NSW Motor Accidents CTP scheme

Scheme performance report

2017

Issued July 2018

NSW GOVERNMENT

Contents

1 Executive summary

This report is an analysis by the State Insurance Regulatory Authority (SIRA) of the NSW Compulsory Third Party (CTP) Motor Accident ('Green Slip') Scheme under the *Motor Accidents Compensation Act 1999* (the 1999 Act and 1999 scheme) up to 30 June 2017. It also gives an overview of the CTP Green Slip scheme (the 2017 scheme) that commenced on 1 December 2017 under the *Motor Accident Injuries Act 2017*.

The data is based on key metrics analysed by scheme actuary, Ernst and Young (EY), and information provided by SIRA.

Key performance indicators to 30 June 2017:

- Premiums increased from an average of $620 in June 2016 to $661 in June 2017 for all vehicles in NSW, an increase of $41.
- The number of full claims rose from around 9,000 in 2008 to over 14,000 in 2017. This is counter to falling casualty rates for the same period (from around 29,000 to around 22,000).
- The dominant trend in the scheme since 2008 has been year-on-year increases in minor severity legally-represented claims.
- Minor severity legally-represented claims frequency increased by 103 per cent between 2008 and 2017. The projected 13 per cent decrease for the 2017 accident year reflects:
  - changes to the Motor Accidents Compensation Regulation on 1 November 2016 which capped legal costs for smaller settlements ($50,000 or less) to protect settlement amounts.
  - the CTP fraud taskforce and establishment of NSW Police Strike Force Ravens in August 2016 which made arrests for CTP fraud.
- Moderate severity claim frequency increased from 2008 to 2017. This increase consisted mainly of spinal injury claims that were initially reported as minor severity legally-represented claims which were subsequently recognised as moderate severity claims.
- Overall, the increase in moderate severity claims, and their higher average cost, largely offset the reduction in minor severity claims reported, with the average cost per policy for the 2017 accident year being largely similar to the 2016 accident year.
- Total legal and investigation costs are estimated at 30 per cent of the cost per policy for the 2017 accident year. About a third of this is contracted-out legal costs. This was similar to the 2016 accident year.
- Insurer profit margins for the most recent five years (2013 - 2017) are estimated at 17 per cent compared to the average filed profit margin of 8 per cent.
- The main factor in the profit margin being higher and loss ratios[1] being lower than target is the lower than expected superimposed inflation[2] since 2010.

For additional information, please refer to the Ernst & Young report Review of Selected Performance Indicators of the NSW CTP Scheme 2017 on the SIRA website.

SIRA key performance indicators:

- In 2007 the affordability index (premium cost relative to average weekly earnings in NSW) was 28 per cent. It rose to 37 per cent by 2017.
- Claims Assessment and Resolution Service (CARS) general assessment applications rose by 23 per cent (384 more applications) in 2016-17.

[1] The loss ratio measures the total incurred losses (costs paid out for claims and projected future cost of claims) divided by the total collected insurance premium.
[2] EY definition of superimposed inflation is the increase in the average claims size over time above wage inflation.

- There were more Medical Assessment Service (MAS) assessment applications in 2016-17 than in any recent years (5,526), with an increase of 106 more applications than in 2015-16.

The EY report revealed some trends that required close monitoring, such as propensity to claim, claim frequency, claims costs, insurer profit and efficiency. Measures have been implemented in the new 2017 scheme to address the above trends.

The 2017 scheme focuses on the optimal recovery of injured road users and timely financial support for injured road users who are earners. This is a cultural shift from the 1999 scheme's adversarial, modified common-law approach where it was not uncommon for settlement to be reached three or more years after a claim was made, often causing financial and other stress for the injured person.

NSW insurers stopped selling CTP policies under the 1999 scheme on 30 November 2017 and started selling policies on 1 December 2017 under the new 2017 scheme. The 2017 scheme has delivered substantial savings in premiums for most motor vehicle classes.

The 1999 scheme under the *Motor Accidents Compensation Act 1999* will continue until claims for accidents before 1 December 2017 are finalised. Consequently, the next Motor Accidents CTP scheme performance report will cover the 1999 and 2017 schemes.

2 Background

2.1 State Insurance Regulatory Authority

2.1.1 Green Slip insurance

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

CTP insurance, also known as Green Slip insurance, is compulsory in all Australian states and territories. It covers drivers against liability for the injury or death of another person. Claims are managed by the CTP insurer of the vehicle at fault.

The NSW scheme provides benefits for pedestrians, passengers, cyclists, motorcyclists, drivers of other vehicles and, to a limited extent, the driver at fault. It also provides funeral expenses and compensation to relatives of people killed in a motor vehicle accident.

One of SIRA's key activities is to licence and regulate the private insurers that underwrite the scheme. The aim is to ensure premiums are affordable and competitive, and injured people receive fair benefits and early and appropriate treatment.

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

The available benefits and the duties of insurers are found in the *Motor Accidents Compensation Act NSW 1999* (1999 Act).

2.1.2 SIRA's functions

Under section 206 of the 1999 Act, SIRA:

- Monitors the operation of the CTP scheme by conducting research and collecting statistics and information on damages awarded by the courts, the handling of claims by insurers and other matters relating to the scheme.
- Advises the Minister about the administration, efficiency and effectiveness of the scheme.
- Publicises and distributes information about the scheme.
- Issues and reviews guidelines made under the 1999 Act.

- Provides an advisory service to help injured people with claims.
- Supports and funds injury prevention and minimisation programs and road safety education.
- Monitors services that provide acute treatment, rehabilitation and long-term support for people injured in motor vehicle accidents.

The 1999 Act also provides for the creation of statutory guidelines, such as claims handling guidelines which insurers must comply with as a condition of their licence.

SIRA investigates complaints about insurer behaviour and takes risk-based regulatory action in respect of breaches of licence conditions.

2.1.3 SIRA Dispute Resolution Service

SIRA operates an independent Dispute Resolution Service (DRS) which provides an alternative to court for resolving disputes in the NSW compulsory third party scheme.

SIRA's dispute resolution role in this scheme is to encourage the early resolution of motor accident claims through the quick, cost effective and just resolution of disputes for people injured in motor accidents. It includes the Medical Assessment Service (MAS) and the Claims Assessment and Resolution Service (CARS) under the 1999 Act and the Dispute Resolution Service under the 2017 Act.

SIRA's services are delivered without charge to injured people and insurers. Services related to CTP regulation and dispute resolution are funded through the Medical Care and Injury Services (MCIS) levy.

2.2 Overview of the 1999 scheme

The 1999 scheme provides benefits for people injured in motor vehicle accidents when another driver is at fault.

These include up to $5,000 worth of treatment and lost earnings, incurred within the first six months of an accident, regardless of fault. Additionally, a levy on each Green Slip policy provides anyone injured in a NSW motor accident with access to public health and ambulance services free of charge, for care required immediately after the accident. Children injured in an accident are also covered, regardless of who was at fault.

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

The scheme also provides lump sum damages for:

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

If injuries are assessed as exceeding 10 per cent whole person impairment, lump sum damages can include an amount for non-economic loss (pain and suffering).

Lump sum settlements are negotiated by not-at-fault injured road users once their injuries stabilise. These are settled by a single payment once the claim is finalised. Once paid, no further claim can be made on the insurer.

Settlement often takes three or more years after a claim, often causing financial and other stress to the injured person.

Several factors had led to a steady rise in premiums. First was a rapid increase in the frequency of claims for minor injuries, such as whiplash and soft tissue injuries. This led to a disproportionate amount of benefits going to injured people with minor injuries compared with injured people who have more serious injuries. Second, a higher average proportion of the cost

of these claims has gone towards legal and investigation costs. The final factor was an increasing number of fraudulent claims.

2.3 Scheme reform - benefits of the 2017 scheme

The 2017 scheme focuses on optimal recovery and early treatment and care of people injured in road accidents and financial support for those who are earners. This is a shift from the 1999 scheme's more adversarial, modified common-law approach.

In summary, the *Motor Accidents Injuries Act 2017* provided for:

- A six-month period of defined benefits[3] for injured road users, regardless of fault, and for those with minor injuries. Treatment benefits can be extended for minor injuries if additional services or care will improve recovery. The majority of people with a minor injury will recover within six months.
- Ongoing defined benefits for any person with a more serious injury who can prove fault. These can continue for up to five years. Claimants who require ongoing treatment, rehabilitation and care beyond five years will be managed by the Lifetime Care and Support Authority.
- A focus by insurers on early treatment, rehabilitation and return to work for earners.
- CTP Assist, SIRA's multi-channel support service, providing personalised claims support and information for injured people and other participants in the CTP scheme such as doctors and health professionals.
- Where disputes arise, an insurer internal review, independent of the original decision maker, allowing the injured person and insurer to reach resolution without requiring SIRA's Dispute Resolution Service.
- Restricted access to common law damages for non-economic loss (pain and suffering) to only those with a permanent impairment of greater than 10 per cent. Common law can only be accessed after 20 months, unless it concerns the death of a person or permanent impairment of greater than 10 per cent.
- Stronger powers for SIRA to monitor and regulate CTP insurer performance, including the ability to adjust excessive insurer profits and losses to create a more competitive environment.
- Legal costs for specified services.
- Reduced opportunities for fraud.

