creates uncertainty in trying to assess the impact for a full accident year based on the experience to date.

<u>Claim frequency:</u>

- **Statutory benefit claims:** Emerging experience for the number of statutory benefit claims reported appears to be tracking in line with the expected reporting profile overall. However, the first two accident months of the 2017 Scheme are below expected and may have been subject to a larger honeymoon impact than expected and/or monthly seasonality. Subsequent months have reverted to the expected profile underlying Schedule 1E parameters
- **At-fault claims:** The current level of at-fault claims reported is less than expected, particularly for the earlier accident months where the majority of claims should have now been reported, although there may still be delays in at-fault determinations and subsequent development. For these accident months, even allowing for a high level of at-fault claims amongst the claims where the fault status is yet to be determined, this will not see the actual experience exceed the expected level set in the relevant Schedule 1E parameters
- **Not at-fault minor injury claims:** The current level of reported not at-fault minor injury claims is higher than expected for each accident month. However, there remains some uncertainty on the impact that the dispute process will have on the ultimate number of minor injury assessments; this is a key area of uncertainty. After allowing for a high proportion of these claims to be disputed and reclassified to non-minor, the number of minor claims is expected to remain higher than the expected level set in Schedule 1E parameters
- **Claims mix:** The mix of claims emerging over the more developed accident months is different to the Schedule 1E parameters. In particular, at-fault claim numbers are lower than expected, not at-fault minor injury numbers are higher than expected and not at-fault non-minor claims appear to be lower than expected. There are still a number of claims processes that need to

occur or be finalised for claims in the earlier accident months before the mix for these months can be assessed with any certainty. These include completion of at-fault determinations and minor injury outcome assessments for all of these claims as well as for any as yet unreported claims; in addition, any relevant dispute processes that are still to occur on these decisions. As a result, there remains considerable uncertainty around the ultimate mix of claims in the 2017 Scheme

- **Award of damages:** Few award of damages claims have been lodged to date, which is as expected given the 20 month waiting period applicable for claims with WPI less than or equal to 10%. More generally, with these claims receiving access to statutory benefits, there is no immediate need to lodge an award of damages claim

Claim costs:

- Payment experience is very immature as only about 3% of ultimate expected claims costs have been paid. In particular, the material component of the scheme cost for award of damages claims through common law has no payment experience. In addition, payments for statutory benefit claims can last up to 5 years and the 2017 Scheme has currently entered the tenth month of experience (notwithstanding the transition of more serious claims to icare funded by levies)
- There are some claims in the 2017 Scheme where the benefit entitlement has ended or is coming to an end. This applies to at-fault claims and not at-fault minor injury claims from the very first accident months where 26 weeks have passed since the accident. For these claims, the observed payment experience has been considered to assess the expected average claims cost. In general, actual average costs are lower than expected for these claims, although there is further development expected for the payments following late processing of payments, overturned assessments and where access to benefits continues beyond entitlement periods i.e. where it is expected to benefit the injured person's recovery. Furthermore, there is the risk that the experience from the first few accident months of the 2017 Scheme is not representative of the experience expected for more recent and future accident months.

Overall, there is potentially a $7 reduction based on assuming the emerging 2017 Scheme experience is indicative of longer term annualised trend. There is uncertainty around this estimate.

Economic (inflation and discounting) assumptions for a future filing date at 1 January 2019

- Wage inflation and updated discount rates have been allowed for to roll forward the 1 December 2017 Schedule 1E parameters for a future underwriting period commencing on 1 January 2019. This roll forward contributes to a $3 increase to average premiums.

Reliances and limitations

The original 2017 Scheme costing report highlighted the significant uncertainty associated with actuarial estimates. Estimates of future claims experience (claim numbers and payments) are inherently uncertain because they depend on the outcome of future events which cannot be forecast precisely. For example, it is particularly challenging to forecast changes to social, economic and legal environments. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates presented in this report.

At the time of the original 2017 Scheme costing, there was no actual claims experience for the 2017 Scheme, therefore the results relating to it were estimated based on relevant claims experience from the 1999 NSW CTP Scheme, the Victorian transport accident scheme and the NSW workers compensation scheme. Although it is now possible to update some of the scheme costing assumptions with experience from the first 9 months of the 2017 Scheme, many other material aspects of the scheme costing continue to rely on the experience of other schemes.

In addition, there are a number of reliances and limitations specific to the analysis of 2017 Scheme experience presented in this report, these include:

- The Universal Claims Data (UCD) is the major source of data for the analysis presented in this report. The governance framework around the UCD is still developing. As a result, the analysis

in this report is reliant on the quality of data submitted by insurers to the UCD and the data extracts provided by SIRA to EY in preparing this report

- This report uses the more mature accident months of the 2017 Scheme experience (i.e. the very first months of the 2017 Scheme) to make an assessment of the experience for future accident months relevant to any future insurer rate filing. There is a risk that the experience for the more mature accident months may not be representative of the experience expected for future accident months
- As there is 9 months of actual scheme experience, this report presents analysis on an accident month basis, which is subject to material monthly variability. This variability creates additional uncertainty in projecting annualised trends
- A significant volume of claims are yet to report into the 2017 Scheme for the first accident year. Furthermore, a large number of reported claims have not yet been assessed for either or both injury status and fault status. This creates uncertainty around the ultimate number of at-fault, minor and non-minor claims
- The ultimate propensity to claim amongst at-fault claimants under the 2017 Scheme is unknown particularly given the higher benefits compared to the 1999 Scheme. This creates uncertainty around the ultimate number of at-fault claims. There is significant scope for at-fault claims to increase as community awareness of the increased at-fault benefits rises
- The dispute resolution process will have an impact on the ultimate level of minor injury claims for the 2017 Scheme. Currently around 50% of insurer internal reviews are for the minor injury outcome assessments. Experience from the disputation process is limited and as a result, there is considerable uncertainty around the impact that disputation will have in terms of re-classifying existing minor injury decisions to non-minor injury
- Total current payments represent around 3% of total ultimate expected payments. This creates material uncertainty in using the current experience to project changes to total ultimate expected payment amounts.

It is essential that any reader of this report understand its associated qualifications and limitations. These are described throughout this report; however the most important are outlined in sections 11 and 12.

Judgements regarding the data, methods and assumptions contained in this report should be made only after studying the entire report, as conclusions reached by a review of a section or sections on an isolated basis may be incorrect.

1. Introduction

1.1 Compulsory Third Party (CTP) Reforms

The Motor Accident Injuries Act 2017 (MAI Act) was assented on 4 April 2017 establishing a new CTP Scheme commencing on 1 December 2017 for NSW (the 2017 Scheme). The 2017 Scheme was designed to provide a hybrid no-fault scheme focused on rehabilitation and timely access to benefits for injured road users, and replaces the previous fault-based common law scheme (the 1999 Scheme). The 1999 Scheme was legislated under the Motor Accidents Compensation Act 1999, which has since been replaced by the MAI Act.

Ernst & Young (EY), the State Insurance Regulatory Authority's (SIRA's) independent Scheme Actuary, produced a costing for the expected average premium for the 2017 Scheme of $551 (including GST and levies) on a mature state basis. This was based on a number of assumptions derived from the 1999 Scheme's experience as well as other CTP Schemes with benefit structures similar to the 2017 Scheme.

The NSW Government (Government) announced a target average premium of $528 (including GST and levies) for the commencement of the 2017 Scheme on 1 December 2017. This reduction allowed for the expectation that in the first few years following the implementation of personal injury scheme reforms, there can tend to be lower claim numbers and claims costs than expected in a mature state basis. This effect is known as the "honeymoon impact", and the reduction is due to a number of reasons, including delays to motorists and the general public becoming fully aware of their rights under a new Scheme and relationships and operational processes between insurers, service providers and the regulatory infrastructure being established.

The scheme costing as well as assumptions around the potential honeymoon impact in the initial stages of the 2017 Scheme were used in calibrating the underlying claims cost assumptions. This was used to derive the Motor Accident Guidelines (MAG) Schedule 1E parameters underlying the $528 target average premium.

Subsequent to the initial derivation of the Schedule 1E parameters but prior to 1 December 2017, the 2017 Scheme target average premium was changed from $528 to $526. The pre-consultation phase of the Motor Accident Injuries Regulation identified some matters (dispute events) where individual claimant lawyer involvement would be replaced by a central legal advice service (an outsourced arrangement between SIRA and selected legal advisors) which SIRA would fund through existing levies. This resulted in an approximately $2 reduction in average premium.

Prior to the commencement of the 2017 Scheme on 1 December 2017 and in accordance with the MAG, each CTP insurer filed their proposed premium rates and provided a comparison of their premium filing parameters against each of the Schedule 1E parameters (on $526 basis). This allowed for their own business mix by class and region and other claims experience related factors, as well as their own expense and profit margins requirements.

The initial filed average premium for all insurers taking into account projected market share was [redacted].

1.2 Background to this Scheme Review – Terms of Reference

SIRA has commissioned an interim review of the 2017 Scheme by its independent Scheme Actuary (EY) to assess the status of the scheme and provide early insights or observations that would inform any actions by SIRA.

SIRA is also commissioning independent actuarial firm Taylor Fry to peer review the EY report.

The principal objectives for this interim review are to:

- Assess whether there is any evidence to change the Schedule 1E parameters based on the 2017 Scheme experience from 1 December 2017 to 30 June 2018 inclusive, which may lead to a direction to insurers to re-file their premium rates

- 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 2017 Scheme and a competitive market.

1.3 Structure of this Report

This report sets out the results of the interim review of the 2017 Scheme, prepared by EY. The report covers:

- Section 2 – The data utilised for this review
- Section 3 – Background to the scheme costing and target average premium
- Section 4 – Assessment of the current Schedule 1E assumptions using data to 30 June 2018
- Section 5 – An update to the analysis based on more recent data to 31 August 2018
- Section 6 – Assessment of 1999 Scheme experience to 30 June 2018 on the 2017 Scheme cost
- Section 7 – A roll-forward using updated economic and inflation assumptions to a future filing date (1 January 2019 for the purposes of this report)
- Section 8 – An updated central estimate view of Schedule 1E assumptions
- Section 9 – Current average market premium
- Section 10 – Conclusion
- Section 11 – Risks and uncertainty
- Section 12 – Reliances and limitations.

2. Data

2.1 Introduction

This section outlines the data used to perform the analyses shown in this report and outlines any reliances and limitations. In addition, it summarises the planned data governance that is being developed by SIRA.

2.2 Universal Claims Data

The Universal Claims Data (UCD) as at 30 June 2018 has been used as the basis for reporting on the actual experience for the 2017 Scheme. In addition, a further UCD dataset as at 31 August 2018 has been used to update some of the June analysis where appropriate.

The UCD is an initiative that has been implemented by SIRA in collaboration with insurers to facilitate more granular and near real-time data collection on the operation of the 2017 Scheme. As a result, the UCD will facilitate more frequent reporting on the 2017 Scheme as opposed to the quarterly data used for the 1999 Scheme.

A data governance structure has been developed around the UCD that facilitates real-time point of submission validation and error reporting of data provided by insurers. The validation and error reporting is based on a tiered approach as described in section 2.6.

The feedback process and service level agreement for correction of data errors is still under development. As this develops, understanding of the data requirements and the quality of the data will improve. Furthermore, as the data is analysed this will also feed into the data governance structure to improve data quality and ensure consistent reporting across insurers.

Currently, the data used for this report is Tier 0 (i.e. after basic integrity checks have been applied but before applying any validation rules) and has therefore not had the data governance structure described above applied to it. Analysing the data for the purposes of this report has highlighted some areas where data quality and insurer reporting practices could be improved and this is discussed throughout the report where relevant.

2.3 Summary of data sources

The analyses and references presented in this report is based on the following data sources and reports:

- Insurer premium returns as at 30 June 2018
- Personal Injury Register (PIR) information as at 30 June 2018
- UCD Data at 30 June 2018
- UCD Data at 31 August 2018
- EY's Costing Report - Estimated cost per policy of the new NSW CTP Green Slip Scheme under the Motor Accident Injuries Act 2017 (NSW)
- Schedule 1E – Scheme Actuary assumptions and insurer filed assumptions.

2.4 Data reliances and limitations

The UCD is the major source of data for the analysis presented in this report. The governance framework around the UCD is currently under development. As a result, Tier 0 data has been used for this report, which is data that has not been fully validated. The analysis in this report is reliant on the quality of data submitted by insurers to the UCD and the data extracts provided by SIRA to EY in preparing this report.

The accuracy of the UCD data extracts will affect the conclusions made in this report and is a key reliance of the report. As part of the analysis for this report, inconsistencies in the data have been highlighted. Where appropriate, the data has been adjusted to ensure consistency across different

insurers so appropriate conclusions can be drawn. Adjustments are discussed in detail in the report where relevant.

2.5 Data modifications

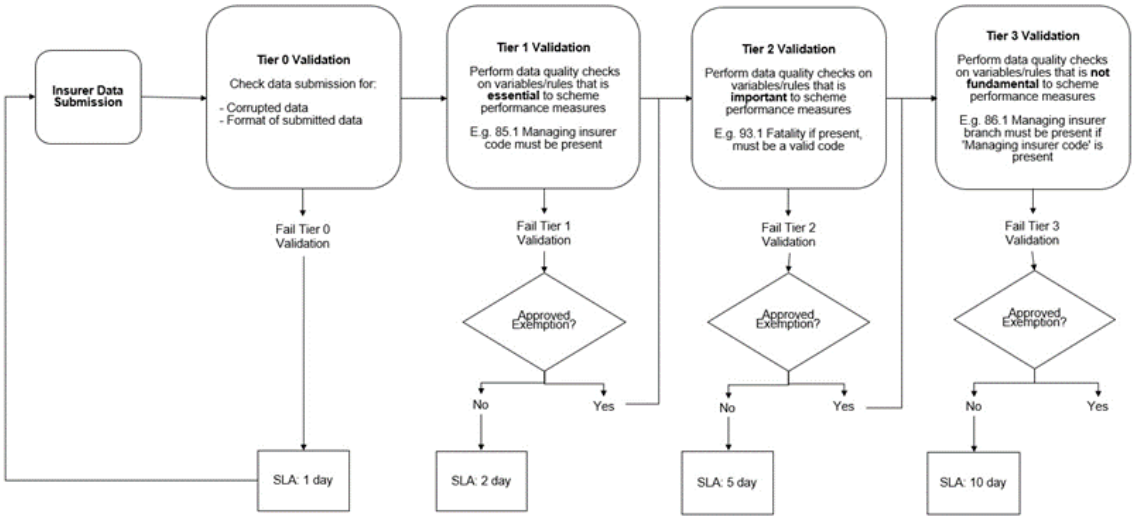
The following modifications have been made to the raw Tier 0 data extracted from UCD before performing any analysis:

- Removed claims with insurer as "SIRA" as they are data entries generated for testing purposes
- Removed duplicated payment records. A unique payment record is defined based on the combination of transaction ID and claim ID
- Removed payment records with no corresponding claim record in the claim data
- Payment records for non-valid claims are also excluded in the calculation of total payment.

2.6 Data governance framework

The following diagram illustrates the framework that SIRA is developing to validate data in real-time at point of ingestion. The data validation process is tier-based with Tier 1 data exceptions being the most severe and material and requiring remediation in the shortest timeframe and Tier 3 data exceptions being less material with a longer time period for correction. Tier 0 has been used for this report due to the data governance structure being under development. Future reporting will move to a higher tier of data with greater validation applied.

Figure 1 UCD data governance framework



3. Scheme costing, target average premium and Schedule 1E

The following section provides information on the relationship between the 2017 scheme costing, the target average premium for the commencement of the 2017 scheme and the parameters in Schedule 1E.

3.1 2017 Scheme costing

EY provided SIRA with an estimate of the cost per policy (including allowance for expenses, profit margin and levies), for the 2017 Scheme (i.e. average premium across all NSW vehicle classes and regions) for an underwriting year commencing on 1 December 2017, assuming the scheme was in a mature state. This basis assumes that motorists and the general public are fully aware of their rights under the scheme, relationships and operations between insurers and medical and allied health providers are well established, and the infrastructure of the regulator is in full operation. This was documented in EY's report entitled "Estimated cost per policy of the new NSW CTP Green Slip Scheme under the Motor Accident Injuries Act 2017 (NSW)", final report dated 24 July 2017 (Costing report).

The Costing report estimated that the average premium would be around $551 (including GST and levies) from 1 December 2017. As shown in the table below, this represented an estimated reduction of around $100 compared to the 1999 Scheme's average premium.

Table 1 Average premium - mature basis

Average premium component	1999 Scheme	2017 Scheme	Difference
Total claims cost per policy	$373	$279	-$94
Loadings (expenses, profit, levies, GST)	$279	$272	-$7
Total premium (mature state)	$652	$551	-$101

Honeymoon impact and target average premium of $528

Experience from other personal injury scheme reforms shows that in the first few years following the implementation of a significant reform, there tends to be lower claim numbers and claims costs than expected in the costing of the scheme benefits on a mature basis. This effect has been observed in several past personal injury scheme reforms in Australia (including after the 1999 NSW CTP legislative reforms) and other jurisdictions internationally. This is referred to as a "honeymoon" impact.

To illustrate the honeymoon impact on premiums, the Costing report presented a sensitivity on the average scheme premium on a mature basis. This was an assumed claims cost reduction of 5% and 10% compared to the cost estimated in a mature scheme. The lower claims costs would also likely result in lower insurer expenses. The results of this sensitivity analysis are shown in the table below.

Table 2 Average premium – sensitivity analysis for honeymoon impact

2017 Scheme costing basis	Total claims cost per policy	Loadings (expenses, profit, levies, GST)	Total average premium
2017 Scheme – mature state	$279	$272	$551
With honeymoon impact of 5%	$265	$267	$532
With honeymoon impact of 10%	$251	$263	$514

The 1999 Scheme reforms led to a significant reduction in claim numbers; this reduction was greater than could be explained by the reduction in road casualties and the expected reduction following the changes in the scheme. The number of full claims reported (excluding Accident Notification Forms (ANFs) and s151z claims) reduced by 43%. The cost of claims also reduced significantly more than expected. This resulted in insurers earning profit margins significantly higher than their filed profit margins.

To avoid a repeat of this situation, insurers were required to make an allowance for a honeymoon impact for premiums for the 2017 Scheme in its early years. On 7 March 2017, the government announced a target average premium of $528 for policies written in the 2017 Scheme from 1 December 2017. This target premium was within the range of sensitivities presented in the Costing report, as shown in the table above.

EY derived the assumptions underlying the average premium target of $528 for the 2017 Scheme through a calibration of the mature state assumptions, considering the expected mix of claims in a honeymoon state. In particular, allowance was made for:

- A significantly lower number of at-fault claims, relative to the assumed number in the costing for a mature scheme in the early years of the 2017 Scheme
- A lower number of not at-fault claims for a number of years than assumed in the costing for a mature scheme.

EY documented these assumptions in a letter to SIRA entitled "Costing assumptions underlying the $528 average target premium for the new NSW CTP Green Slip Scheme under the Motor Accident Injuries Act 2017 (NSW) for policies written from 1 December 2017", dated 13 June 2017.