2.4 Strike Force Ravens - CTP insurance fraud

During 2017, there was significant emphasis on tackling fraud in the CTP scheme.

This arose from a Fraud Taskforce established in 2016, convened by SIRA to tackle the issue in the Motor Accidents Scheme. The taskforce comprised representatives of SIRA, the NSW Police, insurers, peak industry bodies and other Government agencies. One of the key activities was an analysis of claims within the scheme that raised red flags with respect to fraud.

As a result of these concerns, the NSW Police Fraud Squad established Strike Force Ravens to investigate a significant increase in legally-represented claims concerning minor severity injuries and suspected fraudulent behaviour. As at June 2018, detectives from Strike Force Ravens had arrested 21 offenders and laid over 160 charges totalling over $11 million. SIRA noted an additional increase in the withdrawal of claims which has not been seen before.

[3] Treatment, rehabilitation, care, and return to work and vocational support, plus weekly payments for earners while they are off work.

Strike Force Ravens has contributed to a decrease in legally-represented minor severity injury claims between 2015-16 and 2016 17.

NSW Police continue to investigate and respond to suspected fraudulent behaviour in the CTP insurance scheme, focusing on claimants, legal firms, and medical and allied health practitioners.

Under the 2017 scheme, SIRA has been given improved investigative and prosecution powers. Offences for fraudulent behaviour have been expanded including offences for defrauding the scheme itself.

3 Market share

3.1 Background

The scheme is underwritten by private insurance companies licensed by SIRA to sell Green Slip insurance and manage claims. During 2016-17 there were seven licences operated by five insurance companies: Suncorp (AAMI and GIO), Allianz Australia (Allianz and CIC Allianz), NRMA, QBE and Zurich. Zurich stopped issuing Green Slip policies to the public on 1 March 2016 but holds a modified licence to manage existing and new claims made against their policies.

3.2 Key facts as at 30 June 2017

- Zurich ceased selling Green Slips in March 2016 and therefore no longer has a market share
- AAMI, GIO and NRMA compete mainly in the retail market segment
- CIC-Allianz and Zurich (before its exit) compete in the non-retail commercial-vehicle market
- QBE and Allianz operate in both market segments.
- Over the past 10 years, QBE gained an additional 10 per cent market share and, in the past three years, Suncorp gained an additional 7 per cent. NRMA has lost 7.2 per cent in the market since 2012 – a significant amount in a relatively short time.

Movements in insurer market share by premium for ten years to 30 June 2017 (note rounding)

Insurer	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Suncorp	23%	23%	21%	21%	21%	22%	22%	21%	22%	25%	29%
Allianz	24%	22%	21%	18%	17%	17%	17%	17%	17%	18%	19%
NRMA	36%	36%	37%	37%	38%	38%	36%	35%	34%	32%	31%
QBE	11%	12%	14%	18%	17%	17%	18%	20%	21%	22%	22%
Zurich	7%	7%	7%	7%	7%	7%	7%	7%	6%	3%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

3.3 Outlook

All existing insurance companies (excluding Zurich) have transitioned to the new 2017 scheme with new licences. There have been no new entrants to the 2017 scheme.

4 Premiums

4.1 Background

The Government does not set Green Slip premiums. Premiums are set and sold in accordance with the 1999 Act, business rules and SIRA guidelines made under the Act and approved by the SIRA Board.

Premiums are based on the actual and forecast claims experience of an insurer's expected portfolio mix of vehicles and rating districts[4] for the filing[5] period. To differentiate premiums, insurers can use a variety of objective risk-rating factors, within limits prescribed by the Premiums Determination Guidelines.

The 1999 Act requires insurers to file proposed Green Slip premiums with SIRA at least once a year (or a longer approved period). SIRA had a limited power to reject a premium, based on whether SIRA judges the premium:

- will not fully fund the present and likely future claims liability
- is excessive
- does not conform to the Premiums Determination Guidelines
- is calculated in contravention of the maximum commission allowable to insurers' agents.

Each insurer filing is reviewed by an independent actuary engaged by SIRA (currently Ernst & Young).

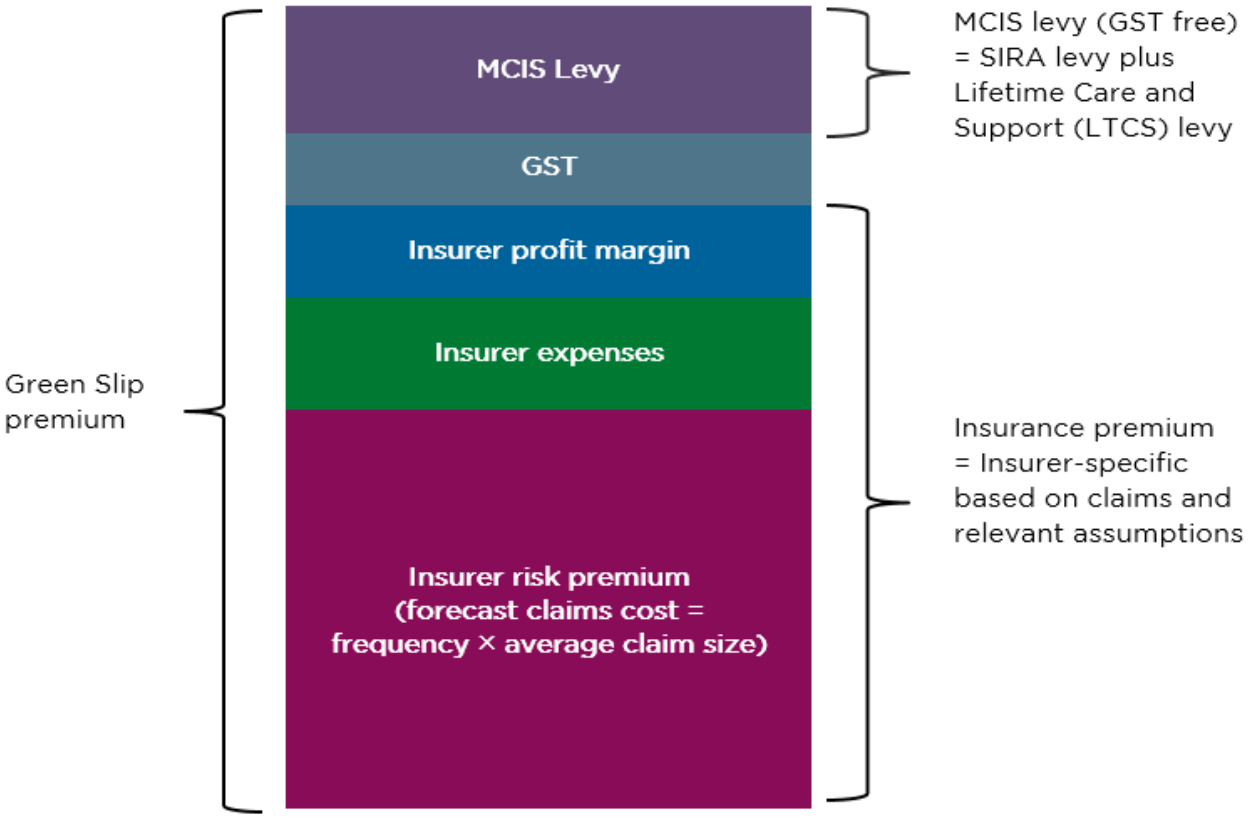
Premiums paid by motorists cover the cost of claims, insurers' administration and claims management costs, insurers' profit, GST and the Medical Care and Injury Services (MCIS) levy.

The MCIS levy funds:

- public hospital and ambulance costs for all people injured in road accidents
- treatment, rehabilitation, care and support for lifetime care claims
- the operation of SIRA and its services.

[4] Rating districts are Metropolitan, Outer Metropolitan, Newcastle/Central Coast, Wollongong and Country.
[5] A filing is a document that shows proof of financial responsibility in determining a new premium price.

Components of a Green Slip



To promote competition and innovation by insurers, SIRA allows risk-based pricing, within limits to keep premiums affordable. The 1999 premium framework was a blend of risk-based and community-rated approaches to ensure premiums were affordable for all motorists.