3.2 Motor Accident Guidelines Schedule 1E

The Motor Accident Guidelines (MAG) published by SIRA set out the guiding principles by which insurers must determine proposed premiums. Insurers must also explain the proposed premiums to the satisfaction of SIRA in either a full filing report or a partial filing document. This includes discussion and explanation of how the insurer's premium assumptions were set.

Insurers are also required to complete SIRA's motor accident filing template schedules and appendices and provide these with their rate filing submissions. The template includes Schedule 1E, which is a summary of the insurer's premium assumptions as well as the assumptions the insurer has adopted for the scheme as a whole.

Schedule 1E also contains the premium parameters for the overall industry, i.e. the assumptions underlying the $528 target average premium discussed in the sections above.

3.2.1 Adjustment to target average premium from $528 to $526

Subsequent to the initial derivation of the MAG Schedule 1E parameters, there was an adjustment to the 2017 Scheme target average premium from $528 to $526 prior to 1 December 2017. This cost reduction was brought about from the pre-consultation phase of the Motor Accident Injuries Regulation which identified some matters (dispute events) where individual claimant lawyer involvement would be replaced by a central legal advice service (an outsourced arrangement between SIRA and selected legal advisors).

The 2017 Scheme costing originally included $11 million in claims costs (with the insurer risk premium) to support these matters. Under the draft proposal, it was proposed that an additional levy would be charged to cover the cost of these matters, and that the expense would be removed from claim costs. The estimated increase in the levy was to be $2.2 per policy (including an allowance for GST). This was to be offset by a risk premium reduction of $1.4 cost per policy.

SIRA subsequently made the decision to absorb the additional expenses and not pass it on to NSW CTP policyholders. As a result, the target average premium was reduced by around $2 to $526.

The Schedule 1E parameters were revised to incorporate the changes noted above in the Scheme Actuary industry assumptions. These assumptions therefore represent the current view of expected experience of the Scheme in the honeymoon period, based on the initially selected $528 premium.

This revised target average premium and the underlying assumptions were provided to insurers in the form of the rate filing template Schedule 1E, but that the published MAG Schedule 1E remains at the target average premium of $528.

4. Assessment of Schedule 1E assumptions against claims experience to 30 June 2018

4.1 Introduction

At 30 June 2018, many claims for the 2017 Scheme are very early in the claims process. In aggregate, this means that the 2017 Scheme experience is very early in its development. There are significant delays in the emergence of scheme experience that are typical for long tail claims and personal injury schemes such as the NSW CTP Scheme. In particular, it is worth noting the following:

- The 2017 Scheme is effective for accidents occurring after 1 December 2017. As a result, at 30 June 2018, the Scheme is only partially through the first accident year. Schedule 1E assumptions have been set for an underwriting year which in turn produces two accident years of exposure
- There are delays associated with claim reporting, where claims can be reported up to 3 months after the accident. It is also expected that there will be claims reported later than 3 months after the accident in certain cases, as is seen historically
- The design of the 2017 Scheme benefits introduces a waiting period of 20 months from the date of accident before an award of damages claim can be lodged for non-minor claims with a whole person impairment (WPI) less than or equal to 10%. This means that the earliest these claims can be lodged is 1 August 2019 for an accident that occurred on 1 December 2017, the first day of the 2017 Scheme. In aggregate, award of damages claims are expected to contribute 73% of the total claims cost of the 2017 Scheme in the first underwriting year. Therefore as at 30 June 2018, there is very little experience for this cohort of claims
- Claims can take a number of years to work through the claim management process to reach settlement and finalisation. For complex and severe injuries, this can be longer than 10 years, although for the 2017 Scheme there are incentives to settle by 5 years post-accident. As at 30 June 2018, the majority of reported claims are open and will continue to receive benefits, potentially for a considerable time into the future.

In this section, the emerging claims experience is analysed against the Schedule 1E assumptions and commentary is provided on whether the emerging experience provides any evidence to adjust the assumptions. The analysis presented is monthly and as a result introduces additional volatility, particularly when assessing assumptions set for an annual timeframe.

In section 8, an updated central estimate view of Schedule 1E assumptions is provided, and a range of scenarios to demonstrate the potential impacts on the average premium if emerging experience differs from expected. These give an indication of the materiality of premium changes assuming early experience is reliable and indicative of the longer term trend. It should be noted that the longer term trends are highly uncertain and may deviate considerably from the early experience of the scheme, particularly due to honeymoon effects being more material in earlier months compared to later months.

4.2 Current cost assumptions

The table below shows the frequency and average cost assumptions underlying Schedule 1E assumptions which were calibrated to the commencement premium of $526 for the 2017 Scheme.

Table 3 Schedule 1E Parameters - $526 target average premium basis (inflated and discounted)

Claim assumptions			Claim frequency			Average claim size (inflated and discounted)*		
Fault status	Injury type	WPI	Statutory benefits	Common law	Total	Statutory benefits	Common law	Total
At-fault			0.063%		0.063%	$17,000		$17,000
Not at-fault	Minor injury		0.040%		0.040%	$12,700		$12,700
	Non-minor	WPI<=10%	0.108%	0.074%	0.108%	$20,300	$99,200	$88,200
		WPI>10%	0.027%	0.027%	0.027%	$127,800	$425,100	$552,900
		Total*	**0.238%**	**0.101%**	**0.238%**	**$30,300**	**$186,300**	**$109,400**

**Totals may not add due to rounding*

The claim frequency above is converted into an expected annual number of claims for each of the segments assuming an annual policy exposure of 5.6m vehicles. This is based on projected RMS policy numbers but differs from the premium return data submitted by insurers. Given the differing views of exposure based on the data source there is some uncertainty around the exact exposure measure to use for this purpose. RMS data has been used in this report, however an alternate view of the exposure may also be valid, although this will have a limited impact on changing the annual expected claims number that are presented in the analysis that follows.

As shown in the table above, claim frequency and average cost assumptions in Schedule 1E are split by fault status, minor injury status, whole person impairment (WPI) level and type of benefit (statutory benefit or common law).

For at-fault and minor injury claims, the claimant is not entitled to make a claim for award of damages through common law. For non-minor injuries, claim severity is split by whole person impairment between WPI less than or equal to 10% and WPI greater than 10%. Non-minor claimants are entitled to make an award of damages claim during legislated time periods following the accident.

As a result, for at-fault (including mostly at-fault) claims and not at-fault minor injury claims, only the statutory benefit cost was estimated whereas for not at-fault non-minor claims, assumptions were estimated for the:

- Statutory benefit component of these claims; and
- Common law component of these claims (i.e. award of damages claims).

For claim frequency and average claim size assumptions, the focus will be on the statutory benefit experience to date. Experience for award of damages claims will be limited due to the 20 month waiting period (for the WPI <=10% claims) and also the entitlement to statutory benefits reduces the incentive to resort to award of damages claims immediately (for the WPI > 10% claims).

As a result, as discussed in section 6, any changes to the assumptions for award of damages claims are assessed based on the recent experience of the 1999 Scheme.

Furthermore, an analysis of recent experience of the 1999 scheme is used to assess the impact of any movement in the mix of claims between the minor and non-minor claims cohorts.

4.3 Claim frequency

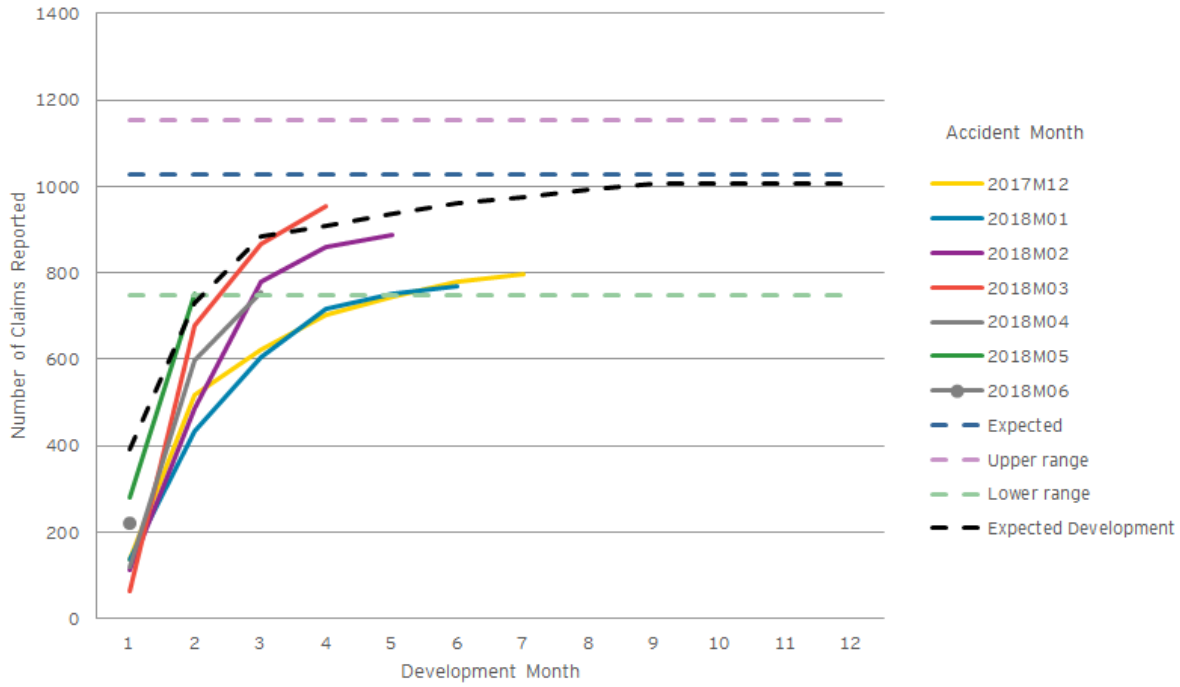
In this section, claims frequency experience for statutory benefit claims is considered. Experience at the overall claim frequency level is considered first, followed by the more granular segments where possible. In particular, at-fault and minor injury experience is considered, with non-minor claims analysed in aggregate due to the limited number of WPI assessments completed so far in the 2017 Scheme.

4.3.1 Total number of statutory benefit claims

The following graph shows the reporting progression of an accident month over time (referred to as development time). A different line for each accident month illustrates the cumulative number of statutory benefit claims reported to the scheme as at 30 June 2018 over the development time.

The expected profile for an accident month is shown by the black dashed line and the expected ultimate level of claims by the dashed blue line. Upper and lower ranges are shown by the dashed purple and green lines respectively, and are based on assumed higher and lower levels of propensity to claim compared to the expected level of propensity to claim. The range was set by reference to the long standing Victorian Transport Accident Scheme together with the previous behaviour of the 1999 Scheme. For the purposes of this graph, interstate, compensation to relatives, early notification and s151z claims are excluded.

Figure 2 Number of cumulative statutory benefit claims reported by development month



The reported claims experience is emerging slower and lower than the expected development for the first 2 accident months - December 2017 in yellow and January 2018 in blue. There remains considerable uncertainty around the projection of these accident months as they may have a more significant honeymoon impact than anticipated and may also have been impacted by monthly seasonality in casualties. The March 2018 (in red) and May 2018 (in green) accident months are emerging faster than previous accident months and are more in line with the expected pattern. This may also be due to the monthly seasonality around these months.

Overall, the number of claims reported is broadly tracking in line with the expected reporting profile underlying the assumptions assumed under Schedule 1E, notwithstanding the high volatility in reporting and analysing monthly claims experience.

As a result, the emerging experience for the 2017 Scheme does not deviate substantially from the Schedule 1E assumptions and is consistent with the overall claims frequency assumed under Schedule 1E particularly once the first two accident months are removed.

4.3.2 At-fault claims

Historically, under the 1999 Scheme, at-fault injured persons were entitled to claim up to $5,000 of benefits and the propensity to claim was around 10% or lower of total at-fault casualties. Under the 2017 Scheme, at-fault injured persons are now entitled to claim up to 26 weeks of benefits for loss of income and medical treatment. Therefore it is expected that there will be a higher propensity to claim in the 2017 Scheme for at-fault benefits, although it may take time for the

higher propensity to emerge. The extent and rate at which the propensity will increase is highly uncertain as it depends on the awareness of the expanded benefits for at-fault persons as well as the willingness to claim. This adds to the complexity of analysing early at-fault experience for the 2017 Scheme.

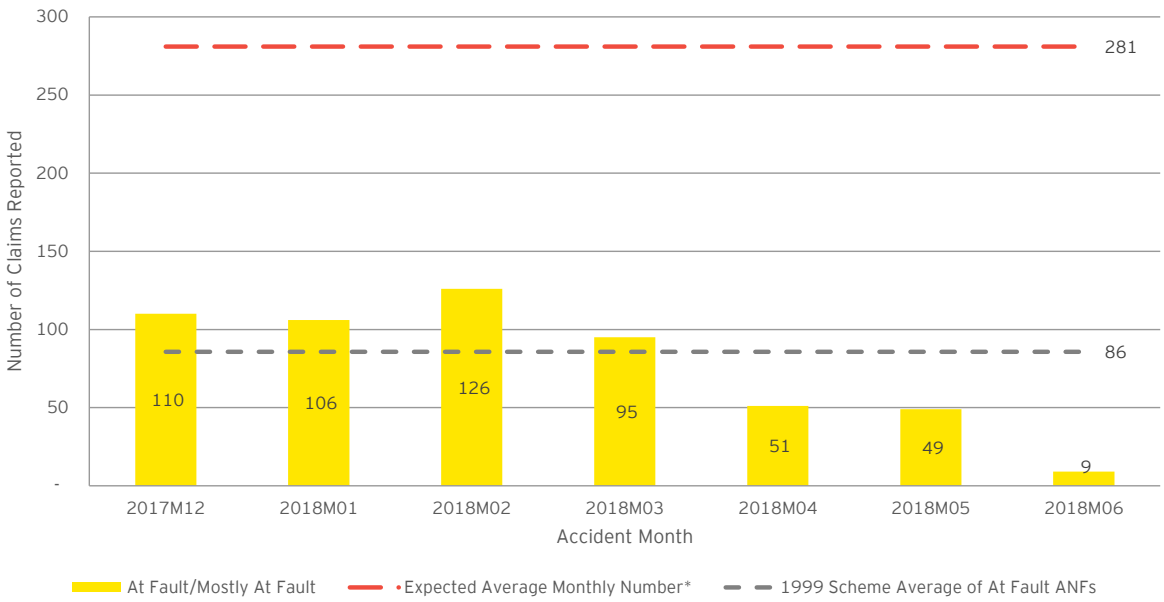
Propensity to claim numbers are based on the *Centre for Road Safety (CRS) Road Casualty* numbers data, where casualties are defined as individuals that have been injured following an accident.

In the chart below, the number of at-fault claims reported is compared to the expected ultimate number of at-fault claims assumed under Schedule 1E (red dashed line). The average monthly ultimate number of at-fault ANFs under the 1999 Scheme is also shown (grey dashed line).

The chart shows the propensity to claim has increased, and it is expected that the number of at-fault claims in the 2017 Scheme will continue to increase over time as awareness of the at-fault benefit spreads through the community and the stigma of at-fault claims diminishes.

When the at-fault ANF benefit was introduced in the 1999 Scheme, it took several years for the number to reach the average level shown below. This is expected to occur more rapidly for the 2017 Scheme, given the more significant benefits available, but the exact timing and the extent of the stabilisation of the at-fault experience is uncertain.

Figure 3 Number of at-fault/mostly at-fault statutory benefit claims by accident month in comparison to the 1999 scheme

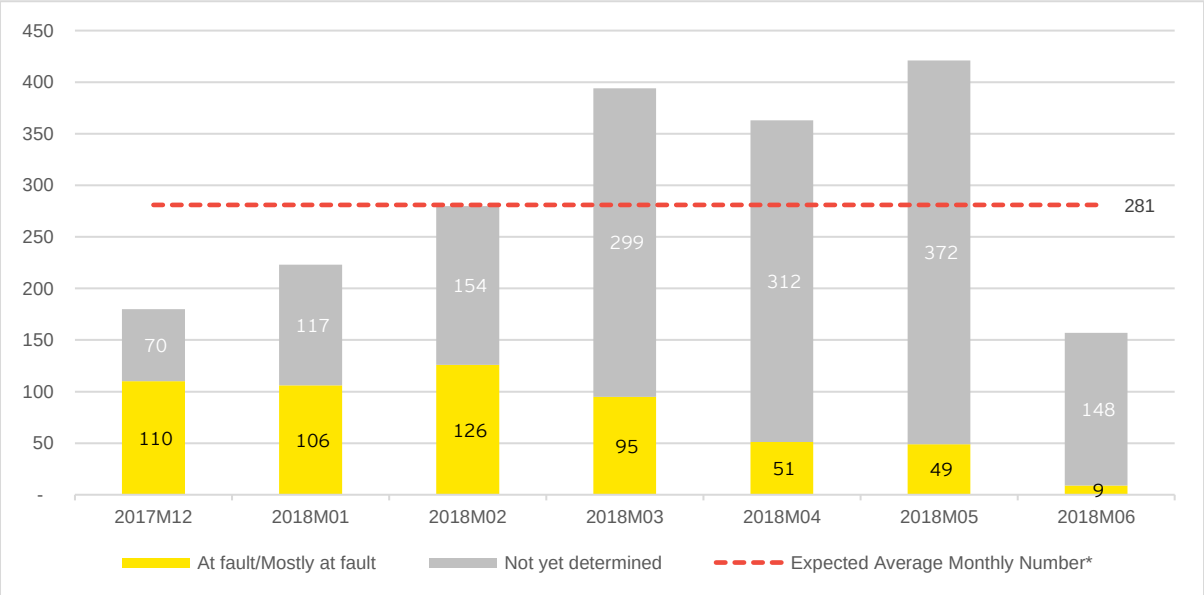


**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

The figure above shows that at-fault claims in the 2017 Scheme are currently lower than the level expected under Schedule 1E. For the later accident months (April 2018, May 2018, June 2018) the lower numbers are due to normal reporting delays and normal processing time for assessing the fault status of reported claims. As a result, these numbers will increase as additional claims report and also as existing reported claims are given an at-fault determination. Claims will also continue to be reported and the fault assessment completed for older accident months (December 2017, January 2018, February 2018, March 2018) albeit to a lesser extent.

The following chart illustrates the extent of the uncertainty around the ultimate number of at-fault claims by showing the number of claims where the fault status is not yet determined. The extent to which these claims are classified as at-fault claims will determine how close the current reported at-fault claims will be to the expected level. For this figure, claims have been excluded where the fault status is undetermined but the claim is classified as minor as these are discussed in the next section i.e. this figure represents the group of claims that are still eligible to become an at-fault claim based on currently known information.

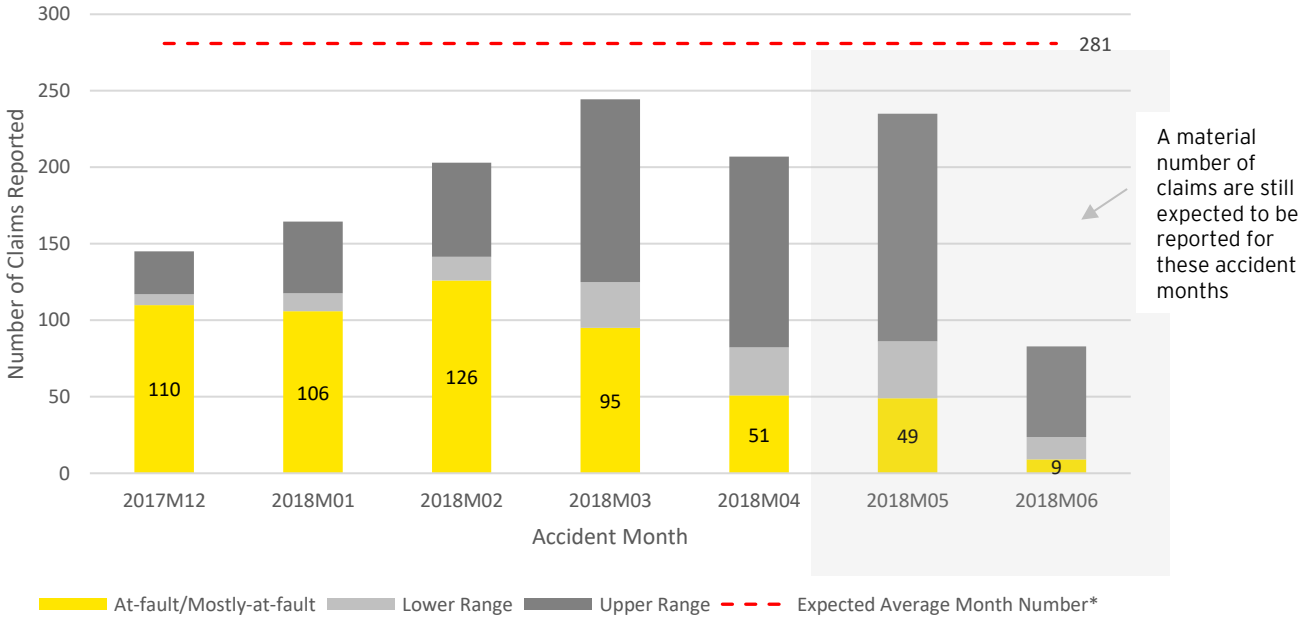
Figure 4 Number of at-fault/mostly at-fault and undetermined statutory benefit claims by accident month in comparison to the 1999 Scheme



**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

Overall based on the figure above, the current level of at-fault claims reported into the scheme are below the expected number, particularly for the earlier accident months where the majority of claims are expected to have been reported. For these accident months, even allowing for a high level of at-fault claims amongst the claims where the fault status has yet to be determined, there would be insufficient claims for the actual experience to exceed the expected level assumed in Schedule 1E. This is further illustrated in the following figure.

Figure 5 Number of at-fault/mostly at-fault statutory benefit claims by accident month allowing for a proportion of currently undetermined claims, not allowing for reported claims in latest four months



**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

Figure 5 provides an illustrative range of where the at-fault numbers may ultimately reach based on current reported claims, generally for months only to March 2018. For accident months from April 2018 onwards there may still be significant claims that have yet to be reported and as a result the range is not indicative of the final position. However for accident months from December 2017 to March 2018 it provides an indication of where the at-fault number of claims may ultimately reach. The ranges have been calculated based on assuming an upper and lower range on the proportion of the claims awaiting a fault determination that will be classified as at-fault. In particular, for the lower range it is assumed 10% of these claims will be classified as at-fault and for the upper range a 50% at-fault classification rate is assumed.

Looking at the accident months from December 2017 to March 2018, the number of at-fault claims is generally below the expected. Overall looking at these more developed accident months, there is a potential shortfall of up to around 100 to 150 claims compared to the expected number.

Key areas of uncertainty around the ultimate number of at-fault claims include:

- As highlighted in figure 4, there are a large number of claims that have not yet been assessed for liability, some of these claims will be assessed as at-fault
- The honeymoon impact for the more mature accident months may not be representative of the impact for the more recent accident months as operational process and awareness of the scheme benefits for at-fault claimants develops
- For the more recent accident months, a significant volume of claims are yet to report into the 2017 Scheme
- The ultimate propensity to claim amongst at-fault claimants under the 2017 Scheme is unknown particularly given the higher benefits compared to the 1999 Scheme. Under the 1999 Scheme, the propensity to claim for at-fault claims was very low (around 10%) so there is significant scope for the at-fault claims to increase above the expected level assumed in Schedule 1E. For example, if the propensity to claim approaches 50%, then at-fault claim numbers will being the order of 4,500 per annum compared to the 3,500 currently assumed in Schedule 1E.

4.3.3 Not at-fault minor injury claims

The following section assesses the scheme experience for not at-fault minor injury claims against Schedule 1E assumptions. To complete this analysis, underlying reporting inconsistencies that are in the process of being resolved with insurers have been adjusted for. This has been caused by differing interpretations between insurers in coding of a minor injury decision as 'indicative' or as 'assessed'.

4.3.3.1 Data adjustments

Adjustments have been made for differences in the coding of minor injury decisions between insurers by checking for consistency of this decision against the insurer's assessment of liability for benefits post 26 weeks. In particular, liability for benefits post 26 weeks should only be rejected for claims that are at-fault or mostly at-fault or are assessed as minor injury claims.

As a result, the data submitted by insurers has been adjusted in the following manner:

- Claims which are classified as minor injury based on being an 'assessed' coding are considered assessed minor injury claims
- Claims which are classified as minor injury based on an 'indicative' coding are reclassified as assessed minor injury claims if the liability for benefits post 26 weeks is rejected. This approach uses the additional information in the liability status of the claim to assess whether the minor injury indication should be considered an assessment to align with the reported liability status
- Claims which are classified as minor injury based on an 'indicative' coding remain as indicative minor injury claims if the liability status does not indicate that liability for benefits post 26 weeks is rejected. This approach checks for consistency between the reporting of the liability

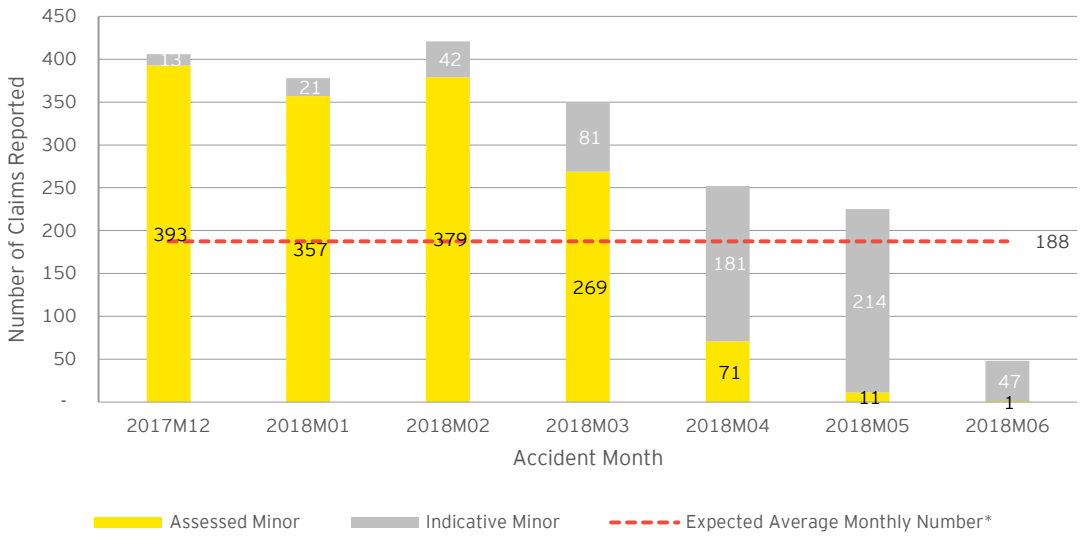
status and whether the indicative minor assessment has had an impact on the liability assessment.

This approach allows for timing differences between when liability assessment information and minor injury information are updated and submitted to the UCD by insurers, and assumes the liability assessment is more reliable i.e. that it is updated by insurers more regularly than minor injury assessments.

4.3.3.2 Number of minor injury claims

This minor injury section is based on the adjusted view of minor injury assessment described above. The following figure shows the number of claims categorised as minor injury based on either an indicative or actual assessment. The total number of minor injury claims excludes the claims assessed as at-fault and mostly at-fault but includes all other fault statuses. Adjustments have been applied to re-categorise some of the indicative minor claims to assessed minor claims based on the liability status as described above.

Figure 6 Number of minor injury claims by assessment type and accident month



**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

Table 4 Number of minor injury claims by assessment type and accident month

Minor injury assessment type	2017M12	2018M01	2018M02	2018M03	2018M04	2018M05	2018M06	Total
Assessed minor	393	357	379	269	71	11	1	**1,481**
Indicative minor	13	21	42	81	181	214	47	**599**
Total	**406**	**378**	**421**	**350**	**252**	**225**	**48**	**2,080**

The chart above shows that claims assessed as minor injury (yellow bars) are higher than the expected number (red line) for the older and more developed accident months. The figure also shows the reduction in the proportion of indicative minor injury assessments (grey bars) as the claims develop and moves through the claims management process. In particular, the liability for benefits post 26 weeks is expected to be determined for claims within 3 months from lodgement and this decision will in part be dependent on the assessment of claims as minor injury or not minor injury. Furthermore, once an insurer makes the assessment decision, the minor injury assessment can be subject to the dispute process where the minor injury assessment decision will be challenged. Disputation will act to reduce the number of minor injury claims as claims proceed through the dispute resolution process, this is discussed further below. This is a key area of uncertainty around the ultimate number of minor injury claims.

4.3.3.3 Minor injury decisions and disputation

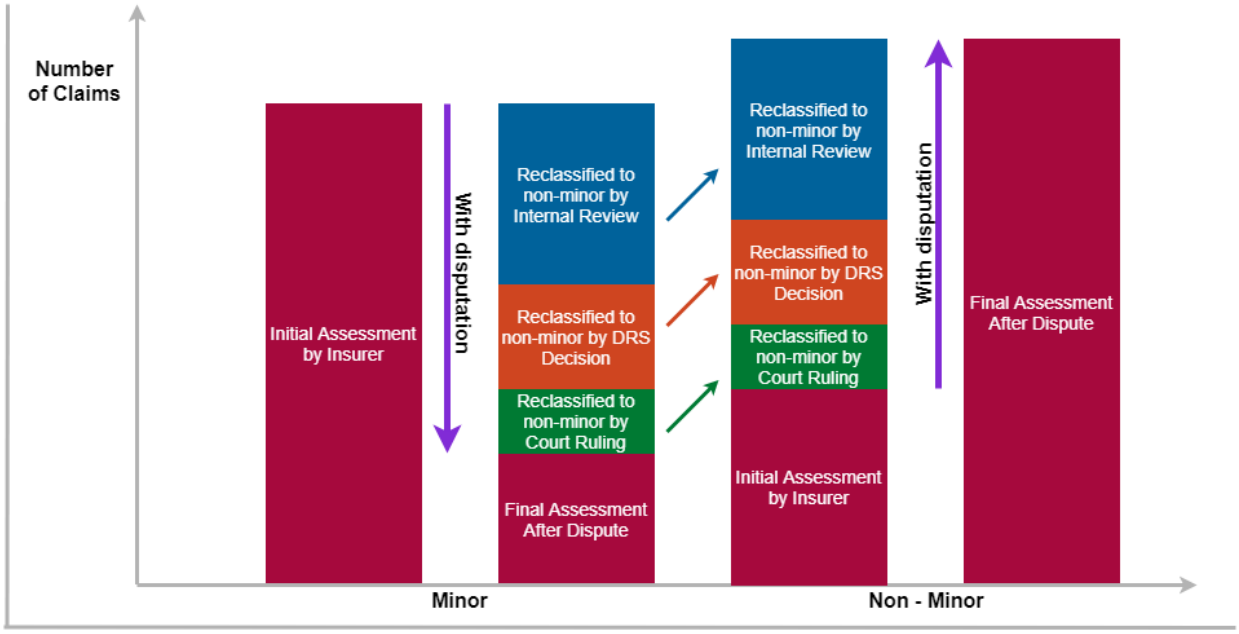
The largest area of dispute currently raised in the 2017 Scheme is in relation to the minor injury assessment decision. In particular, 47% (or 147) of the internal reviews initiated are in relation to the minor injury assessment decision and 57% (or 38) of disputes through SIRA's Dispute Resolution Service (DRS) are in relation to the minor injury assessment decision.

Disputes in relation to the minor injury assessment decision will only be escalated by the claimant if the outcome of the dispute resolution is a decision that the minor injury determination should be upheld. If the outcome of the dispute resolution is a decision that the minor injury determination should be overturned to a non-minor injury determination then the claimant will not dispute the finding further. As a result, over time, the dispute resolution process is expected to reduce the number of claims that are initially assessed as minor by insurers and increase the number of claims assessed as non-minor.

Furthermore, it should also be noted, there are a number of processes for the claimant to continue to dispute a minor injury determination including initially through an insurer internal review, followed by an external review through the DRS and finally through court proceedings.

The figure below illustrates the expected movement of the minor injury assessed claims after each successive dispute level.

Figure 7 Potential movements of minor injury assessments



NOTE: This is an illustrative diagram to show how claims may move through the disputation process. It does not accurately represent the volume of claim reclassifications expected.

This will impact the current number of minor injury assessed claims shown in section 4.3.3.2 and over time act to reduce the number as experience develops, and more claims move through the dispute resolution process.

The following table shows that of the 147 minor injury internal reviews raised, 100 have been completed with a further 47 in progress. Of the 100 completed internal reviews, 87 have resulted in a new minor injury decision being issued while the remaining internal reviews were either withdrawn or declined. The following table shows the results of the new minor injury assessment decision following the internal review process.

Table 5 Number of internal reviews lodged by status for minor injury decisions

Internal review outcome	Number of internal reviews lodged
Determined	87
In progress	47
Withdrawn	7
Declined	6
Total	**147**

Of the 87 internal review decisions issued, 10 were in favour of the claimant and resulted in a classification to non-minor injury. This reflects an 11% overturn rate for internal review assessment decision where a new decision is issued.

It should be noted that the experience to date is very limited due to the early development of the 2017 Scheme, as more minor injury claims reach the end of the 26 week benefit entitlement period, there may an increase in the number of minor injury disputes and this could change the current 11% overturn rate being observed.

Table 6 Number of determined internal reviews by impact on claimant for minor injury decisions

Internal review impact	Number of determined internal reviews	Percentage
In favour of claimant	10	11%
Decision upheld	77	89%
In favour of insurer	-	0%
Total	87	100%

There are a further 38 minor injury reviews currently in progress with DRS, none of these have yet been determined.

In addition, there will also be significant delays before this experience emerges for the 2017 Scheme due to the timeframes involved from accident to lodgement to the minor injury assessment decision to subsequent progression through the different levels of the dispute process. As a result, there will a significant amount of time (6-12 months from the end of the accident period) and uncertainty before an expected stabilisation of the impact that disputation will have on the ultimate level of minor injury claims in the 2017 Scheme.

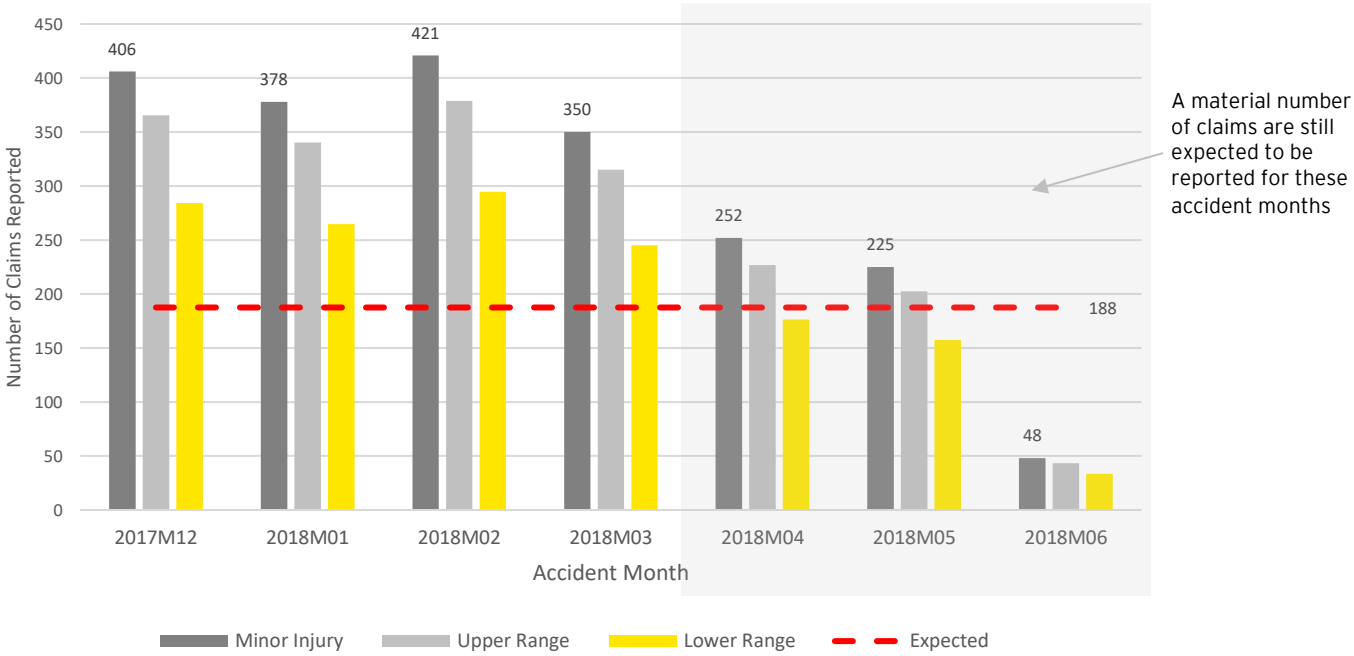
4.3.3.4 Assessment of minor injury experience

As a discussed above, over time in the earlier accident months the number of minor injury claims will develop downwards (the yellow bars in Figure 6 are expected to reduce) as claims initially assessed as minor injury by insurers are reclassified as non-minor injury following the dispute resolution process.

Therefore the current level of minor injury claims for the older accident months may develop downwards towards the expected value however the level of decrease is uncertain and contingent on how insurers are currently making decisions and how the dispute resolution process reviews those decisions. Conversely, over time the number of minor injury claims in the more recent accident months will increase as a result of more claims reporting and more claims being assessed as minor injury.

The figure below illustrates the potential impact of disputation on the ultimate number of minor injury claims by accident months. The figure does not allow for the impact of additional claim reporting and further minor injury assessments being completed for the more recent accident months.

Figure 8 Minor injury claim ranges by accident month



The figure provides an illustrative range around the impact that disputation may have in reducing the number of minor injury claims reported into the 2017 Scheme. In particular, an upper range and a lower range is provided based on assuming an overall overturn rate for the existing minor injury assessment. This simplistic approach assumes all minor injury decisions are exposed to being overturned, in reality some of these claims may recover with the 26 week benefit entitlement period post-accident and the minor injury decision would not be a point of contention. In order to derive the upper range scenario an overall overturn rate of 10% has been assumed whereas the lower range scenario assumes an overturn rate of 30%.