Generally, Green Slip premiums reflect the underlying risk plus or minus a subsidy, so good risks subsidise poor risks within imposed limits. Without this cross-subsidy, CTP Green Slips for some motorists (such as drivers under 25) would be unaffordable and the community would risk these motorists driving uninsured and unregistered.

Prices are calculated for each region and vehicle class. There are five regions in NSW and 33 vehicle classes. Approximately 40 per cent of policies for all NSW vehicles are passenger vehicles in the Sydney metropolitan region.

On top of these prices, an insurer can offer a discount or impose a loading on a Green Slip premium. Insurers may consider any objective risk rating factor (except postcode, gender, race, policy duration or GST status). Insurers use the age of the owner/driver as the primary rating factor. Secondary rating factors include age of the vehicle and driver record, for example, number of at-fault accidents, number of traffic offences, comprehensive insurance history and level of no claims bonus and demerit points.

Currently the maximum discount is 15 per cent, except for drivers over 55 who can receive a 25 per cent discount. The maximum loading is determined by insurers using a SIRA formula which considers the individual insurer's base premium.

The extent of cross subsidies in the scheme is determined by the extent to which an insurer can risk-rate individual policies.

Green Slip pricing spread for a Sydney passenger vehicle as at 30 June 2017

The table below shows the 'Low' annual premium including GST and MCIS levy, charged by insurers for a passenger vehicle garaged in the Sydney area, based on private use and owner age 30-54. Depending on the insurer, a low risk policyholder would have paid between $606 and $673.

It also shows the 'High' annual premium charged by insurers for a passenger vehicle garaged in the Sydney area for any age and any use. Depending on the insurer, a high-risk policyholder would have paid between $884 and $899.

Insurer	Low	High	Average
AAMI	$622	$893	$757
GIO	$606	$884	$745
Allianz	$623	$890	$757
CIC Allianz	$673	$886	$780
NRMA	$640	$899	$769
QBE	$613	$890	$752

The use of the discount and loading structure promotes competition between insurers as they apply risk factors differently based on their experience. For this reason, SIRA encourages motorists to shop around and compare prices using Green Slip Check, a free price comparison calculator on our website.

4.2 Key facts

Sydney passenger vehicle headline[6] price by insurer (includes MCIS Levy and GST)

The best Green Slip price as at 30 June 2017 for the owner of a Sydney metropolitan passenger vehicle aged between 30 and 54 was with GIO at $606 (levy and GST inclusive) compared with NRMA's best price of $640, a saving of $34 if the policy holder changed insurers. (CIC Allianz competes in the non-retail commercial-vehicle market.)

Insurer	30 June 2014	30 June 2015	30 June 2016	30 June 2017
AAMI	$524	$505	$572	$622
GIO	$519	$509	$555	$606
Allianz	$542	$539	$604	$623
CIC Allianz	$565	$546	$644	$673
NRMA	$532	$545	$588	$640
QBE	$509	$519	$587	$613
Zurich	$547	$548	n/a	n/a

Note that Zurich stopped issuing Green Slip policies to the public on 1 March 2016 under the 1999 scheme.

[6] Headline price is the best price offered for a new customer private use Sydney passenger vehicle, with youngest driver aged 30 to 54.

Average Premium comparison June 2016 to June 2017 (including MCIS Levy & GST)

Compared to June 2016, the average premium for all NSW vehicles increased by $41 as at 30 June 2017.

Average premium including MCIS levy and GST	June 2016 ($)	June 2017 ($)	Difference ($)	Difference (%)
Sydney passenger vehicles (Class 1)	$674	$721	$47	7 %
All NSW passenger vehicles (Class 1)	$585	$626	$41	7 %
Country passenger vehicles (Class 1)	$459	$491	$32	7 %
All vehicles in NSW	$620	$661	$41	6.6 %

Premium affordability: Average premium - all passenger vehicles (show on left of graph) as per cent of average weekly earnings (AWE) (shown on the right of the graph)

Between 2008 and 2013 affordability of Green Slips steadily deteriorated. At its peak in 2013, the cost of Green Slips represented 36 per cent of average weekly earnings (source ABS average weekly ordinary time earnings). Despite a slight improvement in real terms in 2014 (34 per cent) and 2015 (33 per cent), increases since 30 June 2016 (35 per cent) and 2017 (37 per cent) show the long-term rise has resumed.

In the table following, the average premium reflects the premium paid by the customer on annual policies less input tax credit and GST.

Year ending 30 June	Average premium ($) - all passenger vehicles (LHS)- Annual policies only	Average premium - all passenger vehicles as % of Average Weekly Earnings (RHS)
2000	344	42%
2001	325	37%
2002	331	37%
2003	322	34%
2004	323	33%
2005	309	30%
2006	302	28%
2007	313	28%
2008	326	28%
2009	372	31%
2010	407	32%
2011	443	33%
2012	453	33%
2013	504	36%
2014	492	34%
2015	494	33%
2016	535	35%

Year ending 30 June	Average premium ($) - all passenger vehicles (LHS)- Annual policies only	Average premium - all passenger vehicles as % of Average Weekly Earnings (RHS)
2017	571	37%

4.3 Outlook

As at June 2017, based on claims trends and costs, further Green Slip price rises were expected without scheme reform.

When the 2017 Green Slip scheme started on 1 December 2017, premiums reduced substantially for most vehicle classes. Premium refunds are available for those who paid pre-reform prices for Green Slips starting before 1 December 2017.

5 Analysis of cost drivers in the scheme

5.1 Background

Factors underpinning price increases include:

- propensity to claim and claims frequency
- legally-represented minor severity claims
- claim costs
- investment income.

5.2 Cost drivers

5.2.1 Propensity to claim and claim frequency

Propensity is the ultimate number of claims divided by the number of road casualties.

The 32 per cent decrease in casualty numbers (from around 29,000 in 2008 to around 22,000 in 2017) and the 25 per cent increase in claim frequency (from around 9,000 to over 14,000 over the same period) reflects an increasing propensity to claim. The propensity to claim for 2017 is 78 per cent, an average increase of 4.6 per cent per year between 2008 and 2017. At 78 per cent approximately four out of every five road injuries will emerge as claims.

Propensity to claim by accident year

Year	Propensity to claim (all claims)	Propensity to claim (excluding workers compensation recoveries and Accident Notification Forms)
2003	30%	45%
2004	31%	45%
2005	29%	43%
2006	26%	38%
2007	25%	36%
2008	27%	36%
2009	28%	40%
2010	30%	43%
2011	31%	45%
2012	33%	49%

Year	Propensity to claim (all claims)	Propensity to claim (excluding workers compensation recoveries and Accident Notification Forms)
2013	36%	51%
2014	41%	56%
2015	52%	68%
2016	62%	78%
2017	68%	86%

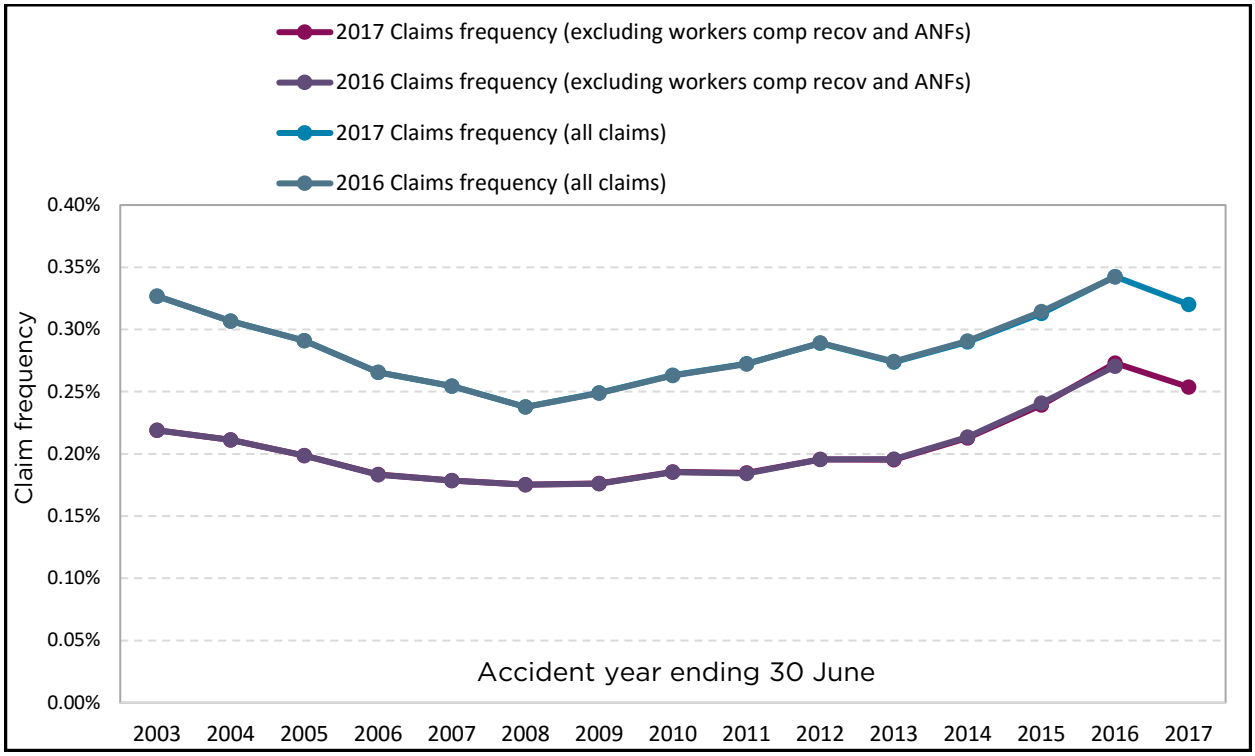
Claim frequency

Claim frequency is the number of claims divided by the number of policies exposed.