In addition, the above figure is only meaningful for the accident months from December 2017 to February 2017 where the majority of minor injury assessments should have been completed by insurers. For the remaining accident months, the ultimate number of minor injury claims will be impacted by a number of factors including additional claims reporting for these periods and also more minor injury assessment being carried out on existing claims.

Looking at the accident months from December 2017 to February 2018, the number of minor injury claims is generally above the expected number even under the lower range scenario. Overall looking at these accident months there is approximately an additional 100-160 minor injury claims compared to the expected based on the more mature accident months. In section 5.3, an updated view of assessed minor injury claims using experience to the end of August 2018 is provided.

Key areas of uncertainty around the ultimate number of minor injury claims are highlighted below:

- There are a large number of claims that have not yet been assessed for minor injury, in particular for the more recent accident months
- For the more recent accident months a significant volume of claims are yet to be lodged in the 2017 Scheme
- The disputation process will have a significant impact on the ultimate level of minor injury claims for the 2017 Scheme. Experience from the disputation process is limited and as a result there is considerable uncertainty around the impact that disputation will have in terms of re-classifying existing minor injury decisions to not minor.

4.3.4 Not at-fault non-minor claims

To date, there have been very few WPI assessments for claims in the 2017 Scheme. As a result, the split of not at-fault non-minor claims by WPI is not considered. As a result, the frequency of this

segment of claims is analysed in aggregate. The level of not at-fault non-minor claims in the 2017 Scheme is subject to a number of development delays including:

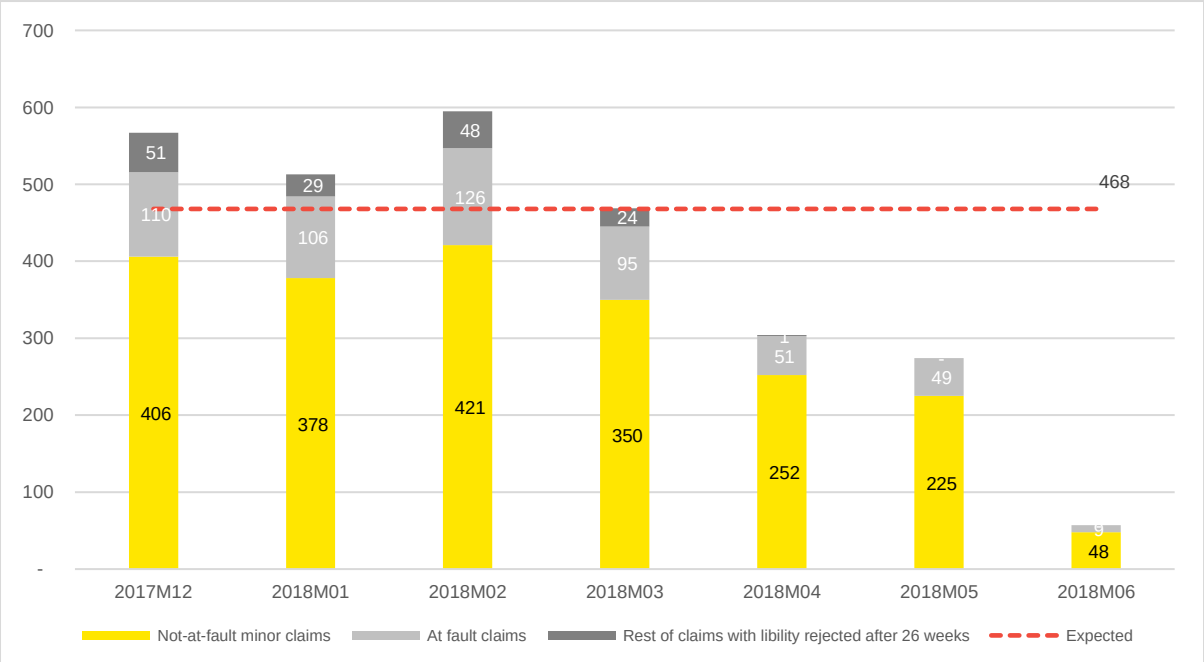
- Delays associated with the claim reporting post-accident
- Delays associated with the fault assessment particularly given the reduced emphasis on fault status in determining initial liability of the claim
- Delays associated with the minor injury decision being completed by insurers. The minor injury decision does not impact the liability assessment for the first 26 weeks of a claim and appears to be less of an immediate priority when managing the claim (compared to no-fault acceptance and commencement of treatment and income support where relevant)
- Delays associated with the disputation process being completed for at-fault claims and not at-fault minor injury claims. The process will run after the initial insurer assessments and hence introduces an additional lag before the ultimate number of not at-fault non-minor claims can be assessed with any certainty.

All of these factors add to the development delays in assessing the level of not at-fault non-minor claims. In addition, these factors act in differing directions on the total number of not at-fault non-minor claims as some increase the development and some will reduce the development. The relationships are complex and limited experience exists for the 2017 Scheme to date to quantify their effects. As a result, the ultimate level of not at-fault non-minor claims based on experience to date has not been projected.

Given overall claim numbers are broadly in line with expected experience as discussed in section 4.3.1, the combined level of minor injury and at-fault claims have been considered against expected levels in the figure below. In addition, any residual claims where there is liability for benefits post 26 weeks is rejected are also included as these claims should either be minor injury or at-fault claims although the insurers have yet to complete this information in the UCD.

The remaining claims are the not at-fault non-minor segment and any conclusions from the figure below will apply opposite to this segment e.g. if minor injury and at-fault claims in aggregate are higher than expected then this implies that not at-fault non-minor claims are lower than expected, notwithstanding future claims reporting.

Figure 9 Number of claims with benefits up to 26 weeks



The earlier accident months from December 2017 to February 2018 will be less impacted by delays associated with additional claims reporting and initial minor injury assessments being completed for these claims. However these accident months will be impacted by fault assessments being

completed for claims where the fault status is yet to be determined – this will act to increase the numbers shown in the figure above. Acting in the opposite direction will be the impact of the disputation process on these claims and the rate at which fault and minor injury decision are overturned during the dispute process. This will act to reduce the numbers in the figure above.

It is highly uncertain which of these factors will have a bigger impact on the claim numbers shown above. However the current level of reporting by accident month is broadly consistent with the expected ultimate level of minor injury and at-fault claims, although without allowing for any further development there is potentially an additional volume of claims of up to 150-200 per month. This indicates there may be a shift in the mix of claims with more not at-fault minor claims than expected and a corresponding shortfall in not at-fault non-minor claims compared to expectation. This is discussed further in section 5.4 using additional data to 31 August 2018.

In section 8, an updated central estimate view of Schedule 1E parameters is provided to allow for a change in the mix of minor and non-minor claims.

Key areas of uncertainty for the ultimate level of not at-fault non-minor claims reported to the 2017 Scheme include:

- The large number of claims that have not yet been assessed for either or both minor injury and fault status. This will be particularly the case for more recent accident months
- For the more recent accident months a significant volume of claims are yet to be lodged in the 2017 Scheme
- The disputation process will have a significant impact on the ultimate level of non-minor claims for the 2017 Scheme. Experience from the disputation process is limited and as a result there is considerable uncertainty around the impact that disputation will have in terms of re-classifying existing minor injury decisions.

4.3.5 Award of damages claims

Currently, there is close to no experience for award of damages claims in the 2017 Scheme due to the following factors:

- In general, injured people have a reduced need to lodge an award of damages claim in the 2017 Scheme since they are already receiving ongoing access to statutory benefits
- For claims with a WPI assessment of less than or equal to 10% there is a legislated waiting period of 20 months post the accident before the common law claim can be lodged. As a result, it is expect that close to zero of these claims would be lodged in the first seven months of the Scheme, since these claims would be rejected/on hold until the 20 month mark is reached. The greater volume of award of damages claims will come from this segment.

As a result of the limited experience for the Scheme, nine claims for award of damages have been lodged, which is expected due to the reasons above. In addition the emerging experience also provides limited insight into the ultimate level of award of damages claims to be reported for the 2017 Scheme as not enough time has elapsed from the first day of the 2017 Scheme to assess the suitability of the award of damages claim frequency assumption.

4.4 Average claim size

This section considers the average claim size assumptions underlying Schedule 1E. In general, payment experience is lagged behind reporting experience and takes a number of years to emerge. In particular, statutory benefit claims can run for 5 years and common law settlements can take upwards of 10 years in some cases (although there are incentives in the scheme to settle by 5 years). To date, there has been very little payment experience to observe compared to that expected to be paid in total. Total payments to 30 June 2018 equate to 2% of the ultimate cost of claims expected to emerge for those accidents that have occurred up to 30 June 2018, due to the significant proportion of the expected costs being from the nature of the accumulating statutory benefits and the expected future award of damages claims as discussed below.

4.4.1 Award of damages claims

Award of damages claims represent 73% of the risk premium and there will be a number of years (5 years or more) before there is any certainty around the ultimate cost of these claims. There are number of reasons for this including:

- For minor injury claims and WPI<=10%, there exists a 20 month waiting period before an award of damages claim can be lodged. Therefore for accidents occurring on 1st December 2017, the first day of the 2017 Scheme, the earliest a claimant with an injury occurring on this date can lodge an award of damages claim is 1 August 2019. The settlement process can then run for a number of years following this
- For claims with WPI >10%, there does not exist the 20 month waiting period before an award of damages claim can be lodged. However, the impetus to lodge an award of damages claim is much lower since the injured person can receive up to 5 years of statutory benefits to cover treatment, care and loss of income payments. For these claims the settlement process may also run for a number of years post lodgement, depending on the nature of the injuries and the characteristics of the injured person
- In addition, it can take a number of years for complex injuries to stabilise before a settlement amount can be determined. Generally, this may apply to more severe injuries with higher settlement awards, which will ultimately have a greater impact on changing the average cost of award of damages claims later in the development time of the respective accident year
- There are also likely to be delays arising from the lodgement and resolution of disputes contesting the assessed level of WPI. The assessed level of WPI is important because an assessment of WPI greater than 10% enables the injured person to also claim for an award for damages for non-economic loss which can be substantial.

Given these factors, there is no direct claim data from the 2017 scheme on which to assess the appropriateness of the common law average cost assumption under Schedule 1E. In particular as noted earlier this will take a number of years to emerge and is also the material element of the Scheme cost. This issue is considered further in section 6.

In the next section statutory benefit costs and assumptions are considered.

4.4.2 Statutory benefit costs

Statutory benefit costs represent around 27% of the risk premium and the payment experience for this segment will emerge more quickly than for award of damages claims. However there will still be considerable delays before the ultimate statutory benefit cost can be assessed with any certainty due to:

- The 2017 Scheme is effective for accidents occurring after 1 December 2017. As a result, at 30 June 2018 the scheme is only partially through the first accident year. Average cost assumptions have been set over an annual underwriting timeframe which in turn relates to 2 accident years of exposure
- There are delays associated with claim reporting, where claims can be reported up to 3 months after the accident. It is also expected that there will be claims reported later than 3 months after the accident in certain cases
- Payment experience is further lagged behind reporting experience. In particular, for not at-fault non-minor claims, statutory benefits can be paid for up to 5 years and claims reaching this point will generally have the higher average costs
- For statutory benefits, the payments accumulate over time, as they are made up of weekly payments and treatment payments that occur over extended periods of time
- During the early stages of the 2017 stages, there may be extended delays in the quantum of benefit payments due to the development and embedding of new benefit payment processes from all of the parties involved in the claims process. These include the process to lodge a claim, the process for an insurer to authorise the injured person to receive relevant treatment

and weekly benefits, and the process to provide insurers with invoices or payslips for reimbursement or payment of treatment costs and weekly benefits etc.

As shown in the chart below, emerging experience is reflecting these delays with payments emerging slower than expected.

Figure 10 Cumulative statutory benefit payments to date

At this stage, with total statutory benefit payments to date only representing about 2% of ultimate expected statutory benefit payments, there is little evidence to support a need to revise ultimate total claims costs. However as shown in the figure above, the statutory benefit payment experience does suggest that payments are being made at a slower rate compared to the expected payment pattern. As a result, there is a need to revise the expected payment pattern to better reflect the emerging experience. This revision will allow for the payment pattern to be shifted to the right by 2-3 development months and also for the 'shape' of the future pattern of payments to be altered. The following analysis will be completed to revise the payment pattern:

- An analysis of payment experience for each claims cohort (i.e. at-fault claims vs not at-fault minor claims vs not at-fault non-minor claims) split between different types of payments (primarily between loss of income and treatment). This will help to determine whether there is any difference in the payment experience between different types of claims and/or different types of payment
- An investigation into the time between the accident date and date of first payment of statutory benefits. This will include analysis of any delays associated with the injured person navigating the claims lodgement process as well as delays associated with internal insurer operational processes to accept claims and approve payment of benefits.

Although overall payment experience is very immature, there is a segment of claims which may have reached the end of their respective claim entitlement period and may provide some indication of the average cost for these segments. These claims are minor injury and at-fault claims for the very first accident month of the scheme, these are discussed in the next section.

4.4.3 At-fault and minor claims cost

Under the 2017 Scheme, benefits for at-fault and minor injury claims are generally restricted to the first 26 week period following the accident. There are some exceptions to this, for example, where ongoing treatment for a minor injury claim is likely to improve the injured person's recovery then benefits payment could continue beyond 26 weeks. Given the general restriction on benefit access, at-fault and minor injury claims for accidents in December 2017 will have generally reached the end of their benefit entitlement period by 30 June 2018. As a result, the average claim size for this segment of claims where the accident occurred in December 2017 is analysed separately.

It is noted that this is only *one* accident month of experience and it may not be representative of the annual average cost, particularly under a more developed scheme. Further, there will also be late payments for these claims and further fault assessment and minor injury assessment will also

impact the December accident month ongoing development. The disputation process may also have an impact on the minor injury average cost assessment.

The table below compares the resulting average cost for the December 2017 accident month relative to the assumptions in Schedule 1E for these segments.

Table 7 Actual versus expected average claim size for December 2017 claims

Claim type	Schedule E assumption (inflated and discounted)	December '17 actual
At-fault	$17,000	$12,416
Not at-fault minor	$12,700	$4,561

In general, the actual experience for the December accident month is lower than expected under Schedule 1E assumptions for at-fault claims and materially lower than expected for not at-fault minor claims. However it should be emphasised this is based on *a single* accident month and may not be representative of the longer term Scheme experience. In section 8, an updated central estimate view of Schedule 1E parameters is provided to allow for this emerging payment experience.

It is noted that currently there is only one month in which the average claim cost can be remotely compared to the Schedule 1E assumption. As a result considerable uncertainty exists for the one accident month of payment data due to:

- Average costs each month may be subject to seasonal variability which means any annualised trends contains material uncertainty
- Average costs in defined benefits accumulate, so will continue to emerge higher for some time
- Initially average costs may be subject to fluctuations due to any new claims handling processes in place for the 2017 Scheme
- On a monthly basis, relatively little at-fault and minor injury claims costs occur, and therefore the average is subject to a lot of variability. Valuations are typically carried out quarterly for a Scheme of this type for this reason
- A significant number of claims have occurred within these cohorts but have not yet had liability determined, or injury severity assigned so do not yet contribute to the final average cost of these segments
- Earlier accident months are potentially exposed to stronger honeymoon effects than later accident periods
- A number of the minor injury not at-fault claims are expected to be disputed with some expected to be reclassified as non-minor
- Late invoicing and payments could have an impact on the estimated ultimate average costs.

5. August 2018 update

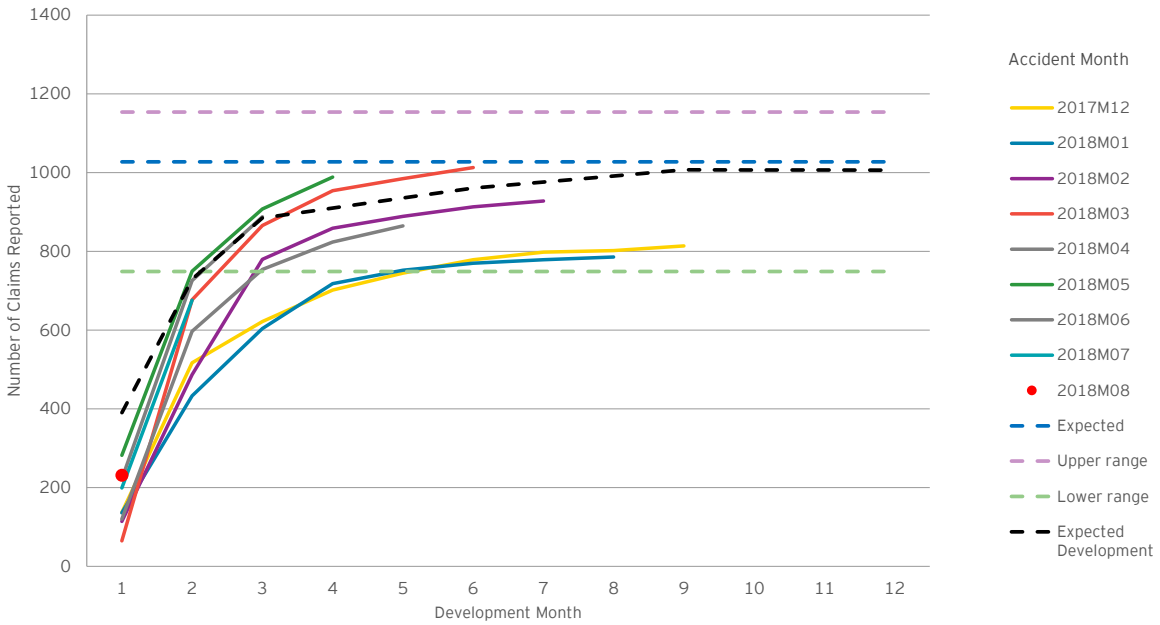
The Terms of Reference for this report requested a review of the experience of the 2017 Scheme from its commencement on 1 December 2017 to 30 June 2018. This review was presented in section 4. However at the time of completing the analysis for this report additional scheme experience to 31 August 2018 was available. In this section the analysis presented in section 4 is extended to allow for the additional two months of Scheme experience.

This section does not update all of the analysis presented in section 4 but only the most relevant areas which will assist in forming a view against the Terms of Reference. Commentary is provided on whether the relevant conclusions from analysis presented in section 4 still apply when considering the additional scheme data to 31 August 2018.

5.1 Total number of statutory benefit claims

The following graph shows the reporting progression of each accident month over time (referred to as development time). This is an update of the graph shown in Figure 2, based on data as at 31 August 2018.

Figure 11 Number of cumulative statutory benefit claims reported by development month



The latest two data points of each line represent the developments from June 2018 to July 2018 and then July 2018 to August 2018. The additional two months of development is consistent with the expected reporting pattern for the accident months from February 2018 onwards. This is generally consistent with the assessment of reporting behaviour based on 30 June 2018 data. In general, reporting experience is in line with the expected reporting profile after allowing for monthly volatility, apart from the first two accident months (December 2017 and January 2018) of the 2017 Scheme.

As a result, the actual claim development experience up to 31 August 2018 has not materially deviated from the earlier conclusions based on the 30 June 2018 data discussed in section 4.

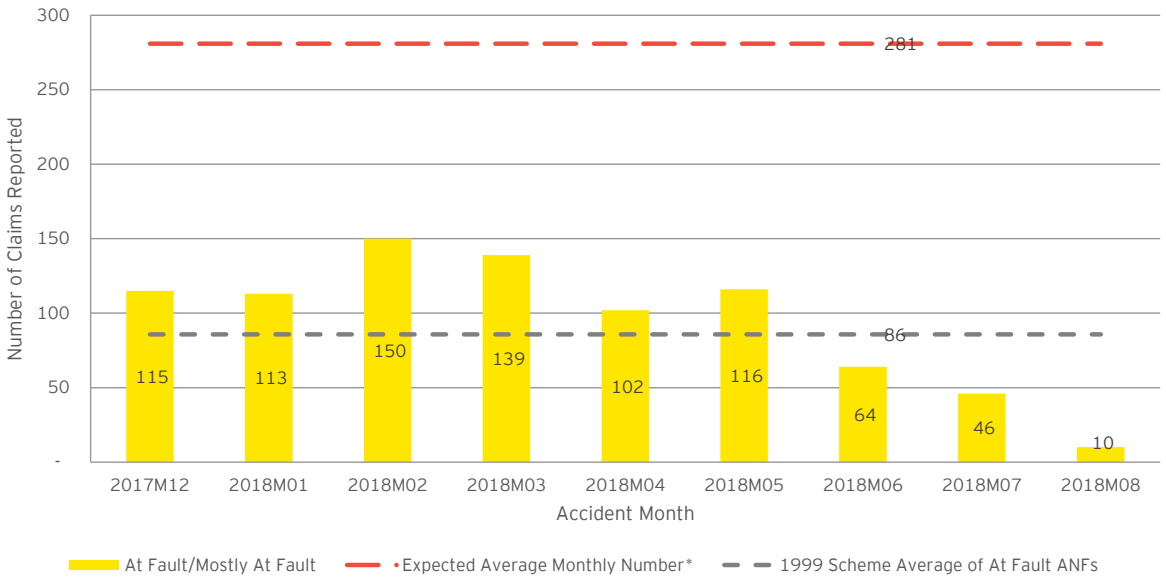
5.2 At-fault claims

Figure 12 shows the reported number of at-fault or mostly at-fault statutory benefit claims by accident month. Compared to the June experience discussed in section 4.3.2, the total number at-fault or mostly at-fault claims continues to be lower than expected. For the older accident months, using data to end August 2018 would allow for a greater period over which to make the fault assessment. As a result, using August data should provide for additional development and

classification of at-fault claims that had previously been reported to 30 June 2018 along with claims reported since 30 June 2018.

In general, older accident months have also shown signs of slowing development although there still remains a material volume of claims with a fault determination yet to be made as shown in Figure 13. Total at-fault/mostly at-fault claims developed from 110 to 115 for accident month December 2017, and from 106 to 113 for accident month January 2018 in the last two months. As result, even allowing for development from the not yet determined claims, the reported level of at-fault claims based on data to 31 August 2018 is still below the expected level particularly for the earlier accident months of the 2017 Scheme. This is consistent with the earlier conclusions based on the 30 June 2018 data discussed in section 4.3.2.

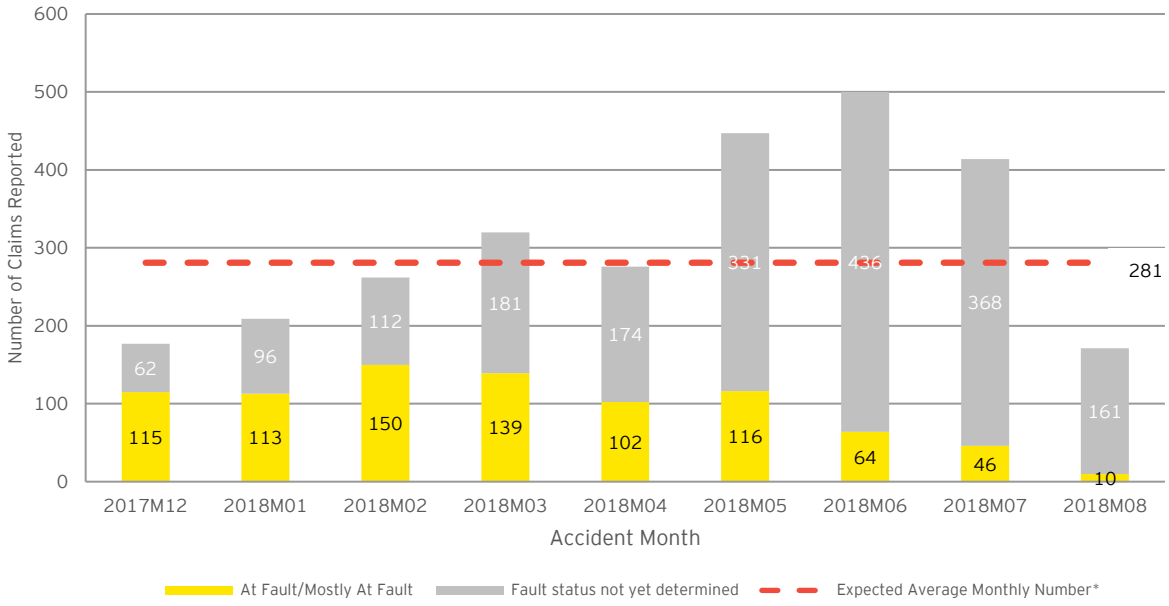
Figure 12 Number of at-fault/mostly at-fault statutory benefit claims by accident month in comparison to the 1999 Scheme



**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

Figure 14 shows that there is still a significant volume of claims with fault status not yet determined across all accident months. This continues to be a key area of uncertainty of whether the ultimate number of at-fault/mostly at-fault claims will reach the expected number. As a result, there is greater scope for the more recent accident months since February 2018 to develop upwards towards the expected level of at-fault claims. Again there is considerable uncertainty around the fault determination that will be made for claims where the determination is yet to be made. As in section 4.3.2 claims classified as minor have been excluded from the fault status undetermined segment in the figure below as they are discussed in the next section.

Figure 13 Number of at-fault/mostly at-fault & undetermined statutory benefit claims by accident month



**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

Overall, notwithstanding the high level of uncertainty, the previous conclusion that the number of at-fault claims may be lower than expected is unchanged by examining the experience to 31 August 2018. In section 8, an updated central estimate view of Schedule 1E parameters is provided to allow for this emerging at-fault claims experience.

5.3 Not at-fault minor injury claims

The following figure shows the number of claims categorised as minor injury based on either an indicative or actual assessment. The total number of minor injury claims excludes at-fault claimants. The same adjustments have been applied to re-categorise some of the indicative minor claims to assessed minor claims based on the liability status as discussed in section 4.3.3.1.

Figure 14 Number of minor injury claims by assessment type and accident month

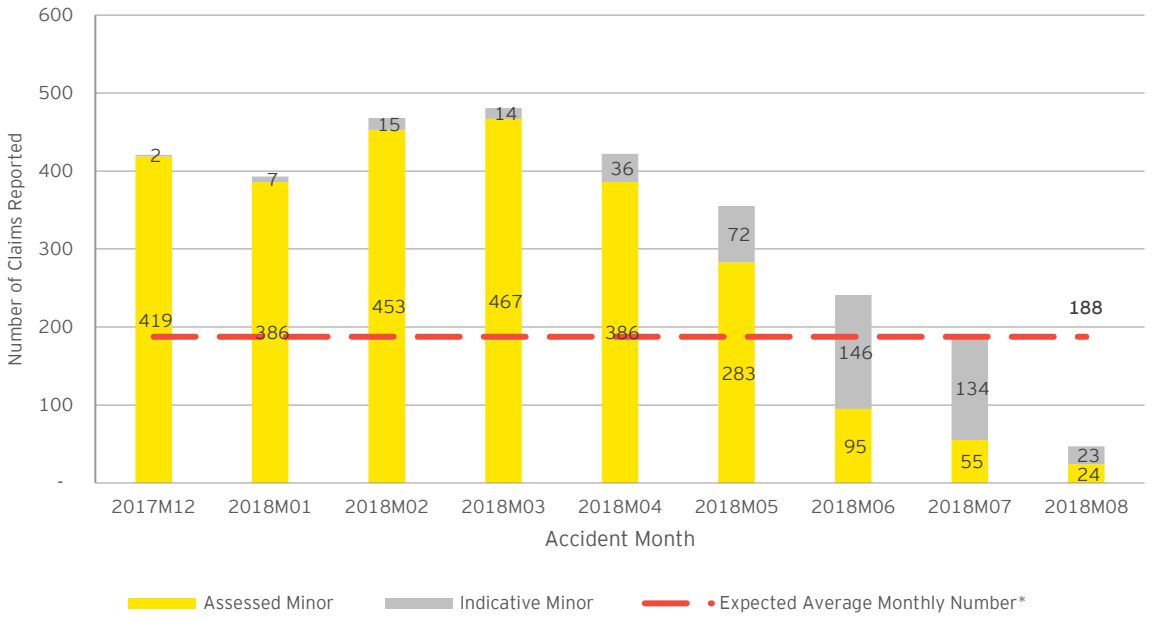


Table 8 Number of minor injury claims by assessment type and accident month

Minor injury assessment type	2017M12	2018M01	2018M02	2018M03	2018M04	2018M05	2018M06	2018M07	2018M08	Total
Assessed minor	419	386	453	467	386	283	95	55	24	**2,489**
Indicative minor	2	7	15	14	36	72	146	134	23	**292**
Expected average monthly number*	188	188	188	188	188	188	188	188	188	**2,781**

**Expected number is the total annual expected number of statutory benefit claims reported divided by 12. This does not allow for monthly seasonality.*

The chart and table above show that the number of assessed minor injury claims remains above the expected for data up to 31 August 2018 for accident months where a sufficient amount of time has elapsed for the minor injury assessment to be completed. Compared to the data as at 30 June 2018, the total number of assessed minor injury claims has increased as additional minor injury assessments are carried out and some of the indicative minor injury claims become assessments. For example, assessed minor injury claims have increased from 393 to 419 and the number of indicative minor injury claims has dropped from 13 to 2 in the last two months for the December 2017 accident month. Similar patterns are observed across most accident months.

In addition, given the immaturity of the 2017 Scheme, there is limited impact of the dispute resolution process on the number of assessments shown above. As at 31 August 2018, there are 329 internal reviews in relation to minor injury assessments and a further 143 DRS disputes. Out of the 329 minor injury internal reviews, 32 have been overturned and have made it to the end of the dispute resolution process. This represents an overturn rate of 11% for the completed internal reviews in relation to the minor injury decision. A further 16 have made it to the end of the dispute resolution process following DRS and none of these have produced a non-minor injury determination. As a result, it is still uncertain what impact the disputation process will have on the number of minor injury claims shown above.

Overall the conclusion in section 4 that the number of minor injury claims is above the expected number is not changed using data up to 31 August 2018 however the number of additional minor claims appears greater at 150 – 250 claims above expected. As highlighted earlier, the dispute resolution process could have a material impact on the ultimate number of minor injury assessments and this is key area of uncertainty. In section 8, an updated central estimate view of Schedule 1E parameters is provided allowing for this emerging minor injury claims experience.

5.4 Not at-fault non-minor claims

As at 31 August 2018, there continues to be very few WPI assessments against claims in the 2017 Scheme. The same approach stated in section 4.3.4 has been used to considered the segment of non-minor claims in aggregate. As highlighted in section 4.3.4 there are many uncertainties around the ultimate level of non-minor not at-fault claims reported to the 2017 Scheme including:

- There is a large number of claims that have not yet been assessed for minor injury and fault status. This will particularly be the case for the more recent accident months
- There is a significant volume of claims yet to be reported into the 2017 Scheme for recent accident months
- The disputation process may have a significant impact on the ultimate level of non-minor claims for the 2017 Scheme. Experience from the disputation process is limited and there is a considerable amount of uncertainty around the impact that disputation will have in terms of re-classifying existing minor injury decisions.

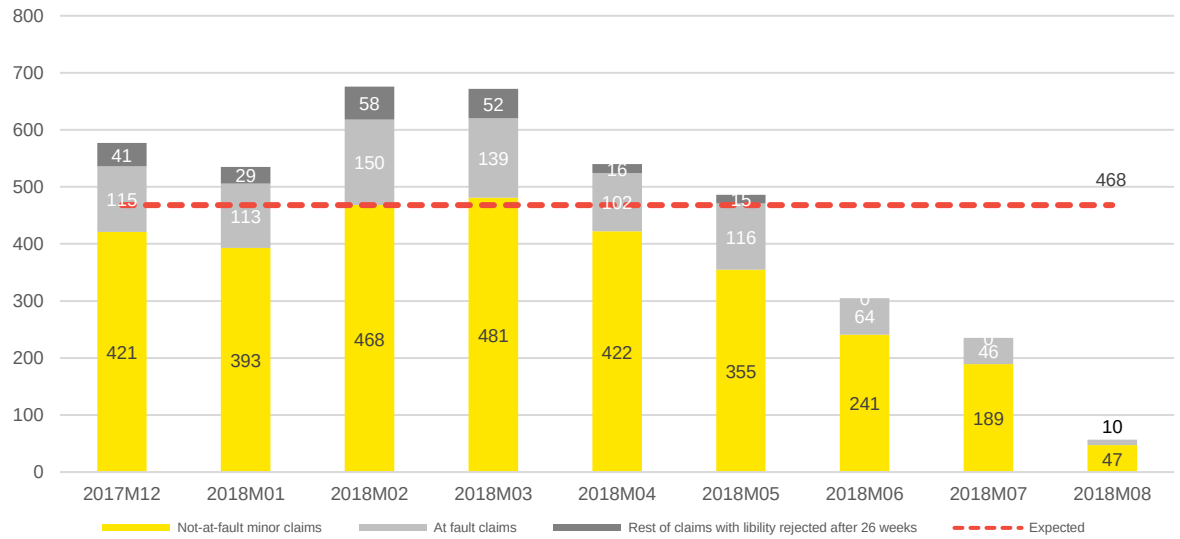
These all add to the development delays in assessing the level of not at-fault non-minor claims. In addition, these factors act in opposite directions on the number of not at-fault non-minor claims as

some increase the development and some will reduce the development. The relationships are complex and limited experience exists for the 2017 Scheme to quantify their effects.

Given the overall claim numbers are broadly in line with expected experience as discussed in section 5.1, the combined level of minor injury and at-fault claims has been considered against expected levels in the figure below. In addition, any residual claims where the liability for benefits post 26 weeks is rejected are also included as these claims should either be minor injury or at-fault claims to achieve this liability status (although the insurers have yet to complete this information in the UCD).

The remaining complement of claims is the not at-fault non-minor segment and any conclusions from the figure below will apply in the opposite direction to this segment (e.g. if minor injury and at-fault claims in aggregate are higher than expected then this indicates that non-minor not at-fault claims are lower than expected).

Figure 15 Combined minor injury and at-fault claim numbers with benefits up to 26 weeks



Some of the areas of uncertainty highlighted above may act in opposite directions on the numbers shown above and it is unclear which of these factors will have a bigger impact on the claim numbers. This is discussed in more detail in section 4.3.4. The current level of reporting by accident month is above the expected particularly excluding the first two accident months of the 2017 scheme where overall number of claims are expected to be lower. In particular, considering the more developed accident months of February 2018 and March 2018, there is potentially an additional volume of claims of up to 200 per month without allowing for any further development. As highlighted earlier, development could act to increase or reduce the numbers in the figure above.

This indicates there may be a shortfall compared to expectation for the not at-fault non-minor segment of a similar amount. Since overall claims numbers are broadly in line with expectations, a corresponding increase in the not at-fault minor injury claims is assumed so overall numbers remain unchanged. In section 8, an updated central estimate view of Schedule 1E parameters is provided allowing for this emerging experience.

Overall the experience to 31 August 2018 has not materially changed compared to 30 June 2018 and additional time is still needed for experience to emerge for this segment of claims. This is particularly the case due to the delays associated with this segment and significant uncertainty discussed above remains relevant.

5.5 Award of damages claims

As stated in section 4.4.1, experience for award of damages claims is relatively limited for the 2017 Scheme due to the following factors:

- In general, claimants have a reduced incentive to lodge an award of damages claim in the 2017 Scheme due access to ongoing statutory benefit which meets the claimant's needs without the need to resort to common law

- For claims with a WPI assessment of less than 10%, there is a waiting period of 20 months post the accident before the award of damages claim can be lodged. As a result, close to zero of these claims are expected to be lodging in the first seven months of the Scheme given these claims would be rejected/on hold until the 20-month mark is reached. The greater the volume of award of damages claims will come from this segment.

Compared to 30 June 2018, there are only 2 additional award of damages claims in the 31 August 2018 data. Given the low volume of claims, the additional 2 months' of experience provides no additional insight into the ultimate level of award of damages claims.

5.6 At-fault and minor injury claims average cost

5.6.1 August experience and comparison to June

The table below refreshes the table in section 4.4.3 with the average claims size experience using the data as at 31 August 2018 for relevant accident months where claim would have reached the end of the benefit entitlement period.

Table 9 Actual versus expected average claim size for Dec 2017 – Feb 2018 claims (based on payments to date)

Claim type	Schedule E assumption (inflated and discounted)	Dec '17 accident month (as at 30 June)*	Dec '17 – Feb '18 accident months (As at 31 August)*
At-fault	$17,000	$12,416	$13,385
Not at-fault minor	$12,700	$4,561	$4,064

**Average claims cost based on actual payments, not inflated or discounted*

Compared to 30 June 2018 and with two more accident months considered developed enough to be included in the average cost assessment (i.e. Jan-18 & Feb-18), the average claims cost for at-fault claims has moved towards the relevant Schedule E assumptions compared to 30 June 2018 while average claims cost for the not at-fault minor average claims cost has decreased slightly. The average claims cost of at-fault claims is lower that the Schedule1 E assumption using 31 August 2018 data although there is scope for late payments to increase the cost (which are discussed below). In addition, the average claims cost for non-at-fault minor claims continues to be significantly below the Schedule 1E assumption of $12,700.

To assist with the assessment of the potential ultimate average claims cost for these segments case estimate information has been used to form a view of the incurred cost recorded by insurers. Some adjustments were made to the raw case estimate data based on the claim status and the total payments after the estimate is established to create the incurred position at 31 August 2018. Average claims cost including case estimate for at-fault and not at-fault minor claims is shown in the table below.

Table 10 Actual versus expected average claim size for Dec 2017 – Feb 2018 claims (based on case estimates)

Claim type	Schedule E assumption (inflated and discounted)	Dec '17 – Feb '18 accident months (As at 31 August, including case estimate)
At-fault	$17,000	$34,102
Not at-fault minor	$12,700	$12,225

Average incurred claims cost (actual paid + outstanding case estimate) is significantly higher than average claims cost based on the actual payments. Average incurred cost is double the expected claims cost for at-fault claims at about $34,000 compared to schedule 1E assumptions. Average incurred cost for not at-fault minor claims is reasonably close to schedule 1E assumption.