Overall claim frequency (all claims) reduced steadily between 2003 and 2008. It has been increasing ever since, except for a slight reduction in 2013 reflecting legislative changes to NSW workers compensation journey claims.

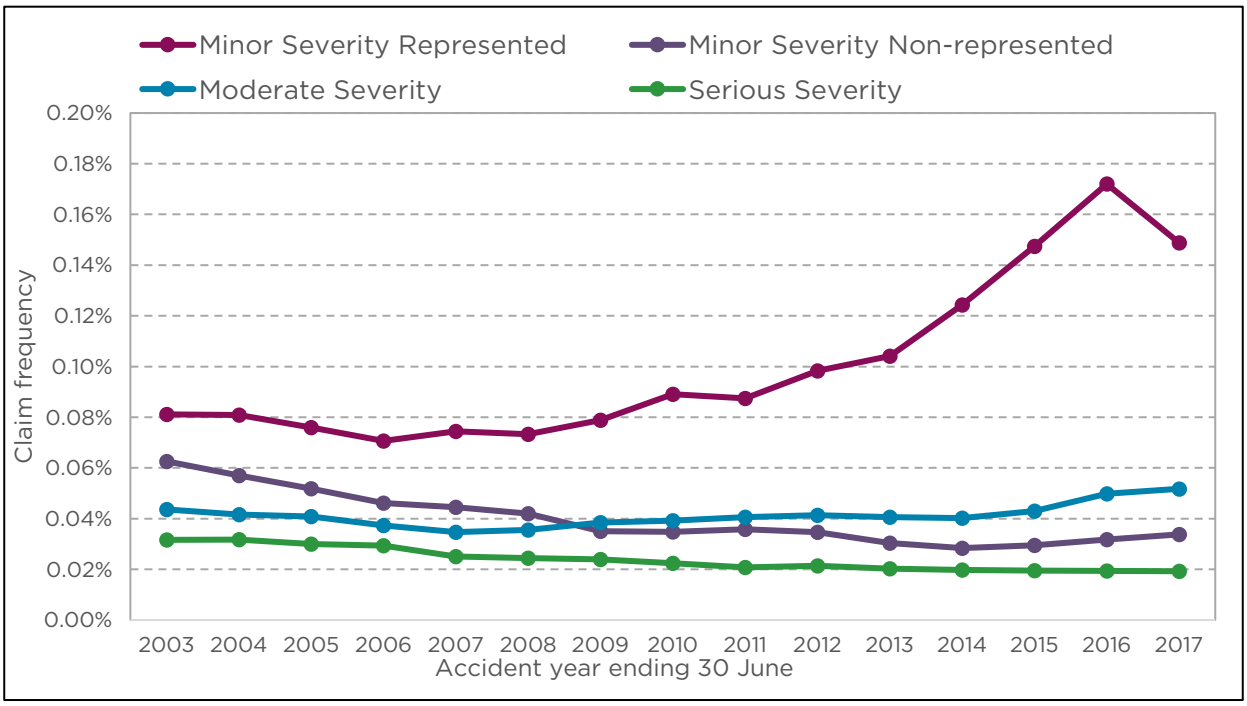
Legally-represented minor severity claims have contributed to the increase in recent years. Claim frequency for this claims segment increased by 135 per cent between 2008 and 2016. In 2017 there is projected to be a significant decrease in frequency (13 per cent on 2016). This reflects the impact of the change to the Motor Accidents Compensation Regulation, aimed at limiting legal involvement and costs for smaller claims, which applied to all claims reported from 1 November 2016.

Claim frequency by accident year



Claims in the 2017 accident year have reduced compared to the peak of 2016. This is attributed to the introduction of the Motor Accidents Compensation Regulation and arrests made by NSW Police Strike Force Ravens for CTP fraud.

Claim frequency by injury severity



Ultimate number of full claims and Accident Notification Forms

Accident Year	Minor Severity Represented	Minor Severity non-represented	Moderate Severity	Serious Severity	Workers comp recoveries	Total ANFs
2003	3,168	2,443	1,703	1,234	1,607	2,593
2004	3,251	2,290	1,672	1,274	1,570	2,267
2005	3,123	2,133	1,679	1,235	1,675	2,124
2006	2,966	1,935	1,564	1,231	1,490	1,964
2007	3,193	1,907	1,487	1,074	1,533	1,722
2008	3,213	1,841	1,556	1,073	1,340	1,398
2009	3,541	1,571	1,728	1,072	1,428	1,848
2010	4,091	1,596	1,803	1,029	1,375	2,198
2011	4,125	1,687	1,914	978	1,341	2,806
2012	4,730	1,665	1,988	1,032	1,298	3,201
2013	5,119	1,492	1,997	993	348	3,517
2014	6,256	1,428	2,023	992	274	3,614
2015	7,591	1,520	2,212	1,006	270	3,521
2016	9,087	1,679	2,633	1,023	225	3,448
2017	8,060	1,831	2,804	1,042	218	3,388

5.2.2 Legally-represented minor severity claims

The dominant trend in the scheme since 2008 has been the year-on-year increase in minor severity legally-represented claims, from around 3,200 in 2008 to a high of around 9,100 in 2016. For the 2018 accident year there is projected to be a reduction of 11%.

This reduction is driven by the changes to the Motor Accidents Compensation Regulation on 1 November 2016. CTP fraud initiatives, including the NSW Strike Force Ravens, have also deterred fraud, particularly affecting claims for minor severity injuries.

5.2.3 Claims costs

Cost per policy

The cost per policy is the estimated total cost of claims divided by the number of insured motor vehicles in the scheme.

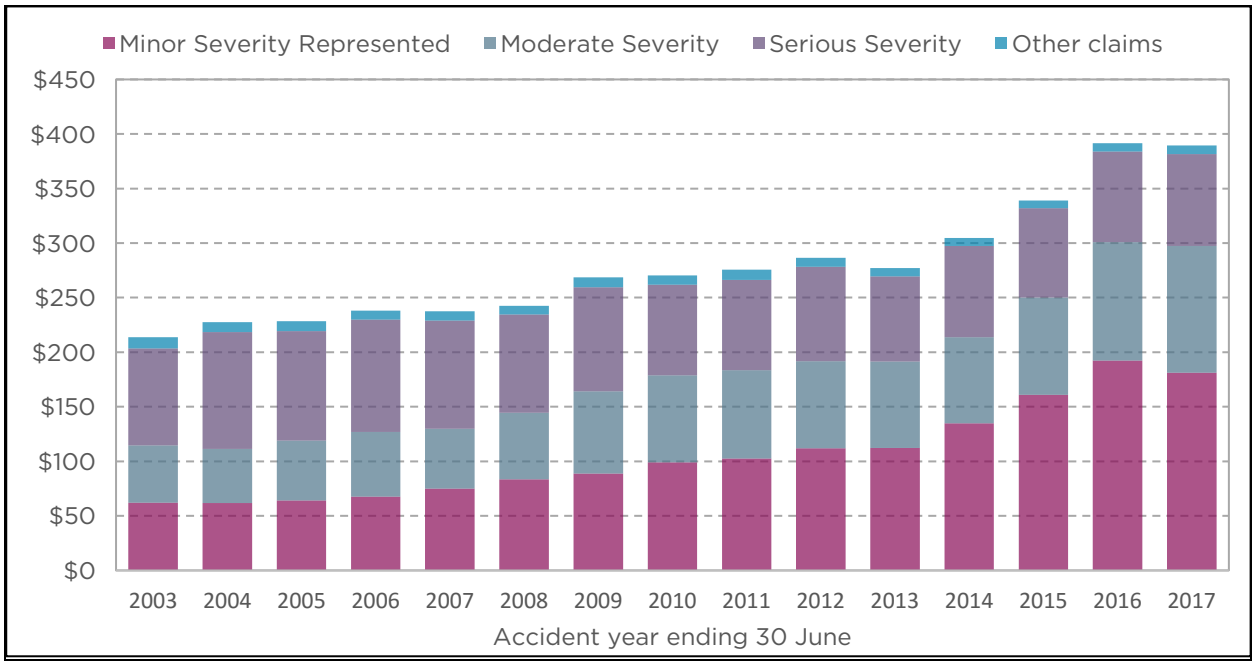
Legally-represented minor severity claims have been the main driver of increasing overall costs since 2003. However, the cost per policy increased significantly between 2008 and 2017. The 2017 cost per policy is estimated to be $392 compared to $243 in 2008. Of the $392, the

highest contributor is legally-represented minor severity claims ($181 or 47 per cent of the total), followed by moderate severity claims ($116 or 30 per cent of the total), and serious severity claims ($84 or 22 per cent of the total).

From 2016 to 2017 the cost per policy was largely unchanged. The reduction in claims frequency of smaller claims (with whole person impairment less than or equal to 10 per cent) was offset by a projected increase in moderate severity claims and a consequent increase in average claim size.

Other claims [workers compensation recovery claims, minor severity self-represented claims and Accident Notification Forms (ANFs)] represent two per cent of the claims cost for 2017.

Cost per policy for all claims and ANFs from accident year ending 2003



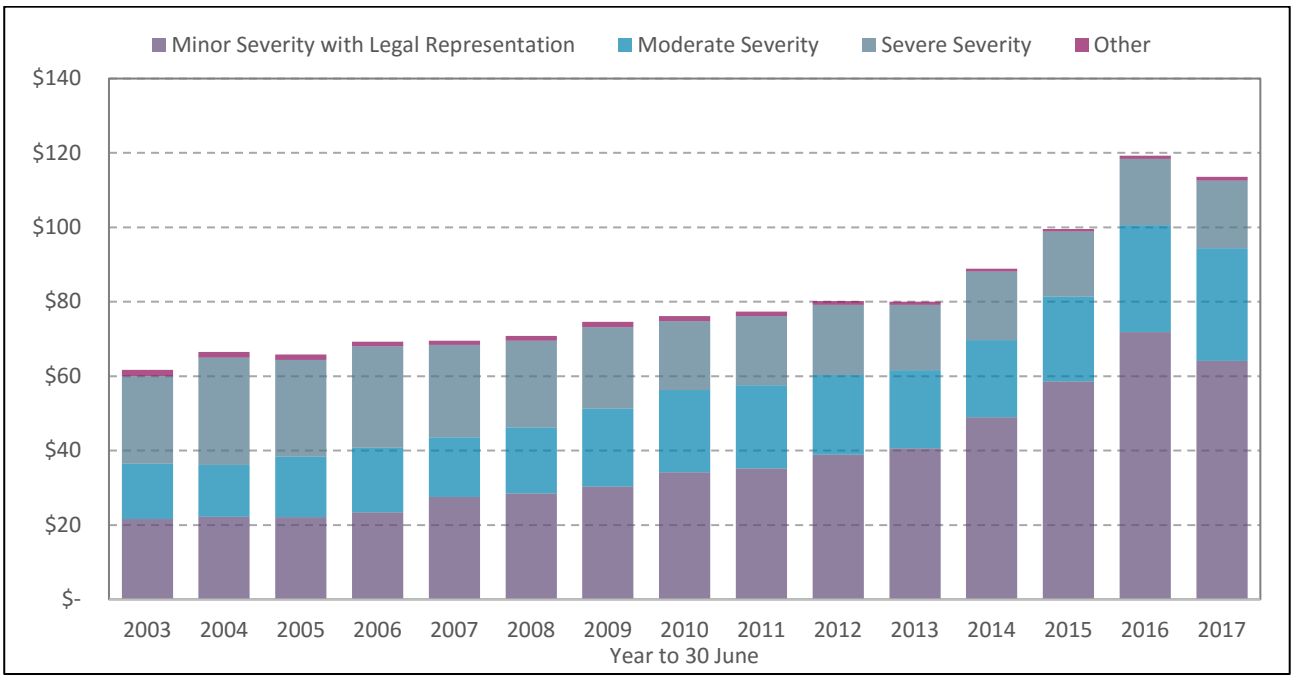
Other claims include minor severity claims without legal representation, ANFs and workers compensation recoveries.

Legal and investigative costs per policy

Legal costs represent over 90 per cent of the category 'legal and investigations costs' (excluding contracting-out costs). The total legal and investigation cost per policy remained relatively stable until 2013 but then began growing significantly.

This increase in cost was driven by the increase in minor severity claims with legal representation linked to the increase in frequency of these claims. The trend was recently reversed with the introduction of the Motor Accidents Compensation Regulation.

Estimated total legal and investigation costs including contracting out costs per policy[7]



The graph on total legal and investigative costs on page 14 excludes self-represented minor severity claims, ANFs and workers compensation recoveries.

Economic loss and legal and investigation costs form the highest proportions of the claim costs (around 35 per cent and 20 per cent of total finalisation payments in a year not allowing for contracted-out legal costs included in these amounts).

5.2.4 Investment income

Unlike most insurance products, CTP insurance is often finalised many years after the purchase of the related insurance policy. While some payments, like treatment expenses, are paid in the early stages of a claim, the lump sum compensation payment is not made until the claim is finalised, often after several years of negotiating a settlement amount.

Insurers invest a large portion of the premium they collect to provide for future claim payments, generally in three to 10 year bonds, and are reliant on the investment income to fund future claim liabilities. The premium collected at the time of issuing the CTP policy is therefore heavily affected by the return on investment; movements in bond yield rates will impact the amount of premium the insurer needs to collect to fund their liabilities.

In addition, scheme claim payments are typically linked to inflation. Future wage and superimposed inflation (although superimposed inflation has been zero for the scheme in recent years) also drive premiums, with higher inflation increasing premium and vice versa.

The impact of the increase in interest rates between June 2016 and June 2017 is a 0.2 per cent or $1 decrease in the average premium (excluding GST and MCIS levy), while the impact of the increase in wage inflation expectation is a 1.1 per cent or $5 increase.

5.3 Outlook

While insurers stopped selling policies under the 1999 scheme on 30 November 2017, people injured up to that date can submit a claim up to six months after the accident. Most claims for

[7] This represents legal and investigation costs including contracted-out legal costs in current (June 2017 $) values by accident year ending 30 June 2017.

accidents occurring before 1 December 2017 will be lodged by the end of 2018, including late claims accepted by insurers.

Around half the value of outstanding claims will be paid within four years of the lodgement date of the claim. The remainder, depending on the severity of the injuries and age of the injured person, will be paid over the following 16 years.

Consequently, this scheme will be in operation for many years, as claims and any disputes which may arise are resolved.

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

Measures exist to address unmeritorious or questionable claims that increase scheme costs.

6 Sustainability

6.1 Insurer profit

6.1.1 Background

Section 28 (1) of the 1999 Act requires licensed CTP insurers to disclose to SIRA the profit margin a premium is based on and the actuarial basis for calculating that margin. As receivers of compulsorily levied public monies, insurers should also account for their actual profit margins, as provided in Section 5(2)(d) of the 1999 Act.

Under the 1999 Act, SIRA could only reject a premium if, in its opinion, it would not fully fund insurer liabilities; or was excessive; or did not follow the Motor Accidents Premiums Determination Guidelines. Section 27(8)(c) of the 1999 Act provides that a premium will fully fund the liabilities if the premium is sufficient to "provide a profit margin in excess of all claims, costs and expenses that represents an adequate return on capital invested and compensation for the risk taken".

Under the 1999 Act, SIRA's assessment of realised profit, based on objective criteria, required a review of the development of the accident year from the time of the premium filing. There was considerable uncertainty in predicting the likely number and cost of claims that were yet to be made against policies sold in a given year; while the premium filing included the insurers' prospective estimates of the profit margin, the actual profit or loss that an insurer may ultimately make would depend on the extent to which other assumptions in the filing, such as estimated claims costs, prove to be correct. Estimates were based on history, so insurers made conservative estimates to ensure future liabilities would be covered, in the context of rising claim costs and increasing propensity to claim.

SIRA assesses an insurer's estimated future profit by accounting for the actual payments made to date and current estimates of the liabilities for each accident year. This represents the profit that may be realised once all claims are paid, if the current liability valuations prove correct, rather than actual profit. As the Scheme develops and more claims are paid these estimates will change.

The extent to which projected profit margins align with the actual profits made by insurers depends on the extent to which the assumptions in insurers' premium filings under the 1999 Act from previous years are realised. This is a by-product of insurance underwriting practice in a common law scheme where it is not uncommon for claims to be settled years after the accident. It is typically four to six years before the bulk of claim payments are made for a given accident year and therefore actual profits cannot be determined with any accuracy before this.