In addition to the previously discussed limitations there are additional limitations associated with analysing case estimate information. In particular, insurers have different approaches to setting case estimates for claims including the timing of updates and the methodology around the assessment of the amount. This produces a lack of consistency when analysing case estimate

information across the industry. This should be borne in mind before placing too great a reliance on the case estimate information however this does provide some additional insight in addition to the payment analysis. In particular, it highlights insurers are initially expecting greater costs for these segments based on their case estimate approach.

The following two charts compare the average claims cost for accident months up to February 2018 using 30 June payments data and 31 August payments data. It highlights the impact of ongoing payments on the average cost for these accident months and in particular the impact of late payments for the December 2017 accident month. For December 2017 the benefit entitlement period may have ended at June 2018 however there will still be processing delays for services received during the entitlement period which may result in payment being made after the 26 week entitlement period. In addition in some cases payments can continue beyond 26 weeks if they improve the claimant's recovery.

Figure 16 Average claims size for at-fault claims by accident month

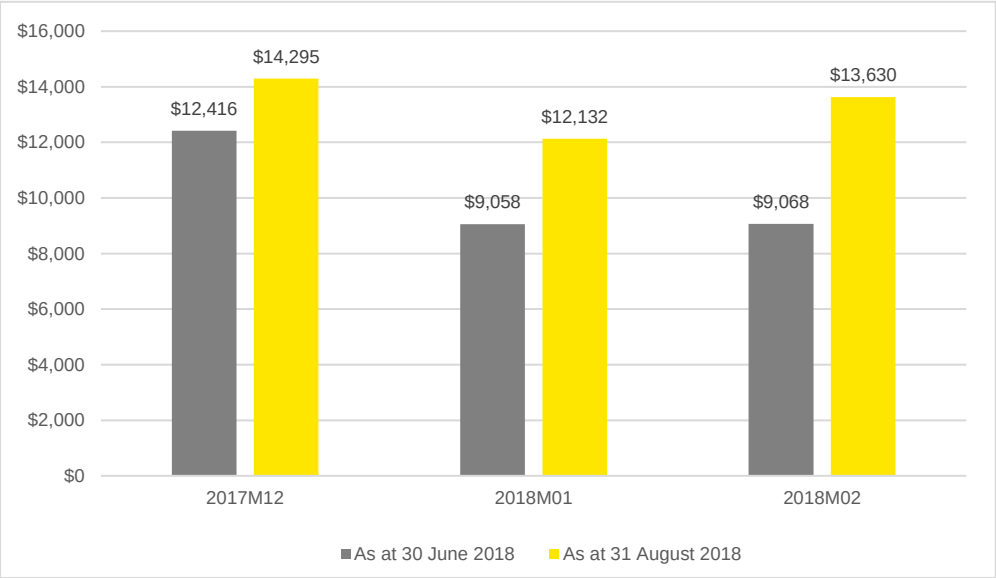
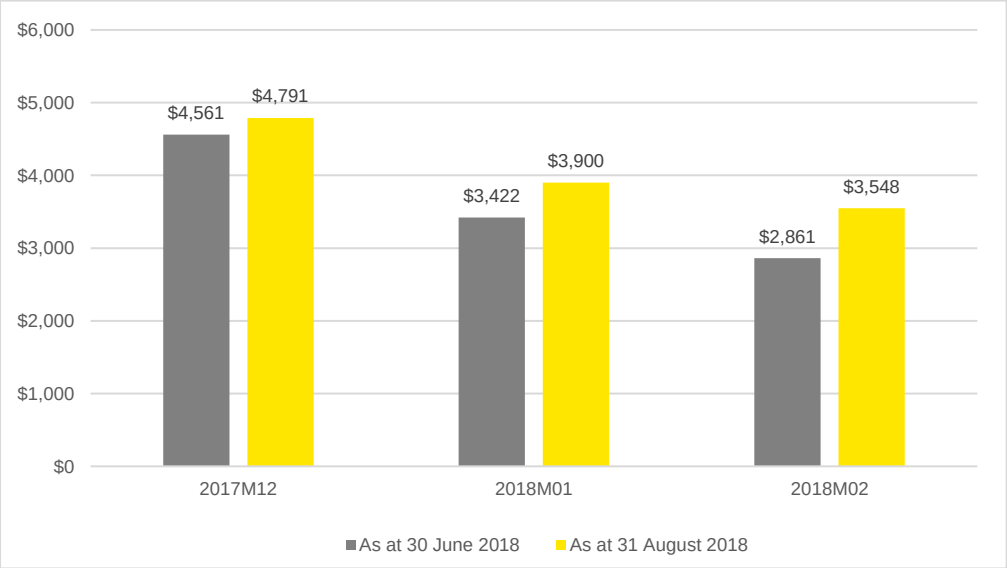


Figure 17 Average claims size for not at-fault minor claims by accident month



Average claims size for both claim types have increased across all accident months using 31 August 2018 data and show no sign of stabilising yet although the December 2017 accident month maybe expected to have limited payments remaining. As a result, the previous conclusion in section 4.4.3

remains reasonable that there is a significant amount of uncertainty associated with the average claims cost given the early stage of the scheme.

Based on actual payments, there may be a potential to reduce the average claim size for at-fault and non-at-fault minor injury claims although experience is still early. Furthermore, if greater weight is placed on the case estimate information a reduction in average claim size may not be appropriate. The central estimate in section 8 considers a reduction in the average claim size of not at-fault minor injury claims to reflect the emerging payment experience described above.

5.6.2 Average claims cost experience for all claims with benefit up to 26 weeks

In addition to claims considered in the previous section, there is a residual volume of claims where the liability for benefits post 26 weeks has been rejected. Benefit entitlement post 26 weeks is only rejected if the claim is a minor injury or the claimant is at-fault. As a result these residual claims should fall into one of these two categories, although the category has yet to be reported to the UCD. This is in the process of being implemented by insurers.

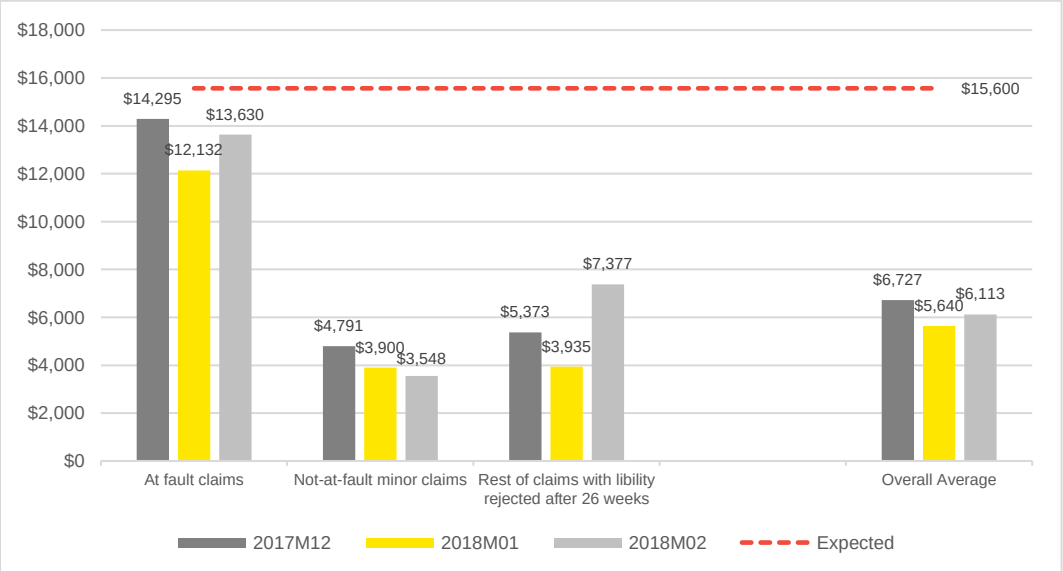
For the accident months analysed, the volume of these claims is limited, however they do provide further insight into the payment experience for the combined segment of at-fault and not at-fault minor injury claims.

Table 11 Reported number of at-fault, minor and liability rejected after 26 weeks claims

Accident Month	2017M12	2018M01	2018M02	Total	% Total
At-fault claims	115	113	150	378	21.1%
Not at-fault minor claims	421	393	468	1,282	71.7%
Rest of claims with liability rejected after 26 weeks	41	29	58	128	7.2%
Total	**577**	**535**	**676**	**1,788**	**100.0%**

Figure 18 compares the average claims cost for accident months up to February 2018 using 31 August data. The average claims cost of these claims appears to be between the at-fault and not at-fault minor injury cost indicating the group is a mix of claims from both segments. The overall average claims cost of all these claims with liability up to 26 weeks is $15,567 based on the schedule E assumption. Including these claims and considering an overall average based on actual payment experience still highlights that average cost for the earlier accident month is emerging lower than expected for these segments.

Figure 18 Average claims size for claims with liability up to 26 weeks by accident month



The table below shows the average claims cost including case estimates for accident months up to February 2018 using 31 August data. The overall average claims cost of all these claims with liability up to 26 weeks is significantly higher than the corresponding schedule 1E assumption of $15,567. However, as highlighted earlier, insurers' case estimates may not be a reliable indicator given the immaturity of the scheme and lack of consistent case estimate methodologies.

Table 12 Average claims size for at-fault, minor and liability rejected after 26 weeks

As at 31 August 2018	2017M12	2018M01	2018M02	Average 3 months	Expected
At-fault claims	$10,564	$15,308	$11,129	$12,225	-
Not at-fault minor claims	$45,737	$26,634	$30,807	$34,102	
Rest of claims with liability rejected after 26 weeks	$16,647	$31,103	$34,112	$27,836	
Overall average	**$36,660**	**$24,484**	**$26,724**	**$29,028**	**$15,600**

Given the data above, there may be a potential to reduce the average claim size for at-fault and not at-fault minor injury claims although experience is still early. In section 8, an updated central estimate view of Schedule 1E parameters is provided allowing for this emerging experience to 31 August 2018.

5.7 Conclusions based on August data

The following areas have been assessed based on the additional 2 months of Scheme experience from 30 June 2018:

- Total statutory benefit claims frequency
- At-fault claims experience
- Minor injury claims experience
- Non-minor claims experience
- Award of damages claims experience
- Average claims cost experience for at-fault and not at-fault minor claims.

Overall, the claim experience as at 31 August 2018 has been largely consistent with the observations as at 30 June 2018. There continues to be a high level of uncertainty around the claim experience. It is considered that the associated costing assumptions in section 4 of the report and data to 31 August 2018 has not materially changed the conclusions from this section. In section 8, an updated central estimate for average premiums is provided after allowing for the conclusions from the emerging experience to 31 August 2018 as discussed above.

6. Impact of 1999 Scheme experience

6.1 Assessment of the impact of the 1999 Scheme experience

This section looks at the impact of recent 1999 Scheme experience on the 2017 Scheme costing assumptions. In particular, certain elements of the 2017 Scheme cost were based on analysis of the 1999 Scheme experience. This was done in cases where the benefit delivery mechanism was similar for both the two Schemes. As a result, this applied to the costing of the award of damages claims for economic loss, non-economic loss and also elements of the legal costs. The 2017 Scheme costing for these heads of damage was based on 1999 Scheme data as at 30 June 2016.

Since then a number of changes have impacted the 1999 Scheme experience including:

- Changes to the Motor Accidents Compensation Regulation on 1 November 2016, which impacts all claims reported after this date. The change in the Regulation restricted access to contracted out legal costs for smaller claims and aimed to reduce legal costs and legal involvement with smaller claims
- There have been several fraud initiatives implemented by SIRA in the period since 30 June 2016 as part of the CTP fraud taskforce including the establishment of the NSW Police Strike Force Ravens in August 2016. This has led to a number of arrests in relation to CTP fraud and associated media coverage
- The 1999 Scheme has moved into run-off following the introduction of the 2017 Scheme on 1 December 2017. As a result the run-off strategy of insurers may also impact the 1999 Scheme experience.

This has resulted in changes to the underlying 1999 Scheme claims experience particularly with regard to claims frequency and claims mix. This change in experience for the 1999 scheme has in turn had impact on the assumptions selected for the 2017 Scheme costing. To quantify this impact the following high level approach has been used:

- An updated risk premium forecast based on the 1999 Scheme experience to 30 June 2018. This considers the impact of trends that have emerged from 30 June 2016 to 30 June 2018 and assessing how these continue for future accident periods
- The resulting risk premium has been rolled back to a 1 December 2017 underwriting period using actual historic average weekly earnings (AWE). No superimposed inflation has been assumed during this period consistent with the payment experience for the 1999 Scheme. This was done to produce a like for like comparison to the $551 premium underlying the 2017 Scheme costing on 30 June 2016 data
- The risk premium forecast is split between the Heads of Damage (HoD) underlying the costing using an assumption based on the split derived using 30 June 2016 data. These assumptions are unchanged since the costing and a process for updating this element of the analysis is discussed in the next section
- The resulting HoD risk premium has then been used to update elements of the costing where the 1999 Scheme formed the basis of the costing. In particular, this has updated the award of damages costs for economic loss, non-economic loss and also associated legal costs
- Where appropriate, adjustments have then been applied to the risk premium to allow for differences between the common law design of the 1999 Scheme and the 2017 Scheme. These adjustments have been updated to reflect the impact of the 1999 Scheme experience changes to 30 June 2018 that may have negated the need for or the size of some of the previous adjustments applied
- Given the uncertainty around the adjustments applied, some sensitivities around the adjustments have been considered and these are described below
- The remaining elements of the costing that are not impacted by the 1999 Scheme have remained unchanged. In particular, this relates to statutory benefit costs for the 2017

Scheme. A process for updating these elements of the costing are discussed in the next section.

As a result of the introduction of the legal cost regulation effective 1 November 2016, any adjustment in relation to reduced contracted out legal cost under the 2017 Scheme have been removed from the costing. This assumes the revised 1999 Scheme frequency and average cost using 30 June 2018 data already allows for this change within the scheme experience. The other adjustment that has been changed from the 30 June 2016 costing is the impact of the minor injury assessment adjustment. The minor injury assessment adjustment allows for the impact of the minor injury assessment on the level of award of damages claims that will develop in the 2017 Scheme as compared to the 1999 Scheme.

There is considerable uncertainty around the impact of the minor injury assessment on the experience for the 2017 Scheme as discussed in section 4.3.3. In particular, no data exists for similar design elements in other schemes. As a result, it is highly uncertain how much of a cost impact this element will have on the premium for the 2017 Scheme. In addition, it is uncertain which claims from 1999 Scheme would have been impacted by the minor injury assessment and could no longer pursue an award of damages claim under the 2017 Scheme design. It is also unclear how many of these claims are already being impact by the legal cost regulation change under the 1999 Scheme and have already dropped out of the 1999 Scheme experience in the data to 30 June 2018. A range of sensitivities around the size of the minor injury assessment adjustments have been considered. Finally all other adjustments applied to the 30 June 2016 costing model are unchanged.

Section 8 outlines the impact of rebasing the original 2017 Scheme costing for the latest experience of the 1999 Scheme.

6.2 Approach for full update to costing model

The analysis described in the previous section is a high level approach to assessing the impact of the 1999 Scheme experience on the costing model. In order to produce a more comprehensive analysis of the costing update for data to 30 June 2018, the following additional steps are required:

- Data at 30 June 2018 for the 1999 Scheme experience should be used to update the heads of damage valuation model. This will provide an updated view of which heads of damage have been most impacted by the cost reductions observed in the 1999 Scheme. This will involve assessing the ultimate 1999 Scheme cost by head of damage rather than the severity and legal representation segment currently used for the 1999 Scheme valuation
- Data at 30 June 2018 for the TAC Scheme should be used to update the statutory benefit cost analysis used for the costing. This will involve requesting TAC cost data for the relevant underwriting period and applying adjustments relevant to moving the Victoria experience to a NSW claims environment
- NSW and VIC casualty data to 30 June 2018 should be used to adjust the overall expected claim frequency
- Updating the analysis used to derive the remaining adjustments applied in the costing model in particular around the impact of the minor injury assessment and the requirement for a certificate of fitness before claiming loss of earning benefits.

7. Updated economic and inflation assumptions

This section outlines the economic and inflation assumptions used to update the Scheme costing from the expected average scheme premium required for an underwriting year commencing 1 December 2017 to the expected average scheme premium required for an underwriting year commencing 1 January 2019. The three economic and inflation assumptions relevant for this update include:

- Wage inflation
- Superimposed inflation
- Discount rates.

The table below shows that the updated wage inflation and superimposed inflation assumptions are, after allowing for the new underwriting period, relatively unchanged from the scheme costing assumptions. The discount rate assumption has been updated to reflect a new underwriting period and market yields as at 30 September 2018.

Table 13 Updated economic assumptions

Assumptions	Schedule 1E assumptions – weighted average for 1 Dec 17 U/W period	Schedule 1E assumptions – weighted average for 1 Jan 19 U/W period	Updated assumptions – weighted average for 1 Jan 19 U/W period
Wage inflation (% p.a.)	2.98%	3.20%	3.18%
Superimposed inflation (% p.a.)	2.50%	2.50%	2.50%
Discount rate (% p.a.)	1.90%	2.54%	2.41%

7.1 Wage inflation

An overall weighted average wage inflation rate of 3.18% has been used for this update, this is a slight increase from the assumption selected for the original costing after allowing for the change in underwriting period. This assumption is at the upper end of the range of current forecasts for NSW Average Weekly Earnings (AWE) which ranges from 2.75% for FY2020 rising to 3.25% for FY2022.

7.2 Superimposed inflation

A future superimposed inflation assumption of 2.5% has been selected for this update, this is unchanged from the superimposed inflation assumption used at the time of the 2017 Scheme costing.

As there has been less than a year of actual experience since the commencement of the 2017 Scheme there continues to remain a potential for above average claims cost inflation. A key issue that remains largely untested is the distinction between minor and non-minor injuries. This is important as a determination that an injured person has non-minor injuries provides access to statutory benefits beyond 26 weeks from the date of accident and access to awards of damages through common law. There is significant uncertainty on the level of disputes contesting the insurer's determination that a claimant has a minor injury and it is unclear how many of these determinations will be overturned through the dispute resolution process. As overturned minor injury determinations materially increase the expected claims cost, this is likely to be a source of superimposed inflation for the scheme.

Given these uncertainties, it is reasonable to continue to adopt a modest rate of future superimposed inflation of 2.5% p.a.

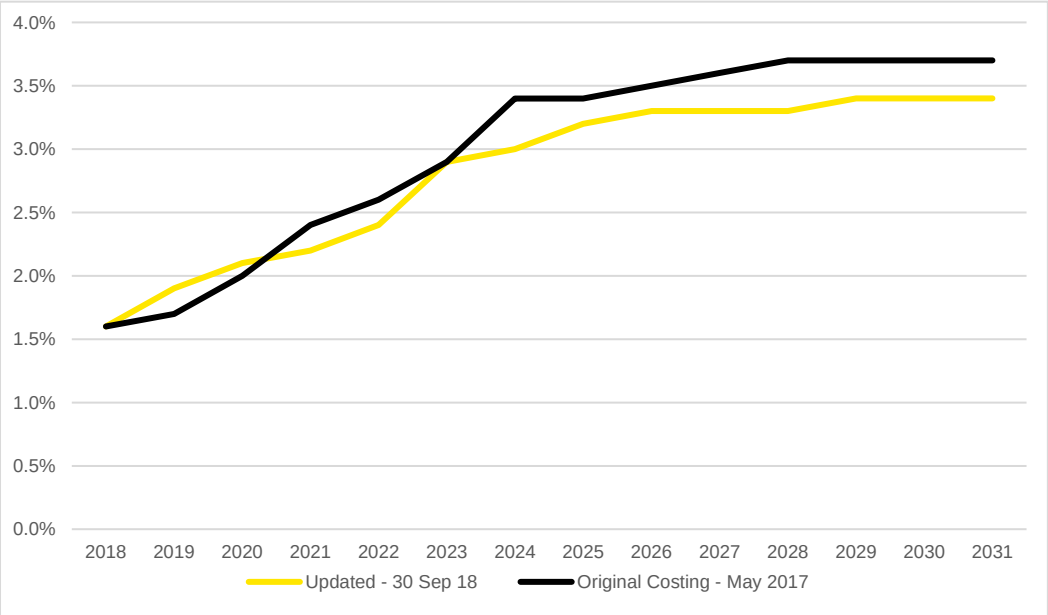
Another related issue is the rate of superimposed inflation which is used to 'roll-forward' the schedule 1E claim cost assumptions to claim cost assumptions for a new filing period commencing on 1 January 2019. This 'current' level of superimposed inflation should reflect any observed superimposed inflation between the two filing dates (i.e. 1 Dec 2017 and 1 January 2019). There is currently little data on key sources of superimposed inflation such as the number of claims transitioning between minor and non-minor (as discussed above) as well as the outcome of common

law settlements particularly for awards of damages for non-economic loss. As discussed in section 6, there is some evidence that there has been very little superimposed inflation in common law settlement outcomes in the 1999 scheme and this may indicate that there is very little current superimposed inflation in the 2017 scheme. It is for this reason that 0% p.a. superimposed inflation has been adopted for the roll-forward period between the two filing dates (i.e. 1 Dec 2017 and 1 January 2019).

7.3 Discount rate

There are two parts to the update of discount rates for the purposes of this report. Firstly, the weighted average discount rate in the original Scheme costing (i.e. 1.9% p.a.) was updated to reflect a new underwriting period commencing on 1 January 2019. This resulted in a new average weighted discount rate of 2.54% p.a. Secondly, as shown in the chart below, the forward yield curve itself was updated to reflect market information as at 30 September 2018 resulting in a lower average weighted discount rate of 2.41% p.a.

Figure 19 Forward yield curves in original costing and updated for 30 September 2018



The premium impact of the above described changes in the economic assumptions is discussed in section 8.3.

8. Premium impact analyses

This section presents an updated central estimate view of Schedule 1E assumptions and resulting premium for an underwriting period commencing on 1 January 2019 by:

- Rebasing the original 2017 Scheme costing to allow for the impact of the recent experience from the 1999 Scheme to 30 June 2018
- Allowing for the emerging 2017 Scheme experience to 31 August 2018
- Updating future economic and inflation assumptions that will be relevant for any future premium filings.

The central estimate assumes emerging experience to date can be taken to be representative of the longer term experience of the 2017 Scheme. Given the limited experience to date, scenarios are provided for illustrative purposes to demonstrate the potential impacts on premium if emerging experience differs from expected.

8.1 1999 Scheme experience

As outlined in section 6, certain elements of the 2017 Scheme model were based upon the claims experience of 1999 Scheme. This was applied to cost segments where the benefit delivery mechanism is largely unchanged under the two schemes. In particular, this is the case for award of damages for economic loss, non-economic loss and associated legal costs.

Award of damages costs and frequency assumptions for the 2017 Scheme costing were derived by applying a reduction to the 1999 Scheme common law experience to 30 June 2016. This reduction, referred to as an 'minor injury assessment adjustment', applied as claimants assessed as having 'minor' injuries are no longer permitted to claim for an award of damages under the 2017 Scheme.

The introduction of the Cost Regulation effective 1 November 2016 resulted in a reduction in common law costs and claim frequency in the 1999 Scheme. A proportion of the claims impacted by the Cost Regulation is expected to have been classified as minor under the 2017 Scheme. Therefore, when updating the 2017 costing model for the 1999 Scheme experience to 30 June 2018, a reduction to the minor injury assessment adjustment is required as some of the 'savings' are already being realised by the experience emerging in the 1999 Scheme.

However, as discussed in section 4.3.3 considerable uncertainty exists around the impact of the minor injury assessment on the 2017 Scheme. In particular, no data exists for similar design elements in other schemes. As a result, it is highly uncertain how much of a cost impact this element will have on the premium for the 2017 Scheme. In addition, it is uncertain exactly which claims from 1999 Scheme would have been impacted by the minor injury assessment and could no longer pursue an award of damages claim. It is also unclear how many of these claims are already being impacted by the Cost Regulation change under the 1999 Scheme and have already been removed from the 1999 Scheme experience in the data to 30 June 2018. For these reasons a wide range of reductions, ranging from 25%-75%, to the minor injury assessment adjustment is possible. The central estimate uses an assumed 50% reduction.

As the Cost Regulation was effective from 1 November 2016, any adjustment in relation to reduced contracted out legal cost under the 2017 Scheme have been removed from the updated 2017 costing. This assumes the revised 1999 Scheme frequency and average cost using 30 June 2018 data already allows for this change within the scheme experience. All other adjustments applied to the 30 June 2016 costing model for other aspects of the 2017 Scheme design remain unchanged.

The following table considers the impact on the 1 December 2017 premium for the updated 30 June 2018 data from the 1999 Scheme and sensitivities around the minor injury assessment adjustment.

Table 14 Impact on 1 December 2017 premium following reduction in minor injury assessment adjustments

Premium under original costing using data @ 30 June 2016	$551	Impact*
Updated premium using 1999 Scheme experience @ 30 June 2018 and applying a 75% reduction to minor injury assessment adjustment	$548	- $2
Updated premium using 1999 Scheme experience @ 30 June 2018 and applying a 50% reduction to minor injury assessment adjustment	$541	- $10
Updated premium using 1999 Scheme experience @ 30 June 2018 and applying a 25% reduction to minor injury assessment adjustment	$533	- $18

**May not add to total due to rounding*

The results in the table above indicate that the original 2017 Scheme costing could be impacted by up to $18 by using the 1999 Scheme data to 30 June 2018. It is estimated that the recent experience of the 1999 Scheme already accounts for 50% of the minor injury assessment adjustment as it is observed that the claim frequency of the 1999 Scheme is showing 50% of the reduction that was estimated between the 1999 Scheme claim frequency and the 2017 Scheme claim frequency.

Overall, there is potentially a $10 reduction in allowing for 1999 Scheme experience since 30 June 2016 based on the high level approach for this review, with a likely range of +/- $10 around this estimate. Although this impact is on the mature 2017 Scheme costing of $551, for the purposes of this report the same impact of $10 has been assumed on the honeymoon premium of $528.

The following table shows the Schedule 1E parameters rebased for the most recent 1999 Scheme experience. Specifically, the impact has been a significant reduction of 1,500 claims in the expected number of not at-fault non-minor WPI <= 10% claims across both the statutory benefit only cohort as well as the cohort that is expected to also access award of damages through common law. This reduction is accompanied by a corresponding increase in the number of not at-fault minor injury claims. This reflects the expected impact of the minor injury assessment, as discussed above, on the mix of minor and non-minor claims. Furthermore, there has also been a corresponding increase of close to $17,000 in the average claim size of not at-fault non-minor WPI <= 10% claims who are accessing award of damages through common law. This reflects the expectation that the impact of the minor injury assessment is to remove a greater proportion of the lower cost, typically lower injury severity, non-minor claims and a lesser proportion of the higher cost, typically higher injury severity, non-minor claims. Overall, these movements in claim numbers and claims costs result in the $10 premium reduction shown in table 13 above.

Table 15 Schedule 1E parameters – rebased following recent 1999 Scheme experience

Claim assumptions			Claim frequency			Average claim size (inflated and discounted)*		
Fault status	Injury type	WPI	Statutory benefits	Common law	Total	Statutory benefits	Common law	Total
At-fault			0.063%		0.063%	$17,000		$17,000
Not at-fault	**Minor injury**		0.067%		0.067%	$12,200		$12,200
	Non-minor	**WPI<=10%**	0.081%	0.059%	0.081%	$20,800	$116,000	$105,200
		WPI>10%	0.027%	0.027%	0.027%	$127,800	$425,100	$552,900
		TOTAL	**0.238%**	**0.086%**	**0.238%**	**$29,500**	**$213,000**	**$106,300**

**Totals may not add due to rounding*

8.2 2017 Scheme experience

In this section, the premium impact of the emerging 2017 Scheme experience to 31 August 2018 has been considered.

Experience to 31 August 2018 indicates the following:

- The number of at-fault claims reported continues to be lower than expected at the outset of the 2017 Scheme. There are still a significant volume of claims with fault status not yet determined across all accident months. This continues to be a key area of uncertainty of whether the ultimate number of at-fault claims will reach the expected number in Schedule 1E.

Whilst there is scope for the experience to develop upwards, particularly for the most recent accident months, the current trends appears to be showing that at-fault claims will remain lower than expected. **It is for this reason that the central estimate in section 8.4 assumes there will be 125 fewer at-fault claims per accident month compared to the rebased Schedule 1E assumptions**

- Not at-fault minor injury claims continue to be reported at a higher frequency than expected. Whilst the ultimate number is expected to reduce following the dispute resolution process, it still appears that they will be significantly higher than expected. **The central estimate in section 8.4 assumes there will be close to 170 more not at-fault minor injury claims per accident month compared to the rebased Schedule 1E assumptions**
- As at 31 August 2018, there continues to be very few WPI assessments made for claims in the 2017 Scheme. There are many uncertainties around the ultimate level of not at-fault non-minor claims reported to the 2017 Scheme as outlined in section 5.4, however it appears that not at-fault non-minor claims experience may ultimately be lower than expected. **The central estimate in section 8.4 assumes there will be about 40 fewer not at-fault non-minor claims per accident month compared to the rebased Schedule 1E assumptions**
- In general, actual average costs are lower than expected for the three earliest accident months of the 2017 Scheme. However there is further development expected for the payments following late processing of payments, overturned assessments and where access to benefits continues beyond entitlement periods i.e. where it is expected to benefit the injured person's recovery. Nevertheless, **the central estimate in section 8.4 assumes a lower average claim size of $8,000 for not at-fault minor injury claims**.

Overall, if the emerging experience was to stabilise at current levels, there is potentially a further $7 reduction on the 2017 Scheme average premium after rebasing for 1999 Scheme experience. It is estimated that there is a reasonable range of +/- $2 around this estimated reduction.

The combined impact of the updated assumptions from sections 8.1 and 8.2 is -$17, which results in a premium of $509 on a 1 December 2017 basis.

8.3 Economic assumptions

This section outlines the premium impact of the updated economic and inflation assumptions after allowing for rebasing following 1999 experience, and updated assumptions reflecting 2017 Scheme experience.

As shown in the table below, although wage inflation has not changed materially since commencement of the 2017 Scheme, there is still an $8 impact on premiums as expected claims costs have been inflated to reflect a new underwriting year commencing on 1 January 2019.

Table 16 Impact on 1 December 2017 premium following updated economic assumptions

Assumptions	Schedule 1E assumptions – weighted average for 1 Dec 17 U/W period	Schedule 1E assumptions – weighted average for 1 Jan 19 U/W period	Updated assumptions – weighted average for 1 Jan 19 U/W period	Impact on average scheme premium
Wage inflation (% p.a.)	2.98%	3.20%	3.18%	$8
Superimposed inflation (% p.a.)	2.50%	2.50%	2.50%	$0
Discount rate (% p.a.)	1.90%	2.54%	2.41%	-$6
Total				**$3**

**Results displayed may not add due to rounding in the displayed numbers*

For superimposed inflation (SI), although the future assumption remains at 2.5% p.a., an assumption of 0% p.a. has been assumed to inflate claims to the new underwriting period, based on the experience emerging from the 1999 Scheme as discussed in section 7.2.

The premium impacts of wage inflation is offset by a $6 reduction on premiums from discount rates (the combined effect of a new underwriting period and an updated yield curve).

In total, there is a +$3 impact to the 2017 Scheme average premium of $509 from the revised economic assumptions.

8.4 Central estimate

The analysis and results outlined above indicate an estimated average scheme premium of between $500 and $524 including GST and levies, with the centre of that range being $512, for an underwriting period commencing on 1 January 2019. This range is mainly a result of the uncertainty around and sensitivity to key assumptions of the 1999 Scheme update. The central estimate view on the 2017 Scheme Schedule 1E premium are summarised in the table below.

Table 17 Central estimate of impacts on 2017 Scheme Schedule 1E premium

Adjustments	Impact of Adjustments	Average Premium (incl GST and Levies)
MAG Schedule 1E: 1 December 2017		**$528**
Identified savings pre-filing	-$2	
Commencement premium 1 December 2017		**$526**
Recalibration of costing basis (1999 Scheme experience)	-$10	$516
Adjusted at-fault claim frequency	-$6	
Adjusted not at-fault minor claim frequency	$4	
Adjusted not at-fault minor average claim size	-$5	
Adjusted not at-fault minor and non-minor claim mix	$0	$509
Premium range for 1 December 2017 effective filing		**($497, $521)**
Economic assumptions for new underwriting period	$3	**$512**
Estimated scheme average premium range for 1 January 2019 filing		**($500, $524)**

**Results displayed may not add due to rounding in the displayed numbers*

The following table shows the revised Schedule 1E assumptions for the central estimate of $512.

Table 18 Revised Schedule 1E assumptions for an average scheme premium of $512 on 1 January 2019

Claim assumptions			Claim frequency			Average claim size (inflated and discounted)*		
Fault status	Injury type	WPI	Statutory benefits	Common law	Total	Statutory benefits	Common law	Total
At-fault			0.036%		0.036%	$17,400		$17,400
Not at-fault	**Minor injury**		0.103%		0.103%	$8,400		$8,400
	Non-minor	**WPI<=10%**	0.072%	0.059%	0.072%	$22,100	$116,700	$117,700
		WPI>10%	0.027%	0.027%	0.027%	$129,800	$427,500	$557,400
		Total	**0.238%**	**0.086%**	**0.238%**	**$27,700**	**$214,300**	**$104,900**

**Totals may not add due to rounding*

8.5 Other premium scenarios

As the claims experience to date is very immature for the 2017 Scheme, and as the experience emerges it may be materially different in the fullness of time, a number of alternative scenarios are provided to illustrate how the premium may be impacted if assumed experience deviates from the central estimate.

The following four scenarios in the chart below consider the impact on the updated central estimate premium of $512.

Figure 20 Average premium scenarios

- **Scenario 1 - $534:**
  - **A greater number of at-fault claims:** This scenario assumes that there will be 3,000 at-fault claims for an accident year compared to the 2,000 at-fault claims assumed in the central estimate. For this level of at-fault claims to eventuate, the at-fault propensity to claim would need to be about 30%. Although this is significantly higher than the ~20% claim propensity currently being observed, it is possible that such a claim propensity could arise as awareness of the 26 week benefit entitlement period for at-fault injured persons increases in the community
  - **An increase in the number of non-minor WPI <= 10% claims:** This scenario also assumes 1,500 additional non-minor WPI <= 10% claims compared to the central estimate, of which 1,000 come from minor injury claims being re-classified as non-minor claims. Furthermore, it is assumed that of the additional non-minor claims, 1,000 will claim both statutory benefits as well as award of damages. For this type of experience to emerge, there would need to be an increase in overall non-minor claims frequency as well as a significantly higher number of minor injury decisions being disputed (about 50%) and also a higher number of overturned minor injury assessment decisions (about 35% rate). The current experience is that about 7% of minor injury claims are being disputed and of these, 11% have had the minor injury decision overturned to non-minor
  - Although it is expected that the number of minor injury claims being disputed will increase as claimants reach the end of their 26 week entitlement period, there is no current evidence to suggest that this could be as high as 50%
  - **Overall, there is little *current* evidence to support the assumptions underlying this scenario.**
- **Scenario 2 - $515:**
  - **An increase in the number of non-minor claims with WPI > 10%:** This scenario assumes that 100 not at-fault non-minor claims with a WPI assessment of <= 10% transition to not at-fault non-minor with a WPI assessment of > 10%. For this experience to emerge, about 3% of WPI <= 10% assessments would need to be overturned to WPI >10% assessments. At

this stage, there are very few WPI assessments and no assessment disputes to support this assumptions however it is not unreasonable to suggest that an overturn rate of 3% could be possible

- **Although there is no *current* evidence to support the assumptions underlying this scenario, these assumptions would not be unreasonable.**

- **Scenario 3 - $495:**
  - **A shift in the mix of not at-fault non-minor and not at-fault minor injury claims:** This scenario assumes that the minor injury assessment will remove 600 award of damages claims from the not at-fault non-minor WPI <= 10% claims cohort into the not at-fault minor injury claims cohort. Furthermore, the type of not at-fault non-minor claims being removed are assumed to be uniformly sourced from the non-minor WPI <= 10% award of damages claim cost distribution. In other words, the minor injury assessment will equally impact lower cost non-minor claims and higher cost non-minor claims
  - Although the movement of 600 claims from non-minor to minor injury assessed is possible as it would represent a transition rate of about 20% (and not dissimilar to the movement of 500 claims under the central estimate), it is the type of claims being impacted that is less reasonable. One would expect the minor injury assessment to remove a greater proportion of the lower cost, typically lower injury severity, non-minor claims and a lesser proportion of the higher cost, typically higher injury severity, non-minor claims. This scenario requires a uniform removal of non-minor WPI <= 10% award of damages claims
  - **Currently, there is no evidence to support the assumptions underlying this scenario.**
- **Scenario 4 - $494:**
  - **A shift in the mix of not at-fault non-minor and not at-fault minor injury claims:** This scenario assumes that the minor injury assessment will transition 1,250 claims from the not at-fault non-minor WPI <= 10% award of damages claims cohort into the not at-fault minor injury claims cohort. Furthermore, the type of not at-fault non-minor claims being removed are primarily sourced from the lower cost non-minor WPI <= 10% award of damages claims. In other words, the minor injury assessment will impact the lower cost non-minor claims to a greater extent than the higher cost non-minor claims
  - Although the type of claims impacted by the minor injury assessment in this scenario does align more closely with expectations compared to scenario 3 (i.e. that the impact on lower cost non-minor claims is expected to be greater than the impact on higher cost non-minor claims), it is the number of claims being impacted that does not appear supportable given current 2017 Scheme experience. For 1,250 award of damages claims to shift from non-minor to minor injury, it would require close to a 40% reduction in the expected number of non-minor WPI <= 10% claims accessing award of damages compared to the central estimate. This would leave a total of about 2,000 non-minor WPI <= 10% claims accessing award of damages. Although there are few WPI assessments completed at this stage, it can be determined that for this scenario to eventuate nearly all of the injury severity 1 claims would have to be cut off from lodging award of damages claims. It does not seem reasonable that the minor injury assessment will cut-off nearly all of the severity 1 claims from accessing awards of damages
  - **Currently, there is no evidence to support the assumptions underlying this scenario.**

Overall, a reasonable range for the central estimate of $512 is estimated to be $500-$524, based on the uncertainty in the analysis leading to the central estimate.