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

Profitability calculation
(+) Premium income
(+) Investment income on premiums
(–) Insurers' expense excluding claim handling expenses
(–) Claims payments (which include plaintiffs' and defendants' legal costs and claim investigation costs)
(–) Insurers' claim handling expense
(=) Profit

The scheme actuary has provided analysis in relation to insurer profit, superimposed inflation and scheme efficiency. Following the SIRA Board's recommendation in the report Reforming Insurer Profit in Compulsory Third Party (CTP) Motor Vehicle Insurance (March 2017), the profit analysis also includes loss ratios.

6.1.2 Key facts

The table below compares estimated profit and loss ratios:

- by accident year ending 30 June, using data up to 30 June 2016
- by accident year ending 30 June, using data up to 30 June 2017.

The 2017 accident year is the most immature of the years shown and is predominantly based on projected costs. Estimated profit and loss ratios are likely to change as actual experience emerges in the next few years.

Comparison of profit by accident year ending 30 June

Accident year	Profit (2016 data)	Profit margin	Loss Ratio	Profit (2017 data)	Profit margin	Loss Ratio
	($m)	(%)	(%)	($m)	(%)	(%)
2000	478	32	53	478	32	53
2001	409	31	52	409	31	52
2002	378	29	54	377	29	54
2003	432	32	51	433	32	51
2004	323	23	59	320	23	59
2005	404	27	54	405	27	54
2006	305	21	59	306	21	59
2007	342	25	57	343	25	57
2008	183	15	65	185	15	65
2009	101	8	72	100	8	72
2010	173	13	69	171	12	69
2011	312	20	63	320	20	63
2012	326	19	64	357	21	63
2013	352	19	65	425	23	61
2014	426	21	64	494	24	61
2015	332	15	70	404	19	67
2016	135	6	79	164	7	78

Accident year	Profit (2016 data)	Profit margin	Loss Ratio	Profit (2017 data)	Profit margin	Loss Ratio
2017				350	14	73
Total	**5,410**	**22**	**63**	**6,042**	**22**	**63**
Total excluding 2017	**5,410**	**22**	**63**	**5,691**	**23**	**62**

The table also shows the estimate of industry profit on accident years prior to 2017 have generally increased since the previous valuation, particularly for the 2013, 2014 and 2015 accident years where the projected profits are $73m, $68m and $73m higher respectively.

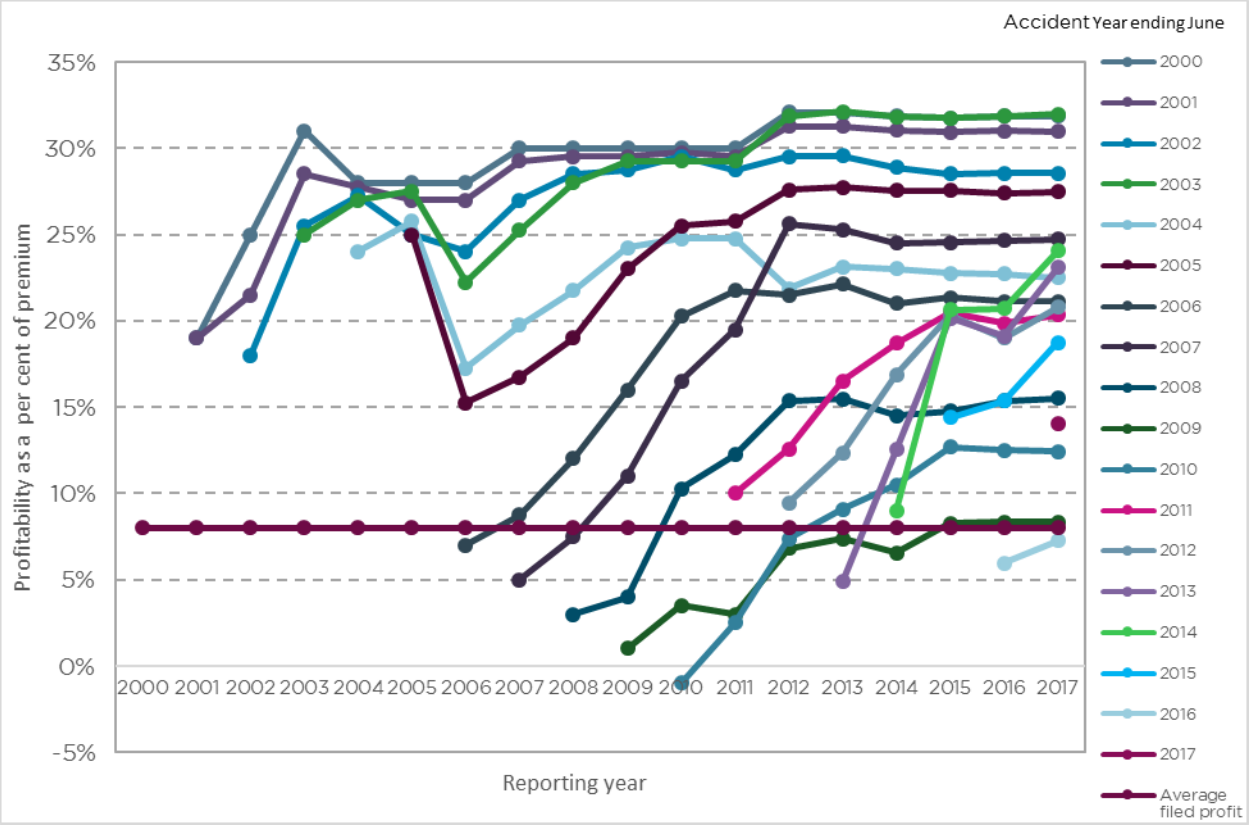
This mainly reflects the impact of payment experience (actual compared to expected payments) in the year. This has been lower than expected and reflects the emergence of negative superimposed inflation over the last 12 months.

Comparison of profit by accident year ending 30 June

The graph below shows the history of Green Slip insurer profit for each accident year from 2000 to 2017.

It shows a very high profit margin of 19 to 31 per cent for accident years 2000 to 2005 i.e. the first five years of the 1999 scheme. This is because claim frequency fell after the 1999 scheme started and actual claim costs were much lower than projected.

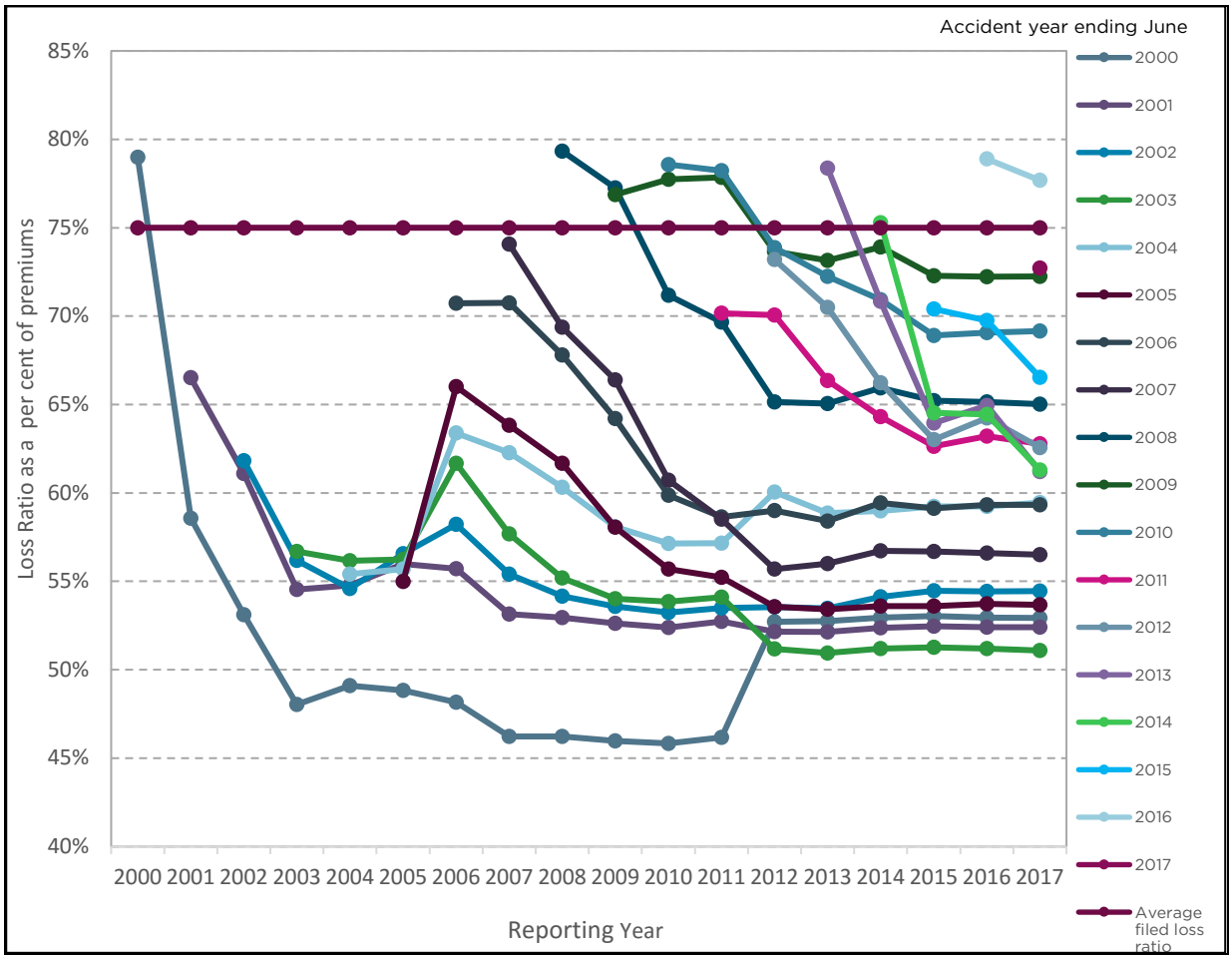
Profit margins for more recent accident years are lower and closer to the average filed profit margin of eight per cent but on average still significantly above eight per cent except for the 2016 accident year. The lower profit for the 2016 accident year in part reflects the increase in minor severity legally-represented claims over this period which was not fully reflected in the premium rates filed by insurers at the time.



History of CTP loss ratio for each accident year

Loss ratios are broadly consistent with the EY assessment using data to 30 June 2016. There are minor changes from accident year 2012 onwards reflecting changes in the claims projections. Particularly, loss ratios for accident years 2012 and 2013 have decreased by 1 per cent to 4 per cent, reflecting the decrease in the estimated discounted claims cost for these years as at 30 June 2017. Collectively, the overall scheme loss ratio assessment for accident years prior to 2017 is lower by 1 per cent at 62 per cent.

Over time the loss ratio assessments have in general reduced as claim projections are replaced with claims payments and the assessment is revised.



6.1.3 Comment

During 2016, the NSW Government released the Report of the Independent Review of Insurer Profit within the NSW Compulsory Third Party Scheme (Profit Review).

A key theme which consistently emerged during consultation for the 2017 CTP scheme was that insurer super profits must be addressed.

While SIRA acted on the regulatory and administrative recommendations of the Profit Review, the 2017 legislation includes a profit normalisation mechanism to address insurer excessive profits. The mechanism has been agreed with insurers.

6.2 Superimposed inflation

6.2.1 Background

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

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

The main driver of the higher than target profit margins and lower loss ratios in the scheme has been the lower than expected superimposed inflation.

From 2010 to 2017 there has been a small negative superimposed inflation at the scheme level of –2% annually. However, this can be misleading as superimposed inflation is affected by changes in claims mix over time, such as the increase in minor severity legally represented claims with a lower average claim size. Superimposed inflation in claim sizes has been benign for the last seven years and has been approximately zero from 2010 to 2012, negative in 2013 to 2015, slightly positive in 2016 and -18% in 2017.

6.2.2 Key facts

At an overall scheme level, it appears that superimposed inflation has been relatively benign since the 2010 payment year and generally negative. However, considering the result at an overall scheme level is misleading since it masks the impact of changes in the claims mix that have occurred over this time. This is particularly relevant to the CTP scheme, which has experienced an increase in minor severity legally represented claims with Whole Person Impairment less than or equal to 10 per cent. There has been a shift in the mix of claims towards these claims. Since these claims have a lower average claim size than the rest of the scheme then the average claims size for the scheme has been decreasing because of this mix change. This is reflected by negative or benign superimposed inflation at the overall scheme level.

6.2.3 Comment

The design of the 2017 scheme, with the focus on the optimal recovery of the injured person and payment of benefits for early treatment and care, and no negotiated settlement for minor injury claims, will have different factors which will influence the impact of superimposed inflation.

6.3 Efficiency

6.3.1 Background

The efficiency of the scheme is a key measure of scheme performance and value for money. It measures how much of the premium dollar goes to claimants as benefits.

GST is excluded from the calculation. Contracted-out legal costs were previously unknown and were implicitly included in the settlement award to claimants. Since the introduction of the claims cost disclosure (CCD) data for claims finalised since October 2015, there has been greater transparency of the breakdown of the settlement awards on finalised claims. They have now been included in the results shown below based on analysis of the CCD data. This is consistent with the 2016 report.

The Lifetime Care and Support scheme is excluded from the efficiency analysis since it is not managed by the licensed CTP insurers.

6.3.2 Key facts

Split of premium (adjusted for contracted-out legal costs[8])

Year	Claim payments	Legal and investigation costs	Insurers' costs	MAA and RTA expenses	Profit
2000	37%	15%	13%	2%	32%
2001	36%	17%	14%	2%	31%
2002	39%	15%	15%	2%	29%
2003	38%	13%	15%	2%	32%
2004	45%	15%	16%	3%	23%
2005	40%	14%	16%	3%	27%
2006	45%	14%	16%	3%	21%
2007	41%	14%	18%	4%	23%
2008	48%	16%	18%	4%	14%
2009	51%	19%	18%	5%	8%
2010	50%	18%	17%	4%	11%
2011	47%	16%	16%	3%	19%
2012	47%	16%	15%	2%	19%
2013	47%	16%	15%	1%	21%
2014	47%	16%	13%	2%	22%
2015	49%	18%	13%	3%	17%
2016	56%	21%	14%	2%	7%
2017	52%	20%	12%	3%	13%
Overall	46%	17%	15%	2%	20%

Scheme efficiency by legal representation

Scheme efficiency was less than 50 per cent up to 2008 and between then and 2017 it varied between 47 per cent and 56 per cent. Efficiency for the accident year ending June 2017 is projected to be 52 per cent, with 2016 and 2017 being the highest of the accident years - although 2016 and 2017 accident years are also the most immature and are predominantly based on projected costs.

Claims experience and therefore efficiency varies across years. As a result, efficiency should be assessed on a longer-term basis. Projected average efficiency for the latest five accident years of the 1999 scheme is 51 per cent and over the lifetime of the scheme the average efficiency is estimated to be 46 per cent. Results from recent years are not certain because a significant proportion of claims cost is unpaid and based on actuarial estimates. Actual claim payments may emerge either higher or lower than the actuarial estimates.

Claim size band	With legal representation	Without legal representation
<$50k	37 %	57 %
$50 - $100k	37 %	58 %
$100k - $200k	40 %	58 %
$200k - $500k	45 %	58 %

[8] This includes approximations concerning contracted-out legal costs from 2000 until the CCD information was provided in 2015.

Claim size band	With legal representation	Without legal representation
$500k - $700k	49 %	58 %
$700k - $1m	50 %	58 %
>$1m	50 %	57 %

The results in the preceding table are based on finalised claims between 2000 and 2017 excluding Accident Notification Forms (ANFs). Providing the split by claim size band illustrates the relative efficiency of small and large claims. Legally-represented claims have consistently lower efficiency than self-represented claims. Self-represented claims have around 58 per cent efficiency across all claim sizes while efficiency for legally-represented claims range from 37 per cent (<$100k) to 50 per cent (>$1m).

6.3.3 Comment

A NSW Government objective for the 2017 scheme is to increase the proportion of benefits provided to the more seriously injured road users. The cultural shift from the 1999 scheme's adversarial, modified common-law approach should improve the scheme's efficiency, particularly for the more seriously injured.

7 Claims and disputes

7.1 Background to the 1999 scheme

As detailed in section 2.1.3 of this report, the 1999 CTP Green Slip scheme provides a range of benefits for people injured in motor vehicle accidents in NSW. Entitlements depend on the type and extent of a person's injuries, their personal circumstances at the time of the accident and whether the accident was their fault.

Eligible people make a claim against the insurer of the vehicle at fault, or when the vehicle at-fault is unidentified or uninsured, the Nominal Defendant.

As the scheme's regulator, SIRA issues the Motor Accident Guidelines, which specify what is required of insurers in managing claims and providing medical treatment, rehabilitation and care. SIRA monitors insurer compliance with these guidelines, a condition of an insurer's licence, and investigates complaints about insurer behaviour.

SIRA also provides an alternative dispute resolution service to court, for medical and claims disputes.

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

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

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

Applications to MAS and CARS are lodged about three years after new claims are made.

7.2 Key facts 1999 scheme

7.2.1 Claims

Since the start of the scheme, the median time taken to lodge a full claim is 3.3 months (the average is 5.3 months) from the date of accident.