As described above, a number of scenarios have been identified which result in premiums outside of this range however the scheme experience required for these scenarios to eventuate does not appear to be supported by the current scheme experience.

9. Current market premium

The previous sections of this report have focussed on the Schedule 1E assumptions as required by the Terms of Reference. This section shows the currently approved insurer filing assumptions and the resulting market-weighted average premium. The extent to which the current market premium deviates from any updated Schedule 1E needs to be considered as part of any re-filing direction made by SIRA.

9.1 Current average filed market premium

As part of the premium rate filing process, insurers must submit the Schedule 1E assumptions applicable to their own portfolio of policies as well their assumptions for the industry as a whole. The current average filed premium assumptions for each insurer are summarised in the table below.

Table 19 [redacted]

[redacted]

10. Conclusion

10.1 Summary of observations and findings

The emerging claim number and cost experience of the 2017 Scheme has been assessed to gain an indication of the potential impact on the estimated average scheme premium.

The following table illustrates the amount of risk premium attributable to each high level cohort of claims within the 2017 Scheme. It is observed that the at-fault and not at-fault minor injury claims categories make up a small proportion of the risk premium, with these claims being reported within months of the accident and generally of low average cost. The not at-fault non-minor claims represent the majority of the total risk premium. While these claims will also generally be reported within months of the accident, the categorisation of these claims takes longer. These claims will commence receiving their statutory benefit entitlements quickly, however it will take much longer to determine whether these claims will also lodge an award of damages claim, which is the main driver of claims cost in the scheme.

The amount of scheme experience currently available for analysis varies by claim cohort, as noted below. This impacts the reliability of the analyses and the conclusions that can be drawn.

Table 20 Claims categorisations and attributes

Fault status	Injury type	WPI	Estimated risk premium	Indication of the amount of 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 claims that will eventually be in these categories are already receiving statutory benefits, no reliable information is available about which category they will finalise in.*

A summary of the assessment of the potential impacts of claims experience on the Schedule 1E parameters is set out below.

The 1999 Scheme experience to 30 June 2018:

- The experience of the 1999 Scheme to 30 June 2016 was used to inform assumptions underlying the original costing for the 2017 Scheme
- The components of the original costing that were affected the most by the emerging experience from the 1999 Scheme were the assumptions underlying the costing of the award of damages claims for economic loss, non-economic loss and elements of the legal costs, as the benefit delivery mechanism for these elements was similar between the two schemes
- A high level approach has been used to update relevant experience of the 2017 Scheme costing for the latest 1999 Scheme experience up to 30 June 2018
- This approach highlighted the potential for a reduction in risk premium due to the following:
  - A reduction in claims frequency from the introduction of the legal cost regulation effective 1 November 2016 for the 1999 scheme
  - A reduction in average claims size due to favourable payment experience during the two year period from 30 June 2016 to 30 June 2018
- However, there is material uncertainty in this result as the methodology adopted for this high level review to estimate the changes in the 1999 Scheme was different to that used for the original 2017 Scheme costing
- Overall there is potentially a $10 reduction in allowing for 1999 Scheme experience since 30 June 2016 based on the high level approach for this review, with a likely range of +/- $10 around this estimate.

The impact of emerging 2017 Scheme experience to 31 August 2018:

Claims experience is only reasonably developed for a limited number of accident months in the 2017 Scheme, with even the most developed accident months expected to develop further. This creates uncertainty in trying to assess the impact for a full accident year based on the experience to date.

Claim frequency:

- **Statutory benefit claims:** Emerging experience for the number of statutory benefit claims reported appears to be tracking in line with the expected reporting profile overall. However, the first two accident months of the 2017 Scheme are below expected and may have been subject to a larger honeymoon impact than expected and/or monthly seasonality. Subsequent months have reverted to the expected profile underlying Schedule 1E parameters
- **At-fault claims:** The current level of at-fault claims reported is less than expected, particularly for the earlier accident months where the majority of claims should have now been reported, although there may still be delays in at-fault determinations and subsequent development. For these accident months, even allowing for a high level of at-fault claims amongst the claims where the fault status is yet to be determined, this will not see the actual experience exceed the expected level set in the relevant Schedule 1E parameters
- **Not at-fault minor injury claims:** The current level of reported not at-fault minor injury claims is higher than expected. However, there remains some uncertainty on the impact that the dispute process will have on the ultimate number of minor injury assessments; this is a key area of uncertainty. After allowing for a proportion of these claims to be disputed and reclassified to non-minor, the number of minor claims is expected to remain higher than the expected level set in Schedule 1E parameters
- **Claims mix:** The mix of claims emerging over the more developed accident months is different to the Schedule 1E parameters. In particular, at-fault claim numbers are lower than expected, not at-fault minor injury numbers are higher than expected and not at-fault non-minor claims appear to be lower than expected. There are still a number of claims processes that need to occur or be finalised for claims in the earlier accident months before the mix for these months can be assessed with any certainty. These include completion of at-fault determinations and minor injury outcome assessments for all of these claims as well as for any as yet unreported claims; in addition, any relevant dispute processes that are still to occur on these decisions. As a result, there remains considerable uncertainty around the ultimate mix of claims in the 2017 Scheme
- **Award of damages:** Few award of damages claims have been lodged to date, which is as expected given the 20 month waiting period applicable for claims with WPI less than or equal to 10%. More generally, with these claims receiving access to statutory benefits, there is no immediate need to lodge an award of damages claim. At this stage there is no 2017 Scheme experience to determine whether award of damages claims are greater or less than expected

Claim costs:

- Payment experience is very immature as only about 3% of ultimate expected claims costs have been paid. In particular, the material component of the scheme cost for award of damages claims through common law has no payment experience. In addition, payments for statutory benefit claims can last up to 5 years and the Scheme has currently entered the tenth month of experience (notwithstanding the transition of more serious claims to icare funded by levies)
- There are some claims in the 2017 Scheme where the benefit entitlement has ended or is coming to an end. This applies to at-fault and not at-fault minor injury claims from the very first accident months where 26 weeks have passed since the accident. For these claims, the observed payment experience has been considered to assess the expected average claims cost. In general, actual average costs are lower than expected for these claims, although there is further development expected for the payments following late processing of payments, overturned assessments and where access to benefits continues beyond entitlement periods i.e. where it is expected to benefit the injured person's recovery. Furthermore, there is the risk

that the experience from the first few accident months of the 2017 Scheme is not representative of the experience expected for more recent and future accident months.

Overall, there is potentially a $7 reduction based on assuming the emerging 2017 Scheme experience is indicative of longer term annualised trend. There is uncertainty around this estimate.

Economic (inflation and discounting) assumptions for a future filing date at 1 January 2019

- Wage inflation and updated discount rates has been used to roll forward the 1 December 2017 Schedule 1E parameters for a future underwriting period commencing on 1 January 2019. This roll forward contributes to a $3 increase to average premiums.

The overall analysis and results indicate a central estimated average scheme premium of $512 with a reasonable range of between $500 and $524 including GST and levies for an underwriting period commencing on 1 January 2019. This range is mainly a result of the uncertainty around and sensitivity to key assumptions of the 1999 Scheme update. As described in section 8, various scenarios have been identified which result in premiums outside of this range however the conditions required for these scenarios to eventuate is not supported by the current scheme experience or any other credible evidence.

The potential impacts on the 2017 Scheme Schedule 1E premium are summarised in the table below.

Table 21 Summary of potential impacts on 2017 Scheme Schedule 1E premium

Adjustments	Impact of Adjustments	Average Premium (incl GST and Levies)
MAG Schedule 1E: 1 December 2017		**$528**
Identified savings pre-filing	-$2	
Commencement premium 1 December 2017		**$526**
Recalibration of costing basis (1999 Scheme experience)	-$10	$516
Adjusted at-fault claim frequency	-$6	
Adjusted not at-fault minor claim frequency	$4	
Adjusted not at-fault minor average claim size	-$5	
Adjusted not at-fault minor and non-minor claim mix	$0	$509
Premium range for 1 December 2017 effective filing		**($497, $521)**
Economic assumptions for new underwriting period	$3	**$512**
Estimated scheme average premium range for 1 January 2019 filing		**($500, $524)**

**Results displayed may not add due to rounding in the displayed numbers*

The following table shows the revised Schedule 1E assumptions for the central estimate of $512.

Table 22 Updated Schedule 1E assumptions for an average scheme premium of $512 on 1 January 2019

Claim assumptions			Claim frequency			Average claim size (inflated and discounted)*		
Fault status	Injury type	WPI	Statutory benefits	Common law	Total	Statutory benefits	Common law	Total
At-fault			0.036%		0.036%	$17,400		$17,400
Not at-fault	Minor injury		0.103%		0.103%	$8,400		$8,400
	Non-minor	WPI<=10%	0.072%	0.059%	0.072%	$22,100	$116,700	$117,700
		WPI>10%	0.027%	0.027%	0.027%	$129,800	$427,500	$557,400
		Total	**0.238%**	**0.086%**	**0.238%**	**$27,700**	**$214,300**	**$104,900**

**Total may not add due to rounding*

10.2 Conclusions on Terms of Reference (TOR)

The principal objectives or terms of reference for the interim review were as follows:

1. 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 their premium rates
2. 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.

Concluding statement on Objective 1 of the Terms of Reference

There is emerging evidence that would support the Schedule 1E Parameters and resulting premium being adjusted to within the range of $500 to $524, with the centre of that range being $512 (for a selected 1 January 2019 effective filing date).

On commencement of the 2017 Scheme, insurers filed premiums that were on average [redacted], this was below the Schedule 1E premium of $528. Several insurers have subsequently filed lower parameters and premiums based on a combination of their desired competitive market positioning and view of emerging claims experience. The currently approved market average filed premium for premiums [redacted].

Concluding statement on Objective 2 of the Terms of Reference

Following on from the concluding statement of Objective 1 above, there appears to be limited scope to consider introducing additional benefit-related costs for claimants without potentially increasing premiums.

Additional comments

The average premium estimates in this report are based on a model of assumed behaviours and costs based on the NSW 1999 Scheme and other schemes. As actual experience emerges over several years, actual scheme results may vary from expected experience by a significant amount. Scheme reforms in other jurisdictions have observed variations exceeding 10% from expected levels.

The limitations and uncertainty underlying the analysis and results is presented throughout this report. A summary of key risks, uncertainties and reliances is provided in sections 11 and 12 below.

10.3 Further analysis

Section 6 outlined additional analysis that should be performed to provide more certainty in the central estimate provided in section 8.4.

The analysis described in section 6 is a high level approach to assessing the impact of the 1999 Scheme experience on the 2017 scheme costing model. In order to produce a more comprehensive analysis of the costing update for data to 30 June 2018, the following additional steps are required:

- Data at 30 June 2018 for the 1999 Scheme experience should be used to update the heads of damage valuation model. This is used as a basis for the common law cost assessed under the 2017 scheme
- Data at 30 June 2018 for the TAC Scheme should be used to update the statutory benefit cost analysis used for the costing
- NSW and VIC casualty data to 30 June 2018 should be used to adjust the overall expected claim frequency
- Updating the analysis used to derive the remaining adjustments applied in the costing model in particular around the impact of the minor injury assessment.

Additionally, the projected reporting and payment patterns discussed in section 5 should be updated to reflect the emerging experience as would be ordinarily performed annually for a mature scheme.

11. Risks and uncertainty

11.1 Key assumptions for review of the 2017 Scheme experience

In undertaking this review of the 2017 Scheme a number of key assumptions have been made about which there is significant uncertainty and risk.

11.2 Uncertainty

11.2.1 General uncertainty

There is significant uncertainty associated with actuarial estimates. Estimates of future claims experience (claims numbers and payments) are always inherently uncertain because they depend on the outcome of future events which cannot be forecast precisely. Examples of claims experience that are particularly challenging to forecast include changes to social, economic and legal environments. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates presented in this report.

11.2.2 Uncertainty – review of the 2017 Scheme experience

There is significant uncertainty and limitations associated with the analysis of emerging 2017 Scheme experience. These include:

- The Universal Claims Data (UCD) is the major source of data for the analysis presented in this report. The governance framework around the UCD is still developing. As a result, the analysis in this report is reliant on the quality of data submitted by insurers to the UCD and the data extracts provided by SIRA to EY in preparing this report
- This report uses the more mature accident months of the 2017 Scheme experience (i.e. the very first months of the 2017 Scheme) to make an assessment of the experience for future accident months relevant to any future insurer rate filing. There is a risk that the experience for the more mature accident months may not be representative of the experience expected for future accident months
- As there is 9 months of actual scheme experience, this report presents analysis on an accident month basis, which is subject to material monthly variability. This variability creates additional uncertainty in projecting annualised trends
- A significant volume of claims are yet to report into the 2017 Scheme for the first accident year. Furthermore, a large number of reported claims have not yet been assessed for either or both minor injury and fault status. This creates uncertainty around the ultimate number of at-fault, minor and non-minor claims
- The ultimate propensity to claim amongst at-fault claimants under the 2017 Scheme is unknown particularly given the higher benefits compared to the 1999 Scheme. This creates uncertainty around the ultimate number of at-fault claims. There is significant scope for at-fault claims to increase as community awareness of the increased at-fault benefits rises
- The dispute resolution process will have an impact on the ultimate level of minor injury claims for the 2017 Scheme. Currently around 50% of insurer internal reviews are for the minor injury outcome assessments. Experience from the disputation process is limited and as a result, there is considerable uncertainty around the impact that disputation will have in terms of re-classifying existing minor injury decisions to non-minor injury
- Total current payments represent around 3% of total ultimate expected payments. This creates material uncertainty in using the current experience to project changes to total ultimate expected payment amounts.

11.2.3 Uncertainty – original costing of the 2017 Scheme

In this section other areas of uncertainty are outlined which specifically relate to the original 2017 scheme costing which is the basis for the parameters in Schedule 1E. These sources of uncertainty remain relevant to the results presented in this report and include:

- While the MAI Act sets out details of the 2017 Scheme, the regulations and guidelines to be issued by the government and SIRA are not all finalised; as a result, the costing estimates are uncertain. Any differences in the assumed details of the content of the regulations and guidelines on which the costings in this report are based will result in changes to the estimates of the cost per policy and ultimately the premiums vehicle owners pay

- The costing estimates for the 2017 Scheme were developed by reference to the claims experience from the current Scheme, the Victorian Scheme and the NSW workers compensation Scheme. The costing estimates are based on the assumption that the claims cost in the 2017 Scheme, with the exception of specific variations, will reflect the claims experience observed in the reference Schemes after allowing for different benefit design, demographic and operational differences. It is not possible to predict whether the claims experience of the 2017 Scheme will reflect the claims experience of the relevant reference Scheme including the adjustments made

- The costing estimates are based on an assumption that the estimated reduction in the contracted-out legal costs will result in a corresponding reduction in total claims costs and hence CTP premiums for the 2017 Scheme. This is a material source of uncertainty in the costing estimates

- It is assumed that the MAI Act will be interpreted and implemented as intended by the NSW Government. However there remains significant uncertainty about how the 2017 Scheme will be interpreted and implemented and this adds to the uncertainty in the estimates

- The 2017 Scheme represents a significant change in the Scheme for all stakeholders that interact with the Scheme. It is not possible to accurately estimate the impact of behavioural changes that may result from these changes. This difficulty is further increased as the 2017 Scheme will impact stakeholders differently and therefore their responses to the Scheme change will differ.

11.2.4 Uncertainty – review of 1999 Scheme experience

As the experience of the 1999 Scheme is a material reliance for the assumptions underlying the costing of the 2017 Scheme, this section specifically outlines some of the uncertainty associated with analysis of 1999 Scheme experience.

Notwithstanding some improvements in claims frequency in the most recent year, the longer term trends in claim numbers, especially for minor severity legally represented claims have been very adverse with a substantial increase in claim numbers since 2008 and particularly since 2012 to 2016. The projections for the original costing of the 2017 Scheme assume that claims frequency will not increase from the 2016 expected levels for the underwriting year beginning 1 December 2017.

Given the longer term trends in claims frequency, this may well be an optimistic assumption. However it is assumed that the steps SIRA, the government and insurers are taking will assist in containing claims frequency.

It needs to be recognised that the potential for further increases in ultimate claims frequency into the future is a significant risk in the 1999 Scheme. If the increases in claim numbers in South West parts of Sydney over the past few years were to be repeated in other parts of NSW then the claims frequency could increase substantially more than current experience resulting in quite a significant increase in the cost of the 1999 Scheme. This would have flow on impact to the view of the ultimate claims frequency expected for the 2017 Scheme.

Superimposed inflation of average claim costs in the 1999 Scheme has been benign for a number of years. A future rate of superimposed inflation for the 1999 Scheme of 1.65% has been assumed. This is significantly below the longer term experience of the 1999 Scheme and the experience of the privatised CTP Scheme since 1989. There is, in our view, a significant risk that the future superimposed inflation of the 1999 Scheme will exceed our assumptions over the long term.

In addition, the cost of the 1999 Scheme is subject to greater uncertainty after 1 November 2016 as all new claims reported to insurers from this date are impacted by the Regulation introduced by the government, which limits contracting-out legal costs to only be recoverable if the settlement or an award of damage is more than $50,000 and separately introduces new regulated legal costs for children claims up to $50,000. As claims for award of damages take several years to finalise there remains material uncertainty for this aspect of the 1999 Scheme experience.

Overall, as discussed above, there are many aspects of the experience of the 1999 Scheme which remain uncertain. This uncertainty is transferred into the 2017 Scheme cost estimates as many of the underlying assumptions for claims for award of damages in the 2017 Scheme in particular rely on analysis of 1999 Scheme experience.

12. Reliances and limitations

In our professional capacity and EY operating policy requirements we are required to state the reliances and limitations of our report.

In undertaking the original costing analysis, reliance has been placed upon the data provided to us by SIRA, the Victorian Transport Accident Commission, Roads and Maritime Services and VicRoads. With regards to the SIRA data we are specifically relying on the accuracy by which insurers have provided their data and classified appropriate payment types and injury severity coding and that this allocation has been accurate over time.

We have performed the work assigned and have prepared this document in conformity with its intended utilisation by persons technically familiar with the areas addressed and for the stated purposes only. Judgements based on the data, methods and assumptions contained in the report document should be made only after studying the report in its entirety, as conclusions reached by a review of a section or sections on an isolated basis may be incorrect. EY staff are available to explain or amplify any matter presented herein.

Although we have prepared estimates in conformity with what we believe to be the likely future experience, the experience could vary considerably from the estimates. Deviations from our estimates are normal and are to be expected.

In accordance with normal professional practice, neither EY, nor any member or employee thereof undertakes responsibility in any way whatsoever to any person other than SIRA in respect of this report.

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