Twenty-one per cent of full claims were lodged after the six-month time limit. Of these, 31 per cent were lodged within one month of the six-month time limit.

The median time to lodge an Accident Notification Form (ANF) was 22 days (the average is 26 days) after the accident.

Twenty-five per cent of not-at-fault ANFs were lodged after the 28-day time limit compared with 33 per cent of at-fault ANFs. Of these, 49 per cent were lodged within the following week.

The median time to settle a full claim is 20 months (the average is 25 months) after lodgement. Typically, claims for minor severity injuries settle in a relatively short time for below average cost and severe injury claims take longer to settle at higher cost.

The scheme received 17,084 injury notifications (ANFs, converted and full claims) during 2016-17.

In 2016-17, 17,404 claims, that were mainly lodged in previous years, were finalised.

The scheme paid $1.43 billion in benefits in 2016-17, mainly for claims made in previous years. This compares with a total of $1.58 billion in benefits paid in 2015-16. This was a reduction of $148.8M in total benefits over 12 months. The main reduction was economic loss payments which accounted for $89.1 million, followed by long-term care ($21.9 Million) and medical treatment and rehabilitation ($16.5 million).

The average payment on full claims finalised in 2016-17 was $121,400, compared to $138,400 in 2015-2016.

In NSW, males currently make up 49.5 per cent of the population and 51.2 per cent of licence holders but cause 65.3 per cent of crashes that result in injuries. In contrast, females cause only 29.4 per cent of injury crashes. In the remainder of cases the gender of the at-fault drivers is unknown.

Persons aged between 17 and 25 years currently make up 12 per cent of the population and 13.6 per cent of licence holders but cause 23.5 per cent of all injury crashes, which account for 25.6 per cent of all claims costs. Persons in the 50-69-year-old category make up 23 per cent of the population and 31 per cent of licence holders but cause 22.1 per cent of injury crashes, which account for 21 per cent of all claims costs.

Claims made by pillion passengers, motorcycle riders and pedestrians account for small numbers of claims but disproportionately high average claim costs. Claims from pillion passengers make up only 0.5 per cent of claims but 1.1 per cent of overall claims costs with an average incurred cost per claim of $232,100. In contrast, drivers make up about half of all claims and have an average cost per claim of $88,100.

SIRA received 696 claims as the Nominal Defendant during 2016-17 compared to 688 in 2015-16. Nominal Defendant claims represented approximately 4.1 per cent of all claims and 5.1 per cent of incurred costs, since the scheme was established in 1999.

7.2.2 Medical Assessment Service

There were 5,526 Medical Assessment Service (MAS) applications lodged and 5,162 finalised in 2016-17. This was more applications than any recent year, with 106 more than 2015-16.

Lodgements of medical disputes continued to rise in direct proportion to trends in increasing claims lodgements in earlier years.

Impairment assessment applications remained stable in the past 12 months, after a 44 per cent increase over the previous four years. However, due to the increased lodgements in the previous year, there was a significant increase in assessments of permanent impairment disputes and a high level of subsequent medical assessment reviews for permanent impairment.

Permanent impairment disputes took a median 97 working days to resolve. This has remained relatively stable over the past four years despite the significant increase in volumes.

Treatment assessment applications rose significantly to 320 in 2016-17, the highest in recent years. This was primarily due to a change in approach by one insurer which DRS addressed.

Treatment disputes took a median 106 working days to resolve and further medical assessments took a median 100 days to resolve. These have remained relatively stable over the past five years.

Administrative challenges resulted in six MAS decisions being set aside by the court and sent back for a new decision to be made.

7.2.3 Claims Assessment and Resolution Service (CARS)

In 2012-13, 3,447 CARS assessments were lodged; in 2013-14, 3,803; in 2014-15, 3,474 and in 2015-16, 3,958. Over the 2016-17 year there were 4,461 applications lodged and 4,114 matters finalised.

CARS general assessment applications rose by 23 per cent (384 more applications) in 2016-17. There was also a six per cent increase in CARS applications seeking an exemption from claims assessment which also exempts a claim from the regulated legal costs regime (134 more applications). The impending CTP reforms may be partly responsible for this spike in lodgements.

Despite an eight per cent increase in general assessment applications finalised, the time to finalisation remained stable at 156 working days.

Claims with damages assessed for less than $50,000 increased from 56 in 2014-15 to 92 in 2015-16 and 125 in 2016-17.

Insurer allegations of fraud resulted in a 181 per cent increase in applications for exemption from a claims assessment and regulated legal costs; up from 31 in 2015-16 to 87 in 2016-17. These claims proceed to court to determine liability.

Exemption applications were resolved on average within 18 working days compared to 13 the previous year. This was in part due to a deterioration in the quality of liability notices issued by insurers (linked to allegations of fraudulent claims).

Twenty-six per cent of CARS applications proceeded to assessment in 2016-17, the same as for 2015-16.

Administrative challenges resulted in four CARS decisions being set aside by the court and sent back for a new decision to be made.

7.3 Outlook

The 2017 scheme is delivering significant changes to improve the experience of the injured person.

CTP Assist, connects injured people with their insurer, provides information about their entitlements and supports self-represented injured people through the Dispute Resolution Service. CTP Assist consultants phone injured people at regular intervals after they have lodged

a claim, to make sure they are getting the support they need. The same consultant calls each time to maintain a strong connection with each claimant and will call insurers directly to ensure issues are addressed as they arise.

For the first time, an injured person can request an internal insurer review. This is independent of the original decision maker and gives the injured person and insurer an opportunity to resolve an issue. An insurer internal review is required before most disputes can be lodged with SIRA's Dispute Resolution Service.

Under the 2017 scheme an injured person can now lodge any dispute online using just one application form.

8 Glossary

Item	Description
Accident notification form (ANFs)	This form provides for the early payment of reasonable and necessary medical expenses and/or lost earnings up to a maximum of $5,000. ANFs can be lodged by at-fault and not-at-fault injured parties.
Accident year	The year in which the vehicle accident giving rise to the claim occurred. Accident years generally run from 1 July to 30 June.
Affordability	Green Slip affordability is measured by comparing the average Green Slip price for all passenger vehicles (including the MCIS levy but excluding GST) with the NSW average weekly earnings. The lower the ratio the more affordable the premium.
Bulk-billing	Under the Bulk Billing Agreement, an amount is collected as part of the MCIS levy and paid to NSW Health and the Ambulance Service of NSW for public hospital and public road ambulance services.
Casualty	Any person killed or injured because of an accident attributable to the movement of a road vehicle on a road, as recorded by Roads and Maritime Services.
Claim frequency	Ultimate number of claims divided by the number of vehicles.
Claims	The claims in the NSW CTP scheme are split into full claims, ANFs and workers compensation recovery claims.
Compulsory third party (CTP) insurance	CTP insurance protects a person (the first party) who buys the policy from an insurer (the second party) against claims made by someone they injure (the third party).
Contracted-out legal costs	Costs paid directly to a legal practitioner by an injured person they represent, under an agreed private arrangement. These costs are not included in the insurer or scheme data held by SIRA.
Cost per policy	Total cost of claims divided by the number of insured motor vehicles in NSW.
Green Slip	Another name for a CTP policy that dates to the start of the NSW CTP scheme in 1989 when the CTP insurance invoice was a green piece of paper.
Loss Ratio	The loss ratio measures the total incurred losses (costs paid out for claims and projected future cost of claims) divided by the total collected insurance premium.
Medical Care and Injury Services (MCIS) Levy	A levy that's part of CTP insurance premiums which funds the Lifetime Care and Support Scheme. Part of the MCIS levy is also used to fund SIRA and Bulk Billing arrangements for ambulance and hospital services.

Item	Description
Pillion passenger	A motor cycle passenger seated behind the main seat of a motorcycle. A passenger in this seat is said to "ride pillion".
Premium filing	The process of an insurer submitting its proposed premiums to SIRA for approval, together with full details of costs, actuarial reports and other information to ensure premiums meet the Act.
Profit margin	The proportion of premium in excess of all insurer claims and expenses. Levies and GST are excluded from assessing the profit margin.
Propensity to claim	Ultimate number of claims divided by the number of road casualties.
Scheme efficiency	The amount of each premium dollar that is returned to injured people as claim payments.
Superimposed inflation	The increase in the average claims size over time above wage inflation (Ernst and Young definition).
Underwrite	The process of assessing risk and ensuring the cost and conditions of the cover are proportionate to the risk faced by the individual concerned.
Underwriting year	The year a CTP policy is sold.
Whole person impairment	Whole person impairment is a methodology to quantify the extent that the permanent impairment of one or more body part/s, system/s or function/s impairs the whole person. The degree of whole person impairment is expressed as a percentage and used in compensation schemes to determine access to certain benefits. In CTP more than 10% WPI may enable access to non-economic loss lump sum.

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